EFInA Quarterly Review

(April to June 2011)

1 African Economy

1.1 Growth Rates

According to the African Development Bank, Africa's economic growth is likely to slow to 3.7 percent in 2011, from 4.9 percent in 2010, mainly due to the disruptions caused by political unrest and regime changes in North Africa. The first quarter of 2011 has been among the most turbulent in Africa's history, Egypt and Tunisia ousted their presidents and political protests took place in several other North African countries. However, growth is expected to recover across Africa in 2012 to 5.8 percent; but there are risks to attaining this growth rate, such as the impact of the earthquake and nuclear crisis in Japan, civil war in Libya, and post-election conflict in Ivory Coast.

North Africa is the region likely to suffer the biggest decline, growth rates are forecast to decline to 0.7 percent in 2011 from 4.6 percent in 2010, before rising to above 5.0 percent in 2012. East Africa's economy is expected to show growth of 6.7 percent in 2011 up from 6.2 percent in 2010. West African growth is likely to decline to 6.0 percent in 2011, from 6.7 percent in 2010, due to the conflict in Ivory Coast.

2 Nigerian Economy

In May, the World Bank, Country Director for Nigeria, Onno Ruhl, stated that the target to be among the top 20 economies by the year 2020 may be farfetched, as Nigeria's current gross domestic product growth of around 7.0 percent is not enough to achieve this feat. According to Mr Ruhl, instead of striving to be among the top 20 economies by 2020, Nigeria should begin to do things differently in order to grow the economy. Nigeria should be among the 20 largest economies, whether it is 2023 or 2024, it doesn't matter. Nigeria should aspire to be the best in everything it does. Mr Ruhl said rather than discussing why Nigeria has not succeeded, the emphasis should be on what the country needs to do in order to be where it belongs. The major focus of implementing Vision 2020 should include agriculture and food security, business environment and competitiveness, corporate governance, culture, tourism and national re-orientation, education, employment, energy, health, housing, human development, information and communications technology, judiciary and the rule of law, and manufacturing.

2.1 Global Competitiveness

According to Oby Ezekwesili, World Bank, Vice President for Africa and Jennifer Blanke, Lead Economist, World Economic Forum, poor macro-economic environment, infrastructural challenges and poor governance are some of the reasons Nigeria often does not do well in competitiveness rankings. For Nigeria to grow further and be globally competitive, it needs to put in place conditions that are requisite for a vibrant private sector, which will create jobs and help to drive inclusive growth. Nigeria ranked 127 out of 139 countries profiled in the Global Competitiveness 2010 Report, and also performed poorly in the recently released Africa Competitiveness Report. In the Africa Competitiveness Report, Nigeria came just ahead of ten countries on the Continent, including Angola, Chad, Côte d'Ivoire, Mali and Zimbabwe. Mauritius, Namibia, Tunisia, South Africa, Egypt, and Gambia all ranked well above Nigeria. This year's Africa Competitiveness Report - the third in a series - was published by the World Economic Forum, the World Bank, and the African Development Bank to highlight the challenges of competitiveness on the Continent. Competitiveness, according to them, means all of the factors, institutions, and policies that determine a country's level of productivity, which in turn sets the sustainable level and path of prosperity that a country can achieve. Blanke, who is also the Director and Head of the Centre for Global Competitiveness said, "Nigeria's position declined as there has been a lot of concerns about institutions and governance in the country. Nigeria also needs to take time to improve its educational system, health care system and build infrastructure". Blanke said the downward trend reflected Nigeria's poor business environment and would continue to discourage investors, if not urgently tackled. The ranking is an indication of how difficult it is going to be for Nigeria to be really productive and provide gainful employment in the near future, if some very clear changes are not made.

