Report of the Vision 2020 National Technical Working Group

Financial Sector

July, 2009

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GLOSSARY OF TERMS

S/N	ABBREVIATION/ ACCRONYM	DEFINITION
1	ALSI	All Share Index
2	ASCE	Abuja Securities and Commodity Exchange
3	BOVESPA	Bolsa de Valores de São Paulo (São Paulo (Brazil) Stock Exchange)
4	BSE	Bombay Stock Exchange
5	CAGR	Compounded Annual Growth Rate
6	CBN	Central Bank of Nigeria
7	CIS	Chartered Institute of Stockbrokers
8	CSCS	Central Securities Clearing System
9	DIFX	Dubai Stock Exchange
10	DMB	Deposit Money Bank
11	DMO	Debt Management Office
12	FDI	Foreign Direct Investment
13	FIRS	Federal Inland Revenue Service
14	FSS - 2020	Financial System Strategy 2020
15	FX	Foreign Exchange
16	GDP	Gross Domestic Product
17	GDR	Global Depository Receipt
18	IPO	Initial Public Offering
19	JSE	Johannesburg Stock Exchange
20	LSE	London Stock Exchange
21	NAICOM	National Insurance Commission
22	NEEDS	National Economic Empowerment and Development Strategy
23	NGN	Nigerian Naira
24	NIA	Nigerian Insurers Association
25	NSE	Nigerian Stock Exchange
26	NTWG	National Technical Working Group
27	NV 2020	Nigeria Vision 2020
28	NYSE	New York Stock Exchange
29	OTC	Over the Counter
30	PenCom	National Pension Commission
31	PFA	Pension Fund Administrators
32	REIT	Real Estate Investment Trust
33	S & P	Standard and Poor's
34	SEC	Securities and Exchange Commission
35	SME	Small and Medium Scale Enterprises

FOREWORD

Nigeria's financial sector has great potentials to unlock the growth and development aspirations of the nation, despite the episodic crises that have dogged its past. The sheer market size and vast human and mineral resources, as well as the strategic location of Nigeria in the sub-sahara African are positive attributes that set the sector apart from its peers in the continent.

The financial sector is very resilient. The 2005 recapitalization and consolidation exercise which saw the emergence of financial conglomerates in the nation marked the defining moment in the development of the sector. Nevertheless, the sector needs to address its structural and human capital constraints challenges in order to enhance its capacity to grow the real sector of the economy and to realize the vision of becoming the safest and fastest growing financial system amongst emerging market countries'.

Visioning entails a long-term perspective planning. And in order to render the exercise less esoteric, the visioning must not only identify the key challenges and opportunities, but must also capture the strategic initiatives that will lead to the achievement of the mission and vision.

This Report is a product of numerous consultations and brain storming exercises. It has also benefited from previous studies – especially, the FSS-20 20 Blueprint, Vision 2010 Report, The NEEDS Document and the SEC Report. The FSS-20 20 Blueprint was a major source of diagnostic research and inspiration for the work of the FS-Group. The Blueprint pre-dated the global financial crisis whose impact is still being felt today in the Nigerian economy. Against the backdrop and given the changing dynamics of the global financial system, the need to revisit the strategic initiatives recommended in FSS-20 20 Blueprint can not be overemphasized.

In deed, it is well settled that regulatory deficit, the disconnect between the financial sector and the real sector, lack of depth and breath, and the absence of a codified code of conduct and corporate governance for the operators and regulators all significantly hinder Nigeria's financial sector. Looking forward, it is incontrovertible that these challenges must be conquered for the sector to be ranked amongst the top 20 by year 2020. This Report contains the strategic initiatives and the implementation road map to achieve this mission and vision.

EXECUTIVE SUMMARY

The financial sector has a critical role to play in Nigeria's quest for rapid development. Although the sector has recorded significant growth in the recent past, the contribution of the financial sector to Nigeria's gross domestic product has remained relatively insignificant – ranging from 2 – 3.5 per cent over the past three decades.

To achieve the NV 20:2020 aspiration, a robust financial sector development plan must be implemented in Nigeria along the following dimensions:

a. Transformation of the structural architecture, regulatory framework and reform of the institutions

b. Re-engineer financial intermediation process and access to credit

c. Deepen and diversify financial products

d. Enhance integration with external financial markets

Further to a detailed review of the Nigerian financial sector within the context of the dynamic global financial terrain, the financial sector NTWG made the following key recommendations:

1. Ensure effective regulation & supervision and adopt a globally recognized code of conduct and corporate governance for the operators and regulators
2. Deepen and broaden the financial markets
3. Maintain macro economic stability
4. Encourage speedy dispensation of commercial litigations
5. Encourage the financing of the real sector (pay more emphasis on cash flow and less on collateral)

6. Encourage a competitive financial sector (make banking license affordable and grant license to 'fit and proper' persons)
7. Strengthen and build confidence in the non-bank financial institutions
8. Establish integrated payments system and a functional credit bureau system
9. Diversify Nigeria's foreign exchange supply base and formally adopt capital account liberalization.
10. Make Nigeria a preferred destination for FDI
11. Promote transparency and, accountability
12. Develop the human capacity required to drive the financial sector

The initiatives required to achieve the above strategic objectives were developed and documented in this report.

The rest of this report is structured as follows:

- Chapter 1 provides an overview of the Nigerian financial sector and describes the scope and approach that was adopted in the work of the financial sector NTWG;
- Chapter 2 reviews the trends in the global and local financial markets, selection of benchmark countries and captures the current position of the Nigerian financial sector. The issues and challenges facing the financial sector and the strategic imperatives are highlighted in this section;
- Chapter 3 contains the vision, strategic objectives and recommended initiatives for the sector; and
- Chapter 4 contains the implementation roadmap.

It is recommended that a presidential commission for the implementation of NV 2020 be set up. This commission should be equipped with the necessary resources and authority to spearhead the implementation of the NV 2020 initiatives.

1.0 INTRODUCTION

Systemic stability and growth was restored in Nigeria's financial system in 2005 following the successful recapitalization and consolidation of the banking industry in particular and the subsequent reforms carried out in the capital market, the payments system and the insurance and pension fund sub-sectors generally. Against this backdrop, the broad objective of this report is to find a niche for Nigeria to become a top 20 global financial market player by 2020. Accordingly, the report takes an introspective overview of the major developments that have taken place since the landmark financial system reforms.

In order to reposition the Nigerian economy and its financial system amongst the world's top 20 leading financial powerhouse, the report highlights the strengths, weaknesses, opportunities and threats of the financial system and subsequently, outlines the strategies designed to accomplish this objective of developing a world-class financial system. The strategy focusses on how to: deepen and diversify the products in the financial market, enhance market competition, eliminate information asymmetry and regulatory arbitrage by reforming and strengthening the institutional framework for regulation and supervision. Specifically, the report defines the contribution of the various sub-sectors of the Nigerian financial sector to the achievement of the strategic objective of the financial system Vision 20: 2020.

Establishing a stable financial system and assisting it to access global value chains would entail substantial cooperation and collaboration among the government, the regulators and the operators. The success of the financial system is therefore, very critical if the Nigerian economy is to break into the ranks of the world's top 20 economies by 2020.

1.1. Financial Sector Overview

Nigeria's financial system is dominated by the universal deposit money banking subsector. Generally, it has witnessed significant transformation since banking business started in the country in the mid nineteenth century. Changes have occurred with respect to the number of institutions, ownership structure and regulatory landscape. Before the creation of the Central Bank of Nigeria in 1958, the financial system operated largely, under a laissez faire system and was characterized by systemic instability and episodic bank failures. The emergence of the Central Bank of Nigeria (CBN) brought about a measure of systemic stability as supervision and regulation were enthroned and efforts were made to ensure that only 'fit and proper' persons were granted banking license. Unlike the banking sub-sector, the capital market has been largely spared of crisis until the emergence of the global financial crisis in 2008. The capital market has also witnessed rapid growth – the volume and value of transactions have been relatively modest since the Nigerian Stock Exchange was established in the mid 1970s. Similarly, the specialized financial institutions as well as the insurance and pension fund sub-sectors have remained minor players in the financial system, even after the 2005 reforms. Together, these subsectors account for less than 4 per cent of the aggregate value of the financial system. Historically, there is an organic disconnect between Nigeria's financial system and the real economy. This trend is unique and generally inconsistent with the close correlation which subsists between financial system development and GDP growth in well developed financial systems globally.

Overall, transformations in the financial system – particularly, the banking sub-sector have been triggered by domestic policy induced changes and global circumstances. Specifically, the system has witnessed periods of nationalization and excessive regulation, as well as de-nationalization and de-control. The entry of foreign banks and the globalization of operations of the banks have also influenced the system to adopt technological innovations and to adhere to prudential regulatory requirements that are consistent with international standards.

Until June 2004, a total of 89 deposit money banks of various sizes operated in Nigeria's financial system. But despite the number of operators, the sector was highly oligopolistic as ten banks controlled over 60 per cent of the aggregate assets and deposits liabilities. Typically, the capital base of most of the banks was less than US$10 million and the biggest bank had a capital base of about US$240 million compared with the smallest bank in Malaysia which boasted of a capital base of some US$550 million. The banks also relied heavily on public sector deposits for their operations and as such, were very vulnerable to liquidity shocks. Evidently, the banking industry was not capable of financing the real sector of the domestic economy and had no capacity to compete globally.

Other characteristics of the banks which required change was the structure of the interest rate regime which was highly skewed. Typically, the spread between deposit and lending rates was exceptionally high compared with international standards. The operators also exploited the weaknesses in the regulatory regime to maximize arbitrage premium in the foreign exchange market. Banking sector lending operations favored short term trade financing to the near neglect of: agriculture, manufacturing, solid minerals and other critical sectors of the real economy.

Similar to the money market, the capital market was equally shallow. The transactions were characterized by high cost and lack of transparency. Overall, the financial system did not perform creditably in lubricating the wheel of the real sector. It was against this background that the recapitalization and consolidation of the banking industry was decreed in 2005 and the subsequent reforms which followed in the other sub- sectors thereafter.

1.2. Scope of Nigeria Financial Sector Strategic Plan

The financial system comprises the money and capital markets, pension, insurance specialized (development) financial institutions and the regulatory authorities – namely: the CBN, the Federal Ministry of Finance (FMF), Nigeria Deposit Insurance Corporation (NDIC), Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM), and National Pension Commission (PENCOM). The CBN is the primary supervisor/regulator of the money market. SEC is the apex regulator of the capital market. NAICOM and PENCOM oversee the insurance and pension fund sub-sectors respectively. The NDIC insures depositors' funds and acts as a co-supervisor and liquidator of the money market.

Available data indicate that the banking sub-sector dominates the financial system. Specifically, deposit money banks account for over 90 per cent of the aggregate financial assets of the system which stood at Naira 16,869.90 billion in 2008[1].

As at end-2008, the financial system had 24 licensed universal deposit money banks (including 3 foreign-owned banks), 695 micro finance banks, 221 specialized financial institutions and 6 development banks. A total of 21 deposit money banks are quoted in the Nigerian stock exchange (NSE). Nigeria's banking industry has a very unique capital base structure. At one end of spectrum, almost all the 24 universal deposit money banks have an average capital base of over Naira 600 billion – equivalent to US$4.5 billion, as a result of the regulator induced recapitalization and consolidation exercise in 2005. Evidently, the emergence of 'mega' banks has neither rendered the banking industry any more competitive nor less reliant on public sector deposits as hitherto envisaged.

Conversely, the micro finance banks and the specialized financial institutions are statutorily required to maintain a low minimum capital base of Naira 20 – 100.0 million, equivalent to US$138,000 –US$690,000. The dichotomy in the capital base structure

[1] Central Bank of Nigeria

has evolved as a consequence of regulatory fiat and not necessarily, out of choice by the operators. Therefore, it remains a critical policy issue requiring resolution in the context of Vision 20: 2020.

1.3. Approach to developing the NV 20:2020 Financial Sector Report

The financial sector NTWG report was developed by a committee which comprised of vastly experienced professionals across the spectrum of the sector, including industry practitioners, regulators and the academia. Contributions were also received from individuals, corporate bodies and other stakeholders outside the committee in the course of developing this report.

Through a series of technical working sessions, the FS NTWG carried out the following activities:

- Reviewed and analyzed the past and present situation of the Nigerian financial sector and highlighted the key issues affecting the various components of the sector.
- Determined the strategic issues and imperatives for the financial sector
- Developed the vision, strategic objectives and initiatives to transform the financial sector to its envisioned end state
- Made recommendations regarding the implementation of the initiatives

2.0 CURRENT POSITION ASSESSMENT

2.1. Global Trends in the Financial Sector

The year 2008 was a major milestone in the global economic scene, with a financial crisis which forced several countries into what is now being considered the greatest recession in more than fifty years. According to the International Monetary Fund, world growth was projected to drop from 5% in 2007 to 3.75% in 2008 and 2.2% in 2009, with the contraction in growth being led by advanced economies, and for which growth is expected to shrink by 0.75%. The IMF forecast that emerging markets and developing economies would grow by 5.1% from a projected 6.6% in 2008[2].

In response to the economic crisis, central banks around the globe embarked on expansionary monetary policies, pumping trillions of US Dollars into the global financial system, while interest rates were slashed to near zero in most developed countries. For instance, the base rate in the US which rose to a peak of 6.27% in August 2007 fell to 0.25% by 2008 year end. A similar trend in interest rate cuts and stimulus packages was witnessed across leading countries.

