EFInA Quarterly Review

(January to March 2013)

1 Global Economy

The Director General of the International Labour Organisation (ILO), Mr. Guy Ryder, stated that there were over 4 million jobs lost in 2012. According to him, a quarter of the increase in global unemployment was in developed economies, whilst three quarters was in other regions. The level of unemployment has marked effects for developing economies in East Asia, South Asia and sub-Saharan Africa. He added that globally, unemployment had grown by over 28 million people between 2007 and 2012. In addition, if the estimated 39 million workers (jobseekers) who had given up hope and dropped out of the labour market were also taken into account, then the global jobs gap would have reached 67 million people.

In 2012, there was a resurgence of the global financial crisis, in the form of slower growth than expected in all regions, and an associated worsening of unemployment and labour markets. For example, Spain's unemployment rate reached 26 percent. Mr. Ryder said, "The unemployment figures across the globe are absolutely appalling and there are no signs of an upturn." The ILO boss said that much work was needed to be done to raise productivity levels and expand the number of quality jobs, in order to spur growth in developing countries, including African countries. He also urged policy makers to promote youth employment.

In its 2013 global unemployment trend report, the ILO put the unemployment rate in sub-Saharan Africa at 7.5 percent. According to the ILO, the proportion of workers in vulnerable employment in the region had decreased, but remained extremely high at 77 percent in 2012, while labour productivity remained very low, particularly in the informal economy. Given the large share of workers in subsistence agriculture in Africa, structural change has been an important source of growth; but there was a slowdown of sectoral re-allocation during the financial crisis. The ILO urged African countries to make agriculture its priority stating that this would provide more productive jobs for a significant share of Africa's youth and raise the much needed foreign exchange currently used to import food that should be grown in Africa. Per capita food production has grown at a pace of 0.06 percent a year over the last 50 years, whilst the population has been rising at 2.6 percent a year. This means that food imports have increased at an annual rate of 3.4 percent since 1980.

2 African Economies

According to the International Labour Organisation (ILO), economic growth in Africa is forecast to continue at a robust rate, slightly above the recent trend of 5 percent a year. Africa is urbanizing fast, with an average of close to 40 percent of the population living in cities. The ILO expressed concern that Africa imports close to $50 billion worth of food every year, mostly to feed its rapidly expanding urban population. This amount is roughly equivalent to what Africa receives in official development aid, and over five times more than the amount invested in future economic growth by the African Development Bank. Sustained and broad-based growth in Africa cannot happen without robust agricultural growth underpinning employment and incomes for the large majority of the employed population. Turning this agenda into reality will be a major task for the next 10 to 20 years.

Africa's growth will be supported by diversifying from commodities. Specifically, democracy, better governance, urbanization and trade with China are transforming the economies of sub-Saharan

Africa. In 2013, 8 of the world's 20 fastest growing economies will be African; even though there are challenges of poor roads, corruption, inefficient cross-border trade, inadequate intermodal transportation, cumbersome bureaucracy and scarce skills.

2.1 Banking

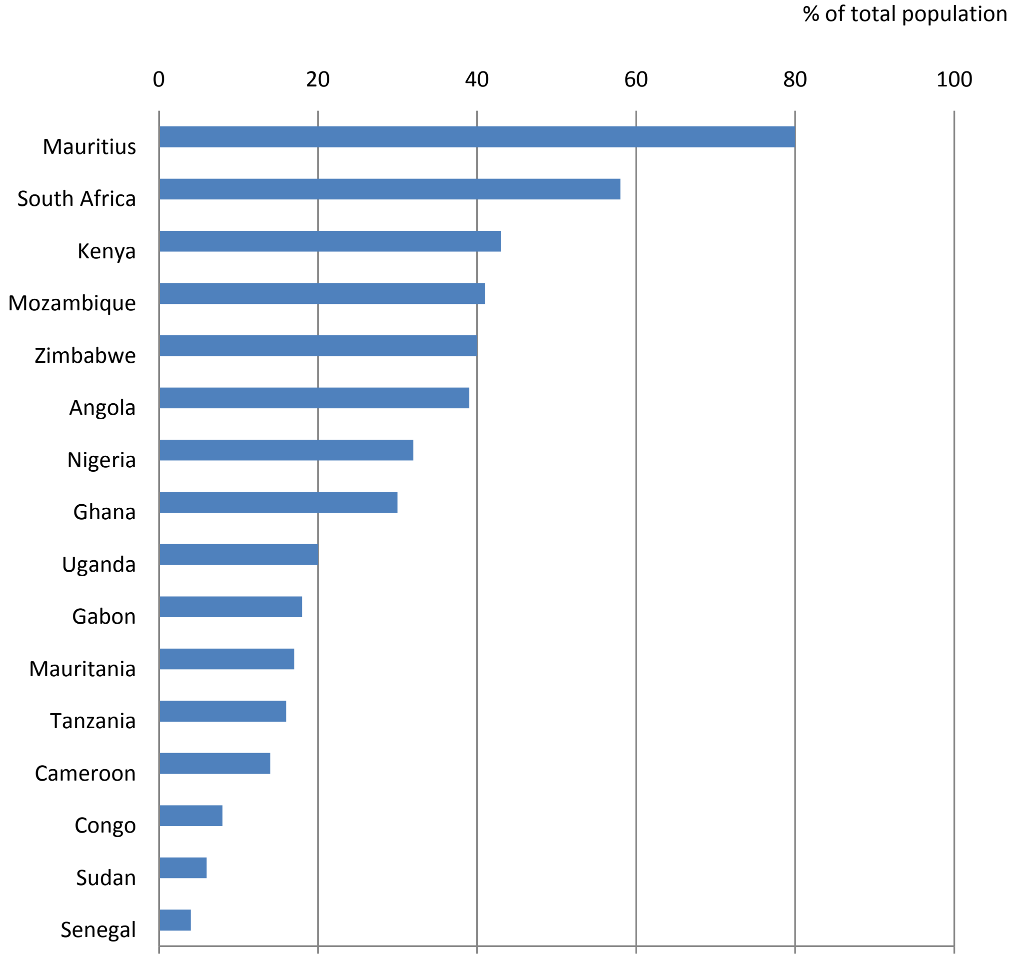
The main allure of Africa's banking market is that it is potentially vast and virtually untapped. Banking penetration among the continent's 1 billion inhabitants varies significantly from country to country, but large segments of the population in Senegal and Tanzania, for instance, have virtually no access to banks (see chart below). The differences within countries are striking, too. South Africa, for example, offers world-class service and technology from the air-conditioned offices and verdant lawns of Johannesburg's main banking district; yet just a short bus ride away is the poverty-ridden township of Alexandria, where many people still keep cash under their mattresses.

