EFInA Quarterly Review

(July to September 2013)

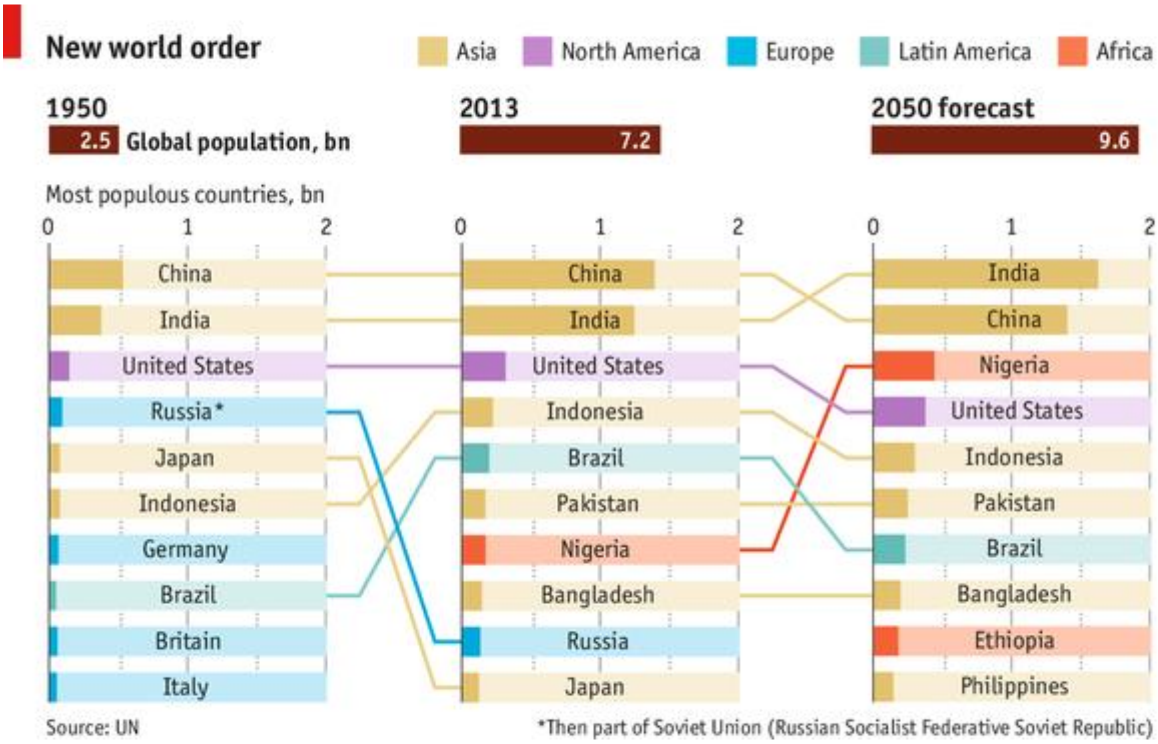
1 Global Economy

1.1 World Population

The UN's latest World Population Prospects forecasts a rise from 7.2 billion people in 2013 to 9.6 billion by 2050, which is 300 million more people than it had previously estimated. This reflects increasing fertility rates in populous countries, particularly in sub-Saharan Africa. More than half of the extra 2.4 billion increase in population will be African, accounting for 25 per cent of the total, up from 16% in 2013.

Europe will be the only region to shrink, with the biggest fall in former Soviet countries. In 1950 Europe had 22 per cent of the world's 2.5 billion people and Germany, Britain and Italy were among the ten most populous countries.

The UN forecasts that in 2028 India will rise to 1.6 billion people overtaking China, just as the population there is peaking. The UN reckons that by 2100 the world's population will increase beyond 10.9 billion, and be much older. The median age will increase from 29 to 41 years, and about 28 per cent will be over 60 years.



