

NIGERIA

Financial Services Cluster Analysis and Recommendations



Lars Becker
Matthias Boyer Chammard
Zeinab W Hussein
Yosuke Kotsuji
Nana Quagraine

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Professor Michael E. Porter
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MAP OF NIGERIA



1. Executive Summary

Nigeria has the second largest financial services sector in Sub-Saharan Africa, after South Africa. It is fast growing and at the cusp of expanding internationally. According to our analysis, Nigeria is well on its way to establish itself as a regional financial services centre, and has the opportunity to become an influential player for providing financial services in low income countries.

The domestic macroeconomic background is favorable. Nigeria has the largest population in Africa, and is among its fastest growing economies mainly due to growth in the oil sector. The non-oil sector, although still underdeveloped, has also had strong growth, with a CAGR of 7% over the past 10 years. However, at the microeconomic level the country has a challenging business environment. It has high poverty rates, limited access to finance, poor physical infrastructure and high corruption levels. These barriers to economic growth have to be addressed quickly to ensure future growth. The government needs to make Nigeria a more attractive place to invest and it needs to diversify the economy by accelerating development of the non-oil sector.

The financial services cluster has benefited from recent reforms and from increasing FDI into Nigerian financial institutions. Nigerian banks' assets and deposits are rising at about 30% pa; and these locally owned banks are expanding internationally. Based on our analysis the sector needs to improve risk management and increase the skill base of its employees to maintain its current growth level. The government also needs to facilitate the expansion of the banking footprint beyond the middle class, and into other countries.

2. Political, Social and Legal Context

Geography & demography: Nigeria is located on the Atlantic coast of West Africa, bordering Niger, Benin, Chad and Cameroon. It is Africa's most populous country with an estimated population of 144

Million people¹. Nigeria is composed of more than 250 ethnic groups; with the Hausa and Fulani (29%), Yoruba (21%), Igbo (18%) and Ijaw (10%) being the most populous and politically influential. 50% of Nigerians are Muslims, 40% Christians and the balance 10% have indigenous religious affiliations. English is the official language, while most neighboring countries are French speaking.

Political context: Nigeria gained its independence from the British in 1960. After a series of 16 military governments, a new constitutional dispensation came into effect in 1999 followed by the election of a civilian president, Olesugun Obasanjo. Nigeria has been ruled by civilian administrations for only nine of its 36 years of independence. The last election in 2007 which installed Mr. Yar'dua, as president was marred by irregularities and the fairness of the election was questioned. The elections which marked the rise to power of the first university educated president in the past 40 years also witnessed the first civilian-to-civilian transfer of power in Nigeria's history. Nigeria now faces the challenge of uniting the diverse ethnic groupings and diffusing long standing ethnic and religious tensions. Politics remain highly confrontational with clashes over policy directions and priorities. The new constitution is also a source of political tension. Critics claim that it concentrates too much power on the central government.

Social context: Compared to its neighbors, Nigeria has lower human and social development indicators. 70% of the population lives below \$1 a day and 92% of the population lives below \$2 per day (see Figure 1). The UNDP ranks Nigeria as a low human development country at 158 out of 177. Despite its oil wealth, Nigeria remains a highly unequal society with a gini coefficient of 0.43. The government introduced universal basic education (UBE) in 1999; however education standards continue to fall with the combined enrollment ratio at only 56% and a literacy rate of 69%. Government spending on education as a percentage of GDP is 3% which is well below the level of spending in South Africa (5.4%), Ghana (5.4%) and Kenya (6.7%). Health remains a challenge, despite

¹ *EIU Country Profile-2007 Nigeria*, CIA Fact book, Nigeria, <https://www.cia.gov/library/publications/the-world-factbook/geos/ni.html> and *2008 Euromonitor International* accessed through KSG Library

the low prevalence rate of HIV at 3.9%,² other health indicators remain challenging. Public expenditure on health is only 1.4% of GDP. Violent and organized crime have become synonymous with Nigeria in recent times, with incidences of money laundering, internet fraud, credit card and identity fraud. In 2003 the government installed a special committee to address the rising internet fraud which causes difficulties for business especially in the financial sector.

FIGURE 1: SOCIAL AND HUMAN DEVELOPMENT INDICATORS

	Social Indicators					
	Nigeria	South Africa	Kenya	Ghana	Cote d'Ivoire	Benin
Total Population	144.70	47.30	35.10	22.50	18.50	8.69
Population Growth Rate-2005-2015	2.20	0.50	2.60	1.90	1.80	2.90
Urban Population 2005(%)	48.20	59.30	20.70	47.80	45.00	40.10
Total Population Above 65 and Below 15 years 2005(%)	47.20	36.30	45.30	42.60	44.90	46.90
HDI Value (UNDP 2007) ¹	0.470	0.674	0.521	0.553	0.432	0.437
Gini Index ³	43.70	57.80	42.50	40.80	50.80	36.50
HDI Rank (UNDP 2007) ² out of 177	158.00	121.00	148.00	135.00	166.00	163.00
Life Expectancy at Birth(Years)	46.50	50.80	52.10	59.10	47.40	55.40
Adult Literacy Rate % of population 15 years or older	69.10	82.40	73.60	57.90	48.70	34.70
Combined Primary, Secondary and Tertiary Enrollment Ratio %	56.20	77.00	60.60	50.70	39.60	50.70
HIV Prevalence %	3.90	18.80	6.10	2.30	7.10	1.80
Population below \$1/day %	70.80	10.70	22.80	44.80	14.80	30.90
Population below \$2/day %	92.40	34.10	58.30	78.50	48.50	73.70
Expenditure on Education % of GDP	3.00	5.40	6.70	5.40	4.60	3.50
GDP Per Capita, PPP US\$	1,128	11,110	1,240	2,480	1,648	1,141

SOURCE: EIU COUNTRY PROFILE, 2007, NIGERIA WWW.EIU.ORG AND UNDP HUMAN DEVELOPMENT REPORT, 2007-2008

Legal context: Under the current civilian regime, there are attempts to strengthen the judiciary by giving it powers and independence. However, the legal environment remains challenging. The judicial system is still deeply undermined by corruption and hugely under-funded. This has resulted in poor administration of justice, including long delays in the hearing of cases.

3. Economic Performance

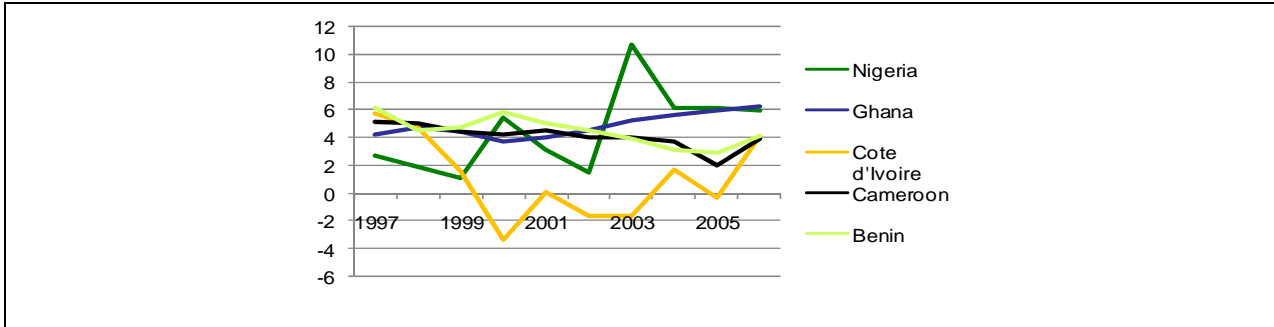
Nigeria is Sub-Saharan Africa's second biggest economy, with nominal 2006 GDP of \$235bn (at PPP)³ behind South Africa's \$600bn. It has also been one of its fastest growing economies, outpacing South Africa, Kenya, Ghana and most of its neighbors with a CAGR of 7% over the past 10 years. However, its growth has been more erratic due to the high reliance on natural resources (see further

² Source: www.hdr.undp.org, UNDP, Human Development Report 2007, Data for the recent year measured is 2005 and 2004 and EIU Country Profile, May 2007, Country Report, Nigeria.

³ US \$115bn was the actual GDP for 2006. <http://devdata.worldbank.org/>

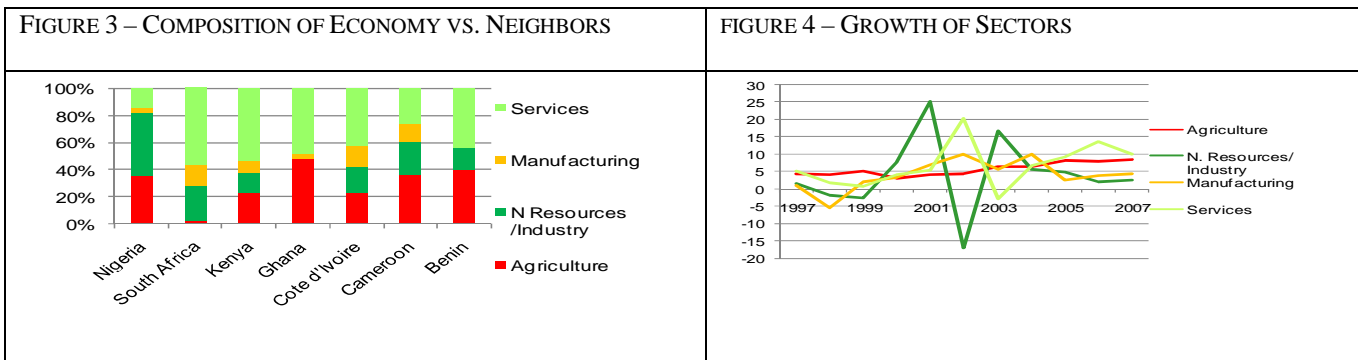
below). EIU expects real GDP growth to continue at a strong rate of 7.4% in 2008 and 6.5% in 2009. This buoyant economic climate is fueling growth also in the financial sector.