Crude oil price which peaked at about $147 per barrel in July 2008 plummeted by over 70%, with a price of less than $40 at the close of 2008. This may imply slower growth for emerging oil-dependent economies such as Nigeria.

2.2. Implications for Nigeria

The global economic trends highlighted in section 2.1 above have significant implications for Nigeria.

Firstly, the issue of over-dependence of the Nigerian economy on crude oil must be resolved if the country wants to record real growth in the coming years. The financial sector plan must develop pragmatic ways of promoting real sector growth.

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[2] IMF World Economic Projections

Secondly, the development of the financial sector must be envisioned with due consideration for regulation, financial sector stability and sustainable growth. The Nigerian financial sector must leverage lessons learnt from the global financial crisis and proactively explore initiatives that will engender a more stable and effectively regulated financial sector.

2.3. The Nigeria Financial Sector

2.3.1. Local Trends and Recent Developments

The regulation – induced reforms which commenced in 2004 marked the beginning of a new era in the Nigerian financial sector. The CBN in 2004 increased the minimum capital requirements for commercial banks by 1150%, from N2bn to N25bn. This recapitalization increased the capital base of banks from N400bn to approximately N1,120bn, and reduced the number of banks from 89 to 25 by the end of 2005. This was achieved via a wave of capital raising exercises, mergers and acquisitions and listing of companies on the Nigerian Stock Exchange. The pension industry also went through a major reform which was triggered by the enactment of the Pension Reform Act in 2004. This has transformed the pension industry which now generates about N125bn per annum and projected to grow at about 15% per annum.[3] Today, the total pension contribution in Nigeria stands at over ₦1.1 trillion. In 2006, the Insurance sector also went through a process of reforms somewhat similar to the recapitalization of the banking sector. The recapitalization and consolidation exercise in the insurance sector led to the emergence of 49 recapitalized insurance companies out of the 104 that existed before the consolidation. The landmark reforms in the banking, insurance and pension sectors transformed the Nigerian capital market, resulting in unprecedented growth.

Overall, the reforms brought about growth in the Nigerian financial sector. However, this financial sector growth did not translate into increased contribution to Nigeria's

[3] SEC Committee Report on the Nigerian Capital Market

GDP as shown in Figure 2-1 below. For instance, between 2003 and 2008, total bank assets increased 5 – fold from ₦3.05trillion to about ₦16 trillion at the close of 2008[4]. Between 2003 and 2007, market capitalization increased from ₦1.4 trillion to ₦10.2 trillion. However, the financial sector contribution to GDP has declined from 4.23% in 2003 to 3.86% in 2007. The disconnect between the financial sector and Nigerian economy has remained a perennial challenge.

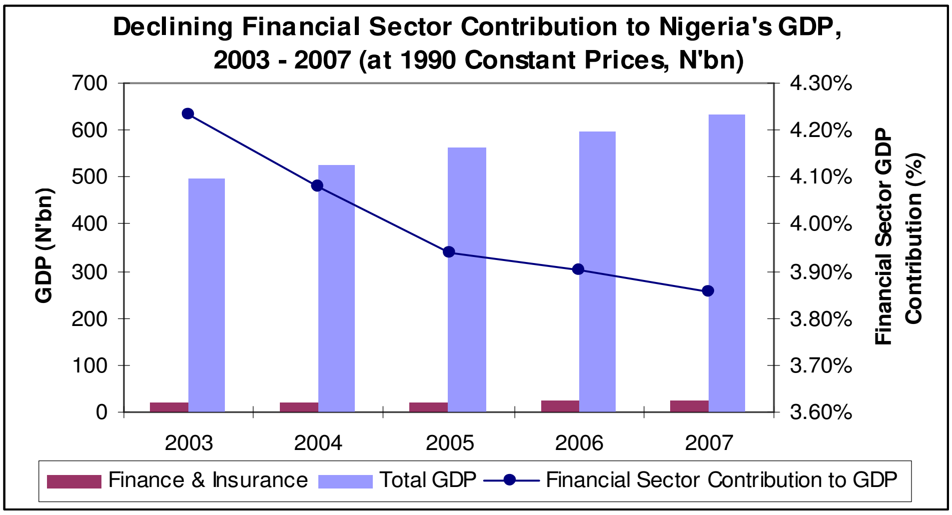

Figure 2-1: Financial sector contribution to Nigeria's GDP, 2003-2007

Data Source: CBN Annual Report, 2007(Ref: National Bureau of Statistics)

Looking ahead, it is critical for the Nigerian financial sector to function more as a catalyst of economic development.

2.3.2. Current Plans & Programs of Nigeria Financial Sector

In the quest for realizing the enormous developmental potential of Nigeria various initiatives, programmes and reforms, were undertaken by successive governments. In harnessing these efforts, several blue-prints for action emerged. These include, of recent, Vision 2010 (V210), National Economic Empowerment and Development Strategy (NEEDS), Financial Sector Strategy 2020 (FSS2020) and the Seven-Point Agenda. The FSS2020 espoused to bring about a robust and integrated financial

[4] CBN Statistical Bulletin

sector industry. Designed to make the financial sector a driver of economic growth and development as opposed to providing mere support, the FSS 2020 is predicated on three (3) pillars, namely:

(1) strengthen the domestic financial market;
(2) enhance integration with external financial markets; and
(3) build international financial center.

After a critical study of the three pillars, the Financial Sector Group of the national technical working groups (NTWGs), agreed to adopt the first two pillars. The third pillar – 'build international financial center (The Lekki financial corridor). Was not considered to be necessary – especially, in an era when ICT has rendered banking and financial transactions 'virtual' and on 'real time' basis. Accordingly, the FS-Group agreed that Nigeria should not duplicate Dubai financial center experience.

The Financial Sector Technical Working Group reviewed the Vision and Mission statements of the FSS 2020; and these were considered adequate for the NV 20:2020 aspiration. The vision of FSS 2020 is as follows: "To be the safest and fastest growing financial system amongst emerging market countries"; and the mission is: "To drive rapid and sustainable economic growth in Nigeria an Africa".

Laudable though the efforts of FSS2020, it is clear that launching an economy into the world's top twenty requires a concerted effort that transcends one sector. Given that the project commenced in 2006 there is considerable lapse of time that calls for updating. The appeal for some economic development models might have reduced considerably due to the new equilibrium created by the BRICS. In addition, the current economic meltdown impacted differently on economies. Whereas some have shown considerable vulnerability others have exhibited tremendous resilience. All these have distorted most of the underlying assumptions in the FSS2020 and thus requiring revision. The remainder of this report contains an assessment of the performance of the Nigerian financial sector relative to comparator countries and leading financial markets; highlights the key issues affecting the sector and contains recommendations on the how the Nigerian financial sector can be enhanced to provide the required support and drive to the Nigerian economy in line with Vision 20:2020.

2.4. Selection of Leading and Comparator Countries

Given the aspiration of Nigeria to be amongst the top 20 largest economies in the world by the year 2020, the nation must establish a highly developed financial sector to stimulate growth and provide support to the envisioned Nigerian economy. Accordingly, the following two (2) sets of countries were selected for the purpose of the financial sector visioning exercise:

a. Comparator countries: These are emerging economies that Nigeria aspires to match in the medium term with respect to financial sector development. The comparator countries selected include South Africa, Brazil, India, Egypt and Malaysia. All these countries were rated ahead of Nigeria in the World Economic Forum's Financial Development Report. The selected comparator countries are similar to Nigeria in terms of demographics and economic size and/or growth rate.

b. Leading Countries: The leading countries selected are three (3) of the world's most developed financial sectors[5]. These are the countries that Nigeria needs to learn from as the nation strives to join the league of leading financial markets. The leading countries are United States of America, United Kingdom and Singapore.

Table 2-1 below shows the key macroeconomic statistics of the benchmark countries.

Although Nigeria has achieved significant growth in the last five (5) years, the country's financial sector is still underperforming relative to peers. For instance, Figure 2-2 below highlights the financial system deposits/ GDP of Nigeria vs. other countries.

Table 2-1: Macro-economic Statistics of Benchmark Countries

Country/Economy	WEF Ranking	GDP at Current Prices ($' bn)	Population (Millions)	GDP Per Capita ($)	Inflation Rate	Interest Rate Spread	Financial System Deposit/ GDP
United States	1	13,807.6	302.0	45,725	2.9	2.8	1.32
United Kingdom	2	2,804.4	60.8	46,098	2.3	1.7	1.42
Singapore	10	161.3	4.6	35,160	2.1	4.8	1.11
Malaysia	20	186.7	26.8	6,956	2.1	3.2	1.1
South Africa	25	283.1	47.9	5,916	7.1	4.0	0.61
India	31	1,100.7	1,169.0	942	6.4	5.6	0.58
Egypt	37	128.0	73.6	1,739	11	6.4	0.78
Brazil	40	1,313.6	189.3	6,938	3.6	33.1	0.56
Nigeria	50	167.0	143.9	1,161	5.5	6.7	0.17

Data Sources: World Economic Outlook Data, 2007 figures; Inflation rate & Interest Spread: Global Competitiveness Report, 2007 figures; World Bank Financial Development Indicators 2007 data

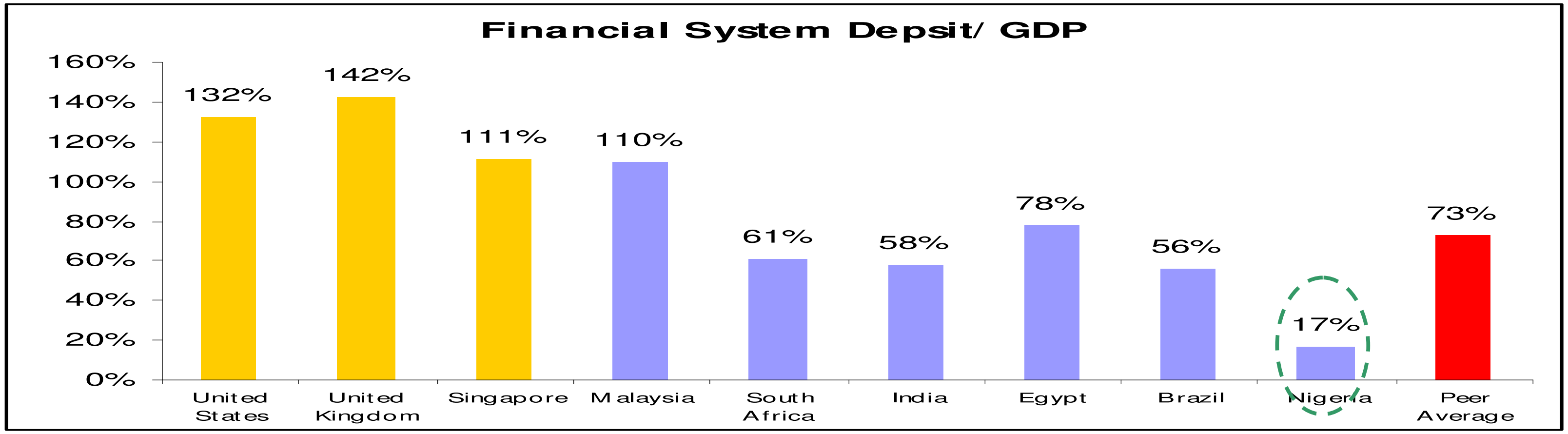

Figure 2-2: Financial System Deposit/ GDP

Data Source: World Bank Financial Development Indicators 2007 data

2.5. Comparative Assessment of Nigeria Financial Sector

2.5.1. Money Market

2.5.1.1. Structure

Nigeria's money market is relatively shallow and oligopolistic compared with its peers in emerging market economies. A breakdown of the market at end-2003 showed 199 licensed institutions, including 90 banks, 5 discount houses and 104 finance houses. However, in 2008, the total number of institutions has reduced to 104 comprised of 24 Deposit Money Banks, 5 discount houses and 75 finance houses. The Central Bank of Nigeria and all other players are actively involved in trading and exchange of money (local and foreign currency).

The banking sector has 21 publicly traded banks and 3 foreign-owned private banks. Domestic private banks dominate the banking sector, while foreign-owned banks are gradually becoming prominent. In terms of branch network the deposit money bank branches rose from 2,347 in 2003 to 5,407 in 2008. The discount houses branches remained at 15, while finance houses dropped from 104 in 2003 to 75 in 2008.

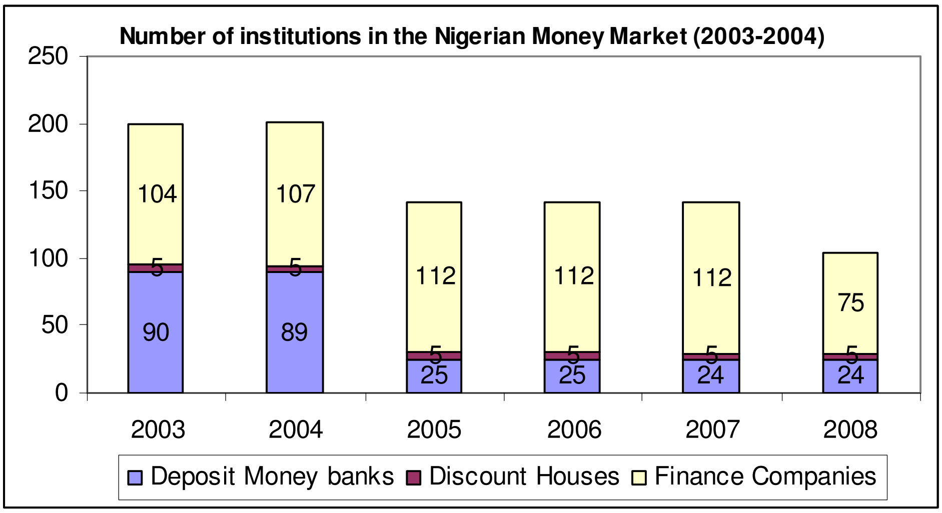

Figure: 2-3: Number of Institutions in the Nigerian Money Market

Data Source: CBN

From the available data, deposit money banks dominate Nigeria's financial landscape. Deposit money banks alone contributed 97.4 and 96.8 per cent of the total financial assets in the money market in 2003 and 2008, respectively.

