



## **1 Global Economy**

### **1.1 Economic Growth**

In October, the International Monetary Fund (IMF) cut its global growth forecasts for 2014 and 2015 and warned that the world economy may never return to the pace of expansion seen before the financial crisis. The IMF stated that it expected global growth to be 3.3% in 2014, 0.4 points lower than was predicted in April. The growth forecast for 2015 is 3.8% down from 3.9% predicted in April 2014. The IMF said the failure of countries to recover strongly from the worst recession of the post-war era meant there was a risk of stagnation or persistent weak activity. The IMF's Economic Counsellor, Olivier Blanchard, said the three main short-term risks that could adversely impact global growth are that financial markets are too complacent about the future; tensions between Russia and Ukraine and in the Middle East; and that a triple-dip recession in the Eurozone leads to deflation.

Although the IMF believes the US Federal Reserve and the Bank of England will be the first two major central banks to start raising interest rates by the middle of 2015, it advised that official borrowing costs should be kept low as long as demand remains weak. The IMF added that countries with healthy public finances, such as Germany, should spend more on infrastructure in order to boost growth, and cautioned against over-aggressive attempts to reduce budget deficits. From a medium-term perspective, low potential output growth and 'secular stagnation' are still important risks, given that robust demand growth has not yet emerged. Despite continued very low interest rates and increased risk appetite in financial markets, a pick-up in investment has not yet materialised, possibly reflecting concerns about low medium-term potential growth rates and subdued private consumption. The IMF said the slowdown in growth was affecting not just developed countries, but also emerging markets such as China, Russia and Brazil.

### **1.2 Financial Inclusion**

In September, the IMF unveiled the result of its 2014 Financial Access Survey (FAS), which is aimed at mapping global financial inclusion trends. The survey is a comprehensive global source of data on access to, and use of basic consumer financial services by households and non-financial corporations. For the first time the survey includes data on mobile money indicators. Among the African countries that submitted data on commercial banks' customer-base, depositors experienced a five-fold increase from 2004 to 2013, while these countries simultaneously achieved a 40 per cent growth in real GDP per capita. According to survey, the positive correlation between the increase in the use of commercial banks services (a measure of financial inclusion) and the increase in Gross Domestic Product per capita (a measure of economic growth) is especially noteworthy when comparing financial inclusion trends, particularly in Africa. The enhanced 2014 FAS also provides a quantitative foundation to assess the transformational role of mobile money in financial inclusion.

### **1.3 Banking**

A new report by PricewaterhouseCoopers (PwC) titled: 'The Future Shape of Banking' suggests that by 2025, a market economy could readily exist without traditional banks. The report noted that banking services will move away from physical, tangible distribution into technology-enabled channels, by so doing creating a deeper relationship between banks and their customers. The report stated that as barriers to entry for non-banks to provide formerly 'core' banking services continues

to decline; the business models of today's banks will be challenged. However, the report highlighted that banks retain some substantial advantages to help them prevent this from happening: namely banks' brands and reputations remain powerful, shored up by familiarity, experience and regulations. Trust and brand matter in financial transactions and some of the resistance to alternative banking providers results from a lack of trust in their security.

The report stated that the biggest danger for banks is if they lose sight of customer transactions to other players in the value chain, thereby also losing insight into customer behaviour and allowing the power of their brands to diminish. New non-bank entrants and technological advances will challenge banks' business models and fundamental change is inevitable. The only question is how much of banks' traditional territory the new entrants will occupy. The report also disclosed that banks could become utilities focused on the management of deposits below insured limits and providing a narrow range of domestic credit products. Regulators and regulations also need to be adapted in order to deal with the changing banking landscape.

## **2 African Economies**

### **2.1 Economic Growth**

The IMF predicts sub-Saharan growth will be 5.8 per cent in 2015, up from an estimated 5.1 per cent for 2014.

On September 30, Kenya announced the results of its 'rebasings' - a recalculation of its gross domestic product to include previously unaccounted-for economic activity. Kenya's GDP expanded 25.3 per cent, to \$55.2 billion, moving it up to 9<sup>th</sup> on the list of Africa's largest economies. The government adjusted its 2013 growth rate from 4.7 per cent to 5.7 per cent. Kenya's is the latest in a series of rebasing that have reinforced investors' perception of Africa's growth potential. The first big rebasing of 2014 took place on April 7, when Nigeria rebased its GDP and declared itself the largest economy in Africa. The rebased Nigerian figure showed an increase in the total GDP from \$262.2 billion to \$488.0 billion. According to the President of the African Development Bank, Mr. Donald Kaberuka, all African nations should rebase their economies every five years to keep GDP figures as accurate as possible. Yvette Babb, a fixed-income and currency strategist for Standard Bank Group of South Africa, expects four economic sectors to show the most growth in the rebased economies: services; telecommunications; wholesale and retail trade; and manufacturing.

### **2.2 Employment**

According to Junior Davies, Economist at the Africa division, UNCTAD (United Nations Conference on Trade and Development), while Africa has maintained high growth rates over the past decade – presently higher than the world average – it has failed to translate this into inclusive growth. Africa lacks growth that creates jobs, builds infrastructure and lowers poverty. Addressing this is not just about increasing the volume of investment, but rethinking the quality of investment and where it is directed. Africa has a huge problem with unemployment, particularly youth unemployment. It has experienced a high rate of population growth, which has the potential to be a demographic dividend but only if there is sufficient investment in jobs, skills and education. Essentially, the Continent

hasn't produced enough investment and growth in the domestic economy. Public sector investment has been low, and foreign direct investment has largely been channelled into the sectors where the big returns are – oil, gas and minerals. The difficulty is that these sectors are not very good at generating economic benefits outside a very small enclave. They are not labour intensive so they don't create large numbers of jobs and benefit the wider economy. Investment needs to support sectors such as agriculture, manufacturing and industry that have the potential for higher growth and job creation. This type of employment creation will be key to the future of the Continent's growth. The population growth and a failure to upgrade traditional sectors like agriculture, has led to a high degree of rural-urban migration. Lots of people are moving from subsistence agriculture into urban activities which are largely informal and survivalist. This tends to be low-paid, vulnerable employment. This type of work makes up about 80% of total employment in many African countries.