FIGURE 2 – ECONOMIC GROWTH VS. NEIGHBORS



SOURCE: WDI

Despite the fast pace of growth and the strong resource endowment, Nigeria has so far not increased its GDP/capita beyond that of its smaller and resource-poor neighbors. It's GDP/capita is below that of Cameroon, Ivory Coast, Kenya, and it is only 12% that of South Africa⁴. Poverty and the rural nature of Nigeria puts pressure on financial services institution to innovate and to reach out to poor customers.



SOURCE: EIU

Composition of Economy: Nigeria's economy is heavily reliant on the oil and gas sector. It makes up more than 40% of the GDP (see "Natural Resources/Industry" in Figure 3), and accounts for virtually 100% of exports⁵ and 80% of budgetary revenues for the government. Nigeria is the world's 12th largest producer of oil, mainly supplying the US. Next to natural resources the most important sector is agriculture, accounting for approximately 35% of GDP. A large portion of this is subsistence farming

⁴ At constant 2000 US\$, Nigeria: \$439, Ivory Coast \$576, Cameroon: \$750, Kenya \$455, South Africa: \$3,562.

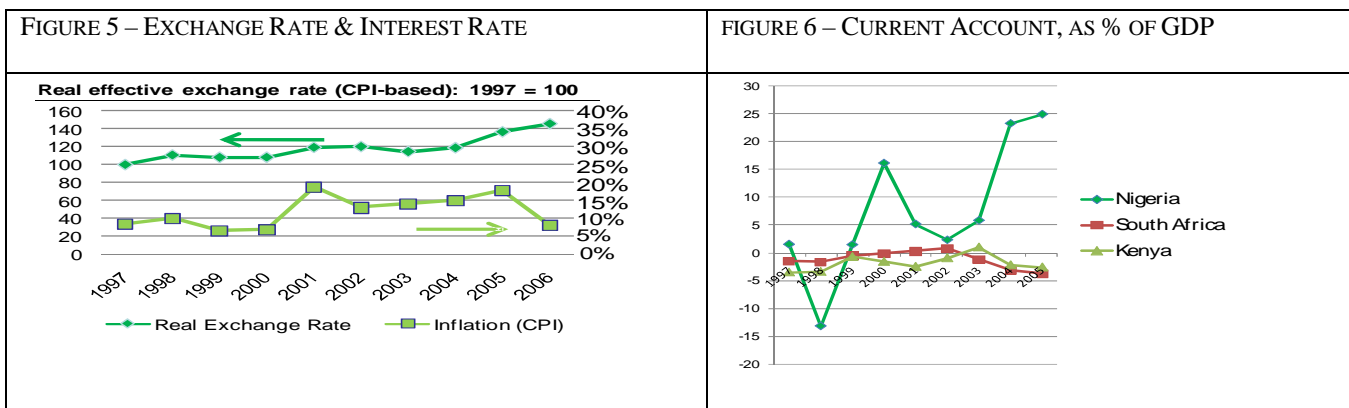
⁵ Oil: 85% and gas 15%.

with declining productivity. This composition of GDP is quite unlike that of its neighbors, due to the importance of natural resources. As we will discuss in more detail below, the strong natural resources sector is one of the drivers of sophistication in the financial services industry.

While rising oil and gas prices have had a strong positive effect on GDP, exports and government revenues, it was not Nigeria's only driver of growth. For instance, in 2007 political unrest in the Delta region affected oil production, but strong growth in the non-oil sector meant that overall GDP still grew by 5.8%. The non-oil sector has grown at a 7% CAGR over the past 10 years. This growth is expected to remain robust, due to good performances in particular by communications, wholesale and retail trade, and construction. Financial sector will play a key part in facilitating further growth.

Exchange Rate & Interest Rate: Predictability and stability of the exchange and interest rates are highly important in the development of a strong financial service industry. Nigeria's exchange rate has slowly appreciated against the dollar over the past 10 years, and in 2007 the Central Bank of Nigeria (CBN) has allowed the naira to appreciate. This trend is expected to continue into 2008. Assuming weakening oil prices the naira is anticipated to weaken in 2009. Today the difference between the official exchange rate and the parallel rate is set to fall below a 5% hurdle, a sign for a liberalization of the exchange rate regime. Over the past 7 years the interest rate has been hovering between 10-20%, more recently coming down to close to 5%. With lower food prices and more focused monetary policy it is estimated to have fallen to 5.4% in 2007. It is expected to rise to 7.4% and 7.9% in 2008 and 2009 respectively, due to increased liquidity from oil revenues⁶. The CBN is proactively intervening in the market to stabilize inflation, such as with the increase of the monetary policy rate from 8% to 9.5% in late 2007. Also, the fiscal policy for 2008 is less expansionary than the budget 2007, as the governments tries to tame liquidity in the economy. The 2008 budget projects a fiscal deficit of 2.5% of GDP, which is expected to fall below 2% in 2009.

⁶ According to EIU



SOURCE: EIU

Current account: With oil & gas as effectively the only exports, the current account oscillates strongly with oil prices and production levels, and is currently strongly positive with 25% of GDP. The US is by far the biggest export destination (58.4%, 2006, EIU), followed by Spain (9.5%), Brazil and France. Trade with neighbors is still very limited. Imports are highly fragmented, both in terms of provenance and types. China accounts for 10.4%, the US for 8.3%, followed by European countries. The main import goods are manufactured goods, machine & transport equipments, and chemicals, a lot of which are used in the oil exploration process. Nigeria also benefits from a significant amount of remittances, invisible in the official accounts statistics.

4. Assessment of the Business Environment in Nigeria

4.1 THE NATIONAL DIAMOND

Factor Conditions: Despite Nigeria's substantial natural resources its infrastructure is inadequate, particularly its road and electricity networks, which are a significant obstacle to economic growth. Only 30% of the population⁷ has access to electricity and only 31% of the road network is paved. Shortcomings in operations and safety have given both the ports and air space a reputation as the most unsafe in the region. Although insufficient, the government has made some progress in addressing these issues. For example, a legal framework was set for private-sector investment in the energy sector;

⁷ EIU- Country Profile, Nigeria, 2007, www.eiu.org

however progress in building new generation plants has been slow. In 2005, US\$150m was set aside to improve the airports and new minimum capital requirements for airline companies were set to improve standards. Virgin Nigeria, a privately owned airline was launched to replace the defunct Nigeria Airways. In the telecoms sector, state controlled Nitel was privatized and two new mobile telephony licenses were issued. As a result, subscriptions rose from 450,000 in 2001 to 24.4 million in 2006⁸.

Besides infrastructure, corruption is also a major concern. Nigeria has been ranked in the bottom 20 most corrupt countries in the world⁹ and despite the prosecution of several high-profile government officials, corruption remains high and it undermines the credibility of the business sector. In terms of human capital, the country has a labor force of 48 million¹⁰. The labor is largely unskilled but a core of highly skilled workers exists. The trade union movement (Nigeria Labour Congress), once a powerful force, has been weakened by rising unemployment and poor leadership. In 2005 the government introduced legislation to end the NLC's monopoly.

Nigeria generally has good relations with neighboring countries and is a member of the Economic Community of West African States (ECOWAS). Although integration of the regional economies is slow, Nigeria has the potential to become the financial services hub for West Africa.

Demand Conditions: The country has the largest population in Africa. An important feature of the demand is that it is concentrated in Lagos (10million) and Abuja (2 million)¹¹. This concentration of demand is facilitating the formation of different clusters (i.e. financial services and manufacturing-related businesses) in these two cities. A key concern however, is that most of the demand is unsophisticated due to low incomes and high poverty levels.

Context for Firm Strategy and Rivalry: Due to reforms in the banking sector, the country has an advanced financial system relative to other African countries. . However, the cost of finance is still

