EFInA Quarterly Review

(April to June 2015)

1 Global Economy

1.1 Growth

In July, the International Monetary Fund (IMF) cut its forecast for global growth for 2015, as a result of a slowdown in the US economy. The IMF now says the global economy will expand by 3.3 per cent in 2015, compared with a previous forecast of 3.5 per cent. In June, the IMF lowered its forecast for US growth to 2.5 per cent in 2015 from an earlier estimate of 3.1 per cent. The US economy contracted at an annual rate of 0.2 per cent in the first quarter of the year due to bad weather. The IMF said the crisis in Greece will only have a marginal effect on the global economy and it left its Eurozone growth forecast for 2015 unchanged at 1.5 per cent. It predicted that Germany will grow by 1.6 per cent and France by 1.2 per cent, also unchanged from the previous forecast. In 2016, the IMF expects global growth to strengthen to 3.8 per cent.

According to the World Bank, developing countries face a series of tough challenges in 2015, including the looming prospect of higher borrowing costs as they adapt to a new era of low prices for oil and other key commodities. As a result, developing countries are now projected to grow by 4.4 per cent in 2015, with a likely increase to 5.2 per cent in 2016, and 5.4 per cent in 2017.

In the **East Asia and Pacific** region, growth is expected to ease to 6.7 per cent in 2015 and remain stable over the next two years. This reflects a continued slowdown in China that is offset by a modest pickup in the rest of the region. A net oil importer, the region is expected to benefit from lower oil prices. However, commodity exporters such as Indonesia and Malaysia face pressures from lower global prices of oil, gas, coal, palm oil, and rubber. Growth in China is expected to ease to 7.1 per cent this year. Regional growth (excluding China) is projected to be 4.9 per cent in 2015, rising to 5.4 per cent by 2016, due to strengthening external demand.

Growth in **Europe and Central Asia** is expected to weaken further to 1.8 per cent in 2015 as oil prices collapse, geopolitical tensions, and related spill overs, including from Russia, are only partly offset by a moderate recovery in the Euro Area. Assuming a slight rise in oil prices in 2016-17, no further deterioration in the geopolitical situation, and continued macroeconomic stabilisation policies in major economies, regional growth is expected to strengthen to 3.5 per cent in 2016-17.

In **Latin America and the Caribbean**, growth will ease to 0.4 per cent in 2015, as South America struggles with domestic economic challenges, including widespread droughts, weak investor confidence, and low commodity prices. For 2016-17, growth in the region is expected to reach 2.4 per cent, on average, as South America emerges from recession and robust growth in the United States lifts activity in North and Central America and the Caribbean.

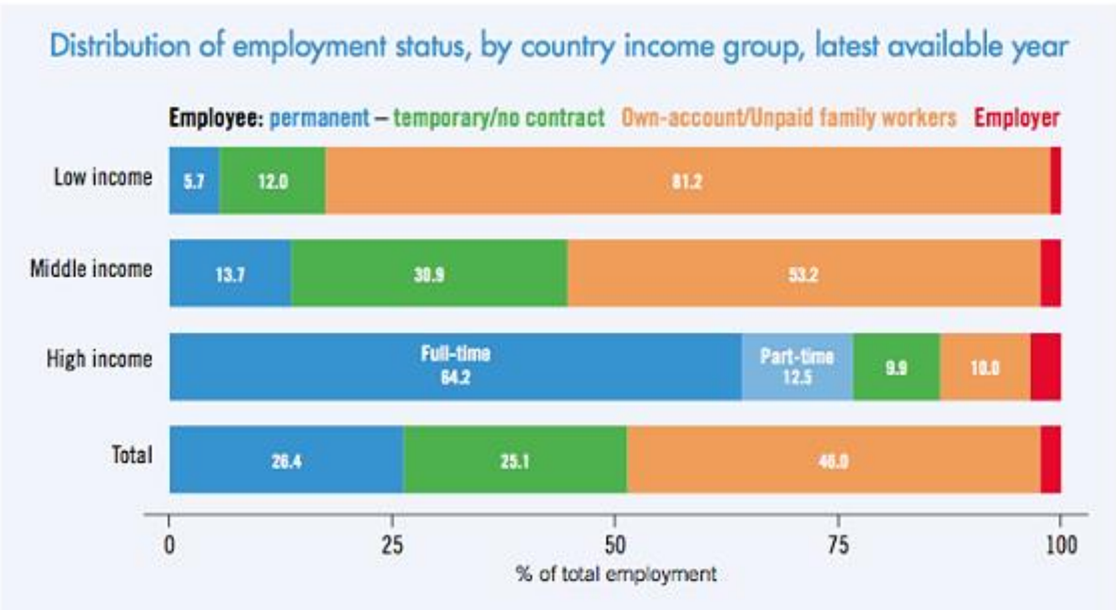
In the **Middle East and North Africa,** growth is expected to remain flat at 2.2 per cent in 2015. The decline in oil prices is a particular challenge for oil-exporting countries, most of which also have severe security challenges (Iraq, Libya, and Yemen) or limited economic cushioning (Iran, Iraq). For oil-importing countries, the potential positive effects of lower oil prices are partially offset by spill over effects from more fragile countries in the region, including lower remittances and security risks. The expected regional growth rebound to 3.7 per cent in 2016-17 is predicated on improving external demand, and improving confidence that boosts investments in some oil-importing countries such as Egypt and Jordan.

Growth in **South Asia** is expected to reach 7.1 per cent this year, led by a recovery in India and supported by a gradual strengthening of demand in high-income countries. The decline in global oil prices has been a major benefit for the region, driving improvements in fiscal and current accounts, enabling subsidy reforms in some countries, and the easing of monetary policy. In India, new reforms are improving business and investor confidence and attracting new capital inflows, and should help raise growth to 7.5 per cent this year. In Pakistan, remittances are expected to remain strong, and manufacturing and service sectors should continue to recover. However, growth is expected to remain moderate, reflecting on-going energy constraints.

