EFInA Quarterly Review

(October to December 2012)

1 Global Economy

1.1 Illicit Financial Flows

A new report by Global Financial Integrity (GFI), titled 'Illicit Financial Flows From Developing Countries: 2001-2010' revealed that developing countries lost $5.86 trillion in illicit financial flows from 2001-2010. Illicit financial flows includes the proceeds of crime, corruption, and tax evasion, reached record high levels in 2010, after briefly dipping during the global financial crisis. The top 10 countries with the highest cumulative illicit financial outflows between 2001 and 2010 were:

Country	**Illicit Financial Flows**
China	$2.74 trillion
Mexico	$476 billion
Malaysia	$285 billon
Saudi Arabia	$210 billion
Russia:	$152 billion
Philippines	$138 billion
Nigeria	$129 billion
India	$123 billion
Indonesia	$109 billion
United Arab Emirates	$107 billion

The report revealed that crime, corruption and tax evasion amounted to nearly $6 trillion from poor countries within the decade and $859 billion just in 2010. Raymond Baker, GFI director, said, "Astronomical sums of dirty money continue to flow out of the developing world and into offshore tax havens and banks in developed countries. Developing economies are haemorrhaging money at a time when rich and poor nations alike are struggling to spur economic growth. This report should be a wake-up call for world leaders that more must be done to address these harmful outflows."

The estimates provided in the report are extremely conservative as they do not include trade mispricing in services, same-invoice trade mispricing, hawala transactions, and dealings conducted in cash. This means that much of the proceeds of drug trafficking, human smuggling, and other criminal activities, which are often settled in cash, are not included. The report revealed that crime, corruption, and tax evasion cost the developing world $859 billion in 2010. These illicit financial flows have very big consequences for developing economies. Poor countries lost nearly $1 trillion that could have been used to invest in healthcare, education and infrastructure; and to pull people out of poverty.