⁸ EIU- Country Profile, Nigeria, 2007, www.eiu.org

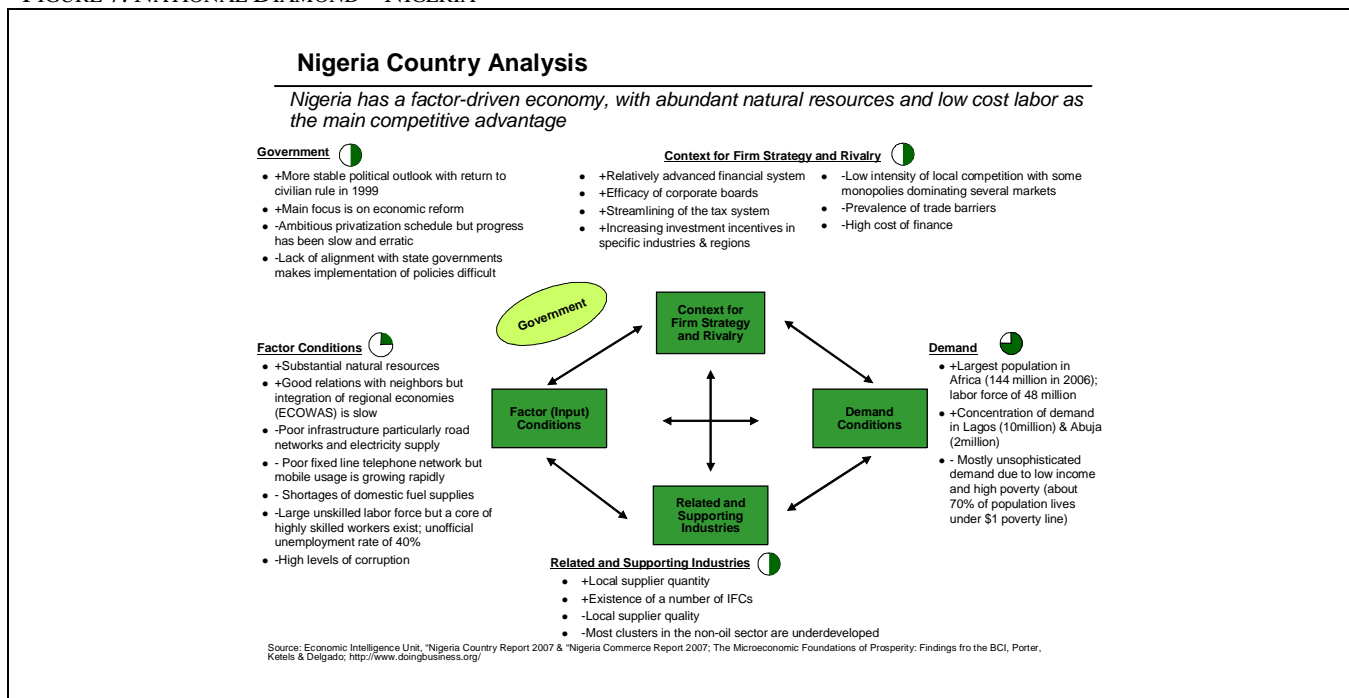
⁹ Transparency International

¹⁰ EIU- Country Profile, Nigeria, 2007, www.eiu.org

¹¹ EIU- Country Profile, Nigeria, 2007, www.eiu.org

high and access to medium to long term finance is limited. Recently, the government drafted a national tax policy to streamline the tax system and curb endemic tax evasion, encourage investment and boost non oil revenue. The policy aims to move towards greater reliance on indirect taxation and recommends a gradual increase in VAT from 5% to 15% and a reduction in company income tax from 30% to 20% by 2009. Certain sectors and regions such as export processing, gas, mining, pioneer enterprises, agro-industrial ventures and infrastructure are favored with tax incentives, tax holidays and accelerated capital allowances. However, major challenges remain. Several sectors are dominated by monopolies and there has been slow enforcement of intellectual property rights. The incremental cost disadvantage of operating in Nigeria is thought to be about 25%, mainly due to red tape, customs delays and power shortages.

FIGURE 7: NATIONAL DIAMOND – NIGERIA



Related and Supporting Industries: A critical number of local suppliers exist, but according to the findings from the Business Competitiveness Index study¹², the quality of service is still low. While this is a concern for the manufacturing sector, it is not a pressing concern for the financial services sector.

¹² The Microeconomic Foundations of Prosperity: Findings from the BCI, Porter, Ketels & Delgado

Government: Economic reform has been the main focus during the last three terms of civilian rule. The governments clearly understand the country's challenges and have developed a national economic strategy (NEEDS¹³) to address the issues. However progress has been slow. In 1999 the government embarked on an ambitious privatization schedule which was scheduled for completion by 2003, but it has fallen well behind schedule. One reason for the slow progress is that all the states have their own policies and budgets and often make policy choices that differ from those provided by the federal government. While the 2007 government is pledging to continue the economic reforms of its predecessor government, this lack of alignment makes implementation of policies difficult.

Institutions for Collaboration: Several IFC's exist which focus on different functions (e.g. commerce, trade, development and finance). The Institute of Certified Accountants of Nigeria and the Nigeria Chamber of Commerce provide certification and accreditation services; and the recently established African Finance Corporation¹⁴ is to provide financing for projects across Africa (similar to the International Finance Corporation). However the IFCs still need to deepen linkages among themselves and with firms within the industry.

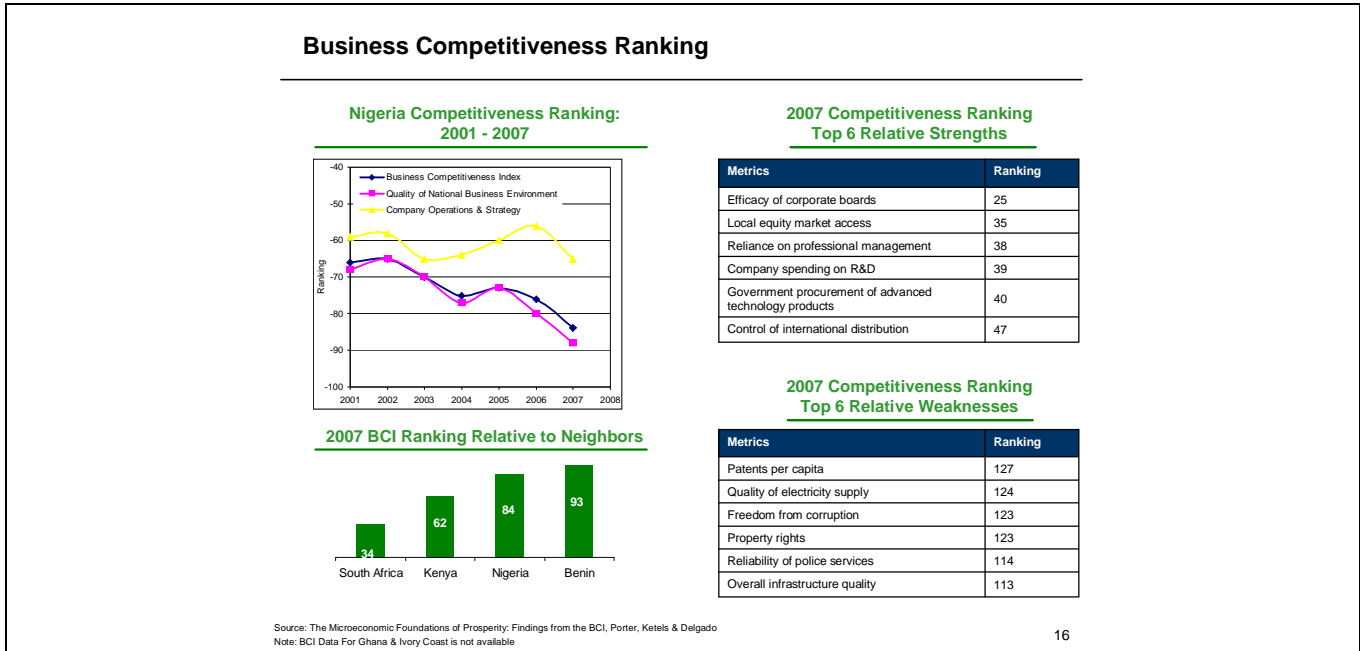
4.2 COMPETITIVENESS OF THE BUSINESS ENVIRONMENT

According to the Business Competitiveness Index (BCI), Nigeria's level of competitiveness is declining and the country is less competitive relative to South Africa and Kenya. After a slight improvement in the overall BCI Index in 2005, both the quality of the national business environment and the competitiveness of company operations and strategy declined in 2007. Inadequate infrastructure, limited access to financing and high levels of corruption are the key drivers of the decline in competitiveness. However, efficacy of corporate boards and access to local equity market has improved. The exhibits below highlight some of Nigeria's other key strengths and weaknesses.

¹³ NEEDS – National Economic Empowerment and Development Strategy
<http://www.imf.org/external/pubs/ft/scr/2005/cr05433.pdf>

¹⁴ Interview with Frank Nweke Jnr, Former Cabinet Minister, Nigerian National Assembly, April 2008,

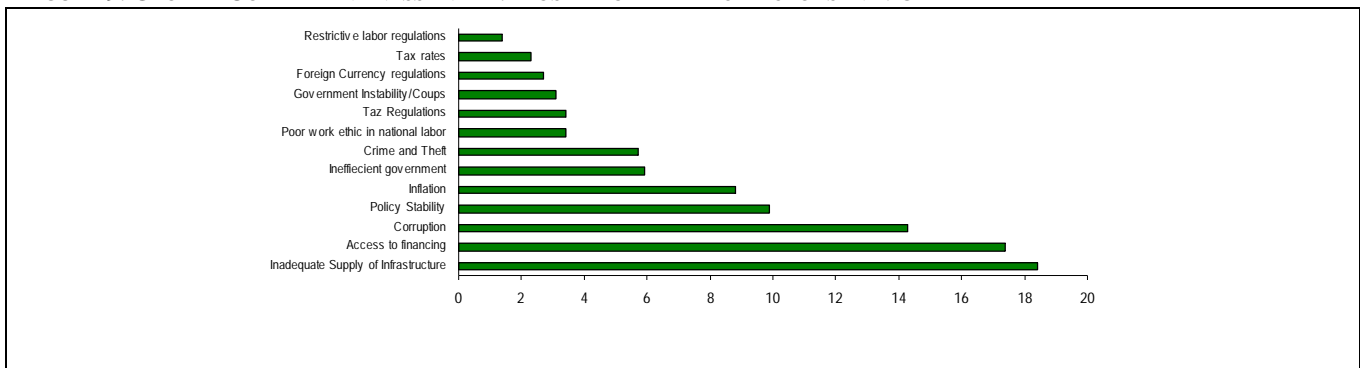
FIGURE 8: BUSINESS COMPETITIVENESS – NIGERIA RELATIVE TO ITS NEIGHBORS



SOURCE: THE MICROECONOMIC FOUNDATIONS OF PROSPERITY: FINDINGS FROM THE BCI, PORTER, KETELS & DELGADO

Governance: Nigeria has improved on the measure of governance. This improvement can be explained by the deregulation of the media and the introduction of private broadcast and print media. Ongoing government efforts to introduce regulation and ethics in most industries especially the financial sector has also increased corporate accountability. But the country still struggles with high levels of corruption.

