EFInA Quarterly Review

(April to June 2014)

1 Global Economy

1.1 E-Payments

The world of payments is changing: people are buying ever more things online and increasingly with their phones. Whizz-bang technology can make transactions effortless or embed them seamlessly into other activities, such as booking a taxi or searching for a nearby coffee shop. The numbers are becoming significant: PayPal has 143m active accounts and handled $180 billion in payments last year.

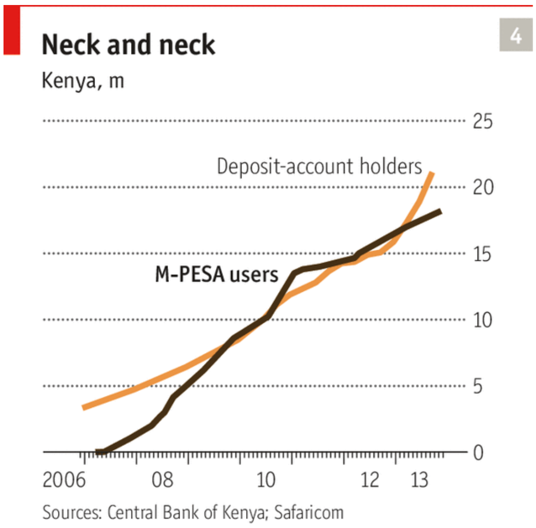
Not surprisingly, the titans of the internet have started to eye up the payments business. Google offers a virtual wallet; Amazon recently set up a service to allow its customers to transfer money; Facebook and Apple have expressed interest in the field. There is much speculation that the latest iPhone's ability to read fingerprints may be heralding a world-changing payment service. Yet banks are largely absent from this technological and commercial battleground. Payments are a huge business for them, bringing in $1.3 trillion in 2012, or 34% of their global profits, according to McKinsey. These revenues have been growing steadily by 3% a year from 2008 to 2012, compared with just 1% a year for other income. As in their lending businesses, however, banks are finding that new regulations (such as those on interchange fees) cut into their revenue from payments. In the long run, banks risk becoming the providers of a cheap, commoditised service, with most of the money in the payments business going to firms that make customers' lives easier or provide new services. Even worse for banks would be a future in which people begin to store more of their money outside the banking sector and make payments that are not tied to a formal bank account

However, some banks are not ignoring these developments. They are sprucing up their websites and mobile apps and trying to develop catchy products of their own. Barclays UK, signed up 2.5m users for its mobile money-transfer service, PingIt, in its first 18 months. Erste Group of Austria has developed a system called Erste Confirming that allows businesses to haggle over invoices, securing discounts for buyers and cheap loans against unpaid bills for suppliers. If necessary, banks can also buy the technology they need or the companies that create it. BBVA (a Spanish bank), recently bought Simple (a service with just 100,000 customers) for $117m. An American subsidiary of RBS has teamed up with Bottomline Technologies, a firm that helps businesses pay each other electronically, to beef up its corporate offering. However, acquiring such businesses from the people who invented them will not turn the banks into bold innovators.

Tech firms are not the only potential usurpers. Retailers are understandably eager to increase their leverage in the world of payments. Many telecoms firms see the growth of mobile payments as their chance to break into a lucrative new business. The issuers of the vast majority of prepaid cards are not banks; indeed the cards are often explicitly promoted as alternatives to a bank account. The threat to banks from novel payments systems is even clearer in poorer countries, since a smaller share of the population is using a bank in the first place. MasterCard, for instance, is co-operating with the Nigerian government to issue national identity cards that can double as prepaid cards, in a deliberate effort to provide financial services to those without bank accounts. Visa is helping to develop a mobile-payments system in Rwanda. When such schemes take off, they can quickly supplant banks as the main local conduit for money.

1.1.1 M-payments

In Kenya, roughly 60% of adults about the same number as have a bank account use M-PESA (mobile payment service). Increasingly mobile payments cater to business customers by providing services that integrate electronic invoicing and payments into a firm's procurement and accounting system, or that help manage and raise working capital, are becoming commonplace.



New research conducted by Juniper Research indicates that over 1.75 billion mobile phone users will use their devices for banking purposes by the end of 2019, compared to 800 million in 2014.

According to the Financial Times, Facebook is in the process of getting an e-money license in Ireland that would allow its users to hold and exchange money on the social networking site. Eden Zoller, m-payments experts at Ovum explains the rationale behind this move, "These applications are gaining good traction with consumers, particularly in emerging markets where Facebook has ambitions to be the prime platform from which people access, and interact with Internet services." Facebook's user base in emerging markets is growing fast (some 200m in Asia alone as at Q4 2013), but when it comes to mobile payments and financial services, Facebook will have its work cut out and the biggest challenge will be consumer trust. Ovum's 2013 Consumer Insights found that only 1 per cent of respondents trusted social networks like Facebook to deliver m-payments, in sharp contrast to the much higher levels of trust placed in banks (43 per cent) and credit card companies (13 per cent). It also remains to be seen how well Facebook will execute m-payments given its poor track record with m-commerce applications. The Facebook Credits virtual currency got nowhere and was wound down last year, while its main m-commerce offering, Facebook Gifts, has so far received a muted response from consumers.

1.2 Agent Banking

With a workforce of just over 491,000 in 2013, the United States Postal Service (USPS) is second only to Walmart among civilian employers in America. Earlier this year its inspector-general released a white paper suggesting that post offices should begin offering financial services, such as cheque-cashing, small loans, bill payments, international money transfers and prepaid cards to which

salaries or benefits could be transferred. The reasoning is simple: a lot of Americans have limited access to banks and a lot of post offices have too little to do.
More than one-quarter of American households are unbanked or underbanked, meaning they either lack a current or savings account, or they have one but still use alternatives to banks such as cheque-cashers and payday lenders. These are the distressed customers to whose rescue the USPS hopes to target. Some 59% of its post offices are in places with either a single bank or none at all. In rural hamlets they are often one of very few commercial establishments. Post offices already sell money orders and provide electronic remittances to nine Latin American countries. Providing small, quick loans at lower interest rates than payday lenders (not a hard thing to do, since annual rates on payday loans can exceed 800%) could save low-income consumers hundreds of millions or even billions of dollars in interest and fees. The post office would compete not with banks, but with their more expensive alternatives.

