

# **EFInA Quarterly Review**

(July to September 2010)

## **1 Nigerian Economy**

### **1.1 Unemployment**

The rate of unemployment in Nigeria is currently one of the highest in the world, at 19.7 per cent. Over 50 per cent of youths in urban areas are unemployed. Some of the proposed solutions to create jobs include:

- Increase support for SMEs and business start-up through capacity building and funding
- Encourage domestication of private and public sector spending in order to boost the multiplier effect of domestic spending on the economy
- Focus more attention on the agricultural sector as it has enormous job creation potential

Nigeria needs to create 25 million jobs within the next ten years if it wants to tackle poverty and unemployment, according to a report by Next Generation Nigeria, a youth group exploring how the nation could benefit from its young people”.

### **1.2 Private Sector Lending**

According to the National Bureau of Statistics, the drop in credit to the private sector is depressing the performance of Nigeria’s growth sectors. Wholesale and Retail Trades activities recorded a lower growth in real terms of 9.54 percent in Q1 2010 compared with 9.69 percent in the same period of 2009. The growth rate in the Manufacturing sector fell to 6.43 percent in Q1 2010 from 7.03 percent in Q1 2009. Whereas the fall in the Wholesale and Retail trades was attributed to the liquidity squeeze in the banking sector and declining consumer demand, the fall in the growth in the Manufacturing sector was linked to the poor state of energy and increased cost of funds arising from the credit crisis in the banking sector. Agriculture, which is the largest contributor to the non-oil sector, grew by 5.48 percent in Q1 2010, up marginally from 5.46 percent in the corresponding period of 2009, propelled by harvesting activities in the Northern part of the country.

### **1.3 Literacy Levels**

According to the Minister of State for Education, Kenneth Gbaji, about half of the Nigerian population cannot read, of which about 60 per cent are women. He attributed the situation to the lack of infrastructure, weak governance and lack of funds in the Education sector. Tackling illiteracy and poverty has become both a national and international concern.

### **1.4 Inflation**

Nigeria’s year-on-year inflation rate dropped to 13 per cent in July. The National Bureau of Statistics said it was revising the historical monthly inflation figures from November 2009 to June 2010 to reflect a change in the standard of living assumptions. Following the review of the inflation data, the rate of inflation for June became 14.1 per cent as against 10.3 per cent stated previously, while May inflation rate became 12.9 per cent as against 11 per cent stated previously. The NBS stated in the July inflation report that growth in food prices, which form the bulk of the inflation index basket, dropped to 14 per cent year-on-year from a revised 16.1 per cent previous month.

Nigeria's consumer inflation rose to 13.7 percent year-on-year in August from 13.0 percent in July. The CBN Governor, Sanusi Lamido Sanusi, said that the apex bank would be satisfied with a headline inflation of 9 to 9.5 per cent. He stated that the CBN's priority is getting credit flowing again in the country, adding that creating economic growth was the main concern of the apex financial institution. Sanusi said, "When you have a country of 150 million people, with 70 per cent below the poverty line, it is extremely important to provide a stable environment and to ensure that the growth of the economy is not hampered by the desire to pursue a very low single-digit rate of inflation".

## **2 Financial Sector**

To ensure a vibrant economy following the crisis in the financial sector, the Minister of Finance, Mr. Olusegun Aganga, has requested for the establishment of a Council of Nigerian Financial System Regulators. If created, the Council will comprise all the current key financial regulators and shall have overseeing of the affairs of the financial system at the micro level, as one of its functions. Aganga said there is need to enhance policy coordination, transparency and collaboration in the financial system as these factors will enable the government to achieve its Vision 20:20-20 programme. "Since the emergence of the global financial crisis, we have generally focused on short-term ad hoc measures to address the symptoms of the regulatory deficit, instead of finding a holistic solution for the underlying causes of the recurrent financial sector distress". Recent events have confirmed that the challenges facing the financial system were deep rooted. Therefore, the solution needs to go beyond quick fixes. With a view to further ensure proper coordination, Aganga said the Central Bank of Nigeria would continue to be responsible for prudential and risk management for the banking system in closer coordination with the other regulators, NDIC, NAICOM and PenCom.

The Minister for Finance also called for another regulatory body to be established, which will be responsible for market confidence and integrity; good corporate governance; consumer protection; investor protection; ethics and professionalism; public awareness; and reduction in financial crime. According to Aganga, "A greater commitment to increasing consumer protection would be particularly welcomed. We want to see responsible lending in the banking and mortgage sectors. At a regulatory level, we want to see intelligent regulation with poorly performing firms, made to play by the rules; an efficient system of redress for customers and timely and appropriate compensation for them where necessary. We must also focus on increasing and improving the capacity of the regulators in order to facilitate a stronger enforcement regime".