The UNCTAD Economic Development in Africa 2014 report highlights the unusually high level of employment and growth in the services sector in Africa, relative to its stage of development. However for this sector to see long-term growth and adequate job creation there needs to be big investments in basic infrastructure. Governments have to be more aware that different types of economic activity involve different types of employment intensity. While the services sector is producing more job opportunities than the extractive sectors, there still needs to be more investment directed towards industries such as manufacturing and agriculture. Africa has a relatively weak private sector, so governments need to have a much more prominent role in mobilising investment into job-rich sectors.

### **2.3 Foreign Investment**

President Barack Obama urged African leaders to create a better environment for business by halting corruption. In August, he announced \$33 billion in new US investment for the Continent. President Obama said American businesses have lined up \$14 billion in new investments for various businesses, and another \$12 billion for Africa's crucial power sector. President Obama said the United States wanted to work with African countries to ensure long-term development. However, he stressed that African leaders had to do their part, even as foreign investment and trade increases. President Obama said, "Capital is one thing; development programs and projects are another. Rule of law, regulatory reform; good governance are also very important. People should be able to start a business, and ship their goods without having to pay a bribe, or hire somebody's cousin. Security and peace are also important, because, the future belongs to those who build, not those who destroy."

### **2.4 Savings**

Adults in developing countries are half as likely to have an account at a formal financial institution as those in developed countries. Only 18% of people in the Middle East and North Africa have an account, compared with 89% in high-income countries. Economists would like the world's poorest to save more. That would help them to pay for big or unexpected expenses, such as school fees or medical treatment. It would also boost investment and thus accelerate economic growth. But getting people to save is hard. One reason is the economic version of myopia: the failure to give adequate weight to future benefits over immediate pleasures. Most people are myopic, but for those in grinding poverty, the self-discipline required to save is greater and the consequences of failure worse. For many, the answer is to tie up money in livestock, which can be sold if necessary, or

to join a Rotating Savings and Credit Association (ROSCA), which pools members' savings and disburses them to those in need. But these mechanisms are far from perfect.

A survey in Uganda found that 99% of people using informal savings schemes had at some point lost some of their savings. Livestock get sick and die. Hence the growing enthusiasm for 'commitment-savings accounts' (CSAs). Those who open an account typically cannot withdraw funds until a certain date, or until they have deposited a certain amount. CSAs have a surprisingly big effect. In one experiment in the Philippines, those offered a CSA boosted their savings by 82% relative to a control group in just a year. In Malawi, farmers who were offered CSAs saw their savings rise prior to the planting season. That allowed them to buy 48% more fertiliser and seed than farmers who were not offered a CSA. But there is a big problem: few people seem to want CSAs. New research in Kenya found that only 19% of households had one, whereas 78% saved via a ROSCA. Studies in South Africa and Malawi also found a similar low take-up. The stringency of many CSAs may be the reason. One account, offered by a Kenyan bank, ties up money for at least six months, with no withdrawals allowed. Under the rules of other CSAs, savers who fail to meet their targets see their balances gradually dwindle, as punitive fees kick in.

"People in poverty often need access to their cash at short notice, whether for a medical emergency or to take advantage of a business opportunity," says Nava Ashraf of Harvard University. Recent research suggests that people prefer more forgiving CSAs. In one experiment, Ugandan students were offered two types of saving accounts: one that could only be used to pay for education and another that was intended for the same purpose but could be put to other uses if need be. Students deposited significantly more money into the account with more relaxed rules. A study in Kenya found that demand for CSAs rises if the funds can be used for emergencies.

## **3 Nigerian Economy**

### **3.1 GDP**

According to the National Bureau of Statistics (NBS), the economy in real terms grew by 6.54 per cent in the second quarter of this year. The Bureau stated that the 6.54 per cent growth rate was higher than the 5.40 per cent recorded in the corresponding quarter of 2013 and also higher than the 6.21 per cent recorded in the first quarter of 2014. In nominal terms, the NBS estimated the GDP to be N21.73tn. In real terms (after adjusting for inflation and other macroeconomic variables), the country's GDP was estimated at N16.08tn. The NBS said the services sector accounted for the largest share of the real GDP in the period under review, amounting to N8.54tn, or 53.15 per cent.

### **3.2 Inflation**

According to the NBS, the rate of inflation in Nigeria eased from 8.5 per cent in August to 8.3 per cent in September. The weakened pace of price increases recorded in the headline index in September was mainly as a result of slower increases in food prices. The NBS noted that the ease in the increase in food prices was as a result of slower increases in all groups that contribute to the index. Prices eased in key divisions such as the housing, water, electricity, gas and other fuels as a result of minimal increases in housing prices.

### **3.3 Foreign Reserves**

The foreign reserves rose from \$39.1 billion at the end of July to \$40.7 billion on September 17, 2014. The current level of foreign reserves provides approximately seven months of imports cover. The Central Bank Governor, Mr. Godwin Emefiele has resolved to grow the nation's reserves so as to build a strong buffer against external shocks. The Monetary Policy Committee stated that a gradual reduction in the country's import bills through domestic production of some of the major food imports should be a key element in the overall reserves accretion strategy.

### **3.4 Government Debt**

In August, the Debt Management Office (DMO) revealed that the nation's foreign debt has risen to \$9.38bn, up from \$8.8bn as of December 31, 2013. According to the Director General, DMO, Dr. Abraham Nwankwo, when the foreign and local debt figure is combined, the country's debt to Gross Domestic Product ratio is 12.51 per cent. He stated that Nigeria's debt was still sustainable as the debt to GDP ratio was still below the global allowable threshold of 26 per cent. The DMO boss gave the assurance that borrowed funds had been well invested in building critical infrastructure for the country, adding that the agency would continue to put in place structures that would ensure prudent management of the nation's debt.