Across sub-Saharan Africa as a whole, only about a quarter of adults have accounts at formal financial institutions, and only 3 percent have credit cards. The challenge is finding a profitable way to reach the rest. Bankers typically think of markets as being ready to take off, once GDP per-person reaches about $10,000, a level at which it becomes profitable to start building branches and opening accounts. Yet technology such as prepaid cards and mobile money may lower that hurdle rate.

In some respects, African banks have an advantage over their international rivals as they install brand new computer systems without having to patch together costly legacy systems that have been around since the 1960s. Al-Noor Ramji of Misys, a banking-technology firm, reckons that African retail banks can achieve costs as low as 30% of their income. Banks in developed countries in contrast, are usually happy if they can get cost-to-income ratios of 50%. The group of banks that are embracing these technologies most eagerly are the big regional banks. The financial crisis also prompted some of the region's banks to focus on expanding in Africa rather than going abroad.

Another approach is that which is taken by most big international banks is to opt for a top-down approach, helping governments to sell bonds and offering banking services to the biggest companies in each country. This has allowed them to build a geographically vast but infrastructurally light branch network in Africa. Even nimbler are investment banks such as Goldman Sachs and Morgan Stanley, whose staff fly in to arrange deals but which have very little local presence. The question is whether these models can be sustained as domestic and regional banks gradually gain access to capital markets for themselves and their clients.

Population aged 15 and over with an account at a formal financial institution, 2011



Source: World Bank

2.2 *Microsoft Initiatives in Africa*

Unemployment remains rife in Africa. With almost 200 million people aged between 15 and 24 in Africa today, the youth community represents more than 60 percent of the continent's total population and accounts for 45 percent of its growing labour force. However, the imbalance between the demands of the labour market and the supply of appropriately skilled workers in Africa is reaching its breaking point. In light of this, in February 2013, Microsoft Corporation announced its commitment to drive opportunities for African youth through its YouthSpark initiative.

Microsoft YouthSpark is a global initiative that aims to create opportunities for 300 million youths in more than 100 countries during the next three years. This initiative involves empowering youths to realize their full potential by connecting them with greater opportunities for education, employment and entrepreneurship. Through YouthSpark, in sub-Saharan Africa alone, Microsoft has already reached over half a million young people and made $1.1 million worth of software donations to non-governmental organisations. In addition, they have trained almost 30,000 teachers through their Partners in Learning tools as well as equipped hundreds of small & medium businesses with relevant start up skills.

As part of its broader strategy, Microsoft views Africa as a critical market. Its flagship African investment and growth drive, 4Afrika, which YouthSpark falls under was launched in February 2013. Through 4Afrika, Microsoft will actively engage in Africa's economic development to improve its global competitiveness. By 2016, the Microsoft 4Afrika Initiative plans to give tens of millions of smart devices to African youths; ensure 1 million African small and medium enterprises are online; up-skill 100,000 members of Africa's existing workforce; and help an additional 100,000 recent graduates develop skills for employability, 75 percent of which Microsoft will help place in jobs. Small and medium enterprises (SMEs) are widely seen as an engine of economic growth. In developed countries, they are credited with creating jobs, delivering innovation and raising productivity. Contrastingly, SMEs in developing countries, despite their potential, are not currently living up to that promise, due to various challenges such a lack of funding and inadequate protectionist policies. Microsoft hopes to empower SMEs in Africa and boost their global competitiveness. This initiative represents a new strategy in which social and business ventures work synergistically rather than independently.

3 Nigerian Economy

According to a forecast by PricewaterhouseCoopers (PwC), Nigeria has been projected to occupy the 13th position as one of the leading G20 economies in the World by 2050. Nigeria's Purchasing Power Parity (PPP) in terms of Gross Domestic Product (GPD) is expected to increase from $2.6 billion (N416 billion) to $3.9 billion (N624 billion). The report called 'World in 2050 The BRICs and Beyond: Prospects, Challenges and Opportunities,' which was released in January disclosed that Nigeria and Vietnam would move into the top 20 leading economies by 2050 at 13th and 19th place respectively. According to the report, Nigeria could be the fastest growing country in PwC's sample due to its youthful and growing working population. However, this will depend on it using its oil wealth to develop a broader based economy with better infrastructure and institutions to support long term growth and productivity. Australia is expected to drop out of the world's 20 biggest economies by 2050, as fast-growing developing countries such as Argentina, Nigeria and Vietnam overtake it. The UK is predicted to drop to 11th place in rankings of the world's largest economies by 2050. China is projected to take over the US as the world's largest economy by 2017, with a gross domestic product in PPP terms of $53,856 billion.