2 African Economies

2.1 Economic Growth

According to Mr. Simon Freemantle, Senior Analyst, Standard Bank, the total size of sub-Saharan Africa's Gross Domestic Product (GDP) is set to increase by more than $500 billion, reaching $1.84 trillion by 2017. He added that after growing at 5.5 per cent over the past 10 years, sub-Saharan Africa is set to expand on average by 5.7 per cent per annum in the period 2013 to 2017. In West

Africa, he stated that Nigeria and Ghana are set to grow on average by 6.5 per cent and 7.5 per cent respectively over the next five years, while Nigeria will see strong investment in its electricity sector as a result of the privatisation initiative. Cote d'Ivoire will continue to make a strong recovery from the political turmoil of 2011 (average growth of 8 per cent). Sierra Leone, he added, would remain one of the fastest growing economies in Africa with 14.5 per cent growth over the next three years, due to its mining sector expansion (in particular the iron ore project). Southern Africa's growth is expected to remain below 5 per cent over the next 5 years, weighed down by South Africa's prospects. Strong growth in the volume of natural resource output (particularly oil, coal and copper) will support growth outside of South Africa. Private and public investment in associated transport infrastructure will also provide significant boost to economic activity.

2.2 Global Competitiveness Report 2013-2014

The Global Competitiveness Report's competitiveness ranking is based on the Global Competitiveness Index (GCI), which was introduced by the World Economic Forum in 2004. Defining competitiveness as the set of institutions, policies and factors that determine the level of productivity of a country, GCI scores are calculated by compiling country-level data covering 12 categories – the pillars of competitiveness – that together make up a comprehensive picture of a country's competitiveness. Oil-producing African economies like Nigeria, Gabon, Cameroon, and Chad ranked low in the Global Competitiveness Report 2013-2014. While a number of African economies have improved their competitiveness, the region continues to trail significantly behind others. Nigeria ranked 120th, Gabon 112th; Cameron 115th, Angola 142nd, and Chad 148th. Mauritius 45th improved by nine places, overtaking South Africa 53rd. A number of African middle-income economies – Botswana 74th, Namibia 90th, Zambia 93rd, Senegal 113th, Lesotho 123rd and Swaziland 124th also improved.

3 Nigerian Economy

According to the National Bureau of Statistics (NBS), Nigeria's economy driven mainly by the non-oil sector grew by 6.18 per cent in the second quarter of 2013, slowing from the 6.56 per cent recorded in the first quarter of the year and 6.39 per cent in the corresponding quarter of 2012. Nominal Gross Domestic Product (GDP) for Q2 2013 was estimated at N9.12 trillion and was lower than the N9.49 trillion recorded in Q1 2013. Despite the slowdown, Nigeria's economic growth remains impressive considering the current slow growth in global economies.

The oil sector contributed approximately 12.90 per cent to real GDP in the second quarter of 2013, lower than the 14.75 per cent contribution in the first quarter of 2013, and the 13.86 per cent recorded in Q2 2012. Supply disruptions as a result of pipeline vandalism still remain a challenge for the Nigerian oil industry. Nevertheless, the sector benefited from the relative stability in international crude oil market prices, as well as the Naira exchange rate.

Non-oil sector growth was driven by growth in activities in the agriculture, airlines, hotels & restaurants, as well as building & construction sectors. For Q2 2013, the non-oil sector recorded 7.36 per cent growth in real terms compared with 7.63 per cent for the corresponding period in 2012, and 7.89 per cent in the first quarter of 2013. This relative decline was partly attributed to lower electricity generation during the period which had ripple effects on manufacturing, telecommunications as well as wholesale and retail trade.

The real agricultural GDP growth in the second quarter of 2013 was 4.52 per cent, up from the 4.21 per cent recorded in the corresponding period of 2012 and was also higher than the 4.14 per cent recorded during the first quarter of 2013. This represents the highest growth rate in the sector in the last seven quarters. The NBS attributes this performance to initiatives such as the dry season farming; supplying seeds and fertilisers directly to farmers; providing mechanised equipment at affordable rates; as well as other reforms which resulted in increased output in 2013.

3.1 Inflation

According to the National Bureau of Statistics, the inflation rate declined from 8.2 per cent in August to 8.0 per cent in September. The decline in inflation was largely attributable to a slower rate of increase in food prices, as the recent harvest season continued to constrain rising food prices. The inflation rate in July was 8.7 per cent.

3.2 Foreign Reserves

According to the Central Bank of Nigeria, the external reserves dropped by $1.33bn from $47.00bn on August 20, 2013 to $45.67bn on September 26, 2013. Governor Sanusi said Nigeria's external reserves would be invested in a currency mix that would optimise returns for the country. He stated that the reserves could finance about 11 months of importation. Governor Sanusi said, "The fundamentals of the Nigerian economy are still very strong, and occasionally, there might be an increase or decrease, but the reserves have been hovering between $45bn and $47bn, and that is very strong. In Africa, I think it is the second highest only after Algeria, and that's really very remarkable." The CBN governor said the move to invest the reserves in other currencies other than the Dollar was necessary in view of recent events in the global economy that had driven yields to historical low levels. He said since the financial crisis of 2008, reserve managers have come under increased pressure to find ways of enhancing income. This development, he noted, had made the CBN diversify its reserve portfolio by investing in the Chinese Renminbi.