The market products are dominated by government instruments especially treasury securities. In 2003 private securities represented a mere 4.3 per cent of the value of money market instruments outstanding (N1,622.5 billion), by 2008 it constituted 32 per cent of total outstanding (N2,818.5 billion). Banks and Discount Houses are the leading players in this market, which is however dominated by the big banks who are the net placers and the structure has remained relatively unchanged post-consolidation in the banking sector.

2.5.1.2. Performance

The total assets of the money market increased phenomenally from N3, 130.20 billion in 2003 to N16, 469.20 billion as at the end of 2008. The ratio of the country's GDP to total money market assets as at the end of December 2003 was 31.5 percent, while in 2008 it increased to 69.1 per cent of the GDP.

Table 2.-3: Money Market Assets Before, During and After Consolidation (N' Bn)

	2003	2006	2008	% of Total Assets 2003	% of Total Assets 2008	% of GDP in 2003	% of GDP in 2008
Deposit Money banks	3,047.9	7,172.9	15,919.6	97.4	96.8	30.7	66.8
Discount Houses	52.7	186.5	417.2	1.7	2.5	0.5	1.7
Finance Companies	29.6	54.3	132.8	0.9	0.7	0.3	0.6
Total Money Market Assets	3,130.2	7,413.7	16,469.6	100	100	31.5	69.1

Source: CBN Statistical Bulletin 2008

Growth in domestic credit as a ratio of GDP rose from 14.4 per cent in 2003 to 33.5 per cent in 2008. To the core private sector, the ratio increased from 14.2 per cent in 2003 to 32.9 per cent in 2008.

The growth in deposit to GDP increased from 18.5 per cent in 2003 to 34.5 per cent in 2008. Similarly domestic savings as per cent of GDP rose from13.0 per cent in 2003 to 23.1 per cent in 2008.

From the above analysis it is apparent that the Nigerian money market had witnessed significant growth post consolidation. However, the challenge remains how to translate these gains to the real sector of economy.

2.5.1.3. Key Issues & Challenges

The key issues facing the Nigerian money market include the following:

- Dearth of instruments and lack of market breath and depth which increase market volatility.
- Inadequate skilled manpower resulting in low market development.
- The oligopolistic structure of the market
- Dependence on government resulting in narrow instrument range and slow growth of the secondary market.
- Information gap and asymmetry leading to market inefficiency
- The market is relatively short (concentration on spot)
- The emergence of toxic assets as a result of global financial crises
- Inadequate risk management and corporate governance framework
- Regulatory challenges

2.5.2. Foreign Exchange Market

2.5.2.1. Structure

Nigeria's foreign exchange market is dominated by the Central Bank of Nigeria which supplies about 60% of total FX. Transactions are conducted by the Dutch Auction System. Other sources include export proceeds from non-oil sector and international inward money transfers. The key players in the sector are:

- Central Bank of Nigeria (as major supplier)
- Major oil Companies
- Foreign Portfolio Investors
- Diaspora Remittances

Nigerians in Diaspora represent the major source of FX inflow into the economy. The major corridors are North America and Western Europe. The globalization of banking services especially the emergence of Western Union money transfer services and MoneyGram which are patronized by local banks has enhanced the inflow of FX into the economy in recent times. Available data indicate that official inflow through these sources has averaged N4.2 billion annually. These inflows have helped to deepen the FX market.

2.5.2.2. Performance

The liberalization of the FX market, especially the expansion in inter-bank transactions and the licensing of bureaux de change has deepened the FX market. An average of $800m is traded weekly in the DAS.

2.5.2.3. Key Issues and Challenges

- Overdependence on oil as the source of foreign exchange which results in foreign exchange volatility.
- Limited domestic currency convertibility

- Relative shortness of the FOREX market (concentration of Spot)

2.5.3. Capital Market

2.5.3.1. Structure

Market capitalization is relatively small compared with other emerging market economies. It witnessed a significant rise after the banking sector consolidation in 2005. A peak of N13.3 trillion was witnessed in 2007, before the global financial crisis which caused over 60% decline in market capitalization. Dominated by equities, the Nigerian capital market consists of a total of 307 listed instruments, with market capitalization of N6.96 trillion as at December 2008.

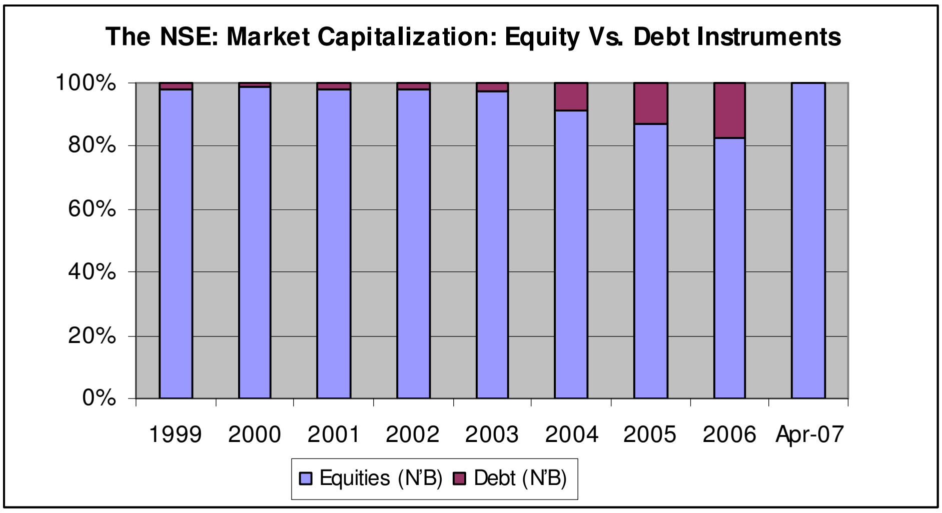

Figure 2-4: Composition of the Nigerian Capital Market: Equity vs. Debt

The trading platform of the Nigerian capital market are the Nigerian Stock Exchange (and its subsidiaries) and the Abuja Securities & Commodity Exchange.

Nigerian Stock Exchange (NSE)

The Nigerian Stock Exchange (NSE) formerly known as the Lagos Stock Exchange was established in 1960 to provide a trading platform for the sale and purchase of existing securities. As a self regulatory organization, the NSE currently has over **136** licensed dealing members (as at April 2007). It has several branches spread across the country. It also performs market developmental functions in the area of capacity building, such as organization of seminars, workshops and road shows.

Abuja Securities & Commodity Exchange (ASCE)

Since the establishment of the ASCE which is presently a wholly-owned entity of the Federal Government under the supervision of the Federal Ministry of Finance Incorporated (FMCI), much has been achieved in the laying of the foundation of the Exchange. The ASCE has three main objectives;

1. Diversify Nigerian economy from oil dependence to boost production of agriculture, solid and non-solid minerals.
2. Improve the fortunes of rural producers of tradable Nigerian commodities through realistic pricing of tradable commodities.
3. Introduce best operating practices to operators through the Exchange.

The ASCE has a governing Board of Directors with its ownership and management separate and demutualized in consonance with modern practice. It commenced spot market trading in commodities on July 24, 2006. As Nigeria did not have the necessary infrastructure to support a commodities futures exchange, it was decided to start with spot market operations, and to gradually introduce forward contracts, trading in warehouse receipts and evolve into a futures market. This decision was reached after visitation and collaboration with some commodities exchanges across the world, KLCE of Malaysia, SICOM of Singapore, NCDEX of India, Dalian of China and BBM of Brazil.

On August 8, 2001 the Federal Government of Nigeria converted the Abuja Stock Exchange (ASE) to Abuja Securities and Commodities Exchange (ASCE). The Exchange was established to among other things:

- Provide price-discovery mechanism.
- Protect farmers against inherent risks in agricultural produce marketing through hedging in the Exchange.
- Address the problem of quality of commodities
- Provide market information necessary for the movement of commodities from surplus to deficit markets.

- Expand the market for our commodities as a Commodity Exchange is a global market.
- Increase funding of agricultural activities and at reduced cost
- Improve the functioning of physical markets.

The ASCE has faced the following challenges:

- Lack of market access to small holder production
- Unreliable qualities of small holder produce
- Inadequate market information
- Inadequate quality certifications system
- Lack of storage facilities
- None existence linkages to credit facilities

Governments must enact policies and make budgetary provisions to:

- Set up an Efficient Market Information System
- Develop capacity for effective grading and quality certification for Agricultural produce and solid minerals products.
- Establish Independent Bonded Warehouses
- Promote the establishment of Collateral Management Companies to facilitate credit to farmers and miners.
- Integration of all government commodities procurement with the policy auctions of the Exchange

2.5.3.2. Performance

The Nigerian capital market experienced tremendous growth in recent years, prior to the 2008 capital market crisis. The all-share index rose steadily from 19,943 points in 2003 to 57,990 points as at December, 2007.[6] In the same vein, total market capitalization increased considerably from N1.35 trillion in 2003 to N13.3 trillion at the close of 2007, with transaction value and volume growing at CAGR[7] of 176% and

[6] Nigerian Stock Exchange
[7] Compounded Annual Growth Rate

153% per annum, respectively. This growth is attributable to the financial sector reforms, increased investor awareness, confidence in the market and relative political stability which led to an upsurge in capital market activities, and increased number of operators.

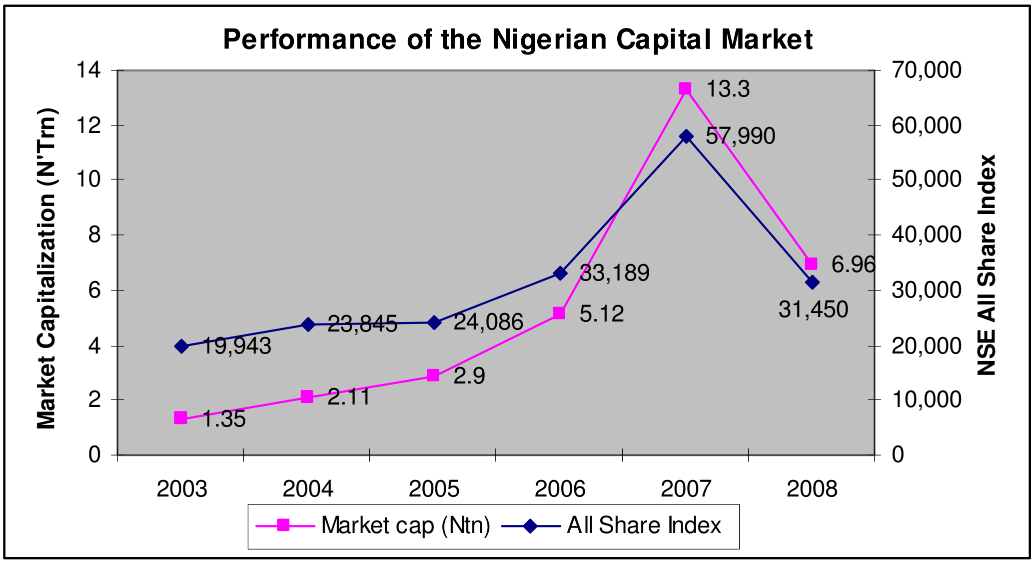

Figure 2-1: Performance of the Nigerian Capital Market
Data Source: Nigerian Stock Exchange

Details on the performance of the Nigerian capital market are provided in Appendix III below. However, the financial market crisis of 2008 which affected most economies in the world did not exclude Nigeria, with market capitalization crashing from N13.3 trillion in 2007 down to about N7 trillion at the close of 2008. Figure 2-2 below highlights the 2008 performance of global stock indices.

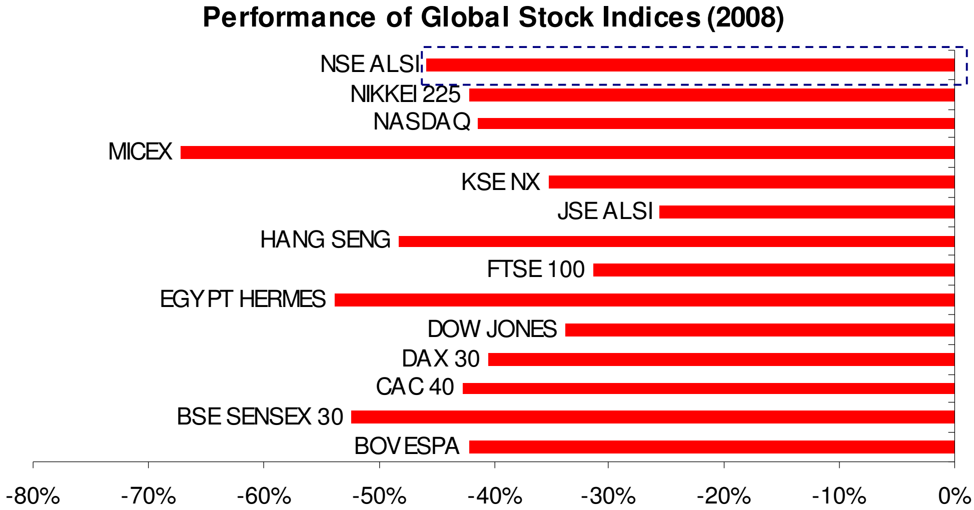

Figure 2-3: Performance of Global Stock Indices (2008)
Data Source: Bloomberg; Returns Measured in local currency

Market Instruments

The growth witnessed in the capital market is heavily skewed towards equities, with very minimal listing and trading of debt instruments. At present, the listed instruments on the capital market consist of 213 equities and 94 debt instruments.

