EFInA Quarterly Review

(April to June 2010)

1 Nigerian Economy

A Reuters poll conducted in April showed that Nigeria's economy is set to grow by 6.3 percent this year and consumer inflation will stay in double-digits through 2011 as the government slashes fuel subsidies and increases budgetary spending. Analysts expect the budget's fiscal deficit to grow by 3.5 percent this year (which is below the government's expectation of more than 5 percent); this is based on weaker than expected capital spending projections.

According to the United Nation's Human Development Index over 86 percent of Nigerians live below the poverty level and earn less than $2 dollars per day. In addition, 90 percent of the population that are regarded as poor also lack access to good housing.

1.1 Foreign Reserves

Nigeria's foreign reserves which rose to more than $61 billion in mid-2008, dropped to $52 billion by the end of 2008. As at the June 2010, it has slipped further to $38.41 billion. Increased dollar demand at the Central Bank's bi-weekly forex auctions in March and April put pressure on the reserves, with the regulator raising its weekly sales from an average of $500 million to $900 million in April.

The Central Bank is considering holding part of Nigeria external reserves in Chinese Yuan to preserve the value of the nation's external reserves and eliminate losses due to the increased volatility in major world currencies. The monetary authority holds 15 per cent of Nigeria's foreign currency reserves in Euros and almost 80 per cent in US dollars. The Euros slumped against the dollar in May, as concerns mount that Greece's debt crisis might spread to other nations in the Euro-zone. Director of Reserves Management Department of CBN, Lamido Yuguda, said that the CBN might reduce the amount of Euros it holds in its reserves if the European currency's decline continues. He added that CBN was considering setting the minimum of reserves it holds at the equivalent of 12 months of import requirements, compared with six months currently, to cushion the economy if there are further crises.

1.2 Inflation

According to the National Bureau of Statistics (NBS), Nigeria's year on year inflation fell to 11 per cent in May from 12.5 per cent the previous month. The fall in May's inflation rate was led by slower growth in food prices. NBS said that food price inflation which forms the bulk of the index basket in Nigeria fell to 12.3 per cent year on year from 14.3 per cent in April. Notwithstanding the decline in inflation in May, analysts believe that the Central Bank of Nigeria is not going to achieve single digit inflation for 2010 owing to many factors outside its control, such as election spending and high budgetary expenditure. A poll of 11 analysts conducted by Reuters, forecast Nigerian inflation to average 12.6 percent in 2010 and 11.5 percent in 2011.

1.3 Vision 2020

In June, Shamsudeen Usman, National Planning Minister and Vice Chairman National Planning Commission stated that Nigeria requires N32 trillion for the actualisation of Vision 2020. The vision is based on the idea that by the year 2020, Nigeria's economy will be among the 20 largest economies of the world. Mr. Usman said that the investment will be made by the three tiers of government - with the federal government contributing N10 trillion, states and local government N9 trillion and the remaining N13 trillion will have to be sourced from the private sector. He also noted that insufficient funds from the public sector would make private sector funds (domestic and foreign) critical for the actualisation of the Vision 2020 programme. The Minister added that the banking sector will be critical for the funding of the Vision 2020 and that the country will need to critically re-order and re-prioritise expenditure to be able to save enough to fund the programme.

1.4 Sovereign Bonds

According to the Debt Management Office (DMO), Nigeria auctioned N80 billion ($540 million) worth of 20-year, 5-year and 3-year sovereign bonds in June. The DMO sold N20 billion of the 20-year paper, N30 billion of the 5-year instrument and N30 billion of the 3-year bond at auction. The DMO said successful bids for the 3-year, 5-year and 20-year offers were allotted at marginal rates of 6.24 percent, 7.61 percent and 8.69 percent respectively. Investors were willing to buy a total of N229.33 billion worth of bonds, but the Debt Office kept to its initial offering of N80 billion. Bond traders said the huge interest was a result of excess liquidity in the system from the injection of May budgetary allocations to the three tiers of government.

2 Financial Sector

The World Bank Board of Executive Directors approved a $500 million development policy credit to support Nigeria's economic reforms in the financial sector and public financial management. The credit is in response to the current global financial crisis. "The loan is intended to provide budgetary support for the Federal Government of Nigeria to partially off-set the fiscal impact of the crisis as well as maintain its current economic reform path in the financial sector, fiscal policy and financial management and governance," said Michael Fuchs, the Lead Financial Economist and Task Team Leader. Commenting on the assistance, Country Director for Nigeria, Onno Ruhl, said: "The benefits to be derived from the programme include maintaining confidence and stability in the financial system, strengthening the banking system, supporting reforms spearheaded by the CBN, as well as supporting the government's fiscal and financial management.

