EFInA Quarterly Review

(April to June 2012)

1 African Economy

1.1 Foreign Direct Investment

Between 1998 and 2010, Nigeria and other African countries attracted Foreign Direct Investment (FDI) worth $554.0 billion, according to the “African Emergence – The Rise of the Phoenix” report released by KPMG Africa. Though the report stated that FDIs in Nigeria, Kenya, South Africa and other African countries increased dramatically over the last decade, from $110.0 billion at the end of 1998 to $554.0 billion at the end of 2010, it noted that overall; FDIs into Africa were still relatively small compared to other emerging market economies. According to the report, China alone attracted $578.8 billion as at the end of 2010, more than all African countries combined, while Brazil had FDIs worth $472.6 billion within the same period.

1.2 Growth Rates

The International Monetary Fund (IMF) stated that sub-Saharan Africa’s economies will expand at a slower rate in 2012 than earlier projected, due to the global financial crisis and the sluggish recovery in South Africa. Growth in Africa’s economic powerhouse is likely to be a relatively modest 2.7 percent in 2012 and 3.4 percent in 2013, held back by its reliance on trade with Europe and close links with Western financial markets. Africa’s growth has remained above 5.0 percent in the last eight years, underpinned by strong prices for its natural resources, better governance and growing disposable incomes. In its latest Regional Economic Outlook, the IMF forecast 5.4 percent growth in 2012, from 5.1 percent in 2011. Its previous projection was 5.9 percent.

However, an upturn in drought-hit East Africa, fresh output in new natural resource producers such as Niger and Sierra Leone and recovery in post-conflict nations such as Ivory Coast should help boost the Continent’s economic activity in 2012. Sierra Leone and Niger could post outstanding growth of 35.9 and 14.0 percent respectively. Big oil-producers Nigeria and Angola will also be major drivers of the expansion. According to the IMF, economies reliant on non-renewable resources were experiencing faster growth but were also suffering more volatility in exports, revenues and GDP expansion.

2 Remittances

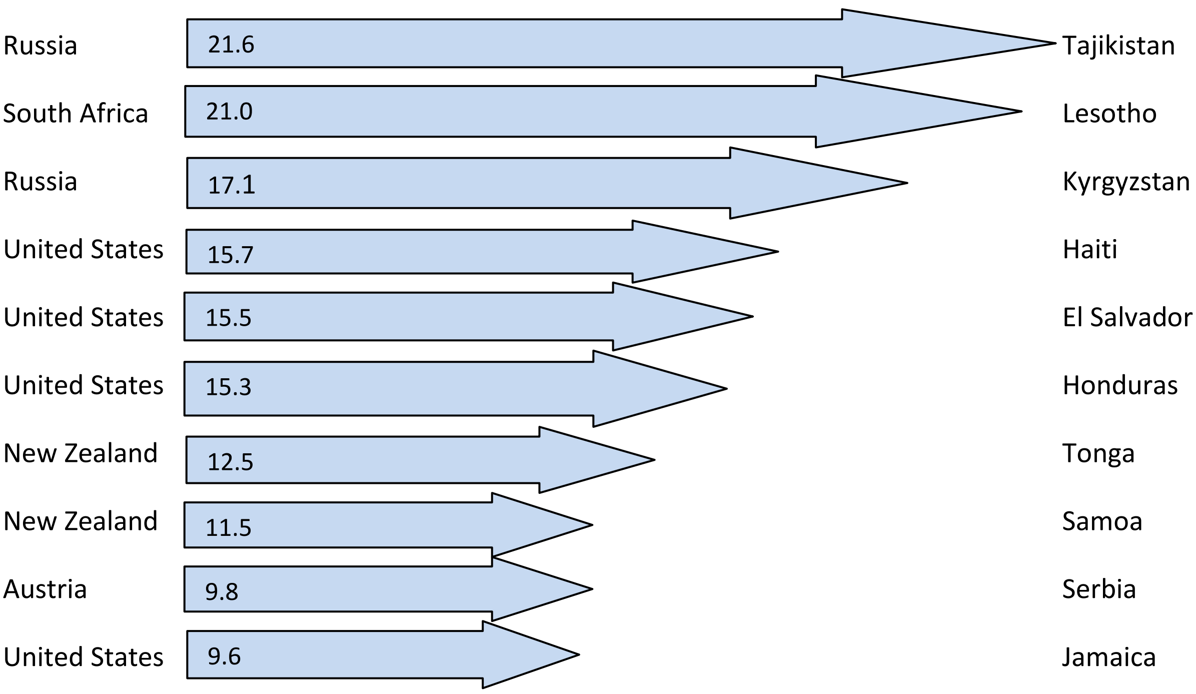
The value of remittances to poor countries is enormous. Since 1996 they have been worth more than all overseas development aid, and for most of the past decade more than private debt and portfolio equity inflows. According to the World Bank, in 2011, remittances to poor countries totalled $372 billion, whilst total remittances (including to the rich world), came to $501 billion. This is close to the total amount of foreign direct investment to poor countries.