### **2.1 Banking Sector**

Four banks – First Bank, GT Bank, UBA and Zenith Bank continue to dominate the Nigerian banking industry since the intervention of the Central Bank of Nigeria in the sector last year, according to the 2010 Nigerian Banking Sector Report released by Afrinvest in August. The report stated that the dynamics in the industry last year stratified Nigerian banks into four broad segments: the top tier banks comprising the four financial institutions listed above; the local subsidiaries of the foreign banks; the mid-tier banks' and the rescued banks. These top four banks account for total market share of 42.5 per cent in total assets; 44.3 per cent in total loans, 39.7 per cent in total deposits and 71.6 per cent in shareholder's funds.

### 2.1.1 Credit Bureau

The Central Bank of Nigeria is licensing more credit bureaux to enhance access to credit reference information in the country. The fourth bureau, Credit Scan Limited, is due to receive its license in the next few months and plans to commence operations between the last quarter of this year and first quarter of 2011. Three credit bureaux are currently licensed in the country and they have commenced business.

### 2.1.2 Banking Reforms

A transformation of Nigerian banking landscape is imminent, as banks prepare to adjust to the review of the universal banking model unveiled by the Central Bank of Nigeria in March. The reforms, for which the Central Bank expects inputs from operators, were designed as part of its strategic initiatives for reforming the Nigerian financial system to enhance the quality of banks, ensure financial system stability and promote the evolution of a healthy financial sector.

National banks would operate in Nigeria only with a minimum capital of N25 billion, while those that want to operate in the international market would need N100 billion. Regional banks with a minimum capital of N15 billion, will only operate in minimum of five and maximum of 10 contiguous states, in addition to having the word 'regional' in its name. National banks will also be permitted to take current, savings and term deposits, provide finance or credit facilities, deal in foreign exchange and act as settlement banks. Regional banks can also perform all these functions, except that they cannot act as settlement banks.

### 2.1.3 Asset Management Corporation of Nigeria (AMCON)

The AMCON bill was signed into law in July 2010. The Corporation was set up to curtail the crisis of toxic assets in the banking sector, which is estimated at over N2 trillion. As soon as it becomes fully operational, AMCON will help to stimulate the recovery of Nigeria's financial system by boosting the liquidity of troubled banks through buying their non-performing loans, helping in the recapitalization of banks in which the Central Bank was forced to intervene and increasing access to restructuring or refinancing opportunities for borrowers. The President said the AMCON will also help in boosting confidence in the banks' balance sheets and Nigeria's credit and risk ratings, restore confidence in Nigeria's capital markets and prevent continued job losses in the country's banking industry.

### 2.1.4 Card Fraud

The Central Bank has imposed greater responsibility on banks for the elimination of card payment and related fraud in the banking system. The apex bank said that banks that failed in their area of responsibility will be liable for the losses to the customer. The CBN said that henceforth banks shall be liable for any fraud perpetrated with the use of cards issued without written request from the account holder and such a card must be delivered in such a manner that the confidentiality of the information is not compromised. It directed banks to implement the mandatory daily limits for ATM cash withdrawals. All other related transactions, including Point of Sale (POS) and online purchases should be subject to stringent limits as agreed and documented. It is the responsibility of banks to ensure that the agreements are documented and limits are embedded within the card so as to

automatically initiate a trigger when limits are exceeded. According to the apex bank, the use of second level authentication for internet transactions is now mandatory for all payment cards. DMBs must send SMS alerts or email card holders whenever there is a debit transaction on payment cards. Card holders should be provided with a facility to block their accounts immediately from their mobile phones whenever the SMS alert received is in respect of suspicious transactions so as to prevent further fraudulent transactions from being perpetuated.

## **2.2 Cooperatives**

Lagos State government stated that the capital of all registered cooperative societies operating in the State is about N500 billion. The State Commissioner for Agriculture and Cooperatives said about N20 billion of the total capital base had been verified and confirmed, and the process of verification is ongoing. The Commissioner said the capital base of N500 billion “include s running cost s, investment of the societies, properties and the total assets of the societies in the circulation ”. He acknowledged several cases of fraud had been reported, but stated that the State government through the Ministry of Agriculture and Cooperatives has been tackling the problem to ensure that the savings of the about 15,000 cooperative societies in the state are secure.