In **Sub-Saharan Africa**, low oil prices have considerably reduced growth in commodity exporting countries such as Angola and Nigeria, and have also slowed activity in non-oil sectors. Although South Africa is expected to be one of the main beneficiaries of low oil prices, growth is being limited by energy shortages, weak investor confidence amid policy uncertainty, and the anticipated gradual tightening of monetary and fiscal policy. Growth in the region is forecast to slow to 4.2 per cent, which is lower than previously estimated. This mainly reflects a reassessment of prospects in Nigeria and Angola following the sharp drop in oil prices, and in South Africa, because of on-going difficulties in electricity supply. For 2016-17, growth is expected to be only marginally higher as these challenges partially offset stronger trading partner growth and the continued expansion in the region’s low-income countries.

1.2 Employment

According to the International Labour Organisation (ILO), only one quarter of workers worldwide has what it calls a ‘stable employment relationship’, as shown in fourth bar in the chart below.



Source: International Labour Organisation Research Department, based on household survey data

As reported in the ILO’s World Employment and Social Outlook 2015 (WESO) report, the number of people on wages and in salaried work as opposed to forms of work such as self-employment or without contracts is growing worldwide, but less than half, or 42.0 per cent were on a permanent contract. Workers on wages or salaries still accounted for only half of global employment, with wide variations across regions. “In some cases, non-standard forms of work can help people get a foothold into the job market. But these emerging trends are also a reflection of the widespread insecurity that’s affecting many workers worldwide today,” said ILO, Director-General, Guy Ryder.

The report’s main author, Raymond Torres, noted that in developing countries wage and salaried work was growing at a slower pace than before the global crisis, while in advanced economies such jobs were not growing, and were declining in some cases such as in the UK. In advanced economies, secure jobs have been declining since 2004. There have been signs of declining employment security in high-income countries since the financial crisis, Torres said, which has led to the rise of self-employment, workers without contracts, and those who were involuntarily working part-time.

The ILO draws a link between widespread insecurity at work and rising income inequality in many countries. The income gap between permanent and non-permanent workers has increased over the past decade. The ILO is urging policymakers to consider extending social protection such as pensions and unemployment benefits to workers in less secure forms of employment. It said that globally only 16.0 per cent of the self-employed were part of a pension scheme, compared with 52.0 per cent of employees.

1.3 Financial Inclusion

On April 17, 2015, the World Bank Group and a broad coalition of partners including multilateral agencies, banks, credit unions, card networks, microfinance institutions and telecommunications companies issued commitments that will help promote financial inclusion and achieve universal financial access by the year 2020.

The 2020 goal recognises financial access as a basic building block to managing an individual’s financial life, and calls for adults worldwide to have access to a transaction account or an electronic instrument to store money, send and receive payments. Access to a transaction account is a first step toward broader financial inclusion, which helps poor families escape poverty and afford essential social services such as water, electricity, housing, education and health care. For small firms and medium-sized enterprises, access to financing can help them reduce risks, grow and expand operations.

Findings from the World Bank’s Global Findex 2014 report show that more than 700 million people worldwide gained financial access between 2011 and 2014. According to World Bank Group President Jim Yong Kim, this provides fresh evidence that the ambitious goal of universal access by 2020 is attainable.

The World Bank Group’s commitment builds on and scales up support to governments to create an enabling environment for private-sector innovation and investment. Priority actions include reforms to eliminate or reduce cost or distance barriers to opening and using accounts, measures that increase the viability of new technology, and business models to reach the financially excluded. The World Bank Group’s private-sector arm, IFC, is also boosting its engagement with the private sector to add millions of new account holders through its investment and advisory work with financial intermediaries and other partners.

The following commitments were made:

- World Bank will reach one billion unbanked people
- The MasterCard Foundation will ensure 500 million people open new accounts and regularly use them
- Bank Mandiri will reach 50 million unbanked Indonesians
- Visa will provide electronic payment accounts to 500 million people
- Bandham will open 20 million savings accounts and 10 million credit customers
- Equity Bank will reach 50 million new clients across Africa
- Global Banking Alliance for Women will increase financial access to 1.8 million women in Latin America and Africa
- Microfinance CEO Working Group commits to opening 70 million accounts around the world
- Microcredit Summit will increase outreach to 53 million of the world's poorest families
- Ooredoo commits to expand their mobile services to 17 million new people
- Telenor will ensure that 50 per cent of its customers have access to financial services
- World Council of credit unions commits to extending its credit union services to 50 million new people
- World Savings and Retail Banking Institute commits to ensuring that its 950 million members will have accounts

More commitments are expected globally, as the coalition continues to grow and expand.

2 African Economies

2.1 Growth

According to the annual African Economic Outlook report by the Organization for Economic Cooperation and Development, the African Development Bank and the United Nations Development Program, Africa's economy will grow 4.5 per cent in 2015 and 5.0 per cent in 2016. In 2015, East Africa is expected to grow by 5.6 per cent, while West African economies are expected to stage an impressive recovery from the Ebola epidemic with a growth rate of 5.0 per cent. However, Southern Africa, once the Continent's economic leader, mainly because of South Africa's performance, is becoming a drag on overall growth. The region will grow by 3.1 per cent in 2015 well below the 4.5 per cent average for the Continent for the same period. South Africa's negative impact is highlighted by the fact that Southern Africa would have grown 4.6 per cent, were South Africa excluded from the calculations. South Africa's growth will be limited to 2.0 per cent, mainly due to large-scale labour disputes and energy shortages.

Money flows into Africa from abroad will reach a record $193 billion, largely driven by remittances from African workers, who are expected to send $64.6 billion home in 2015. Remittances remain the single most important means of external financing of African economies. The report predicts that private investment from abroad will grow to $55.2 billion this year, which is more than 10.0 per cent higher than last year. But the figure is still significantly lower than the $66.4 billion achieved in 2008. This is a sign that foreign interest in investing in Africa, while rising, has still not fully recovered from the impact of the global financial crisis. In total, foreign direct investment and portfolio investments in Africa, including foreign-bank or fund purchases of African sovereign debt, is expected to reach $73.5 billion this year.