Remittances have nearly quadrupled since the turn of the millennium. In 2009, when economies around the world crashed, remittances to poor countries fell by a modest 5 percent, and had bounced back to record levels by 2010. By contrast, foreign direct investment in poor countries fell by a third during the crisis, and portfolio inflows fell by more than half.

Saudi Arabia is now the world's biggest sender of remittances after America, sending $27 billion in 2010, mostly to the families of South Asians and Africans who work in construction and as domestic staff. More than half of all remittances to South Asia come from the Gulf; worldwide, the region sends almost the same amount of remittances to poor countries as Western Europe does.

Oil has made Russia a big destination for immigrants. In 2000, it was only the 17th biggest remitter in the world – indeed, it was a net receiver. But by 2010 it was the fourth largest sender, remitting nearly $19 billion, mostly to Central Asia. Remittances from Russia are worth more than a fifth of Tajikistan's economy (as shown in the chart below).

Top ten remittance corridors as a % of recipient's GDP, 2010



Source: World Bank; the Economist

3 Nigerian Economy

3.1 Foreign Direct Investment (FDI)

According to Ernst & Young, Nigeria is expected to top the list of countries to attract significant funds over the next five years, with an average of $23 billion per year in FDI inflows, and the creation of around 95,000 new jobs.

The CBN report titled: 'Developments in the External Sector of the Nigerian Economy for the Fourth Quarter 2011' revealed that foreign direct investment inflow into Nigeria rose to $1.57 billion in the last quarter of 2011 as against $1.31 billion in the third quarter of 2011. According to the apex bank, this development suggested that there was continued confidence in the Nigerian economy by foreign investors.

3.2 Unemployment

For over a decade, Nigeria has contended with massive unemployment, especially among youths. However, youth unemployment is not a recent phenomenon in Nigeria, given the fact that even during the period of economic boom in the 1970s, the level of unemployment among the youth was 6.2 percent. The level of youth unemployment rose to 9.8 percent and 11.5 percent in the 1980s and 1990s respectively. Rising youth unemployment is now becoming a major concern to all Nigerians. Current figures from the National Bureau of Statistics put the current youth unemployment rate at over 25 percent.

Minister of Labour and Productivity, Chief Emeka Wogu, listed some of the recent efforts by government in addressing the challenges of youth employment in the country, such as the Youth Enterprise with Innovation in Nigeria (YouWIN) which is targeted at creating jobs, for about 110,000 entrepreneurs over the next 4 years. The programme, he said, provides aspiring youths with a platform to showcase their business acumen, skills and aspirations to business leaders, investors and mentors in Nigeria.

Globally, there is a growing concern about youth unemployment. Recently, the International Labour Organisation (ILO) launched its 2012 Global Employment Trends, which provides information on employment trends across the globe. The report indicated that lack of structural transformation and high population growth has limited the opportunities for decent jobs in Africa. The ILO report, warned that the world faces an additional challenge of creating decent jobs for the estimated 900 million workers living with their families below the $2 a day poverty line, mostly in developing countries. The report observed that globally young people are nearly three times as likely as adults to be unemployed. The implications of youth unemployment are social, economic and political and therefore threaten the sustainability of any nation's economy. The Director General of the ILO, Juan Somavia, warned that, "Growth is indispensable but can no longer be the sole criteria for the world economy." According to him, creating quality jobs, especially for youths; reducing poverty and informal work; providing fair access to opportunities, especially to foster large middle classes; should be the criteria for measuring macroeconomic success.

3.3 Gross Domestic Product (GDP)

Nigeria's Real Gross Domestic Product (GDP) grew by 6.17 percent in the first quarter of 2012, according to the National Bureau of Statistic (NBS). This represents a 0.96 percent decline in real GDP growth when compared with 7.13 percent recorded in the corresponding quarter of 2011. The decline is tied to a decrease in both oil and non-oil sectors including manufacturing, wholesale and retail, telecommunications, among others.

The NBS stated that the first quarter of 2012 had been characterised by a decline in economic activities, partly due to the partial removal of subsidy on petrol and the subsequent civil protest and weak consumer demand following the higher price levels across major segments of the economy.

Nevertheless, the non-oil sector continued to be a major driver of the economy recording 7.93 percent growth in real terms in the first quarter of 2012 compared with 8.73 percent in the corresponding period in 2011.

3.4 Inflation

According to the National Bureau of Statistics (NBS), Nigeria's consumer price inflation rose to 12.9 percent year-on-year in June, up from 12.7 percent in May, while food price inflation eased to 12.0 percent year-on-year in June from 12.9 percent in May. Core inflation, which excludes agricultural produce, increased to 15.2 percent year-on-year, up from 14.9 percent in May.

Compared to May 2012, the average monthly food prices rose in June 2012 by 0.5 percent. The NBS attributed the rise in the food index to increases in the prices of some cereals, meat, fish, cooking oils, and yam tubers. For June 2012, the inflation rate was higher in urban areas at 15.0 percent year-on-year than the rural areas figure of 11.4 percent.