2.1 Banking Sector

2.1.1 CBN Ongoing Banking Reforms

CBN's primary objectives for the current reform exercise include:

- Depositor/consumer protected by ring fencing banking from non-banking business
- Ensuring effective regulation of the entire business of banks while facilitating a business model that is supportive of their growth aspirations
- Redefining the license model of banks and articulating rules/guidelines to guide bank operations going forward
- Facilitating the enhancement of risk management at "Group Enterprise" level to enable management and shareholders fully understand and address risks from a holistic perspective

Key directives issued by the CBN during this quarter

New Prudential Guidelines

The Central Bank of Nigeria has issued new Prudential Guideline to banks, effective from 1 May. The guidelines addresses various aspects of bank operations, such as risk management, corporate governance, know your customer (KYC), anti-money laundering, counter financing of terrorism, loan loss provisioning, peculiarities of different loan types and financing different sectors of the economy.

The CBN stated that the guidelines were necessary to correct the extremely fragile financial system, due to the global financial meltdown; which manifested in macro-economic instability, major failures in corporate governance, inadequate disclosure and transparency and uneven supervision and enforcement.

In terms of KYC, all banks must heed to customer disclosure and anti-money laundering rules or face severe penalties. The guideline banned banks from transacting with customers that they don't have adequate information about.

In the new risk management guidelines, the CBN directed banks to prepare a comprehensive credit policy duly approved by their Board of Directors and that the policy should cover loan administration, disbursement and appropriate monitoring mechanism and should be reviewed at least every three years. The new guidelines stipulate that the tenure of external auditors in a given bank shall be for a maximum period of 10 years.

The total outstanding exposure by a bank to any single person or a group of related borrowers is fixed at a maximum of 20 percent of the bank's shareholders fund unimpaired by losses while aggregate large exposures in any bank should not exceed eight times the Shareholders fund unimpaired by losses. All banks must ensure that they have policies in place to address portfolio concentration and the policies must be strictly be adhered to.

The apex bank directed that all banks must obtain credit reports from at least two credit bureaux before granting any facility to their customers and they should provide evidence that a search has been conducted on the borrower in CBN's Credit Risk Management System (CRMS) database.

The new guidelines upheld the maximum tenure of 10 years earlier stipulated for Chief Executive Officers of banks. In order to ensure both continuity and injection of fresh ideas, non-executive directors should not remain on the board of a bank continuously for more than 3 terms of 4 years each, i.e. 12 years.

Inbound foreign money transfer

The Central Bank issued the following directive on inbound foreign money transfers, effective from 5 May:

1. All in-bound money transfers to Nigeria shall only be disbursed to beneficiaries through bank accounts
2. Where the beneficiary does not have a bank account, payments shall only be made upon the provision of a satisfactory reference from a current account holder in a bank confirming that the beneficiary is the bona-fide owner of the funds

2.1.2 Asset Management Company (AMC)

On 22 June, the Senate approved the setting up of the AMC and sent the bill to the President for his assent. The Company is expected to buy up the toxic assets of the banks and thus encourage lending. Under the harmonized bill, the toxic assets would be exchanged for seven year bonds or other debt instruments issued by the AMC and guaranteed by the Ministry of Finance. The AMC's value will be N10 billion.

There are however some concerns as to whether the AMC will make any difference considering the other imbalances in the economy that discourages banks to lend to small and medium scale operators and other large scale manufactures. The challenge of poor infrastructure makes the manufacturing sector highly risky and so the banks are reluctant to advance credit to this sector.

2.1.3 Credit Bureau

Credit bureau operators confirm that there has been higher patronage by the banks since the CBN directive issued in April that all banks and financial institutions must use at least two licensed credit bureaux in determining the credit history of their customers. The banks are also expected to report periodically on the performance of the loans in their portfolio to any of the two credit bureaux with whom they have a data exchange agreement and to obtain quarterly credit reports from at least two credit bureaux for all previous loans granted to determine borrowers' composite exposure to the financial system.

Operators are however worried about the quality of data that is currently available from the banks. The quality of data will depend on changing the credit culture of Nigerians to see the importance of credit bureaux to the economy. There is no economy in the world where banks give credit to the real sector and individuals without a functional credit bureau. So it is in the interest of the economy for credit bureaux to work in Nigeria.