3.3 Government Cash Transfers

In September, the federal government announced to commence the Conditional Cash Transfer (CCT) scheme as part of its strategy against poverty and hunger in the country that N5 billion has been released to 56,500 vulnerable women. According to the Senior Special Assistant on Millennium Development Goals to the President, Dr. Precious Gbeneol, the women were from 24 states of the Federation, and would be entitled to a monthly stipend of N5,000 for 12 months, after which they would be given N100,000 each to invest in agriculture; finance the education of their children; or look after their health needs.

3.4 Agriculture

In a bid to stimulate finance to the agriculture sector, the Federal Government approved N15bn to be given to farmers at single-digit interest rates. The amount, which is a short-term intervention fund to be disbursed by the Bank of Agriculture (BoA), will be used for the 2013 farming season. Vice President Namadi Sambo stated that to demonstrate the determination of the Federal Government to transform the agriculture sector, President Goodluck Jonathan had given approval to the National Council on Privatisation to privatise the BoA. The privatisation of the BoA would enable the Federal Government to unbundle it and make it possible to provide cheaper funds for agriculture. Vice President Sambo also noted that approval for the privatisation of the Commodities Exchange had been given by the President. The revival of the Commodities Exchange, he added, would help to ensure that farmers had a market for their produce which would help the sustainability of agricultural production. Vice President Sambo added that going forward; agriculture would no longer be treated as a development programme but as a business. He said the unlocking of the potential of the agricultural sector would help to ensure food security, generate wealth, and create jobs.

As part of its efforts to boost agriculture and also facilitate its development agenda, the Federal Government has commenced the training of 400 unemployed youths in the agricultural sector. The training programme, which is also an effort to meet the Millennium Development Goals is titled, 'Specialised Training on Agricultural Extension Service Delivery for Unemployed Youths in Nigeria" and organised by the Federal Ministry of Agriculture and Rural Development in collaboration with the Millennium Development Goals Office. The trainees are mostly unemployed graduates, from all the 36 states of the Federation including the Federal Capital Territory (FCT) Abuja.

3.5 National Identity

The National Identity Management Commission (NIMC) stated that it had established registration centres in all the 36 state capitals and the Federal Capital Territory, Abuja. According to the Director-General, NIMC, Mr. Chris Onyemenam, "The National Identity Smart Cards, which the agency manages, will enable businesses to know the identities of people they are dealing with." Mobile enrolment service vehicles have been procured to serve people living in the rural areas. Consumer credit, for example, will become far easier to provide, as financial institutions can quickly and easily confirm their customers to be whom they claim to be.

4 Financial Sector

4.1 Financial Inclusion

In order to ensure the effective measurement and monitoring of the financial inclusion strategy, the CBN and the Bill & Melinda Gates Foundation launched the results of the Geographic Information System (GIS) mapping of financial access points in the country in July. According to Governor Sanusi, the map shows all the bank branches, microfinance bank branches, motor parks, post offices, mobile money agents, ATMs, and off-site ATMs in the country. He added, "So now we have all that information, it is just the beginning. Going forward we are going to try and include the number and locations of point of sale (PoS) terminals and market locations because they are all access points for financial inclusion. To date, we have focused on the demand side data, people talk about the kind of products people want, such as savings, credit, payments. When you incorporate the supply side to the demand side, you begin to have data that will support evidence-based policies." The CBN governor stressed that the maps provided an important tool not only for the financial industry, but for consumers and policy makers as well. "The maps will enable Nigeria to measure certain indicators and compare them across several countries thereby providing country-by-country comparison on progress of our financial inclusion efforts," he added.