### **3.5 Employment**

In September, the National Bureau of Statistics revealed that the Nigerian economy created a total of 2.48 million new jobs between July 2012 and June 2014. The highest number of jobs was created in the informal sector with 1.41 million, followed by the formal sector with 903,804 jobs, and then public institutions with 160,591 jobs. In the first half of 2014, the formal and informal sectors recorded 500,224 new jobs. The education (private) sector dominated the formal sector with the most number of jobs, followed by manufacturing. Whilst in the informal sector most of the jobs were created in agriculture and micro, small, medium scale enterprises.

As part of efforts to fight unemployment in the country, the World Bank is investing \$300m and partnering with the National Directorate of Employment (NDE) to implement a 'Skills for Job' programme. Nigeria's unemployment rate stands at 23.9% according to the National bureau of Statistics. The World Bank, Team Leader for Youth Employment and Social Support Operation, Professor Okumadewa, said the Bank was providing funding and technical support under this programme, whilst NDE is the implementing agency.

### **3.6 Consumer Lending**

According to McKinsey, Nigeria has the potential to be one of the world's top 20 economies by 2030 with a consumer base that will exceed the current population of France and Germany. The consulting firm also noted that sales of consumer goods in the country may more than triple to almost \$1 trillion by 2030, due to Nigeria developing a large consuming class. McKinsey's also predicted that by 2030, about 160 million Nigerians (out of a projected population of 273 million), could live in households with sufficient incomes for discretionary spending. This clearly shows that there is a huge opportunity for increased consumer lending in Nigeria. Individuals and households in

Nigeria remain largely under-leveraged. Consumer lending also offers growth opportunity for banks to increase their profitability.

## **4 Financial Sector**

### **4.1 Capital Markets**

The Nigerian equities market grew by N674 billion in a seven-month period ending July 2014. During this period, the market grew by 5.1 per cent compared to over 47.3 per cent in the corresponding period of 2013. With little assurance of a major turnaround in the fortunes of many of the listed firms, especially in the banking sector, some operators believe the growth recorded in 2013 may not be achieved this year.

### **4.2 Financial Inclusion**

#### **NIPOST**

The Ministry of Communications Technology plans to reposition the Nigeria Postal Service (NIPOST), by making it more efficient and allowing it to offer financial services. The Minister of Communications Technology, Mrs. Omobola Johnson, said NIPOST repositioning and subsequent delivery of financial services will be delivered in partnership with banks, telecommunications operators and information and telecommunications firms in Nigeria. The Minister said the postal service network is more widespread than the combined bank branch networks. She also noted that NIPOST is the most experienced public entity in the recruitment and support of agents. She disclosed that the transaction advisor will be selected by Q4 2014, while partners will emerge by Q2 2015. The Minister said, "Partnerships are anticipated to be available to deliver services by Q2 2016. The anticipated effect after being in operation for one year is that the number of unbanked Nigerians will be reduced by 10 per cent (3.5 million)."

#### **NIMC**

The National Identity Management Commission (NIMC) stated that 10 banks have signed agreements to implement the payment solution of the National electronic ID (National e-ID) card. The Commission explained that apart from Access Bank, who is implementing the pilot payment solution of the scheme, the rest of the banks will have to wait for the next phase. In the pilot phase, the NIMC will issue MasterCard-branded identity cards with electronic payments functionality to 13 million Nigerians. The initiative is said to be the largest rollout of a biometric-based verification card with an electronic payment solution in the country, and the broadest financial inclusion programme in Africa. Using the card as a payment tool, Nigerians can deposit funds, receive social benefits, save, or undertake many other financial transactions that are facilitated by electronic payments with the extra security assurance that biometric verification provides. They can also pay for goods and services and withdraw cash at ATMs that accept MasterCard payment cards in Nigeria and in other countries. Upon completion of the pilot programme, NIMC plans to introduce more than 100 million cards to Nigeria's 167 million citizens.

The card can also be used for electronic signatures, biometric on-card verification and other applications. The card will be issued to all Nigerians who have successfully enrolled for the National Identification Number (NIN). The card can also be used as voters' card for every election in the

country. The DG of NIMC, Mr. Chris Onyemenam further added that the broader economic impact of the card would be felt, as the previously unbanked and under-banked would be able to gain access to the mainstream economy.

### **4.3 Banking Industry**

#### **4.3.1 Central Bank of Nigeria**

In September, the Central Bank reviewed the guidelines on international monetary transfer services. The review, according to the apex bank, was carried out in order to accommodate inbound as well as the outbound money transfer services that were recently introduced. The document titled: 'Guidelines on International Money Transfer Services in Nigeria' stated that all inbound money transfer to Nigeria would be disbursed to beneficiaries who operate bank accounts, mobile money wallets, or through ATMs. In addition, the central bank stated that the maximum allowable cash withdrawals for inbound money transfer shall not be more than \$500, adding that any amount in excess of \$500 would be paid through an account. However, where the beneficiary does not have a bank account or mobile money wallet, payments would be made upon the provision of satisfactory or acceptable means of identifications. It put the allowable limit of outbound money transfer per transaction at \$2,000 or its equivalent, which is subject to periodic review by the CBN. The CBN also stated that no person or institution shall operate international money transfer services unless such person/institution has been duly licensed by the CBN. Deposit Money Banks are prohibited from operating as international money transfer service operators, but can act as agents with approval of the CBN.

#### **4.3.2 New Development Finance Institution**

The Federal Government is planning to establish the Development Bank of Nigeria in the next six to nine months, as part of measures to fill the business lending gap in the country. The Minister of Finance, Dr. Ngozi Okonjo-Iweala, said the bank would initially be capitalised with \$2bn, and might later rise to as much as \$10bn. "It's very difficult for business people, especially those in small and medium-sized enterprises, to find money for five to seven years. Mostly they can borrow for a year to three years. If you want to build a business sustainably and you want your economy to have sustained growth, you've got to fix access to finance," she said. The development bank will be partly financed by the Federal Government, and is also due to receive \$500m each from the World Bank and the African Development Bank, and a credit line from the German Development Bank, KfW Group.