2.2 2011 Elections

The economic cost of the 2011 general elections in the country is estimated to be N470.78 billion, about 1.9 percent of the total Gross Domestic Product. The amount excludes the cost of campaigns and political activities, such as conventions, congresses, advertisements, etc. Apart from the cost of campaigns and party activities, the high cost of the elections was also attributable to holidays declared by the Federal Government and the postponement of elections by the Independent National Electoral Commission (INEC). Officially, N50.21 billion was budgeted for INEC in the 2010 budget. Thereafter, another N87.72 billion was allocated to the Commission through a 2010 supplementary budget. INEC also got N45.39 billion from the Federal Government 2011 budget.

2.3 Failed State

Nigeria has again been ranked 14th most failed state in the world, and is described as only being better than Somalia, Sudan, Chad, Democratic Republic of Congo, Haiti, Zimbabwe, Afghanistan, Central African Republic, Iraq, Cote d'Ivoire, Guinea, Pakistan, and Yemen. This is out of the 177 countries ranked by the Fund for Peace (an American independent non-profit research and educational organisation that works to prevent violent conflicts and promote sustainable security in the world) in their annual Failed States 2011 Index report. In terms of the indicators used for the ranking, Nigeria's worst scoring categories were in Group Grievance, Uneven Development, Legitimacy of the State, Public Services, Security Apparatus, and Factionalised Elites.

According to the summary analysis on Nigeria - the country's deep grievances along religious and communal lines have resulted in violence in the Niger Delta region, the Middle Belt, and the North. There is also endemic corruption, deep distrust of the state, inadequate public services, and security forces that often operate with impunity. Nigeria is also subject to campaigns of violence by a number of militant and militia groups. Ghana had the best regional score in the Central and West Africa.

In terms of the most failed state in the world, Nigeria was ranked 15th in 2009, 18th in 2008, 17th in 2007, 22nd in 2006, and 54th in 2005.

2.4 Growth Forecast

According to the National Bureau of Statistics (NBS), Nigeria's economy grew by 7.4 percent in the first quarter of 2011, and the economy is projected to grow by 8.0 percent in 2011, compared with 7.8 percent in 2010.

2.5 Inflation

In May, Sanusi Lamido Sanusi, Governor, Central Bank of Nigeria said fighting inflation is likely to be a challenge for Nigeria this year. Sanusi said successfully tackling inflation will depend on implementing structural reforms to increase agricultural productivity. However, the apex bank has maintained its desire to bring inflation in the country to a single digit.

According to the National Bureau of Statistics (NBS), the year-on-year inflation rate declined from 12.8 percent in March to 11.3 percent in April, and then rose to 12.4 percent in May. Most analysts attributed the hike in inflation in May to the rise in prices of some household items, building materials and rent. They specifically highlighted the high cost of kerosene and diesel as contributing to the significant rise in inflation.

3 Financial Sector

The Central Bank of Nigeria expressed its support for the establishment of the Nigerian International Financial Centre (NIFC) aimed at creating a world class financial zone that would act as a catalyst for economic growth in Africa. The apex bank said the NIFC will be established as a full service International Financial Centre focusing on a broad range of financial and ancillary services, driven by a separate regulatory, administrative and judicial framework, in line with global standards.

Sanusi Lamido Sanusi, the CBN governor, said the establishment of the Centre is one of the key pillars in the strategy of making Nigeria Africa's financial hub by the year 2020. The proposed Centre will serve as a one-stop-shop where players in the financial sector can get licensed, registered and listed on the Nigerian financial market. He noted that the NIFC will be based on the Dubai International Finance Centre, adding that it will also act as a financial free zone, with a view to attracting foreign investment into the country.

3.1 Nigerian Stock Exchange

On 4 April, the new Chief Executive Officer of the Nigerian Stock Exchange (NSE), Oscar Onyeama resumed office. He stated that he wanted the Exchange to become the gateway to African frontier markets. To achieve this, management have identified integrity, durable wealth creation, and business development as the pillars required to build a new NSE. Integrity will manifest in better accountability, effective corporate governance, transparency, and a strong regulatory programme. Mr Onyeama said he will focus on enhancing operational efficiency; technology and supporting infrastructure; capacity building efforts; and the demutualisation of the Exchange. They have identified listing development, market development, product development, and strategic alliances, as the four main strategic pillars in repositioning the NSE to operate as a commercial entity.