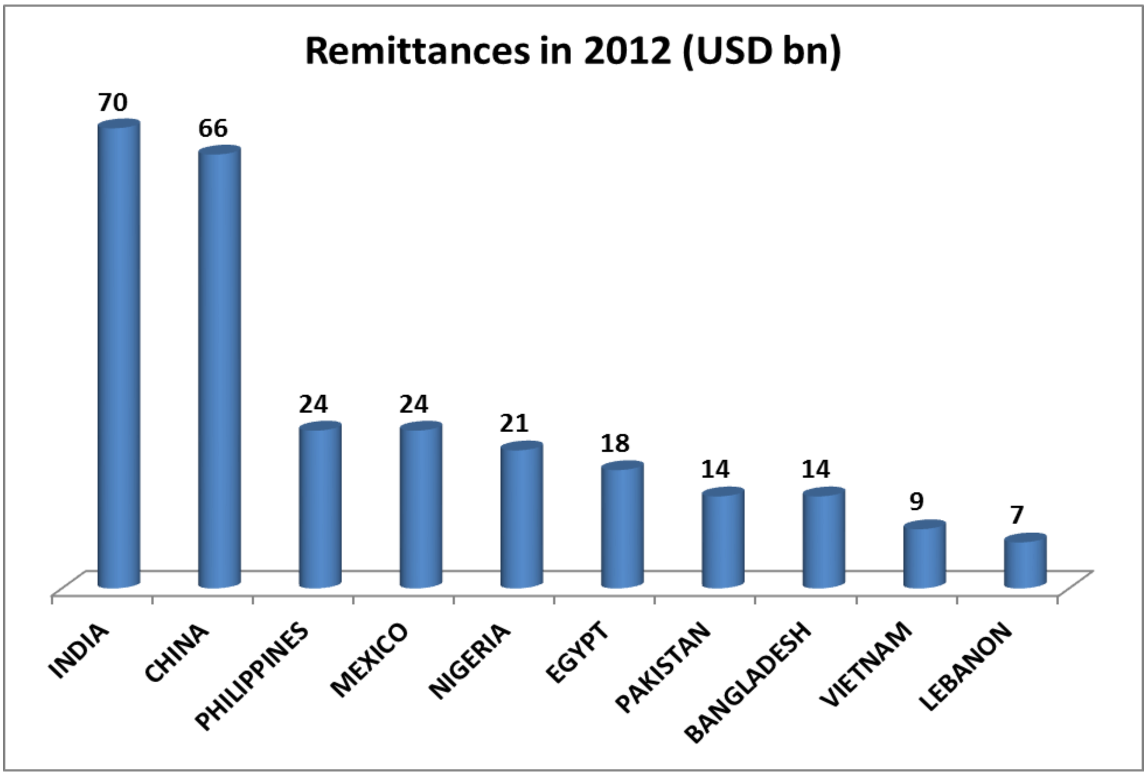
1.2 Growth Rates

According to Reuters, there will only be a slight improvement in the global economy in 2013. After reaching 3.1 percent in 2012, world economic growth is expected to hit 3.4 percent in 2013. However, much will hinge on whether China, Asia's largest economy, can pull out of its downturn, and if the euro zone can contain its prolonged debt crisis. A few big risks have been cited that could adversely impact the growth rate of the global economy in 2013, such as the prospect of deep spending cuts in the US, the so-called fiscal cliff, which would immediately dampen growth unless politicians agree a deal to avert it; and the on-going euro sovereign debt crisis.

1.3 Remittances

According to the World Bank, remittances have become an important source of capital and foreign exchange inflows for developing countries. Officially recorded remittances to developing countries were expected to reach $406 billion in 2012, up from $381 billion in 2011. The World Bank estimates that the true size of remittance flows, including unrecorded flows through formal and informal channels, is significantly higher. Compared with private capital flows, remittance flows have shown remarkable resilience since the global financial crisis, registering only a modest fall in 2009, followed by a rapid recovery. The size of remittance flows to developing countries is now more than three times that of official development aid.

The top recipients of remittances in 2012 were India ($70bn), China ($66bn), the Philippines ($24bn), Mexico ($24bn), and Nigeria ($21bn). Others are Egypt ($18bn), Pakistan ($14bn), Bangladesh ($14bn), Vietnam ($9bn), and Lebanon ($7bn). For Nigeria, the size of its 2012 remittance inflow, amounts to about 7.7 percent of GDP in 2012 and nearly 50 percent of the CBN's foreign exchange reserves. World Bank research shows that the cost of sending remittances is a key driver of remittance flows. Consequently, reducing the cost of sending remittances has been identified as a key policy objective to facilitate these flows.



Source: World Bank

Sub-Saharan Africa is the most expensive region to send remittances to, with a transfer costing about 12.4 percent[1] of the amount transferred. This is almost twice the corresponding cost of 6.5 percent for South Asia. The World Bank stated that although channelling international remittances through mobile phones has the promise of expanding access and lowering costs, this service is yet to take off.

2 African Economies

2.1 Population

Africa has the world's fastest-growing population and is projected to account for more than 40 percent of global population growth to 2030, according to the United Nations. Africa's working-age population is forecast to surpass China's, and as a result, Africa is expected to experience a dramatic decline in its dependency ratio - the number of children and the elderly supported by each worker. This development will contribute to continued increases in GDP per capita in the next decades and comes at a time when dependency ratios in virtually every other region of the world are increasing, with negative implications for GDP growth in those areas. Africa also has the world's youngest population - more than half its inhabitants are under 20 years old, compared with only 28 percent in China. By 2020, more

[1] Based on costs in Q3 2012

than half of African households are projected to have discretionary income, rising from 85 million households in 2012 to almost 130 million by 2020.

2.2 Agriculture

According to the World Bank, Africa's farmers, including Nigeria, Ghana, Togo, Benin, Ivory Coast can potentially grow enough food to feed the Continent and avert future food crises if they remove cross-border restrictions on food trade within the region. The Continent would also generate an extra US$20 billion in yearly earnings if African leaders can agree to remove trade barriers that prevent better regional dynamism. The World Bank expects demand for food in Africa to double by 2020 as people increasingly leave the countryside and move to the cities; and suggests that if the Continent's leaders can embrace more dynamic inter-regional trade, Africa's farmers, the majority of whom are women, could potentially meet the rising food demand and benefit from a major growth opportunity. It would also create more jobs in services such as distribution, while reducing poverty and cutting back on expensive food imports. Africa's production of staple foods is worth at least US$50 billion a year.