3.5 Nigerian Identity Scheme

According to Chris Onyemenam, Director-General of the National Identity Management Commission (NIMC), the Commission has a new reform mandate to provide unique identification numbers for citizens and legal residents to guarantee uniqueness through biometric verification. This will enable individuals to prove their identity in a dependable manner by providing on-line and off-line cost effective verification and authentication infrastructure. Onyemenam said that the Commission would register and issue a National Identity Number (NIN) and National Smart Card to every Nigerian 16 years and above. He said that the Commission would register over 150 million Nigerians within 40 months. The National Identification Number is a one person one unique number that will allow Nigerians to enrol once and be identified for life.

Section 5 of the National Identity Management Commission Act generally empowers the NIMC to create, manage, maintain and operate the National Identity Database (Unified Database), while section 14 of the same Act provides for the harmonisation and integration of every other existing identification databases in government agencies into the National Identity Database. The overall harmonisation of existing identification schemes which are compatible with the National Identity Database in such a manner that enables institutions to leverage on the benefits of a unified database. This will help facilitate the adoption and use of the National Identity Number.

3.6 Agriculture

Efforts by the government to diversify the economy for the much needed growth through deliberate favourable economic policy incentives to some preferred sectors may not be achieved due to poor credit facilities to these sectors by banks. Specifically, sectors like agriculture and manufacturing, which are supposed to ignite the nation's economic growth, are continuously being deprived of the needed funds, threatening the real sector development that would have impacted positively on Nigerians. According to Renaissance Capital, the sector distribution of banking sector loan portfolio allocation to agriculture and manufacturing gets a paltry 2 percent and 10 percent respectively as against what is achieved in other emerging markets such as Ghana and Kenya. In Ghana, agriculture gets as much as 30 percent and manufacturing gets 28 percent; in Kenya, agriculture gets 22 percent while manufacturing gets 18 percent. Commenting on the trend, Yvonne Mbango, Economist at Renaissance Capital, said these sectors are the engine room for growth in thriving economies all over the world. In order to grow the economy, the banks need to reach out to these sectors by way of credit, and stop focusing on treasury bills and bonds as is currently the norm. China and the other BRIC countries are typical examples that have shown significant economic growth in a short period due to the strong focus placed on these sectors.

The country's agriculture sector recently made a significant impact on the nation's economy, contributing a record 40 percent to the Gross Domestic Product (GDP) in the fourth quarter of 2011. In 2011, the export earnings of palm oil and palm based products reached $533.4million; sheep, goat skin and leather was $247.2 million; sesame seeds and oil was $104.4 million; rubber was $148.4 million; plastics, polybags and plastics, $41.7million; cotton yarns and woven fabrics was $60.7 million; aluminium and articles was $42.0 million; cashew nuts and edible fruits was $44.7 million; gum Arabic was $16 million; tobacco products was $35 million; prawns, shrimps, fish and crustaceans was $25.6 million; while other products accounted for $196.3 million. Cocoa contributed about 35 percent to the country's non-oil export earnings in 2011.

4 Financial Sector

4.1 Nigerian Stock Exchange

4.1.1 The Alternative Securities Market

The Nigerian Stock Exchange has renewed its effort to attract more companies to list on the Exchange including small and medium enterprises (SMEs); which is driven by the recognition that the capital market is the preferred option for raising low cost, long term capital for small and medium scale companies in Nigeria looking to grow and develop into sustainable institutions. The Alternative Securities Market (ASeM) is a specialised board for small and medium sized companies with high growth potential.

4.2 Banking Industry

4.2.1 Cashlite Policy

The cashlite policy was designed to promote financial intermediation, financial inclusion, minimise revenue leakages, eliminate incidence of robbery and also to encourage electronic payments. The direct cost of cash management is estimated to reach N192 billion by the end of 2012. In an attempt to eliminate these challenges, the CBN and the Bankers' Committee introduced the cashlite policy. In Nigeria the fact that cash makes up 85% of the transactions in the economy presents a huge challenge.

Due to the growing influence of the cashlite policy, inter-bank fund transfers, instant payments and cheque transactions in the Nigeria Inter Bank Settlement Payment System (NIBSS) are now worth N2.1tn monthly. The Central Bank stated that NIBSS now handles the processing of 140,344 electronic fund transfer, instant payment and cheque transactions worth over N70bn daily. NIBSS processes 6,749 instant payments worth N5.66bn; 99,602 electronic fund transfers worth N40bn; and 33,993 cheque transactions worth N24.7bn on a daily basis. Analysts believe that the transactions across these three e-channels will increase as the cashlite scheme is more widely accepted.

Point of Sale Terminals

The Nigeria Interbank Settlement System (NIBSS) disclosed that a total of N6 billion was spent on the purchase of point of sale (POS) terminals by banks in the last six months. In June, the Central Bank said that a total of 100,000 point of sale terminals had been deployed in Lagos State by deposit money banks in a bid to ensure the success of the cashlite policy. The Head, Shared Services, CBN, Mr. Chidi Umeano, said the banks had a target of deploying over 150,000 POS terminals by the end of the year. Banks have continued to roll out more innovative electronic payment platforms to meet customers' expectations.