The NSE's Council has approved the reorganisation of the Exchange into four major divisions: Market Operations and Technology; Business Development; Legal and Regulation; and Corporate. With the exception of the Corporate division, each of the divisions will be headed by an Executive Director. In addition to the existing equities and bond asset class offerings, the Council also approved that the Exchange should actively develop Index/Exchange Traded Funds, Options and Financial Futures products.

3.2 Banking Industry

Cash Management

According to the CBN's Deputy Governor, Operations, Mr Tunde Lemo, the apex bank spent over N34bn in printing currency in 2010. He said that apart from the billions of Naira being spent yearly on the printing of currency, the Deposit Money Banks also spend too much time processing cash. Banking is not about processing cash. Banks need to facilitate better intermediation by ensuring that the bulk of their transactions are more efficient and cost-effective. The CBN stated that it is working in collaboration with the Bankers' Committee to adopt policies that reduce the high usage of cash, moderate the cost of cash management and encourage the use of electronic payment channels. Mr Lemo disclosed that the apex bank had put in place measures to deploy over 100,000 Point of Sales (POS) terminals by 2012 and 350,000 POS terminals by 2015. The POS devices will be biometric so that everyone, including those who cannot read and write, will be covered. He stated that the CBN, in collaboration with the banks, had set up a Committee to ensure error-free, end-to-end e-payment transactions. In addition, the CBN has also issued approval in principle licences to 16 mobile payment service providers to boost e-payments.

Lending

The Nigerian economy is still in the grip of the credit crunch that has crippled the real sector in the last 2 years. Businessday investigations have shown that Nigerian banks are still reluctant to lending, as the total loan growth by 15 banks analysed by Businessday shows an average of 5.00% growth in the first quarter of 2011. The 15 banks analysed by Businessday were: Diamond Bank, UBA, Stanbic IBTC, GTBank, Unity Bank, First Bank, Access Bank, Zenith Bank, Ecobank, Sterling Bank, FCMB, Skye Bank, Oceanic Bank, Fidelity Bank and Wema Bank. The 15 banks had a total loan portfolio of N5.21 trillion in Q1 2011 compared to N4.96 trillion in Q1 2010. Three banks however recorded a drop in their loans portfolio in Q1 2011: Ecobank recorded the highest drop in loans growth of 15.00%; Oceanic Bank reported the second highest drop of 6.77%; while Skye bank reported a drop of 4.88%. Four banks - First Bank, Zenith Bank, GTBank and UBA have the biggest loans portfolio in the banking industry. The four banks have a gross loan portfolio of about N3.30 trillion, representing 63.34% of the gross loan portfolio of the 15 banks in Q1 2011. A comparative analysis of the 15 banks investments in government treasury bills within the same period shows that they increased their holding from N1.22 trillion in Q1 2010 to N1.44 trillion in Q1 2011.

3.2.1 Banking Reforms

Cash Withdrawal Limits

In April, the Central Bank announced that effective from 1 June 2012, a daily cumulative limit of N150,000 and N1,000,000 on cash withdrawals by individuals and corporate customers respectively, with Deposit Money Banks shall be imposed. A penalty fee of N100 per N1,000 will be charged on all individual transactions above the limit, while corporate customers will pay a fee of N200 per N1,000 for transactions above the limit. The apex bank will initially commence the policy in five locations - Lagos, Federal Capital Territory, Port Harcourt, Kano and Aba. These locations account for 80 percent of the volume of cash in the country. Contravention of this policy will attract a fine of five times the amount that the bank waives as a first offence, while subsequently the bank shall be fined ten times the charges waived.