FIGURE 9: GLOBAL COMPETITIVENESS INDEX: MOST PROBLEMATIC FACTORS IN NIGERIA



SOURCE: [HTTP://WWW.GCR.WEFORUM.ORG/](http://www.gcr.weforum.org/)

5. Strategic Issues for Nigeria

A. First, despite impressive economic growth and some reforms over the past nine years of civilian rule, Nigeria's **business environment is still challenging**. The key issues are:

- Poor quality infrastructure particularly road networks and electricity supply
 - High levels of corruption, even within the judiciary, undermines investor confidence
 - High cost of finance and limited access to long term finance options
 - Largely unskilled labor force: limited spending on education has led to a decline in attendance and in the quality of education
 - Political instability and safety risks: political, ethnic and religious tensions threaten to undermine stability. The rise in violent and organized crime is concerning.
 - Slow pace of reform due to government bureaucracy and lack of alignment of policies at the various levels of government (i.e. federal and states)
- B. Second, the **economy is not diversified** and is highly dependent on the oil sector; services and manufacturing only make up a small percentage of the economy. This over-dependence on oil makes the country vulnerable to swings in commodity prices.
- C. Lastly, recent GDP growth has not led to significant improvements in the living standards of most people and **the social factors are still challenging**.

6. Recommendations for the Country

Short-term recommendations for government and firms:

A. *Make Nigeria a more attractive place to do business:*

- *Accelerate investments in infrastructure:* The government is already focused on improving Nigeria's infrastructure. It should now speed up this process and continue to attract private investors to the infrastructure sector (roads, electricity and communications) through independent projects and public private partnerships such as the oil for infrastructure program with China. Increase protection of property rights and enforcement of contracts
- *Reduce corruption:* ensure independence of the judiciary by increasing funding; improve speed and transparency of legal proceedings

- *Increase access to finance:* increase liquidity in the financial sector by reducing the barriers to investing in capital markets; work with local banks to provide medium term loans to local investors
- *Invest in human capital:* improve quality of education, promote school attendance and invest in programs for higher education
- *Address stability and safety concerns:* Reduce organized crime by investing in police and reducing high poverty levels
- *Increase alignment between the federal government and the states:* improve effectiveness by aligning investment policies and pooling financial resources

B. *Develop a cluster approach to increasing non-oil exports:* Nigeria has a strong natural resources sector, and a growing domestic services sector, particularly in communications, construction and retail. To avoid the “Dutch disease” Nigeria will have to seed and develop new export industries. They should leverage some of Nigeria’s key strength. The development approach has to be focused on seeding the market, by clearing tariff and other administrative hurdles, by encouraging FDI into these sectors, and possibly by establishing special economic zones. Examples include:

- *Develop downstream capacity:* Many of its natural resources, both mining and agricultural, lend themselves to further processing. Nigeria currently has 4 oil refineries, which are in the process of privatization. More capacity could be added, as well as further downstream processing. Fertilizer is an example of a downstream oil product with strong domestic demand¹⁵. Other exportable downstream products include: pesticides, lubricants, synthetic rubber, and plastics. An agricultural example is cassava: Nigeria is the world largest producer of cassava, a crop that can be processed into several secondary products of industrial market value. They include chips, pellets, flour, adhesives, alcohol, and starch.

¹⁵ Domestic demand in 2005: 166,200 tons, mostly imported.

- *Business Travel:* Nigeria is gearing up to invest into conference facilities for pan-African and West African conferences. Its central location and acceptable airlinks are key strengths, and current investments in e.g. airports would be appropriately leveraged.
- *Agriculture:* Currently Nigeria's only agricultural exports are small amounts of rubber and cocoa, while it is importing food staples such as rice, wheat and milk. Its current agricultural productivity is low, e.g. measured by value of machinery as % of all agricultural assets (3% in Nigeria vs. 7% in Ghana and 10% in Kenya¹⁶). Providing loans to upgrade equipment, lowering prices of fertilizer (through domestic production) and providing training could increase productivity significantly and would have a strong impact on reducing poverty as well.

C. At a high level, we recommend to focus social programs on (1) generating economic growth that spreads throughout the country and the social strata, such as agricultural initiatives and a proactive SME support policy and (2) to continue to promote universal education, while improving the quality of education and increasing attendance levels.

In the long term the Nigerian government should strengthen links with other West African countries to facilitate trade by reducing tariff levels and non-tariff barriers. Integration with other middle income countries (e.g. India and China) which are servicing emerging economies should also be pursued.

7. Analysis of Nigerian Financial Services Cluster

7.1 OVERVIEW OF THE CLUSTER

The Nigerian Financial Services Cluster includes banks, capital market, asset management and insurance companies. Within the cluster, the banking sector is the strongest and most structured sub-sector. 25 universal banks provide elaborate commercial and investment banking services and over 700 community banks provide minimum commercial banking services. Commercial banking services include savings and credit products to individuals, small businesses and large corporations. Investment

¹⁶ FAO 2005-6 Factbook

banking services include sales and trading of securities for individuals and institutional clients, underwriting of corporate securities, etc. The capital market sector is also strong. There is a stock and bond exchange in Lagos and a commodity exchange in Abuja. The asset management services sector (conducting investment for pension and institutional investors) is growing due to increased demand through recent pension reforms. Similarly, there is an emerging insurance sector. In the context of a growing cluster, institutions for collaboration are rising in number and importance. For example, bankers now exchange best practices through the Chartered Institute of Bankers of Nigeria.

The Nigerian Financial Services Cluster primarily service domestic customers. Some services are also exported, such as: (i) financial services to foreign investors investing in Nigeria and (ii) earning investment income from subsidiaries in neighboring countries. In 2003 – last official figure available – the cluster made \$5.5mn export¹⁷, but that figure is likely to have grown substantially since then, reflecting on the very strong growth of the cluster since 2002.

Several institutions regulate the cluster, including the Central Bank of Nigeria (in charge of monetary policy and supervision of the banks), the Securities and Exchange Commission (in charge of capital market), the National Pension Commission, and the Nigerian Insurance Commission.

The oil and gas cluster has been the key driver of the Nigerian economy and the financial services sector. Evidence for its importance can be found in the various natural resources project and corporate finance transactions in recent years¹⁸. Recent infrastructure investments programs in electricity, roads and telecom will require large size financing in the near future and will contribute further to the growth of the financial services cluster.

Supporting industries, such as legal, accounting, IT, specialized education, are at various level of development. For example: accounting and tax practices in Nigeria are strong – all of the “big four”

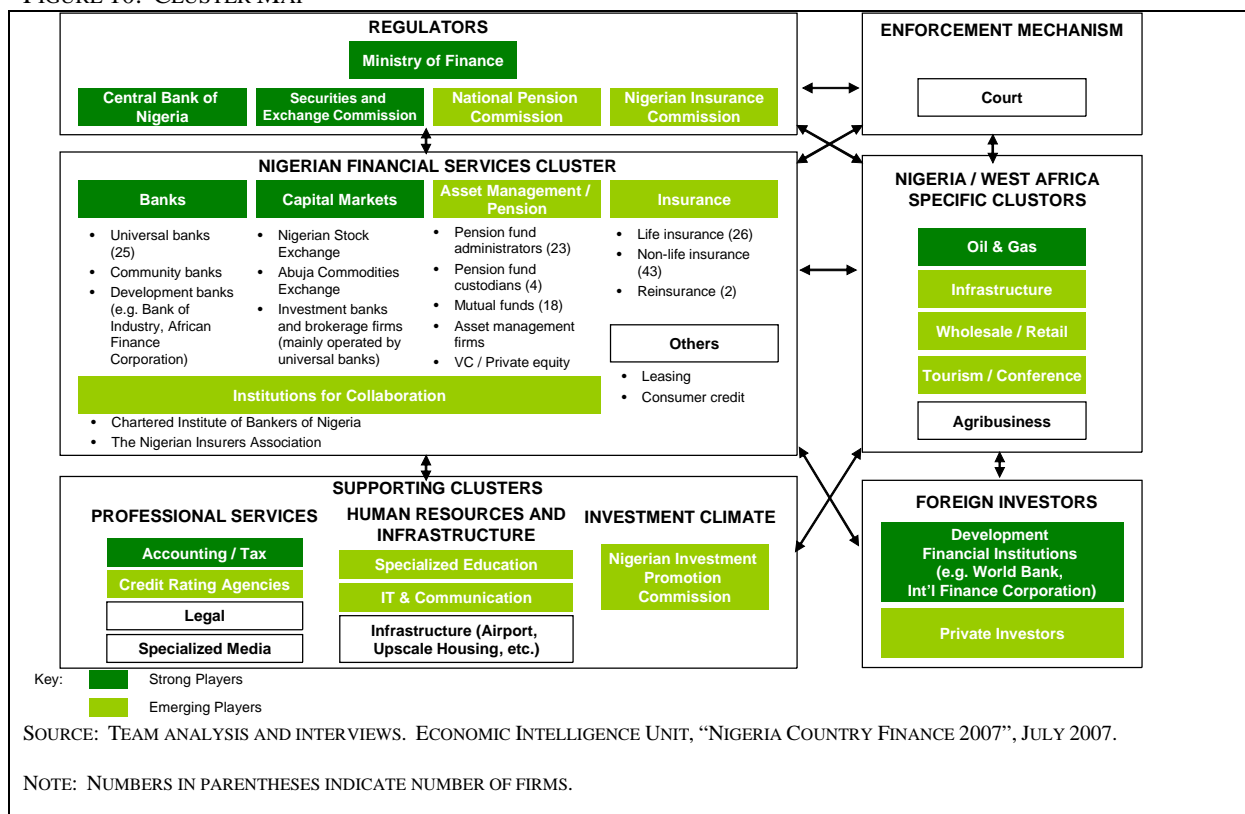
¹⁷ Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database and the IMF BOP statistics.