4.2 Banking Industry

In September, in line with its commitment to protect bank customers, the Central Bank of Nigeria said it would soon introduce a policy aimed at enforcing the repayment of illegal deductions on customers' account by banks. The CBN Governor, Mallam Sanusi Lamido Sanusi explained that if the Central Bank discovers that a bank had cheated a customer and fails to refund the customer, the anticipated guideline would empower the regulator to debit the bank directly and refund the money to the customer. Mallam Sanusi said that since the creation of its consumer protection department, the total amount of excessive charges recovered by the apex bank was N6 billion. He also stated that the Central Bank has been engaging with Managing Directors of the banks on the issue of consumer protection. "If you want people to participate in the financial system, they have to trust the system and they have to be able to feel that if there is problem, there is somewhere they can go and they will get redress," he said.

4.2.1 Cash-less Policy

The CBN commenced its cash-less policy on 1 July 2013 in the Federal Capital Territory (Abuja), Abia, Anambra, Kano, Ogun and Rivers states. Under the policy, the CBN pegged the daily cumulative cash withdrawal or deposit limit for individual accounts at N500,000 per day and N3m per day for corporate accounts. The apex bank however noted that cash processing fee will be deferred in the newly introduced states until 1 October, 2013. The Deputy Governor, Operations, CBN, Mr. Tunde Lemo said, "We are quite aware that it is possible for people to avoid the cash processing fee by moving cash around states that are very close to areas where we are implementing the cash-less policy. Although we are yet to confirm, we hope that within six months post implementation in the five states and the Federal Capital Territory, we will roll the policy to all other states in the country."

The Central Bank of Nigeria has attributed the slow pace of implementation of the cash-less initiative in key parts of the country to consumers' resistance to move from cash-based transactions to electronic transactions, as well as lingering technical challenges. There are on-going efforts by the apex bank to enhance compliance through the Payment System Management and Financial System Ombudsman Bills which have been sent to the National Assembly. Mr. Lemo said, "Cash is an integral element that fuels several vices in Nigeria, hence, adoption of alternative payment channels will have considerable positive consequences on the economy. The cash-less initiative has not been without challenges and some of them include the lack of understanding of cash-less policy amongst the banked and unbanked, resistance due to prevailing cash culture, techno-phobia (literacy vs. numeracy), network and connectivity issues, scepticism in the banking system and paucity of POS terminals at priority locations."

4.2.2 E-Payments

In September, the Central Bank launched the Payment System Vision 2020 Strategy (Release 2) Document. The Governor of the Central Bank, Mallam Sanusi Lamido Sanusi said that over the next few years, the apex bank will concentrate on strengthening institutional and regulatory frameworks that would encourage the development of the payment system in Nigeria, increase financial inclusion and promote more usage of electronic payments. Mallam Sanusi further noted that in the updated Strategy Document, the implicit role of the Central Bank as 'lender of last resort' for the Real Time Gross Settlement (RTGS) payment system will be terminated by December 2016, and the Deferred Net Settlement system will be terminated by December 2019. Mallam Sanusi said the draft

National Payment System Bill which is still being considered for approval, would address legal barriers to electronic payments in the country. He added that the on-going implementation of biometric solution as part of the requirements for opening bank accounts will help to solve the unique identifier problem.

According to the Central Bank, the monthly e-payment transactions reached N2.3 trillion in June 2013. NIBSS, stated that NIP and PoS transactions recorded astronomical growth of over 400 per cent in June 2013 in comparison to June 2012, while cheques and NIBSS Electronic Fund Transfer, (NEFT) grew by 4 per cent and 9 per cent respectively.

4.2.3 Microfinance

The Central Bank of Nigeria will only engage with microfinance banks that have a good track record and strong financial health for the disbursement of the N220 billion ($1.34bn) Fund for direct lending to micro, small and medium-sized enterprises. The guidelines for participation by microfinance banks and finance companies include compliance with regulatory capital, prevailing prudential ratios, average deposit growth rate of 20 per cent per annum (for institutions operating for over two years), and average clientele base growth rate of 20 per cent per annum (for institutions operating for over two years). According to the CBN, the participating financial institutions (PFIs) will include non-governmental organisations (NGOs) and microfinance banks. The PFIs will be able to access funding at an interest rate of 9 per cent per annum, and on-lend it with a spread of up to six percentage points per annum. The scheme is expected to provide liquidity to PFIs on a maximum three-year tenure, with most organisations limited to N5 million or N10 million, however national microfinance banks will be able to access N1 billion. There will also be a credit guarantee scheme, covering up to 80 per cent of any default under the scheme. The guarantee will also have a maximum tenure of three years, and attracts a fee of 1 per cent of the guarantee's face value payable to the CBN administered Fund.

