EFInA Quarterly Review

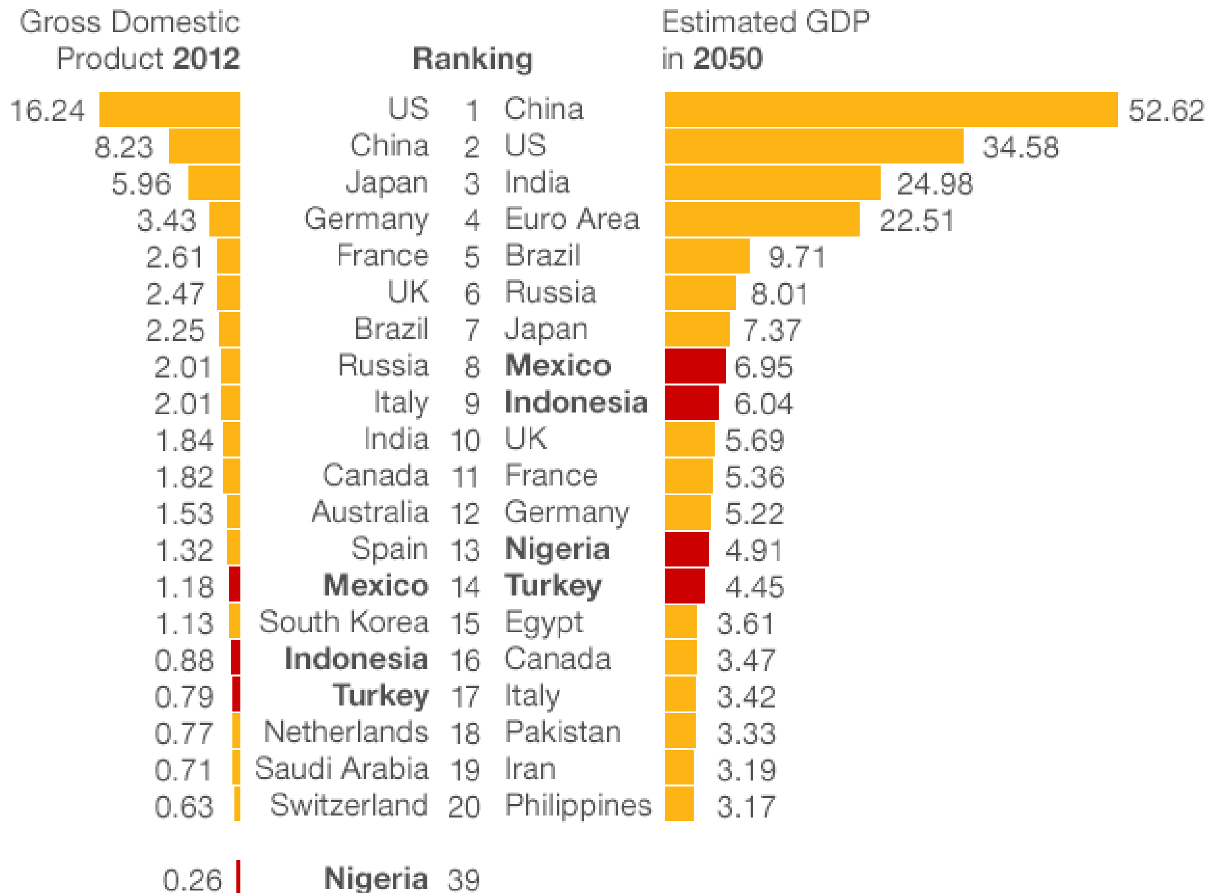
(October to December 2013)

1 Global Economy

In October, the International Labour Organisation (ILO) stated that 870 million workers live with their families on less than $2 per person per day. Out of these workers, nearly 400 million are living in extreme poverty. People living in poverty show tremendous ingenuity in coping with their immediate situation; they know the changes and institutions that will best serve their own efforts to advance. More worrisome is the fact that more often than they are ignored when policies are devised. Effective policies for poverty reduction require active engagement with those whom they are intended to benefit. Jobs are the fundamental link between people, their communities, their society and the economy. The quality of work is instrumental in the trajectory of that relationship. Navigating the route of poverty can be achieved through making opportunities for productive employment a direct policy goal, which is systematically operationalised and includes inclusive access to finance and employment-friendly macro-economic policies, which are effective for both women and men living in extreme poverty. Also important is the establishment of social protection floors that assure basic social protection for all in extreme poverty situations, which helps to reduce their vulnerabilities and build capabilities.

1.1 MINT Countries

In 2001, the world began talking about the BRIC countries - Brazil, Russia, India and China - as potential powerhouses of the world economy. The term was coined by economist Jim O'Neill, who has now identified the "MINT" countries - Mexico, Indonesia, Nigeria and Turkey - as emerging economic giants. So, what unites the MINTs? The key thing they all share is favourable demographics. Mexico borders the United States and links it to the rest of Latin America; Indonesia is in the heart of South-East Asia; Nigeria is close to some thriving African countries; while Turkey spans Europe, Central Asia and the Middle East. As global trade patterns develop, the MINTs are well placed to take advantage. Their populations are large and youthful, with a strong ratio of people eligible to work relative to those not working. At this stage of their economic development, the MINTs are generally harnessing their large populations to pursue export-led growth, following in the footsteps of the Asian Tiger economies of the 1970s and 1980s. As Chinese exports become more expensive due to rising wages, an appreciating currency and an economy increasingly geared towards domestic consumption, so increasingly goods will be manufactured in the MINT countries.