The increasing synergy in the financial sector has led some operating firms to become subsidiaries of established operators like banks and insurance companies. This development has enhanced the players' access to more capital and also afforded them the opportunity to form alliances towards reaping the benefits accruable from financial markets globalization. It is expected that such alliances would engender international participation in the form of mergers and acquisitions and other forms of business combinations. Alliances have been formed with international financial institutions like Blackstone, Merill Lynch, Credit Suisse, among others by local banks who have met the consolidation requirements of the CBN for managing Nigeria's foreign reserves. The same is expected of institutions in the capital market.

Operators are developing products to meet the needs of specific areas of the economy, which has led to a healthy competition among them both in the banking and the non banking financial sectors.

2.5.3.3. Key Issues & Challenges

The following have been identified as issues and challenges facing the Nigerian capital market:

- **Market depth/breadth:** the market offers limited securities and products. Compared with other developing economies, equity investments dominate other asset classes such as sovereign and municipal bonds, corporate bonds, and other convertible investments
  The NSE, the only active exchange in Nigeria, has 3 tiers with active trading only in the first tier. 25 companies (out of a total of 213 listed companies) make up 70% of the total market capitalisation.
- **Transaction costs:** transaction costs are high and not competitive vis-à-vis other emerging markets
- **Regulatory oversight:** Laws, regulations and rules need to be reviewed to achieve international competitiveness, strengthen oversight, enhance transparency and promote a vibrant and deeper market
- **Savings Culture:** It seems that a weak retail and institutional savings environment, as well as low income per capita level, inhibit effective savings mobilisation in Nigeria
- **Transparency:** existing market infrastructure does not appear to support the provision of live trading prices to international investors. There is limited research on listed securities, industries and market, as well as frequent delays in the release of financial information
- **Market liquidity:** Relative to comparable developing economies, market liquidity and levels of market activity are low.

- **Sector concentration:** 15 of the 20 highest capitalized companies are banks. The Banking sector stocks made up about 56% of total market capitalization by the end of 2008; hence the capital market impact on the real sector of the economy is limited.
- **Market processes:** market processes are cumbersome and lengthy

2.5.4. Insurance

2.5.4.1. Structure

The Nigerian insurance industry is ranked 65th globally in terms of size and 6th in Africa out of 8 largest markets. Overall, the operational scope of the operators is narrow; hence insurance has not played a strategic role in the domestic economy. The industry generated N100.6 billion in 2007, representing an insurance penetration of only 0.6%[8]. Relative to peer average insurance penetration of about 4.9%; and 15.7% in the United Kingdom[9], the local insurance industry remains a grossly untapped opportunity.

In September 2005, the National Insurance Commission (NAICOM) set new capital requirements as follows: N2bn for life insurance companies, N3bn for non-life insurance concerns and N10bn for reinsurance companies. Prior to the recapitalization mandate, the Nigerian insurance industry comprised of 103 insurance companies, 5 reinsurance companies, five (5) firms of actuaries, 509 insurance brokers, 37 loss adjusters firms and 870 registered insurance agents as at 31st December, 2006. After the February 2007 deadline for the recapitalization aspect of the insurance industry consolidation program, the number of insurance companies was pruned to sixty-nine (69), while the number of reinsurance companies reduced to two (2). Following a re-verification exercise, the number of insurance companies was further reduced to forty-eight (48) and one (1) respectively.

The market is fragmented; over twenty companies each controlling more that 2% market share. As shown the figure below, the non-life insurance sector dominates the industry accounting for 84% of the total premium. A further breakdown of the industry premiums reveals that motor insurance generates a quarter of the industry revenues.

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[8] Insurance premium as a percentage of the GDP
[9] The United States of America is the largest insurance market in the world

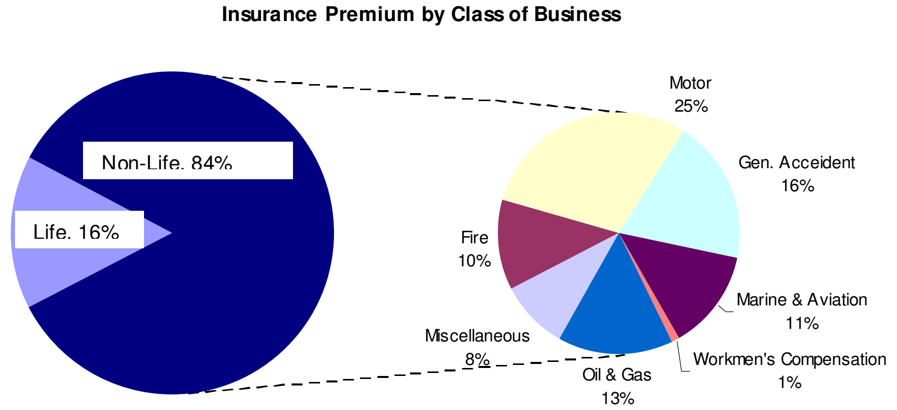

Figure 2-4: Insurance Premium by Class of Business, 2007 Data

Data Source: Nigerian Insurance Digest, 2008 (Publication of the Nigerian Insurers Association)

2.5.4.2. Performance

The insurance industry has recorded considerable growth, with gross premium increasing from N55.9 billion in 2003 to N100.6 billion in 2007[10]. The growth seen in the insurance market in the last few years is also largely attributable to the non-life sector, as depicted in the figure below. Whereas life insurance premium only increased by N5.66bn, non-life insurance premium almost doubled between 2003 and 2007, with an increase of almost N40bn.

[10] Nigerian Insurance Digest, 2008: Publication of the Nigerian Insurers Association

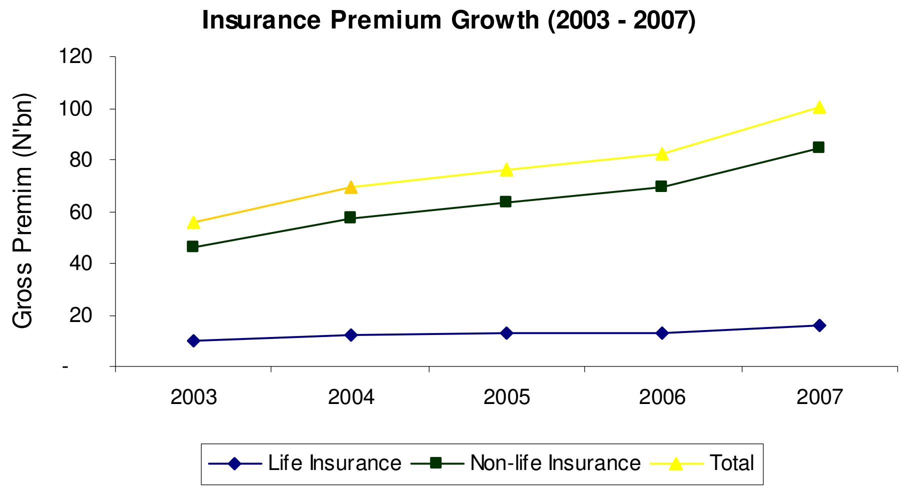

Figure 2-5: Insurance Premium Growth in Nigeria
Data Source: Nigerian Insurance Digest, 2008 (Publication of the Nigerian Insurers Association)

As depicted in the benchmark analysis in the figures below, the Nigerian insurance industry is still at a rudimentary stage. The insurance density[11] in Nigeria as at 2007 was $5.5 compared to peer average of about $247. South Africa recorded the highest insurance density among peers with over $870 per capita. In terms of insurance penetration, Nigeria also lags far behind peers with an insurance penetration of 0.6% relative to peer average 4.89%. In the same year, the United Kingdom recorded insurance density and insurance penetration figures of about $7,113 and 15.70% respectively[12].

[11] Insurance density is a measure of the total insurance premium per capita
[12] Data Source: *"World Insurance in 2007 – Emerging Markets Leading the Way"*, Swiss Reinsurance Company Limited (2007 Data)

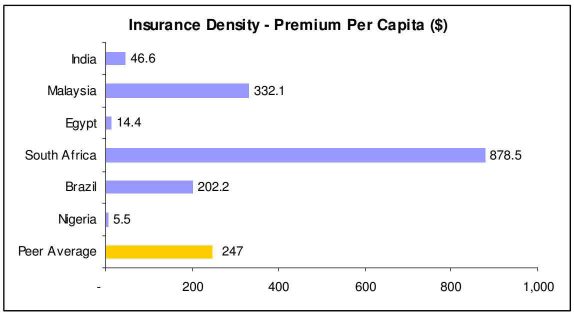

Figure 2-6: Insurance Density: Nigeria Versus Peers, 2007
Data Source: Swiss Reinsurance Company Limited, Economic Research & Consulting

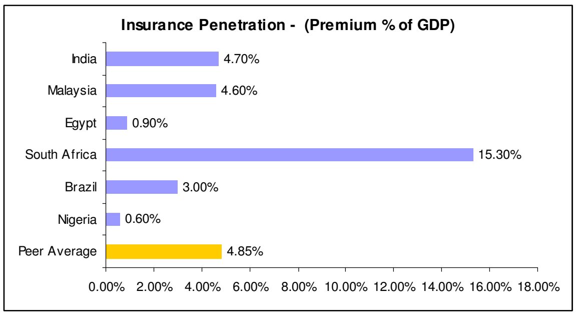

Figure 2-7: Insurance Penetration: Nigeria Versus Peers, 2007
Data Source: Swiss Reinsurance Company Limited, Economic Research & Consulting

2.5.4.3. Key Issues & Challenges

The following issues have continued to plague the insurance industry:

- **Inadequate Product Innovation:** The range of offerings in the insurance industry is highly commoditized and generally basic. This has led to low uptake of insurance products

- **Lack of adequate skilled manpower:** The industry has been unable to attract and retain sufficient number of highly skilled personnel. As a result, most insurance companies lack the ability to handle sophisticated offerings such as investment management and risk assessment (actuarial services).

- **Low Financial Capacity:** Despite that recapitalization exercise, most insurance companies in Nigeria still have limited underwriting capacity especially in specialized, high value risk segments such as aviation, oil and gas

- **Poor Public Perception & Low Level of Awareness:** Although public perception of insurance companies may have improved in the last few years, the inefficiencies of insurance companies in processing claims and perceived unwillingness to pay claims has impacted public confidence hence reducing uptake of insurance products. The general level of awareness about insurance products is still very low. The industry today is mainly driven by regulation-induced patronage as against product awareness.

- **Regulatory Deficit:** The insurance industry must be properly regulated to engender very high levels of professionalism, underwriting capacity and managerial competence in order to achieve higher levels of insurance product uptake

2.5.5. Pension

2.5.5.1. Structure

The enactment of the Pension Reform Act in June 2004 marked the effective beginning of a new era in the Nigerian pension industry. Prior to the act, the pension system suffered weak and inefficient administration and most workers in the private sector were not covered by any mandatory pension plan. Pension contributions were voluntary for the private sector and only mandatory for public sector. The system proved unsustainable, leading to a public sector pension liability estimated at about N1.3 – N1.5 trillion due to over 800,000 employees. The pension contribution in Nigeria as at December 2008 stood at about N1.1 trillion.

Problems with the old pension scheme

The old pension scheme had the following associated problems:

- **Coverage:** Most of the private sector employees were not covered by any pension scheme
- **Funding:** Most of the schemes were not inadequately funded or funding was delayed.
- **Benefits:** Payment of pension benefits was often delayed. Most pension benefits were not indexed to any market instrument nor reviewed regularly
- **Asset Management:** Regulation of the management of pension assets was inadequate, leading to sub-optimal management of pension assets.

Features of the New Pension Regime

The new pension regime was designed to address the issues with the old pension system. It has the following features:

- A mandatory pension scheme for both public and private employees
- Significantly increased monthly contribution requirements (15% of monthly emolument-basic pay, housing and transportation)
- Two major pension operators were defined with clearly delineated functions : Pension Fund Administrators (PFA) and Pension Fund Custodians (PFC)

- Regulation of the pension industry was vested solely on the National Pension Commission (PenCom) for regulation, supervision and administration of pension matters in Nigeria
- Conversion from Pay-As–You–Go system to a contributory and fully funded pension system
- Requirement that employers maintain Group Life Insurance Policy in favour of the employee for a minimum of three times the annual total emolument of the employee

The new regime impacts both the private and public sectors. Contribution of the federal government workers' retirement benefits commenced immediately after the enactment of the pension reform act in June 2004. The private sector contributions were mandated to start in January 2005.