Roughly 1 billion people in 50 countries rely on their postal systems for financial services, according to the Universal Postal Union, the United Nations agency that helps to deliver the post. The business models vary widely. In some countries post offices act as a payment centre, allowing people to receive remittances, pay bills and top up or tap money stored on their mobile phones. Some operate full-service banks, Japan Post, for example, is one of the world's biggest. In other countries, such as Brazil, commercial banks form partnerships with post offices; in Malawi private banks can rent space from post offices.

A World Bank study found last year that postal banks are likelier than conventional ones to provide bank accounts to those outside the financial system. The bigger the postal network, the greater the ability to reach such people.

1.3 Retail Banking

By the year 2020, most retail banks will have reduced their branch footprint, as the banking sector goes digital. According to the Retail Banking 2020 report compiled by PricewaterhouseCoopers (PwC), as banks continue to embrace technology and they move their services online, the next 6 years should see branch banking transforming significantly. The report stated that every bank will be a direct bank, and as cash usage falls away, traditional branches are no longer necessary. Given their high-fixed cost, branches will need to become dramatically more productive, or significantly less costly. Banks have already reduced staff levels, closed the most uneconomic branches and started experimenting with new branch concepts. We expect these trends to accelerate, as customer expectations and behaviours evolve. The branches that remain are expected to take many forms such as hubs providing information and advisory services to smart kiosks which will offer enquiring customers video contact with a range of specialists as well as cash and sales. PwC said respondents globally see the largest banks as benefitting most from these changes while smaller regional and community banks will be the most threatened. In heavily banked markets such as the US, PwC expects at least 20% fewer branches by 2020, and that this trend will continue to accelerate. Emerging markets will continue to develop their physical footprints, using a growing range of points of presence.

1.4 Economic Growth

Global growth moderated more than expected in the first quarter of 2014, from an annual rate of 3.75 per cent in the second half of 2013 to 2.75 per cent - some 0.5 percentage point lower than the International Monetary Fund had forecast in its April 2014 World Economic Outlook (WEO) report. Financial conditions have eased since the April 2014 WEO was released. Long-term interest rates in advanced economies have declined further, in part reflecting expectations of a lower neutral policy rate over the medium term; indicators of expected price volatility have declined as well, and equity prices have strengthened. With euro area inflation in April below expectations, the European Central Bank cut its policy rate and deployed other easing measures at its June meeting. In this environment, capital flows to emerging market economies have recovered despite generally weaker activity, bond spreads for emerging market sovereigns have declined, and exchange rates and equity prices have stabilized or even strengthened in some of these economies.

Leading indicators point to the global recovery regaining strength in the second quarter of 2014. This is consistent with the view that the unexpected weakness in the first quarter was in large part temporary, because the impact of factors such as harsh winter weather and inventory correction will disappear and policies have already responded to weaker growth, including in China. Moreover, key drivers supporting the recovery identified in the April 2014 WEO remain in place, including moderating fiscal consolidation and highly accommodative monetary policy in most advanced economies. Nevertheless, some of the demand weakness in the first quarter appears to be more persistent, especially in investment globally, and is expected to result in lower global growth in 2014 compared with that predicted in the April 2014 WEO. Overall, global growth, which is now computed using the new 2011 purchasing power parities of the International Comparison Program, is projected to rise to 3.4 per cent in 2014 and 4.0 per cent in 2015.

In the major advanced economies, a growth rebound is underway in the United States, growth is now projected at 1.7 per cent for 2014, rising to 3.0 per cent in 2015. Growth in the Euro area is expected to strengthen to 1.1 per cent in 2014 and 1.5 per cent in 2015 but to remain uneven across the region, reflecting continued financial fragmentation, impaired private and public sector balance sheets, and high unemployment in some economies. In Japan, with a stronger than expected performance in the first quarter, growth in 2014 is now projected to be higher at 1.6 per cent, declining to 1.1 per cent in 2015, mostly due to the planned unwinding of fiscal stimulus.

In emerging market and developing economies, growth is now projected to decrease to 4.6 per cent in 2014 and then strengthen to 5.2 per cent in 2015. In China, the growth in 2014 is projected to be 7.4 per cent and to moderate to 7.1 per cent in 2015, as the economy transitions to a more sustainable growth path. In India, growth appears to have bottomed out, and activity is projected to pick up gradually after the post-election recovery in business sentiment, offsetting the effect of an unfavourable monsoon on agricultural growth. In a number of major emerging market economies, growth projections for 2014-15 have been marked down. In Brazil, tighter financial conditions and continued weakness in business and consumer confidence are holding back investment and dampening consumption growth. In Mexico, weaker construction and a slower U.S. recovery are projected to result in slower growth in 2014 relative to the previous forecast. In Russia, investment is expected to remain weaker for longer, given geopolitical tensions. Growth in South Africa is expected to stay sluggish as a result of electricity constraints and labour conflicts.

1.5 Employment

A new report by the International Labour Organization (ILO) reveals that countries that invested the most in quality jobs from the early 2000s grew nearly one percentage point faster every year since 2007 than other developing and emerging economies. The report adds that this helped cushion the impact of the global crisis, which erupted in 2008. The report, entitled, 'World of Work 2014: Developing with Jobs', which provides an in-depth analysis for 140 developing and emerging nations, shows for the first time that investing in quality jobs, reducing vulnerable employment and tackling working poverty leads to higher economic growth. It also finds investment in high quality jobs tends to be associated with lower income inequality. In his comment on the findings of the report, the Director General of the ILO, Guy Ryder said, "Development doesn't happen through such things as exports, open trade and foreign direct investment on their own. Social protection, respect for core labour standards and policies that promote formal employment are also crucial for creating quality jobs that raise living standards, increase domestic consumption and drive overall growth. Decent work opportunities for women and men help trigger development and reduce poverty."

According to the report, social protection has a key role to play in the overall efforts of providing quality jobs. The report stresses the importance of combining well designed social protection with a strategy to increase the productivity of agriculture and invest income from oil and other natural resources into the rest of the economy. It means governance measures to provide an enabling environment that can facilitate the creation and expansion of businesses. This includes simplifying administrative procedures, as Uruguay has done with a 'single tax' social protection scheme for the self-employed, leading the way to formal entrepreneurship.