¹⁸ For example, MPN Natural Gas Liquids Plant conducted \$1.2bn project finance in September, 2004. Although CSFB was the lead arranger, Nigerian banks like Standard Trust Bank, Union Bank Nigeria and United Bank for Africa participated in the deal (Source: Thomson One Banker). In addition, 58% of M&A deals consummated in 2006 and 2007 were in the oil & gas sector (Source: Thomson One Banker).

firms¹⁹ are active in Nigeria; specialized education is emerging – University of Lagos has reputable business administration program. Also, Institute of Chartered Accountants of Nigeria provides specialized accounting education.

In terms of outside investors, international financial institutions like the International Financial Corporation (IFC) has been active in Nigeria since the 1990’s. Foreign private equity firms like Actis, Renaissance Capital, or Helios are also active in the market.

FIGURE 10: CLUSTER MAP



Currently, the Nigerian Financial Services Cluster is the second largest financial services cluster in the Sub-Saharan Africa after South Africa in terms of market capitalization, number of listed companies in the stock market, and banking assets. FDI and portfolio flow are increasing rapidly due to increase in foreign investors’ confidence thanks to recent regulatory reforms and economic growth.

Recent oil price increases have helped the government to pay back its foreign debt, with oil & gas revenues accounting for 80% of government revenues. As a result, Nigeria received BB- rating (best

¹⁹ PricewaterhouseCoopers KPMG, Deloitte Touche Tohmatsu, and Ernst & Young.

rating in West Africa) from S&P in February 2006. Sovereign spreads has fallen massively (decreased from 2300bps in Dec 2003 to 270bps in May 2006) and Nigeria is becoming safer place for investors. The prominent rival of Nigeria is the South African Financial Services cluster. South Africa has a well-developed financial services cluster. The cluster is one of the largest and most deregulated within the emerging markets, with sophisticated banking, bond and insurance markets accounting for around 20% of GDP and 1.3m jobs in total²⁰. By comparison, the share of the financial services sector in Nigerian GDP is only 4%²¹. A unique advantage for Nigerian firms could become a focus on servicing poor customers – whereas South Africa has traditionally focused on middle class customers. For instance, Nigerian banks are now starting to open branches in black townships in South Africa.

FIGURE 11: STOCK MARKET CAPITALIZATION

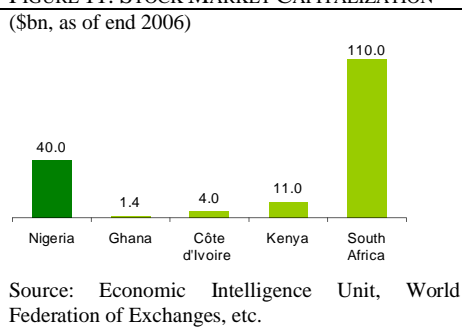


FIGURE 12: NUMBER OF LISTED COMPANIES

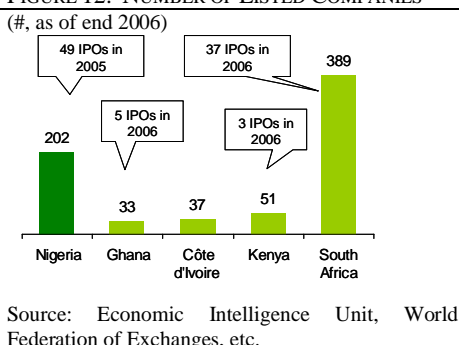


FIGURE 13: BANKING ASSETS

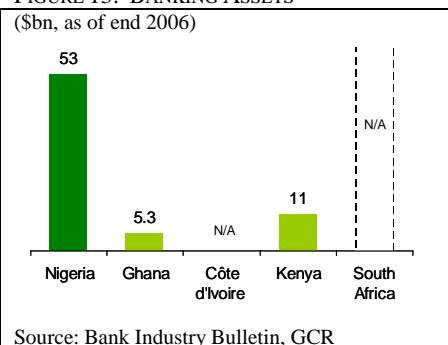


FIGURE 14: LENDING TO PRIVATE SECTOR / GDP

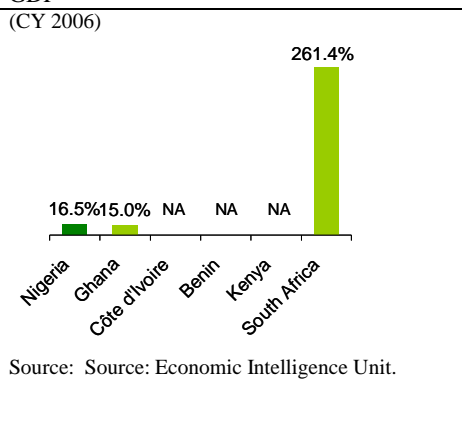


FIGURE 15: FDI INFLOW AND FDI INFLOW AS % OF GDP

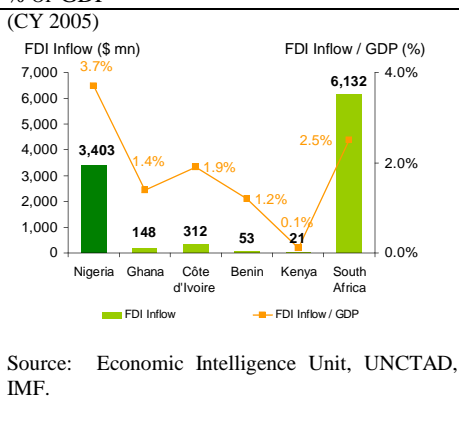
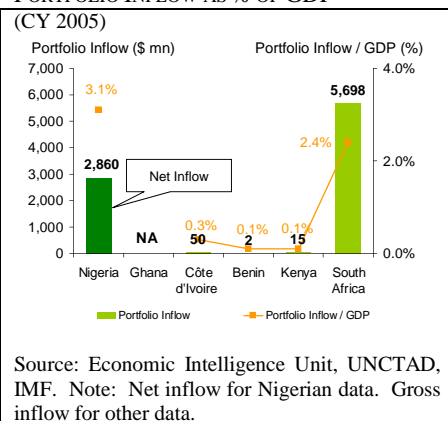


FIGURE 16: PORTFOLIO INFLOW AND PORTFOLIO INFLOW AS % OF GDP



²⁰ Economic Intelligence Unit, "South Africa Country Profile 2007", p.54.

²¹ As of 2005. Economic Intelligence Unit, "Nigeria Country Report. November 2007", p.5

7.2 HISTORY AND THE 2002 REFORMS

The Nigerian Financial Services Cluster has long history. However, it was rather weak until the government instituted a host of reforms starting in 2002.

Banking Sector: The Central Bank of Nigeria (“CBN”) began operation in 1959. From 1968 to 1999, the CBN lost autonomy to Federal Government, and Nigeria was plagued by loose monetary policy. In 1999, the last military government granted the bank legal autonomy in exercising regulatory and monetary policy functions.

The history of the banking sector goes back to 1892 when the colonial British opened the first bank. After the independence in 1960, and until the early 1980s, three big banks (Union Bank, First Bank, and United Bank for Africa) dominated the industry. In 1986, the government deregulated the banking sector and lowered barriers to entry. As a result, many new firms entered the market and the number of banks increased to over 100. Many new entrants were weakly capitalized and poorly managed. There was also weak regulatory supervision. This led to the collapse of some of the new banks, and to several banking crises in the 1990s. As a result, across the industry approximately 20% of the loan portfolio was non-performing by the early 2000s. Because of the banks’ weak balance sheets, they were not able to provide long-term financing to the private sector. Financing became one of the key bottlenecks for the economic growth. However, in 2002, the government forced recapitalization of weak banks to a minimum of N2bn (\$15m). From 2004 to 2005, further reforms occurred. Minimum capitalization of banks was increase to N25bn (\$200m) by the end of 2005. Autonomy and accountability of the CBN was increased and the CBN started to monitor banks based on risk-focused and rules-based regulations. This reform led to the consolidation in the industry. Only strong banks survived. The number of the banks decreased from 89 in 2004 to 25 in 2005.

Capital Markets: The Nigerian Stock Exchange (NSE) was opened in 1960 with gaining independence. The Securities and Exchange Commission was established in 1979 to act as a regulatory body in the

capital market. In 1985, a second-tier securities market (SSM) was established to encourage small and medium size indigenous companies to list on the stock exchange. In 1995, the Nigerian Investment Promotion Commission permitted foreign equity and management participation in local stock broking firms. In 1999, NSE introduced the Automatic Trading System to replace the former call-over trading system. In 2000, the settlement and clearing cycle was reduced from 5 to 3 days. The commodity trading market was opened in Abuja in 2006.

