EnterpriseNGR

The SOE 2023 Report

The State of Enterprise Report 2023

Insights into Nigeria's Financial and Professional Services Sector

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THE STATE OF ENTERPRISE REPORT 2023

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About EnterpriseNGR

EnterpriseNGR is a professional policy and advocacy group, established to promote and advocate for the Financial and Professional Services ("FPS") sector of Nigeria, with a view to transforming Nigeria into the premier financial services center in Africa. We are an independent private sector initiative, a member-led and funded non-profit company focused on advocating for the improvement of the business environment for the FPS sector in Nigeria while promoting the value of the sector to the wider economy.

EnterpriseNGR operates as a catalyst for the advancement of Nigeria's economic landscape through the strategic development of its Financial and Professional Services (FPS) sector. The FPS Sector comprises diverse sub-sectors such as:

- Banking
- Insurance
- Capital Markets
- Asset Management
- Pensions
- Non-interest Finance
- FinTech
- Professional Services (Legal Services, Accounting and Management Consulting), and
- Sustainable Finance

We actively engage with policymakers and spearhead resilient advocacy efforts on behalf of the FPS sector, both within the country and on the global stage. By doing so, we seek to drive competitiveness, foster sustainable economic growth, facilitate market openness, and establish an environment conducive to the flourishing of financial market participants.

Working hand-in-hand with the government and key stakeholders, our collaborative initiatives extend to encouraging both local and foreign investments across the FPS sector. This collaborative approach is instrumental in optimizing the sector's capacity and positioning Nigeria as a formidable player in the global financial space.

We firmly believe that Nigeria's potential to emerge as one of the world's developed nations hinges on the transformation and global competitiveness of its Financial and Professional Services sector. EnterpriseNGR is unwavering in its commitment to this transformative journey, striving tirelessly to unite the FPS sector. Our ultimate aim is to propel Nigeria to the forefront as the premier financial center in Africa.

To realize this ambitious vision, EnterpriseNGR is driving a deliberate effort to contribute significantly to the development of a stable and enabling policy environment specifically tailored to the FPS sector in Nigeria. By doing so, we aspire to pave the way for sustained growth, innovation, and international recognition, thereby solidifying Nigeria's position as a leader in the global financial landscape.

"EnterpriseNGR seeks to promote a strong Financial and Professional Services (FPS) sector to foster an enabling environment for the sustainable development of the Nigerian economy.

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Funke Oladimeji, Sunset Whispers,20 x16 inches, Acrylic on canvas paper (palette knife), 2021.

Acknowledgements

EnterpriseNGR would like to acknowledge the institutions that provided data used in this report. Special thanks to the National Bureau of Statistics, Central Bank of Nigeria, Securities and Exchange Commission, Nigerian Exchange Group, FMDQ Group, National Insurance Commission, and National Pension Commission. We thank all industry experts who granted interviews to enrich this report's recommendations. In particular, EnterpriseNGR appreciates member organisations that contributed to different sections of the report, including Meristem Securities Ltd, Templars, Greenwich Merchant Bank, and Tangerine Africa. Special thanks to Ugoma Ebilah of Bloom Art Lagos for the artworks.

Foreword

EnterpriseNGR is proud to present the second edition of our State of Enterprise Report (SOE Report 2023). The design of this year's report celebrates the fusion of art and finance highlighting the growing position of art in global finance today.The SOE Report is an annual publication highlighting the Financial and Professional Services (FPS) sector's accomplishments and contributions to Nigeria's people, businesses, government, and economy. The report not only offers a comprehensive overview of the nine classified sub-sectors — Banking, Insurance, Capital Markets, Asset Management, Non-interest Finance, Pensions, FinTech, Professional Services (encompassing Legal, Accounting, and Management Consulting), and Sustainable Finance — it provides fresh insights into the pivotal role of the collective sub-sectors as a catalyst for broadening economic growth. By offering recommendations for the challenges confronting each sub-sector, the report provides a solid foundation for informed policy and regulation discussions and for expanding the frontier of the FPS sector's development.Despite the economic, social, and political challenges witnessed in 2022, the FPS sector continued to show resilience. Notably, during the cash crunch in December 2022 and early 2023, digital transactions experienced a surge, reflected in a remarkable 41.6% increase in point-of-sale (POS) transactions and a noteworthy 36.3% rise in web-based transactions. This underscores the Banking sub-sector's pivotal role in driving digital payments by leveraging financial technology (FinTech). The challenges posed by the high cost of international money transfer and other challenges notwithstanding, the Banking sub-sector facilitated the growth of remittances to Nigeria, which increased marginally from $19.48 billion in 2021 to $20.13 billion in 2022.

In line with Nigeria's pursuit of sustainable development, the FPS sector has, so far, facilitated and supported the issuance of four corporate green bonds valued at ₦32.8 billion and two sovereign green bonds valued at ₦25.69 billion. In addition, the sector promotes the democratisation of sustainability-themed securities, with the ESG and ethical mutual funds setting a new record of total investment in 2022, which amounted to ₦2.4 billion and attracted 10,796 unitholders. Collectively, the sub-sectors emerged as formidable engines of growth for the nation's economy, governments, businesses, and citizens. The FPS sector played a pivotal role in channelling financial capital, promoting foreign direct investment, driving employment opportunities, advancing financial inclusion, and addressing the daily financial service needs of the people. Furthermore, it significantly contributed to tax revenue, offered protection against financial losses, encouraged savings for retirement, and enabled enhanced financial access through innovative financial solutions, among other notable achievements. While we acknowledge these substantial contributions, the sector still has untapped potential for further growth and development. By shedding light on these contributions, we aim to foster a deeper appreciation of the FPS sector's critical role in our national landscape.

Achieving equitable growth across all FPS sub-sectors is essential to a sustainable economy, as each plays a significant role in the sector's overall contribution to national economic growth. Our vision is for a balanced growth across all the sub-sectors of the FPS that will propel Nigeria to emerge as Africa's premier financial centre and ascend to a leading position in the league of international financial centres. This report underscores EnterpriseNGR's commitment to providing essential evidence to support this ambition.

Achieving equitable growth across all FPS sub-sectors is essential to a sustainable economy, as each plays a significant role in the sector's overall contribution to national economic growth."

Once again, we proudly present the SOE Report 2023 while calling on all stakeholders to join hands with us in championing the transformation of Nigeria into Africa's premier international financial centre.

Thank you.

Obi Ibekwe
Chief Executive Officer
EnterpriseNGR

Methodology

EnterpriseNGR defines the Financial and Professional Services sector ecosystem to include nine sub-sectors: Banking, Insurance, Capital Markets, Asset Management, Non-interest Finance, Pensions, FinTech, Professional Services (Legal Services Accounting and Management Consulting), and Sustainable Finance. We analysed each of these sub-sectors individually, prioritising assessing their performance and identifying their impact on key economic variables, such as their contribution to GDP, tax, improvement in quality of life and ease of doing business.