Reflecting a smaller increase than previous projections, global unemployment stood at just under 200 million in 2013 and is expected to rise by 3.2 million in 2014. By 2019, given current trends and policies, unemployment will reach 213 million. Global joblessness is projected to remain broadly at the current level of 6 per cent until 2017. Over the next five years, 90 per cent of jobs will be created in emerging and developing countries. This is expected to have a significant impact on migration flows.

1.6 Microinsurance

In the developed world, insurance is an everyday part of life. In developed countries such as Britain, well over 80% of households hold at least one policy, according to the Association of British Insurers, an industry group. Insurance Europe, a lobbying organisation, reckons European countries spent 8.2% of their GDP on insurance cover in 2011. However, insurance coverage is much patchier in the developing world. In 2010, only 2.5% of Africans used insurance products, according to the International Labour Organisation.

Studies investigating the impact of microinsurance - cheap policies aimed at those earning below $4 a day - have shown they can smooth income shocks in vulnerable households, raise school attendance rates and improve health-care outcomes. Academics now argue that the best way to boost these dismal take-up rates in poor countries is to sell microinsurance products to groups rather than individuals. That way administrative costs can be cut (as the number of transactions are reduced), as can the risk of fraud. Yet some insurers are now taking steps themselves to make microinsurance policies more attractive for individuals to purchase.

One innovative approach, being rolled out by BIMA, a start-up, is to give microinsurance coverage away with mobile top-ups in partnership with local telecom companies. In 2010, it set up a scheme with Tigo, a Ghanaian mobile operator, in which using 5 cedi ($1.3) of phone credit a month unlocked free life insurance coverage worth 200 cedi ($53.5) if policy holders (or a member of their family) died over that period. While Tigo benefits from the tie-up by making its mobile phone services more attractive than its competitors', the insurer benefits from having access to a low cost network to distribute its product. Four years later, the concept seems to be growing in popularity around the developing world. BIMA's mobile microinsurance product range - including life, personal accident and hospital-stay options - now covers 7m people in eight countries across Africa, Asia and Latin America. The model is already making profits in at least three of those markets, according to Gustaf Agartson, the firm's chief executive.

According to a new report by the Micro Insurance Centre, such methods appear to have increased the uptake of microinsurance among disadvantaged groups. They found that most of the customers signed up to these sorts of mobile phone schemes earn under $4 a day, rather than being from more affluent groups that already had access to other insurance options. BIMA's customer base appears to support this conclusion. For instance, in Senegal 84% of the firm's customers earn under $3.75 a day; while in Tanzania 79% have an income of less than $2.50 a day.

But incorporating microinsurance into mobile phone packages, alone, cannot produce the levels of coverage seen in the developed world. Relatively few people earning under $1.25 a day, particularly in rural areas, have been able to sign up, as they are less likely to own a mobile phone or make enough calls to be eligible for the microinsurance freebie. In addition, large swaths of Africa still do not have mobile coverage at all, limiting the reach of the product. Whilst it is true that mobile microinsurance has boosted insurance coverage in cities, the question of how to achieve this in more remote areas is still very much an open question.

2 African Economies

2.1 Employment

The World Economic Forum on Africa held in Abuja in May, identified key drivers that will promote prosperity in Africa. Participants at the three-day event said that Africa's prosperity can only be driven by inclusive growth strategies that create jobs and include all Africans. In Africa, the unemployment problem is compounded by its youthful population and pending demographic transition. An additional 112 million workers will enter Africa's labour force by 2020. Creating sustainable and inclusive growth and jobs is a 'complicated transfer function', said Rice, Vice-Chairman, GE, Hong Kong, Co-Chair of the World Economic Forum on Africa. "It starts with electricity, healthcare and clean water. Without this, you don't have the human capital you need to develop jobs," he said. The call to action urges all African states to work together towards the establishment of joint policies and the removal of barriers to facilitate the movement of business travellers, students and tourists with the objective of improving social and economic development on the Continent

Job creation is the main focus of Nigeria's Transformation Agenda, the nation's plan to modernise and diversify the Nigerian economy by focusing on priority sectors such as agriculture, manufacturing, housing and construction, and the services sectors.

2.2 Economic Growth

According to the World Bank, economic growth in Sub-Saharan Africa is expected to rise from 4.7 per cent in 2013 to 5.2 per cent in 2014. The increase in growth will be mainly due to rising investment in natural resources and infrastructure, and strong household spending. The World Bank notes that while GDP growth in Africa is expected to remain stronger than in many other developing countries worldwide, a number of important risks remain such as:

- *Commodity prices - w*eaker demand for metals and other key commodities, combined with increased supply, could lead to a sharp decline in commodity prices.
- *Locally volatile food prices* - within Sub-Saharan Africa, strong local price pressures have emerged in a number of countries driven in part by large currency depreciations, as in Ghana and Zambia, and also by unfavourable weather conditions. Increasing integration with larger regional markets can reduce the magnitude of the price effects from localised shocks, while lower trade barriers and better trade infrastructure would allow faster and more efficient response to localised food shortages.
- *Political uncertainty* - domestic risks associated with social and political unrest, and emerging security problems, remain a major threat to the economic prospects of a number of countries in the region.

2.3 Foreign Investment

Foreign investment in African economies will reach a record $80 billion in 2014, as business leaders in developed economies put the recession behind them and the Chinese and other countries from emerging markets continue to show a strong interest in African assets, according to a survey compiled by the African Development Bank, the United Nations Development Program and the Organization for Economic Cooperation and Development. Foreign investor interest remains fixed on a handful of African nations. According to the report in 2013, the top six recipients, representing one third of the Continent's population, received the same amount of foreign direct investment as the remaining 48 countries together. The top destinations were the Continent's two largest economies, South Africa and Nigeria.

A combination of foreign direct investment, portfolio investment in stock and debt, growing remittances from workers sending money home and improved tax revenue has meant the Continent's overall dependence on foreign aid will continue to shrink as a proportion of its external financing. Foreign aid as a proportion of total foreign capital inflows to Africa is set to decline to about 26% in 2014 from 30% in 2013.

2.4 Remittances

Remittances-are the financial lifeblood of many poor countries. One of the biggest and fastest growing markets is Africa, which received $32 billion in 2013. That is expected to grow to more than $40 billion by 2016. It would be reasonable to assume that the fees charged by middlemen would be declining due to the advent of mobile banking, online transfers and other innovations. In sub-Saharan Africa, however, they have remained high, and in some countries they have even been increasing, according to 'Lost in Intermediation', a report by the Overseas Development Institute.