2.2 Trade

In June, African leaders agreed to create the Continent's largest free-trade zone, covering 26 countries. The deal is intended to ease the movement of goods across member countries which represent more than half the continent's GDP. Three existing trade blocs - the Southern African Development Community (SADC); the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA) are to be united into a single new zone, known as the Tripartite Free Trade Area (TFTA). This agreement looks like a progressive step for a Continent that has seen average growth rates of 5.0 per cent in recent years; however, it needs parliamentary endorsements from all member nations; many of which have small economies that produce few exportable goods. A free-trade protocol would mean they would have to compete with larger industries that could threaten their economies. Africa's many regional blocs have not really aided trade across the Continent. The new trade deal will mark a new beginning for local trade, if it is implemented in a reasonable time-frame and there is sufficient political will to follow through.

2.3 Non-interest Insurance

In June, Kenya's Insurance Regulatory Authority regulator introduced new takaful (non-interest insurance) rules which will allow the entry of conventional players into the sector by allowing them to offer takaful windows. Firms are required to adhere to the requirements by December 2015. This would see Kenya join the countries such as Pakistan and Indonesia in allowing takaful windows, which enable firms to offer sharia-compliant and conventional products side by side. The rules require separate financial reporting requirements for takaful windows from their parent firm, and their operating model must be approved by a board of religious scholars. Operators must also maintain separate takaful funds for their general and life insurance businesses. Kenya's first full-fledged takaful firm was launched in 2011, Takaful Insurance of Africa. First Community Bank also operates a takaful scheme, while Kenya Reinsurance Corp has developed a sharia-compliant reinsurance.

Takaful is seen as a bellwether of consumer appetite for non-interest finance products. It is based on the concept of mutuality; the takaful company oversees a pool of funds contributed by all policy holders. Non-interest finance which follows principles such as a prohibition on interest payments, accounts for roughly 2.0 per cent of total banking business in Kenya.

2.4 Telecoms

Approximately two thirds of Africa's population, estimated to be about 1.13 billion, now have mobile phones. In addition, about 26.5 per cent of the population is on the Internet.

The GSM Association (GSMA) projects that 80.0 per cent of Sub-Saharan Africa (SAA) will have access to mobile phones in the next five years. GSMA stated that by the end of the decade, the mobile industry is expected to contribute $104 billion to the SSA economy. Currently, the region has the lowest mobile phone penetration in the world.

Low-cost smartphones and affordable mobile broadband packages are bringing more people online in Africa, opening up a new market for m-commerce, mobile marketing and apps. If network operators and smartphone manufacturers can continue to keep the barriers to entry as low as possible, then the region could see significant growth in mobile commerce.

2.5 Mobile Money

According to a new market research report, 'Africa Mobile Money Market' published by MarketsandMarkets, Africa's Mobile Money Market is expected to grow from $2.73 billion in 2015 to $14.27 billion by 2020.

The report defines, the Africa Mobile Money Market based on various transaction modes, nature of payments, location types, and types of purchases with an in-depth analysis and forecasting of market sizes. The report also identifies the factors driving this market, various restraints, and opportunities impacting it along with the adoption trends.

With the growing availability of financial solutions on mobile phones, customers have been able to take timely business decisions and accomplish faster financial transactions through their mobile phones. The mobile money services provided by Mobile Network Operators (MNOs), banks, and payment processing agents prominently include the usage of mobile phones to transfer electronic money, send and receive international remittances, send and receive money from one mobile device to another, deposit and withdraw money, book travel or movie tickets, make bill payments, pay utility bills, make airtime transfers, and recharge top-ups, among various others. These mobile money services can be seamlessly used by both banked and unbanked customers. Furthermore, with mobile devices becoming a routine usage in the daily life of the people, mobile money services have prominently transformed the user's payment and money transfer experiences.

The major players in the Africa Mobile Money Market are Vodacom, Orange S.A, Airtel, Econet Wireless, Mcel, Tigo, Safaricom, MTN, and Zantel. The major forces driving mobile money are the increase in mobile penetration, creation of new revenue stream for the stakeholders, and a rise in interoperability.

MarketsandMarkets broadly segments the Africa Mobile Money Market by country into South Africa, Kenya, Tanzania, Zimbabwe, Uganda, Angola, Zambia, DRC, Namibia, Mauritius, Mozambique, Malawi, Madagascar, and others (Ghana, Rwanda, Botswana, and Lesotho); by transaction mode into NFC/smart card, direct mobile billing, Short Messaging Services (SMS), STK/USSD, and others (Interactive Voice Response (IVR), Bluetooth, Wi-Fi, JRME, BREW, and other in-store mobile applications); by nature of payments into person to person, person to business, business to person, and business to business; by location type into remote payments and proximity payments; by type of purchases into airtime transfers and top-ups, money transfers and payments, merchandise and coupons, travel and ticketing, and digital products.

In terms of countries, Kenya is expected to be the biggest market in terms of market size, whereas Mozambique, Madagascar, and Malawi are expected to experience increased market traction during the forecast period.

2.6 Social Media

In June, the online social networking service, Facebook launched its first headquarters in Africa in a bid to expand its usage amongst Africans. Facebook currently has 120 million African users. With more than one billion people, Africa holds some of the most promising prospects for growth and expansion. The new office will be located in Johannesburg and will focus on the growing markets within the Continent including countries like Nigeria, South Africa, Kenya, Senegal, and Ghana. “We are committed to creating solutions tailored to African markets for individuals as well as businesses,” said Ari Kesisoglu, Regional Director for Facebook in the Middle East and Africa.