Two interdependent stages of research were carried out:

Primary research

This comprised in-depth interviews with industry stakeholders across all FPS sub-sectors. The selected companies provided complete and diverse coverage of the FPS sector, with both large organisations and medium/small-scale enterprises covered. A deliberate effort was also made to ensure a good interviewee sample size consisting of senior-level officers (CEOs and directors) and mid-level officers (department heads and other key officers). Interviews with officers from 19 organisations were carried out. The interview questions centred around policy initiatives, reforms, and measures required to address critical challenges in the sub-sectors. Valuable insights were gained from the interviews, which form the basis of the recommendations made in the report.

Secondary research

This was done in two stages:

Literature review:
An extensive review of existing reports, newspaper articles, regulatory guidelines, published books, websites and publicly available information was conducted. Over 100 different information sources were consulted.

Data analysis:
We undertook in-depth data analysis of existing quantitative and qualitative information. Primary sources of quantitative information include the National Bureau of Statistics, Central Bank of Nigeria, National Pension Commission, Securities and Exchange Commission, Nigerian Exchange Group, FMDQ Group, National Insurance Commission, Nigerian Bar Association, Institute of Chartered Accountants of Nigeria, World Bank and a number of other sources.

References for all materials reviewed are provided as footnotes.

This report was constrained by a lack of disaggregated data for the Financial and Professional Services sector and sub-sectors. A large amount of relevant data were lumped together with other economic sectors or did not exist all together. Data that were not available include up-to-date disaggregated FPS employment data per sub-sector, tax data broken down per sub-sector, GDP contribution per sub-sector, FPS export data and a few others. EnterpriseNGR is working with the National Bureau of Statistics to address these gaps and improve the quality of data available, and insights that can be garnered from them, for the FPS sector.

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Summary of findings

In 2022, Nigeria's economy experienced a slowdown in GDP growth to 3.3%, an uptick in inflation to 18.9%, and an increased debt-to-GDP ratio of 23.2%.
Despite the economic challenges, the Financial and Professional Services (FPS) sector demonstrated resilience and experienced growth across its sub-sectors.
This report analyses the facilitative role of the FPS sector in supporting Nigeria's economic growth and demonstrates the sector's importance to lives and livelihoods.
Below is a summary of key performance highlights in 2022 for each FPS sub-sector.

Banking

The Banking sub-sector has consistently outperformed other sub-sectors across various metrics and has exerted the most substantial influence on both the national economy and the average citizen. Notably, Deposit Money Banks saw an impressive growth in assets by 24%, to reach a total of ₦78 trillion in 2022. The contribution of financial institutions accounted for 3.6% of the country's economic output in the same year. As of June 2023, the value of assets reached ₦101.6 trillion.
In terms of fiscal contributions, the Banking sub-sector emerged as the fifth-largest contributor to value-added tax (VAT) receipts, accounting for a substantial ₦109.25 billion, equivalent to 7.4% of domestically generated VAT revenue. The Banking sub-sector took a leading role in capital importation, with a total inflow of $2.09 billion, representing a significant 39.2% of $5.33 billion attracted by the Financial Services sector.
Despite the challenges posed by the high cost of international money transfer and other challenges, the Banking sub-sector facilitated the growth of remittances to Nigeria, which increased from $19.48 billion in 2021 to $20.13 billion in 2022.
The ongoing process of digitalisation has substantially improved access to financial services. Notably, there was a significant decline in the utilisation of traditional channels, with only about 4.1 million transactions valued at ₦3.20 trillion conducted via cheques in 2022, compared to 7.8 million transactions valued at ₦4.5 trillion in 2019. Additionally, during the cash crunch towards the end of the year, FinTechs experienced a surge in transaction volumes, evident in the remarkable 41.63% increase in point-of-sale (POS) transactions and a notable 36.3% rise in web-based transactions, which underscores the sub-sector's pivotal role in facilitating the shift towards digital financial services.

Insurance

Over seven years, the gross premium income demonstrated a remarkable surge, expanding from ₦289.34 billion in 2015 to ₦1,851.90 billion in 2022. This astounding 540% growth highlights the sub-sector's evolution. By 2022, gross claims had risen significantly, too, reaching N844.5 billion from ₦33.8 billion in 2021, reflecting a claim ratio of 45.6%.
Despite these achievements, the sub-sector's annual contribution to the GDP has remained relatively stagnant, hovering at 0.4%. This sluggishness underscores the need for concerted efforts to enhance market penetration, ultimately boosting the sub-sector's impact on economic growth.
While there has been consistent growth in insurance assets and premiums, this expansion has not necessarily translated into the availability of more investable funds. A closer examination of Federal Government of Nigeria (FGN) bond allotments by investor type reveals a notable decline in allocations to insurance, which decreased from 3% in 2019 to 1% in 2020.

Capital Markets

Despite challenging macroeconomic conditions, the All-Share Index showed resilience, recording a remarkable 19.98% gain, closing at 51,251.06 points, up from 42,716.44 points in 2021. This contributed to a total equity market capitalisation of ₦27.9 trillion.
In terms of market activity, total transactions on the local bourse amounted to NGN2.32 trillion in 2022, a 22.38% increase on 2021. The debt market also enjoyed greater participation in 2022, driven by consecutive rate hikes (500bps) and the Federal Government's inclination to source funds from the domestic debt market. According to FMDQ, fixed-income market turnover reached NGN81.38 trillion in 2022, substantially increasing from the NGN28.7 trillion recorded in 2021.
Although there has been a decrease in capital inflows in recent years, the capital markets have substantially contributed to inbound capital flows. Following a peak in 2019 at $23.99 billion, total capital inflows have declined steadily, with a decrease of 20.5% in 2022, amounting to $5.33 billion (compared to $6.70 billion the previous year). Foreign portfolio investments constituted the largest portion (45.8%) of these inflows, accounting for approximately $2.44 billion.

Asset Management

The Government successfully raised N2.8 trillion through FGN bonds in 2022, equivalent to approximately 16% of the total budget and 43% of the fiscal deficit. The corporate bonds market also thrived, with 11 companies securing approvals to issue corporate bonds valued at N668.1 billion, providing valuable long-term financing for businesses.
Approximately ₦4.63 trillion has been raised through FGN bonds in the first ten months of 2023.
The mutual fund landscape expanded significantly, with 136 mutual funds listed by December 2022, marking a robust 13.33% growth from the 120 listed in 2021. The combined assets under management for these funds reached N1.4 trillion in 2022, attracting 421,422 unitholders. Asset managers made strides in democratising investments, leading to an 11.2% increase in the value of domestic retail investment in the Nigerian equities market, reaching N642.7 billion in 2022, compared to N578.1 billion in 2021.
In Q2 2022, the net asset value (NAV) of the 12 exchange-traded funds (ETFs) listed on the exchange increased by 5.82%, reaching N7.2 billion, up from N6.8 billion in December 2021.
Despite potential, private equity investment in Nigeria remained largely untapped. As of Q3 2022, there were ten registered private equity funds with total

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committed capital of ₦65 billion, slightly up from ₦62.3 billion in Q3 2021. In the same quarter, the total value of investments and assets under management declined to ₦28.85 billion and ₦32.21 billion, respectively, from ₦31.3 billion and ₦38.5 billion in Q3 2021.