The ODI found that the region's diaspora pay an average of 12.3% to money transmitters to send $200 home, compared with a global average of 7.8% and a target of 5.0% set by the G8. One explanation is lack of competition. Western Union and MoneyGram, the two largest money transmitters, have a combined 50% or more of the market in three-quarters of Sub-Saharan countries (using number of pay-out locations as a proxy for market share). Another factor is the opacity of the currency conversion 'spread' charged by the firms, which can be one third or more of their total fees. One reason for the high fees is the exclusivity agreements that money transmitters sign with local agents and banks, blocking would-be entrants. These are common in Africa. Financial regulation also plays a role, for example, in many countries the money transmitters are required to route payments through banks. That makes sense from the perspective of tracking money laundering risks, but it adds a costly extra layer to the process. However, money transmitters argue that the costs reflect currency risk in volatile markets. They defend exclusivity agreements on the ground that without them new competitors would be able to free-ride on the training they have given local agents. They point out that they have invested heavily in cultivating these networks. Some African countries are starting to scrutinise the agreements more closely. For example, Ghana, Nigeria, Senegal and Tunisia, have adopted rules prohibiting exclusivity, though enforcement remains weak.

3 Nigerian Economy

3.1 GDP

The GDP rebasing effort by the National Bureau of Statistics (NBS) shows that the Nigerian economy is now more diversified with a GDP value of $510 billion. Dr. Yemi Kale, Statistician-General of the Federation, stated that the rebased GDP showed a noticeable shift in the share of key industries to the country's overall GDP. The rebased 2010 figures revealed a decline in the share of agriculture to 24.0 per cent from 30.3 per cent in 1990. Industry also declined to 25.8 per cent, down from 46.1 per cent, while the share of services has increased to 50.2 per cent, up from 23.6 per cent. The rebased GDP figure has exposed much more opportunities in real estate and infrastructure investment and development than had been previously imagined by investors and analysts

According to the African Economic Outlook 2014 report by African Development Bank (AfDB), the United Nations and the Organisation for Economic Cooperation and Development, the risks to Nigeria's economic growth include the sluggish recovery of the global economy, security challenges in the North Eastern part of the country, continued agitation for resource control in the Niger Delta and possible distraction from on-going reforms as a result of the upcoming 2015 general elections. The report stated that negative growth of the oil sector may also continue to drag down overall growth until a lasting solution is found to the challenge of oil theft and weak investment in exploration due to the uncertain state of the sector as a result of non-passage of the Petroleum Industry Bill (PIB).

3.2 Inflation

According to the National Bureau of Statistics (NBS), Nigeria's inflation year-on-year rose marginally to 8.2 per cent in June compared to 8.0 per cent in May and 7.9 per cent in April. The NBS stated that the price increases seen in May were as a result of higher prices in groups that contribute to both the Food and Core sub-indices. Food prices increased for the third consecutive month (year-on-year) in May, and were also the highest year-on-year increase observed so far in 2014. The increases were supported by higher prices in the bread and cereals, fish, dairy, fruits, and vegetable groups.

3.3 Foreign Reserves

After months of decline, Nigeria's foreign reserves increased in value in June, with the 30-day moving average reaching $37.268 billion as at June 26, 2014, according to the Central Bank of Nigeria. The foreign reserves which had declined to $36.697 billion on June 4, 2014, the lowest in over two years, rose by 1.61 per cent between June 4 and 26. Mr. Godwin Emefiele, the new CBN Governor, highlighted shoring up the external reserves as one of the apex bank's key objectives.

Before Mr. Emefiele's tenure commenced, the nation's foreign reserves had been on a steady decline, dipping by almost 14 per cent in the first five months of the year. Between January when it was $43.308 billion and June 4 when the reserves reached its lowest, the reserves had gone down by over $6.611 billion or 15.3 per cent. The CBN's objectives during the reign of the former governor, Mallam Sanusi Lamido Sanusi, had been to keep inflation rates low and exchange rates stable. This led to the depletion of the external reserves which the apex bank constantly used to support the Naira.

3.4 Government Debt

The Federal Government spent the sum of $297.33m (N47.57bn) in the 2013. Giving a breakdown of the payments, the Budget Office of the Federation report stated that $143.02m (or 48.10 per cent) was paid to multilateral creditors; $40.95m (or 13.77 per cent) was paid to non-Paris Club bilateral creditors; $71.63m (or 24.09 per cent) to commercial and ICM (Eurobond) creditors; and $41.73m (or 14.03 per cent) to others. The report revealed that the country's total public debt stock as of December 31, 2013 was $64.51bn (N10.044tn); which consists of $8.82bn (N1.37tn) or 13.68 per cent for external debt, and the balance of $55.69bn (N8.67tn) or 86.32 per cent for domestic debt stock. The report noted that the ratio of total net value of debt to the Gross Domestic Product as of December 2013 was significantly below the global threshold of 40 per cent at 12.52 per cent.

3.5 Foreign Direct Investment

Despite prevailing socio-economic challenges assailing the country, the United Nations Conference on Trade and Development (UNCTAD) has rated Nigeria as one of the top three destinations for Foreign Direct Investments (FDIs) in Africa. According to the UNCTAD report released in May, FDI inflows into Africa rose by 4 per cent to $57 billion, with Nigeria's inflow reaching N5.6 billion in 2013.

In May, the United Nations Industrial Development Organisation (UNIDO) approved the establishment of an Investment and Technology Promotion Office (ITPO) in Nigeria. The Minister of Industry, Trade and Investment, Mr. Olusegun Aganga, noted that the ITPO would help to promote Nigeria's local and foreign direct investment and technology, in addition to boosting job creation, technology transfer and industrial development. The Minister said, "There are only a few countries in the world where UNIDO has set up ITPO to promote investment into the area of technology. The establishment of the ITPO in Nigeria will not only have a big positive impact on the Nigerian economy, it will also help in the innovation of the industrial sector."