3.1 Government Debt

In March, Mr. Abraham Nwankwo, Director-General, Debt Management Office (DMO), announced that Nigeria's $1 billion Eurobond, being planned to raise funds from the international capital markets to finance gas-to-power infrastructure will be launched before the end of September 2013. In addition, the Diaspora Bond which will enable the Federal Government to attract funds from Nigerians living abroad for developmental projects in Nigeria, would be launched by December 2013. The plan is that by these respective dates, all preparations and processes would have been concluded. The objective of the $1 billion Eurobond is to create more windows of opportunity for Nigeria's private sector players to access foreign funds at low cost, while the $100 million which will be Nigeria's first ever Diaspora Bond will allow citizens living abroad to invest in their country and contribute to the nation's development. Owing to the country's escalating debt profile, analysts have warned the Federal Government needs to ensure that it does not surpass the debt to GDP ratio of 25 percent.

3.2 Inflation

According to the National Bureau of Statistics, the Consumer Price Index (CPI) which measures the rate of inflation in the country, dropped to 8.6 percent in March, compared to 9.5 percent in February and 9.0 percent in January. The last time the CPI was at this level was in April 2008, when it was 8.2 percent.

3.3 Foreign Reserves

Nigeria's external reserves have been growing since last year. This growth has been largely attributed to high crude oil prices as well as the relative stability of Naira. The Central Bank of Nigeria revealed that the country's reserves reached $48.290 billion on March 15, 2013. This represents an improvement of 8.92 percent or $3.953 billion when compared to its level of $44.337 billion at the beginning of the year. However, at its current value, foreign reserves are still $13.71 billion short of the $62 billion at which it peaked in 2008, before the global financial meltdown. According to economists at its current level, the reserves could finance more than 11 months of import of goods and services.

3.4 Growth Rates

The National Bureau of Statistics (NBS) forecasted a real GDP growth rate of 6.75 percent in 2013, 7.24 percent in 2014, 6.93 percent in 2015 and 6.62 percent in 2016 for Nigeria. In March, the Governor of the Central Bank of Nigeria, Mallam Lamido Sanusi, said that the Monetary Policy Committee (MPC) were of the view that although the GDP growth projection remained high, there were a number of factors that were likely to affect output performance. These include the perception of increased levels of corruption in the country, insecurity, particularly in the northern part of the country, as well as mixed signals in power and petroleum sector reforms.

3.5 Agriculture

In January, President Goodluck Jonathan said that his administration would create at least 3.5 million new jobs in agriculture and allied industries; and add about 20 million metric tonnes of food to domestic supply by 2015. This would be achieved through the policy and institutional reforms being embarked upon by the Federal Government. President Jonathan further stated that, "The present administration's objective is to build on Nigeria's tremendous natural resources, reverse the decline in the agricultural sector's productivity, which followed the discovery of oil; establish domestic self-sufficiency in food and make the country a major exporter of food. Such a shift will not only reduce the billions of dollars we spend importing basic food items, but will also create millions of jobs, especially for our youth."

Farmers and Mobile Money Initiative

In January, the Ministry of Agriculture stated that it would distribute 10 million mobile phones costing N60 billion to farmers. The project according to the Minister for Agriculture, Dr. Akinwunmi Adeshina, would help develop the first ever registered database of farmers in Nigeria. The project will cover the direct supply of fertilisers, quality seeds grains and other relevant agricultural products and produce, via vouchers to Nigerian farmers. The project would enable farmers create, capture, access and disseminate information to achieve a more productive and sustainable use of government subsidies.

According to the Minister of Agriculture, the decision by government to subsidise the purchase of mobile phones for farmers was tied to trying to distribute fertilisers directly to farmers without the involvement of third parties. Dr. Akinwunmi explained that the initiative was based on well-researched and analysed data based on a large sample of 426,000 farmers from various local government areas in 13 states. They found that 71 percent of farmers sampled did not have mobile phones. This showed that many farmers in rural areas were quite poor and were excluded from the on-going benefits of the mobile phone revolution in Nigeria.

The Ministry of Agriculture plans to make phones available to farmers on a gradual basis. Farmers will not be able to access the Growth Enhancement Support (GES) scheme without mobile phones. The government will provide a subsidy to farmers to buy mobile phones through vouchers. The farmer will take the voucher to the local mobile phone operator and pay the balance (which is the difference between the value of the voucher and the cost of the phone). Once a farmer buys a phone and a SIM card, his new phone number will be updated on the e-wallet database and he will be able to receive his e-wallet voucher which will entitle him to purchase fertiliser and seeds at subsidised rates. Farmers will also have access to information on market prices. The farmers' project would also go a long way to optimising the Central Bank of Nigeria's mobile money initiative which is a veritable tool to create payment access to unbanked Nigerians in rural areas, and also help drive financial inclusion in the country.

4 Financial Sector

4.1 Capital Market

The recently appointed Chairman of the Securities and Exchange Commission (SEC), Mallam Sulleyman Ndanusa stated that the SEC's objective is to build a capital market that has a global competitive edge. "A market that is able to meet the domestic needs of the Nigerian economy, serve as the investment hub not just of West Africa but for the whole of Africa, while also contributing considerably to the global economy. To achieve this, we will build a market that is in line with global standards," he said. Mallam Ndanusa said it was the collective responsibility of key stakeholders to develop a market that has robust product offerings; fair, efficient and transparent processes; integrity; strong and transparent disclosure and accountability regime; sound regulatory frameworks; investor confidence; and good corporate governance.