2.5.5.2. Performance

The enactment of the Pension Reform Act of 2004 triggered strong growth in contributions to the pension funds which is currently estimated to be about N125 billion per annum, with a projected growth rate of about 15% per annum. The total pension contribution today stands at over N1 trillion.

The Nigerian capital market downturn has drained the value of the pension investments in equity; however this is believed to be a temporary challenge due to the long term horizon of pension funds. The investment devaluation is expected to be reversed when the capital market recovers from the downturn.

2.5.5.3. Key Challenges/ Issues

Although the new pension regime has successfully transitioned from plan to deployment, some issues have already surfaced that need to be resolved to sustain the pension system. Some of these are:

- Concerns about sufficient depth in the capital market to effectively absorb the available and expected pension funds without causing a glut and overvaluation of existing capital market securities.

- High transaction costs in the capital market which could erode investment appreciation, and as well discourage viable companies from listing on the stock exchange to increase depth of the capital market.

- The challenge of how to capture the informal sector which represents a sizeable proportion of the working population

2.5.6. Specialized Financial Institutions

2.5.6.1. Overview

Specialized financial institutions are developmentally-focused establishments for the critical areas of the economy such as housing, industry, agriculture, export etc. The key players in this sub-sector are the Federal Mortgage Bank of Nigeria (FMBN), Bank of Industry (BOI), Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) and the Nigerian Import Export Bank (NEXIM).

The SFIs in Nigeria are generally poorly capitalized, inefficiently managed and characterized by man power deficiency. The key players are further discussed below:

2.5.6.2. Federal Mortgage Bank of Nigeria

While the most logical role for the Federal Mortgage Bank of Nigeria should be that of the leader and facilitator for the development of the housing finance sector in Nigeria, its only role today remains that of the manager of the National Housing Fund. As a matter of urgency and strategic priority, the FMBN should embark on urgent and immediate tasks crucial to institutional development and market efficiency of the mortgage sector in Nigeria. Instead of duplicating the work of PMIs, the FMBN should develop and promote the widespread use of standardized mortgage documents and underwriting practices, facilitate the establishment and growth of private and public mortgage insurance markets, and effectively prepare the housing finance sector for capital market funding through development of market-based mortgage related securities. It should strive to link the capital markets to the mortgage market. There are a number of ways in which this can be done. The simplest is to provide a mortgage liquidity facility by raising funds on the open market, using its access to a government guarantee to do so at cheap rate. The funds can be on-lent to PMIs and banks or can be used to purchase seasoned loans. Either way, FMBN would have additional assets which would need to be backed by the appropriate capital. This route requires no legislation and on the longer term, the FMBN could play a significant role in helping to develop the market for covered bonds and mortgage backed securities. There are series of subsidiary roles that the FMBN could play in its capacity as leader and facilitator:

- Develop a mortgage insurance scheme, preferably in conjunction with an international insurer. In addition to providing lenders with additional security as this would help drive better and more consistent standards.
- Develop standard underwriting criteria. These could be relevant to the risk weighting given to mortgage loans by the CBN, eligibility for any mortgage insurance arrangements that might emerge and eligibility for refinancing, whether through a mortgage liquidity facility, a covered bond program or in due course securitization. Such standard underwriting criteria would cover variables such as loan to value ratio, loan to income multiple and insurance arrangements.
- Become the central point for the collection, analysis and dissemination of data on all aspects of the housing market. There is an almost total absence of reliable data on mortgage lending, housing transactions and house prices. Efficient markets need accurate data. This can help lenders, borrowers and investors to validate their decisions and help the regulatory authorities monitor market activity and the activities of particular institutions in the market.
- Regulate real estate agents.
- However, to develop the capacity to undertake all this work, FMBN should be capitalized and partly privatized, with a clearly defined charter that codifies a set of catalytic functions that it could perform as a second tier institution in the mortgage marketplace, to make it more efficient and developmental, just like the successful examples of Government Sponsored Enterprises (GSEs) in developed countries.

2.5.6.3. Bank of Industry (BOI)

Formed from the merger of Nigerian Bank for Commerce (NBCI), Nigerian Industrial Development Bank (NIDB) and the Nigerian Economic Reconstruction Fund (NERFUND), the BOI's primary mandate is the provision of financial support for the growth of local enterprises and fledging industries in the economy. There was a paradigm shift in the BOI's lending focus towards SMEs accounting for 85.4% of loans disbursed from Jan – May 2006 as opposed to 36% in 2005. It is the intention of the BOI to support the transformation of SMEs into local champions of Nigerian industry.

2.5.6.4. Nigeria Agricultural Cooperative & Rural Development Bank (NACRDB)

Formed from the merger of Nigeria Agricultural Cooperative & Rural Development Bank Nigeria Agricultural and Cooperative Bank, People's Bank of Nigeria and the risk assets of the Family Economic Advancement Programme (FEAP), the primary function of the NACRD is to provide loans and credit facilities to the agricultural sector. Its current lending focus covers special projects, small and large scale farmers, cooperatives and other state agencies

2.5.6.5. Nigerian Export Import Bank (NEXIM):

NEXIM replaced the defunct Nigerian Export Credit Guarantee and Insurance Corporation in 1991 and is primarily responsible for the provision of loans, export credit guarantees and insurance to support Nigerian exports. Its loan disbursements options include stock financing for raw materials, refinancing and rediscounting facilities, direct lending facilities amongst others.

2.5.6.6. Key Challenges/ Issues

Historically, operations of SFIs in Nigeria have been hampered by the following challenges;

- **Low capitalization/ lack of funding:**

The absence of private participation in the ownership of SFIs renders them solely dependent on government for funding

- **Operational inefficiency**:

Bureaucratic nature of operations hampers their ability to conduct their operations effectively.

- **Ineffective corporate governance**:

Presently, these institutions are wholly government-owned by law. The ownership structure prevents entry of private investors who could have brought in additional innovation and management. A Public – Private Ownership would be best suited to deliver the mandate of these institutions.

- **Poor asset quality**:

SFIs suffer from a high instance of loan defaults which impacts their ability to be profitable and self sustaining

These issues prevent the impact of the operations of SFIs to be felt across the wider economy and must be overcome in order for them to successfully fulfill their mandates.

2.5.7. Other Financial Institutions

2.5.7.1. Islamic Banking

Islamic banking is based on Shari'ah economics principles which have been embraced in numerous countries. The introduction of this non-interest banking system may unlock considerable economic benefit in Nigeria. Islamic finance has become a major global industry with over 300 important institutions involved in both Muslim and no-Muslim countries and international financial markets. Assets managed in accordance with Islamic law are worth over USD450 bn. Countries having functioning Islamic financial institutions include Egypt, South Africa, UAE, Pakistan, Turkey, Malaysia, Indonesia, United Kingdom, United States, Germany, France, The Netherlands, Switzerland, Canada and many others. The major thrust of Islamic Banking is the substitution of interest payment as reward for capital with the concept of profit – and – loss sharing. The basic difference between the Islamic and conventional banking system is the treatment of capital as a factor of production. Whereas in the conventional system, capital is treated at par with labour and land, each being entitled to a return irrespective of profit or loss, this is not so in Islam which treats capital at par with enterprise, where the provider of money wishing to earn a profit should share in the risk with the entrepreneur.

Islamic Banking Financial Products

The following are regarded as key modes of investment and finance that provide basis for interest-free banking in accordance with the Shari'ah:

- Mudarabah (Participation or trust financing)
- Musharakah (Equity financing)
- Murabaha (Cost-plus financing)
- Ijara (Leasing of machinery, buildings and other capital assets)
- Istisna'a (Construction financing)

Key Issues and Challenges

The key challenges facing Islamic banking in Nigeria include:

- Deficiency in the legal system. New legislation and/ or executive authorization are necessary to allow for the establishment of Islamic banks in Nigeria
- Lack of man power
- Lack of public awareness (need for sensitization)

2.5.8. Payments System

The payment system witnessed significant development from 2003 to 2008. Notable among these were; the reduction of the clearing cycle from T+5 to T+2 and the harmonisation of up-country and local clearing cycles with a view to reducing floats; the opening of six clearing houses to increase access to financial services in the new branches; installation of MICR machines at the new clearing houses and the deployment of the Nigeria Automated Clearing System to the Port Harcourt zone to increase the efficiency of clearing process.

The use of electronic payment system which was at a very rudimentary stage in 2003 recorded significant improvements in 2008. At the wholesale payment segment the CBN Interbank Funds Transfer System (CIFTS) was adopted for the transfer of Naira deposit on behalf of Bureau de change and remittance of taxes collected by DMBs' on behalf of Federal Inland Revenue Service (FIRS)

The use of e-payment such as ATM, Web-internet (POS), and Mobile payments, increased both in volume and value with ATM accounting for 90.5% of transactions in 2008.

Table 2-4: Market Share in E-Payment Market, 2007 and 2008

e-payment segments	Volume	Volume	Value	Value
	2007	2008	2007	2008
ATM	15.7 (88.9)	60.1 (91.0)	131,562.7 (88.5)	399,712.6 (90.5)
Web (Internet)	0.9 (5.1)	1.6 (2.4)	10,622.6 (7.1)	25,054.5 (5.7)
POS	0.4 (2.4)	1.2 (1.8)	6,442.1 (4.3)	16.115.3 (3.7)
Mobile	0.7 (3.8)	3.2 (4.8)	95.6 (0.1)	697.8 (0.2)

Figures in brackets are percentage share of total.

The electronic payments mechanism such as RTGS; and ACH (Direct debit and deposits) which became operational in 2005 progressed significantly in 2008. From the benefits derived from these mechanisms, the Federal Government through the Integrated Personnel Payroll and Information System (IPPIS) commenced a pilot run of electronic payment of salaries through NIBBS electronic funds transfer. The IPPIS forms the basis for the adoption of the e-payment for government transactions.

Key issues and Challenges

The major challenges of the payment system are:

- Poor banking culture
- Infrastructural deficiencies
- Implementation challenges

2.5.9. Institutional Environment

2.5.9.1. Regulatory Framework

The regulatory environment in the financial sector is currently overlapping, fragmented and confusing. The emergence of new financial conglomerates whose activities cut across the sub-sectors has made fragmented prudential regulation even more difficult to implement.

Micro and macro supervision and regulation of the financial sector rests on multiple institutions – comprising the Central Bank of Nigeria (CBN), the National Deposit Insurance Corporation (NDIC), Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM) and the Pension Commission (PENCOM). The areas of jurisdiction of these institutions are not always clearly defined and this leads to the exploitation of regulatory arbitrage. The establishment of Financial Sector Regulatory Coordinating Committee (FRSCC) represented a belated attempt at achieving a coordinated regulatory framework. The FRSCC is not a statutory body. The frequency of the Committee's meetings is few and far between. When it meets, its main focus is to share market information. It has no mandate to impose sanctions on erring market operators. The FRSCC has not been able to address the perennial challenge of weak corporate governance, insider abuse and sharp practices by directors and related parties which have given rise to episodic bank failures in Nigeria.

Regulatory deficit is primarily responsible for the cyclical and systemic instability in Nigeria's financial sector. To address this challenge, the choice is to either retain the status quo or to establish a consolidated regulatory system imbued with statutory powers to regulate and supervise the financial sector in Nigeria.

2.5.9.2. Coordination of Monetary and Fiscal Policy

It is well settled that monetary and fiscal policies play critical role in the development, stability and safety of the financial sector of any economy. Generally, the lack of transparency and time inconsistent monetary policy formulation and policy summersaults has not only mislead market operators but can also be blamed for triggering financial sector volatility in particular and macroeconomic instability in general in Nigeria. Historically, monetary policy in Nigeria has been a victim of fiscal dominance. Very often, the Central Bank of Nigeria will be mopping excess liquidity at a time when the Treasury is injecting more liquidity via its expenditure. Whereas monetary policy has typically focused on ensuring price stability without which sustainable growth and poverty reduction will be intractable in the medium to long-term, fiscal policy as implemented by the three tiers of government has always concentrated on short-termism and quick fixes and without serious regards to its inflationary consequences. Consequently, budgetary expenditure at the three tiers of government has been formulated and implemented without due cognizance of its implications on the stability of the financial sector.

Fiscal policy in Nigeria which is driven by oil revenue is characterized by a boom and burst cycle. This tendency has serious liquidity and inflationary implications in the economy. And the lack of full coordination between monetary and fiscal authorities has often led to inflationary growth, which has distorted and undermined the interest and exchange rate regime of the economy. The recent passage of the fiscal responsibility act represents a good start at ensuring full coordination – at least at the federal government level. Nevertheless, unless the act is also enacted by the state and local governments, its positive impact will not be fully achieved.

The financial sector which operates at the national level can only thrive better in a stable macroeconomic environment free of fiscal dominance. And this stability can be achieved under a transparent and fully coordinated monetary and fiscal policy regime.

2.5.9.3. Public Sector Funds in Deposit Money Banks (DMBs)

Empirical evidence has shown that government demand and savings deposits in DMBs are the principal cause of disintermediation in the economy and the cyclical volatility in the financial sector because of its propensity to induce and encourage the culture of arm-chair banking. The oil sector contributes over 75 per cent of government revenue. The inflationary implication of oil based revenue can be better managed when the funds are shared by the three tiers of government and the proceeds deposited in the CBN by the beneficiaries. Generally, public sector deposits are considered to be short-term and therefore, should not be used for long-term lending by banks. Consequently, the funds are invested in treasury bills and for the purchase of speculative foreign exchange transactions. However, in practice, public sector deposits are actually long-term funds, because once they are trapped in the vaults of the banks, they are rolled over endlessly by top government functionaries who have vested interest in the funds. The use of public sector funds in this manner does not add value to the domestic economy. Public sector funds are typically earmarked for the execution of public projects – such as road constructions, education, health care etc. But when the funds are trapped in the banks and invested in treasury bills and foreign exchange speculation, the execution of developmental projects are neglected. Globally, it is unconventional to allow banks to use government funds to buy government debt instruments and foreign exchange for profit.