4 Financial Sector

4.1 Banking Industry

4.1.1 Central Bank Governor

The new Central Bank Governor, Mr. Godwin Emefiele resumed office on June 4, 2014. Mr. Emefiele unveiled his 10-point agenda for the Central Bank of Nigeria. He said that, he would, through his vision for the country create a Central Bank that is professional, apolitical and people focused. The Governor stated that he would reposition the apex bank into an institution that would dissipate its energies into building a resilient financial system that will serve the growth and development needs of the country. He said, "My vision for the bank would be anchored on 10-point agenda, which would help the apex bank reduce poverty, create jobs and ensure macroeconomic stability. The agenda is to pursue a gradual reduction in key interest rates and include unemployment rates in monetary policy decisions; maintain exchange rate stability and aggressively shore up foreign exchange reserves; strengthen risk-based supervision mechanism of Nigerian banks to ensure overall health and banking stability; build up sector-specific expertise in banking supervision to reflect loan concentration of the banking industry; to consider and announce measures to effectively address the anomaly in macro-prudential space; abolish fees associated with limits on deposits and reconsider on-going practice in which fees associated with limits on withdrawals accrue to banks alone; introduce a broad spectrum of financial instruments to boost specific enterprise areas in agriculture, manufacturing, health and oil and gas; and establish a secured transaction and national collateral registry that will improve access to information on borrowers and assist lenders to make good credit decisions".

Mr. Emefiele said that the CBN under his leadership would also build resilient financial infrastructure that will serve the need of the lower end of the market, especially those without collateral as well as renew vigorous advocacy for the creation of commercial course for the quick adjudication of almost and related offences.

4.1.2 Central Bank of Nigeria

The Central Bank of Nigeria has issued new guidelines for the regulation of International Money Transfer Services in Nigeria, a move aimed at ensuring that all business rules governing their activities are strictly adhered to. According to the apex bank, the objectives of the guidelines are to provide minimum standards and requirements; specify delivery channels for (inbound/outbound), in a cost effective manner; provide an enabling environment; specify minimum technical and business requirements for various participants; and provide broad guidelines for implementation of processes and flows of international money transfer services, from initiation to completion.

The new rules state that payment must be made to customers only in Nigerian Naira, in line with CBN's subsisting regulation and at the prevailing exchange rate on the day the transfer is received; while the operator likewise should declare in the receipt/certificate of transfer that the money paid to the customer is not counterfeited. All the money transfer operators shall comply with the guide to money transfer charges, as provided by the CBN from time to time. The CBN warned that no person or institution shall provide international money transfer services unless such per has been duly licensed by the apex bank.

However, all applications for licence shall be accompanied with, among other things, a Business Plan, which will include N50 million or its equivalent for foreign companies, plus the guarantee of the parent company. A money transfer operator, who wishes to engage a foreign technical partner that will provide global or regional payment or money transfer platform, shall obtain a letter of no objection from the CBN. It must be a registered entity, licensed in its home country to carry out money transfer activities, with a minimum net worth of $1 million, as per the latest audited financial statement, or as may be determined by the CBN from time to time. The overseas technical partner should be well established in the money transfer business, with a track record of operations and a memorandum of understanding that clearly delineates liabilities in the event of disputes and/or process failures.

4.1.3 Deposit Money Banks

Biometric Registration

Deposit money banks were due to commence roll-out of the Bank Verification Number (BVN) registration of customers by the week of June 16. This signifies end of the pilot phase of the project during which over 7,000 BVNs were issued by 21 deposit money banks and the Nigeria Inter-Bank Settlement System (NIBSS) to existing internal bank customers. The enrolments and BVN issuance were achieved across 44 bank sites that included 21 bank headquarters. Commencing in Lagos State, the roll-out of the BVN solution for the identification and verification of bank customers in June precedes a nationwide roll-out.

Mr. Ade Shonubi, Managing Director, NIBSS, who doubles as the Head of the BVN project management team, said, "The pilot phase of the BVN registration of bank customers served as a model and basis for roll-out of the solution to existing bank customers. All Nigerian banks have their headquarters servers configured, deployed and tested, and had their staff trained before engaging in enrolment and verification of end users who are mainly internal customers. Feedback from application usage and experience were collated, analysed and shared with solution provider to ensure seamless service delivery during eventual roll-out. We are adopting a phased roll-out approach starting with Lagos State, which commences on June 16, 2014, at 1,000 bank branches. Across the nation at full roll-out, 10,000 enrolment sets will be deployed across 5,000 bank branches, implying deployment of two enrolment sets per bank branch." Mr. Shonubi added that "In line with the commitment of the CBN and the Banker's Committee to the financial enlightenment of Nigerians, all possible knowledge gaps will be closed through bespoke awareness programmes, customer education and engagement initiatives to ensure massive uptake of BVN by existing bank customers".

The BVN initiative involves the capturing of an individual's basic biometric data information which includes the facial image, the 10 fingerprints as well as other unique features of that individual. It will utilise the biometric technology system for verification and secure authentication of the identity of bank customers and ultimately serve as a means of authenticating customer's identity at point of banking transactions. It gives the bank customer a uniform and single identity called the BVN that will be acceptable across the Nigerian Financial System as all bank accounts operated by this individual will be tied to that BVN. The solution is to ensure accountability, check identity theft, reduce exposure to fraud, enhance credit advancement to bank customers, protect customers' bank accounts from unauthorised access and also encourage financial inclusion. This initiative is to guarantee the safety of the Nigerian financial system and it's in the interest of all Nigerians.

4.1.4 Cash-less Policy

In June, the CBN announced the deferment of charges for individuals and corporate account holders who wish to withdraw cash above the prescribed limits in the 30 states it plans to extend the policy to from July 1, 2014. The charges on withdrawals for both individual and corporate account holders will now take effect in the remaining 30 States from July 1, 2015. The Central Bank stated that the waiver is to allow ample time for the deployment of adequate infrastructure needed to support the policy. The apex bank noted that having successfully completed phase one and two of the policy in six pilot states as well as the Federal Capital Territory; phase three of the initiative would take off as planned.

Under the cash-less policy which is aimed at reducing the dominance of cash in the system, the CBN had pegged the daily cumulative cash withdrawal/deposit limit for individual accounts at N500,000 per day and N3 million per day for corporate accounts. But while unveiling his agenda for the central bank, the new CBN Governor, Mr. Godwin Emefiele abolished charges for cash lodgement. Nevertheless, cash withdrawals above the limit for individual accounts attract a three per cent charge while corporate account holders are being charged five per cent.