The creation of the MINT acronym could spur pressure for Nigeria to become a member of the G20, as the other MINT countries already are. Economically three of them - Mexico, Indonesia and Nigeria - are commodity producers and only Turkey isn't. This contrasts with the BRIC countries where two - Brazil and Russia - are commodity producers and the other two - China and India - aren't. In terms of wealth, Mexico and Turkey are at about the same level, earning annually about $10,000 (£6,100) per head. This compares with $3,500 (£2,100) per head in Indonesia and $1,500 (£900) per head in Nigeria, which is on a par with India. They are a bit behind Russia - $14,000 (£8,500) per head - and Brazil on $11,300 (£6,800), but still a bit ahead of China - $6,000 (£3,600).

Projected growth in average income (thousands $)

	2000	2012	2050 (projected)
Mexico	7.0	10.6	48.0
Indonesia	0.8	3.6	21.0
Nigeria	0.2	1.4	12.6
Turkey	4.1	10.6	48.5

Sources: IMF, Goldman Sachs

But increasing the labour force is not enough to automatically achieve high rates of economic growth. The countries need steady flows of capital, both domestic and foreign. However, capital – that is, investors' money and expertise – is especially sensitive to political factors such as strong institutions and the rule of law. No one wants to see their investment seized in a coup, or lose its value due to sudden legal changes. Following the global financial crisis, countries that had good legal institutions retained more of their foreign investment. Given this sensitivity, the serious issues with corruption and the rule of law in the MINT countries represent a particular challenge. The four countries are characterised by low scores in the Corruption Perceptions Index published annually by Transparency International on how corrupt each country's public sector is. Out of 177 countries, Nigeria ranked 144th, Indonesia 114th, Mexico 106th and Turkey 53rd. Doing business in those countries, especially in Mexico and Nigeria, is a challenge. In Nigeria, Central Bank Governor, Mallam Lamido Sanusi argued that corruption rarely prevents economic development - and that the growth of the economy, accompanied by improvements in education, will lead to better governance and greater transparency. For many people in the MINT countries, corruption is a consequence of their weak past, not a cause of a weak future, and certainly not the number one challenge. It falls way down a list compared with the costs of energy and the breadth of its availability and, of course, infrastructure.

The MINT countries face other barriers such as poor levels of education, especially in Indonesia and Nigeria; poor infrastructure – again more so in the case of Nigeria, where energy supply is clearly affecting productivity and growth; and a general resistance to reform, especially in the labour market. Sorting out energy policy in both Mexico and Nigeria is a top priority and each country has launched major initiatives, which if implemented, will accelerate growth rates significantly.

1.2 Unemployment

According to the International Labour Organisation (ILO), the uneven economic recovery and successive downward revisions in economic growth projections have had an impact on global employment in 2013. The ILO disclosed that about 202 million people were unemployed globally in 2013, an increase of almost 5 million compared with 2012; as employment is not expanding sufficiently to keep up with the growing labour force. The bulk of the increase in global unemployment is in East Asia and South Asia regions, which together represented more than 45 per cent of additional jobseekers, followed by sub-Saharan Africa, and Europe. By contrast, Latin America added fewer than 50,000 unemployed to the global number – around 1.0 per cent of the total increase in unemployment in 2013. The ILO warned that if the current trends continue, global unemployment is set to worsen further, albeit gradually, reaching more than 215 million jobseekers by 2018. Young people continue to be particularly affected by the weak and uneven recovery. It is estimated that 75 million young people, aged 15–24, were unemployed in 2013, which is almost 1 million more than in the year before. The global youth unemployment rate has reached 13.1 per cent, which is almost three times as high as the adult unemployment rate. Youth-to-adult unemployment ratio has reached a historical peak and is particularly high in the Middle East and North Africa.

2 African Economies

The World Bank has predicted a 5.3 and 5.5 per cent Gross Domestic Product (GDP) growth in Africa for 2014 and 2015, respectively. The Bank stated that growth would be helped largely by rising private investment and remittances which has reached $33 billion annually. The World Bank Group's Vice-President for Africa, Makhtar Diop said, "Sustaining Africa's strong growth over the longer term while significantly reducing poverty and strengthening people's resilience to adversity may prove difficult because of the many internal and external uncertainties African countries face." Within Africa, natural disasters such as droughts and floods are occurring more frequently while the threat of conflict continues, with recent events in the Central African Republic and Mali reinforcing the need for peace, security, and development to take place at the same time. The Deputy Regional Chief Economist, World Bank Africa Region, Francisco Ferreira, said, "Africa grew faster in the last decade than most other regions, but the impact on poverty is much less than we would have liked. Africa's growth has not been as effective in reducing poverty as it could have been because of the high levels of inequality. Growth with equity is possible, but it requires a decline in inequality in both outcomes and opportunities."