#### **4.3.3 ATM Charges**

In a directive released in August, the CBN stated that from September 1, 2014, customers will pay for cash withdrawals made on other banks' ATMs. The re-introduction of ATM charges comes almost two years after the CBN cancelled the N100 ATM fee in December 2012. Instead of N100 per withdrawal, customers using other banks' ATMs will now pay N65. According to the directive, the central bank and DMBs agreed to re-introduce the ATM charges because the cost of transaction was becoming too burdensome for the banks to continue to bear. The apex bank said the N65 fee would become effective on the fourth ATM withdrawal in a month, thus making the first three withdrawals on other banks' ATMs within the month, free.

#### **4.3.4 E-Payments**

The CBN has approved an industry-wide incentive scheme and awareness campaign for electronic payments stakeholders and end users. This is in furtherance of its drive for the usage of electronic payments in the country. The scheme is primarily focused to reward users of electronic payments in Nigeria and to further encourage greater adoption by all. The incentive, according to the apex bank, will reward usage across all channels with emphasis on channels of electronic payments that promote financial inclusion. The scheme will identify and reward various categories of users such as consumers, merchants, and sales persons. The incentive scheme and awareness campaign will be designed as a 'white-label' campaign in which stakeholders are required form partnerships.

As from November 1, 2014, the merchant service charge (MSC) rate will be reduced from the current 1.25 per cent or N2,000 to 0.75 per cent or maximum of N1,200 per transaction. The current sharing ratio among the various participants will be retained. From December 1, 2014, there will be point based reward system which will be adopted to reward cardholders, based on points earned through frequency of card usage. The CBN said the Nigerian Inter-Bank Settlement System (NIBSS) will implement the programme in conjunction with other service providers.

The value of interbank transfers, captured through the Nigerian Inter-Bank Settlement System (NIBSS), jumped from N51 billion monthly in January 2012 to over N1.5 trillion as at June 2014. In terms of volume, NIBSS transfers increased from 87,000 transactions a month in January 2012 to 3.1 million transactions a month as at June 2014.

According to recent figures from the CBN, the volume of Point of Sale (POS) transactions increased astronomically from less than 2,000 per month in January 2012 to 1.6 million per month in June 2014. During the same period, transaction value increased from N38 million per month to N24 billion per month. As at June, licensed payment terminal service providers (PTSPs) increased from 5 to 10, with over 150,000 POS terminals deployed across the country. The CBN said its target is to increase the POS terminals to at least 350,000 by 2015.

#### **4.3.5 Agriculture Finance**

In August, the CBN stated that the cumulative amount of funds disbursed under the Commercial Agriculture Credit Scheme (CACS) since inception was N236.969 billion. The CACS was established to finance large ticket projects in the agricultural value chain. The scheme is being administered at a single digit rate of nine per cent to beneficiaries for a period of seven years, which has been extended to 2025. The CBN also revealed that as at July 2014, the funds disbursed under the Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL) was N29.064 billion. The NIRSAL is a mechanism designed to provide farmers with affordable financial products and reduce the risk of exposure of financial institutions that lend to the sector. The NIRSAL also expects to build the capacities of banks to lend to agriculture, as well as provide incentives for those that are financing the sector.

#### **4.4 Micro, Small and Medium Enterprises (MSMEs)**

In order to improve access to finance for micro, small and medium enterprises (MSMEs) in the country, the Central Bank of Nigeria (CBN) has approved the Collateral Registry Regulations. The

collateral registry to be established is to be maintained and operated by the CBN. According to the apex bank, the regulations aim to stimulate responsible lending to MSMEs by providing a mechanism for efficient registration of security interests in movable property and realisation of such interests in the event of a default. The registry is to play a key role in creating an enabling environment to ensure easy access to credit. The CBN stated that the regulations would apply to all security interests in movable property created by an agreement that secures payment or other performance of an obligation, regardless of the form of the transaction, the type of movable property or the nature of the secured obligation..

In terms of the information required to register financing statement, the CBN explained that in the case of an individual, the biometric based unique identifier i.e. national identity card or international passport, gender, name, address including telephone and date of birth of the debtor, the name and address of the secured creditor or a representative of the secured creditor; a description of the collateral; and the maximum amount for which the secured obligation may be enforced. However, if the debtor is an individual who is neither a citizen nor a resident of Nigeria, it noted that “the secured creditor shall enter the debtor’s passport number and the name that appears in the passport issued by a foreign government.

### **Bank of Industry**

The Bank of Industry (BoI) recently launched the N5 billion Cottage Agro Processing (CAP) Fund with a view to ensuring that small and medium scale enterprises at the low-technology and labour-intensive end of the spectrum have access to finance at an interest rate of nine per cent per annum. The Fund provides loans to companies to establish small scale plants or mini mills to process Nigeria’s agricultural products such as cassava, oil palm, plantain, cashew, hides and skin, chicken, fish, and paddy rice, among others. Mr. Rasheed Olaoluwa, Managing Director/Chief Executive Officer, BoI, said the general requirements for accessing these loans include having a well-articulated business plan, and a product which is available in a large quantity in Nigeria, that can be processed into a finished or intermediate state.

### **Ministry of Industry, Trade and Investment**

The Federal Government has commenced the process of converting the 23 Industrial Development Centres (IDCs) across the country into world class micro, small and medium Enterprises clusters. With the approval of President Goodluck Jonathan to convert the IDCs to MSME clusters, work has commenced by the Ministry of Industry, Trade and Investment to provide infrastructural facilities, enablers such as financing and other facilities that will make MSMEs operating in these zones to become more cost-effective and competitive. All agencies that will help nurture and grow the businesses to international standards, such as the Bank of Industry, Industrial Training Fund, Standards Organisation of Nigeria, SMEDAN and deposit money banks, among others, are already establishing their presence in these zones.