Pensions

The Pensions sub-sector has significantly alleviated the retirement burden, evident in the growth of the yearly payment of retirement and terminal benefits, which increased from N80 billion in 2010 to N117.7 billion in 2022, marking a notable growth rate of 47.1%. Moreover, the total assets under management of pension funds grew by 11.9%, reaching ₦15 trillion in 2022, compared to ₦13.4 trillion in 2021.
Pension fund investments have become a substantial contributor to Nigeria's economic growth. Approximately 64.3% of total pension assets, equivalent to ₦9.6 trillion, were invested in FGN securities in 2022, a noteworthy increase from ₦8.8 trillion in 2021. Additionally, the total funds allocated to support the expansion of companies through corporate debt securities reached ₦1.7 trillion, a considerable rise from ₦0.9 trillion in 2021.

Non-interest Finance

Nigeria holds a prominent position in the Sukuk market. In 2022, the Islamic finance industry in Nigeria was estimated to be over ₦1.5 trillion, with Sukuk being the largest segment at ₦756.2 billion, followed closely by Non-interest Banking at ₦736 billion.
Greenwich Merchant Bank Ltd played a pivotal role in accelerating non-interest Finance by supporting the Debt Management Office (DMO) in the FGN Series V Sukuk Issuance, which initially amounted to ₦100 billion. However, the overwhelming subscription, surpassing ₦166 billion, led to an upsize to ₦130 billion in 2022. In addition, TAJ Bank Ltd received approval to launch a pioneering ₦100 billion sukuk issuance programme, marking a significant milestone as the first private-sector sukuk bond.
Contributing to the national investment pool, the NGX Lotus Islamic Index, designed to track the performance of Sharia-compliant equities, displayed substantial growth by reaching 3,240.83 points in 2022, up from 3,009.51 in 2021, a year-to-date increase of 7.7%.

FinTech

The FinTech sector in Nigeria made great strides in 2022. With $800 million in funding in 2021, Nigerian FinTechs attracted a further $1.2 billion in 2022 and secured $952 million as of Q3 2023. FinTech companies are increasing their product offering and played an essential role during the national cash crunch as many Nigerians migrated to FinTech platforms to meet their daily personal and business transaction needs. The volume of electronic channel transactions rose by 45.5% to reach 638 million in January 2023, up from 438.5 million in January 2022.
Through emerging products like buy now, pay later (BPNL), cryptocurrency, personal finance, and investment options, FinTechs are impacting lives and livelihoods. With the growing number of FinTech companies and FinTech products in Nigeria, the financial inclusion rate, estimated at 64.1% in 2020, should have improved substantially.

Professional Services

The Professional Services sub-sector has significant potential, as demonstrated by the global Professional Services market's growth from $4.9 trillion in 2017 to $5.9 trillion in 2022, achieving a compound annual growth rate (CAGR) of 3.8%. Projections indicate that this market is poised to reach $7.4 trillion by 2027, with an anticipated CAGR of 4.7%.
Professional Services and the Scientific and Technical Services (STS) sub-sector contributed substantially to economic growth. The Professional, Scientific and Technical Services (PSTS) sector's contribution to national output is estimated at ₦2.4 trillion, up from ₦2.3 trillion in 2021. In 2022, this estimate accounted for 3.2% of GDP. Additionally, Professional Services generated ₦28.7 billion in value-added tax (VAT) revenue in 2022, representing 1.9% of the total VAT generated during the year and ranking the sub-sector ninth out of 21 in terms of contributions in the classification.

Sustainable Finance

Sustainable Finance has made substantial progress, with notable efforts being made at various levels — local, national, regional, continental, and global. By the close of 2022, global leaders from 35 developed and developing economies had collectively implemented 388 dedicated measures for sustainable finance, with 50 of these introduced in 2022, and several more in development.[1]
Globally, sustainability-themed investment products witnessed significant growth, estimated at 12%, reaching $5.8 trillion in 2022. In Nigeria, as of 2022, there were five corporate green bonds valued at ₦32.83 billion listed on the country's exchanges and an additional $50 million listed on the London Stock Exchange. Two sovereign green bonds valued at ₦25.69 billion were also listed on Nigeria's exchanges. Total investment in sustainability-focused mutual funds in 2022 amounted to ₦2.4 billion, attracting 10,796 unitholders.

Conclusion

The achievements recorded in 2022 compared to those of 2021 demonstrate that the FPS sector continues to wield significant influence on the economy — governments, businesses, and people. Beyond the naira and kobo to the broader repercussions of our actions, the collective FPS nine classified subsectors impacted 11 of the 17 Sustainable Development Goals, including No poverty, Zero hunger, Good health and well-being, Gender equality, Affordable and clean energy, Decent work and economic growth, Industry, innovation and infrastructure, Reduced inequalities, Sustainable cities and communities, Climate action, and Peace, justice and strong institutions. While we look forward to more impactful achievements in 2024 and beyond, the report offers major initiatives and policy changes required, particularly from the new government, to address key challenges and catalyse growth in each sub-sector. With all stakeholders — regulators, operators, business leaders, and investors — working collaboratively, the FPS sector will influence more remarkable growth and development of Nigeria's economy.

[1] UNTAD, 'Capital Market and Sustainable Finance' (August 2023), available at https://unctad.org/system/files/official-document/wir2023_ch03_en.pdf

Banking

This section highlights the Banking sub-sector's performance in 2022. The banking sub-sector promotes national growth by contributing to tax receipts and facilitating service exports and capital importation. To support businesses and livelihoods, the sub-sector helps consumers meet daily financial aspirations through improved access to financial services.

Key Facts

Total assets of the banking sector in 2022

2021 ₦62.9trn
2022 ₦78trn

+24% GROWTH

Value of mobile money transactions

2021 ₦7.1trn
2022 ₦19.4trn

+173.24% GROWTH

Company Income Tax by banks and other financial institutions

2021 ₦96.4bn
2022 ₦208.93bn

Service exports contributed by the Financial Services sectors

2021 $3.99bn
2022 $4.86bn

2022
Banking sector's share of capital importation

$2.09bn

Remittance inflows facilitated by Banking

2021 $19.48bn
2022 $20.13bn

The collective financial institutions made a contribution of nearly ₦4 out of every ₦100 generated nationally in 2022