2.1 Economic Growth

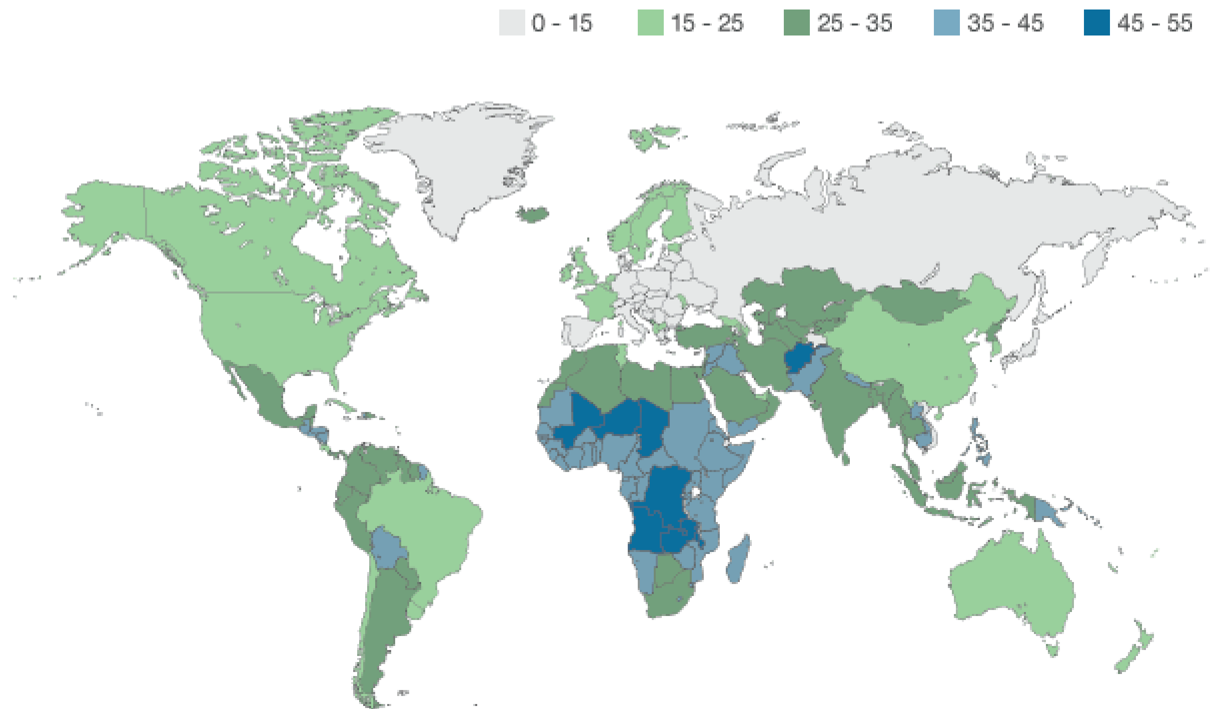
According to the International Monetary Fund (IMF) Sub-Saharan Africa's economic growth is expected to increase to 6.0 per cent in 2014, from 5.0 per cent in 2013. The improvement in 2014 relative to 2013 reflects higher global growth, especially in Europe, and other expected favourable domestic conditions. The main factor responsible for the continuing underlying growth in most of the region is the strong domestic demand, especially associated with investment in infrastructure and export capacity in many countries. Despite the strong growth outlook, the region remains vulnerable to lower commodity prices and a slowdown in developed and emerging economies, such as the Ivory Coast, the Democratic Republic of Congo, Mozambique and Sierra Leone. South Africa is expected to grow by 2.9 per cent in 2014; it lags the broader region due to the relative maturity of its industrial, extractive and services sectors.

2.2 Sovereign Debt

According to Moody's Investors Service, at least six sub-Saharan African countries will issue debut international bonds in the coming years as record demand for the continent's debt will be sustained by strong economic growth. Angola, Cameroon, Kenya, Tanzania, Uganda and Mozambique are planning to issue their first sovereign notes, most of which will be more than $500 million. Senegal, which first issued foreign debt in 2009, plans to tap the international markets again. Africa has shown considerable resilience to financial shocks during the global financial crisis. Investors' interest in the region will be sustained, given the strong macroeconomic growth outlook for Africa. African sovereigns from Egypt to South Africa issued a record $8 billion in international debt in 2013. Even so, only 14 out of 54 countries on the continent have issued international debt and the region's domestic capital markets are still at a nascent stage of development. Rwanda issued its debut $400 million of Eurobonds in April 2013, while Nigeria and Ghana both issued their second batch of international notes in July. Kenya plans to issue as much as $2 billion from its first Eurobond offering.

2.3 Population

Africa has more people aged under 20 than anywhere in the world and the continent's population is set to double to 2 billion by 2050. Analysts believe that this poses a major challenge unless properly managed. However it also presents a massive potential work force that can drive development. Sub-Saharan Africa is a region where people aged between 15 and 29 will continue to constitute about half of the population of most countries for the next three to five decades. Currently, the estimated median age in sub-Saharan Africa is under 19.



However, a poorly managed young population, can lead to instability and civil conflict. The civil wars across West Africa during the 1990s and early 2000s were mainly fuelled by disproportionately young populations with not enough to do and not enough money. Violent crime in South Africa is among the highest in the world, alongside youth unemployment. Where the growing youth population have suffered political exclusion and economic marginalisation, such as the Arab Spring in North Africa, the situation can even lead to a revolution. Even within a peaceful environment, a rapidly growing young population presents a major challenge. In cities such as Accra, Nairobi and Lagos, the impact of the continent's growing young population is noticeable.

A growing young population promises opportunities. But it is increasingly becoming clear across Africa that unless political leadership offers young people something to live for, social stresses such as unemployment can make them easy prey to those who offer them something to die for. It is therefore important that in seeking to harness Africa's demographic dividend, the right leadership and prudent policies are prioritised. At the moment, in too many countries, that is not the case.

This very specific period, known by economists as the “demographic dividend,” is Africa's moment. Each year, the increasing number of working-age adults carries the weight of a relatively diminishing proportion of children, whilst elderly dependents remain few. This favourable moment is compounded by the energy of a youthful population. It is also multiplied by other important trends, all linked to this specific demographic moment. The higher density of the population allows domestic markets to be created, demand to emerge, and local firms to develop in an economic environment that is more business-friendly than 20 or 30 years ago. The relative cost of infrastructure declines. The proportion of the population living in cities also increases, with all the productivity gains this carries. Urbanisation is one of the most powerful growth engines the world has ever experienced.