2.2 Microfinance

2.2.1 African Capital and Business Support Limited

African Capital and Business Support Limited (ACBS), has secured $400 million (N60 billion) funding for microfinance banks in the country. The funds were provided by Mainsail Trading Limited, Dubai and secured with bank guarantees from Suisse Bank Plc, a private bank based in the United Kingdom.

The funds will allow MFBs to access long-term debt of up to 10 years. Under the deal, Nigerian MFBs participating in the Mechanized Agricultural & Microcredit Investment Scheme (MAMCIS) would be given money as a Subordinated Convertible Debenture through a specially designed scheme called Africa Investor Protector Programme. MAMCIS is a special funding scheme designed by ACBS to provide finance to micro and small-scale farmers across the country through participating MFBs. The farmers must however be members of participating cooperative societies, so as to leverage the Agricultural Credit Guarantee Scheme of the Central Bank of Nigeria.

ACBS has also finalised arrangements to resuscitate Integrated Microfinance Bank Limited (IMFB) through the debt investment option. ACBS is injecting N4 billion into the bank to enable it begin full operations and offset outstanding obligations to its customers. ACBS also plans to inject another N2 billion into IMFB's agricultural funding pool. Farmers who want to apply for loans from the N2 billion agriculture loans are required to make six per cent deposits of the value of their applications through respective cooperatives.

2.2.2 National Association of Microfinance Banks (NAMB)

With the recent election and inauguration of the new National Executive Council of the National Association of Microfinance Banks, it is believed that the confidence of micro savers which has been eroded by unprofessional practices of some operators of microfinance banks may be restored. Mathias Omeh, the president said one of the strategy’s the new administration was going to employ to resuscitate the sub-sector was to embark on a massive sensitization campaign for the sub-sector. This is against the backdrop of public misconception of MFBs’ operations. The Association also intends to embark on capacity building to enhance regulations and to ensure members do not get involved in the fraudulent acts associated with illegal operators.

2.3 SME

In May, the Central Bank issued the guidelines for the establishment of a N200 billion Small and Medium Enterprises Credit Guarantee Scheme. The scheme is to be wholly financed by the Central Bank and aims to fast-track the development of the manufacturing SME sector of the Nigerian economy by providing guarantee for loans from banks to SME’s and manufacturers.

2.4 Pensions

Concern has continued to mount over the future and life in retirement of over 70 percent of the nation's workforce in the informal sector that have no organised pension plan. The fear is that a lot of these people will get to old age without any plans for their retirement, culminating in increased poverty. The National Pension Commission is considering approaching the government through the National Assembly to establish a new law or amend the existing one to compel operators in the informal sector to enrol in the Contributory Pension Scheme. Mohammed Ahmad, Director-general of the Commission said implementing the current reform in the informal sector has been extremely difficult due to lack of incentives, irregular income, paucity of data and the absence of payment/collection platforms. The objective of the pension scheme, which was enacted six years ago was to ensure that every worker receives his/her retirement benefits as and when due and to assist workers to save in order to cater for their livelihood during old age.

3 Telecoms Sector

The commencement of registration of SIM cards by Nigerian telecoms operators which began at the beginning of May has not really made any impact because most Nigerians are not even aware that the exercise has commenced. Most operators are still not ready as they are still in the process of testing the equipment to be used for the exercise while others are yet to receive theirs. According to the registration policy, henceforth subscribers who purchase SIM cards are required to register with the networks to be able to make calls. The Nigerian Communications Commission (NCC) has said that new SIM cards will be one way, which means that calls can only be received, with a 30 days grace period given for the new subscriber to effect registration before being able to make calls. However, because there are still some old SIM cards which have instant activation features so it will take a while for all the modalities for an effective registration exercise to be concluded.

Prof. Dora Akunyili, the Minister of Information has warned telecoms operators to comply with the directive from the NCC to register all new SIM cards in Nigeria. According to her, SIM registration will reduce fraud incidents, threats, intimidation and kidnapping crimes which have become common in the country.

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

	Number of connected lines	**Number of active lines**
Mobile GSM	**85,565,255**	**69,649,955**
Mobile CDMA	**10,545,283**	**7,745,317**
Fixed/Fixed Wireless	**2,561,923**	**1,459,271**
Total	**98,672,461**	**78,854,603**

Source: NCC