₦4 / ₦100

Volume of mobile money transactions

2021 284.5 million
2022 714.6 million

Supporting growth and the economy

Contributing to national output

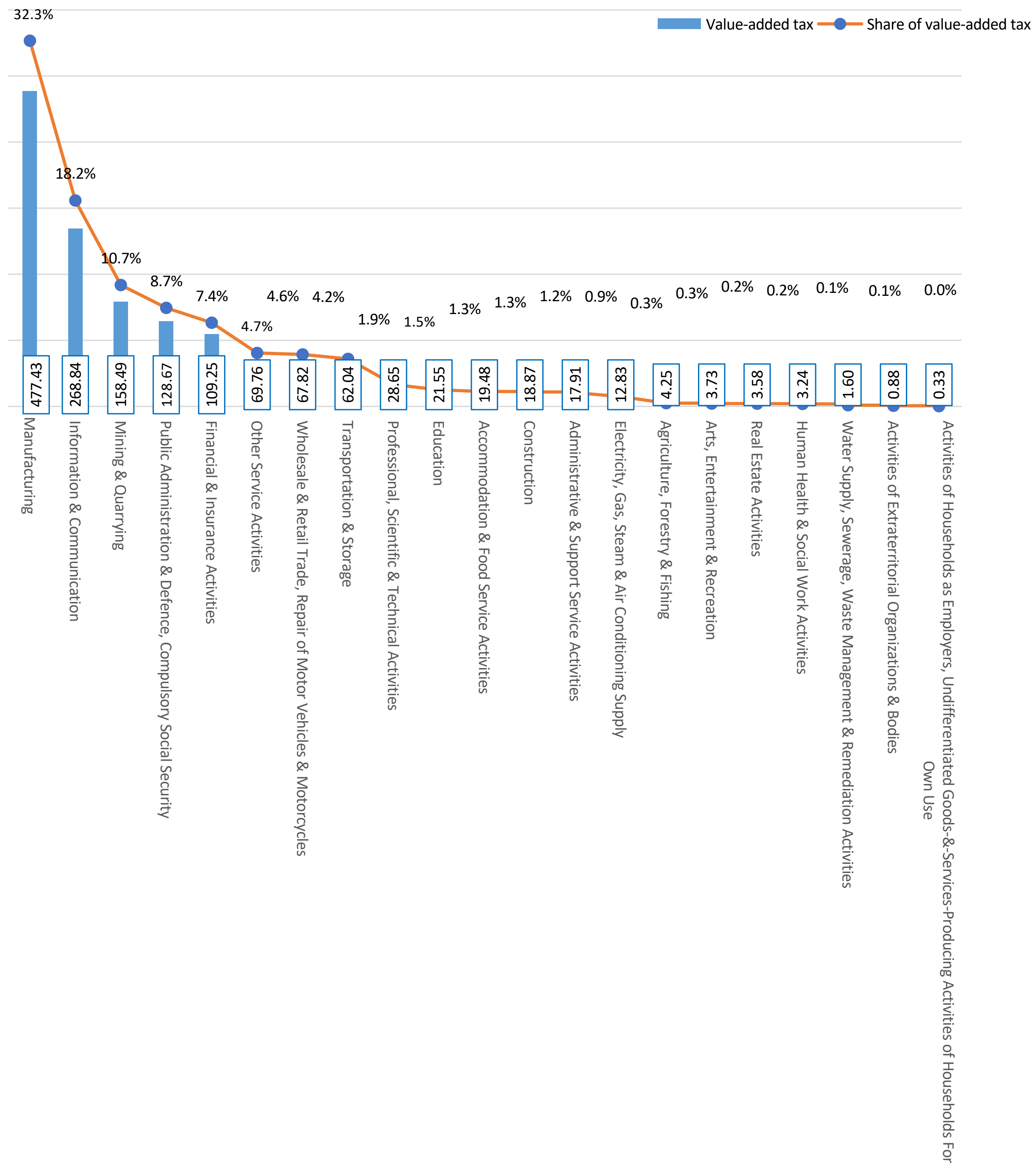
In 2022, the Banking sub-sector made a significant contribution to national output and gained two spots to rank seventh among other sectors in Nigeria.[2] The collective financial institutions[3] increased their share of real GDP from ₦2.32 trillion in 2021 to ₦2.72 trillion in 2022, representing 3.6% of national output, compared to 3.2% in 2021 — a contribution of nearly ₦4 out of every ₦100 generated nationally.

In 2022, the assets of Deposit Money Banks (also known as Other Depository Corporations)[4] rebounded by 24% over the previous year to reach ₦78 trillion.[5] The value of assets equals 39.1% of national nominal GDP. As of Q2 2023, the value of assets has reached ₦101.6 trillion.

Figure 1:

Sectoral contribution to real GDP, 2022 (₦ trillions)

Source: National Bureau of Statistics and EnterpriseNGR analysis

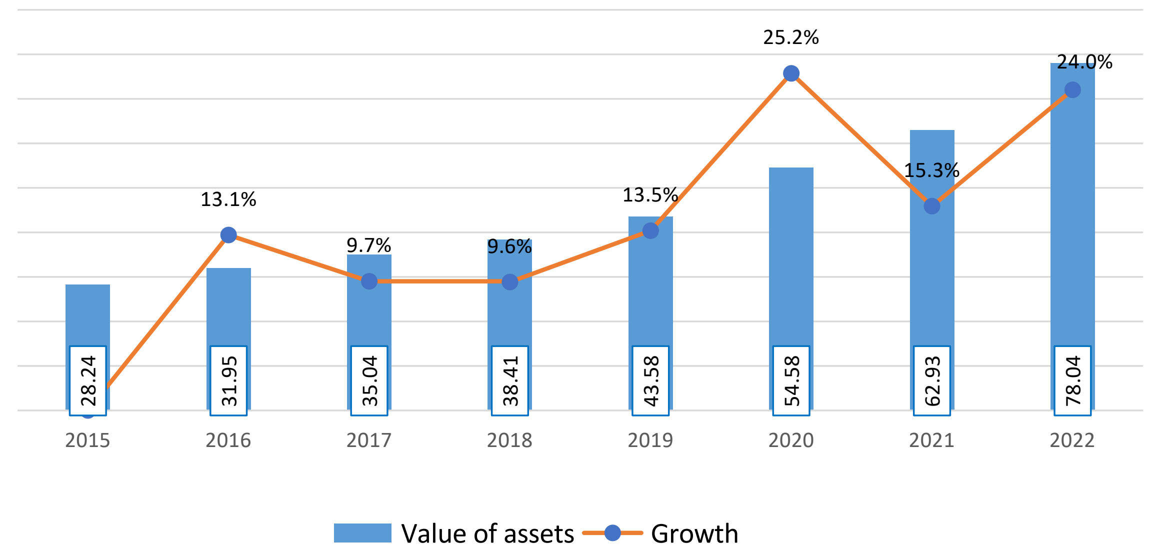


2 National Bureau of Statistics, 'Nigerian Gross Domestic Product Report (Q4 2022)', (July 2023), available at https://nigerianstat.gov.ng/elibrary/read/1241288
3 According to the National Bureau of Statistics framework, Financial Institutions are Deposit and Other Banks, Finance Companies, Discount Houses, Central Bank of Nigeria, Bureau de Change, Microfinance Banks, Mortgage Banks, Money Lenders, Exchanges and Financial Brokers.
4 Based on the Central Bank of Nigeria's adoption of IMF's Standardized Report Form, beginning 2007.
5 Central Bank of Nigeria, 'Quarterly Statistical Bulletin' (December 2023), available at https://www.cbn.gov.ng/documents/QuarterlyStatbulletin.asp

Figure 2

Asset value of Deposit Money Banks, 2022 (₦ trillions)

