EFInA Quarterly Review

(July to September 2009)

1 Nigerian Economy

1.1 GDP

The IMF forecast that for 2009, Nigeria's GDP growth rate will slow to 2.9% from 7% recorded in 2007 and the 6% recorded in 2008. Nigeria has had a steady growth rate of about 7% for close to eight years, which raised hopes of its meeting some of the targets for the Millennium Development Goals by 2015. CBN's economic report on the economy for the first half of the year said growth had slowed to 4.5%, while headline inflation was still at a double digit. The IMF has predicted that real GDP growth would likely rise to 5% by the end of 2010.

Renaissance Capital estimates that Nigeria's GDP will be greater than South Africa's in 2011 and rise to over $500 billion by 2014 and to $1 trillion by 2020, with the country's growth expectation of 6% in 2009. Matthew Pearson, Head of EPG and Research, Renaissance Group Africa, said that the Nigerian economy has regained some grounds following the decisiveness of the Central Bank of Nigeria governor, Sanusi Lamido Sanusi on the banking sector loan and credit crisis.

Standard Chartered analyst, Razia Khan, said Nigeria's GDP at over 4% is better than those of its peers. She observed that though constrained by some challenges, Nigerian economy is quite positive. According to her: "If any country is going to be Africa's China or India, it is Nigeria". Khan said however, that unless the crisis in the banking sector is resolved, Nigeria may not attain its growth targets, adding that the financial sector is key to the development of the economy. Khan also predicted that lending rates in the economy will decline and stabilize at the level that will be convenient for economic agents to borrow and be able to nurture viable enterprises.

1.2 Inflation

According to the National Bureau of Statistics, Nigeria's consumer inflation fell to 10.4% year-on-year in September from 11.0% the previous month. Growth in food prices, which form the bulk of the inflation index basket, eased to 12.5% year-on-year from 12.7% in August. On the outlook of inflation in the country, the CBN Governor, Sanusi Lamido Sanusi said recently he expects inflation to drop to 9% by December.

1.3 External Debt

Barely three years after it exited the Paris and London Club, the Central Bank of Nigeria said that Nigeria's debt profile has risen to N3.4 trillion, which is equivalent to 14.8% of GDP. The Debt Management Office said the external debt was mostly owed to multilateral institutions, with some of the facilities having a 40-year repayment period and less than 1% interest rate. The estimated total Federal Government debt as at the end of June rose by 11.3% over the level at the end of March. The breakdown comprised of domestic debt of N2.8 trillion and external debt of N551.3 billion. The rise in total debt was accounted for by the issuance of additional FGN Bonds, increase in treasury bills outstanding as well as naira exchange rate depreciation during the quarter.

2 Financial Sector

2.1 The Bond Market

In August, in a bid to encourage substantial investment in the nation's bond market, CBN agreed in principle to remove the 10% cap placed on banks' participation in sub-national and corporate bond offers. According to Daisy Ekineh, acting director general SEC, the move is geared at offering incentives and addressing bottlenecks that may discourage prospective investors from investing in the nations' bond market which is actively being resuscitated. Ekineh also stated that SEC plans to engage a resident adviser on bond issues from the International Finance Corporation so as to strengthen the requisite capacity in bond issuance. She lamented that even though federal and state governments have in recent times been very actively involved in providing viable alternative investment outlets through the bonds market, the corporate segment has recorded virtually no activity. In a bid to reverse the trend and ensure that the bond market comes alive she said the Commission has written extensive draft rules which have already been circulated to the market for wide consultation.

Investors have continued to buy government securities due to their relative safer nature, staking over N10.9 trillion on bonds in the last seven months. Since the downturn hit the equities market, bonds have become very attractive to investors. While investors in equities have been counting their losses, FG bonds have been paying rates ranging from 9% to 14.5%. Investors' focus on bonds has started to attract companies to the debt sector of the market to raise funds. So far, four firms are targeting N903 billon through bond issuance.

2.2 Banking

In July, the Chairman Senate Committee on Banking and Finance, Senator Nkechi Nwaogu, said over N188 billion of depositors' funds trapped in failed banks four years ago have yet to be paid to the beneficiaries. Nwaogu said it was sad that bank directors and other influential people that contributed to the collapse of the affected banks, by borrowing through the back door, now have new portfolios and are living in opulence, while ordinary customers of such banks are living in penury. Nwaogu also stated that it would be difficult to ask over 60% of the population who do not have bank accounts to open accounts and nobody could blame them for putting their money under their pillow cases.