Pensions Sector: In contrast with the relatively strong development of capital markets, the pension system had problems. The legacy pension was mandatory in the public sector, but optional in the private sector. Most private companies did not have any pension scheme for their employees. Government used taxes derived from active workers to fund the pension of retired workers (“pay-as-you-go system”). The legacy system proved unsustainable leading to a public sector pension funding deficit estimated at about N2tn (US\$15bn). From 2004, various reforms started tackling the pension sector. The 2004 Pensions Reform Act established defined contribution pension for employees in the public sector (excluding state and local government) and all private sector firms with 5 or more employees. Under this system, employees would contribute 7.5% of their salaries to a pension account. Employers would also contribute a minimum of 7.5%. Management of the pension account is conducted by Pension Fund Administrator (PFA) companies. PFAs were mandated to invest all of their funds to Nigerian assets²² and this made the pension money flow back into the capital market. In addition to the pension reforms, the regulators started to introduce enhanced practices on corporate governance. A “Code of Best Practices for Public Companies in Nigeria” was introduced in 2003, and a “Code of Corporate Governance in Post-Consolidation Nigeria” for banking sector was introduced in 2006.

²² “National Pension Commission recommend to the President for approval the investment of pension fund assets outside the territory of the Federal Republic of Nigeria” – Pension Reform Act 2004, Article 74-(2).

Insurance Sector: Insurance services existed in Nigeria since 1920's, mainly offered by British companies. In the 1970's and 80's, a process of indigenization occurred when most of the foreign insurance companies withdrew from the market and new local entrepreneurs launched insurance firms. Barriers of entry were low due to low capital requirement and lax regulations. The market has been shallow (less than 1% of GDP). NICON Insurance Corporation, a state-owned company, dominated the market, leveraging its position as a primary insurer of government property. In 2005, minimum capital requirements were introduced for the insurance sector. The National Insurance Commission (the regulator for the insurance sector) raised minimum capital requirements from N150m (\$1.1mn) to N2bn (\$15mn) for life, from N200m (\$1.5mn) to N3bn (\$22.6mn) for non-life, and from N350m (\$2.6mn) to N10bn (\$75mn) for reinsurance. As a result, insurance firms consolidated; the number of the insurance firms decreased from 118 in December 2002 to 71 in March 2007. And the state-owned National Insurance Corporation of Nigeria and the Nigeria Reinsurance Corporation were privatized.

7.3 BANKS

In this section, we will analyze recent trends in the banking sector as a case study for financial services in Nigeria as a whole. Similar trends can be observed in other sub-sectors of the cluster: capital markets, insurance, pension. For brevity, we will only discuss the banking sector in detail.

Restructuring of the Nigerian banking sector in 2004-2005

Industry landscape in 2004²³: At end-2004, the underdeveloped Nigerian banking system was highly fragmented and included 89 deposit banks with 3,100 branches predominantly located in urban centers. The ten largest banks accounted for over 55% of aggregate assets and deposits, and 45% of aggregate advances. The remainder of the industry consisted primarily of under-capitalized small banks, which were weighed down by high overhead costs and limited financial flexibility. In addition to deposit

²³ All figures from Nigeria Banking Review by GCR 2005 to 2007 and Banking Sector Overview by IBTC

banks, the system extended to encompass 5 discount houses, 774 community banks, as well as 6 specialized development banks and mortgage institutions.

FIGURE 17: CAPITAL BASE OF MAIN BANKS PRIOR TO REFORM AT END 2004 AND AFTER REFORM AT END 2006

As of end 2004			As of end 2006		
Bank	Capital (Nbn)	Bank	Capital (Nbn)	Bank	Capital (Nbn)
1 First Bank	38.6	26 Leadbank	3.0	1 Union Bank	95.70
2 Union	36.0	27 Manny	2.9	2 Zenith Bank	93.80
3 Standard Trust	20.0	28 Platinum	2.8	3 First Bank	59.00
4 UBA	19.5	29 Co-operative Bank	2.8	4 Intercontinental Bank	53.90
5 Zenith	15.7	30 Allstates	2.8	5 United Bank for Africa	47.60
6 GTB	11.6	31 FCMB	2.8	6 Oceanic Bank	37.70
7 Hallmark	8.9	32 Access	2.7	7 Guaranty Trust Bank	36.40
8 Oceanic	8.9	33 MBC	2.5	8 Diamond Bank	35.00
9 Citibank	8.8 F	34 Union Merchant Bank	2.5	9 Skye Bank	34.70
10 Intercontinental	8.6	35 Magnum	2.5	10 Wema Bank	31.90
11 Equitorial	8.4	36 Marina	2.4	11 IBTC-Chartered Bank	31.50
12 Wema	8.0	37 Guardian Express	2.3	12 Unity Bank	30.00
13 Diamond	6.5	38 Global	2.3	13 Access Bank	28.90
14 IBTC	5.8	39 FSB International Bank	2.3	14 PlatinumHabib Bank	28.50
15 NAL	5.6	40 Equity	2.3	15 Equitorial Trust Bank	28.40
16 Gulf Bank of Nigeria	5.6	41 EIB	2.2	16 Ecobank Nigeria	27.50 F
17 Afribank	5.3	42 Co-operative Development	2.0	17 Standard Chartered Bank Nigeria	26.70 F
18 Chartered	5.1	43 Capital	1.9	18 Spring bank	25.00
19 First Atlantic	4.4	44 NNB	1.9	19 Sterling Bank	25.00
20 Habib	3.7	45 Omegabank	1.8	20 Citibank Nigeria	25.80 F
21 Inland	3.6	46 Nigerian-American Merchant Bank	1.8	21 Stanbic Bank	25.70 F
22 Fidelity	3.5	47 Afribank Merchant	1.7	22 Fidelity Bank	25.60
23 Eco International	3.5 F	48 INMB	1.5	23 First Inland Bank	25.40
24 City express	3.1	49 First Interstate Merchant Bank	0.9	24 First City Monument Bank	25.20
25 Citizens International	3.1	50 Pacific	0.6	25 Afribank	24.90
		Other 39	N/A	Total Nbn	929.8
		Top 50 total Nbn	307.2	in USD	7.3
		in USD	2.3		

SOURCE: NIGERIA BANKING BULLETIN 2005 TO 2007, COMPANY PRESENTATIONS, TEAM ANALYSIS

Transformations in 2005: The government’s ambitious bank consolidation program resulted in the emergence of 25 “mega-banks” representing 75 of the original 89 banks, and 93.5% of industry deposits. The licenses of the 14 banks that did not meet the new capital requirement of N25bn at end-December 2005 have been revoked. Despite some delays due to legal procedures, the National Deposit Insurance Corporation has liquidated these failed banks²⁴.

Strong improvement of the banking sector in 5 years: 2002-2007

Re-capitalization: To comply with CBN’s minimum capital directive²⁵, banks employed a number of strategies to increase their capital base, including rights issues, capitalization of profits, initial public offerings (IPO), and mergers and acquisitions. In 2005, the banking sector was flooded with funds. During the 18-month consolidation period, the industry’s aggregate capital base nearly doubled from around USD3bn to USD5.9bn. Of the USD2.9bn in new investment (the largest in the non-oil sector

²⁴ Including Afex Bank, Allstates, Assurance Bank, Fortune Bank, Hallmark, Lead Bank and Trade Bank

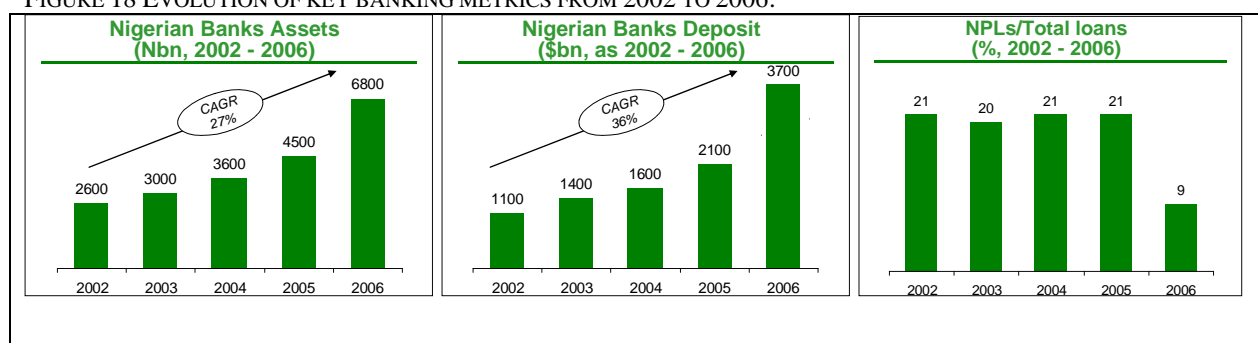
²⁵ N25bn at end-December 2005, up from N2bn previous capital floor established in 2002

for that year), USD500m was accounted for by FDI inflows. For several of the leading institutions such as Zenith and Union Bank, their IPOs were oversubscribed. The industry’s capitalization as a share of stock market capitalization rose from 24% to 38%.

Improved lending practices: One of the main weaknesses of the Nigerian banking sector was the poor quality of its loan portfolio with an average of 21% of net-non-performing loans in 2002. This was due to a combination of weak skills (credit scoring, risk assessment) and ethics issues (corruption, lending to friends/relatives). The transformation of the industry has enabled the restructuring of the weakest loan portfolio of the failed banks and the merger of weak banks with large and better-managed ones. Overall the level of net-non-performing loans has decrease to 9% in 2006²⁶. This is a significant improvement over 2002, but still insufficient compared to international standards. In countries such as South Africa, the level is close to 4%.

Strong growth: By whatever the measure, the Nigerian banking sector has been growing extremely fast over the past 5 years: 23% CAGR of assets, 36% CAGR of deposits, and 10% CAGR of branches²⁷. This strong growth is the product of the trust created by the transformation of the industry both with investors and clients.