Source: Central Bank of Nigeria and EnterpriseNGR analysis



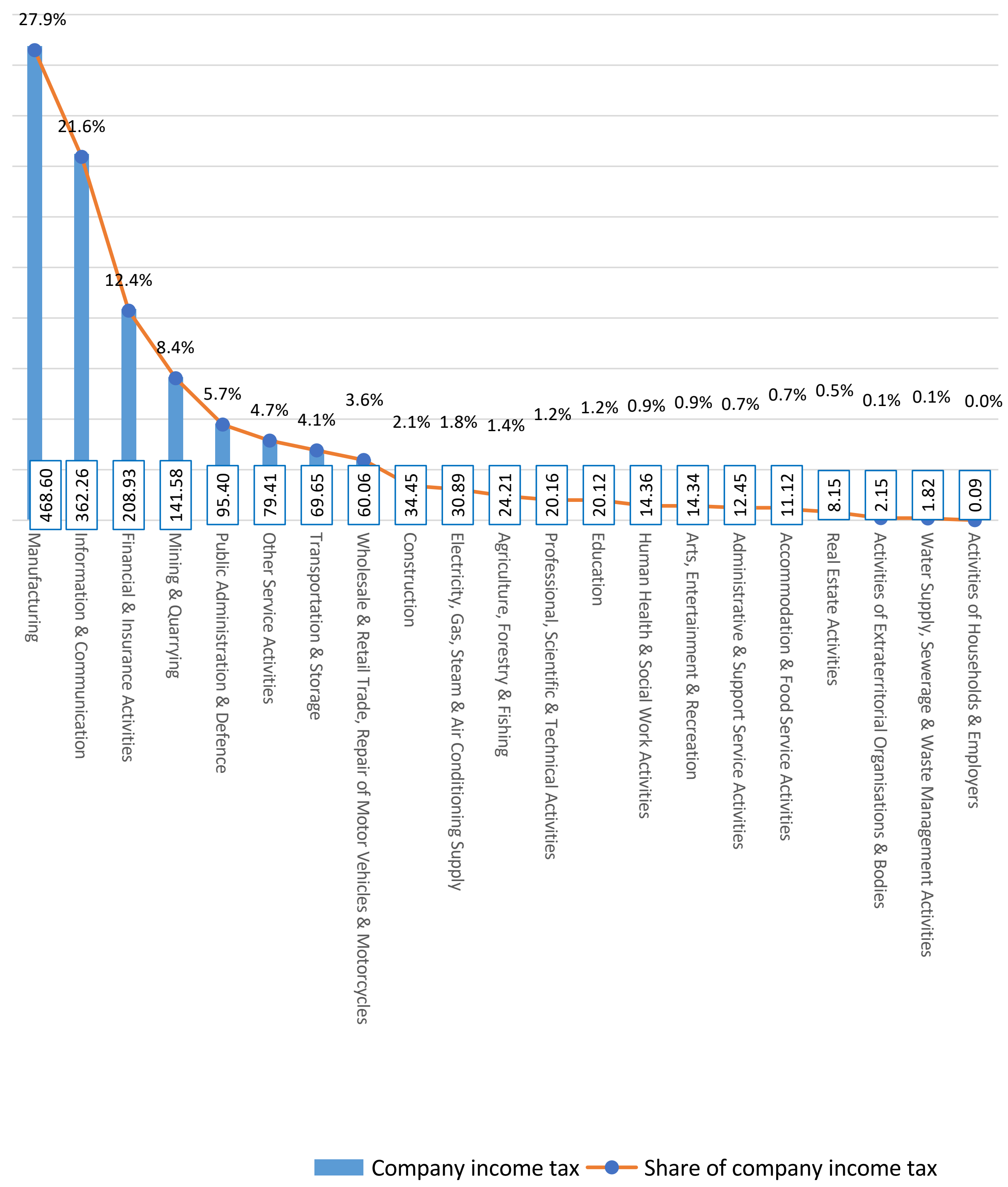
Contributing to tax revenue

From the total of N1.68 trillion collected nationally as company income tax (CIT) in 2022, Banks and Other Financial Institutions accounted for ₦208.93 billion,[6] representing 12.4%, a significant improvement over the ₦96.4 billion contributed in 2021. The 2022 contribution positions the sub-sector as the third-largest generator of CIT in the country. In addition, the sub-sector generated ₦109.25 billion[7] in value-added tax (VAT) in 2022, substantially more than the ₦62 billion generated in 2021. This represents 7.4% of total VAT in 2022 and positions the sub-sector as the fifth-largest generator of VAT for the year.

Figure 3

Sectoral contribution to company income tax, 2022 (₦ billions)

Source: National Bureau of Statistics and EnterpriseNGR analysis



6 National Bureau of Statistics, 'Company Income Tax (Q1 2023)', (July 2023), available at https://nigerianstat.gov.ng/elibrary/read/1241335
7 National Bureau of Statistics, 'Value Added Tax (VAT) (Q1 2023)', (July 2023), available at https://nigerianstat.gov.ng/elibrary/read/1241336

Figure 4
Sectoral Contribution to value-added tax, 2022 (₦ billions)
Source: National Bureau of Statistics and EnterpriseNGR analysis