4.1.5 E-Payments

In June, PayPal announced that it is entering 10 new countries including Nigeria. PayPal will provide online payment alternatives for consumers via mobile phones or computers. Mr. Keeley, the executive in charge of the EMEA region said, "PayPal has been going through a period of reinvention, refreshing many of its services to make them easier to use on mobile (phones), allowing us to expand into fast-developing markets." Once the services go live, customers in the 10 countries with access to the Internet and a bank card authorised for Internet transactions will be able to register for a PayPal account and make payments to millions of sites worldwide. Initially, PayPal is only offering 'send money' services for consumers to pay for goods and services at PayPal-enabled merchant sites while safeguarding their financial details. This is free to consumers and covered by fees it charges merchants. PayPal does not yet cover peer-to-peer transactions, which allow consumers to send money to other consumers. It has not yet enabled local merchants in the new markets to receive payments, nor is it offering other forms of banking services.

A total of 80 million Internet users (based on research by Euromonitor International) stand to gain access to PayPal global services, including those in five European markets – Belarus, Macedonia, Moldova, Monaco and Montenegro, four in the African nations of Nigeria, Cameroon, Ivory Coast, and Zimbabwe, as well as Paraguay. PayPal has 148 million active accounts worldwide. PayPal has operated in 190 markets since 2007 and added three countries – Egypt, Georgia and Serbia last year. Roughly a quarter of the $52 billion in payment volumes PayPal reported in the first quarter of 2014 were for cross-border transactions. PayPal reported $1.8 billion in revenue during the period.

4.1.6 Agriculture Finance

In June, the World Bank approved a grant of $495.3 million (N79.2 billion) to aid agricultural produce in Nigeria. The World Bank said the grant is aimed at improving farmers' access to irrigation and drainage services; strengthen institutional arrangements for integrated water resources management; and improve delivery of agricultural services in selected, large-scale public schemes in northern Nigeria. It believed that the grant would mark a transformational effort to improve large-scale public irrigation for expanding food production and catalysing economic growth in rural areas necessary to end poverty and boost prosperity, as well as enhance resilience of agriculture production systems. The project is expected to be implemented by the Federal Ministry of Water Resources (FMWR) is planned to commence on October 1, 2014. Agriculture is a key sector of the Nigerian economy accounting for 22 per cent of gross domestic product in 2012. The government's Agricultural Transformation Agenda (ATA) is a major initiative to drive rural income growth, accelerate achievement of food and nutritional security, and generate employment.

In May, the Ministry of Agriculture and Rural Development disclosed that a $305m fund has been approved by the Federal government to boost the agricultural industry and also support Foreign Direct Investment in the country. The Minister of Agriculture and Rural Development, Dr. Akinwumi Adesina, explained that this move was to support interested investors both local and foreign to invest in the agricultural sector to drive growth in the sector.

Dr. Adesina stated that the Ministry has also signed a Memorandum of Understanding to bolster trade and investment agreements between Nigeria and Kenya businesses. The Minister called on the Kenyan agribusiness community to take advantage of the 14 Staple Crops Processing Zones being developed in Nigeria as one of the strategies to enter into joint ventures with their Nigerian counterparts. The goal is to realise the national policies of leveraging on agriculture to grow the economy and create wealth for people. When fully in place, the Staple Crops Processing Zones will add between $4 to $9 billion to the Nigerian economy. The Minister also highlighted the opportunity for both countries in joining the global Halal Beef industry, which grew from $386 billion in 2011 to

$2.3 trillion in 2013 given that both Nigeria and Kenya have substantial population of cattle as well as goats and sheep.

4.2 Pensions

As of March 2014, the National Pension Commission (PenCom) stated that the total assets under the Contributory Pension Scheme had reached N4.2tn contributed by 6 million retirement savings account (RSA) holders. Pension Fund Administrators (PFAs) have invested a total of N1.9tn in the Federal Government of Nigeria bond; and N737.2bn and N548.7bn in the FGN treasury bills and domestic ordinary shares respectively. In addition, PFAs invested N355.2bn in the local money market securities; N228.4bn in real estate properties; N195.2bn in state government securities; and N79bn in corporate debt securities. The PenCom also revealed that that N53.16bn was invested in foreign ordinary shares; N46.2bn in cash and other assets; N22bn in open/close-end funds; N9.3bn in private equity funds; and N286m in foreign money market securities.

The National Pension Commission is working on a framework that will enable retirees under the Contributory Pension Scheme (CPS) to enjoy a minimum monthly pension stipend like the minimum wage being enjoyed by workers. Since retirees started emerging under the CPS, some pensioners had been receiving very low pensions, while others had very little balance in their Retirement Savings Accounts not enough to pay them monthly stipends. As a result, the Commission has decided to work on a framework that would enable it to create special funds to take care of the problem of low pensions, a development that has discouraged many workers from making payments to the CPS. However, only workers who have contributed for specific number of years would enjoy the minimum pension stipend when it is officially launched.

5 Telecoms Sector

According to the NCC, in May 2014 the number of inactive telephone lines reached 46,937,360; the number of connected lines was 178,119,418; whilst the number of active lines was 131,182,058. Teledensity reached 93.70%. The table below provides a summary of telephone subscribers in Nigeria as of May 2014:

	Number of connected lines	Number of active lines
Mobile GSM	**173,697,287**	**128,896,631**
Mobile CDMA	**4.081,300**	**2,107,389**
Fixed Wired/Wireless	**340,831**	**178,038**
Total	**178,119,418**	**131,182,058**

Source: NCC

According to the NCC, as of May 2014 in terms of GSM operators, MTN was the market leader with 58,355,855 subscribers (market share of 46%); followed by Airtel with 25,475,672 subscribers (market share of 20%); then Globacom with 24,015,713 subscribers (market share of 19%); and finally Etisalat with 19,111,664 subscribers (market share of 15%).

5.1 Internet Users

According to the NCC, the number of people accessing the internet through GSM mobile networks in Nigeria reached 65.8 million in May 2014. MTN was the market leader with 33.8 million users; followed by Globacom with 13.2 million users; then Airtel with 12.0 million users; and lastly Etisalat with 6.8 million users.

6 Mobile Money

6.1 Africa

6.1.1 West Africa

Despite the slow take off of mobile money services in West Africa relative to other regions on the continent, operators in the area are beginning to report signs of success.