The DG, SEC, Ms. Arunma Oteh, said the thrust of the Commission's regulatory and market development activities shall be innovation, financial inclusion and effectiveness. She said, "To put this in context, the capital market remains the best source of cheap medium to long-term finance for enterprises as well as for the government. The capital market mobilizes savings to meet these long term financing needs in a manner that benefits the savers, the investors and the economy as a whole." Ms. Oteh noted that the Commission will try and link into various reform programmes in the wider economy, to attract listings in both the equity and fixed income segments of the capital market. On product offerings, the DG explained that the apex regulator would leverage innovation to reach people who did not have access to conventional financial products and continue to expand the range of available products. She said that being mindful of the challenge many small enterprises face in sourcing capital from the capital markets, in 2013 the Commission would advocate for cohesive partnering of these small firms with private equity and venture capital firms, all of which form part of a very important ecosystem. Ms. Oteh stated that the Commission's efforts towards achieving effectiveness will cut across a broad spectrum of key areas including market infrastructure and technology; a more robust enforcement regime; stronger market institutions; and more robust disclosure. In order to deepen the Nigerian capital market, the SEC has made some changes in its rules to boost the uptake of Real Estate Investment Trusts (REITs). This is part of the SEC's approach to enhance investor choice in the market and provide portfolio diversification.

Financial Inclusion

The DG, SEC said financial inclusion activities would entail financial literacy, providing collective investment schemes, and supporting small and medium enterprises through venture capital. "In the area of financial literacy, we are using all channels to enhance the level of financial literacy across various segments of the Nigerian population," Ms. Oteh said. Regarding collective investment schemes (CIS), she added that in 2013, SEC would build on the momentum of 2012, which saw the return of retail investors' interest in the stock market. "This year, we will continue to advocate and encourage the adoption of collective investment schemes for retail investors. For instance, in the collective investment schemes, we have seen very low participation in Nigeria compared to other markets; only about 168,000 people invest in CIS. So the SEC has developed a five-year plan to grow the number of investors in CIS to about 5 million." In order to achieve this, the SEC are approaching the Central Bank and other relevant bodies to allow fund managers in CIS to be agents so that they can reach as many investors as possible.

4.1.1 Nigerian Stock Exchange

The Nigerian Stock Exchange (NSE) has set a goal of getting to a market capitalisation of $1 trillion by 2016. The share of trading activity by domestic retail investors in the NSE reached 45 percent in Q1 2013 up from 30 percent as at the end of 2012. The NSE intends to reach its market capitalisation target by introducing new products. For example, favourable government policies, such as the passage of the Petroleum Industry Bill (PIB) could encourage major oil companies to list on the Exchange. As at end of 2012, the NSE market capitalisation was equivalent to 21 percent of Nigeria's GDP, which means that key sectors of the economy such as Agriculture, Telecoms, Oil & Gas, and Utilities are not represented on the Exchange. The NSE forecasts that the Agriculture sector can garner a market capitalisation of $140 billion; Telecoms - $45 billion; Oil and Gas - $265 billion; and Utilities - $16 billion. If the companies in these sectors were to list on the Exchange by 2016, it would help to meet the $1 trillion market capitalisation goal. To make this vision a reality, Mr. Onyema, CEO, NSE, said the Exchange needs to attract more quality companies to list, adding that, "You are not going to have a market capitalisation of $1 trillion without liquidity in the market." Mr. Onyema believes that the capital market needs favourable government policies that would boost investment in the market; targeted business development efforts; comprehensive and robust legal/regulatory frameworks; efficient technology systems; market structure that would drive liquidity and depth; and robust investor/issuer protection.

Alternative Securities Market

In March, the NSE unveiled plans to revamp its second-tier market to an Alternative Securities Market (ASM), to enable small and medium enterprises that are emerging to participate and access finance from the Nigerian Capital Market. The Exchange has concluded plans to introduce the first ever Issuers' Portal in the Nigerian Capital Market known as X-Issuer, which will allow online information submission for enhanced interaction between the Exchange and listed companies. The Exchange has put structures in place to ensure that these companies sustain growth and can eventually list on the main stock market. The ASM will help these companies to formalize business operations, increase visibility and integrity as well as become vibrant enough to create wealth. The X-Issuer portal will encourage transparency and accountability, and also expedite the discharge of issuers' post-listings obligations relating to structured and continuous disclosure.

4.2 Financial Inclusion

Mallam Sanusi Lamido Sanusi, Governor, Central Bank of Nigeria stated that the huge financial exclusion gap in Nigeria was mainly due to: (i) access points being too far; (ii) cumbersome eligibility requirements; (iii) low financial literacy; and (iv) high costs of financial services. The apex bank Governor noted that to achieve the CBN's mandate and overall economic development of the country, the barriers to financial services need to be overcome and removed. The four barriers to accessing financial services in the urban and rural areas highlight the need to develop and implement the initiatives stated in the National Financial Inclusion Strategy. The key initiatives in the Strategy include implementing a tiered approach to KYC, agent banking, cash-less policy, financial literary framework, consumer protection, and the implementation of credit enhancement schemes and programmes. He said specific targets have been set for payment services, credit, income, pension, deposit money banks and microfinance banks branches, ATMs, POS, banking agents, youths, and women. He added, "A variety of stakeholders have been identified to support the full implementation of this Strategy and their roles and responsibilities have been defined. The relevant stakeholders would need to commit sufficient resources to support the Strategy and the CBN would need to take a lead in coordinating and promoting the Strategy in order to achieve its goals and objectives.