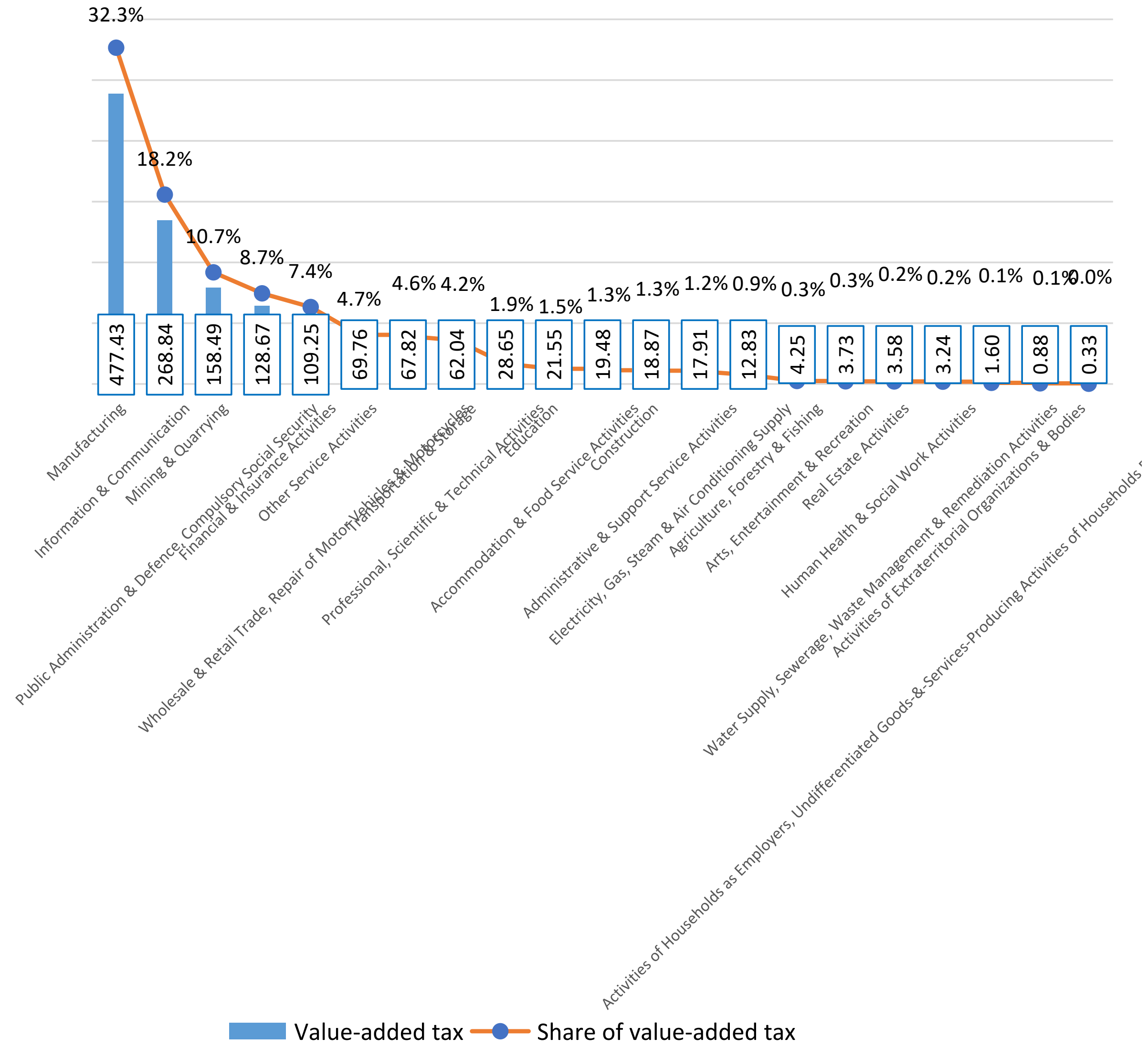


Figure 5:
Service exports and Insurance and Financial Services' share, 2015-2022 ($ millions)
Source: World Bank Development Indicators and EnterpriseNGR analysis

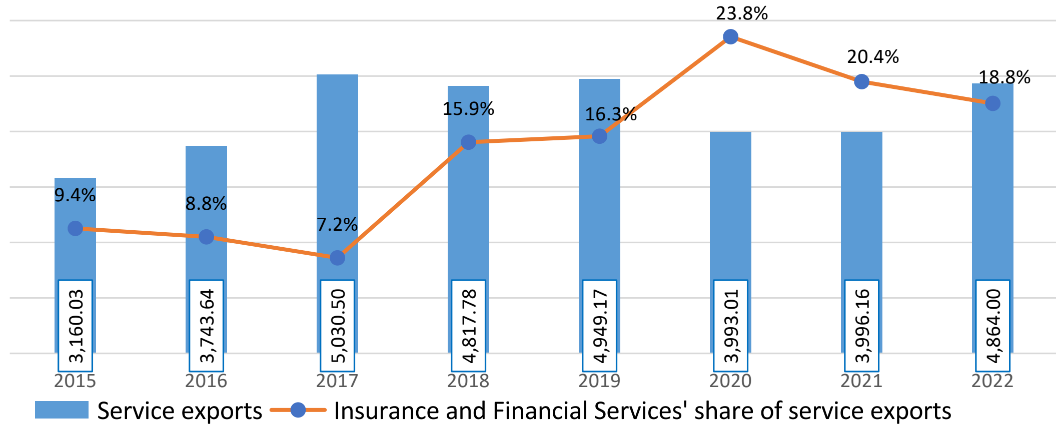
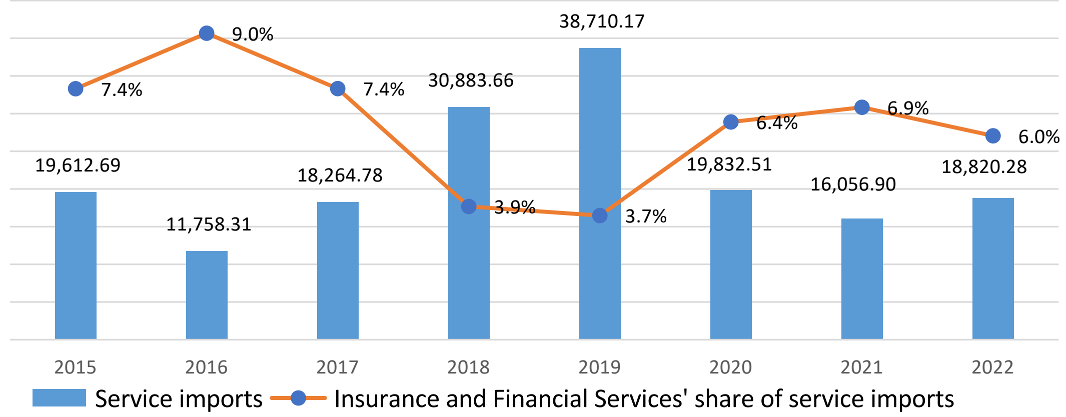


Figure 6:
Service imports and Insurance and Financial Services share, 2015-2022 ($ millions)
Source: World Bank Development Indicators and EnterpriseNGR analysis



Facilitating service exports

Nigeria's Financial Services sector[8] is a key driver of the country's exports. Its share of service exports has maintained an upward trend from 7.2% in 2017 to 23.8% in 2020. However, its share of service exports declined to 20.4% in 2021 and further to 18.8% in 2022 (Figure 5)[9], although in absolute terms, the contribution made increased from $3.99 billion to $4.86 billion in 2022.[10] Some of the factors responsible for the declines include the prevailing macroeconomic challenges, such as the high rate of inflation and rising interest and exchange rates.To complement growing exports, the Financial Services sector reduced its share of service imports from 9.0% in 2016 to 6.0% in 2022. [See Footnote 5.] While constraints around foreign exchange may have encouraged the trend, it could also reflect an increased preference for local financial services.