The impressive economic growth rates the continent has enjoyed since the turn of the century are still insufficient to really catch up with high-income countries. Economic growth in Africa remains linked to the price of commodities. However, many land-locked countries with few natural resources have enjoyed fast growth in the past decade - and commodity prices do not entirely explain the surge of domestic firms that one sees across the continent. There will come a time, which Europe and Japan are experiencing now and so too will China, when a smaller proportion of working-age adults have more elderly dependents to support. This is an age when economic growth is more difficult to maintain. Africa will enter that time but not for another century.

2.4 Remittances

According to the World Bank, remittances flow to Nigeria is expected to reach $21 billion in 2013. Other large remittance recipients in sub-Saharan Africa include Senegal ($1.4 billion), Kenya ($1.2 billion), South Africa ($1 billion), and Uganda ($700 million). Nigeria and other sub-Saharan African countries are expected to see an increase of 6.2 per cent in officially recorded remittances from citizens in the Diaspora in 2013 to reach $32 billion, compared to $30 billion in 2012, according to the report entitled ‘Migration and Remittance Flows: Recent Trends and Outlook, 2013-2016’, published in October. Remittances are an important source of foreign exchange and help to cover current account deficits in the region. The report revealed that Nigeria is the largest recipient, accounting for more than half of total remittances in the region, but as a share of gross domestic product (GDP) the largest recipients are Lesotho, Togo, Cape Verde, Senegal and The Gambia.

However, a key problem facing the region is the closing of bank accounts of the money transfer operators by correspondent banks in the United States and the United Kingdom. This is likely to increase remittance flows via informal channels which may exacerbate the quality of remittance data in the region. Remittance flows to developing countries are expected to reach $414 billion in 2013, up 6.3 per cent over 2012, and $540 billion by 2016. Worldwide, remittance flows may reach $550 billion in 2013 and over $700 billion by 2016. The top recipients of officially recorded remittances for 2013 are expected to be India ($71 billion), China ($60 billion), the Philippines ($26 billion), Mexico ($22 billion), Nigeria ($21 billion), and Egypt ($20 billion).

Getting reliable data on remittances in sub-Saharan Africa is difficult. This is because some central banks use remittance data reported by commercial banks but do not adequately capture flows through money transfer operators, post offices, and mobile money transfer operators.

Remittance corridors to sub-Saharan Africa and within Africa are the most expensive. The data for select intra-African remittance corridors suggest that the cost of sending remittances within Africa can be very high, with the fee ranging from 5 per cent to 15 per cent of the amount sent. The global average cost for sending remittances remains under 9 per cent.

3 Nigerian Economy

According to the new 2014 'Doing Business' report of the International Finance Corporation (IFC) and the World Bank, Nigeria is one of the ten economies globally that made the biggest improvement in getting credit since 2009. This is due to the improvement in its credit information system through the implementation of the Central Bank's guidelines on credit bureaux. Nigeria ranked 147 among 189 economies measured in the report entitled: 'Understanding Regulations for Small and Medium-size Enterprises' and released in October 2013. The report listed Benin, Burundi, Côte d'Ivoire, Guinea, Guinea-Bissau, Liberia, Rwanda, Sierra Leone, and Togo among the 20 global economies that it found to have most improved business regulations since 2009.

The report stated that since 2005, Nigeria had implemented 10 business regulatory reforms, making it easier for local entrepreneurs to do business, and also highlighted that from June 2012 to June 2013, Nigeria moved closer to global good practices in business regulations than any time since 2009. This is because Nigeria has had positive developments in areas such as trading across borders, where the time to export and import has been reduced due to previously implemented reform efforts. The report further revealed that Nigeria has already implemented some of the global good practices in the areas of Doing Business. For example, it allows a general description of collateral, which makes it easier for local entrepreneurs to get credit.

Doing Business 2014 is the 11th in a series of annual reports that reviews regulations that enhance business activity and those that constrain it. It presents quantitative indicators on business regulations that affects eleven areas of businesses which are - starting a business; dealing with construction permits; getting electricity; registering property; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts; resolving insolvency; and employing workers. The employing workers data are not included in the 2014 report. The report covers 189 economies in the world.

3.1 GDP

According to the National Bureau of Statistics (NBS), Nigeria's real Gross Domestic Product (GDP) increased to 6.81 per cent in the third quarter of the year, compared to 6.18 per cent in Q2. Nominal GDP for Q3 was estimated at about N11.16 trillion, representing a 9.41 per cent increase from N10.20 trillion recorded in Q2. The Statistician General of the Federation (SGF), Dr. Yemi Kale, said GDP growth in the Q3 was helped by increased output in the non-oil sector as supply disruptions continued to hamper output in the oil sector. Oil sector contribution to real GDP in Q3 was valued at 12.50 per cent which was lower than the 12.90 per cent recorded in Q2. However, the non-oil sector contributed 7.95 per cent in real terms to the GDP in the period under review compared to 7.36 per cent in Q2. Agriculture which continued to drive the economy, contributed 41.93 per cent to GDP in Q3; while manufacturing accounted for 3.58 per cent; telecommunications and finance & insurance

contributed 7.84 per cent and 2.84 per cent respectively. Wholesale and retail trade contributed 19.20 per cent to GDP in Q3.

3.2 Inflation

According to the National Bureau of Statistics (NBS), Nigeria's Consumer Price Index (CPI), which measures inflation, rose slightly to 8.0 per cent (year-on-year) in December compared to 7.9 per cent in November. The NBS said the 0.1 per cent increase in the headline index followed a rise in prices due to the increase in eight of the eleven non-food Classification of Individual Consumption According to Purpose (COICOP) divisions which contribute to the Core sub-index. The Core sub-index rose to 7.9 per cent in December from 7.8 per cent in November. The NBS added that increases in the COICOP divisions were moderated by slower increases in alcoholic beverages, tobacco and kola, housing, water, electricity, gas and other fuels, as well as the transport divisions.