The social network has been seeking to expand its presence in Africa for some time. One of its largest initiatives is the Internet.org program, a partnership between Facebook and six other companies (Samsung, Ericsson, MediaTek, Opera Software, Nokia, and Qualcomm). This initiative aims to bring affordable Internet access to developing countries and facilitate access to basic information and online services. One of the first products of the Internet.org initiative was an app that allows people in developing countries to access basic web services free of charge, allowing users to access vital health, employment, and local information services. It was first launched in Zambia and has been expanded into Tanzania, Kenya, Ghana, Colombia, and parts of India.

3 **Nigerian Economy**

3.1 GDP

Nigeria’s real Gross Domestic Product (GDP) growth rate declined to 3.96 per cent in the first quarter of the year (Q1 2015) compared to 5.94 per cent the previous quarter (Q$ 2014), according to the National Bureau of Statistics (NBS). The country’s GDP growth rate in Q1 was 1.98 percentage points lower than the preceding quarter and 2.25 percentage points lower than the corresponding quarter of 2014.

Nominal GDP in Q1 2015 was estimated at N21.04 trillion compared to N24.20 trillion in Q4 2014 and N20.16 trillion in the corresponding quarter of 2014.

In Q1 2015, the non-oil sector grew by 5.59 per cent in real terms, largely driven by the activities of Trade, Crop Production, Construction, Telecommunications and Other Services. In real terms, the oil sector contracted by 8.15 per cent.

3.2 Inflation

According to the National Bureau of Statistics (NBS), Nigeria’s Consumer Price Index (CPI), which measures the rate of inflation, rose to 9.2 per cent (year-on-year) in June 2015, up from 9.0 per cent recorded in May 2015. The Food sub-index rose to 10.0 per cent (year-on-year) in June 2015, up from 9.8 per cent in May, as continued irregularity in petrol supplies as well as late rains adversely impacted food prices.

Between January 2015 and June 2015, inflation in Nigeria has increased from 8.2 per cent to 9.2 per cent.

3.3 Foreign Reserves

Nigeria's external reserves rose slightly to $31.9 billion as at July 7, 2015, according to the Central Bank of Nigeria. External reserves had declined from $37.3 billion in June 2014 to $29.1 billion as at the end of June 2015, reflecting the sharp fall in oil prices and speculative foreign exchange activities.

3.4 Government Debt

The Debt Management Office (DMO) reported that as at the end of June 2015:

- Nigeria's total debt had reached N12.12tn, up from N12.06tn as at the end of March 2015. This compares to a total debt of N10.43tn as of June 2014
- The domestic debt stock of the Federal Government was N8.39tn
- The domestic debt of the 36 states of the federation and the Federal Capital Territory Administration was N1.69tn
- The country's debt was N2.03tn in the external sector

By instrument, Federal Government Bonds accounted for 63.13 per cent of the domestic debt; Nigerian Treasury Bills accounted for 33.64 per cent of the Federal Government's total domestic debt, while Treasury Bonds accounted for 3.23 per cent of the Federal Government's domestic debt.

In the external sector, multilateral donors accounted for 70.11 per cent of the country's external debt, while bilateral sources accounted for 15.35 per cent. Commercial debt accounted for 14.54 per cent of the nation's external debt.

Given the nation's dwindling resources as a result of falling oil prices, this indicates that borrowing will continue to play a major role in the funding of both the federal and state governments.

During his recent visit to the United States, President Muhammadu Buhari sealed funding of $2.1bn from the World Bank for the rebuilding of the North-East region devastated by Boko Haram insurgents.

3.5 Employment

In May, the NBS redefined the benchmark of employment and unemployment figures. Prior to that, the NBS defined unemployed as the proportion of the labour force that did not work at all, or worked less than 40 hours a week during the reference period, which is usually the last 7 days preceding the survey. The new NBS definition of unemployment is the population between the ages of 18 and 64 that are willing and able to work but cannot find at least 20 hours of work in a week. The internationally accepted definition by the ILO uses just one hour a week. Nigerians who are working between 20 and 39 hours per week, but not applying themselves appropriately in terms of the number of hours they put in, or who are working in jobs lower than their skills or educational qualifications, are considered 'under-employed' by the NBS.

The NBS reported that, in the first quarter of 2015, the total number of jobs created in the Nigerian economy was 469,070, an increase of 27.0 per cent (99,585) over the number of jobs in the preceding quarter and 94.7 per cent more than the total number of jobs recorded in the same period of 2014. In the formal sector, 130,941 new jobs were generated; representing 27.9 per cent of total jobs created in the first quarter of 2015, and 5,726 new jobs were generated in the public sector, comprising 1.2 per cent of the total jobs generated during first quarter of 2015. The majority of new jobs were created in the informal sector; 332,403 new jobs were created in this sector, compared to the 227,072 new jobs in the 4th quarter of 2014; this represents an increase of 46.4 per cent between the two periods. The NBS attributes this increase, at least in part, to the numerous informal economic activities that were undertaken during the election period.

Despite job creation in the Nigerian economy, the NBS reported that the number of unemployed Nigerians increased to 7.5 per cent in the first quarter of 2015, from 6.4 per cent in the fourth quarter of 2014, as there were more new entrants to the workforce than jobs created. However, the under-employment rate decreased to 16.6 per cent (12.2 million Nigerians) in Q1 2015 from 17.9 per cent (13.1 million Nigerians) in Q4 2014. In total, 17.7 million Nigerians between 15 and 64 years in the labour force were either unemployed or underemployed in the first quarter of 2015. Unemployment and under-employment is highest for the youth segment - 44.3 per cent of Nigerians between 15 and 24 years in the labour force are either unemployed or under-employed. Unemployment and under-employment also remains higher for women than for men - 8.9 per cent of women were unemployed, versus 6.3 per cent of men.