8 Represented by Insurance and Financial Services according to the available data from the World Bank.
9 The World Bank, 'World Development Indicators', (August 2023), available at https://databank.worldbank.org/source/world-development-indicators#

10 See Footnote 9.

Figure 7:
Capital importation by sector in 2022 ($ millions)
Source: National Bureau of Statistics and EnterpriseNGR analysis

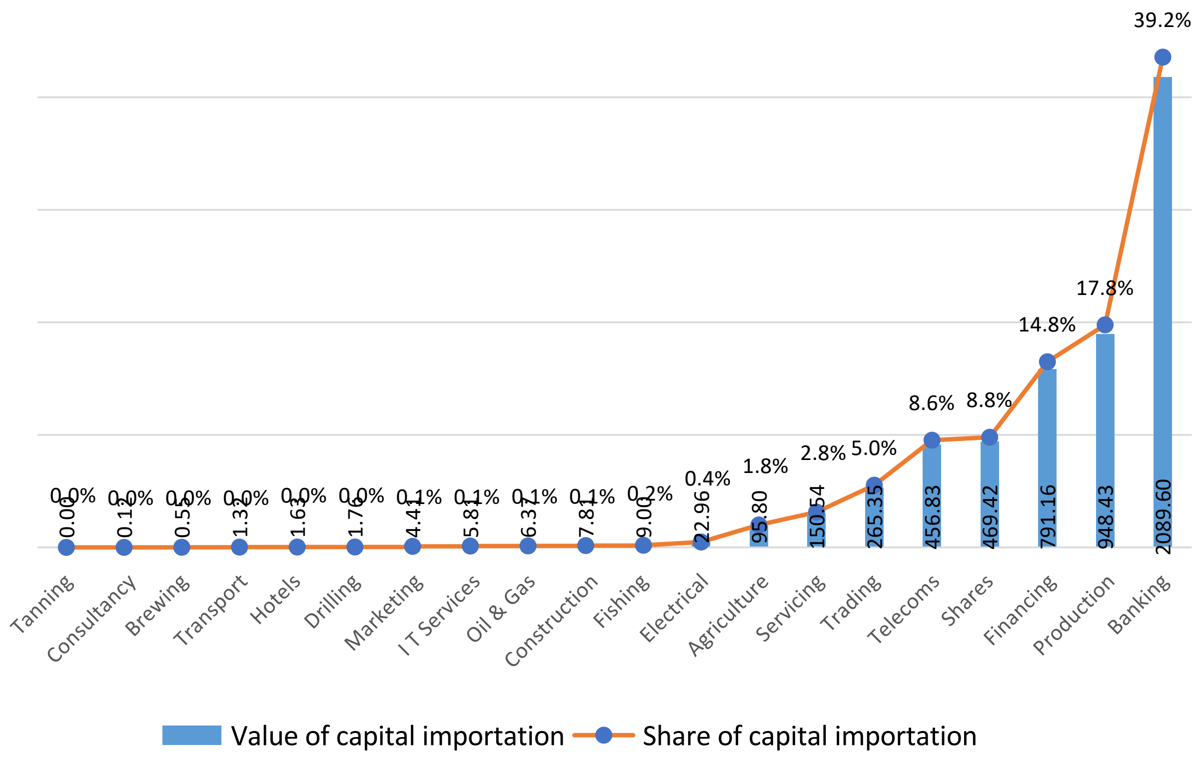
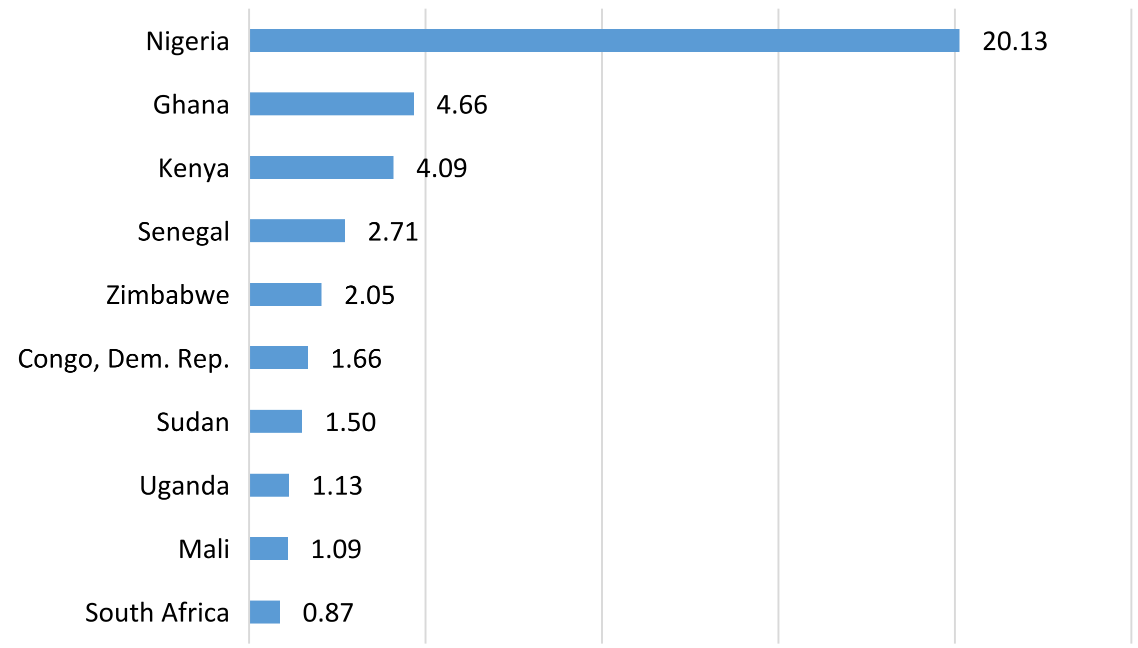


Figure 8:
Top remittance recipients in sub-Saharan Africa, 2022 ($ billions)
Source: World Bank Development Indicators and EnterpriseNGR analysis



Receiving large shares of capital importation

The largest capital importation in 2022 was received through the Financial Services sector. Of the total of $5.33 billion received during the year, the Banking sub-sector recorded the highest inflow of $2,09 billion, representing 39.2%, followed by Financing at 14.8% and Shares at 8.8% (Figure 7).[11]

Supporting the flow of diaspora remittances

Remittance inflows to Nigeria increased from $19.48 billion in 2021 to $20.13 billion in 2022 (Figure 8).[12] This positions the country as the highest recipient of remittances in sub-Saharan Africa. The inflow of remittances is facilitated by the Banking sub-sector, led by the Central Bank of Nigeria (CBN). Some of the policies initiated by the CBN to promote remittance inflows include the Naira-4-Dollar Scheme and others.

11 National Bureau of Statistics, 'Nigerian Capital Importation Q4 2022', (August 2023), available at https://nigerianstat.gov.ng/elibrary/read/1241308

12 See Footnote 9.

Supporting businesses and livelihoods

Enabling improved access through technology-enabled channels

The ease of access, convenience of use, speed, and other benefits of technology-enabled channels continue to attract more consumers, resulting in a remarkable decline in the use of traditional channels and an increased use of digital solutions. In 2022, there were 4.1 million transactions valued at ₦3.2 trillion conducted through cheques, compared to 10.8 million transactions valued at ₦5.4 trillion in 2017 (Figure 9)[13]. As of Q3 2023, 1.08 million transactions valued at ₦765.89 billion have been conducted.