Wi-Fi Hotspots

The Central Bank of Nigeria has entered into discussions with service providers to create cloud Wi-Fi hotspot services to facilitate seamless electronic payment services in the country. The initiative, which will be driven by banks, will enable customers' access e-payment services in areas where activated point of sale terminals are clustered. Specifically, by creating a Wi-Fi hotspot in areas of concentration of POS terminals, customers within range of the hotspot would get automatic connectivity to the Internet for e-payment transactions. This is ideal and less expensive because wireless Internet access is more practical and flexible than each user getting separate connectivity. Reduction of payment charges and seamless integration of the un-banked into mainstream financial services through easy accessibility, affordability and reliability of transactions would drive financial inclusion in Nigeria. Additionally, as all transactions would pass through the Nigeria Inter-Bank Settlement System for settlement, transparency will be ensured.

Deposit Taking ATMs

High costs may hinder the deployment of deposit-taking ATMs in Nigeria. Deposit-taking ATMs are specialised cash deposit machines, which accept cash, count them and credit them into customers' accounts immediately. Though, the Central Bank of Nigeria has introduced the cashlite policy with the aim of reducing the volume of cash in the economy, cash transactions still represent over 99 percent of customer activities in banks across the country, according to the apex bank. The CBN also said that out of 214.7 million transactions via e-payment channels in the country, over 109.5 million were being done via ATMs. However, almost all of the transactions on ATMs are cash withdrawals. Only about 10 percent to 12 percent of ATM transactions are deposits. In spite of this, experts expect banks to deploy ATMs with automated deposit functionality to increase customers deposit and encourage adoption, while other e-payment channels are developed. Experts said ATM would continue to be relevant in Nigeria despite the cashlite economic policy because of the country's huge cash-based informal economic sector.

4.2.2 Financial Inclusion

Nigerian Postal Service

In May, the Nigerian Postal Service (NIPOST) announced in May that it will partner with OneNetwork to modernise post offices in every neighbourhood, in order to make financial inclusion a reality in Nigeria. NIPOST is poised to play a key role in the emerging mobile money ecosystem in the country, most especially in the area of expanding financial services through agents.

In addition to selling stamps and money orders, Nigerian postal agents will carry point of sale devices and service terminals for providing financial services to the community. OneNetwork will support NIPOST by putting together all the necessary IT and infrastructure tools it requires to interconnect and manage its locations and agents. This initiative is also expected create employment opportunities because 50,000 people, who hitherto had no jobs, will become employed, and the thousands of computer literate youths who are out of employment will have something vital and lucrative to do within a very short period. Although the initial target is 50,000 agents within the next year; over the next 3 years the target is 160,000 agents (1 agent per 1,000 citizens).

World Bank

According to the World Bank, three quarters of the world's poor do not have a bank account, not only because of poverty, but also because of the cost, travel distance, and amount of paper work involved in opening a bank account. The Global Findex report surveyed about 150,000 people in 148 countries and discovered that more than 75 percent of adults earning less than $2 a day did not use a formal financial institution. Without access to formal banking, the poor often have to rely on money lenders who charge high fees. The report also revealed that only 16 percent of adults in sub-Saharan Africa have used a mobile phone to pay bills, send or receive money in the past 12 months.

Providing financial services to the 2.5 billion people who are unbanked could boost economic growth and opportunity for the world's poor. Harnessing the power of financial services can really help people to pay for schooling, save for a home, or start a small business that can provide jobs for others. On access to financial services, the report highlighted that women were particularly disadvantaged, saying only 37 percent of women in developing countries have an account, whereas 46 percent of men do.

Even among those who have a formal bank account, only 43 percent of adults use their account to save. Yet 61 percent of account holders worldwide use their account to receive payments from an employer, the government or family members living elsewhere. According to the report, few adults in developing countries use formal financial products to manage risk. More than 11 percent of adults in developing countries have an outstanding loan for emergencies or health-care needs, but more than 80 percent of these adults use only informal sources of credit.

International Finance Corporation (IFC)/MasterCard Partnership

IFC and the MasterCard Foundation have launched a partnership, which could increase access to financial services for an estimated 5.3 million people in Sub-Saharan Africa. The project will create new opportunities for economically disadvantaged people to expand businesses, gain access to cost-effective financial services, and manage risk. Through this new $37.4 million partnership, IFC and the MasterCard Foundation will help microfinance banks expand more rapidly and develop new products and cost-effective delivery channels, while expanding coverage in new, often hard-to-reach locations. The project will also help providers deliver low-cost mobile financial services to low-income customers. "Disadvantaged people derive real benefits from having more control over their finances, and our partnership with IFC will help bring responsible financial services to a significant number of people in Sub-Saharan Africa," said Reeta Roy, President and CEO of the MasterCard Foundation.