### **MSME Fund**

In August, President Goodluck Jonathan officially launched the Central Bank of Nigeria's N220 billion Fund for micro, small and medium enterprises. Speaking at the end of the 8<sup>th</sup> MSME Finance conference in Abuja, the President said he was particularly delighted that about 60 per cent of the Fund has been set aside to support women entrepreneurs who he described as critical for economic transformation. The CBN Governor, Mr. Godwin Emefiele, said participating deposit money banks had been mandated to obtain biometric information of borrowers through a data base already created by the CBN so as to ensure that the Fund is accessed by genuine borrowers, as well as to discourage customers accessing the Fund multiple times. He stressed that the apex bank would set up a strict monitoring process to ensure that the money not only gets to the target audience but it is also used for viable growth.

## **4.5 Insurance**

The Nigerian insurance market is currently ranked 60<sup>th</sup> in the world. However, the Nigerian government envisions an insurance industry that can rank amongst the twenty largest markets in the world by the year 2020. According to experts, achieving this goal will mean the insurance industry wholly embracing financial inclusion, as well as developing the technical capacities to meet the emerging challenges of financial inclusion and microinsurance. According to the Commissioner for Insurance, Mr. Fola Daniel, insurance companies must change their marketing strategy; product design and packaging; and approach to policyholders and their complaints. All hands must be on deck to ensure that customer awareness of insurance products is increased, especially in the grassroots.

### **Crop Insurance**

In July, the Minister of Agriculture and Rural Development, Dr. Akinwumi Adesina said that the Federal Government would launch national crop insurance for farmers by 2015. Dr. Adesina explained that the programme was intended to insure farmers against shocks and losses from weather related events. According to the Minister, "Our goal is to insure no less than 10 million farmers. We will also design and implement a flood disaster payment policy that will protect farmers, communities and states from economic losses due to floods. Farmers must be protected from the negative impacts of climate change with appropriate institutional risk management policies, especially crop insurance and strategic grain reserves, which reduce risk exposure and vulnerability to food security shocks."

#### **4.5.1 Microinsurance**

The Nigerian Insurance Commissioner, Mr. Fola Daniel noted that the microinsurance sector around the world has grown rapidly over the past 10 years and is expected to double by 2020, producing coverage for over one billion people. Thus, with the right products, microinsurance could herald the much desired quantum leap in the insurance industry. This significant growth brings new and exciting innovations in products addressing health, agriculture and property insurance. Mr. Daniel further added that value-added after-sales services, especially efficient and timely claims settlement, will aid the quest of repositioning the insurance industry as the pivot of economic growth and enhanced development in Nigeria.

## 4.6 Pensions

The total pension assets under the contributory pension scheme reached N4.4tn at the end of June, with 6.12 million workers registered under the scheme.

The new Pension Reform Bill 2014, which repeals the previously enacted Pension Reform Act 2004, consolidates amendments made to the 2004 Act and also includes significant reviews. It creates a better framework to sanction erring pension fund defaulters. For instance, the National Pension Commission (PenCom) has been empowered by the Act to carry out criminal proceedings against employers who fail to remit their share of the pension contributions within a specified time. Overall, the new Act introduces two significant reforms that could potentially increase the pension pot and registrations. The first of which is the upward review of the minimum rate of pension contribution from 15 per cent (with employee and employer contributing 7.5 per cent apiece) to a minimum of 18 per cent (with contributions from employee and employer increasing to 8.0 per cent and 10.0 per cent respectively). The second aims to expand the pension base as it brings organisations with as few as three employees into the contributory pension scheme. The 2004 Act required organisations with five or more employees to participate in the pension scheme.

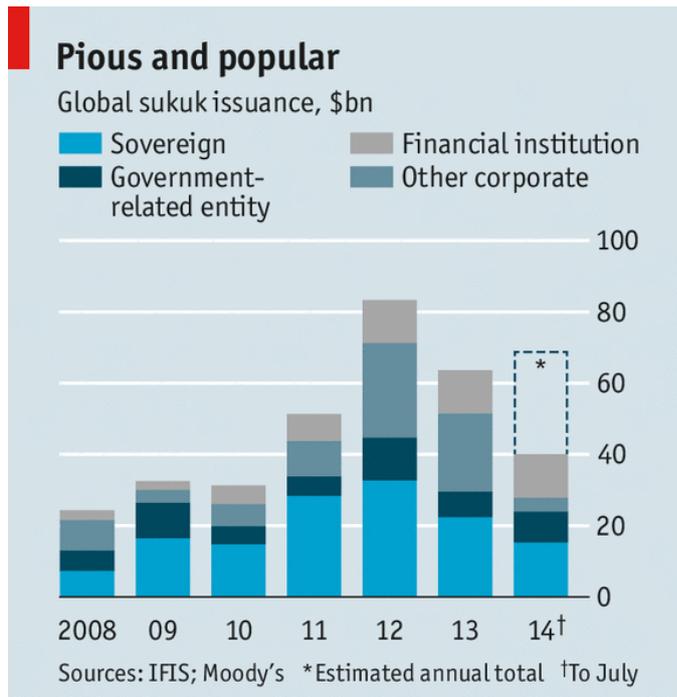
## 4.7 Non-interest Finance

### 4.7.1 Global

Ernst & Young estimates that Islamic banking assets grew at an annual rate of 17.6% between 2009 and 2013, and will grow by an average of 19.7% a year up to 2018. Khalid Howladar of Moody's, the rating agency, calls 2014 'a landmark year' for Islamic finance, in that it is moving from a very esoteric asset class to one that's more global.