It is against this back-drop that the CBN initiated a phase withdrawal of public sector deposits from Dabs in July 2004. Unfortunately, this initiative has not been fully implemented as envisaged. Currently, government deposits still constitute over 40 per cent of the total deposit liability in some banks – despite the celebrated recapitalization and consolidation of banks in Nigeria. Going forward, the CBN should be expected to perform its primary function of being the 'banker to the government'. We believe that failure to withdraw government deposits from the Dabs will continue to encourage arm-chair banking habits and also deepen the disintermediation process in the economy. This is inconsistent with the financial system envisaged in FS-Vision 2020.

Corporate Governance

Local Context

Despite the growth recorded in the financial sector in the last few years, the corporate governance practices in many public companies in Nigeria continue to hinder the overall progress of the nation's economy. Some of the factors that constitute a barrier to good corporate governance practices are:

a) Concentrated ownership of companies:

Ownership and control of most public companies are highly concentrated in a few individuals and families. This has been responsible for the appointment of sometimes unqualified family members into managerial positions, empire-building ambitions of controlling individual at the expense of minority position and outright self-dealing transactions. This problem has been compounded by the low level of large institutional investors' representation on the boards of public companies in Nigeria to drive positive alignment of interests of shareholders.

b) Dominant Chairman or MD/CEO:

Many boards place undue reliance on the experience and knowledge of the CEO and management, thereby endorsing management's decisions or propositions without scrutiny. Other boards do the same because of the overbearing influence of a dominant chairman or CEO. This may impair the independence of the board and affect their perspective to company strategies and decisions. This is predominant in companies with the majority shareholder as CEO or chairman or in companies with the CEO doubling as the chairman.

c) Conflict of interest:

It is not uncommon among directors of companies in Nigeria to engage in business transactions with the companies on whose boards they sit. These business relationships may not be at arm's length and may be entered into without disclosure to the full board of the shareholders in the annual reports. Such conflict of interest and related party transactions divert the focus of the affected director and consequently erodes his/her objectivity. Other types of situations arise that create conflict between the personal interest of a director and the interest of the company. The provisions of the CAMA requiring such conflict to be resolved by mere disclosure of a director's interest to follow directors need some reinforcement.

d) Lack of Accountability:

Although the CBN Code stipulates annual board appraisal for the board of directors of banks, some banks in the country are yet to fully comply with this provision. However, with regard to other public companies, evaluation of the board as a whole, the Chairman, the committees, the CEO and non-executive directors is not a common practice. As a result, the directors are not held accountable for their activities as board members, and directors' performance is not considered as a basis for re-election to the board.

e) Ineffective performance evaluation system for the board and management:

In most public companies, there is no process by which the annual performance of the board of directors and management is evaluated and used as a basis for re-election or promotion respectively. Evaluation will enable the board and management to reflect on their respective roles and objectives in the company. The process facilitates the identification of the weak and underperforming members of the board who can be re-trained or dropped.

f) Weak internal control framework and lack of effective internal audit function:

Risk management processes and practices are not yet popular with most public companies in the country. Internal audit is not risk-based; neither is the function empowered and rightly positioned in most companies. Currently, the practice in some companies is to staff internal audit with ill-qualified workers and send erring officers to the effectiveness of internal control frameworks within the company, resulting in unfocused management of those risks that may hinder the achievement of business objective.

g) Inadequate disclosures:

Section 277 and Schedules 2 – 6 of CAMA prescribe the formats of financial statements in the annual report,

Miscellaneous matters to be disclosed, disclosures relating to directors interest in contracts, disclosures relating to loans or other transactions favoring directors and other officers, disclosures to be made in the directors' report and matters to be expressly disclosed in the auditor's report. In practice, corporate disclosures in Nigeria tend be minimal. Specifically, corporate governance disclosures indicating composition of the board appointment process, compliance and code of conduct are absent in most annual reports.

h) Weak enforcement and disclosures mechanism:

There is currently no enforcement mechanism for ensuring compliance with the 2003 Code. Although public companies are encouraged to comply with 2003 code, actual corporate governance practices are not in alignment with the provisions of the code cases in many cases.

2.6. Summary of Issues and Challenges

1. Regulatory deficit (architecture and policies) and weak corporate governance
2. Illiquidity; Shallowness of the financial sector ;dearth of instruments and lack of market breadth and depth which increases market volatility
3. Monetary and fiscal policy instability and policy summersaults
4. Lack of a robust and supportive legal framework
5. Disconnect between financial sector and real sector
6. Poor risk management framework
7. Dominance of the deposit money banks in the financial system which; the Dabs are oligopolistic
8. Poorly developed non- bank financial institutions (Insurance, SFIs)
9. Under-developed capital market (low listing and market capitalization)
10. Weak institutional framework for lending and contract enforcement (legal framework and credit bureau)
11. Lack of integration in the payments and settlement system (need for an integrated payments and settlement architecture)
12. Foreign exchange supply gap (and excessive dependence on oil as source foreign exchange)
13. Inadequate FDI inflows
14. Poor reporting and disclosure requirement of information
15. Human capital constraint

16. Poor access to credit and finance

17. Inconsistent monetary policy formulation

18. Lack of adequate coordination between monetary/ fiscal policy formulation

2.7. Key Issues, Implications and Strategic Objectives

	KEY ISSUES	IMPLICATIONS	OBJECTIVES
1	Regulatory deficit (architecture and policies) and weak corporate governance	Financial system fraught with unethical practices such as profiteering, insider trading and abusive ownership	Effective regulation & supervision and adoption of globally recognized corporate governance and regulatory practices.
2	Illiquidity; Shallowness of the financial sector ;dearth of instruments and lack of market breadth and depth which increases market volatility	Poor level of financial sector stability and loss of investor confidence and Low level of financial intermediation dependence on public sector deposits	Deepen the financial market
3	Monetary and fiscal policy instability and policy summersaults	Financial sector instability, poor intermediation of financial institutions and loss of investors' confidence	Maintain macro economic stability
4	Lack of a robust and supportive legal framework	Delayed dispensation of justice and settlement of commercial and financial litigation	Encourage speedy dispensation of commercial and financial litigations
5	Disconnect between financial sector and real sector	Weak productive sector, lacking necessary support from the financial sector which is focusing on rent seeking	Encourage the financing of the real sector
6	Poor risk management framework	Rising incidence of toxic assets and non-performing loans Volatile financial system leading to potential systemic distress	Strengthen and enforce risk-based supervision

Key Issues, Implications and Strategic Objectives (Continued)

	KEY ISSUES	IMPLICATIONS	OBJECTIVES
7	Dominance of the deposit money banks in the financial system which; the Dabs are oligopolistic	Lack of competition amongst Dabs, skewed interest rate structure and interest rate regime which is sticky	Encourage a competitive financial sector
8	Poorly developed non- bank financial institutions (Insurance, SFIs,)	Lack of long-term funds in the financial sector; with overbearing influence on interest rate structure	Strengthen and build confidence in the non-bank financial institutions
9	Under-developed capital market (low listing and market capitalization)	Lack of long-term funding and over-reliance on banks for project financing	Strengthen the capital market
10	Weak institutional framework for lending and contract enforcement (legal framework and credit bureau)	Over-reliance on collateral vis-à-vis cash flow as basis for lending and sub-optimal level of credit to the economy	Strengthen the judiciary and credit bureaux
11	Lack of integration in the payments and settlement system (need for an integrated payments and settlement architecture)	Process and informational inefficiencies; and high cost of doing business	Establish integrated payments system and fully operational credit bureau
12	Foreign exchange supply gap (and excessive dependence on oil as source foreign exchange)	Exchange rate instability; arbitrage seeking (speculation); dollarization of the economy	Diversification of foreign exchange supply base

Key Issues, Implications and Strategic Objectives (Continued)

	KEY ISSUES	IMPLICATIONS	OBJECTIVES
13	Inadequate FDI inflows	Inadequate investment in the domestic economy, leading to output gap, unemployment and poverty	Make Nigeria a preferred destination for FDI
14	Poor reporting and disclosure requirement of information	Inadequate planning Concealment of information and propensity for fraud	Promote transparency, accountability, reporting and proper disclosure in FSI
15	Human capital constraint	Poor service delivery, gross inefficiency and ineffectiveness	Human capacity building
16	Poor access to credit and finance	sub-optimal economic growth	Revolutionalize access to finance
17	Inconsistent monetary policy formulation	Policy inconsistencies leading to uncertainties in the financial sector	Make monetary policy transparent
18	Lack of adequate coordination between monetary/ fiscal policy formulation	Frequency in macroeconomic instability	Sustain macroeconomic stability

3.0 FINANCIAL SECTOR VISION, STRATEGIC OBJECTIVES AND INITIATIVES

3.1. Financial Sector Vision

The overall vision of the financial sector is:

"To be the safest and fastest growing financial system amongst emerging market countries" [13]

To accomplish the NV 20:2020 aspiration, Nigeria needs a robust and supportive financial sector with a suitable institutional and regulatory framework; effective and efficient financial intermediation; and adequate provision of credit to the economy. The target for Nigeria's financial development is to rank among top 3 peer countries[14] by 2015 and to be one of the top 20 financial markets by 2020[15].

3.2. Strategic Objectives and Initiatives

1. Effective regulation & supervision and adoption of globally recognized corporate governance and regulatory practices

1.1. Establish an integrated regulatory system responsible for micro prudential supervision/regulation.

Establish a consolidated regulatory system responsible for micro prudential supervision/regulation.

1.2. Establish and enforce a generic minimum code of conduct for regulators.

1.3. Strengthen financial sector capacity building institutions, including endowment of universities.

[13] The vision statement in FSS 2020 was considered adequate and therefore adopted
[14] Selected peer countries are: Malaysia, South Africa, Brazil, India and Egypt
[15] The Financial Development Index (FDI) of the World Economic Forum provides a framework for detailed assessment of financial development. This framework is considered suitable for measuring Nigeria's financial development on an annual basis

1.4. Modernize the current data gathering and information sharing mechanism with a view to making them efficient and effective[16].

1.5. Fast-track the adaptation of international accounting standards

1.6. Hasten the passage of financial reporting council bill

1.7. Shift from compliance – based supervision to risk – based supervision of the financial system[17]

2. *Deepen the financial Market (Use financial ratios as targets)*

2.1. Abolish overlapping regulation and supervision

2.2. Evaluate the structure of the FSI under the current universal banking regime and determine its feasibility for our developmental objectives

2.3. Encourage the emergence of specialized financial institutions reasonably capitalized with focus on key segments of the financial services

2.4. Evaluate the efficacy of the current model of micro finance institutions and realign them to encourage adequate funds mobilization and access to credit

2.5. Implement a programme to develop the bond, derivatives and other innovative securities markets.

2.6. Develop framework for the emergence of a structured commercial bills market; e.g. product initiation, enhancements and rating of corporate debt of all maturities.

2.7. CBN should look into the possibility of qualifying highly rated short-term bills as liquid assets for discounting or liquidity ratio purposes.

2.8. Upgrade current listing rules to accommodate new instruments.

2.9. Create and implement a formal OTC market for non-exchange traded securities.

2.10. Create fast track registration and listing mechanisms for non-traditional issuer of securities.

2.11. Ensure the efficacy and cost competitiveness of the capital raising process

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[16] Enhance ICT, information management system, CRMS; Make provision of information in the financial system on real time basis. Lack of personal information/ identity system is critical to achieving this initiative

2.12. Relevant laws and policies that would facilitate the above initiatives should be enacted/issued

3. *Maintain macro economic stability (targets: Inflation, exchange rate, interest rates, budget deficit, reserve requirement)*

3.1. Adherence to rule – based policies

3.2. Specification of clear cut targets and parameters on key policy issues such as inflation, interest rates, budget deficit e.t.c.

3.3. Withdrawal of public sector funds in deposit money banks SFIs

3.4. Adhere to WAMZ/AU macroeconomic convergence criteria

4. *Encourage speedy dispensation of commercial and financial litigations*

4.1. Set time limits for the settlement of commercial and financial cases

4.2. Create commercial courts for speedy dispensation of litigations

4.3. Automate the courts

5. *Encourage the financing of the real sector*

5.1. Minimize credit risks that banks face

5.2. Encourage savings culture in order to have long term funds <by providing incentives e.g., interest rate subsidies, tax exemptions>

5.3. Develop the credit system

5.4. Strengthen e-payments

6. *Strengthen and enforce risk-based supervision*

6.1. Establish and enforce healthy risk management practices

7. *Encourage a competitive financial sector*

7.1. Licensing of mid-tier banks with capital base between N10 – 15bn; encourage niche/ specialized banking including Sharia banks. And re-engineer the interest rate regime

8. *Strengthen and build confidence in the non-bank financial institutions*

8.1. Recapitalization

[17] Take steps to build a more collaborative and co-operative attitude with operators in the interest of building the FSI of our dreams rather than the current combative and mutual distrust attitude that pervades the system.