4.2.1 Bornu State Pilot

On 15 February, the first pilot based on the National Financial Inclusion Strategy was inaugurated in Maiduguri, Borno state. This initiative is aimed at bringing banking services to the un-banked population in Bornu state. The Bankers' Committee explained that the successful implementation of the project in Bornu state would help in guiding banks in replicating financial inclusion initiatives in other states. The justification for the choice of Bornu state for the pilot programme, was that research had shown that only 2.5 percent of indigenes of the state earned above the national minimum wage of N18,000 per month, while about 87 percent of the population lived in rural areas. The overall target of the programme is to raise the level of financial inclusion in the state. Only about 280,000 out of a population of 5 million people in the state currently has access to formal financial services. Women, youths and rural dwellers, currently excluded, would be integrated into the financial system. The project is a joint initiative of the Federal Government, Borno State Government, the Bankers' Committee, relevant security agencies, Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), Nigeria Communications Commission (NCC), Securities and Exchange Commission (SEC), and the Consumer Protection Council (CPC).

4.2.2 CBN Initiatives

Agent Banking

As part of efforts to provide minimum standards and requirements for agent banking operations, the Central Bank released its guidelines for the regulation of agent banking and agent banking relationships in February 2013. Objectives of the guidelines include enhancing financial inclusion and providing agent banking as a delivery channel for offering banking services in a cost effective manner. According to the CBN, agent banking is the provision of financial services to customers by a third party (agent) on behalf of a licensed deposit-taking financial institution and/or mobile money operator (principal). One of the minimum requirements of an agent banking contract as stated in the guidelines is that every agent banking contract shall contain reference to the financial institutions' full liability with respect to customers, and it shall specify the obligations of both the financial institution and the agent. Also, the principal is allowed to appoint a third party (a network manager) to manage its agent network; however, all agents signed up must be approved by the principal. The financial institution shall list all activities the agent can conduct on its behalf or limitations on any such activities. In addition, financial institutions shall be required to carry out its due diligence on prospective agents.

Tiered KYC

In February 2013, the Central Bank disclosed the implementation strategy for its three-tiered Know-Your-Customer (KYC) policy that was recently introduced. The three-tiered KYC was conceived in line with the CBN's efforts to drive financial inclusion, as well as to reduce the incidence of identity fraud in the financial system. The success of the tiered KYC regime would not only promote financial inclusion, but increase the effectiveness of KYC requirements and improve the quality of KYC information obtained by financial institutions from their customers. The CBN stated that the tiered KYC would only produce lasting result if it is properly implemented and monitored from its inception. The policy was introduced from January 18 to March 1, 2013; the CBN and financial institutions are expected to start creating public awareness about the policy between March 4 and April 15, 2013; and the deployment of required resources to implement the policy is expected to take place between April 22 and May 31, 2013. The Central Bank stated that the tiered KYC regime would help to ensure that socially and financially disadvantaged people are not precluded from opening accounts or obtaining other financial services due to a lack of acceptable means of identification.

Consumer Credit Facilities

Bank customers in Nigeria will soon be able to access consumer credit facilities for financing household goods and other welfare enhancing packages, as a result of an initiative by the Bankers' Committee to enhance the delivery of consumer credit in the country. The scheme is due to start between June and July this year, and is part of the Committee's efforts to drive financial inclusion in Nigeria. The Committee stated that the Technical Committee set up for implementing the consumer credit product scheme had visited several countries to draw on international best practices of consumer credit schemes, so as to ensure the success of the scheme in Nigeria. In addition, a memorandum of understanding will be signed between the Bankers' Committee and an IT firm that will be responsible for implementing the biometric identity management project for all bank customers and providing a customer database to facilitate the consumer credit scheme in Nigeria.

4.3 Banking Industry

The middle-class entrepreneurs are gaining favour from the banking industry as new strategies are being explored to assist and nurture them. The banks are doing this with the realisation that when they are fully mature, they will become among their most valued customers. The new measures involve offering loans at concessionary rates to previously unbanked and under-served wholesalers and retailers, with the goal of nurturing smaller businesses into bigger enterprises for the eventual mutually beneficial business relationships. Consequently, deposit money banks are making conscious efforts at understanding their customers' businesses so as to meet their specific needs; such as providing salary advance as a short-term overdraft facility to customers whose salary accounts are domiciled with the banks and thereby guaranteeing them cash at any time of the month. There is a new realisation that for banks to grow their risk assets and remain in business, it has become a necessity to nurture the emerging middle class.

4.3.1 Bank Charges

In March, the Central Bank of Nigeria issued a circular titled, 'Revised Guide to Bank Charges'. The circular which takes effect from April 1, 2013 stated that in order to reflect current developments in the market and provide clarity on banking terms, the CBN recently conducted a review of the Guide in consultation with all the banks and discount houses, Bankers' Committee, financial experts and relevant stakeholders to produce the Revised Guide to Bank Charges. The following changes were proposed - the cancellation of the N100 monthly ATM maintenance fee, which was pegged at a maintenance fee of a maximum of N100 annually. The mandatory cost of SMS alerts was pegged to N4 per alert. On electronic transfers, the apex bank stated that N70 would be charged on transactions below N500,000, while N100 should be charged on transactions between N500,000 and N1 million. Transactions above N1 million will attract a charge of N500. The fee for issuing a debit card should not be more than N1,000. International withdrawals per transaction on debit cards should be charged at N240 rather than N1,000 currently being charged by most banks. The apex bank directed all banks to reduce Commission on Turnover (COT) from its current rate of N3 to N2 by 2014, and N1 by 2015. In addition, banks are not expected to charge for COT on current account transactions by 2016. The CBN also explained that COT is free for loan payments made from current or savings accounts.