Though the principles underlying Islamic finance are as old as the religion itself, modern banks did not start offering Sharia compliant products until the mid-1970s. Since then it has grown into a global industry, with total assets of around \$2 trillion. Most of these assets (nearly 80%, according to Malaysia's central bank) are entrusted either to Islamic banks or to the Islamic units of conventional banks. The rest takes the form of *sukuk* (Islamic bonds) - 15%; Islamic investment funds - 4%; and Takaful (Islamic insurance) - 1%. In 2012, Iran accounted for 43% of the world's Islamic banking assets, with Saudi Arabia (12%) and Malaysia (10%) ranking second and third respectively.

In 2001, Bahrain's central bank issued the first sovereign *sukuk*. From 2002 to 2012, annual issuance grew at an average rate of 35%, from \$4 billion to \$83 billion (see chart below), dwarfing even the healthy growth of Islamic banking assets. Most *sukuk* are denominated in the currency of the issuer and intended for local investors, but international issuance is growing, from 10% of the sovereign *sukuk* issued in 2010 to 20% in 2014. Of the \$296 billion of *sukuk* outstanding as of July 2014, Moody's estimates that sovereigns account for 36%, with Malaysia being the leading issuer.



In September, Hong Kong issued \$1 billion sovereign Islamic bonds, in its first ever issue. The issue generated a demand 4.7 times greater than the planned offer. South Africa, which has the largest stock and bond market in Africa, plans to issue a sukuk this year. Luxembourg is expected to issue a €200m bond this year. Western firms are also beginning to use sukuk to raise money. Société Générale and Bank of Tokyo-Mitsubishi have issues in the works; Goldman Sachs is reportedly considering a \$500m offer. Despite strong recent growth for Islamic financial products, there still is room for further expansion, both in relatively unbanked Muslim countries in the developing world and in the West.

However, there are potential pitfalls. Goldman's previous attempt to enter the market foundered amid claims its proposed sukuk was not Sharia compliant. Indonesia has scaled back its issuance of a specific type of sukuk due to similar complaints. Malaysian scholars approved an Islamic credit card based on a transaction type known as *asbaya al-ina*, which Arab scholars rejected as being too close to interest-based lending. Such rows have led to calls for greater international standardisation, hence the creation by national regulators of such entities as the Islamic Financial Services Board, which issues both religious and prudential guidance, playing the same role as the Basel Committee does for conventional banks. Zeti Akhtar Aziz, Governor of Malaysia's central bank, believes it will foster harmonisation in how institutions are regulated. However, since Islam has no overarching authority that can approve its rulings, there will always be disputes.

#### 4.7.2 UK

In June, Britain became the first western country to issue an Islamic bond, attracting orders of more than £2bn from global investors for its sale of Sharia-compliant debt. London's maiden sukuk will pay out profits based on the rental income from three government-owned properties in lieu of interest, which is forbidden under Islamic religious law. The £200m sukuk was heavily oversubscribed by investors in the UK, Middle East and Asia, attracting orders of £2.3bn – 10 times higher than the

amount sold. London is hoping to secure its place as a global hub of Islamic finance, and the issuance of a sukuk is part of a long-term economic plan to make Britain the centre of the global financial system, said George Osborne, the Chancellor. “We have seen very strong demand for the sukuk, resulting in a price that delivers good value for money for the taxpayer. I hope that the success of this government issuance will encourage further private sector issuances of sukuk in the UK,” he said. The issuance of a UK sovereign sukuk sets a precedent for the western financial world with the high demand hopefully encouraging further issuance from western countries and corporates,” said Humphrey Percy, Chief Executive of The Bank of London and The Middle East. According to Dealogic, the UK sovereign sukuk is small in terms of overall sukuk issuance, which has exceeded \$21bn this year, but was popular with Islamic investors in search of high grade debt.

British grocer Tesco issued a sukuk in 2007 through its Malaysian arm. Ocado, the independent online grocer, borrowed £10m in a Sharia-compliant loan in 2009. Some of the UK’s largest property companies have already expressed interest in the idea of raising finance through Islamic bonds, but so far only one domestic company – a small Yorkshire-based manufacturer - International Innovative Technologies has borrowed money in the UK via a bond that complies with Islamic religious rules.

### 4.7.3 Nigeria

In August, Lotus Halal Exchange Traded Fund, a non-interest capital market product which tracks the NSE Lotus Islamic Index (NSE-LII) was launched. The NSE-LII Index tracks the performance of 15 Shariah-screened equities listed on the stock exchange. The Fund was launched with the aim of providing alternative ethical investment in Nigeria and caters to investors seeking to invest in ethical products, avoiding companies involved in the production of goods and services such as alcoholic beverages, interest-driven financial services, and adult entertainment.

The Islamic finance industry, supported by the government, continues to enjoy a more profound profile. In 2013, the SEC established a Non-Interest Capital Market 10 year Master Plan Committee, to develop strategies to foster the Sharia compliant sector.

## 5 Telecoms Sector

According to the NCC, in August 2014 the number of inactive telephone lines reached 46,650,250; the number of connected lines was 181,696,571; whilst the number of active lines was 133,282,003. Teledensity reached 94.42%. The table below provides a summary of telephone subscribers in Nigeria as of August 2014.

	Number of connected lines	Number of active lines
Mobile GSM	177,517,702	130,867,452
Mobile CDMA	3,816,641	2,224,044
Fixed Wired/Wireless	362,228	190,507
<b>Total</b>	<b>181,696,571</b>	<b>133,282,003</b>

Source: NCC

According to the NCC, as of August 2014 in terms of GSM operators, MTN was the market leader with 58,271,212 subscribers (market share of 45%); followed by Globacom with 27,483,195 subscribers (market share of 21%); then Airtel with 25,428,448 subscribers (market share of 19%); and finally Etisalat with 19,684,597 subscribers (market share of 15%).

Analysts opined that the massive network upgrade recently embarked upon by Globacom and its bouquet of new service offerings may have given it the edge over some operators. The network expansion involved swapping old base stations with new ones and modernising existing infrastructure. It also involved achieving 90 per cent 3G coverage, the first in the industry, making it possible for Glo data subscribers across the country to experience significant service enhancement.