8.2. Increased insurance penetration

8.3. Human capacity development

8.4. Provide operational autonomy to SFIs

9. Strengthen the capital market

9.1. Encourage listing of new companies on the stock exchange

9.2. Establish of more stock exchanges

10. Strengthen the judiciary and credit bureaux

10.1. Review law of evidence

10.2. Update the law of contract

10.3. Establish commercial courts

10.4. Strengthen the credit bureau

10.5. Harmonize Nigeria commercial code with that of ECOWAS

11. Establish integrated payments system and fully operational credit bureau

11.1. Develop, implement and enforce internationally acceptable standards in the use of technology for the FSI

11.2. Facilitate the development of an ICT framework for the FSI

11.3. Develop, implement and enforce a risk management framework for the FSI

11.4. Facilitate the development of a virtual and collaborative financial systems network

11.5. Encourage the use of mobile devices, ATMs, the internet etc as service delivery channels

12. Diversification of foreign exchange supply base

12.1. Further strengthen remittances corridor;

12.2. Capital account liberalization in the medium term;

12.3. Encourage exportation of non-oil products and services;

12.4. Encourage reversal of capital flights;

12.5. Discourage corrupt outflow;

12.6. Encourage Africans in diaspora to invest in the economy

13. Make Nigeria a preferred destination for FDI

13.1. Improve business environment;
13.2. Liberalization of capital accounts;
13.3. Provision of incentives (tax reduction) to encourage FDI;
13.4. Establish a viable Export Processing Zone (EPZ).

14. *Promote transparency, accountability, reporting and proper disclosure in FSI*

14.1. Review all regulatory and financial policies;
14.2. Review all existing regulatory and supervisory requirements;
14.3. Enforce zero tolerance for poor reporting and disclosure
14.4. Update accounting and reporting standards to match international best practice

15. *Human capacity building*

15.1. Define minimum human capital management guideline for the industry.
15.2. Define and communicate standard competency requirements for key roles in the industry.
15.3. Introduce standard certification requirements for key job roles.
15.4. Develop an industry wide knowledge management framework
15.5. Build an industry wide financial services development academy.
15.6. Facilitate automation of human capital management practices and system.
15.7. Develop structured industry wide programs to facilitate the transfer of knowledge and skills from Nigerian financial services profession in Diaspora to local market operators

16. *Revolutionalize access to finance*

16.1. Provide public services online (e-governance)
16.2. Automate public service operations in government ministries, agencies and parastatals;
16.3. Review the current efforts at the development of a National identity management System and take appropriate steps to fast-track the effort
16.4. Evaluate the efficacy of the current model of micro finance institutions and realign them to encourage adequate funds mobilization and access to credit

16.5. Facilitate the integration of data across all referencing platforms to enhance the effective delivery of financial services; credit bureaus; collateral registration; repositories of financial instruments; National Identification Systems.

16.6. Facilitate good corporate governance practices and standards in SMEs in order to give confidence to Financiers.

16.7. Take steps to build saving culture among the population using the National Savings scheme and similar efforts.

16.8. Introduce new policies to encourage the SMEs' access to the capital market (either the existing second tier or the newly created third tier).

16.9. Encourage the development of more venture capital funds and other early stage equity investors.

17. Make monetary policy transparent

17.1. Open up NPC to external participants;

17.2. Timely release of financial data

18. Sustain macroeconomic stability

18.1. Ensure full coordination between fiscal and monetary authorities

18.2. Effect stricter adherence to fiscal rules

18.3. Repayment of ways and means advances

4.0 IMPLEMENTATION ROADMAP

Implementation remains a major challenge to Nigeria's national development process. The FS NTWG recommends the establishment of a statutory (presidential) commission for the implementation of Vision 2020, with adequate resources and authority to execute its mandate. It is assumed that the above-mentioned NV 2020 implementation commission will spearhead a coordinated effort towards the accomplishment of NV 20:2020. In the interim, it is assumed that the Monitoring and Evaluation Division of the National Planning Commission will be equipped to take on this role.

The Implementation Plan and Implementation Monitoring Roadmap below are provided as an input to the monitoring and evaluation framework of the NV 2020 blueprint. The implementation plan highlights the timeline, implementing agencies, collaborating agencies and funding sources for each of the strategic objectives and initiatives recommended for the financial sector; whereas the implementation monitoring roadmap reflects the monitoring agency, monitoring frequency and Key Performance Indicators (KPIs) on each initiative. In addition, the percentage completion, issues, risks and mitigation plans are highlighted for already ongoing initiatives.

4.1. Implementation plan

Objective	Initiatives	Timeline			Implementing Agencies	Collaborating Agencies	Funding Sources
		Short Term	Medium Term	Long Term			
1. Ensure effective regulation & supervision and adoption of globally recognized corporate governance and regulatory practices	a. Establish an integrated approach to financial sector regulation	2009			Presidency	Federal Ministry of Finance, CBN, SEC, NAICOM, PENCOM,	[18]NA
	b. Proclaim a consolidated regulatory system responsible for micro prudential supervision/regulation	2009			Presidency	Federal Ministry of Finance, CBN, SEC, NAICOM, PENCOM,	NA
	c. Establish a consolidated regulatory system responsible for micro prudential supervision/regulation		2012		Presidency	Federal Ministry of Finance (FMF), CBN, SEC, NAICOM, PENCOM,	FMF[19]

[18] NA : Not Applicable
[19] Initial subvention should be obtained from the Federal Ministry of Finance through budgetary provision.

4.1. Implementation plan

Objective	Initiatives	Timeline			Implementing Agencies	Collaborating Agencies	Funding Sources
		Short Term	Medium Term	Long Term			
	d. Strengthen and enforce risk-based supervision – Establish and enforce healthy risk management practices	2009			CBN	All Banks	NA
	e. Enforce the Financial Action Tax Force code	2009			CBN	All Banks	NA
	f. Establish and enforce a generic minimum code of conduct for operators and regulators.	2009			The Code of Conduct Bureau	ICPC, Federal Ministry of Justice	Self
	g. Strengthen financial sector capacity building institutions, including endowment of universities	2009			CBN, SEC, NAICOM and PENCOM	Professional Bodies, Training Centres	PPP
	h. Modernize the current data gathering and information sharing mechanism with a view to making them efficient and effective	2009			CBN, SEC, NAICOM and PENCOM	NPC, NBS	Self
	i. Fast track the adaptation of international accounting standards		2012		NASB	All regulatory and supervisory bodies	NA

4.1. Implementation plan

Objective	Initiatives	Timeline			Implementing Agencies	Collaborating Agencies	Funding Sources
		Short Term	Medium Term	Long Term			
	j. Fast track the passage of financial reporting council bill	2009			National Assembly	NASB & Ministry of Justice	
	k. Shift from compliance – based supervision to risk – based supervision of the financial system	2009			CBN, SEC, NAICOM and PENCOM	NA	Self
2. Deepen the financial Market	a. Encourage the emergence of specialized financial institutions reasonably capitalized with focus on key segments of the financial services[20] ▪ Grant operational autonomy, restructure; ▪ and recapitalize SFIs	▪ 2009	▪ 2011		▪ Presidency ▪ All the shareholders	▪ FMF, Commerce and Industry, Min. of Agric ▪ Shareholders	▪ NA ▪ All the shareholders (
	2.5. Implement a programme to develop the bond market[21] 2.6. Enlightenment of investing public on	2009			Listed companies, CBN	SEC, NSE, Independent Shareholders Association	Self

[20]Re-capitalization and restructuring of SFIs. Tier 1 capital of N5bn is recommended for PMIs; Restructure and privatize FMBN

[21] Enlightenment of investing public on the importance of other investment vehicles besides equity; CBN should recognize B+ and above rated bonds issued as private entities as a liquid asset (up to 3-year bonds); and banks should accept bonds as collateral for loan; rating agencies should rate corporate bonds. Operators need to take the initiative to introduce derivatives. SEC should issue guidelines for the issuance of derivatives.

4.1. Implementation plan

Objective	Initiatives	Timeline			Implementing Agencies	Collaborating Agencies	Funding Sources
		Short Term	Medium Term	Long Term			
	the importance of other investment vehicles besides equity						
	CBN to encourage development of derivatives in the Money Market SEC to encourage development of derivatives in the capital market	2009			CBN, SEC	NSE, ASCE, Operators	Self
	Strengthen sensitization of operators and investing public on new market instruments	2009			CBN, SEC, ASCE	Quoted companies	Self
	2.9. Fast track the creation of a formal OTC market and regulate OTC transactions	2009			SEC	NSE, CAC	Self, Private Sector
	2.11. Ensure the efficacy and cost competitiveness of the capital raising process to level of comparator countries[22]	2009			SEC, NSE, ASCE	Not applicable	Self

[22] Reduce cost of listing, cost of transaction, taxation cost

4.1. Implementation plan

Objective	Initiatives	Timeline			Implementing Agencies	Collaborating Agencies	Funding Sources
		Short Term	Medium Term	Long Term			
3. Maintain macro economic stability (targets: Inflation, exchange rate, interest rates, budget deficit, reserve requirement)[23]	a. Comply with the fiscal responsibility act[24]; including the WAMZ/ ECOWAS/ AU targets	2009			Presidency, FMF	State Governments	NA
	b. Comply with monetary policy targets[25] (M1,M2)	2009			CBN	National Assembly[26]	NA
	c. [27]Phased withdrawal of public sector funds in deposit money banks[28]		2015		CBN	NA	NA
	d. Ways and means advances to the FGN must be repaid within the fiscal year in which it was contracted	2010			FMF, Accountant – General of the Federation (ACGF), CBN	NA	NA

[23] Achieve the variables that indicate macro-economic stability
[24] The Fiscal Responsibility Act was passed in December 2007
[25] Monetary Policy Rate is driven by M1, M2
[26] The national assembly should seek explanation when monetary policy targets are not achieved
[27] In FSS 2020, this was addressed by recommending that public sector funds will not count as liquidity ratio
[28] Phased withdrawal should be commenced in 2010 and completed in 2015; the government needs to promptly pay the debts owed to genuine contractors. These contractors typically borrowed from banks and these loans turn bad.

4.1. Implementation plan

Objective	Initiatives	Timeline			Implementing Agencies	Collaborating Agencies	Funding Sources
		Short Term	Medium Term	Long Term			
	e. Borrowing by state and local governments for overhead and current expenditure must be paid within the fiscal year in which they were contracted	2010			All levels of government	DMBs, Other financial institutions	NA
	f. Payment of verified public sector creditors to government		2015[29]		National Assembly, DMO	ACGF	Bond Issue (DMO)
	g. Fast track the payment of pension arrears	2010			Budget Office, ACGF	PenCom	Bond Issue[30]
4. Encourage speedy dispensation of commercial and financial litigations	a. Set time limits for the settlement of commercial and financial cases (90 days)	2010			Courts of Competent Jurisdiction	Ministry of Justice	NA
	b. Fast track the creation of commercial courts for speedy dispensation of litigations	2010			The Federal Judicial Service Commission	Ministry of Justice	Self

[29] Payment of public sector creditors should commence in 2010 through the issuance of bonds
[30] Issue IOU to individuals

4.1. Implementation plan

Objective	Initiatives	Timeline			Implementing Agencies	Collaborating Agencies	Funding Sources
		Short Term	Medium Term	Long Term			
	c. Automate the courts: Fast track the acceptance of electronic evidence[31]	2010			The Federal Judicial Service Commission	Ministry of Justice, National Assembly	Self
5. Encourage the financing of the real sector	a. Emphasize cashflow based lending	2009			Financial Institutions e.g. DMBs, SFIs	CBN, CIBN	NA
	b. Encourage savings culture in order to have long term funds <by providing incentives e.g., interest rate subsidies, tax exemptions> : ▪ Fast track the introduction of National Savings Certificate	2010			CBN	FMF	Self
	c. Further liberalize Agric Credit Guarantee Fund	2010			CBN	Deposit Money Banks	NA
	d. Establish a Credit Guarantee Scheme[32] for SMEs	2011			CBN	Ministry of Commerce and Industry, SMEDAN	Self

[31] Review the remuneration and condition of service of judges
[32] The SMEIs fund is difficult to access from the financial banks.

4.1. Implementation plan

Objective	Initiatives	Timeline			Implementing Agencies	Collaborating Agencies	Funding Sources
		Short Term	Medium Term	Long Term			
	e. Develop the credit system ▪ Establish effective and functional credit bureaux ▪ Enforce mandatory reporting requirement by banks to the credit bureau (CBN CRMS); Establish a collateral registry	▪ 2009 ▪ 2009			▪ CBN ▪ Company registrars	▪ All Banks; All Insurance Companies ▪ NA	▪ NA ▪ Self
	f. Enforce e-payments system	2009			All tiers of government	All banks	Self
6. Encourage a competitive financial sector	a. Licensing of mid-tier banks with capital base between N10 – 15bn; encourage niche/ specialized banking including Sharia banks. And re-engineer the interest rate regime	2010			CBN	NA	Self
7. Strengthen and build confidence in the non-bank financial institutions	a. Increased insurance penetration – Ensure adherence all to mandatory insurance laws	2009			NAICOM	FMF and all the insurance companied	Self

4.1. Implementation plan

Objective	Initiatives	Timeline			Implementing Agencies	Collaborating Agencies	Funding Sources
		Short Term	Medium Term	Long Term			
	b. Provide operational autonomy to Developmental finance institutions (BOI, NEXIM, Agric Bank, FMBN) by way of restructuring and recapitalization[33]	2010			Presidency	National Assembly	Appropriation
8. Strengthen the capital market	a. Companies with certain annual minimum turnover volumes [34] should be compelled to list on the stock exchange.	2010			SEC	NSE, Licensing Authorities	NA
	b. Establish more stock exchanges	2009			Organized Private Sector (MAN, NASIMA)	SEC	Self
9. Establish integrated payments system and fully operational credit bureau	a. Further encourage the use of safe and secure mobile devices, ATMs, the internet etc as service delivery channels	2009			CBN	DMBs	Self

[33] Privatization is not advised
[34] Threshold turnover for mandatory listing is to be determined. This is expected to vary by industry/ sector.