4.2.3 Lending

The total credit to the economy as at the end of April 2012 was N13.42 billion and averaged N10.3 billion between December 2008 and April 2012, according to the Central Bank of Nigeria. The growth in credit to the private sector reflected improved credit flows by the banking system resulting from the various reforms in the sector. Between 2007 and April 2012, of the total credit to the private sector, the share of the agricultural sector averaged 2.1 percent, while manufacturing and solid minerals got an average of 12.5 and 14.9 percent respectively; similarly the share of real estate, utilities and communications in total credit to the economy by the banking sector averaged 8.0, 0.7 and 10.7 percent, respectively during this period.

The gap between lending to the real sector and rates on deposits is getting wider. While lending rates have reached 28 percent officially (unofficial rate is between 29 and 30 percent), rates on savings have remained at 3.5 percent. Analysts said that this development is a threat to the growth of the economy. In many cases (including Nigeria), the differential between deposit/savings rates and fixed income yields is such that there is limited incentive to lend to the real economy. However, even if the CBN were to cut policy rates to record low levels (as in 2009 and early 2010), there is no guarantee that the banks would lend to non-Tier 1 companies at more affordable rates.

4.2.4 Agricultural Finance

Commercial Agriculture Credit Scheme

According to the Central Bank, as at March 2012, N175.5 billion has been disbursed to 222 beneficiaries under the Commercial Agriculture Credit Scheme (CACS). The analysis of number of projects financed under CACS showed that out of the 195 private sector-sponsored projects by value chain, agriculture production accounted for 47 percent, while processing accounted for 39 percent. These activities were followed by marketing, storage and input supplies, which registered 8.0 percent, 5.9 percent and 1.0 percent respectively. With regards to the value of funds released, processing accounted for 52.0 percent, followed by production which accounted for 45.6 percent of the value of enterprises financed. These were followed by marketing, storage and input supplies, which registered 15.31 percent, 5.9 percent and 1.0 percent respectively. CBN said that Abia State Government accessed N1.0 billion, while Rivers and Bauchi State governments received N3.0 billion and N1.0 billion respectively from the CACS Fund during the period. Twenty nine State Governments have participated in the Scheme. These State Governments accessed funds for on-lending to farmers' unions, co-operatives and financing of other areas of agricultural interventions in their various States. The CACS was designed to promote commercial agricultural enterprises through provision of long-term loans with concessionary interest rates.

NIRSAL

The Central Bank said that the total value of agricultural lending by all deposit money banks in the country is just 1.4 percent of total bank lending. The CBN said that it would increase agricultural lending through the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) financial inclusion scheme. NIRSAL will increase the total value of agricultural lending from the current 1.4 percent to 7.0 percent of total bank lending by 2020, using e-transfers and cheques for its transactions and encouraging savings mobilisation. The scheme will use incentives and other mechanisms under its Bank Incentive Mechanism pillar to induce more bank delivered financial services to pooled farmers. The CBN said NIRSAL will lower payment and settlement risks as well as banks' losses in agriculture by reducing expected losses for small pooled farmers, from the current average of 20 percent to 10 percent. This will be achieved through technical assistance, structured value chains, enlightenment and awareness campaigns.

4.2.5 Microfinance

Microfinance Development Fund

The Microfinance Development Fund (MDF), proposed to enhance financing in the microfinance sub-sector and boost the economy, is expected to be operational before the end of the year. Mr. Femi Fabamwo, Director, Other Financial Institutions Department of the CBN, confirmed that the operational guidelines for the Fund were being finalised and would be presented to the apex bank's management for approval in due course. The operational guidelines would be benchmarked against global practices. The Fund is expected to be co-funded by government, the CBN, as well as the private sector. Fabamwo stated that Fund would have several windows, including commercial and social components, in order to enhance its operations and outreach. The Fund will also support capacity building activities of the microfinance banks and microfinance institutions. The CBN Governor, Mallam Sanusi Lamido Sanusi noted that when the MDF is established, it would assist in addressing teething challenges of underfunding for microfinance institutions in the country. The Fund will complement past and current efforts aimed at strengthening the microfinance sub-sector and improving financial inclusion.

4.3 Co-operatives

Co-operative movements took shape in the Americas, Europe, Australia and Japan in the 1800's. Many grew from the simple proposition that ordinary people could overcome adversity in the market place by banding together to buy and sell goods at reasonable prices, and quickly realized the added benefits of sharing knowledge among members, promoting inclusion and building social capital.

Today, co-operatives cover a range of activities, from small scale agricultural and consumer organisations in Africa to some of the leading agricultural brands and largest financial service providers in North America and Europe. According to the International Co-operative Alliance (ICA), a co-operative is a 'jointly owned and democratically controlled enterprise'. Co-operatives have helped to bring information and services to far flung rural communities; empower workers; and expand financial services, healthcare, education and housing. In doing so, they have transformed the economic and social landscape in countless communities.