The NBS reported that Nigerian labour productivity is relatively low compared to other emerging economies. A total of 130.12 billion hours were spent working by the Nigerian labour force in 2010; this figure rose to 139.27 billion hours by the end of 2014. Emerging economies such as Mexico, Turkey, Brazil and Russia have higher levels of labour productivity compared to Nigeria. In 2012, Nigeria’s labour productivity was about $3.5 (N551.70) per hour compared to Turkey’s at $28.9, Russia’s at $24.0 and Brazil’s at $10.7 per hour. The NBS attributed low productivity to numerous economic constraints, notably issues related to power and transport infrastructure, access to finance, as well as science and technological capabilities. Another potential cause of low productivity is excess supply of labour and persistent high unemployment gradually evolving into underemployment, as previously idle labour moves into low skilled, low wage subsistence jobs.

4 Financial Sector

4.1 Capital Markets

In the first half of 2015, the Nigerian Stock Exchange All-Share Index (ASI) declined by 3.5 per cent as investors maintained cautious trading. The ASI, which opened the year at 34,657.15, closed at 33,456.83 on June 30, 2015. However, market capitalisation recorded a lower decline of 0.5 per cent or N58 billion. Market capitalisation declined from N11.48 trillion at the beginning of the year to N11.42 trillion on June 30, 2015.

The Nigerian stock market recorded an unprecedented rally on April 1, gaining N904 billion to close at N11.621 trillion, as investors reacted positively to the peaceful conclusion of the presidential and National Assembly elections. The ASI, which measures the aggregate growth of the stock market, soared by 8.4 per cent, an unprecedented rally in the history of the Nigerian stock market, to close at 34,380.14. The value and volume of trading was equally high, with investors staking N10.9 billion on 881.5 million shares.

4.2 Financial Inclusion

Central Bank of Nigeria

Financial Literacy

In June, the CBN initiated a blueprint for the inclusion of financial literacy as a subject in the nation's education curriculum. Assistant Director, Consumer Protection Department, CBN, Hajiya Khadijat Kassim, said the CBN's vision is to see every pupil have a bank account before graduation from primary school, adding that the blueprint will make financial literacy a compulsory subject to be taught in both primary and secondary schools across the country. According to the CBN, as of 2012 only 1.5 million children and young adults in Sub-Saharan Africa had savings accounts, a development which made the apex bank inaugurate the National Financial Inclusion Strategy to get unbanked children and young adults into the banking system.

Non-interest Microfinance

In June, the CBN stated that it will promote non-interest microfinance to drive financial inclusion in rural areas.

4.3 Banking Industry

A poll commissioned by BusinessDay Media and conducted by NOIPolls in April 2015 revealed that Nigerians see the introduction of ATMs as the most significant reform in the banking sector over the last decade. NOI Polls conducted telephone interviews with 1,500 randomly selected Nigerians aged 18 and over. Of those surveyed, 91 per cent stated ATMs as the most significant reform, an opinion that was consistent across all geo-political zones and age groups. Other key banking sector reforms mentioned by respondents included the introduction of the NUBAN number (44 per cent); internet banking (42 per cent), POS machines (32 per cent) and mobile money services (23 per cent). The least mentioned reform was the bank verification number (BVN) (mentioned by 2 per cent of respondents), which was introduced in February 2014 by the CBN to capture customers' data, give every customer in the Nigerian banking system a unique identification number that can be verified across all banks in Nigeria, and reduce fraud in the banking system.

The poll found that ATM services were the most used form of electronic banking services, used by 68 per cent of respondents. This was followed by 10 per cent of respondents who indicated they use mobile money. Some respondents also mentioned that they use POS machines (6 per cent), internet banking (6 per cent), and credit cards (2 per cent). Nevertheless, a considerable proportion of bank customers polled (18 per cent) did not report using any electronic banking services. Respondents who did not use any electronic banking services were most likely to be aged 60 and above.

When asked to evaluate attributes of ATMs, respondents rated 'Ease of Use' and 'Security' highest, followed by 'Proximity', 'Reliability', 'Availability' and 'Resolution Time'. When asked to rate attributes of POS machines, respondents rated 'Security' the highest, followed by 'Reliability,' 'Resolution Time', 'Proximity' and 'Availability.'

4.3.1 Central Bank of Nigeria

Bank Verification Number (BVN)

On June 30, 2015, the CBN extended the deadline for the Bank Verification Number (BVN) registration by four months from June 30 to October 31, 2015. In a circular, the CBN said the extension became imperative in order to give customers of deposit money banks more time to participate in the enrolment exercise.

The Nigerian Inter-Bank Settlement System (NIBSS) stated that 14 million customers have registered for bank verification numbers, as of June 24, 2015.

Cash-less Policy

Deposit money banks nationwide have started levying charges on cash withdrawals by their customers in excess of set limits. In June 2014, the CBN while announcing the implementation of the third and final phase of the cash-less policy, said charges on withdrawals for both individual and corporate account holders would be suspended in 30 states of the federation until July 1, 2015. The CBN said the waiver was to allow ample time for the banks to deploy adequate infrastructure needed to support the cash-less policy as well as enable additional sensitisation of various bank customers on the merits of the policy.

Under the cash-less policy guidelines, a 3.0 per cent charge will now be administered by banks for daily individual cumulative or single cash withdrawals in excess of N500,000, and 5.0 per cent charge will be administered on daily cumulative or single cash withdrawals in excess of N3 million.

Payments System Vision 2020

To ensure the successful implementation of the Payments System Vision 2020 (PSV 2020), the CBN is setting up a new Initiative Working Group to work on identifying quick wins, for an initial period of two years. The Working Group, comprising of the user community, banks and other service providers, has been formed in order to drive adoption of the payments system.

Other initiatives undertaken to encourage the usage of electronic payment channels are the deployment of the Scriptless Securities Settlement System; introduction of Cheque Truncation, which reduced clearing cycles for Automated Clearing House payments and cheque from three days (T+3) to next day (T+1); limits on encashment of third party cheques; and a maximum cap of N10 million for cheque payments.