In November, the Central Bank of Nigeria lowered its inflation target band for 2014 to 6.0 per cent to 9.0 per cent. The apex bank would like to reduce the target range to 5.0 per cent to 8.0 per cent in 2015 and then 3.0 per cent to 6.0 per cent in 2016.

3.3 Foreign Reserves

According to the Central Bank of Nigeria, the foreign reserves dropped to $43.2bn on 9 January 2014, from $43.6bn on 31 December 2013. Analysts have said the CBN's stance of defending the Naira with the reserves may keep depleting the foreign reserves. In a bid to save the Naira from devaluation in 2013, the CBN defended the currency with approximately $26.6bn from the nation's foreign reserves. At the beginning of 2013, the reserves were a little above $44.0bn and rose to $48.0bn in May, before falling to $43.6bn on 31 December 2013.

3.4 Government Debt

According to the Debt Management Office, as at 30 September 2013, Nigeria's total debt was N8.32tn ($53.42bn). A breakdown of the debt showed that the external debt of both the Federal and State governments was N1.28tn ($8.26bn). Much of the debt was incurred by the Federal Government from domestic sources as these contributed N7.03tn ($4.15bn) to the total debt. A further breakdown of the domestic component of the total debt stock showed that the Federal Government Bonds contributed N4.22tn or 59.93 per cent of the domestic debt. Nigerian Treasury Bills accounted for N2.48tn or 35.31 per cent of the domestic debt. Treasury Bonds accounted for N334.56bn or 4.76 per cent of the domestic debt.

4 Financial Sector

4.1 Capital Markets

In 2013, the Nigerian equities market outperformed analysts' forecasts with a return of 47.0 per cent. Having appreciated by 34.5 per cent in 2012, market operators and analysts had projected a continuation of the positive trend in 2013 but never expected a growth of above 40 per cent. The Nigerian Stock Exchange (NSE) All-share index rose by 47.0 per cent from 28,078.80 to 41,329.19. Market capitalisation increased from N8.97 trillion to N13.23 trillion. This is the highest level the market capitalisation for equities has ever reached in the history of the Nigerian stock market. Prior

to this, the highest level of market capitalisation was N12.6 trillion achieved during the boom days, before the global financial crisis.

4.2 Financial Inclusion

Guidelines for Financial Inclusion Implementation

In December, the Central Bank of Nigeria released new guidelines for the implementation of the next level of the Nigerian Financial Inclusion Strategy (NFIS). The new guidelines include promoting increased awareness of the NFIS, setting up of a financial inclusion secretariat, the establishment of a financial inclusion committee, as well as developing and running pilot schemes. The CBN said it was working with other stakeholders to implement a NFIS that would reduce the percentage of adult Nigerians that are excluded from financial services from 46.3 per cent in 2010 to 20.0 per cent by 2020. The CBN stated in the guidelines that specific targets had been set for payments, savings, credit, insurance, pensions, DMB and MFB branches, ATMs, POS, banking agents, youth and women. The guidelines also stated that a variety of stakeholders had been identified to support the implementation of the NFIS and their roles and responsibilities had been defined.

The implementation of the NFIS will be delivered through a broad range of coordinated interventions, with high priority given to the following:

i) Transformation of existing Know Your Customer (KYC) regulations into a simplified risk-based tiered framework that allows individuals who do not currently meet formal identification requirements to enter the banking system
ii) Implementation of a Regulatory Framework for Agent Banking to enable financial institutions to bring banking services to the unbanked in all parts of the country
iii) Implementation of a National Financial Literacy Framework to increase awareness and understanding of financial products and services, with the ultimate goal of increasing sustainable usage

Other areas to be addressed include the implementation of a comprehensive consumer protection framework to safeguard the interest of clients and sustain confidence in the financial sector. Continued pursuance of mobile payments and other cash-less policies to reduce the cost and increase the ease of financial services and transactions. Implementation of credit enhancement schemes/programmes to empower micro, small, and medium enterprises.

The tracking mechanism lists all programmes and initiatives that are to be implemented and the actions that will be required to launch them successfully. It also provides a list of recommendations for improving underachieving KPIs and other indicators plus an outline of stakeholder responsibilities for each action. The apex bank enjoined stakeholders to commit to supporting the successful implementation of the NFIS, while it takes the lead role in coordinating and promoting the Strategy.

The apex bank governor said that financial inclusion would not be achieved without strong financial literacy and education to help people to take decisions on personal financial issues. On efforts of the apex bank to ensure financial inclusion through the cash-less policy, he said that there had been continuous progress. An example is POS deployment; initially there were 11,000 terminals in the entire Lagos with less than 6,000 active, and N5 million to N10 million transactions were conducted

per day. Currently there are over 150,000 POS terminals in Lagos, about 20 per cent of them are active and between N1.0 billion and N2.5 billion transactions are conducted daily.

Hot Spots to Derive Financial Inclusion

In December, the Governor of the Central Bank of Nigeria (CBN) said that the apex bank will partner with satellite system companies to boost international telecommunication services in the country by creating hot spots, to enhance the implementation of financial inclusion in Nigeria. The idea is to have internet services (create hot spots) in each of the headquarters in the 774 local government areas in the country. The hot spots will help the operations of mobile money agents, Point of Sales (POS) merchants, ATMs, among others.