2.2.1 Audit Review of the Commercial Banks

In August, the Central Bank Governor, Sanusi Lamido Sanusi sacked the CEOs of five banks – Afribank, FinBank, Intercontinental Bank, Oceanic Bank and Union Bank. The regulator said the banks were undercapitalized and posed a risk to the entire banking system. Governor Sanusi said that the five banks would run as normal until new investors were found. In addition, CBN injected N420bn into the five banks and assured every depositor that no one will lose money as the apex bank would continue to support these banks and all other Nigerian banks. The five institutions account for 40% of banking sector credit in Nigeria. Mr Sanusi stated that the five banks had accounted for almost 90% of exposure to the central bank's discount window, which allows banks to borrow in the short-term to meet their needs. The excessively high level of non-performing loans in the five banks - was attributed to poor corporate governance, lax credit administration processes and the absence or non-adherence to credit risk management practices. Governor Sanusi has predicted that only 15 banks may remain while others may opt for mergers, due to problems with capital. He envisaged that at the end of the day some banks would be operating on regional, national, or specialized basis.

2.2.2 Banking Reforms

As part of the measures to improve the nation's financial infrastructure and minimize chances of banks facing threats of technical insolvency, CBN's Financial System Strategy 2020 (FSS 2020) Legal Implementation Committee is considering whether a watchdog should be carved out of the apex bank. The Committee proposes to call the body Financial Services Authority (FSA). The Committee met up in Abuja in September to fine tune seven new draft bills designed to strengthen the banking sector. The bills to soon arrive at the National Assembly are on Consumer Credit; Credit Reporting and Information Exchange; e-Commerce; International Financial Centre; Insolvency/Bankruptcy; Arbitration and Alternative Dispute Resolution' and Financial Courts Ombudsman Bill.

The Committee's chair, Olisa Agbakoba, said he favoured other models that focus on non-judicial methods of loan recovery. Agbakoba said the challenge of installing a vibrant financial services sector required putting in place strong banking supervision laws. He said the Credit Report and Information Exchange Bill would obviate instances of people who take loans from six or seven banks largely because the banks currently have no effective way to assess the credit history of the prospective loan applicants.

To consolidate the ongoing reforms in the banking sector, CBN and SEC have pledged to strengthen their existing relationship. Chairman of SEC, Udo Udoma, said both institutions, in collaboration with the EFCC would work hand in hand in the overall interest of the Nigerian Stock Exchange and the economy at large. Governor Sanusi said the CBN was committed to the positive development of the ongoing reforms which is expected to enhance disclosures, greater efficiency and public trust.

2.3 Microfinance

With many microfinance banks rendered cash scrapped as a result of loan losses and panic withdrawals by their customers, the operators are currently scrambling for fresh funds from investors. In August, THISDAY reported that customers of microfinance banks were besieging their banks in a manner that was akin to a run, as some of the institutions showed signs of inability to continue to meet obligations to depositors. The environment in the microfinance sector mirrored the larger financial market where the banks are battling loan losses, growing lack of confidence of customers, panic withdrawals and also pressure to continue to meet obligations to customers and other stakeholders.

The prudential ratio for microfinance banks is 20% of the liabilities generated. What that means is that a microfinance bank can give out 80% of its deposit as loans. When you have a situation where customers come for 40% of the deposits at the same time as was happening in August then the pressure on the microfinance bank to fulfil their requests is immense.

2.3.1 CBN Review

CBN is focusing on the operations of microfinance banks (MFBs) with a view to ascertaining if their conduct is in tandem with the ethics of the banking profession. To achieve this, the apex bank has sent in teams of examiners to look into the books of all the microfinance banks in the country. The lack of effective monitoring or supervision of these institutions will negatively affect CBN's ability towards promoting monetary stability and a sound financial system. The fear in some circles is that unless CBN takes immediate remedial actions, Nigerians would experience the same losses that happened during the crash of finance houses some years ago. Already, there are ominous signs as depositors in some microfinance banks have started protesting over their inability to access their funds placed with these institutions. In July, about 2,000 depositors of All Mon Microfinance Bank in Lagos protested over an alleged N100 million fraud, leading to the closure of the bank and arrest of some of its management staff. Also, about 200 depositors of First Call Microfinance Bank recently protested about the refusal of the bank's management to give them access to their funds. In September, in some newspapers, the apex bank in an advertorial placed a disclaimer on five MFBs, which it called 'illegal'. CBN added that such illegal MFBs had been reported to extort money from unsuspecting members of the public under the guise of being genuine MFBs.