Super-agent Framework

The CBN has issued a framework for licensing super-agents in furtherance of its mandate to develop the electronic payments system in the country. A super-agent is an agent that has been contracted by the principal financial services provider and may thereafter subcontract other agents in a network, while retaining overall responsibility for the agency relationship. In December 2014, the CBN sent a circular to all deposit money banks, mobile money operators and switches, requesting input on the exposure draft on the licensing framework.

In accordance with the framework, any institution wishing to be licensed as a super-agent shall submit an application for approval to the CBN. Each applicant is required to have a minimum

Shareholders' Fund, unimpaired by losses of N50 million (about $250,000) a minimum of 50 agents, and must obtain a reference letter from a financial institution as part of its documentation for a licence. The operating licenses of super-agents shall be renewed every two years, subject to satisfactory performance.

4.3.2 Deposit Money Banks

According to the Central Bank of Nigeria's economic report for April 2015:

- The total specified liquid assets of deposit money banks was N6.33 trillion, representing 34.8 per cent of their total current liabilities. The liquidity ratio, which measures the ability to meet short term demands, fell by 0.3 per cent below the level in the preceding month but was 4.8 per cent above the regulatory level of 30.0 per cent.
- The loans-to-deposit ratio was 64.9 per cent, which was 1.2 per cent below the level at the end of the preceding month, but 15.1 per cent below the prescribed maximum ratio of 80.0 per cent.
- Credit to the domestic economy fell by 2.6 per cent to N16.83 trillion, when measured on a month-on-month basis.

Fraud

In June, in order to stem fraud within the banking industry, the CBN issued a circular directing deposit money banks to maintain dedicated fraud desks. The CBN also said that it has established the Nigeria Electronic Fraud Forum (NeFF) to proffer solutions for fraud arising from the increased adoption of electronic payments.

Under the new arrangement, the NIBSS will be responsible for coordinating the industry as the provider of an electronic platform for all the fraud desks across all banks, mobile money operators, switches and payments service providers to log incidents of fraud. The NIBSS will also maintain direct and dedicated lines as well as email contacts of all stakeholders for the purpose of exchanging information and coordinating the industry's response to fraud attempts and incidents. It will also ensure that deposit money banks use an enhanced e-fraud portal/instant payment platform, with capabilities for banks to initiate 'block' and 'hold funds' electronic messages from one bank's fraud desk to another, while providing operational rules for effective fraud desk coordination. Interbank transactions on all electronic channels are expected to be passed through the central anti-fraud system in NIBSS, which will have access to each bank's record of fraudulent transactions and provide monthly reports to the CBN.

In 2014, fraudsters stole N6.2 billion from Nigerian depositors and banks, with majority of cases related to internet banking and ATM scams, according to the Nigeria Deposit Insurance Corporation (NDIC). The total number of reported cases of fraud by banks grew from 3,786 cases in 2013 to 10,612 cases in 2014. The actual loss due to fraud in 2013 was N5.8 billion.

4.3.3 Non-interest Banking

In June, Jaiz Bank, Nigeria's sole non-interest bank, reported a profit before tax of N157 million, bringing the Bank to break-even, three years after the commencement of operations. The Bank sees the absence of sharia-compliant liquidity management instruments in the Nigerian money market as a major hurdle to growing earning assets, as only Osun State has been able to issue a sharia-compliant Sukuk bond. Despite these challenges, in 2014 Jaiz Bank recorded a 221 per cent increase in total income to N2.9 billion from N915 million in 2013. The Bank was also able to restrict its expenditure growth to only 20 per cent, despite the 50 per cent expansion of operations and branch network. The Bank realised N146 million in non-sharia compliant income, which it posted as part of the N1.965 billion Charity Fund. The Bank which is still a regional bank, now has 15 branches as against 10 in 2013, and is still awaiting a national licence from the CBN.

4.3.4 Agricultural Finance

In June 2015, the Nigeria Incentive-Based Risk Sharing Agricultural Lending (NIRSAL) of the Central Bank of Nigeria said it had guaranteed 224 projects worth N53 billion with deposit money banks, for farmers in the country in the last two and half years.

The Head, NIRSAL Project Implementation Office and Development Finance Department, Mr. Aliyu Hameed, said the huge amount was guaranteed to borrowers in different agricultural segments of the value chain, especially those engaged in poultry farming. He disclosed that NIRSAL had been able to give interest-drawback support to farmers worth N698 million in the last two and half years. He said that financing for agriculture is a big challenge for all stakeholders, hence the move by the CBN to encourage deposit money banks to finance agriculture in Nigeria. Mr. Hameed said deposit money banks are risk averse when it comes to lending money to the agriculture sector, but by virtue of the CBN supporting such financing through NIRSAL, the banks feel comfortable lending to all actors in the agricultural value chain. He said NIRSAL has an incentive for borrowers who do not default. NIRSAL gives such borrowers up to 40 per cent interest support, as the whole purpose is to encourage farmers to borrow and pay back their loans.

4.4 Pensions

In May, the Director-General of the National Pension Commission (PenCom), Mrs. Chinelo Anohu-Amazu stated that PenCom will soon issue new guidelines that will outline how contributors under the Contributory Pension Scheme (CPS) can use their funds to access mortgages. Under the old pension law, Pension Fund Administrators (PFAs) could not directly invest in real estate. The PenCom boss said with the new Pension Reform Act of 2014, PFAs could now do so, meaning that the majority of over 6 million contributors can now utilise part of their funds as equity contributions for residential mortgages. Mrs. Anohu-Amazu said, “The most important thing is the allowance of the utilisation of the retirement savings balance for the provision of a primary home. For the first time, contributors can utilise part of their balance to secure their primary home in accordance with the guidelines to be issued by the Commission. I think this is fantastic in a country where we have over 15 million housing deficit, at least the over six million contributors under the CPS can now for the first time be able to utilise the money rather than just leaving it there. The process of issuing these guidelines is already at an advanced stage and it is our expectation that as soon as it is implemented, this development will assist in bridging the housing deficit in Nigeria.”