Non-Performing Loans

The total non-performing loans (NPLs) held by the microfinance banks as at the end of December 2012 was 61.9 per cent of their total loan portfolio. Industry analysts say the growing rate of NPLs among microfinance banks is due to the fact that most MFBs have not yet developed and implemented their risk management framework. The CBN has concluded plans for all MFBs to attend enterprise risk management training in 2013. Mr. Olufemi Babajide, Chairman, National Association of Microfinance Banks (NAMB) South West zone, attributed the high NPLs of MFBs to the Nigerian legal system, which he said, was favourable to borrowers, rather than lenders. According to him, high NPLs are mainly due to the attitude of not wanting to repay loans by borrowers. Another major problem in the microfinance sub-sector is multiple borrowing, customers going from one MFB to the other to access loans and then it becomes a problem to repay.

4.3 Micro, Small and Medium Enterprises (SMEs)

In August, the Central Bank of Nigeria stated that loans from deposit money banks to micro, small and medium enterprises (MSMEs) declined from 7.5 per cent in 2003 to about only 0.14 per cent in 2012; and that about 80 per cent of MSMEs are excluded from the financial markets. A number of reasons have been proffered for this financing gap. The banks readily attribute their risk aversion to lending to MSMEs to demand-side constraints, which include the lack of managerial capacity, inadequate collateral, and poor record-keeping, among others. However, supply-side issues also exist such as high transaction costs and lack of understanding by the banks of the nature and operations of MSMEs. Other constraints plaguing the MSME sub-sector in Nigeria include infrastructure deficit, especially power and transport; policy inconsistencies; bureaucracy; multiple taxation and levies; weak intellectual property protection and contract enforcement; and insecurity.

The Central Bank of Nigeria stated that it is working with the International Finance Corporation (IFC) to establish a sound legal and regulatory framework that would ensure that movable assets are recognised as collateral by banks by 2014. Currently, the banking industry only accepts fixed assets as collateral and that has limited the capacity of small businesses to get loans from deposit money banks.

4.4 Microinsurance

Microinsurance is an emerging market in the Nigerian insurance industry, which underwriters are currently exploring. The Commissioner for Insurance, Mr. Fola Daniel said insurance penetration was low in Nigeria and microinsurance in particular was relatively untapped. “At the moment, there are at least 112 million potential microinsurance customers in Nigeria. This is an indication of the immense potential inherent in this segment of the insurance industry,” he said. Mr Daniel said the National Insurance Commission (NAICOM) had begun the process of fine-tuning the policy framework designed to cater for low income earners and the vulnerable poor in rural areas. The Commission, he added, is actively exploring new distribution channels and other intermediaries for driving the uptake of microinsurance. While urging insurance companies to develop microinsurance products, he said, “The need to shield the vulnerable and their next of kin from the impact of the realities of life, such as permanent disability by accident, death of a breadwinner, among others, can never be over emphasised. Insurance companies need to address this issue by developing new products that are relevant for this customer segment.”

4.5 Pensions

As at the end of July 2013, about 5.3 million employees in the public and private sector organisations with more than five employees were registered with the contributory pension scheme with assets in excess of N3.4 trillion. The nation’s pension industry is set for consolidation in the form of mergers and acquisition, as well as market driven capitalisation that would enable pension fund administrators (PFAs) build the required capacity to access growth opportunities in the informal sector. Currently, there are 20 PFAs licensed to open retirement savings accounts for employees. Industry analysts believe there is huge potential in the informal sector, given that over 70 per cent of the nation’s workforce is in this sector. The informal sector is the new focus, given that the public and corporate private sectors are increasingly getting saturated.

5 Telecoms Sector

5.1 Africa

Africa’s booming mobile phone market has been forecast to further increase from $60 billion in 2013 to $234 billion by 2020, according to the US based research firm, Manifest Mind. Although Africa has several fast-growing economies, many inhabitants still live below globally recognised poverty lines.

As such, mobile users in Africa are highly sensitive to costs and have adopted mobile phone usage strategies to minimise these costs. These strategies include using multiple SIM cards and sharing of phones between users or families.