According to the Central Bank, as at February, the amount of money outside of the banking system was estimated at N1.025 trillion. These reforms are expected to reduce the amount of money outside the banking system. In June, it was announced that Deposit Money Banks have agreed to deploy 40,000 POS terminals in Lagos by December 2011, to facilitate the Central Bank's "cashless banking policy".

In addition, third party cheques above N150,000 will not be eligible for encashment over the counter, as the value of such cheques will be required to go through the Clearing House. If a bank allows third party cheque encashment above this limit, it shall be liable to a sanction of 10 percent of the face value of the cheque or N100,000 whichever is higher.

POS Transactions

In order to achieve interoperability of local currency POS transactions, effective from 1 June 2011, no card scheme, foreign or local, shall operate exclusive acquirer agreements or contracts in Nigeria. Any payments scheme, processor, switching company, service provider or bank that contravenes this policy may be suspended for a minimum of one month by the CBN, as a processor or switching company. The license may be withdrawn by the CBN if the contravention is repeated. This policy applies to both private and public sector transactions. All financial institutions, including Deposit Money Banks, Savings and Loans, Mortgage and Microfinance Banks are expected to comply.

Financial Ombudsman

In April, the House of Representatives, the Central Bank of Nigeria and other stakeholders in the financial sector backed the establishment of the Office of the Nigerian Financial Ombudsman. The duties of the Ombudsman will be mainly to resolve financial and related disputes in the Nigerian financial services sector and other related matters. The Governor of the CBN, Mr Lamido Sanusi, said that the objective of having the Office is to avoid the delays encountered in resolving financial disputes through the conventional courts. He cited the challenges banks were facing in making credit facilities available to small and medium scale entrepreneurs in the country, adding that the following bills would help to unlock existing inter-bank disputes:

- A Bill for an Act to Establish the Office of the Nigerian Financial Ombudsman; an Independent Body Charged with the Responsibility for Resolving Financial Related Disputes, 2010
- A Bill for an Act to Establish the Nigerian International Financial Centre to Provide Financial Free Zone, 2010
- A Bill for an Act to Establish the Alternative Dispute Resolution Regulatory Commission and for Related Matters

3.2.2 Deposit Money Banks

Recapitalisation

Following the collapse of merger talks between the managements of some of the rescued banks and potential investors, in June the Central Bank of Nigeria announced that it has given the eight rescued banks until 30 September 2011 to fully recapitalise or risk being liquidated. The apex bank's Deputy Governor, Financial Systems Stability, Dr Kingsley Moghalu, stated that the decision was taken by the Committee of Governors of the CBN, and was aimed at achieving financial systems stability. The table below shows, that the eight rescued banks remain technically insolvent (since all of them recorded negative Net Asset Values) as at December 2010.

Deposit Money Bank	Negative Asset Value (in Billions of Naira)
Oceanic Bank	(94,261)
Union Bank	(135,894)
Intercontinental Bank	(330,709)
Bank PHB	(242,309)
Afribank	(260,940)
FinBank	(104,751)
Equitorial Trust Bank	(27,253)
Spring Bank	(87,869)

Source: CBN

On 9 June, the CBN reaffirmed its commitment to ensuring that financial stability persists throughout this final stage of the recapitalisation process, and that depositors will not suffer any losses of savings in any of these banks.

3.2.3 Agriculture Lending

In June, the Central Bank announced that it had set aside N75 billion to spur agricultural industrialisation in the country under an initiative which, if successful, could help to reduce the estimated N600 billion which is spent annually on food importation. The plan will be part of the Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL), a holistic and transformational programme to de-risk agricultural lending and unlock the potential of the sector.

The aim is to increase the production and processing of much of what is produced in the country in order to boost economic earnings across the value chain.