3 Nigerian Economy

3.1 Gross Domestic Product

The International Monetary Fund (IMF) predicted a real Gross Domestic Product (GDP) of 6.7 percent for Nigeria in 2013. The 2013 growth projection is 0.8 percent lower than 7.5 per cent average growth for other oil rich African countries (namely Angola, Equatorial Guinea, Gabon and Republic of Congo) and 1.0 percent higher than 5.7 percent average growth rate for the rest of sub-Saharan Africa (SSA). The IMF sated that the economic activity in the SSA region had expanded by more than 5.0 percent in each of the past three years, continuing a decade-long run of strong performance, which was only briefly interrupted by the global downturn in 2009.

3.2 Inflation

Nigeria's consumer inflation rose to its highest in four months in November, as the impact of the country's worst flooding in 50 years pushed up the cost of food. According to the National Bureau of Statistics (NBS), headline inflation increased to 12.3 percent year-on-year in November, from 11.7 percent in October. Food inflation, the biggest contributor to the consumer index, rose to 11.6 percent year-on-year in November, from 11.1 percent in October. Higher food prices continue to reflect the impact of recent floods on the production of farm produce and the resulting difficulty of moving food products to markets across the country. Core inflation, which excludes volatile agriculture items, rose to 13.6 percent year-on-year in November, from 12.4 percent in October.

3.3 Nigeria's Credit Rating

In November, Standard & Poor's (S&P) upgraded its long-term foreign and local currency sovereign credit rating on Nigeria to 'BB-', from 'B+' because of improved financial stability. S&P also affirmed its 'B' foreign-and local-currency short-term ratings for Nigeria and it raised the long-term national scale rating to 'ngAA-' from 'ngA+'. S&P further noted that foreign currency savings in Nigeria had grown due to the partial removal of fuel subsidies and higher oil prices. In addition, Nigeria's fiscal assets in its excess crude account had risen to about $8.4 billion in October 2012, which provides a reasonable fiscal buffer. Its external reserves buffer has also been strengthening on the back of high oil prices and strong exports. The government has sustained reform momentum in several key areas, including cutting the fuel subsidy and reforming the power sector, and the authorities have restructured and strengthened the previously troubled banking sector. All these factors resulted in S&P raising its long-term foreign and local currency sovereign credit ratings on Nigeria by one notch to 'BB-'. S&P however warned that they would consider lowering the ratings if fiscal and external balances deteriorate.

3.4 Population Growth

The Economist 'Pocket world figures 2013 report' revealed that Nigeria is set to become the fifth largest country in the world, with an estimated population of 229 million people by 2025. With the looming reality of the implications of these estimates and projections on the nation's socio-economic activities, the following questions need to be addressed, what steps should the government and people take to curb the population boom? In terms of policies and legislations, what agenda is being drawn up to help cushion the effects the population boom will have on all sectors of the economy? Combining the current population statistics of the country with almost another hundred million more people will lead to a state of chaos by the year 2025, if the government is not fully prepared.

Analysts believe that what the Nigerian economy needs to do to cushion the effects of the population explosion as projected by 2025, is to place more emphasis on the critical sectors of the economy and make them functional. The role of agriculture is crucial in any development strategy Nigeria decides to adopt because changes in that sector can have significant socio-economic effects in the development of the country. As a major employer of labour and income earner, increase in local food production, both commercial and subsistence farming and reduction in imports would go a long way in stabilising the economy. The energy sector is fundamental to driving growth across a number of sectors in the economy. Above all, the issue of security is sacrosanct. The threat to national security, from militancy to armed robbery, kidnapping, assassination has risen. The estimated population growth by 2025 will come with challenges in every sphere of the economy.