4.3.2 Operating Costs

Total operating cost of Nigerian deposit money banks dropped from N1.6 trillion in 2011 to N1 trillion in 2012. Even though banks' total operating income decreased from N1.6 trillion to N1.4 trillion in the same period, the gains from the reduced costs were strong enough to offset the loss in earnings. Banks' cost to income ratios are improving because of the cost efficiencies gained from shared services and from moving from predominantly cash-based transactions to electronic-based transactions. As a result of efforts by deposit money banks to drive financial inclusion, more people are beginning to use banking services. The banks working with the CBN are now coming up products/services that will ensure that bank charges will be reasonable.

4.3.3 Cash-less Policy

The Central Bank of Nigeria has directed all deposit money banks to stop cashing third-party cheques above N150,000 over the counter in all the states, from June 1, 2013. All third-party cheques above N150,000 will have to be cashed through bank accounts.

In February, the CBN announced plans to extend the cash-less policy to Ogun, Kano, Anambra, Rivers, Abia states and the Federal Capital Territory, from July 1, 2013. The Head, Shared Services, CBN, Mr. Chidi Umeano, said these states were chosen because of the large volume of cash transactions in their major cities such as Aba, Kano, Port Harcourt and Onitsha. The CBN Deputy Governor, Operations, Mr. Tunde Lemo, said, "When we talk about nationwide roll-out, we are being careful to ensure that we make use of resources in a smart way. It is cheaper that way because the resources you need to cover the entire nation are huge, but you can achieve almost the same thing by looking at the patterns of cash distribution. When we add these six new states to Lagos state, then we would have covered about 90 percent of cash transactions by volume. We would see how far that goes and once we perfect that, we can then begin to look at contiguous market centres around these states and we would gradually cover the entire country."

Mr. Lemo also said the cashless policy had been successful in Lagos, adding that the number of Point of Sale (PoS) machines in Lagos had significantly increased from about 5,000 when the policy started to 165,000 PoS machines as at the end of 2012. "We still have a few challenges, but if I look back, I really would say that we have done a lot to transform the payment system in Lagos state. When we talk about cash-less Lagos, a lot of us only look at the retail side, which is driven by transactions through PoS terminals. We have forgotten that the cash-less policy also includes high volume payment transactions such as the Nigerian Interbank Settlement System Instant Payment (NIP) and the Nigerian Electronic Fund Transfer (NEFT). The NIP moves between N20 and N40 billion worth of transactions daily and through NEFT, tens of thousands of transactions are conducted daily valued at over N50 billion," he further added.

The CBN Governor, Mallam Lamido Sanusi Lamido, identified poor telecommunication connectivity as a major challenge impeding the success of the cash-less policy. He said, "If you want to move data you need more bandwidth. It is not enough to have PoS terminals or to have ATMs, there is need to expand the bandwidth. There are operational issues, we cannot say that we are where we want to be, but definitely we are inching closer and we will get there." In view of this, Mallam Sanusi said the Bankers' Committee is working with the Nigerian Communications Commission (NCC) and other service providers to ensure that some of the challenges of implementing the cash-less policy are addressed.

4.3.4 Agriculture Finance

Deposit money banks have pledged to increase financing for the agricultural sector, so as to ensure the sustainable development of the sector. Members of the Bankers' Committee also emphasized the need for continued collaboration with key players in the agriculture value chain to achieve increased lending to the sector. The banking sector will continue to engage the Ministry of Agriculture and Rural Development to strategise on ways to boost lending to the value chains in the sector. The Committee recognises that the agriculture sector, which employs about two-thirds of the Nigerian working population and is the highest sectoral contributor to the nation's GDP, has yet to reach its potential as a key contributor to national revenues and export earnings. Lending to the agricultural sector was only 1.52 percent of total bank lending in 2009, but increased to 3.5 percent of total bank lending in 2012. The Bankers' Committee stated that there is a need to identify commercial opportunities within the value chain, address risk issues associated with the sector and align with the Ministry of Agriculture on key priorities for the sector in 2013 and beyond.

4.3.5 E-Payments

The Central Bank of Nigeria has set up an e-payment arbitration panel, so as to ensure the effective implementation of the e-payment dispute arbitration framework, which would be a guide to the effective operation of electronic payments and dispute resolution in Nigeria. The members of the panel would be drawn from industry stakeholders and government agencies and would be seasoned professionals in card monitoring, e-payment operation and investigations. Every decision given by the panel should be final in all cases of card related fraud, unless a court of competent jurisdiction rules otherwise. The panel shall refer erring parties to the CBN for administrative sanctions. On the funding of the panel, all deposit money banks, which have signed into the arbitration framework, will pay a yearly contribution of N750,000 irrespective of volume of transactions. Companies operating as switches and Payment Terminal Service Providers will pay N350,000 and N25,000 annually, respectively; while all card schemes in the country will pay N250,000 annually. The CBN will provide a grant for the initial set up of the arbitration panel. The CBN's arbitration framework would provide speedy redress of e-payment disputes without involving the courts; explain criteria for admitting complains; facilitate the identification of the erring entity and shift liability to it; and provide ways of enforcing judgments and decisions reached.

To tackle the challenges posed by e-payment disputes and fraud, the CBN has requested that the Nigeria Inter-Bank Settlement System (NIBSS) and Nigeria Electronic Fraud Forum (NeFF) set up a fraud detection portal to help banks share information related to e-payment challenges. The apex bank has also mandated banks to settle ATM related complains within 72 hours or face sanctions.

