EFInA Quarterly Review

(April to June 2009)

1 Nigerian Economy

In its 2009 African Economic Outlook, the African Development Bank predicted that the real GDP growth will slide to 4% in 2009, from 5.3% in 2008. The decline in growth is because of the dwindling oil revenue, as a result of the reduction in OPEC quota on oil production, declining investment and the global economic crisis. In comparison, IMF forecast GDP growth for Nigeria at 2.9% in 2009 and 2.6% in 2010.

The Federal Government has recorded a budget deficit of N249.10 billion in the first quarter of this fiscal year. However, as at the end of 2008, the government generated a total of N7.65 trillion through the nation's four revenue collecting agencies. According to the Minister of State for Finance, Mr Remi Babalola between January and March, N979.25 billion was generated by revenue generation agencies as against the budgeted among of N1.228 trillion for the period. He attributed the dwindling revenue from crude oil to the crisis in the Niger Delta. The Minister said that unless efforts were made to ensure discipline in expenditure, key assumptions in the 2009 budget might not be realized.

According to the World Bank, more Nigerians will fall into the poverty line this year. It expects that Nigeria will account for 18 out of the 90 million Africans that will sink below the poverty line in 2009. The average African will be poorer in 2009 because predicted growth rate of 2% will be much lower than birth rates.

1.1 Debt

In May, the Debt Management Office stated that Nigeria's foreign debt was $3.75 billion, out of which the nation is indebted to the World Bank to the tune of $3.2 billion and $500 million is owed to the African Development Bank (ADB). The foreign debt is split into 40% indebtedness by the 36 states, while the Federal Government accounts for 60%.

1.2 Inflation

According to the National Bureau of Statistics (NBS), the composite consumer price Index (CPI) was 13.3% at the end of April, lower than the previous month's rate of 14.4%. NBS noted that the All Items Less Farm Produce Index which excludes the prices of agricultural produce rose in April due to an increase in the prices of household goods, transportation, newsprints, education materials and services. On the year-on-year basis, average Consumer Price level as at April 2009 for urban and rural dwellers rose by 8.6% and 15.7% respectively.

1.3 Remittances

According to Olga Maitland, Chief Executive of Global Trade Organisation, Money Transfer International, the economic fortune of Nigeria can be turned around if the huge potential existing in the remittance industry is properly harnessed. Maitland stated that the potential in the industry cannot be ignored globally and particularly in Nigeria due to the far reaching effects it can have, because the country's citizens are located in virtually every country in the world and engage in sending money to family members back home. ''We can't afford to ignore this sector and indeed in Nigeria alone, the remittances sector can have a dynamic effect on the economy". There is $9 billion a year inflow into the country from the Diaspora. Two million Nigerians live in India, nine and half million live across the European Union, about six million in United States and Canada, and many more beyond, and send money home regularly in a way that can have a considerable impact on the economy. The money from remittances goes directly to families who use it for payments in health care, education, businesses, etc. About 40% of remittances go into business, which is very good for the economy.

2 Financial Sector

2.1 Banking

The Nigerian banking system has witnessed some remarkable transformation in the last three years, especially with the exponential growth in the deployment and patronage of ATMs. E-Banking has become a popular avenue for people to do their normal banking business as well. The major services rendered in the area of e-banking in Nigeria include internet banking, telephone banking, electronic payments (E-Payments Cards), Visa/MasterCard, debit cards, point of sale terminals (PoS) and ATMs, with the latter being the most prominent.

In April, the Central Bank of Nigeria (CBN) announced that banks had to restrict ATMs to their premises and redeploy all existing ones in public places to their premises before June 30. CBN said the ATM Consortium (ATMC) will deploy ATMs in public places, while banks will henceforth deploy ATMs only within their premises. CBN stated that the number of ATMs deployed at the airport and hotel lobbies, should be checked to guard against congestion of public places, in line with global practices.