Therefore there is the need for a conscious effort to be made by both policy makers and citizens to prevent the threat that the projected population could bring.

3.5 Millennium Development Goals

The Federal Government and state governments have committed a total N10billion (N5bn from the MDG office and N5bn by all participating state governments) to the Conditional Cash Transfer (CCT) scheme aimed at alleviating poverty and accelerating progress towards the attainment of the Millennium Development Goals (MDGs). The CCT scheme is specifically targeted at addressing the needs of poor households to enable them have access to funds that will improve their lives and that of their children. The scheme will deploy biometric data capturing devices to help minimise leakages as well as prevent duplication of participant registration. The Senior Special Adviser to the President on MDGs, Dr. Precious Gbeneol noted that despite achievements recorded in some of the MDGs in Nigeria, the recent report of the National Bureau of Statistics suggested that a lot still needs to be done in bridging the inequality gap. Dr. Gbeneol said that this has triggered a response from the government to minimise inequality and stimulate economic growth among the rural poor. She said, "This CCT scheme is designed primarily to help fast-track progress in the health and education sectors. The programme seeks to stimulate an increase in the rate of enrolment and access to healthcare. The intervention has been strategically designed to provide cash grants to extremely poor households as a form of investment in human capital development. The CCT scheme shall insist on households allowing their children or wards to enrol in school and remain in school." The scheme will enable interventions in about 56,250 households within a year. Each household will be entitled to a monthly grant of N5,000 and N100,000 lump sum at the end of one year to start a business. Dr. Gbeneol explained that the CCT scheme offers a win-win situation for both government and the benefiting poor households, as it has the potential to help reduce crime, promote literacy in the rural population and increase consumption.

4 Retail Banking in Kenya

4.1 Equity Bank

In 1994, Kenya's Equity Building Society was technically insolvent. It looked like the end of the road for a family business that had grown out of a cheque-cashing venture for farmers into a mortgage lender for Kenya's poor. An economic downturn and some poor management meant more than half its loan book was in default and Equity Bank's accumulated losses were ten times its capital. After a stint as Finance Director, Dr. Mwangi became the Chief Executive and helped to transform Equity Bank into the success story of East African retail banking. He quickly shifted the organization's focus from the competitive mortgage market to small loans. The backbone of the new strategy was to offer Kenya's vast unbanked population micro-loans from as little as KES500 ($5.81); with an average loan amount of KES16,000.

Equity Bank bucked the trend of branch closures around the country. It waived property-ownership requirements and allowed anyone with a national identity number to open an account. It was flexible about forms of collateral. Some customers repaid loans with cow's milk. Where there were too few customers for it to build branches Equity Bank used mobile armoured trucks. New standards of service created a huge and loyal customer base. Sceptics who thought providing financial services to the poor would entail having a high volume of non-performing loans (NPLs) were confounded; NPLs were only 1.3 percent of the total loan portfolio in 2011. Since 2000, the bank's pre-tax profit has grown at an annual average rate of 65 percent. Today roughly half of all bank accounts in Kenya are with Equity Bank. A gross profit of KES33.6m in 2000 had risen to KES11.8 billion in the first nine months of 2012.

The only blip has been Equity Bank's failure, so far, to replicate its Kenyan success abroad. Equity Bank has launched operations across the region, with a presence in Uganda, Tanzania, Rwanda and South Sudan. Mr. John Staley, who heads Equity Bank's Mobile Banking and Payment Innovations division, stated that too much was expected too soon. It took 25 years to build the grassroots relationships that brought success in Kenya. He also believes that the branch model is going to be replaced by agents, who act as cheaper cash-in and cash-out points for customers. He said, "If we have access to the agent model, then our regional expansion will fly."