4.3.6 Microfinance

Microfinance banks have urged the Central Bank to extend the deadline to comply with the new capital requirements as stated in the Revised Microfinance Policy Framework. According to the CBN's Revised Microfinance Policy Framework, all microfinance banks that have elected to remain as unit MFBs are required to close any existing branches/cash centres, subject to prior approval of the CBN in writing and adequate notification to existing customers, who should be advised to transfer their accounts to the MFB's Head Office, while dissenting customers should be settled. The CBN stated that any microfinance banks that fail to comply with the revised requirements by December 31, 2012 will be punished and there could be grounds for revoking their licenses.

To strengthen the microfinance sub-sector, the Central Bank stated that it would collaborate with other agencies of the government in monitoring the activities of financial corporations and non-governmental organisations that have significant operations due to their microsavings and deposit taking activities. According to the revised guidelines, any of these institutions that attains total assets of N20 million or a total membership of 2,000 members would be encouraged to transform to a microfinance bank. Collaboration between the CBN, Nigeria Deposit Insurance Corporation (NDIC), Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM), Corporate

Affairs Commission (CAC), National Association of Microfinance Banks (NAMB), Association of Non-Bank Microfinance Institutions of Nigeria (ANMFIN) and other relevant agencies shall be promoted to reduce arbitrage in the delivery of microfinance services in Nigeria.

4.4 Non-interest Banking

In line with the guidelines for the regulation and supervision of institutions offering non-interest financial services based on compliance to the principles of Islamic commercial jurisprudence, in January, the Central Bank announced the inauguration of the Financial Regulation Advisory Council of Experts (FRACE). The establishment of the FRACE is to ensure that products and services offered by non-interest financial institutions comply with the principles underpinning their mode of operation. It is also expected to prevent arbitrage opportunities for these institutions to the disadvantage of conventional ones, where the non-interest institutions would unfairly attract customers in the name of compliance with Islamic commercial jurisprudence whilst in reality they are offering the same interest-based products as conventional institutions. Mallam Lamido Sanusi, Governor, CBN said that the duties of the FRACE will include advising the CBN on matters relating to non-interest banking and to avail its expertise to other regulatory agencies in the Nigerian financial sector on Islamic financial services. The Governor said the appointment of the members was based on their expertise and experience in their field of specialization.

4.5 Micro, Small and Medium Enterprises

An all-inclusive strategy to make investments in micro, small and medium enterprises (MSMEs) attractive to youths in order to reduce unemployment was kick-started by the National Enterprise Development Programme (NEDEP) in March. The programme is being spearheaded by the Ministry of Trade and Investment in conjunction with the Bank of Industry, the Small and Medium Enterprises Development Agency (SMEDAN) and the Industrial Training Fund. The aim is to provide a well-coordinated approach to the development of MSMEs in order to achieve the objectives of job creation and economic development in Nigeria. The Minister of Trade and Industry, Mr. Olusegun Aganga, said that the Federal Government had initiated strategies to create 5 million jobs across the Nigeria by 2015, through the development of the MSME sector. The Minister said, “If we are going to develop our economy and turn our quantity advantage into productive advantage, one of the most important sectors that we have to focus on is the MSME sector. Despite the little support the MSME sector has received over the years, the sector currently contributes to about 75 percent of Nigeria’s Gross Domestic Product and employs more than 45 per cent of our people. Even developed economies rely heavily on MSMEs for job creation, wealth generation and inclusive economic growth.” In order to ensure the successful implementation of the programme, Mr. Aganga said that the Ministry of Trade and Investment was partnering with 17 state governments to provide specialised training and access to cheap funds to enable more MSMEs to increase their capacity to create jobs and generate wealth. He further added that the Ministry of Trade and Investment had set up a monitoring and evaluation team to work with the National Bureau of Statistics (NBS) to verify and validate all data relating to the number of jobs that would be created through NEDEP.

4.6 Microinsurance

Insurance companies are beginning to see opportunities for developing the retail segment of the market by increasing participation at grass roots level and enhancing insurance development in Nigeria. According to the Director-General, Nigerian Insurers Association, Mr. Sunday Thomas, microinsurance can help to meet the financial needs of low-income earners. With insurance, people in this segment can meet their lifestyle needs such as weddings, childbirth, education, homebuilding, death of a spouse and old age expenses. He also stated that insurance helps to take care of personal emergencies such as sickness, injury, unemployment, theft, or death. To make insurance more accessible to low-income earners, he suggested that insurance companies should create products that are suited to their needs and develop consumer campaigns/education programmes that will create effective and sustainable awareness. For microinsurance to succeed, applications forms must be simple; procedures for claims settlement must not be cumbersome; payments must not be delayed and an efficient and effective service delivery channel is required.

The Commissioner for Insurance, Mr. Fola Daniel, said that the penetration of the total population in insurance is as low as 8 percent. He attributes the low uptake of insurance products to be due to limited public awareness; the prescriptive orientation of the Insurance Act, 2003; and lack of confidence in the industry by members of the public. To address these issues, the Commission recognised the importance of incorporating microinsurance as an important vehicle for deepening insurance penetration in the country. In collaboration with GIZ and other agencies, NAICOM commissioned a countrywide diagnostic study of the viability of microinsurance in Nigeria. The result of the study revealed that there is huge potential among the low income groups and NAICOM is now working on the development of the microinsurance framework for Nigeria.