### **5.1 Internet Users**

According to the NCC, the number of people accessing the internet through GSM mobile networks in Nigeria reached 72.4 million in August 2014. MTN was the market leader with 36,962,810 users; followed by Globacom with 15,520,493 users; then Airtel with 13,201,901 users; and lastly Etisalat with 6,724,797 users.

## **6 Mobile Money**

### **6.1 Africa**

According to the GSM Association, there are 242 mobile-enabled e-money providers operating in 89 countries, boasting 203 million mobile money accounts between them. The GSMA stated that about 61 million accounts were active in the 90 days to June 2013 when the study was done. The GSMA further noted that mobile money accounts now outnumber bank accounts in nine African countries, namely Cameroon, DRC, Kenya, Madagascar, Tanzania, Uganda, Zambia and Zimbabwe.

#### **6.1.1 Kenya**

The Central Bank of Kenya (CBK) stated that the value of mobile money grew by nearly a third to Sh1.1 trillion in the first six months of 2014 compared to Sh872.1 billion last year. This means that consumers moved an average of Sh186.4 billion monthly or Sh6.2 billion per day compared to the Sh4.8 billion a day they moved in a similar period last year. Kenya has six mobile money operators - Safaricom's M-PESA, Airtel Money, yuCash, Orange Money, MobiKash and Tangaza Pesa. Kenya has a network of about 120,781 agents.

Kenya had a total of 25.9 million mobile money subscribers at the end of June 2014, having risen from 23.75 million in June 2013. The CBK's data shows that the value of mobile money transactions more than tripled in the past five years to reach Sh1.1 trillion compared to the Sh322.5 billion that was moved in the first six months of 2010. Sustained growth of mobile money is attributed to the convenience it offers users beyond the traditional money transfer to include payment of utility bills such as water, rent and electricity, and for shopping and bus fares.

The 2013 FinAccess survey credits mobile money services for the more than doubling of Kenya's banked population to 67 per cent from a low of 26.1 per cent in 2009. "There has been increased

convergence of banking and mobile phone platforms as banks explore more convenient and cost-effective channels of banking,” said CBK governor, Professor Njuguna Ndung’u. The shift towards retail payments, mobile banking and bulk transfers is seen as the next frontier in the evolution of mobile money growth.

### **Mobile Money Operators**

Kenya is gearing up for a mobile wallet revolution as banks move into a market segment that has been dominated by Safaricom and other mobile network operators. Perhaps the surest indication of the looming mobile money market shake up, similar to one that prompted mobile tariffs was three years ago, came in mid-August after Safaricom, in anticipation of the increased competition, slashed some of its M-PESA transaction rates by up to 67%.

Mobile network operators including Airtel, Essar Kenya (Yu) and Telkom Kenya (Orange) have in the last few years unsuccessfully attempted to reduce Safaricom’s dominance. The entry of banks, analysts contend, is a ‘game changer’. Among the banks that have already entered the fray include Cooperative Bank which recently launched a mobile wallet called ‘MCo-op Cash’. The new product will, according to the Bank’s Chief Executive, Gedion Muriuki, enable both customers and non-customers across all telecom networks to open bank accounts, apply for loans and also make cash and utility payments straight from their mobile phones. The innovation will strive to ride on the bank’s 4.6 million direct customers and also target over 10 million Kenyans in the country’s cooperative movement. Equity Bank’s CEO, James Mwangi has echoed similar sentiments as the bank gears up to unveil its Mobile Virtual Network Operator (MVNO) status through its subsidiary - Finserve Africa Limited. Equity Bank has hailed its MVNO as the ‘next big thing’ and argued that its pricing strategies will reduce the middlemen layers of fee associated with mobile money transactions. Equity MVNO will mirror all its banking services into the mobile phone. By linking the account to the mobile phone, their customers will be able to apply for loans, move money into and from their bank accounts and pay bills. Mobile transfers will be charged at 1% of transaction value compared to the prevailing market charges of 16%.

The increased uptake of mobile money comes at a time when mobile money operators are fighting for a piece of the lucrative retail payments market with the launch of mobile money products:

- In June 2013, Safaricom launched Lipa Na M-PESA - a service that enables consumers to pay for goods and services using M-PESA – which has so far enlisted 122,000 outlets including airlines, hotels, supermarkets, public service vehicles and oil marketers. Safaricom has 19.3 million registered M-PESA users, who are serviced by 81,025 agents across Kenya. M-PESA earned Safaricom Sh26.56 billion or nearly a fifth of their total revenue in the financial year ended March 2014, confirming the growing importance of mobile money as a revenue stream.
- Statistics from Safaricom show that bulk payments to settle dividends, per diems, salaries and wages through M-Pesa from businesses to persons grew 70 per cent to an average of Sh8.7 billion per month in the period January to March 2014. This means retail and bulk payments on the M-PESA network now account for nearly a fifth or 19 per cent of total cash moved on the platform – helping Safaricom diversify from peer-to-peer mobile transfers which is high volume but low in earnings.

- Mobikash launched the Lipa Sasa Na MobiKash, a merchant payment service that allows customers to pay for goods and services, that is available to subscribers of all the four mobile networks. Users pay a standard Sh15 processing fee. Mobikash, which is controlled by investment firm Foundation Enterprise Programme (FEP), has so far recruited 4,000 agents and 2,000 Lipa Sasa Na MobiKash merchants in Kenya.
- Oscar Ikinu, Chief Executive of Tangaza Pesa, said the advent of MVNOs in Kenya is likely to further propel the mobile money industry by increasing variety, lowering costs and signing up more retailers. Equity Bank and Zioncell have also been awarded MVNO licences and plan to roll out mobile money services complemented by voice and data offerings. Tangaza Pesa has about 598,000 customers and a network of 3,800 agents. The company plans to roll out its own SIM cards and launch a merchant payment facility.