4.1. Implementation plan

Objective	Initiatives	Timeline			Implementing Agencies	Collaborating Agencies	Funding Sources
		Short Term	Medium Term	Long Term			
10. Diversification of foreign exchange supply base	Capital account liberalization in the medium term	2009			CBN	DMBs	NA
	a. Operationalize Export Expansion Grant	2009			Nigerian Export Promotion Council; CBN	NA	Self
	b. Encourage reversal of capital flights ▪ Tax incentive and other benefits for capital flight returnees	2009			Presidency	FIRS	NA
11. Make Nigeria a preferred destination for FDI	a. Provision of incentives (tax reduction) to encourage FDI	2010			FMF, FIRS		NA
12. Promote transparency, accountability, reporting and proper disclosure in FSI	a. Enforce zero tolerance for misreporting, late reporting and information disclosure	2009			CBN, SEC, NAICOM, PENCOM	NASB, NSE	NA
13. Human capacity building	a. Define minimum human capital management guideline for the industry: ▪ Certification of financial market operators (bank examiners, capital	2010			Statutory regulators, CIBN, Nigerian Capital Market Institute,	Financial Institutions	Self

4.1. Implementation plan

Objective	Initiatives	Timeline			Implementing Agencies	Collaborating Agencies	Funding Sources
		Short Term	Medium Term	Long Term			
	market operators etc)						
	b. Build an industry wide financial services development academy	2011			Financial Institutions and regulatory institutions	Tertiary institutions, Professional Bodies: CIBN, FITC	Self

4.2. Implementation Monitoring Roadmap

Objective	Initiatives	Monitoring Agency	Monitoring Frequency	KPI	% Completion	Issues	Risks	Mitigation
1. Ensure effective regulation & supervision and adoption of globally recognized corporate governance and regulatory practices	a. Establish an integrated approach to financial sector regulation	Monitoring division in NPC	Annual	NA				
	b. Proclaim a consolidated regulatory system responsible for micro prudential supervision/regulation	NA	NA	NA				
	c. Establish a consolidated regulatory system responsible for micro prudential supervision/regulation	Monitoring division in NPC	NA	NA				
	d. Strengthen and enforce risk-based supervision – Establish and enforce healthy risk management practices	All the FSI regulators	Minimum: Quarterly	Evaluation of non-performing assets				

4.2. Implementation Monitoring Roadmap

Objective	Initiatives	Monitoring Agency	Monitoring Frequency	KPI	% Completion	Issues	Risks	Mitigation
	e. Enforce the Financial Action Tax Force code							
	f. Establish and enforce a generic minimum code of conduct for operators and regulators.	All stakeholders	Always	NA	NA	Probable	Probable: A binding code may discourage competent people from taking up offices	
	g. Strengthen financial sector capacity building institutions, including endowment of universities	Monitoring division in NPC		A function of the total number of employees -10% of FS staff should be trained				
	h. Modernize the current data gathering and information sharing mechanism with a view to making them efficient and effective			NA				

4.2. Implementation Monitoring Roadmap

Objective	Initiatives	Monitoring Agency	Monitoring Frequency	KPI	% Completion	Issues	Risks	Mitigation
	i. Fast track the adaptation of international accounting standards	Monitoring division in NPC; NASB	Annually	NA				
	j. Fast track the passage of financial reporting council bill	Monitoring division in NPC ; NASB	NA	NA	Ongoing	None	None	NA
	k. Shift from compliance – based supervision to risk – based supervision of the financial system	Monitoring division in NPC	Quarterly	Number of disclosures in financial statements				
2. Deepen the financial Market	a. Encourage the emergence of specialized financial institutions reasonably capitalized with focus on key segments of the financial services ▪ Grant operational autonomy, restructure; ▪ and recapitalize SFIs	Monitoring division in NPC	NA	NA				
	b. Implement a programme to develop the bond market; Enlightenment of investing public on the importance of other investment vehicles besides equity CBN should accept B+ and	SEC, DMO, NSE, All shareholders' Associations	Quarterly	NA				

4.2. Implementation Monitoring Roadmap

Objective	Initiatives	Monitoring Agency	Monitoring Frequency	KPI	% Completion	Issues	Risks	Mitigation
	above rated bonds issued as private entities as a liquid asset (up to 3-year bonds);							
	c. CBN to encourage development of derivatives in the Money Market; SEC to encourage development of derivatives in the capital market	NPC	Quarterly					
	d. Strengthen sensitization of operators and investing public on new market instruments							
	e. Fast track the creation of a formal OTC market and regulate OTC transactions							
	f. Ensure the efficacy and cost competitiveness of the capital raising process to level of comparator countries	All stakeholders	NA	Cost structure				
3. Maintain macro economic stability (targets: Inflation, exchange rate,	a. Comply with the fiscal responsibility act; including the WAMZ/ ECOWAS/ AU targets	NPC and all stakeholders	Annual	Monetary targets				

4.2. Implementation Monitoring Roadmap

Objective	Initiatives	Monitoring Agency	Monitoring Frequency	KPI	% Completion	Issues	Risks	Mitigation
interest rates, budget deficit, reserve requirement)[35]								
	b. Comply with monetary policy targets (M1, M2)	National Assembly	Annually	Ratios (Targets)				
	c. [36]Phased withdrawal of public sector funds in deposit money banks	NPC, CBN and all stakeholders	Quarterly	% withdrawal				
	d. Ways and means advances to the FGN must be repaid within the fiscal year in which it was contracted	National Assembly, Stakeholders, Monitoring Commission	Annually	Zero balance				
	e. Borrowing by state and local governments for overhead and current expenditure must be paid within the fiscal year in which they were contracted	State governments	Annually	Zero balance				

[35] Achieve the variables that indicate macro-economic stability
[36] In FSS 2020, this was addressed by recommending that public sector funds will not count as liquidity ratio

4.2. Implementation Monitoring Roadmap

Objective	Initiatives	Monitoring Agency	Monitoring Frequency	KPI	% Completion	Issues	Risks	Mitigation
	f. Payment of public sector creditors to government	National Assembly	Annually	Zero balance				
4. Encourage speedy dispensation of commercial and financial litigations	a. Set time limits for the settlement of commercial and financial cases (90 days)	NPC and all stakeholders	Quart	90 days				
	b. Fast track the creation of commercial courts for speedy dispensation of litigations	NPC and all stakeholders	NA	NA				
	c. Automate the courts: Fast track the acceptance of electronic evidence[37]	NPC and all stakeholders	NA	Number of automation installed				
5. Encourage the financing of the real sector	a. Emphasize cashflow based lending	CBN, All OPC, MAN, NASIMA	NA	Volume of domestic credit extended by banks				
	b. Encourage savings culture in order to have long term funds <by providing incentives e.g., interest rate subsidies, tax exemptions> : ▪ Fast track the	CBN, FMF, NPC	Ongoing	NA				

[37] Review the remuneration and condition of service of judges

4.2. Implementation Monitoring Roadmap

Objective	Initiatives	Monitoring Agency	Monitoring Frequency	KPI	% Completion	Issues	Risks	Mitigation
	introduction of National Savings Certificate							
	c. Further liberalize Agric Credit Guarantee Fund	NPC, All stakeholders	Ongoing	Quantum of credit to sector				
	d. Establish a Credit Guarantee Scheme for SMEs	OPS, Min. of commerce and trade, CBN	NA	Quantum of credit to sector				
	e. Develop the credit system ▪ Establish effective and functional credit bureaux. ▪ Enforce mandatory reporting requirement by all lending financial institutions to the credit bureau (CBN CRMS); Establish a collateral registry	1. All relevant regulators 2. All regulators and all lending institutions	Regular (as required)	NA				
	f. Enforce e-payments system	National Commission, MDAs	As required	NA				

4.2. Implementation Monitoring Roadmap

Objective	Initiatives	Monitoring Agency	Monitoring Frequency	KPI	% Completion	Issues	Risks	Mitigation
6. Encourage a competitive financial sector	b. Licensing of mid-tier banks with capital base between N5 – 10bn; encourage niche/ specialized banking including interest free banking (Sharia banks. And re-engineer the interest rate regime	CBN	NA	Number of bank licenses issued peer annual				
7. Strengthen and build confidence in the non-bank financial institutions	a. Increased insurance penetration – Ensure adherence to all mandatory insurance laws	NAICOM	Annually	Quantum premium collected (change)				
	b. Provide operational autonomy to Developmental finance institutions (BOI, NEXIM, Agric Bank): restructuring and recapitalization, NAIF	Stakeholders	As required	Evaluation of annual performance scorecard				
8. Strengthen the capital market	a. Companies with turnover up to [38]N100million should be compelled to list on the stock exchange.	All regulatory bodies	As required	Market capitalization				
	b. Establish more stock exchanges	National Assembly	NA	NA				

[38] This is an indicative amount. The committee recognizes that the applicable turnover may vary from industry to industry.

4.2. Implementation Monitoring Roadmap

Objective	Initiatives	Monitoring Agency	Monitoring Frequency	KPI	% Completion	Issues	Risks	Mitigation
9. Establish integrated payments system and fully operational credit bureau	Further encourage the use of safe and secure mobile devices, ATMs, the internet etc as service delivery channels	Regulators and operators (stakeholders)	NA	NA				
10. Diversification of foreign exchange supply base	a. Capital account liberalization in the medium term	Stakeholders	Annual	Per cent FDI flows				
	b. deepen Export Expansion Grant scheme	OPS, MAN, NASIMA etc	Annual	Volume of exports and FX earnings				
	c. Encourage reversal of capital flights ▪ Tax incentive and other benefits for capital flight returnees	CBN	Annual	FDI flows				
11. Make Nigeria a preferred destination for FDI	a. Provision of incentives (tax reduction) to encourage FDI	CBN	Annual	FDI flows				
12. Promote transparency, accountability, reporting and proper disclosure in FSI	Enforce zero tolerance for misreporting, late reporting and information disclosure	Stakeholders	Monthly	Number of misreporting and late rendition of data				
13. Human capacity building	Define minimum human capital management guideline for the industry: ▪ Certification of financial market operators (bank	Regulatory bodies	NA	Change in % of certification				

4.2. Implementation Monitoring Roadmap

Objective	Initiatives	Monitoring Agency	Monitoring Frequency	KPI	% Completion	Issues	Risks	Mitigation
	examiners, capital market operators etc)							
	a. Build an industry wide financial services development academy	Stakeholders	NA	NA				

5.0 APPENDICES

Appendix 1: List of active members of the FS NTWG

S/N	NAMES	POSITION
1	Prof. Eghosa Osagie	Chairman
2	Dr. Nnanna, O. J	Coordinator
3	Mr. Jaiyeola Laoye	Member
4	Dr. Musa Ibrahim	Member
5	Dr. Oluwatobi Oyefeso	Member
6	Dr. Faruk Umar	Member
7	Sir Sunday N. Nwosu	Member
8	Dr. Samuel O. Nzekwe	Member
9	Mrs. Tyokura Clara Gang	Member
10	Ibrahim F.G.	Member
11	Yahaya Inuwa Abbas	Member
12	Bature Amos Zemo	Member
13	Mustapha Bako	Member
14	Aig-Imoukhuede Aigboje	Member
15	Dr. Englama Abwaku	Member
16	Haruna Madiu	Member
17	Hope Yongo	Member
18	Modibbo Yusufu	Member
19	Ige Samuel Ayeni	Member
20	Sule Ibrahim Habu	Member
21	Dr. Yemi Kale	NPC Representative
22	Mr. Aremu Ade A.	Secretary
23	Mr. Oluwaseun Oshitade	Accenture

Appendix 2: Number, Volume and Value of Issues Raised In the Capital Market (1999 – April 2007)

Year	Number	Volume (B/Shares)	Value (N'B)
1999	23	9.6	12.0
2000	21	3.4	17.2
2001	26	12.4	37.2
2002	33	16.1	61.3
2003	34	15.1	180.1
2004	49	46.8	195.4
2005	57	207.1	552.8
2006	68	85.8	702.1
April 2007	17	17.2	313.6

Source: Securities & Exchange Commission

Appendix 3: Overview of the Nigerian Capital Market Growth

	2003	2004	2005	2006	2007	2008
Market cap (N'tn)	1.35	2.11	2.9	5.12	13.3	6.96
Value traded (N'tn)	120	225.8	262	470	2,100	1,992.73
Volume traded (bn)	13.3	19.2	26.7	36.7	138.1	323.7
All Share Index	19,943	23,845	24,086	33,189	57,990	31,450
Number of listed securities	265	277	280	287	310	304

Source: SEC Committee Report on the Nigerian Capital Market, 2008 (Ref: Nigerian Stock Exchange)