In August, CBN stated that it will sanction Microfinance Banks that have failed to submit their monthly returns, as and when due. According to the Acting Director, Other Financial Institutions Department (OFID) at the apex bank, Olufemi Fabamwo, 46 Microfinance banks in the South West zone had failed to submit their monthly returns to the CBN. He warned that failure to render returns for six consecutive months was an offence which could lead to the revocation of the operating licenses of such institutions.

2.3.2 New Developments

Geographic Spread

The acting director, Other Financial Institutions Dept (OFID), CBN, Olufemi Fabamwo has implored wealthy Nigerians to invest more in microfinance institutions. Fabamwo disclosed that CBN was particularly worried about the poor state of microfinance institutions in the northern states of the country. He specifically noted that the urban areas in the south west zone, especially Lagos, had a high concentration of microfinance banks. There are 205 microfinance banks operating in Lagos at present, which represents 22% of microfinance banks operating in the country. He said that the CBN through the OFID had stopped giving licenses to microfinance banks in Lagos State because majority of the active poor in the northern regions were unbanked. "Our next efforts would tend towards ensuring that considerable numbers of microfinance banks are located in the northern parts of the country to reach the active poor," he said. However, investigations by THISDAY revealed that most applicants for microfinance bank licenses want to operate in the urban and business cities and are not ready to succumb to the CBN pressure.

Increase in Capital

The Other Financial Institutions Department (OFID) of the Central Bank has urged microfinance banks to shore up their capital base above N20 million. Mr Olufemi Fabamwo, the acting director, OFID said in September that the aim was imperative because of the present challenges facing MFBs in the country. Fabamwo said that MFBs needed to shore up their capital base because the larger percentage of the active poor were now relying on microfinance banks for loans to start businesses. "The ever expanding outreach challenges necessitate that MFBs should accumulate capital beyond the current levels. A capital base of N100 million to N200 million would be ideal to operate a microfinance bank effectively, the present N20 million is too small to make a meaningful impact, especially in the lives of the poor" he said.

2.4 SME Finance

2.4.1 USAID/Western Union

In August, the United States Agency for International Development (USAID) and Western Union launched the "African Diaspora Marketplace"; a business development programme that will support US based African Diaspora in creating plans for sustainable start-up and established businesses in sub-Saharan Africa. The programme will provide grant funding to 10-20 small and medium businesses with the strongest proposals for boosting economic opportunity and job creation in Sub-Saharan Africa though Diaspora-driven development. The initiative hopes to demonstrate the impact that entrepreneurs from the world's Diaspora or migrant communities can have on development in their home countries. Chief Executive Officer, Western Union, Christina Gold said: "this innovative model for corporate, government and non-profit collaboration will support entrepreneurial solutions that create jobs and opportunities. Western Union supports migrants' investment in their home countries and also helps to power the world economy through our business model. Through this program, we can leverage Western Union's expertise on migration trends and our vast network and resources to help create lasting social and economic impact".

2.4.2 GroFin Africa

Small and medium scale enterprises are seen as catalysts for economic transformation, but their growth is increasingly hampered by lack of access to credit facilities. In addition, access is further jeopardized by the selective nature of existing funds where only a few businesses among a million others are hand-picked to benefit from a small amount of capital.

As the Vice-president, EIB, Sub-Saharan Africa Plutarchos Sakellaris puts it: "SMEs constitute a powerful driving force of the African economy and it is essential to ensure that tailored funding is available to support their continued growth, particularly during the current financial crisis. We at EIB are proud to invest in such a focused fund that serves a number of African countries and we are confident that GroFin has developed the necessary expertise to guarantee its success." In a country where calls for direct government funding of small and medium businesses have gone unheeded, and the various government initiatives including the SMEIES fund have had little or no significant impact, the launch of $170 million Growth Finance Fund for SMEs by GroFin Africa, a multinational specialist Small and Medium enterprise (SME) finance and development company, is an opportunity that mustn't be wasted given that there are limited injection of funds in the sector.