The Central Bank Governor noted that the programme plans to generate an additional N450 billion of bank lending within the next 10 years by de-risking the agricultural value chain. NIRSAL has been designed by the apex bank to provide the singular transformational solution to low lending levels in the sector, and is expected to increase lending to agriculture from the current 2 percent to 7 percent of total bank lending. Other targets include reaching 3.8 million agricultural producers by 2020, through MFIs, cooperatives, value chain financing, and other ‘pooling’ mechanisms. To achieve these targets, NIRSAL will assist in building the capacity of Nigerian banks to lend to agriculture, and deploy risk sharing instruments that would incentivise and position banks based on their capacity to lend to the agricultural sector.

3.2.4 Microfinance

At the end of June, the Central Bank of Nigeria released revised guidelines for the operations of microfinance banks (MFBs) in Nigeria. It was an update on the initial document issued five years ago and specified new categories and capitalisation requirements for microfinance banks. The revised guidelines seek to strengthen the institutional, operational and corporate governance base of microfinance banks. The revised guidelines categorise MFBs into three levels – i) Unit MFBs; ii) State MFBs; and iii) National MFBs, with minimum capitalisation requirements of N20m, N100m and N2bn respectively. MFB’s will be allowed to operate in a local government, state and in more than one state based on the respective categorisations. The revised guidelines also states that no individual, group of individuals, their proxies or corporate entities, and/or their subsidiaries, shall own controlling interest in more than one MFB, except as approved by the Central Bank of Nigeria.

In revising the operational guidelines, the CBN recognised that the MFBs are largely yet to fulfil their mandate as agents of savings mobilisation especially at the grassroots level and more critically as providers of credit at the micro level in order to boost commercial activities; with the ultimate end of reducing poverty Nigeria. The MFBs were also supposed to drive the expansion of financial services at the micro level and leverage on the huge resources of commercial banks to channel credit down the pyramid. However, in the last five years in which about 1,000 MFBs, many of which converted from community banks were licensed, there has been a near collapse of the system and many MFBs have closed down. The key major problems identified were high operating costs of small unit MFBs, which have to process several loan applications, manage and monitor numerous accounts and make repayment collections from several locations especially in rural communities. Also there was a high loan default rate due to the inadequate or non-monitoring of borrowers, which eventually crippled the operations of the MFBs and deprived potential beneficiaries of further valuable services. Another major challenge was a dearth of experienced officers to run the fledgling sub-sector. Many of the core mangers lacked the skills to carry out planning, product development and effective engagement with clients. The MFBs also had to cope with problems of illiteracy of a large chunk of customers, which affects record keeping and the decision-making ability of borrowers and consequently affects their relationship with the MFBs. Equally important was the inability of the

CBN as the regulator to effectively monitor the operations of the MFBs, such that a few of the bigger ones exceeded their brief by dabbling into investments activities including stock market speculation.

Nonetheless, the microfinance sub-sector can still realise its huge potential for financial intermediation at the grassroots, it can easily serve as the gateway for microinsurance and other services targeted at the low income bracket. However, the CBN needs to ensure closer supervision of the MFBs and that the MFBs employ technically sound managers and staff. The cooperative system should also be strengthened and should serve as a major channel for the disbursement of loans by MFBs, so that there can be accountability in the case of defaults. It is also important to restore confidence in the microfinance sub-sector, as many of the customers of the MFBs that folded recently will not forget their harrowing experiences in a hurry.

3.3 Non-interest (Islamic) Banking

In June, the CBN re-issued the guidelines on Non-Interest Banking, as follows:

i. Non-Interest Banking based on Islamic principles
ii. Non-Interest Banking based on other established principles

The apex bank said based on the recommendations of various stakeholders that the new guidelines sought to clarify the contextual definition of non-interest banking, which is not restricted to Islamic banking, but also includes other forms of non-interest banking. Another significant review is the removal of any reference to the Shariah Council, which has been changed to Advisory Council of Experts, whose responsibility is to advise the CBN on the appropriateness of relevant financial products to be offered by institutions. The apex bank said the capital base for a national non-interest banking license will be N10 billion, while those that want regional licenses will have a capital base of N5 billion.