### **6.1.2 Zambia**

In August, International Finance Corporation (IFC) announced an advisory services agreement, valued at \$1 million, with Airtel Zambia to increase access to mobile financial services in the Zambian market and deepen financial inclusion. In Zambia, two-thirds of the adult population is excluded from formal financial services. The overall aim of the three-year project is to assist Airtel Money Zambia in building a sustainable mobile money operation. IFC will provide market research and advisory services on agent network management and business strategy development. The project is part of the Partnership for Financial Inclusion, a \$37.4 million joint initiative of IFC and The MasterCard Foundation to expand microfinance and advance mobile financial services in sub-Saharan Africa. Greta Bull, IFC Program Manager for the Partnership for Financial inclusion, said, "Mobile phone usage is very high in Zambia, making it an ideal market in which to leverage technology to reach those who have previously been excluded from formal financial services."

### **6.1.3 Sudan**

In August, the first partnership between a bank (Bank of Khartoum) and a telecommunications network operator (Zain) celebrated the launch of the Hassa service. The service allows all mobile phone users to complete almost all financial transactions (including money transfers and bill payments) through their mobile phones, without needing to open a bank account. This is the first mobile money service in Sudan.

### **6.1.4 Tanzania**

In 2013, 44% of adults in Tanzania used some form of mobile money. In December alone, Tanzanians conducted 99.9 million transactions worth a combined total of Tshs 3.1 trillion (\$1.8 billion).

#### **Tigo**

In July, Tigo, started a mobile money service that pays interest on balances, tapping into an underdeveloped market for financial services in Tanzania. Tigo, Tanzania's No. 3 mobile network operator revealed that cellular balances would earn interest rates of between 7 and 9 per cent quarterly. The firm, which has 3.5 million mobile money customers, hopes its new service will complement the cross-border mobile money transfer service between Tanzania and Rwanda it launched in February.

## 6.2 Nigeria

To boost its Agricultural Transformation Agenda (ATA), the Federal Government has upgraded the e-wallet system used by farmers to get farming input. The government is upgrading the e-wallet on the National Agricultural Initiative system, so that each card that a farmer has will become a banking card with a range of products/services e.g. loans, savings, money transfer and insurance. This will totally change the face of farming in Nigeria.

Though the e-wallet system has been considered to be a success, the initiative has faced challenges of poor network in rural areas. In order to address this challenge, the Ministry of Agriculture is working with the UK government, particularly DFID, to introduce a new technology called TAP (Touch and Pay) which allows the use of near field communication technology to support farmers to have access to their farm inputs even where there is no network coverage. The government is trying to harmonise this with National Identity Management Commission's (NIMC) e-card programme, adding that all the farmers have to do is take their e-card to the input retailer, tap their cards on the android phone of the retailer and all the information on government allocation of seeds and fertiliser and mechanisation support will show up on the screen.

The Ministry of Agriculture has developed Nigeria's first National Database for farmers with over 14 million farmers registered with identification cards. These farmers' ID cards are also being upgraded into full national biometric cards (e-Cards). Currently 10.5 million farmers out of the 14 million farmers that have registered e-wallets are being migrated into the NIMC integrated system.

### 6.2.1 NDIC

In September, the Nigeria Deposit Insurance Corporation (NDIC) said it was finalising a framework to extend deposit insurance cover to individual subscribers of mobile money operators in the form of pass-through deposit insurance. Managing Director/Chief Executive, NDIC, Alhaji Umaru Ibrahim, said the move was aimed at engendering public confidence in subscribing to products offered by the mobile operators. He said the proposed framework would ensure that mobile money subscribers are covered up to a certain limit.

### 6.2.2 Helix Institute of Digital Finance

The Helix Institute of Digital Finance released its Agent Network Accelerator Nigeria Country Report in July 2014. Helix conducted in-depth interviews with the management teams of 10 mobile money operators. In addition, interviews were conducted with 43 agents from Ecobank, Paga and Firstmonie in three locations- Lagos, Abuja and Port Harcourt. Approximately half of the agent interviews were conducted in rural areas and the other half in urban areas. The report found that, digital finance in Nigeria has still yet to take off. The market is still experiencing some regulatory impediments, but most of all providers need improved strategic approaches to their anchor products, core operations and expansion strategies. The report revealed that:

- Strict limits on Tier 1 transaction levels are increasing the cost of popular use cases. For example, tier 1 customers have a N3,000 transaction limit, but in certain situations, a customer may have N6,000 to N10,000 worth of transactions. This may mean splitting the transaction into two or three transactions, which has cost implications and sometimes is against the regulatory directive.

- Robust market research and sophisticated customer segmentation has not been done to ensure that products are positioned for the right customers. This is leading to market confusion, where the average Nigerian is still very unsure what digital finance is, and how it solves a pressing problem for them.
- Agents are reporting very low revenues, are frustrated with the lack of quality of provider support, and unclear how they are supposed to communicate the growing numbers of products to customers.
- Unstable networks are one of the greatest challenges in mobile money service provision in Nigeria. USSD users are the most affected due to unstable platforms and networks. Downtimes, in some cases, occur almost on a daily basis. This has begun to erode trust and demotivate agents and clients (earlier attracted to mobile money). Agents are coping by conducting offline transactions. This is risky for customers and providers as it can be abused by dishonest agents.
- Given Nigeria's level of mobile money awareness, agents should be picked to match the location of target clients and product positioning, mostly shops where customers visit for low/medium ticket size transactions, since customers visit these more frequently. Agents should be located at strategic points where accessibility and trust is built easily and in locations that are safe and secure.
- Due to the low transaction values and low numbers of customers, agents find they do not always have sufficient float to meet their customers' needs. Effective liquidity management requires providers to develop monitoring strategies that include choosing retail agents that already handle cash; managing agent and customer growth concurrently; using master/super agents to provide liquidity management support; giving agents priority service at the banks to speed up re-balancing; technological robustness that ensures accurate real time transactions; and diversifying the range of services.