The ICA reports that more than 800 million people are members of co-operatives worldwide. Moreover, co-operatives account for a significant share of GDP in many countries and an especially high share of the agricultural and consumer sectors. Co-operatives are also one of the largest providers of financial intermediation to the poor, serving an estimated 78 million people globally who live on less than $2 per day. Co-operatives have also sometimes struggled to live up to the ideal, in the most egregious cases, some have fallen victim to bad politics, weak governance, or mismanagement. Others are exposed to risks stemming from concentration in a single business sector, commodity, and or geographic area.

Now, in a more mobile and urban world, one might ask: can co-operatives maintain their essential character, based on inclusion and knowledge sharing within a community? In a world in which geography is a diminishing barrier to business, can co-operatives sufficiently distinguish them as being a viable alternative model? Or will they evolve to serve virtual communities, organized around new sets of challenges and opportunities? The United Nations declared 2012 the 'Year of Cooperatives'. This provides a good opportunity to examine the extraordinary history of co-operatives, assess their strengths and weaknesses, and rekindle discussions about a development model that promises higher levels of inclusion, ownership, self-determination and concern for community.

Some of the most notable programs include the Indian Dairy Cooperative, which has created an estimated 250,000 jobs mostly in rural areas. Similarly, Mexico's National Savings and Financial Services Bank has helped to strengthen savings and credit institutions that serve millions of rural residents who would otherwise have been relegated to the margins of the formal financial sector.

As the search for innovative solutions to development challenges continues, the co-operative movement should be considered for what it can offer. This means not only greater economic inclusion, higher agricultural productivity, strengthened food security, and financial stability, but also lessons concerning responsible and sustainable business practices, corporate governance, and community relations. Consideration should be given to how to facilitate the spread of co-operatives' best practises while avoiding common pitfalls.

4.4 Small and Medium Enterprises

Every emerging market requires the invaluable contribution of small and medium enterprises (SMEs) towards its economic growth and development. Studies have shown that SMEs contribute significantly to the gross domestic product (GDP) in most emerged and emerging markets. Countries where SMEs contribute significantly to GDP include Singapore, India, South Africa, Malaysia, Hong Kong and Kenya.

McKinsey Micro, Small and Medium-Sized Enterprises (MSMEs) in Emerging Markets report revealed that over the next five years, banking revenues from MSMEs in Nigeria and other emerging markets will grow by 20 percent per annum from $150 billion (N23.7 trillion) to $367 billion (N57.9 trillion). According to the report, the MSMEs segment in emerging markets will generate higher revenues in the next five years than those expected from sales and trading, asset management and investment banking combined. The report states that the projected growth is being propelled by the high GDP growth in emerging markets, increased penetration of the large number of un-served and underserved MSMEs, and an increased up take of more advanced banking products.

Nigeria with a real GDP growth rate of 7.7 percent and an estimated population of 160 million ranks among the fastest growing economies in the world. It represents a high growth market for banks in the MSME segment as an estimated 60.0 percent of MSMEs in the country are un-served or underserved. While this represents an exciting opportunity for banks, the report notes that it also underscores the need for banks to leverage the latest innovations in technology, risk assessment and business models in delivering low cost and profitable credit to MSMEs. Traditionally, banks in emerging markets, including Nigeria, have tended to concentrate lending to large ticket corporates in oil and gas, telecoms and mining sector where the revenue per client is highest, and where the risk of default is perceived to be low compared to MSMEs.

However, contrary to popular belief that MSMEs are not profitable, the report reveals that many emerging market banks, including a handful in Nigeria are making returns on equity (RoE) of 20 to 30 percent, and a few are earning over 30 percent from lending to MSMEs. Fundamental innovation in both physical and virtual distribution channels can radically reduce costs for banks and improve RoE by as much as 33 percent.

Ministry of Trade and Investment

The Federal Government has commenced plans to position the Small and Medium Enterprise sub-sector in Nigeria as a growth driver for the economy. The Minister of Trade and Investment, Mr. Olusegun Aganga, stated that SMEs in Nigeria would soon become vibrant enough to drive the required level of growth in the economy. He said that the current priority for the Ministry of Trade and Investment was the SME sector, noting that the Ministry had put plans in place to remove the major barriers to SME growth (access to affordable finance, low level of business support and high cost of operation) to boost the development of the sub-sector. The Minister said a Committee, comprising of experts in the different fields relating to the major bottlenecks in the sector, was being set up to ensure that the country achieved success before the end of this administration. MSMEs remain the backbone of the development of any economy and the driving force of national growth. In Nigeria, there are currently over 17 million MSMEs employing over 31 million Nigerians. He said a national database had been developed in partnership with the National Bureau of Statistics, which was the first step in effectively tackling the problems of the sub-sector.

4.5 *Insurance*

4.5.1 Takaful (Non-interest) Insurance

The Commissioner for Insurance, Mr. Fola Daniel, said the guidelines on takaful insurance would be released before the end of the third quarter of this year. He stated that, "We are bringing takaful as a product for the grass roots. The villagers are used to contributing money, and at the end of a period, they get something back. I also think that this is the quickest way and the best way to reduce the insurance gap in Nigeria." He further explained that contrary to the current situation in the market, where a few operators have approval to open a window to sell takaful products, the Commission would like to ensure that platforms are created for full-fledged takaful insurance services in the country.