KYC Initiative

Mallam Sanusi, the CBN Governor, said that there has been a general reduction in cash transactions in the country and that banks would strive to harmonise the Know-Your-Customer (KYC) policy to be able to bank people that are excluded from the banking system. A major bottleneck in deepening financial inclusion is the lack of unique ID for customers. He said that in February 2014, the Nigerian banking system will commence the implementation of biometric authentication of all bank customers. With the implementation, bank customers will only need to be identified by their fingerprints. The Central Bank Governor noted that it had become necessary for the Nigerian banking system to kick-start a process that would help further its Know Your Customer (KYC) initiative and create an identification database. Mallam Sanusi stated that the biometrics project is "transformational and revolutionary" and is the final building block for the transformation of the payment system.

4.3 Banking Industry

In December, the CBN governor disclosed that part of the 2014 action plan of the Bankers' Committee would be to deliver price stability, financial stability, financial inclusion and economic growth. He also explained that the Committee has revalidated its goals to include the modernisation of the payment system; develop shared services and infrastructure for the financial industry to reduce cost; increase funding of small and medium enterprises; agriculture; power and telecommunication sectors.

Bank Profits

In January 2014, according to the apex bank the unaudited total profits of the banking industry for the first half of 2013 was N300.5 billion, a 22.95 per cent increase over the N244.4 billion achieved in the second half of 2012. The Central Bank also disclosed that the industry's interest income, which increased by 13.47 per cent, largely accounted for the higher profit level. The CBN stated that the industry's liquidity ratio was 67.8 per cent in Q2 2013, compared with 68.0 per cent at end of Q4 2012. All banks met the 30 per cent minimum regulatory liquidity ratio throughout the review period.

According to the CBN Financial Stability Report, deposit money banks' total loans increased to N8.81 billion in Q2 2013 from N8.15 billion at the end of-December 2012, reflecting an increase of N664 billion or 8.1 per cent. While non-Performing Loans (NPLs) to total loans deteriorated to 3.7 per cent at the end of June 2013, from 3.5 per cent at the end of December 2012. Total deposits increased to

N15.16 billion at the end of June 2013, from N14.39 billion at the end of December 2012, reflecting an increase of N771 billion or 5.35 per cent.

4.3.1 Cash-less Policy

On 2 October 3013, the Central Bank of Nigeria began the full implementation of its cash-less policy in the Federal Capital Territory, Rivers, Kano, Anambra, Ogun and Abia states; following the end of a three-month moratorium on the charges given to customers who withdraw or deposit higher than the amount stipulated in the cash-less policy.

In October, the Nigerian Postal Services (NIPOST) expressed its readiness to collaborate with the Central Bank to ensure the effective implementation of the cash-less policy, by deploying its vast postal network across the country. The Postmaster-General and Chief Executive Officer, Mallam Ibrahim Mori Baba, said, "Post offices around the world are diversifying their products and services to better meet customers' needs for reliability, speed and security. As e-commerce grows, they are positioning themselves as the delivery service of choice for goods ordered online. There is no doubt that post offices remain important facilitators of national and international trade in this constantly evolving world. This is a logical step because of the postal network's vast reach. The postal network remains the largest physical network in the world and a fundamental infrastructure that enables large segments of the economy to function." The Postmaster-General said because of the new challenges, NIPOST had begun the process of training and retraining its staff members in the basic knowledge of computer and online financial transactions to handle the enormous responsibility that would accompany the switch-over to a cash-less economy. He said hundreds of NIPOST outlets across the country would be connected to serve the people as avenues to transact business and move funds from one location to the other using computer networks. He further added that the Minister of Communication Technology, Mrs. Omobola Johnson, had also shown special interest in the involvement of the NIPOST to ensure the successful implementation of the cash-less policy, adding that NIPOST was already transferring money through a product called 'Postcash'.

4.3.2 E-Payments

According to the Nigeria Inter-Bank Settlement System (NIBSS), N6.85tn worth of electronic fund transfers was conducted between January and September 2013. NIBSS Instant Pay has grown steadily since inception with an average monthly volume of 1.13 million transactions and value of N761 bn respectively, during this period. This can be attributed to the reliability of the electronic funds transfer product, which has also increased product usage. There was also a steady growth in the volume of cheques processed in the second quarter of 2013, with June recording a 19 per cent growth rate over the May; which can be attributed to the adoption of cheque truncation nation-wide. There was also a noticeable increase in the value of cheque transactions during the same period. For the period under review, POS terminals recorded an average monthly volume of 591,000 transactions, while the value of transactions also increased, as the confidence level of customers using POS terminals increased.

4.4 Non-interest (Islamic) Finance

4.4.1 Non-interest Finance

Africa is for the first time embracing large-scale Islamic finance as countries seek to tap cash-rich Middle Eastern investors to finance their large infrastructure programmes. The market for sukuk, or

Islamic bonds, received a boost in October, after Nigeria became the first major economy in sub-Saharan Africa to issue a sukuk, which was followed a few days later by Senegal. Africa is home to roughly 400m Muslims, which is about a quarter of the world's total, but until October 2013, only Gambia and Sudan had issued any sukuk, and they were for tiny amounts on a short-term basis. Analysts said the Nigerian Sharia-compliant bond issued by Osun state while relatively small at $62m, signalled the start of a trend. Sukuks are structured to pay a fixed profit rate rather than a coupon and are commonly backed or based on real estate or infrastructure.

"Increasingly, it seems that sovereign sukuk issues from Africa might now be on the radar," said Christian Esters of Standard & Poor's. Senegal plans to issue a $200m sukuk in 2014, with the support of the Islamic Development Bank. Amadou Ba, the Finance Minister, said the offering was the beginning of an ambitious programme which could lead to the financing of innovative infrastructure and energy projects through sukuk. The use of Islamic finance on the continent could grow further as several north and sub-Saharan African countries including Morocco, Tunisia, South Africa and Kenya are developing the legal groundwork to be able to issue sukuk.