The key findings from a Fitch Ratings report, entitled 'Nigerian Banking Sector: Annual Review and Outlook,' which was published in June, are:

- Despite the challenging operating environment, Nigerian banks continued to report strong earnings growth in 2008 on the back of rapid credit and deposit growth
- It remains to be seen as how Nigerian banks will address their share lending exposures in their financial statements
- They believe that the trend of rapid earnings growth since 2005 has masked the increasing levels of risk in the system and higher impairment charges are expected as Nigeria's economy slows
- The rapid credit growth, which was the fastest of any country covered by Fitch during 2007 and 2008, led to Fitch's Macro Prudential Indicator (MPI) increasing to '3' from '2' in May 2009, to the highest risk category. The MPI aims to identify the potential for systemic stress
- Given the present operating environment, Fitch expects that Nigerian banks will need to manage their costs and overhead structure more closely going forward

- The sector is characterized by weak efficiency ratios which is as a result of the underdeveloped economic infrastructure and because many banks lack operational scale
- This could lead to further market-driven consolidation during 2009 and 2010, as tightening liquidity, deteriorating asset quality and anticipated difficulties in raising new capital see certain banks being acquired by stronger institutions

2.1.1 Margin Loans

There is fresh anxiety over the state of banks' balance sheets as the downturn in the capital market deepens and subjects the banks to second round losses on their investments. Business Day investigations reveal that only about 3 banks have taken the bold step to declare lower profits, because the vast majority of banks want to retain their shareholder's confidence by declaring huge dividends. Further investigations indicate that at least over 15 banks are still playing to the gallery by declaring huge profits, while margin loans, perceived by many as 'toxic loans' is a major problem.

CBN has put the exposure of banks to the stock market at about N800 billion, adding that 9 banks were ready to hand over losses that range from N350 billion to N400 billion to the Asset Management Company (AMC) when it is finally set up. Some stockbrokers have called on CBN to allow banks to restructure all capital market related credits into a five-year discountable instrument, as a way of addressing the illiquidity in the nation's stock market. The dangers this could pose to the wider banking system, in turn, could be exacerbated by large amounts of inter-bank lending (or the sudden lack of). Nigerian banks allegedly borrow large sums of money from the inter-bank market to shore up their balance sheets when reporting, a practice which to date has been tenable since banks report at different times through the year. However, the common financial year-end reporting for all banks comes into effect from December 2009.

2.1.2 Banking/Card Fraud

In the past year, bank customers have been complaining of unauthorized amounts being debited from their accounts. However, the banks alleged that the customers must have revealed their PINs to fraudsters, knowingly or unknowingly. ATM users say the persistent rise in fraud levels is threatening the continual usage of ATMs, as more customers fall victim. In response, a spokesman from one of the bank's said the complaints of missing funds have been going round all the banks. He however emphatically affirmed that banks would not refund money to customers because they had been warned not to disclose their PINs. He said that there had been issues of "cloning" of ATM cards in the industry and the banks had started upgrading their systems and offering a new card called "verve cards" to customers. Unlike the first generation ATM cards, he explained that the verve cards had "chips" that protect the customer's account. He urged all bank customers using ATM cards to migrate to the "verve card" which has high security features that cannot be cloned and urged them not to respond to scam emails that requested for their PINs.

Bank sources who spoke under the condition of anonymity said that tens of billions of naira have been lost to ATM related fraud in the last few months. They also said that fraud running into several millions was recorded in one week in early June without disclosing the banks affected. The banking industry has been trying to fight this battle for a long time, but it has been on the rise in the past few months. Some banks claim that the fraud is being perpetuated by insiders - a combination of both serving and ex-staff of banks, but are finding it extremely difficult to prove.

2.1.3 New CBN Governor

A new Central Bank Governor, Sanusi Lamido Sanusi was appointed in June 2009. In addition to the standard central bank duties of monetary policy and financial stability, the new CBN governor has set himself two primary tasks - restoring confidence in the financial system and playing an important role as an agent for economic development. According to Sanusi "the financial system plays a pivotal role in the economy, so the Governor of the Central Bank has to see himself as an important part of the government with a responsibility for delivering economic growth".

In terms of the margin loan problem he stated a proper diagnostic phase would be undertaken to define the size of the problem. However it was important that whatever CBN does, it does not cause panic in the financial system. He expects that by December, prudential accounting standards would be implemented by all the banks and there would also be an increase in the disclosure requirements. In addition, Sanusi stated that he was willing to look very closely at the rule limiting foreign capital investment in banks to 10%, as this only serves to restrict capital.