4.5.2 Microinsurance

Insurance companies in Africa and the world have increased effectiveness in the development, distribution and management of microinsurance products to ensure valuable risk management that will help reduce vulnerability of the poor in the society. Analysts say that as more people across the world show interest and get used to microinsurance as an alternative way of getting out of poverty, it is imperative that providers of the service do not leave any stone unturned in closing the confidence gap.

According to the Microinsurance Innovation Facility of the International Labour Organisation, the number of microinsurance schemes worldwide has increased substantially over the past five years and now reaches an estimated 500 million worldwide. Microinsurance aims at protecting poor people against risks such as accidents, illnesses, death in the family, natural disasters and property losses in exchange for insurance premium payments tailored to their preferences and capacity to pay. The second volume of the Microinsurance Compendium - Protecting the Poor" just published states that the number of people covered by microinsurance rose from 78 million in 2007 to 135 million in 2009, reaching nearly 500 million people in 2012. "Since 2008, we have seen numerous innovations emerging to overcome the challenges of providing viable insurance services to more low-income people," said Craig Churchill, Team Leader of the ILO's Microinsurance Innovation Facility and Chair of the Microinsurance Network. It is estimated that 60 percent of people around the world who are covered by microinsurance live in India; Latin America accounts for 15 percent; and Africa 5 percent. Asia is ahead mainly due to the large and dense populations; interest from public and private insurers; proper distribution channels; and active government support. According to the Compendium, there have been many innovations in the field of microinsurance over the past years. For example, new products covering a variety of risks have been piloted and distributed to poor households through an increasing diversity of channels (e.g., banks, retailers or cell phone companies, etc.). Commercial insurance companies have also entered the low-income market, creating significant capacity for scale. At least, 33 of the 50 largest commercial insurance companies in the world currently offer microinsurance, up from only 7 in 2005.

4.5.3 Agriculture Insurance

The National Insurance Commission (NAICOM) stated that it would like to integrate commercial agricultural risks underwriting business in the country into microinsurance to ensure that farmers at the grass roots benefit from such financial protection plans. The Commissioner said, "For agricultural insurance, people talk about the monopoly by Nigerian Agricultural Insurance Corporation (NAIC), but there is no monopoly, we have demonstrated this by asking companies to submit products for approval to provide any form of agricultural insurance. We actually want agricultural insurance to be more expansive and embedded in microinsurance because our rural communities need one form of insurance or the other."

5 Telecoms Sector

According to the Nigerian Communications Commission (NCC), Nigeria's teledensity[1] reached 72.7 percent in May 2012, up from 69.0 percent in February 2012. The total number of connected lines was 134.4 million, of which 101.8 million were active. From February 2012 to May 2012:

- The number of active GSM lines grew from 92.0 million to 97.6 million
- The number of active CDMA lines declined from 4.0 million to 3.7 million
- The number of fixed wired/wireless networks dropped from 578,152 to 542,955

The table below provides a summary of telephone subscribers in Nigeria as at May 2012:

	Number of connected lines	Number of active lines
Mobile GSM	**118,850,928**	**97,553,425**
Mobile CDMA	**13,207,721**	**3,718,153**
Fixed Wired/Wireless	**2,325,138**	**542,955**
Total	**134,446,787**	**101,814,533**

Source: NCC

5.1 Investments

For improved telecommunications services in Nigeria in 2012 and beyond, operators may require additional investments to the tune of over N2.38 trillion. These investments are expected to cover the building of more base transceiver stations (BTS), provision of alternative power supply and ensuring security of telecommunications infrastructure, among others. Operators in the industry, including MTN, Globacom, Airtel, Etisalat and the CDMAs which include Starcomms, Visafone and Multilinks currently only have 20,000 base stations serving over 100 million subscribers in Nigeria. According to analysts, the figure is too small when compared with an economy such as the United

[1] Teledensity is number of telephones in use for every 100 individual living within an area.

Kingdom, which has approximately 55,000 base station sites serving a population of just over 60 million people. For Nigerian networks to provide best in class services compared to the UK, Europe and other countries, it should have at least 70,000 base stations. The average cost of building a base station is between $200,000 and $250,000 depending on the topography of the area.

5.2 Mobile Phone Expenditure

Mobile telephone subscribers in the country spent over N291.8bn on voice calls between January and March 2012. The expenditure is based on average revenue per user figure (ARPU) of N1,000 for the Nigerian Telecoms industry. According to the Nigerian Communications Commission, the number of active GSM, CDMA and fixed lines was 96,150,836 in January; and with an ARPU of N1,000 per month, the subscribers must have spent an average of N96.1bn on calls in January alone. The number of active lines in February was 96,616,580, meaning that subscribers would have spent over N96.6bn on calls. With 99,145,013 active lines in March, subscribers' spending on calls was estimated to be about N99.1bn.