5 Financial Sector

5.1 Financial Inclusion

Financial inclusion has been identified as a plank to lift a large fraction of the unbanked population globally out of poverty and hunger and bring them into the financial system. In December, the CBN Governor, Mallam Sanusi Lamido Sanusi, disclosed that in line with the National Financial Inclusion strategy, the Bankers' Committee had agreed to commence a pilot scheme on financial inclusion in Borno State. "Bornu State was selected to pilot the financial inclusion scheme due to its high rate of financial exclusion, significant number of rural women, security issues plaguing the state and having one of the highest levels of poverty in the country," Sanusi said. The Bankers' Committee also agreed that financial inclusion should be broader than just access to credit. It involves facilitating the development of cheaper alternative channels to serve the unbanked and under-banked segments of the population, within the context of alleviating poverty and exclusion from the economic system. Mallam Sanusi said that although the financial inclusion drive since 2008 has been progressive, there are still challenges to be surmounted. "We still have issues on access to financial services and access to the right type of product. Economic environment is another issue, because you need to earn before you can save. Therefore, overall economic policy and development is essential," he said

The Central Bank Governor said that the success story of financial inclusion will be incomplete without the participation of women and the handicapped. Mallam Sanusi said, "We live in a society where women do not own land and majority of them are engaged actively in economic activities. How can these women access loans for economic activities, with land as collateral when they have none? Handicapped people, especially those who are visually impaired, still need access to information on products of banks that can improve on their well-being since majority of them are also involved in economic activities." He noted that there should be a holistic approach to developing innovative products for women and the handicapped, so as to provide products/services that will suit them and thus drive financial inclusion further. Mallam Sanusi further added that Nigerian banks have a role to play in enhancing the effective implementation of the cashless policy and financial inclusion. The more people who are financially included, the better the control of monetary policy and macro-economic stability.

5.1.1 CBN Initiatives

Agent Banking

In February 2013, the Central Bank of Nigeria launched the approved guidelines for the regulation of agent banking and agent banking relationships in Nigeria, in a bid to promote financial inclusion. Agent banking refers to the delivery of financial services outside conventional bank branches. It entails the use of non-bank retail outlets that rely on technologies such as point-of-sale terminals, mobile phones, amongst others.

Consumer Protection

In November, the Central Bank of Nigeria stated that banks in the country should establish consumer protection units. The CBN Governor, Mallam Sanusi Lamido Sanusi, urged bank directors to approve funds for the establishment of the consumer protection units and ensure that they are well run. Mallam Sanusi said, "We are investing in consumer protection and developing a framework for it. We are going to require all banks to make consumer protection a central part of their business, because the long term growth of the banking industry is helped by increased transparency and consumer confidence. Once people feel that they cannot trust their banks then there is a problem. The banks should have dedicated staff for that focus on consumer issues and respond quickly. We cannot bring people into the financial system only for them to feel cheated and then have no redress mechanisms."

Customer Identification

Customers can now use their Independent National Electoral Commission (INEC) voter's registration cards as a valid means of identification for conducting banking business in Nigeria. The Central Bank of Nigeria also introduced uniform account opening forms for all deposit money banks in the country, in line with its vision of promoting financial inclusion in the country. According to the apex bank, the adoption of a uniform account opening forms, is to simplify the process and encourage the large numbers of unbanked people to embrace a new financial culture.

5.1.2 Financial Inclusion Initiatives in Developing Countries

In developing countries, an estimated 1.7 billion people own mobile phones but have no access to banking services. Harnessing this technology to expand financial inclusion would be economically empowering, particularly for smallholder farmers and merchants in rural communities; who could use their mobile phones to access market-price data, transfer cash, make retail purchases, deposit income, and pay bills – all while tending their fields or shops. This would encourage saving, which is crucial to building a business and providing investment capital to others. Legal, regulated options for safeguarding savings and accessing credit would reduce reliance on the black market or the informal economy, where financial exploitation flourishes.

- In Kenya, regulators created the conditions for innovative mobile financial services to flourish. Since its launch in 2008, M-PESA has attracted nearly 14 million Kenyans - almost one third of the country's total population – who use it for money transfer, savings, and other financial transactions.
- Brazil has developed a regulatory framework that has enabled banks to build a network of 95,000 banking agents. As a result, an estimated 13 million Brazilians – in all of the country's nearly 5,600 municipalities, have been brought into the financial system.
- A state-owned Indonesian bank, Bank Rakyat Indonesia, is providing microfinance services to 30 million people.
- In India, 'no-frills' savings accounts have attracted 12.5 million customers.
- Other success stories can be found in Mexico, Peru, Bolivia, Uganda, South Africa, the Philippines, Thailand and Mongolia.