## **2.3 Microfinance**

The Central Bank has increased the share capital of microfinance banks operating in the urban areas to N100 million and the ones in the rural areas to N50 million. The introduction of the risk management framework by the CBN is expected to bring safety and sanity to the sub-sector, as the framework is expected to upgrade the risk profile of microfinance institutions. The risks to be covered by the framework include credit risk, market risk, liquidity risk and strategic risk. The framework will mandate microfinance institutions to acquire risk management templates for easy supervision by the apex bank. This will bring to an end the compliance-based supervision currently in use by the Central Bank to supervise microfinance firms. The risk-based supervision will focus mainly on governance & ownership structure, lending methodology, borrowers’ characteristics, appropriate management information systems, internal control mechanisms and procedures.

### **2.3.1 Microfinance Banks Closures**

In September, the Central Bank of Nigeria said that directors and management of closed microfinance institutions found to have abused their positions would be handed over to law enforcement agencies for investigation and subsequent prosecution. The disclosure was announced as the apex bank formally revoked the operating licenses of 224 microfinance banks which were found to be “terminally distressed” and “technically insolvent”. The technically insolvent microfinance banks had negative shareholders’ funds, negative capital adequacy ratios and negative liquidity ratios. Consequently, the Nigeria Deposit Insurance Corporation has been directed in line with its statutory role to pay up to the maximum insurance coverage of N100,000 per depositor of the affected banks. According to the Deputy Governor, Financial System Stability (FSS), Dr. Kingsley Moghalu the total deposits in the affected 224 microfinance banks amounts to N18.2 billion while total loans in their books amount to N19.6 billion. He said the revocation of licenses has set the stage for the ongoing review of the microfinance policy framework in the country and that the

Central Bank will be coming out with a comprehensive new microfinance policy framework for Nigeria.

## 2.4 Pensions

The Director General of the Commission, Mr. Muhammad Ahmad confirmed that 163,206 employers are making contributions in favour of their employees in line with the pension reform law. The Director General said, "The industry has continued to consolidate as 4.3 million Nigerians had registered on the scheme as at the end of July 2010 with assets worth N1.8 trillion.

PenCom will soon announce a new capital base for Pension Fund Administrators aimed at strengthening the capacity of the sector to deliver to the objectives of the scheme.

## 2.5 Housing Finance

### 2.5.1 Nigeria

One of the most basic of human necessities is shelter. The Nigerian government, however, is tasked with providing satisfactory homes for up to 70% of its population of over 150 million. A UN study from 2007 put the housing shortage in Nigeria at 16 million homes. According to the Federal Housing Authority (FHA), that statistic has grown since the study was completed. In the 36 years of being in operation, the FHA has only been able to provide 36,000 housing units, which is an average of 1,000 housing units per year. For a population of 150 million people that is highly inadequate.

The overview of the Housing Vision 20: 2020 report provides a target of housing requirements by the year 2020, which is shown in the table below:

**Proposed breakdown of Vision 20: 2020 Housing Requirements**

Year	Home built nationwide	Average no of homes per state	Average no of homes per LGA
2011	0	0	0
2012	500,000	12,500	646
2013	600,000	15,000	775
2014	720,000	18,000	930
2015	864,000	21,600	1,116
2016	1,036,000	25,920	1,340
2017	1,244,160	31,104	1,607
2018	1,492,992	37,325	1,929
2019	1,791,590	44,790	2,315
2020	2,149,908	53,748	2,778
<b>Total</b>	<b>10,399,451</b>	<b>259,986</b>	<b>13,436</b>

### 3 Telecoms Sector

#### 3.1 SIM Card Registration

Operators (telecommunications companies) are responsible for the registration of new lines, whilst the regulator Nigeria Communications Commission (NCC) is responsible for registering existing lines. Key challenges identified in implementing SIM card registration includes:

- Huge CAPEX and in particular, annual OPEX outlay for implementing the exercise
- Establishing registration centres across the country through the sales distribution chain
- Capturing biometric information of subscribers including the storage and relaying of completed registration details to the back end from all the registration centres across the country especially from rural and semi-rural locations in light of the power, road and other infrastructural deficiencies in the country
- Addressing the requirements of public enlightenment and the challenges of getting subscribers to willingly provide their bio-data and biometric information
- Six months timeline to complete the registration of existing subscriptions which currently stands at over 75 million.

#### 3.2 Telephone Subscribers in Nigeria

The table below provides a breakdown of telephone subscribers as at August 2010:

	Number of connected lines	Number of active lines
<b>Mobile GSM</b>	<b>95,718,928</b>	<b>74,074,793</b>
<b>Mobile CDMA</b>	<b>11,706,269</b>	<b>6,616,457</b>
<b>Fixed Wired/Wireless</b>	<b>2,722,322</b>	<b>1,239,973</b>
<b>Total</b>	<b>110,147,519</b>	<b>81,931,223</b>

Source: NCC