FIGURE 18 EVOLUTION OF KEY BANKING METRICS FROM 2002 TO 2006.



SOURCE: NIGERIA BANKING INDUSTRY BULLETIN, 2005 TO 2007, COMPANY PRESENTATIONS, AND TEAM ANALYSIS

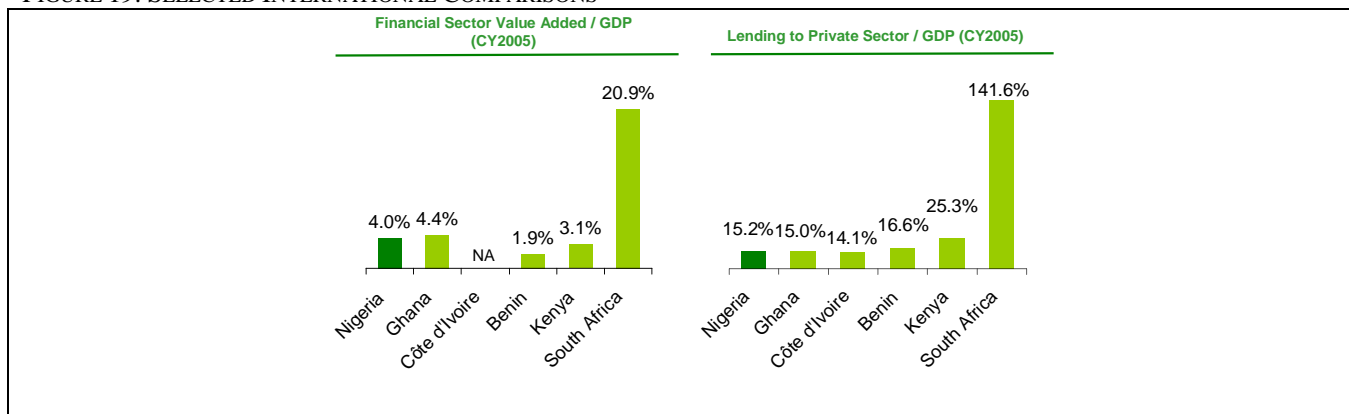
²⁶ Nigeria’s financial system strategy 2020 plan, June 2007 presentation

²⁷ Based on last 2 years only 2004-2006

International development: Following the growth and improvement of the banking sector in the domestic market, Nigerian banks have started a strategy of geographical expansion: 7 of the largest banks are getting licenses to operate in countries in West Africa, Central Africa, and East Africa. In 2006-2007 4 banks started operation in Ghana, 2 in Bénin, 1 in Sierra Leone, and even in South Africa. Geographical expansion is stated as a corporate objective of 4 of the 5 main Nigerian banks.

Yet... some room for improvement: Despite strong domestic growth, the Nigerian banking sector has not developed to its full potential. Nigeria remains a cash economy: in 2007 the total amount of loans outstanding to the private sector is only 16.5% of GDP (2006), comparable to other sub-Saharan economies (15% Ghana, 14% Côte d'Ivoire, 17% Bénin) and significantly lower than developed economies where it is several times GDP (261% South Africa, 300%+ UK).

FIGURE 19: SELECTED INTERNATIONAL COMPARISONS

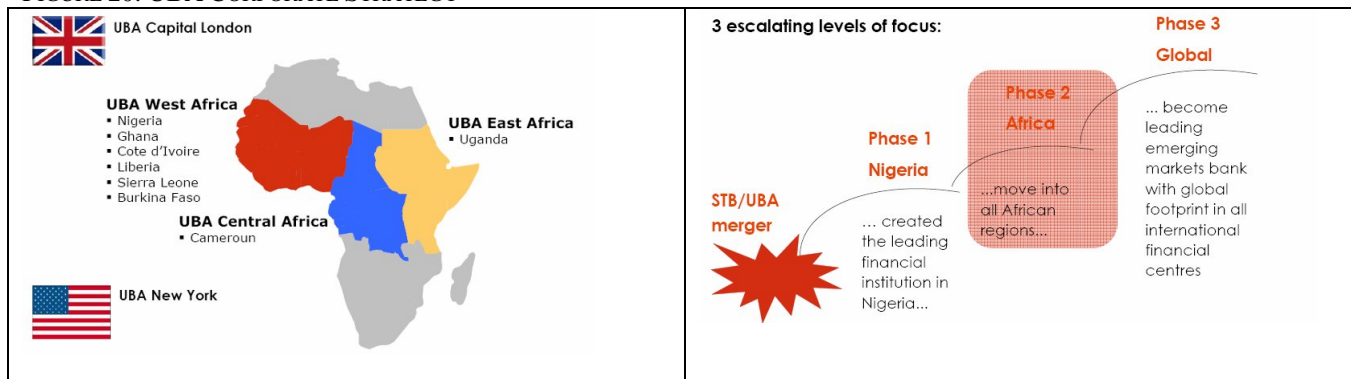


SOURCE: EIU COUNTRY REPORTS, WDI

Two case studies of Nigerian banks: (1) International development – United Bank of Africa. UBA is the largest Nigerian banks in assets terms. The bank is the result of the merger between Standard Bank and United Bank respectively third and fourth largest banks in 2004. After a period of integration and domestic development, UBA has put forward a strategy of international development. UBA aims to become the leading bank of Sub-Saharan Africa. It has received license in 7 countries in Africa and already started operation in 4. It has also developed a branch in NY and London for sourcing capital

for the bank development. The ultimate goal of the bank is to become the first full service bank for emerging economies.

FIGURE 20: UBA CORPORATE STRATEGY



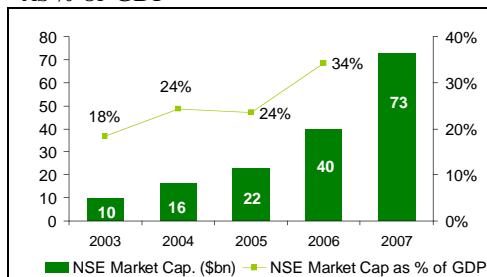
SOURCE: UBA INVESTOR PRESENTATION

(2) Innovation in banking – Zenith Bank. Zenith is the third largest bank in Nigeria in assets terms. It has enjoyed one of the strongest growth in the sector from N89bn in assets in 2002 to N655bn in 2006 though organic growth only. The strategy of Zenith is to address new markets with technological and marketing innovation. In the field of payment, for instant, Zenith is developing new products and solutions as alternative to cash: secured check services to pay employees, mobile payment, card systems, etc. Zenith is also a leader in e-banking and mobile-banking in Africa.

7.4 CAPITAL MARKET AND PENSION

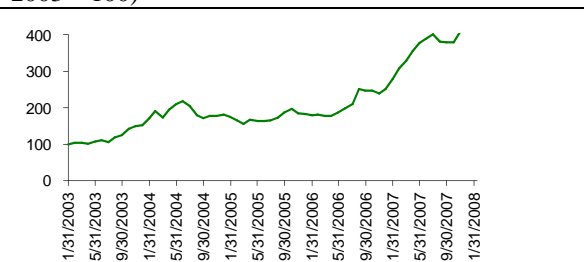
As a result of the pension reform in 2004, pension assets under management have boosted to N500bn (\$4bn) as of April 2007. Annual pension contributions are projected to add N200 – 300bn per year²⁸.

FIGURE 21: NSE MARKET CAP. (\$ BN) AND MARKET CAP. AS % OF GDP



Source: Economic Intelligence Unit, “Nigeria Country Finance 2007”, July 2007.

FIGURE 22: NSE STOCK INDEX (PRICE AS OF JAN. 2003 = 100)



Source: Global Financial Data (<http://www.globalfinancialdata.com.ezpl.harvard.edu/>), accessed in February 2008.

²⁸ World Bank, “Nigeria Competitiveness and Growth”, May 2007, p.79.

The Pension Reform Act of 2004 stipulated that the pension assets had to be invested into Nigerian assets and the funds flowed into the Nigerian capital market. Combined with the banking reform this led to a dramatic growth of the equity market. Total market capitalization of Nigerian Stock Exchange grew from \$16bn in 2004 to \$73bn in 2007 (CAGR of 66%), and to over \$100bn as of April, 2008.

7.5 INSURANCE AND OTHERS

After the reforms in 2005, insurance market size has been increasing steadily. Total gross premium income of insurance companies has grown from \$221m in 2000 to \$716m in 2006 (CAGR of 22%). However, insurance penetration is still very low. The market size is only 0.5% of GDP whereas the market size in South Africa is 16% of GDP. According to the World Bank's analysis, the shallowness of the insurance market is mainly due to (i) low level of disposable income and (ii) lack of public confidence in local financial institutions which undermines willingness to enter into contractual savings arrangements²⁹. Also, foreign ownership of the insurance companies is limited up to 40%³⁰ and this may limiting more entry of the foreign players and transfer of best practices in the global market.

Leasing market in Nigeria is still small. Banks dominate the small amount of big-ticket leasing activity. A few specialist leasing companies are engaged in the business, such as C&I Leasing and Leasing Company of Nigeria, but they generally deal with small transactions. Operational leases are used more often than financial leases³¹.

8. The Diamond of the Nigerian Financial Services Cluster

Factor conditions: There are various positive factor conditions in Nigeria. First of all, Nigeria has been maintaining relatively stable macro economy for the last few years. Consumer price inflation rate

²⁹ World Bank, "Nigeria Financial Sector Review" (May 2000), Volume 3, p.27.

³⁰ World Bank, "Nigeria Financial Sector Review" (May 2000), Volume 3, p.31. The team could not find information on any change in regulation since then.