Pension Fund Operators Association of Nigeria (PenOp) has launched the Electronic Pension Contribution Collection System (EPCCOS), which will henceforth enable employers to remit their employees' contributions online. The Chairman, Subcommittee and Managing Director/Chief Executive Officer on EPCCOS, UBA Pension Fund Custodian, Bayo Yusuf, said the platform will help improve compliance and enhance confidence in pension collection and remittance. He said, “For us, it will improve compliance, because one of the complaints of employers is having to deal with 21 pension fund administrators and four pension fund custodians. With this single platform, employers can now do everything from the comfort of their offices without going anywhere." He said with the new system, the account of the employee will be credited within 24 hours.

In April, PenCom released the draft regulations on Investment of Pension Fund Assets to guide PFAs and other investors who have been agitating for the use of accumulated pension fund assets, in excess of N4.6 trillion, to develop infrastructure across the country. The draft regulations set the minimum value of individual projects that pension fund assets can invest in at N5 billion. Emeka Onuora, Head of Communication for PenCom, stated that as much as 15 per cent of the total value of pension fund assets under management can be invested in infrastructure through Infrastructure Bonds and another 5 per cent of the total value of pension fund assets can be invested in infrastructure through Infrastructure Funds, making 20 per cent of the total value of accumulated pension assets. Some other conditions for the investment of pension assets in infrastructure include that a minimum of 60 per cent of the Infrastructure Fund shall be invested in projects within Nigeria.

4.5 Microinsurance

NAICOM

In June, the National Insurance Commission (NAICOM) stated that it has issued licences to 16 firms to commence microinsurance operations in Nigeria. The Commissioner for Insurance, Mr. Fola Daniel, said with the issuance of the microinsurance guidelines, NAICOM had provided clear rules for operators, as well as consumer protection requirements. Microinsurance policies cover small risks with an insured sum up to N1 million, and exclude special risks like motor insurance (except tricycles and motorcycles), professional indemnity and other pecuniary risks, and third party liability risks with the sum insured above N1m. The Commission pegged the minimum capital to commence life microinsurance and non-life microinsurance business at N150m and N200m respectively, while firms willing to operate both are expected to have at least N350m in capital.

4.6 Micro Small and Medium Enterprises

In June, the Bank of Industry (BoI) unveiled five mobile applications to drive Small and Medium Enterprise (SME) operations in the country. The products include the SME Mobile App, which provides easy access to companies' information, the SME Accounting application software (SAAPP), which offers accounting tips, and an Online Loan Application Portal, which enables existing and potential clients to apply for loans from BoI. There is also a Loan Application Tracking system, and SME Customer Portal. The Managing Director, BoI, Rasheed Olaoluwa, explained that this move by the Development Finance Institution was to avail members of the public, especially entrepreneurs, easy access to information, on their mobile phones, about the key activities and products of the Bank, as well as how to avail themselves of the Bank's services.

In May, BoI stated that in 2014 it disbursed a total of N127bn in loans to MSMEs in the country. Through the disbursement of loans to these enterprises, the Bank said it had been able to create over 500,000 jobs within the period under review.

5 Telecoms Sector

According to the Nigerian Communications Commission (NCC), in April 2015, the number of connected lines was 196,941,125 whilst the number of active lines was 145,476,326. Teledensity reached 103.91 per cent. The table below provides a summary of telephone subscribers in April 2015.

	Number of connected lines	Number of active lines
Mobile GSM	**192,769,198**	**143,057,234**
Mobile CDMA	**3,799,949**	**2,234,302**
Fixed Wired/Wireless	**371,978**	**184,790**
Total	**196,941,125**	**145,476,326**

Source: NCC

Nigeria’s burgeoning telecommunications sector generated $9.8 billion of revenue in 2014, according to Pyramid Research. The mobile voice segment was the largest revenue contributor, at $7.3 billion. Pyramid Research forecasts that Nigeria’s telecommunications market will generate over $10.9 billion in 2019, up from a total of $9.8 billion in 2014. Even though political instability and low oil prices have led to a depreciation of the Naira against the Dollar, the telecommunications market will remain an integral part of the country’s efforts to diversify its sources of income.

The Information and Communication sector grew by 17.1 per cent in the first quarter of 2015, which represents a 3.1 per cent increase over the fourth quarter of 2014. The Information and Communication sector contributed 11.9 per cent to total nominal GDP in the first quarter of 2015, which is higher than the 10.0 per cent it contributed in nominal terms in the fourth quarter of 2014. The main driver of the growth has been attributed to the Telecommunications and Information services segment of the sector. The Telecommunications industry in Nigeria is still increasing and expanding at an exponential rate, with the number of active lines having increased from 139.1 million in Dec 2014 to 145.5 million in April 2015.

5.1 Internet Users

The number of Nigerians that are accessing the Internet through GSM networks has increased by 20.9 million in the past year. The NCC reported that there were 88.1 million active GSM internet subscribers in Nigeria in May 2015, compared to 67.2 million active GSM internet subscribers in June 2014, a 31% increase. The rising rate of Internet subscription on GSM networks reflects the increasing importance of data services as a stream of income to mobile telecommunication service providers.

6 Mobile Money

6.1 Africa

6.1.1 Rwanda

<u>Airtel Rwanda</u>

Rwanda's push towards a cash-less economy has been boosted by the launch of a new drive by Airtel Rwanda, which will see the telecom firm expand its Airtel Money platform to include additional payment options. The ‘Pay with Airtel money’ campaign aims at encouraging customers to embrace mobile money using Airtel Money, as well as providing ease and convenience while carrying out financial transactions, Teddy Bhullar, Airtel Rwanda, Managing Director, said, “We are optimistic that the drive will help create a new wave of accepting payments using mobile money, thus bridging the gap between the traditional brick and mortar modes of payment.” He said the telco will add new payment options to the Airtel Money portfolio such as school fees, water, and Rwanda Revenue Authority tax payment options, by end of June 2015.