The Fund will be invested in roughly 500 companies over a period of five years. GroFin invests between $100,000 to $1 million in SMEs operating in various sectors of the economy, ranging from manufacturing to retail and services. To date, the Fund has committed $17 million to 50 transactions and is currently considering an investment of $8 million into a further 24 companies. The fund invests in Nigeria, Ghana, Rwanda, Kenya, Tanzania, Uganda and South Africa. GroFin recognizes that businesses in Nigeria face the challenge of finding a financier who will assess entrepreneurs on the viability of their business, as there are few organizations offering the service. Access to quality business services where the entrepreneur can gain knowledge and improve management skills is also limited. Without access to both capital and business support, the growth of the small and medium enterprise sector is hampered.

2.5 Islamic Finance

In July, Lotus Capital announced the Memorandum listing of its Islamic Halal Investment Fund on the Nigerian Stock exchange (NSE). Mrs Hajara Adeola, Managing Director, Lotus Capital said: "We have been in the Nigerian market since 2004, and first offered the Halal Investment Fund to the general public in 2008. This fund was a huge success and we are positive that having the Halal Fund listed on the stock exchange will increase the visibility of fund values to our investors and ensure greater transparency and accountability". Islamic finance uses sale, leasing and sharing-based modes like murabaha, ijara and musharaka to conduct its business. Islamic Finance has been rated by the IMF as one of the world's fastest growing financial sectors.

International Islamic Finance expert, Mr Mehmet Asutay said the Islamic Finance option provides Nigeria with a 'fantastic' opportunity to come out of its current economic doldrums. He said that if Islamic commercial banking is embraced, it will help source the needed investment capital in the country. He said Nigeria needs an economic social financing model, an aspect of Islamic financing, targeted at small communities and individuals to help create job opportunities as well as alleviate poverty. He added that Nigeria could benefit from the introduction of Islamic finance by attracting foreign direct investment from the Gulf as well as overcome financial exclusion resulting from religious reasons as Muslims will be given a fair opportunity to participate in financial matters as investors and borrowers.

In September, Professor Ishaq Oloyede, the Uniilorin VC, said Nigeria should embrace Islamic financing as it emphasises welfarist products that do not only ensure economic prosperity of the world, but also promotes equitable distribution of wealth. He commended the CBN under its previous Governor, Prof Soludo, for putting in place the legal framework for the take-off of interest-free (Islamic) banking in the country. Although the Islamic financial system appears to hold a lot of prospects for wealth redistribution in favour of the downtrodden, if prudently and dispassionately implemented; it also has a lot of setbacks, especially in a nation like Nigeria where every move by government is viewed within the prism of religious, ethnic and other primordial sentiments. So a lot of public enlightenment is required to disabuse the minds of citizens that this is not about imposition of any religion on the country, but a continuous exploration of a viable substitute to the regime of capitalist economy whose devastating failure has wreaked untold hardship on the world.

3 Telecoms Sector

A new report from Balancing Act has disclosed that the Average Revenue per User (ARPU) is set to fall in Africa. According to the report, as coverage areas widen and competition increases, ARPUs in many of the African countries will go into long-term decline up to 2013. It however added that where there is mobile data potential, ARPUs will begin to rise again. Over the last 3-5 years, ARPUs in Africa have gone from the US$10-20 range to the US$5-8 or less range. There are two main reasons for this overall decline. Firstly, there have been far higher levels of competition in mobile markets and with competition has come price wars: good news for the consumer but far less good news for operators. Secondly, as operators continue to expand their population coverage, they are reaching out to less wealthy customers and as they increase the number of lower spending customers, the Average Revenue per User falls.

3.1 Nigeria

Vice-Chairman, NCC, Chief Ernest Ndukwe said that the Nigerian Telecommunication connection base is 67 million. He said the figure is a huge leap from about 200,000 Nigerians using any form of telecommunication before 2001.

As at June, GSM operators had a combined figure of 59,194,972 subscribers and Code Division Multiple Access (CDMA) mobile operators had 7,223,039 subscribers. The table below provides a breakdown of the major operators with the number of their subscribers.

Operators	**Number of subscribers**
MTN	27,340,000
Zain	14,646,472
Globacom	15,905,515
EMTS Limited	1,044,465
M-Tel	258,520
TOTAL GSM	**59,194,972**
Visafone	2,809,552
Multilinks	1,871,792
Starcomms	1,448,051
Reliance Telecoms (RelTel)	1,093,644
TOTAL CDMA (MOBILE)	**7,223,039**
Fixed/Fixed Wireless	**1,435,279**
Total Active Subscribers	**67,853,290**

Source: NCC