Financial leaders have already begun to spread the word about such progress, and the policies that enabled it, in order to bolster and expand financial inclusion. Developing countries can benefit from the opening of markets to new trade and investment, while the developed world can benefit from the infusion of new customers, suppliers, and capital (possibly in the trillions of dollars). If the world's 2.5 billion unbanked join the global economy, every industry will experience innovation and growth. Rather than waiting for solutions from America, Europe, or other developed countries. Developing countries are leading the way towards financial inclusion, dramatically reshaping the global economy in the process. Opening the financial system to the world's poorest people will unlock their economic and social potential - to the benefit of all.

5.2 Banking Industry

The banking sector has over the years formed one of the pillars of economic prosperity in Nigeria, helping to deepen growth in the key sectors of the economy - real sector, oil and gas, agriculture, small and medium scale enterprise, etc., through its process of financial intermediation. Economic development of any nation is largely reliant on the process of getting policy incentives right or restructuring key implementation institutions. Financial sector reforms focus mainly on restructuring financial institutions and markets through various policy measures. As a component of the financial sector, the reforms previously carried out by the Central Bank of Nigeria Governor was targeted at getting the incentives right for the banking industry to take the lead in providing the needed impetus in attaining robust growth for the nation's economy.

On the outlook for 2013, the CBN Governor said the Bankers' Committee's focus would be the implementation of the National Financial Inclusion strategy, continuation of the agriculture lending programme, ensuring that the cash-less policy is rolled out to other states, among others. He said, "We still have a long way to go, but we are proud of the work we have done in the last four years. We affirm our commitment to ensuring a stable financial system for Nigeria that contributes to economic development and growth." The CBN has taken proactive actions to ensure that the financial system remains focused and committed to the goals of economic development and sustainability.

5.2.1 Cash-less Policy

In December, the Central Bank of Nigeria announced that it had suspended its plans to introduce the cash-less policy to other states of the federation in January 2013. The apex bank explained that before the cash-less policy could be rolled out to other states, it needed to rectify the issues identified during the pilot in Lagos state. These issues include lack of awareness, insufficient PoS terminals, interoperability, network challenges and connectivity problems with PoS terminals.

5.2.2 E-Payments

The Nigeria Inter-Bank Settlement System (NIBSS) revealed that over 2 million PoS transactions, valued at N38.6 billion, took place between November 2011 and November 2012. NIBSS stated that PoS transactions grew by a monthly compound growth rate of 83 percent and 89 percent in volume and value respectively. The number of registered PoS terminals on the Central Terminal Management System managed by NIBSS increased from 31,000 to 185,000 between January and November 2012. The CBN, NIBSS and the banks have been promoting the use of cheques, bank transfers, PoS and mobile payments as alternative to cash in the cash-less economy.

5.3 Micro, Small and Medium Enterprises

The Minister of Trade and Investment, Mr. Olusegun Aganga, said that, all over the world, SMEs empowerment had become the main economic growth strategy. According to him, with about 17 million SMEs in Nigeria, the creation of an additional 5 million jobs is very possible. Recent data provided by the National MSMEs collaborative survey undertaken by SMEDAN and the National Bureau of Statistics revealed that there are 17,284,671 Small and Medium Scale Enterprises in Nigeria, employing 32,414,884 people and contributing 46.54 percent of the nation's GDP in nominal terms. If each of these SMEs is empowered to create 1 job each, that makes about 17 million additional jobs; if 50 percent of them create 1 job each, that means 8.5 million jobs will be created; if 25 percent of them create 1 job each, over 4 million jobs will be created. He urged entrepreneurs to create quality jobs and enhance inclusive economic growth and stated that the Federal Government was committed to providing an enabling environment for businesses growth. In addition, the modalities for on-line registration of MSMEs have been concluded which will enable the Government to have current data, formalise informal enterprises, ease the cost of registration, streamline the tax regime and address other issues inhibiting business take-off, performance and competitiveness.