Customers of microfinance banks, such as medium and small scale entrepreneurs and farmers that are unable to provide collateral for loans; would benefit from the development of microinsurance in Nigeria. As insurance companies could provide loan guarantee insurance to these customers, which would mean that they would no longer need to provide collateral to access loans.

4.6.1 Africa

With growing incidences of natural disasters, crop failures, investment uncertainty, growing population and dwindling natural resources, Africans are becoming more exposed to the effects of global recession and environmental degradation with negative impacts on their incomes. Very few Africans have insurance cover. Around Africa, mobile network operators, governments, independent organizations, microfinance providers are collaborating to provide low cost insurance to millions of people through mobile phones. In most African countries, insurance penetration is low, whilst mobile phones are available to more than half of the adult population across different segments of the economy. Life insurance provided through mobile phones is gaining momentum and appeal across Africa. This is because it is quite easy to use; it has minimal form filling; and it is cost effective, convenient and flexible. Trust in the brand of the mobile network operator and insurance company is also an important factor.

As mobile networks and non-traditional microinsurance providers and innovators begin to see benefits of providing low value insurance services to currently underserved and uninsured low segments of the society, how will the regulators deal with these innovations and players? Is the insurance regulator positioned to understand the impact of mobile financial services on the industry? What is the willingness of insurance regulators to allow innovations influence new radical thoughts while balancing risk and ensuring certainty in the industry? What level of cross regulation knowledge sharing is available for the insurance regulators across Africa?

Providing low value transaction systems and applications is a technology play for mobile network operators, but the major drawback for them is that they are not primary providers of insurance services and they have limited understanding of the processes of managing premiums and investments. On the other hand, the traditional insurance providers are hampered with limited understanding and management of technologies and applications necessary for mass market products like microinsurance. Developing the right partnerships and credibility are the foundation for building a successful microinsurance product provided via mobile phones. Providing microinsurance services through mobile phones, adequately addresses the shortcomings of traditional channels of deploying insurance services and has the following benefits: potential customers can be directly engaged and educated via the mobile phone; a payment system that is efficient and available anywhere and anytime; cost effective means of collecting premiums; and reduced enrolment cost per insurance policy.

Microinsurance initiatives provided through mobile phones

South Africa

- Over the counter availability like the Old Mutual's offer through Shoprite stores is an example of an initiative that provides insurance cover for the mass market.

Kenya

- There is an on-going effort in Kenya between Safaricom (M-PESA's parent company), an insurance company, fertilizer and seed companies and an agricultural foundation to provide an innovative microinsurance scheme. The crop insurance scheme, called 'Kilimo Salama' (safe farming in Kiswahili), collects insurance premiums through M-PESA, when farmers purchase seeds and fertilizers. In the event of adverse weather, pay-out is made directly into the M-PESA account of the farmers, who can then cash out at either at an agent or at bank branch.
- A microinsurance product called Yucover, was recently launched by YuMobile and is underwritten by Jubilee Insurance.

Ghana

- Hollard Insurance, MFS Africa (an independent mobile financial services enabler) and MicroEnsure (microinsurance intermediary) launched West Africa's first insurance service provided through mobile phones called Mi-Life. Mi-Life insurance provides money in the event of the death of the subscriber or the next of kin. The premium payment is deducted from the mobile money wallet on a monthly basis. The subscriber receives an SMS notification when the monthly premium is deducted and insurance cover is renewed. Once the premium is deducted, the insurance cover lasts for one month until the next monthly premium is deducted. If there are insufficient funds in the wallet, the subscriber will receive an SMS reminder so that he/she can top up their wallet and keep the life insurance cover active. Users are also able to initiate claims, queries and make premium payments using their mobile phones.

5 Telecoms Sector

Statistics from the Nigerian Communications Commission (NCC) revealed that between December 2012 and January 2013:

- The number of active GSM lines increased from 109,829,223 to 111,195,207
- The number of active CDMA lines declined from 2,948,562 to 2,890,955
- Teledensity increased from 80.85% to 81.78%

The table below provides a summary of telephone subscribers in Nigeria as at January 2013:

	Number of connected lines	Number of active lines
Mobile GSM	**138,081,740**	**111,195,207**
Mobile CDMA	**14,041,460**	**2,890,955**
Fixed Wired/Wireless	**2,438,824**	**406,222**
Total	**154,562,024**	**114,492,384**

Source: NCC

Nigeria's smart phone industry is getting increasingly competitive, as foreign phone makers are rolling out affordable smart phones with very high functionality in order to reach consumers at the base of the pyramid. The targeted consumers who have been restricted by the cost are expected to dump their low-end devices for smart phones. There is a shift in the focus of Nigerian consumers from phones with basic functionality to smart phones. The change in demand has caused a huge increase in sales of smart phones in Nigeria, with an expected increase in sales by about 35 percent by 2015, which means that about 30 million smart phones will be sold in Nigeria within this period. Analysts say that the average cost of a smart phone is about N40,000, with high-end phones costing as much as N100,000. If market forecasts are that 30 million smart phones will be sold in Nigeria between now and 2015, this would imply that N1.2 trillion will be spent on buying smart phones over the said period.

6 Mobile Money

According to Heavy Reading Mobile Networks Insider, the mobile payment industry is forecasted to reach $1 trillion in global transactions by 2015. Consumers, who are accustomed to paying bills and buying goods online, are driving much of the growth in mobile payments. As the proliferation of mobile phones, smartphones and tablets continues, it's only natural that those same consumers will want to use those devices to make purchases. New partnerships will be formed, in which billing providers, financial institutions and mobile network operators will team up to bring new solutions to the market; which will have the potential to create significant revenue throughout the entire mobile ecosystem.