- In April, Orange announced that it had reached 10 million customers through its mobile money service, which started in 2008 and is available in 13 countries, five of which are in West Africa.
- Airtel recently announced a cross-border remittance partnership with South Africa's MTN to facilitate mobile money transfer between the two West African countries of Ivory Coast and Burkina Faso.
- MTN stated that its mobile money services are growing rapidly, especially in West Africa. As of March 2014, MTN had over 16 million MTN Mobile Money customers. MTN Mobile Money is available in 15 countries, and remains the single largest deployment of the mobile money service by any mobile network operator on the African continent. In West Africa, MTN Mobile Money is available in Guinea Bissau, Guinea Conakry, Liberia, Ivory Coast, Ghana, Benin and Cameroon.
- Orange noted that more than €2.2 billion in transactions were conducted through its mobile money service in 2013 and in some countries, such as Ivory Coast, more than 40 per cent of its customers have an Orange Money account.

A variety of factors have contributed to the increasing use of mobile money services in West Africa. The challenge now for the whole industry is to fast-track the adoption of mobile financial services. This can be achieved through educating and convincing customers about the value and benefits of mobile money; growing an ecosystem so customers can use mobile money in more ways and at more locations; and developing adequate infrastructures to support this market evolution.

6.1.2 Kenya

According to the 'Agent Network Accelerator Survey' report by the Helix Institute of Digital Finance, mobile money transfer agents in Kenya are earning less profit compared to their regional peers despite recording higher daily transactions. The study showed Kenyan agents earn a lower median profit level of $70 (Sh6,132) than agents in Tanzania at $95 (Sh8,323) and Uganda's $78 (Sh6,834). Mike McCaffrey, Head of Digital Finance at Microsave, said, “New agents are consistently being recruited in Kenya, making it flooded and resulting in reduced profits. The large amount of agents in the market limits the profitability per agent while driving dissatisfaction from agents. Despite having an expansive network, it is still tethered to banking infrastructure for float management.” The report singles out fraud and robbery as the most burdensome operational issue agents have to deal with across East Africa, which is driving up the cost of doing business as they have to take preventive measures. The survey's data was collected between September and October 2013 from about 2,000 agents.

In April, the Communications Commission of Kenya licensed three new Mobile Virtual Network Operators (MVNOs) - Mobile Pay, Finserve Africa and Zioncell Kenya - with the potential to disrupt the country's mobile money market, currently dominated by Safaricom's M-PESA. The newcomers can offer customer registration, SIM cards issuance, billing and customer care. They will also be assigned their own numbering range. All will be hosted on the network of Airtel, the country's second-largest network behind Safaricom. Mobile Pay is backed by Tangaza Pesa, which already offers a mobile money transfer service; but delivering the service using its own SIM card will improve the firm's margins. Finserve Africa is backed by Kenya's Equity Bank, which previously partnered Safaricom on the unsuccessful M-KESHO, a mobile banking and savings service. The service failed because of disagreement between the two companies. Equity Bank will use its MVNO licence to go it alone and attempt to steal market share from its former partner. Zioncell Kenya is a subsidiary of Mobile Decisioning, a local company that offers a range of mobile payment services. It mainly targets young Christians. Besides offering mobile money services more efficiently, the company will use its MVNO licence to offer voice, data and SMS at a competitive rate.

Safaricom

Safaricom has opened up its M-PESA agents' network to rivals as the telco recently announced its plan to allow a seamless mobile money transfer system with other operators. Agent can now offer M-PESA services alongside those of the telco's rivals such as Airtel Money and Orange Money in the same premises. Agents stand to earn more in commissions from the removal of this restriction that had seen Safaricom build a larger agent network compared to its rivals, leading to accusations of erecting barriers for its competitors. Nzioka Waita, Corporate Affairs Director, Safaricom, said, "We made a strategic decision in February 2014 to remove all exclusivity provisions in our M-PESA agent contracts. All our 85,000 M-PESA agents are, therefore, free to engage with whomever they please (this will include other mobile money service providers)."

M-PESA's popularity, which has enabled it to acquire 18.1 million customers since its launch in 2007, has largely been attributed to Safaricom's vast network of agents across the country that makes it easy for subscribers to deposit and withdraw cash. Airtel, Orange and yuMobile, on the other hand, have a relatively smaller number of agents, making it difficult for their customers to make similar transactions using their phones. This market landscape saw Airtel file a petition with the Competition Authority of Kenya (CAK) in 2012, asking the regulator to compel Safaricom to open up its agent network.

Equity Bank

Equity Bank's customers will get special SIM cards to simultaneously access the lender's mobile virtual network without have to leave their existing telecoms operators. Equity Bank got its Mobile Virtual Network Operator (MVNO) licence in April 2014, and plans to issue consumers with ultra-slim SIM cards that can sit on the back of normal SIM cards, saving users the trouble of migrating or carrying two phones. "Users who want to stick with their current mobile network and at the same time enjoy Equity's banking solution will be able to do so with our slim card. The SIM Skin gets married to the existing card and turns your phone into a dual SIM although it has only one slot. If somebody calls you on your Equity line, you can pick it and if they call your other network, you do the same," said Equity Bank's, Chief Executive Officer, Mr. James Mwangi.

Equity Bank said its clients will be allowed to choose which SIM card to have - a move that is set to unsettle the telecoms market. The layered SIM card can receive and make calls as an independent line and comes loaded with mobile wallets for financial services. Mr Mwangi said the SIM cards have near field communication (NFC) capability that enables them to be swiped on the point of sale devices. That function is particularly critical for the Bank, coming at a time when the public service vehicle industry is going cashless. Equity Bank is planning to issue the special SIM cards to its customers for free, allowing them access an array of financial services as well as the ability to make and receive calls on Equity Bank and competitor networks simultaneously. The interoperability is expected to offer Equity Bank an entry point in a market where consumers have proved difficult to move from preferred networks.

Equity has promised to issue its existing customers with the card for free, but new customers will buy the cards at yet to be determined prices that will be capped at Sh300. Equity Bank plans to issue the cards in July with the launch of its mobile virtual network which, among other services, will enable the bank to disburse short-term loans. Equity Bank's mobile platform loans will attract interest at the rate of between one per cent and two per cent per month. Equity customers will pay a maximum charge of Sh25 to send any amount of money to other mobile networks or banks. This is in comparison to the Sh125 fee other telecoms operators charge users to transfer the maximum Sh70,000 within their network.