6 Telecoms Sector

6.1 Africa

The number of mobile subscribers in Africa is expected to reach 1 billion before the end of 2015, according to forecasts by Informa Telecoms and Media. Africa has the highest rate of growth in mobile phone subscribers in the world, with the number of subscribers forecast to grow by 17.5 percent in 2012, a higher rate than in any other major region in the world, and above the world average of 10.75 percent over the same period. Africa has the world's second biggest mobile market by subscribers, behind Asia-Pacific but ahead of Latin America, Western Europe, Eastern Europe, North America, and the Middle East. Africa's mobile phone market continues to grow robustly, driven by competition among mobile operators, availability of new data services and strong economic growth in the Continent.

Nigeria reached 100 million mobile phone subscribers in the second quarter of 2012, and will continue to be Africa's biggest mobile market. It is forecast to have 169 million subscribers by the end of 2017.

6.2 Nigeria

Nigeria's active telecommunications lines reached 110.4 million in November 2012. According to the Nigeria Communications Commission (NCC), the GSM operators, including MTN, Globacom, Airtel, and Etisalat increased their combined subscribers from 105.9 million in October 2012 to 106.9 million in November 2012. The Code Division Multiple Access (CDMA) operators such as Visafone, Starcomms, Multilinks and Zoom Mobile experienced a drop in their subscriber base from 3.1 million in October 2012 to 3.0 million in November 2012. For the fixed wired and wireless network operators, there was also a decline in their active subscribers from 454,644 telephone lines to 432,899 lines during the same period. The potential merger of the 3 CDMA operators (Starcomms, Multi-Links and MTS wireless) is expected to raise the performance level of the CDMA industry.

The table below provides a summary of telephone subscribers in Nigeria as at November 2012:

	Number of connected lines	**Number of active lines**
Mobile GSM	**134,354,814**	**106,869,544**
Mobile CDMA	**14,005,220**	**3,045,688**
Fixed Wired/Wireless	**2,405,688**	**432,899**
Total	**150,765,722**	**110,348,131**

Source: NCC

7 Mobile Money

A Mobile Money Study conducted by Visa Incorporated and released in October, stressed the importance of financial inclusion, saying that it would help improve the quality of the daily lives of people. Visa stated that financial inclusion will make financial transactions safer, convenient and less costly. Financial inclusion can also help lift people out of poverty. Research has shown that it increases the likelihood that individuals will have access to education, health services and even employment.

The Study also found that security concerns associated with carrying cash as well as the need to quickly send money to family members living far away are among the key drivers for mobile money adoption. According to the Study, mobile money has allowed millions of previously unbanked people to make basic electronic transactions such as person-to-person transfers and bill payments; its potential for driving far reaching social and economic change is also significant. The Study also revealed that the success of mobile money is determined by how deeply a mobile money provider understands its customers and tailors its services to the needs of consumers and mobile money agents. Across the 6 countries surveyed (Bangladesh, Ghana, India, Indonesia, Nigeria and Pakistan), average awareness of mobile money was 56 percent. The majority of consumers surveyed intended to use mobile money to send money to family members (81 percent), pay utility bills (56 percent) and save money for their family (52 percent). The primary driver for the adoption of mobile money is not to establish formal savings, but to protect funds from theft and the ability to send funds, pay bills, school fees, more easily. 80 percent of respondents cited safety of not having to carry around a lot of cash as the primary perceived benefit of mobile money. 63 percent of respondents listed speed of sending money as the second most important benefit. Respondents cited ease of use (64 percent), lack of trust in mobile money providers and agents (55 percent), and lack of interoperability with other mobile money services (28 percent), as primary barriers to adoption. In addition, lack of accessibility to mobile money agents, mobile network reliability, communication and education were also barriers preventing the adoption of mobile money.