In addition to Islamic bonds, African countries are exploring other Sharia-compliant instruments, according to Neil Miller, Head of Islamic Finance, Linklaters, "Sukuk is the tip of the iceberg. There are a lot more Islamic finance products linked to infrastructure projects, trade and food security transactions," he said. The Islamic Development Bank, for example, is lending $150m through Sharia-compliant facilities for the new Lekki port in Nigeria. It also supported the construction of the Kenitra power plant in Morocco with a $200m loan. Global issuance of sukuk hit a record high of nearly $140bn in 2012, up 60 per cent from 2011, with Malaysia, Indonesia and Saudi Arabia dominating the market.

Osun State

According to Mr. Wale Bolorunduro, Commissioner for Finance, Budget and Economic Planning, Osun State's N10 billion sukuk was oversubscribed by 20 per cent. The subscribers included asset managers, institutional investors and high net worth individuals. He disclosed that the proceeds of the bond will be used to build and renovate schools. These new elementary schools will create a stimulating conducive environment for learning.

4.5 Micro, Small and Medium Enterprises (MSMEs)

In November, the Bank of Industry, Western Union, U.S. Agency for International Development (USAID), and the US Department of State reiterated their commitment to exploring ways to expand financial opportunities for the next generation of African Businesses. Ms. Evelyn Oputu, Managing Director of the Bank of Industry (BOI), stated that "BOI has been working with SMEs for more than a decade and has continually underscored their key role in not only driving growth, but also job creation. They have recognized the role of SMEs in development and are willing to help address issues they face in accessing financing."

The CBN has set aside N220 billion for lending to Micro, Small and Medium scale Enterprises, and female entrepreneurs as part of its initiatives to integrate women and informal firms into the formal economy. The CBN defines small and medium scale enterprises (SMEs) as businesses with turnover of less than N100 million per annum and/or less than 300 employees. Recent studies by the

International Finance Corporation showed that about 96 per cent of Nigerian businesses are SMEs, compared with 53 per cent in the USA and 65 per cent in Europe. It was also reported that SMEs represent about 90 per cent of the Nigerian manufacturing/industrial sector in terms of number of enterprises.

4.6 Microinsurance

In December, the National Insurance Commission (NAICOM), inaugurated the Steering Committee for microinsurance and launched the guidelines. NAICOM stated that organisations interested in operating microinsurance businesses should thoroughly study and understand the guidelines. NAICOM's number one priority will be to ensure that customers are adequately protected. The guidelines cover nine areas – an overview; registration requirements; product distribution channels; prudential standards; supervisory requirements; market conduct; corporate governance; fines and penalties; and exit, suspension, cancellation. The prudential standards states that any microinsurer intending to commence a specialised microinsurance business should have a minimum paid up share capital of N150 million for life microinsurance, and N200 million for general microinsurance business. According to the guidelines, the Commission may increase the amount of minimum paid up share capital as demand dictates. A specialised microinsurer shall maintain with the Central Bank of Nigeria, a statutory of 10 per cent of the minimum capital requirement.

Microinsurance products are specially designed for low income earners. It requires them to pay a little premium, which in return, offers them cover in times of losses or other unforeseen occurrences. The Commissioner for Insurance, Mr. Fola Daniel said beyond takaful and microinsurance, it was imperative to emphasise the Commission's commitment to drive the Nigerian insurance industry to greater heights by providing strategic and far-reaching regulatory frameworks to reduce risks and entrench participation in insurance. "This is the expectation that informed our decision to lower the capital requirement for the registration of insurance business at the micro level and to provide a framework that allows for the establishment of takaful operations," he said. Looking at the recent climatic changes and the menace of floods to agricultural produce, he said that NAICOM was poised to improve agricultural insurance through the new perspective of climate insurance.

The Minister of State for Finance, Dr. Yerima Ngama, said that every sector of the economy had very important contributions to make towards the success of the Federal Government's Financial Inclusion Strategy. He said that the need to develop a strategy for the achievement of financial inclusion became a universal necessity in 2003 when the United Nations declared that poverty was due to the lack of access to sustainable financial services, such as savings, credit or insurance. He said that the development and implementation of the takaful and microinsurance guidelines was a good step towards increasing insurance penetration and contributing to the Gross Domestic Product of Nigeria.

5 Telecoms Sector

5.1 Africa

According to the GSM Association (GSMA) report entitled: 'Sub-Saharan Africa Mobile Economy 2013', the telecoms sector contributed over 6.0 per cent of sub-Saharan Africa's Gross Domestic Product (GDP), which is projected to rise to over 8.0 per cent by 2020. The report revealed that the mobile ecosystem directly supported 3.3 million jobs in 2012 and contributed about $21 billion to public funding in the region, including licence fees. The GSMA anticipates that by 2020, the mobile ecosystem will double its economic effect, by employing 6.6 million people in the region and contributing $42 billion to public funding. The report noted that sub-Saharan Africa's unique mobile subscriber base has grown by 18 per cent yearly over the last five years, making it the fastest growing region globally, adding that by mid-2013, there were 253 million unique mobile subscribers and 502 million connections. The report stated that many countries in the region are seeing fixed line penetration rates of less than 5.0 per cent. Mobile has emerged as the main medium for accessing the Internet across sub-Saharan Africa. It said that while 2G connections still dominate in the region, 3G and 4G networks are gaining scale and smart phone ownership is on the rise, with unique subscriber penetration rates still less than 33.0 per cent, which presents a major opportunity for growth in the next five years.