5.3 Penalty Fines

In May, the Nigerian Communications Commission (NCC) stated that it would not revoke the N1.17 billion fine it imposed on MTN, Globacom, Airtel and Etisalat for failing to achieve their key performance indicators in March and April 2012. According to NCC, it monitored the performance of the operators on different parameters, in line with the provisions of the regulation as provided by the Commission, and discovered that operators were in contravention of the provision. A breakdown of the penalties is as follows: MTN and Etisalat were fined N360 million each; Airtel was fined N270 million; and Globacom was fined N180 million. In June, MTN, Globacom, Airtel and Etisalat agreed to pay the N1.17 billion fine. As part of their plans to show how they were going to improve their services, the operators deployed hybrid power to bridge the challenge of power failure and promised to manage cities where they have high traffic so that services would improve.

6 Mobile Money

6.1 Global

The report from Gartner titled 'Forecast: Mobile Payment, Worldwide, 2009-2016' revealed that globally, mobile payment transaction values will surpass $171.5bn in 2012, which is a 61.9 percent increase from 2011 values of $105.9bn; and the number of mobile payment users will also rise by 32 percent, from 160.5 million in 2011 to 212.2 million by the end of 2012. Gartner expects global mobile transaction volume and value to experience 42 percent annual growth between 2011 and 2016. It is also forecasting a market worth $617bn with 448 million users by 2016.

Research Director at Gartner, Sandy Shen, said that mobile payments services and solutions will remain fragmented for the next two years, with local markets adopting different technology and business models, as well as operating under different regulatory conditions. She stated that in developing markets, money transfer and airtime top-ups will account for most transaction volume, and money transfers will account for the largest portion of transaction values due to the demand for secure and efficient ways of storing and transferring money. Ticketing and transportation will also be significant in markets such as Africa and South Asia, where users can already buy bus and railway tickets using a mobile payment service.

6.2 UK

Any mobile phone can be turned into a 'tap and go' credit card under a payment system unveiled in the UK in April. Advocates of the technology argue it could mean the end of small cash payments within five to ten years. The system, which can be used to make purchases up to £15, involves sticking a smart card or PayTag – about a third of the size of a normal credit card – to the back of a handset. To make a payment, the phone is tapped on a specially adapted till. The Tag, which contains a microchip, communicates with the till terminal via an antenna to confirm the credit card account of the customer and authorise the payment without the need to enter a PIN. The system is being launched by Barclaycard, but it is likely to be adopted by other major banks in the UK. Previously, only a few hi-tech handsets could be used for tap and go payments, but the new Tag means that any phone can be used. An increasing number of retailers offer or are introducing tap and go tills. By the end of the year, London buses will also accept these contactless payments. David Chan, the Chief Executive of Barclaycard Consumer Europe, said, "More than half of us say that the item we would be most lost without is our mobile phone, so we're giving people the option of using them to make easy, convenient, everyday payments." Carl Scheible, the Managing Director of PayPal UK, said, "By 2016, you will be able to leave your wallet at home and use your mobile phone as the 21st century digital wallet."

6.3 Nigeria

With over 99 million mobile subscribers, Nigeria offers a robust market for mobile money growth. The fact that there is a little over 22 million bank accounts in a country of over 160 million people, with a large percentage of the population lacking access to formal financial transactions, may serve to drive mobile money adoption. To bridge the gap, however, the Central Bank of Nigeria, in line with its cashlite scheme, licensed 14 mobile money operators to provide financial services to unbanked Nigerians. The Head, Shared Services, CBN, Mr. Chidi Umeano, stated that these fourteen operators recorded 35,971 transactions valued at N227.92m ($1.4m) in January 2012. This figure is expected to grow exponentially, as awareness increases.

The MasterCard Mobile Payments Readiness Index (MPRI), an analysis of 34 countries and their readiness to use mobile payments, reveals that the preparedness for the adoption of mobile payment is still low in Nigeria, notwithstanding the country's high mobile telephone penetration. The MPRI states that consumer readiness is a critical success factor to drive mobile payments adoption around the globe, but Nigeria's 31.3 MPRI score is still below the global average of 33.2. The MPRI identifies Singapore, Canada, the United States, Kenya and South Korea as the most prepared markets for mobile money growth, with Singapore having the highest score of 45.0.

6.3.1 Interoperability

According to industry analysts, the growing number of mobile money operators in Nigeria's emerging ecosystem will more likely create a bottleneck if reciprocal interoperability among disparate operators is not achieved soon. The presence of competing systems, generally considered good, will create too much fragmentation in the burgeoning industry. This fragmentation, analysts argue, could make it difficult for any one operator to attract the level of consumer adoption necessary for Nigeria's transition to a cashlite environment.

Analysts estimate that about 20 million Nigerians are expected to enrol into the formal banking systems via mobile money over the next three years. Some experts believe that this target remains unattainable given the fragmentation in the market, due to the lack of interoperability among mobile money systems.