2.2 Microfinance

In May, Chairman People Serve Microfinance, Mr. Sesan Bamisile stated that for the country to improve economically, the Federal Government has to put up a collaborative measure that will ensure the empowerment of over 65% of the economically active poor who lack access to financial services in the country. He said that financial services, specifically microfinance, have been done for a very long time by Esusu, Adashi, Etoto operators in communities mainly rural and right across Nigeria. "Modern Microfinance is the result of efforts to integrate, upscale and supplant these rural models of finance, with the aim of extending their relevance and improving upon their utility for consumers," he said.

According to CGAP, Nigerian MFIs are plagued by a dearth of funds which is a spin-off from the global economic crunch. Nigerian MFIs obtain their funds from both foreign and local sources. The funds from foreign sources are drying up and the commercial banks from which they largely obtain funds locally are also affected by the drying out of foreign funds. The full impact of the financial crisis is likely to be felt in the second half of 2009. Public investors, such as IFC and the Inter-American Development Bank are ramping up their microfinance portfolios to support MFIs affected by the credit crunch. With the World Bank predicting that between 50 million and 90 million more people could be driven into poverty by the current global crisis, microfinance will continue to play an important part in ensuring that entrepreneurs can weather the storm and take on new opportunities when economies revive.

2.3 SME Finance

In May, the African Development Bank granted Intercontinental Bank $100 million (N145 billion) line of credit to finance Small and Medium Enterprises (SMEs) in Nigeria. The loan will be used for long-term financing of SME in manufacturing, services and natural resource projects across the country.

The projects financed with the loan will create employment in the construction industry, manufacturing, transport, tourism, services and the agribusiness sector. It is also expected to provide job opportunities in both rural and urban areas, enhance the transfer of technology and the development of local entrepreneurship and technical skills.

2.4 Housing Finance

In May, the Federal Government concluded plans to raise an additional N17 billion through the flotation of a bond, to recapitalise the Federal Mortgage Bank of Nigeria (FMBN); to enable the institution to deliver housing to the Nigerians masses. According to the FMBN, Managing Director and Chief Executive, Mr Abdusalam Ahmed, as at the end of January 2009, the bank had granted N41.958 billion out of N79.515billion already approved for disbursement to Primary Mortgage Institutions and estate developers. He said that between 2006 and January 2009, FMBN collected N41.963 billion through the National Housing Fund (NHF) scheme. Ahmed stressed that there was a need for recapitalization of FMBN and that enhanced adequate budgetary funding by the government was required so as to enable it to meet the huge financing needs of the Nigerian Housing sector. The FMBN boss also commented that the nation's mortgage sector contribution to GDP was less than 2% whilst it ought to contribute up to 50%.

3 Telecoms Sector

A World Bank report issued in May stated that Nigerians are still paying relatively high telephony costs even as telephone charges are beginning to come down all over the world. According to the report, the cost of a three-minute fixed line phone call to the United States is one of the highest in the world. However, the bank noted that Nigeria is making great strides to bring down the cost as the price of a telephone call to the US has come down drastically from $7.15 per three minutes call in 2000 to less than $2 in recent years. The bank recommended that policy makers should address the business segment of the telephone market and continue to make progress on important telephone reforms such as the regulatory regime, interconnectivity issues, use of share infrastructure and quality of service especially in the mobile sector.

As at April 2009, according to the NCC, Nigeria had an active subscriber base of 67,178,465 with GSM operators having a combined figure of 58, 063,300 subscribers and CDMA mobile operators having 7,724,480 subscribers.

4 Mobile Payments

4.1.1 Regulatory Developments

In June, the Central Bank of Nigeria approved the Mobile Money Payments Services Regulatory Framework. The framework has been published and circulated to key stakeholders. The regulatory framework addresses business rules governing the operation of mobile payment services in Nigeria. It specifies basic functionalities expected of any mobile payment service and solution in Nigeria. In addition, it sets the basis for regulation of mobile payments services offered at different levels and by diverse participants. The framework does not cover the use of mobile phone as an access to the internet for the purpose of using internet banking services. In that regard, the provisions of the

Electronic Banking Guidelines would apply. The framework has identified three major models for the implementation of mobile payments services:

- Bank Focused - Financial Institutions as Lead Initiator
- Bank Led - Financial Institution(s) and/or its Consortium as Lead Initiator
- Non-Bank Led - A corporate organisation as Lead Initiator, but not a mobile telephone operator