Chief Regulatory Officer, GSMA, Tom Phillips said, "Despite the significant impact of the mobile industry in sub-Saharan Africa in recent years, even greater opportunities are ahead. Beyond further growth for basic voice services, the region is starting to see an explosion in the uptake of mobile data. However, a short-term focus by some countries on generating high spectrum fees and maximising tax revenue risks constraining the potential of the mobile Internet." Furthermore, the report noted that realising the longer-term potential of the mobile sector depends on a transparent and enabling policy environment for the industry and for associated verticals, adding that operators and investors need clarity in order to fund the substantial investment required to extend coverage to remote areas and meet the growing demand for higher speed connectivity. The GSMA noted that nearly half of countries in sub-Saharan Africa impose customs duties on mobile handset imports, reaching over 30 per cent in some cases, stating that lowering taxation levels on the mobile sector would benefit consumers, businesses and government by lowering the cost of ownership, encouraging the take-up of new mobile services, improving productivity and boosting GDP and overall tax revenues in the longer term.

5.2 Nigeria

Over the past 12 years, $25 bn has been invested in the Nigerian telecommunications sector. During this period, telecommunication was the fastest growing sector of the Nigerian economy, more than doubling the performance of the next sector – building and construction. The telecommunications sector has grown at an average of 30.0 per cent per annum; created over 20,000 jobs directly and about 1.1 million indirectly; and contributed about 8.0 per cent to the nation's Gross Domestic Product.

According to the Nigerian Communications Commission (NCC), in October 2013 the number of inactive telephone lines reached 48,041,602; the number of connected lines was 169,929,616; whilst

the number of active lines was 121,888,014. Teledensity reached 87.06%. The table below provides a summary of telephone subscribers in Nigeria as at October 2013:

	Number of connected lines	Number of active lines
Mobile GSM	**156,129,961**	**119,101,719**
Mobile CDMA	**11,341,578**	**2,423,746**
Fixed Wired/Wireless	**2,458,077**	**362,549**
Total	**169,929,616**	**121,888,014**

Source: NCC

6 Mobile Money

6.1 *Africa*

Mobile money services continue to grow in Africa and demonstrate the genuine potential the continent has to leapfrog its global counterparts. However, one recent controversial aspect of the mobile money transfer market that continues to generate news headlines is taxation on mobile money services offered by network operators. There have been numerous reports of the implementation of tax directives and related legislation by authorities in various countries – primarily within East and West Africa. Kenya and Uganda were amongst the first to initiate tax on fees charged by operators to utilise mobile money services. Tanzania is expected to follow suit. In January 2014, Zimbabwe declared that it will impose $0.05 on each mobile money transaction, while Uganda indicated it will impose a 10% tax on cash transfers through mobile phones and other money transfer operators. Mobile money taxes in sub-Saharan Africa pose a threat to the growth of domestic money transfer services.

A recent GSMA Global Mobile Money Adoption Survey stated that there are currently more mobile money accounts than bank accounts in Kenya, Madagascar, Tanzania and Uganda, as well as more mobile money agent outlets than bank branches in at least 28 countries.

In December 2013, Dr. Louis Kasekende, Bank of Uganda Deputy Governor, revealed that between January and November 2013, mobile money transfers in Uganda reached Ush1.6 trillion ($640m).

6.1.1 Kenya

In the first 11 months of 2013, Kenyans transacted more than Sh1.7 trillion on their mobile phones, surpassing the value of the country's budget of Sh1.6 trillion for the 2013 financial year. This represents a 23.7 per cent increase from Sh1.4 trillion in the same period in 2012. The convenience, ease of use and security, has attributed to the increased uptake of mobile phone financial services. Mobile transactions now range from transfer of money, payment of bills, school fees and even saving and borrowing money. The trend is being accelerated by the continued integration of mobile money with financial institutions in the provision of services. Banks have also increasingly rolled out mobile payment or transaction platforms, such as Kenya Commercial Bank's M-Benki, Family Bank's PesaMob, Commercial Bank of Africa and Safaricom's M-Shwari, among others. As at the end of November 2013, the number of mobile money agents was 112,947, a 50 per cent increase from 75,226 in the same period last year, which was also a boost to the number and value of transactions.

Safaricom's Chief Executive Officer, Bob Collymore, said, "We are happy with the growth and it definitely means Kenya is slowly moving into a cash-less society. Mobile money has become a way of life for more Kenyans and there is still a lot of room for growth. Given that a lot of transactions are still done in cash, we see a big opportunity with products such as Lipa Na M-Pesa going forward. It is one of our key pillars of growth as a company. With mobile phone transactions reaching over Sh3 billion daily compared to Sh67 billion that is transacted in different platforms in the national payment system like cheques, cash and the real time gross settlement system, the opportunity to incorporate the Sh67 billion to the mobile phone and other electronic formats is even bigger."

In 2013, the Central Bank of Kenya (CBK) proposed to open the money transfer system under the draft National Payment System (NPS) regulations to allow for interoperability of mobile money services among the four telecom providers — Safaricom, Orange, Yu and Airtel. The draft regulations on the NPS made several recommendations, among which e-money providers would be required to operate platforms that are able to be accessed and operated by other payment systems in Kenya. If passed, this would mean that other mobile operators will access Safaricom's M-Pesa platform, further opening it up to their customers. This would also help in accelerating the uptake of mobile money services.

A recent survey by FinAccess indicated that mobile phone financial services have helped in deepening financial inclusion, with the proportion of adults in the formal financial system rising to 66.7 per cent in 2013 from 27.4 per cent in 2006.