3.4 Pensions

In order to achieve a stronger and more efficient pensions sub-sector, the National Pension Commission (PenCom) announced in June that it had increased the minimum share capital requirement of licensed Pension Fund Administrators (PFAs) from N150 million to N1 billion. PFAs have been given until 30 June 2012 to recapitalise. The increase in the minimum capital requirement is expected to encourage mergers or acquisitions and promote stability in the sub-sector. Other benefits of the new policy include increased service delivery and product development, resulting from automation; improved capacity building and employment of qualified personnel; deployment of adequate IT infrastructure for improved business process; creation of more business outlets for increased nationwide presence; stronger and more efficient research units for optimum investment decisions, as well as improved data management.

The Commission said that under the current market situation, the new capital base will be adequate to absorb unforeseen losses and improve the financial condition and business processes of the PFAs. Mohammad Ahmad, Director General, PenCom, stated that the Commission would continue to formulate polices that would strengthen the pension sub-sector, so as to be able to contribute to the overall growth of the economy. Ahmad said the country's pension assets was in excess of N2 trillion as of the end of April 2011.

3.5 Insurance

According to Mr Fola Daniel, Commissioner for Insurance, the contribution of the insurance industry to Nigeria's Gross Domestic Product is currently 1.4 percent. In comparison, in 2010:

- Zimbabwe's premium generation to GDP was 4.0 percent
- South Africa's insurance industry, which is the largest insurance industry in Africa, had the highest contribution of 15.0 percent to its country's GDP
- The total contribution of African insurance companies to the Continent's GDP was less than 2.0 percent
- The global average premium contribution to the world's GDP was 7.5 percent

4 Telecoms Sector

The Nigerian Communications Commission (NCC) said that it will intensify the enlightenment campaign on the on-going nationwide SIM card registration, to ensure its success and justify the amount invested on the project. Head, Media and Public Relations of the Commission, Mr Reuben Muoka, said SIM card registration centres will continue to grow in various States of the Federation and that some of the registration agents will move around with mobile units to cover areas that may not have fixed registration centres, such as markets and other similar areas. In the NCC SIM registration centres, subscribers can register their SIM cards irrespective of the network. The NCC has deployed more than 2,000 SIM registration centres. The registration exercise is scheduled to end on 28 September 2010.

The table below provides a summary of telephone subscribers in Nigeria as at April 2011:

	Number of connected lines	Number of active lines
Mobile GSM	**103,347,158**	**83,643,903**
Mobile CDMA	**11,793,523**	**5,985,163**
Fixed Wired/Wireless	**2,162,479**	**957,719**
Total	**117,303,160**	**90,586,785**

Source: NCC

5 Mobile Money

In November 2010, the CBN granted 16 operators approval-in-principle licenses to operate mobile money services in the country. The operators were Stanbic IBTC, Ecobank, Fortis MFB, UBA/Afripay, GTBank/MTN, First Bank, Pagatech, Paycom, M-Kudi, Chams, Eartholeum, E-Tranzact, Parkway, Monitise, FET and Corporeti. These operators were given four months to demonstrate their capacity to roll out mobile money operations. At the end of pilot period, the operators were assessed to ascertain if their approval-in-principle licenses will become permanent.

Nigeria is gradually moving towards the era of mobile payment system and services. Nigeria has a massive population of 140 million people, of whom a very small percentage has access to formal financial services. Contrary to this, a large majority of the population has access to mobile phones. According to industry analysts, after the success of M-PESA in Kenya, Nigeria is the next big market in Africa in terms of Mobile Money. Experts strongly believe that the introduction of m-payments will provide boundless opportunities for the unbanked population.

In May, the CBN stated that it will collaborate with the Nigerian Communications Commission on technical issues on the interoperability and pricing of m-payments in Nigeria.