According to Global Mobile Association (GSMA), Africa's telecoms sector growth has surged in the last ten years, and has overtaken Europe and Latin America to become the second biggest market in the world for handsets after Asia. The GSMA also stated that from 2007 to 2012 mobile connections in Africa, more than doubled from 283 million to 735 million. In 2005, the number of mobile connections in Africa amounted to just 15 per cent of the Continent's total population, but by 2012 it had increased to 72 per cent of Africa's estimated population of 1 billion people.

5.2 Nigeria

The Federal Government stated that it will protect Nigeria's $25bn telecoms investments through legislation. The Minister of Communication Technology, Mrs. Omobola Johnson said that the government had commenced activities to tackle cyber insecurity and shield ICT facilities from vandalism and all forms of attacks. She said legislation that would categorise telecoms installations as critical national security infrastructure was being considered. According to the Minister, the Federal Executive Council has already approved a comprehensive cyber Security Bill that will be submitted to the National Assembly for passage into law after due consultation with stakeholders. The enactment of the Bill should serve as a major deterrent to individuals who are perpetrating cybercrime. In order to strengthen the country's resources dedicated to combating cybercrime, the Minister stated that Nigeria Communications Commission (NCC) recently signed a Memorandum of Understanding with the International Telecommunications Union to establish a regional cyber security centre in Nigeria. "This centre will facilitate collaboration in combating cyber threats at national and regional levels. The protection of citizens' online activities will require investments in systems that reduce the possibility of identity theft and complement robust privacy laws that protect citizen information that is available online," the Minister said.

The telecommunication sector contributed 8.5 per cent to the country's Gross Domestic Product in the first quarter of 2013, according to the NCC. The Executive Vice Chairman, NCC, Dr. Eugene Juwah said the contribution of the Information and Communication Technology sector to GDP is expected to rise to about 15.0 per cent by 2015.

According to the NCC, in July 2013 the number of inactive telephone lines reached 52,737,525; the number of connected lines was 167,497,931; whilst the number of active lines was 114,760,406. Teledensity reached 81.97%. The table below provides a summary of telephone subscribers in Nigeria as at July 2013:

	Number of connected lines	**Number of active lines**
Mobile GSM	**153,665,438**	**111,866,933**
Mobile CDMA	**11,462,206**	**2,519,602**
Fixed Wired/Wireless	**2,370,287**	**373,871**
Total	**167,497,931**	**114,760,406**

Source: NCC

According to the NCC, as at July 2013 in terms of GSM operators, MTN was the market leader with a market share of 47%; followed by Globacom with a market share of 20%; then Airtel with a market share of 19%; and Etisalat with a market share of 14%,.

5.2.1 Internet Users

According to the NCC, the number of people accessing the internet through GSM mobile networks in Nigeria reached 50.4 million in July 2013. MTN was the market leader with 25.9 million users; followed by Globacom with 9.9 million users; then Airtel with 9.3 million users; and l Etisalat with 5.4 million users.

6 Mobile Money

6.1 Global

A recent study from Juniper Research titled 'Mobile Money Transfer & Remittances: Domestic & International Markets 2013-2018, revealed that the number of mobile phone users worldwide who will use their handsets for mobile money transfer will reach nearly 400 million in 2018, up from just below 150 million in 2013. The report stressed the need for service providers to ensure that support infrastructure, including an extensive agent network, are in place well in advance of their commercial launch. In addition, the report stated that agent: subscriber ratio should be no greater than 1:500 to ensure a high proportion of active users. The report cautioned against the imposition of taxes on mobile money services, such as those recently introduced in Kenya and Uganda. The introduction of a similar tax in a market that is in the early stages of service adoption could severely limit the uptake or make potential service providers reconsider planned deployments."

6.2 Nigeria

The Deputy Governor, Operations, CBN, Mr. Tunde Lemo revealed that as at the end of August, the value of mobile money transactions, reached N11.8 trillion from 1.7 million transactions. Mr. Lemo expressed optimism that this figure will grow as awareness and uptake of mobile money transfers increase. According to him, while cash-based transactions are predominant within the economy, their social and economic costs are astounding. He pointed out that there are opportunities to leverage digital technology to migrate part of the large volume of cash-based transactions to electronic payment channels. He noted that the digital economy provides the opportunity to capture payment flows in an economy more accurately, while at the same time address leakages in revenue in both the private and the public sector. Mr. Lemo said the CBN is taking steps to ensure that it is ahead of the curve in the implementation of improved electronic payments solutions to forestall negative consequences of cyber threats to electronic payment platforms.