Commercial Bank of Africa

Commercial Bank of Africa (CBA) has overtaken Equity Bank as the lender with the highest number of loan accounts, buoyed by the growing number of subscribers to its mobile money platform, M-Shwari. M-Shwari allows users to make use of the M-PESA system to take out loans and save their money. CBA's loan accounts grew to 897,000 in 2013 up from 89,000 in 2012, placing it ahead of Equity Bank, which closed the year with 840,000 borrowers. Last year was the first full year that CBA operated the mobile money savings and borrowing platform, underscoring the growing influence of mobile money in Kenya's fast-changing financial services landscape. Launched in November 2012, in partnership with Safaricom, M-Shwari has strengthened CBA's position in retail banking with the lender hosting more than a quarter of the country's total deposit accounts.

6.1.3 Tanzania

In June, Airtel, Tigo and Zantel announced a pioneering agreement to allow customers of Airtel, Tigo, and Zantel in Tanzania to send money to each other using Airtel Money, Tigo Pesa or EzyPesa. This is the first agreement in Africa to adopt such 'interoperability' whereby mobile network operators allow their customer to send and receive money across their networks and the e-money goes directly to the respective customer's e-wallet account. With this agreement, customers of the three telecommunications companies will be able to send money through their mobile phones directly to each other.

According to the Agent Network Accelerator - Tanzania Country report launched by The Helix Institute of Digital Finance, mobile Money agents in Tanzania are overwhelmingly profitable, with 49% earning at least $100 (Kshs 8,690) per month in profits, compared to only 40% in Uganda. The research was carried out in 2013 and was based on over 2,000 mobile money agents across the country. The report showed that over 70% of agents were 'new' (having been in operation for a year or less) demonstrating aggressive growth in the market. The small percentage of 'old' agents suggests they have a short life-cycle. However, rapid growth and the non-exclusivity of agents is putting pressure on agents' liquidity, with 5 transactions a day being unable to be completed due to the lack of float. Competition is also resulting in better support, with 79% of agents receiving training. The report revealed that although agents in general run a healthy business, with just under 50% earning at least $100 per month, several still face issues with liquidity management, service downtime and fraud.

6.1.4 Uganda

According to Bank of Uganda, in 2013, at least 14 million Ugandans used mobile money platform to trade, send and receive money, putting it among the most used medium for conducting transactions. Between 2012 and 2013, the:

- Value of mobile money transactions increased by 40 per cent to Shs 18.6tn
- Number of Ugandans using mobile money increased by 52.4 per cent to 14 million, twice more than the total bank accounts in the country.
- Number of transactions increased by 65 per cent to 399.5 million transactions last year.

MTN Uganda announced that mobile money contributed to almost a half of its profits last year. Ugandans can use mobile money to pay for a range of goods and services. Air Uganda and Kenya Airways have their air tickets available for customers who can pay through mobile money. Multiplex Uganda allows those who own cars in Kampala to pay their monthly parking fees through mobile money. Police fines can be paid via mobile money. Other institutions, including churches, hospitals, pay TV companies, and power distributors also allow customer to make their contributions/payments using mobile money.

6.1.5 Somalia

Zaad, a mobile money service launched in 2009 by mobile network operator Telesom, has boomed in Somaliland. More than 10% of the region's 3.8 million people are subscribers. Mr. Abdikarim Mohamed Eid, Chief Executive Officer of Telesom, said, "People were initially sceptical about the service. We had to win their trust. So we convinced employers to pay salaries through Zaad and created an ecosystem. If everybody accepted Zaad, everybody would pay with it." Within a year, the strategy began to work, subscribers increased. In 2011, Telesom launched Salaam, an Islamic financial institution offering services – including savings accounts, current accounts and small loans – accessible through Zaad. The financial community began to take notice, and promises of a 'cashless economy' and 'branchless banking' in the Horn of Africa soon followed. However, the legal tender in Somaliland is the Shilling, but Zaad deals in US dollars. Consequently, those most likely to use it are private sector employees, development workers, and recipients of international remittances. The Governor of the Bank of Somaliland, Mr. Abdi Dirir Abdi, said, "Zaad causes inflation and offends the dignity of our legal tender. In Kenya or Tanzania, mobile money companies use the local currency.

Why here is it different?" To address this issue, the local money transfer giant, Dahabshiil (which has a wide network of money transfer agents) is preparing to launch its own mobile money service, E-Dahab, which will allow Somalilanders abroad to send money home through mobile phones.

6.1.6 Egypt

North Africa and the Middle East have been sluggish in joining the mobile money revolution, a movement that is transforming economies and delivering financial inclusion to the unbanked across the developing world. However, Egypt's financial institutions and mobile network operators expect to change all that with the launch of at least four different mobile money wallets in less than a year. The companies hope that their efforts will help lead the Arab world into a new era of wireless commerce. So far, however, the response has been somewhat underwhelming - only about 500,000 total subscribers in a nation of 85 million people. The first ever Arabic mobile money offering was Flous. Etisalat of Abu Dhabi, in partnership with National Bank of Egypt (NBE), the country's leading commercial bank, launched Flous in June 2013. Since then, NBE has launched its own digital wallet known as Phone Cash. The service allows the banked and unbanked population to make person-to-person money transfers, pay phone bills, and reserve airline tickets without being tied to a particular network. Soon Phone Cash customers will be able to pay for goods and services at certain merchants across Egypt, as well as make online purchases from international e-tailers. Egypt's digital money services may not be signing up subscribers by the millions, but they have an important advantage over rivals in African countries where adoption of mobile money is much further ahead. That advantage is an open system with a central switch that ensures transactions between any two parties, such as money transfers and point-of-sale purchases, are settled quickly and seamlessly regardless of who they use as a bank or mobile operator at the back end.

6.2 Nigeria

The Nigeria Deposit Insurance Corporation (NDIC) may soon introduce deposit insurance coverage for mobile money subscribers. The NDIC noted that in a situation where a bank fails, the insured mobile money account could be transferred to another sound bank. The Managing Director, NDIC, Alhaji Umaru Ibrahim, said the move would further engender public confidence in the financial system, thereby promoting financial stability. According to Alhaji Ibrahim, the NDIC framework for extending deposit insurance to individual customers of mobile payment services is being finalised. Alhaji Ibrahim said, "Deposit insurance is vital to financial inclusion because the poor need assurance that their deposits are safe and available at all times they have a need for their money."