³¹ Economic Intelligence Unit, "Nigeria Country Finance 2007", July 2007.

went down from 14.0% in 2003 to 5.5% in 2007³². The government is working to achieve a healthy fiscal position. Secondly, there is a large, highly educated Nigerian Diaspora working in developed countries. Approximately 500,000 Nigerians are living in the US³³ and between 800,000 and three million are living in the UK³⁴. Many Nigerians are working in the financial services firms on Wall Street and in the City. They are a powerful resource to fuel the sophistication and the growth of the Nigerian Financial Services Cluster if there is a way to make them return to Nigeria. However, there are also challenges. First is the general business environment. As we analyzed earlier, there is still a lot of work to be done in order to upgrade the business environment, such as contract enforcement, and reducing corruption. In addition, the Nigerian government needs to work hard in order to increase safety in the country since security is one of the important factors for expatriates and to come to work in the Financial Services Cluster. Secondly, specialized education system to train financial specialists needs further upgrade.

Demand Conditions: The Nigeria financial services cluster can build on three core strengths. First, Nigeria is one of the largest potential markets for financial services in Africa (largest population). Second, the growth of the cluster is fueled by a strong oil sector and strong infrastructure investments. Last but not least, there is an emerging domestic demand for capital markets related services (such as investment banking and asset management) led by the recent reforms in the financial sector and the pension system. However Nigeria has two key weaknesses. First, the vast majority of the people lives in poverty (54% of the population lives under \$1 per day poverty line) and demand for retail banking is not sophisticated at all. 85% of Nigerians lack access to any formal financial services³⁵. Therefore, the banking sector has to think about how to capture those impoverished people into the financial services

³² Estimate by Economic Intelligence Unit, "Country Report Nigeria", November 2007, p.5.

³³ Mobolaji Aluko, "500,000 Nigerians live in US",

http://www.nigerianmuse.com/nigeriawatch/Diaspora_Nigeria/500_000_Nigerians_live_in_US_Envoy, accessed April 2008.

³⁴ Benjamin Ogbebulu, "The contribution of Diaspora to poverty reduction and development in Nigeria",

http://www.nigerianmuse.com/nigeriawatch/Diaspora_Nigeria/The_contribution_of_Diaspora_to_poverty_reduction_and_development_in_Nigeria_by_Benjamin_Ogbebulu, accessed April, 2008.

³⁵ World Bank, "Nigeria Competitiveness and Growth", May 2007.

system. The second weakness is the over-dependency on the oil and gas cluster. Other clusters are under-developed. Especially the agribusiness cluster has strong potential, given its size (35% of GDP). The Nigerian government and business community have to think hard about how to develop further clusters to stimulate demand for financial services.

Context for Firm Strategy and Rivalry: The first strength is intense rivalry among local financial institutions. Secondly, ambitious Nigerian financial institutions are expanding regionally into countries like Ghana and Benin. Thirdly, foreign investors are increasingly becoming interested in Nigeria which is likely to lead to further inflow of capital and transfer of technology and best practices. A fourth strength is the government's strong commitment on developing financial services cluster ("Financial System Strategy 2020"). However, there are various issues. A key issue is banks' limited ability to provide long-term finance to the private sector. Lending level in Nigeria is still low; private sector lending as % of GDP is 16.5% in 2006 (cf. South Africa has 261% rate). In addition, underdeveloped secured finance products such as leasing due to weak property right protection and lack of relevant laws (such as leasing law) hampers corporations' access to long-term finance. Corrupt practices of the bankers (e.g. lending to the corporations with weak credit by receiving bribes) is one of the reasons deterring banks to earn healthy returns on long-term lending³⁶. The capital market has various issues as well. Key issues in the equity market include low liquidity and high transaction costs. Annual trading volume of the equity market was only 10% in 2005. Secondary market transaction cost is 3.75% of the trading volume³⁷ which is high compared to the transaction costs in the developed countries (less than one basis point). These factors may be barriers for investors to come into the Nigerian market. In addition, the corporate bond market is shallow. Traded bonds mostly consist of government bonds. As

³⁶ Interview to Mr Frank Nweke, former Minister of Information, Republic of Nigeria.

³⁷ Total transaction costs charged by (i) broker (2.75%), (ii) SEC (1% if purchase), (iii) Nigerian Stock Exchange (0.5% if sale), (iv) Central Securities Trading System (0.5% if sale). Source: World Bank, "Nigeria Competitiveness and Growth", May 2007, Volume II, p. 93.

of May 2007, only four corporate bonds are listed on the exchange³⁸. High issuance cost (5.7% of total proceeds³⁹) may be hampering corporate bond issuance.

Related and Supporting Industries: Key players are in place such as accounting and tax firms, credit agencies and specialized media. The main weakness is the poor infrastructure (telecom, electricity, etc.) which would be a risk factor for smoother financial transaction.

9. Summary of Strategic Issues for Financial Services Cluster

There are four key strategic issues and challenges for the cluster increase its competitiveness.

A. In order to build on the recent success and to keep growing the financial service cluster in a healthy manner, the cluster has to **improve risk management capability**.

B. Despite the decent success, lending level in Nigeria is still low compared to developed countries and access to finance (especially to the long-term finance) is still key limiting factor for business growth⁴⁰.

A limited **lending skill** base and **corruption are key issues** that need to be addressed.

C. Most Nigerians are in poverty and **innovation is needed** to include them in the financial system.

D. Exports and **outward FDI** by the Nigerian Financial Cluster is emerging but there is still room for increase.

10. Recommendations for Financial Services Cluster

The Government Plan: Financial Services 2020: Nigeria wants to become a hub for financial services in Sub-Saharan Africa and in the longer term a hub for financial services for emerging economies. The Government has formalized its vision for the sector in a program called Financial Services 2020 with three pillars:

³⁸ Source: World Bank, "Nigeria Competitiveness and Growth", May 2007, Volume II, p. 93.

³⁹ Ibid.

⁴⁰ World Economic Forum 2007.

- *Strengthen the domestic financial market:* There are still tremendous opportunities for growth and improvement in Nigeria domestic financial services market. Banking practices could gradually replace cash transactions in several aspects of the economy, for instance payments, savings and most importantly loans. This requires that Nigerian (i) innovate in terms of new products adapted to the reality of Nigeria (pre-paid debit cards, payment systems, compensation, mobile payment, check security, community banking, etc.), (ii) improve skills (credit assessment and scoring) and ethics of employees (non-performing loans, loans to relatives).
- *Enhance integration with international financial markets.* Nigeria wants to become a hub for financial services in Sub-Saharan Africa. This requires integrating Nigeria financial markets with its neighbors' and in particular Ghana and the West Africa monetary union (Côte d'Ivoire, Bénin, Cameroon, etc.). In this context integration means common regulations regarding money conversion, cross border settlements, etc. This also requires opening-up to foreigners to enhance skills and access to capital, and to build strong banks to expand oversea.
- *Build an international Financial Center.* Nigeria wants to attract in its territory an international financial center for Africa. This requires the establishment of a special zone, the strengthening of the rule of law and the attraction of foreign financial institutions.

FIGURE 23: FINANCIAL SYSTEM STRATEGY 2020



SOURCE: CBN PRESENTATION

Selected specific recommendations beyond FSS2020: Beyond the actions covered by the FSS2020 program, there are several additional recommendations that are integral to the success of Nigeria Financial Services Sector.

- A. *Risk management.* The success of the Nigeria Financial Service sector could be jeopardized by the collapse of one of the big banks. We estimate that the current level of risk management within the banks is insufficient and has to be improved, including accelerated compliance with Basel II regulation, to prevent such a situation. The government with advices from the main banks and the support from international bodies (IMF, Basel Committee) should introduce tougher regulations and shorter deadlines.
- B. *Improve skills and ethics of employees.* Despite recent improvements, the level of non-performing loans is still too high at around 9%, especially considering that the total amount of loans outstanding is only 15% of GDP. If lending practices are not improved immediately it could jeopardize the domestic growth of the banking sector. There are two main causes to poor lending practices: lack of credit risk skills and ethics issues. Both need to be addressed. We recommend the implementation of a national certification process for credit officers and the requirement for all credit officers to be accredited by 2012. The content and format of the certification could be decided jointly by the government and the banking sector with the help of international institutions. In addition, the government and financial institutions have to make joint efforts to invite the Nigerian diaspora who are working on Wall Street and in the City to leverage their skills for further sophistication of lending practices in Nigeria. For example, financial institutions can begin to engage the diasporas with recent success stories of the Nigerian Financial Cluster, and the government can make efforts to increase safety in the country. This will help reduce barriers for the diaspora to return.

- C. *Expand banking footprint.* Firms should be encouraged to expand their footprint in terms of geography (reaching beyond the main cities) and in terms of products (increasing focus on savings, insurance and payments). This is essential because this will not only create growth in the domestic market, but it will also create Nigerian banks competitive advantage when it comes to exporting their services to other countries in Africa. We recommend the creation of institutions for collaboration to come up with innovative solutions in terms of technological evolutions (e-banking, mobile-banking), business models (micro-finance, SME finance, rural finance), or cooperation mechanisms (credit scoring database, credit card platform, cash clearing house, check clearing house, etc.). We also recommend economic incentives, such as government tax break for R&D, or opening of rural branches.
- D. *Expand internationally.* Based on our analysis, Nigerian banks and other financial services institutions are well placed to develop unique skills and expertise to services a large, poor and rural population. There are tremendous international economic opportunities for successfully addressing the financial services need of this section of the population in low and medium income countries.