After a long period of delay, Rwanda’s telecoms MTN Rwandacel and Airtel Rwanda are set to roll out cross-border mobile money. The long awaited cross-border mobile money offering is seen as a step towards financial integration.

MTN Rwanda

MTN Rwanda has partnered with 21 schools from across the country to enable parents to pay school fees using MTN mobile money. The new service will enable parents to transfer school fees due from their mobile money wallets directly into the schools’ bank accounts in real time. This will save parents time and money involved in going to banks to pay tuition fees. The schools registered on the payment service will have unique PIN and identification numbers for each student. The sender will receive notification messages on his or her mobile phone when a transfer is made.

6.1.2 Egypt

Vodafone Egypt’s CEO, Ahmed Essam, revealed the number of customers who use their mobile money services has reached more than 1 million. Vodafone launched mobile money transfer services in 2013. In 2015, Vodafone expects to invest EGP 9.5 billion in the Egyptian market of which EGP 3.5 billion will be allocated to network development and preparation for 4G services. The company has also allocated more than EGP 400 million in investments in alternative energy, to avoid the impact of power outages on its network performance.

6.1.3 Kenya

Profitability in the mobile money agent business in Kenya has increased by 10 per cent in 2014, compared to 2013, according to a new report by Helix Institute of Digital Finance. The research revealed that in non-Nairobi urban areas, profitability has increased by 26 per cent, while in rural areas, agents’ profits have gone up by 45 per cent. However, according to the report, profits in Nairobi have decreased by 20 per cent in the period under review, attributable to competition from new agents setting up business in the capital. Increase in profitability is attributable to a decrease in operating costs, which dropped by 37 per cent in the last year, as agents diversified their sources of income. Eleven per cent of agents are not profitable, which is an improvement compared to 17 per cent in 2013.

Banks now account for 15 per cent of the agency market in Kenya, which is a three-fold increase from 2013, owing to the aggressive growth of their agent networks and decreasing exclusivity. Exclusivity went down from 96 per cent in 2013 to 87 per cent in 2014.

Safaricom still has the largest agent network in Kenya, but has experienced a substantial drop in its market share from 90 per cent in 2013 to 79 per cent in 2014. Equity Bank has drastically increased its agent footprint, now comprising 8 per cent of total market in 2014 compared to 1.3 per cent in 2013.

The report highlighted the opportunity for further network expansion as 75 per cent of the population is rural and only 22 per cent of agents are in the rural areas. Agents who predicted that they will continue to act as agents increased from 58 per cent in 2013 to 80 per cent in 2014.

Kenya Commercial Bank (KCB)

Kenya's biggest bank by assets, KCB, has signed up 1.8 million customers for its mobile money service since it was launched in March and is on target for 10 million users within a year, according to its Chief Financial Officer (CFO). Mobile technology is seen as the future of banking in Kenya.

The KCB M-PESA service which is operated jointly with Safaricom, allows users to deposit cash and borrow up to KES1 million for a period of up to six months via mobile phones. KCB has lent more than KES1.37 billion to over 400,000 borrowers on KCB's M-PESA service, the CFO said. In March, the Chief Executive, Joshua Oigara said that he expected KCB M-PESA to grow to 20-30 per cent of KCB's lending portfolio, although he did not specify the timeframe.

Equity Bank

Equity Bank has started a new mobile payment and banking service called Equitel. The Bank is seeking 100 million customers in Africa within 10 years and the first five million by the end of 2015. Equitel is a joint project between Equity Bank and Airtel Kenya. Equitel will compete with Safaricom's M-PESA, which generated KES 26.6 billion of revenue for Safaricom in 2014.

6.1.4 Zimbabwe

Econet Wireless, Zimbabwe's leading mobile operator, said revenue from data and mobile money services surged by 56 per cent to $164 million in the year to February 2015. The mobile operator has more than 9 million subscribers. Econet's revenue was also positively impacted by its mobile money service Ecocash, which has 4.2 million customers and whose transactions reached $5.5 billion in 2015, up from $3.1 billion in 2014.

6.1.5 Ghana

Airtel Ghana recently announced that the number of registered customers using Airtel Money has reached 1.5 million. This number is about half the population of Accra and marks the highest adoption rate by subscribers of any mobile money service in the Ghanaian market. A unique feature available on Airtel Money, when compared with the other mobile money services, is the ability to link one's bank account directly to one's electronic wallet, thereby enabling simple and secure transfer of money across accounts. Another unique feature of Airtel Money is the ability to purchase data bundles to access the internet. Airtel Money has also partnered with the Government of Ghana to facilitate payment of government services like passport fees and other payments on the e-government portal. Partnerships with over 500 merchant outlets including eateries like KFC, and shops like Melcom, Shoprite, Koala, Maxmart and many more allows subscribers to pay with Airtel Money for goods and services procured from such merchants. Users of Airtel Money can go to any one of its network of 11,000 registered agents, seven partner banks, and 152 post offices to conduct cash-in and cash-out transactions.

6.2 Nigeria

In July, Mr. Dipo Fatokun, Director, Banking and Payment Systems Department, CBN, said that since 2012, a total of N700 billion worth of mobile money transactions have been conducted in Nigeria. He further added that mobile money operators are currently conducting transactions valued at about N30 million per month. He also said that apart from the licensed 23 mobile money operators, there were about 80,000 agents spread across Nigeria that have been given approval to carry out mobile money transactions. Mr. Fatokun said to ensure the safety and stability of the mobile money banking system, the apex bank was collaborating with Nigeria Deposit Insurance Corporation (NDIC) to provide pass-through insurance for mobile money funds.