13 Nigeria Inter-Bank Settlement System, 'Industry Statistics', (December 2023), available at https://nibss-plc.com.ng/industry-stat/

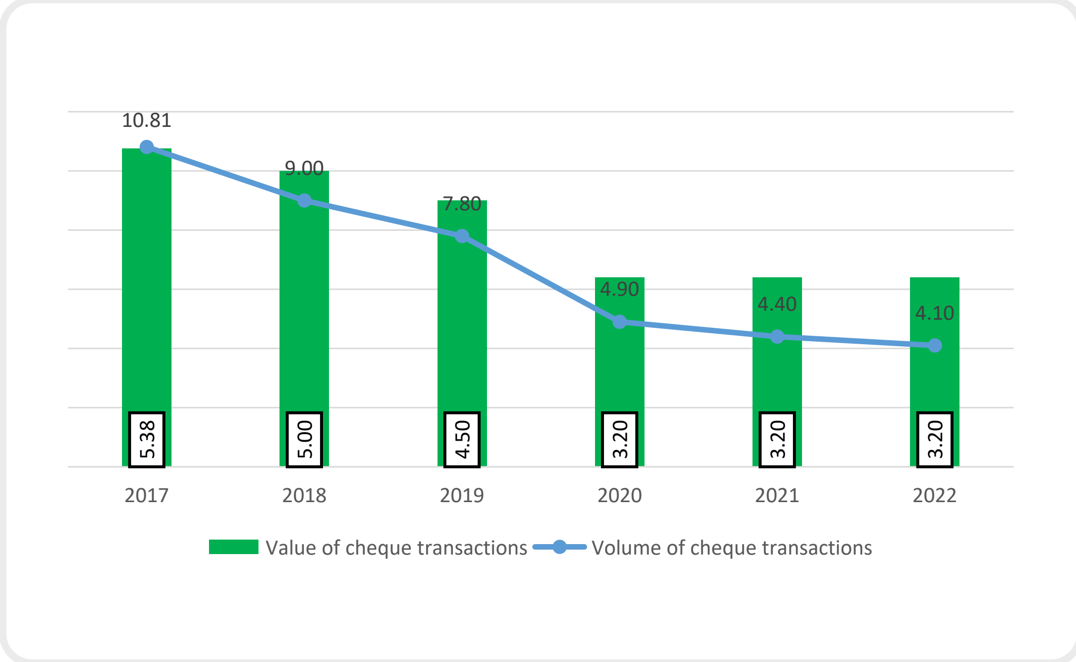


Figure 9:
Cheque transactions, 2017-2022 (₦ trillions)
Source: Nigeria Inter-Bank Settlement System (NIBSS) and EnterpriseNGR analysis

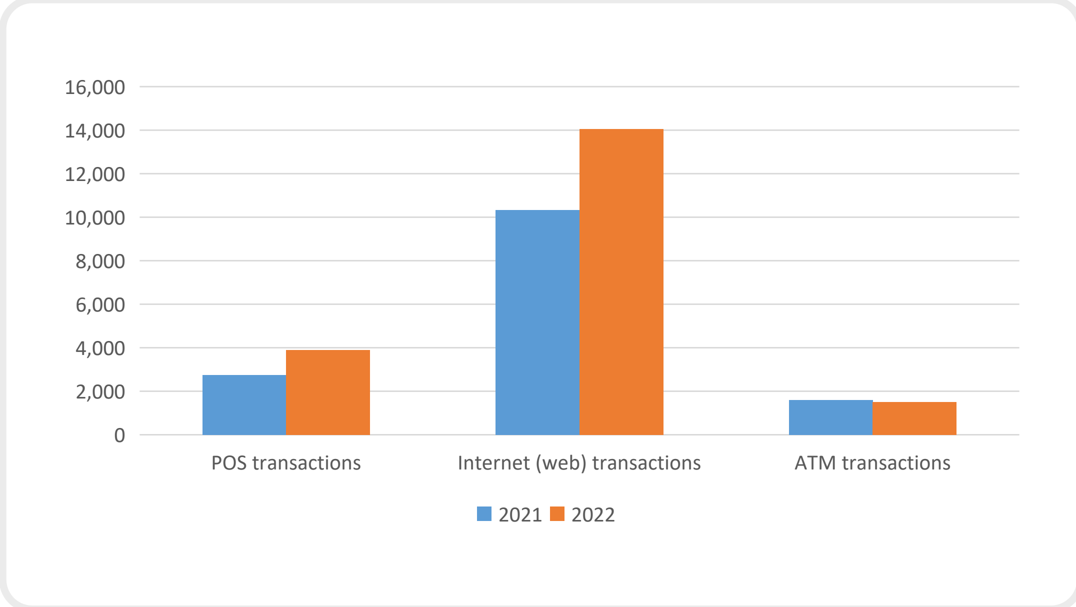


Figure 10:
Digital/online transactions, 2021-2022 (millions)
Source: Central Bank of Nigeria and EnterpriseNGR analysis

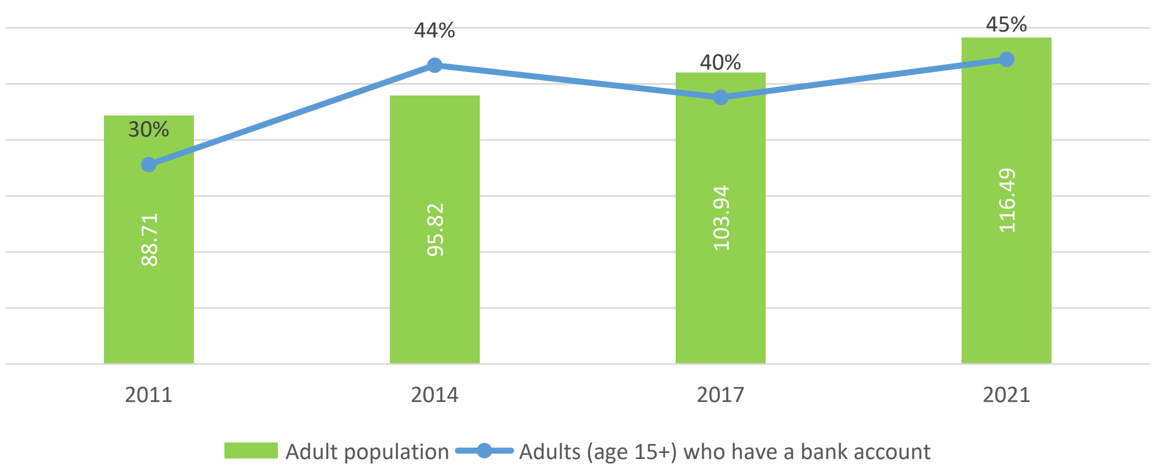
Digital payment systems are becoming a staple across Nigeria's social classes. The cash crunch at the end of 2022 accelerated this adoption of digital channels. The trends show an increasing use of POS machines and web-based platforms. The volume of POS and web-based transactions grew by 41.6% and 36.3%, respectively (Figure 10)[14]. According to NIBSS,[15] there has been a significant growth in the volume of POS in Q1 2023, with an increase of 33.7% compared to the volume recorded in 2022, and web-based platforms experienced a higher growth rate of 48.8% during the same period.

14 Central Bank of Nigeria, 'E-Payment Statistics', (August 2023), available at https://www.cbn.gov.ng/Paymentsystem/ePaymentStatistics.asp
15 See Footnote 13.

Table 1: Growth in digital/online transactions 2018-2022
Source: Nigerian Inter-Bank Settlement System and EnterpriseNGR analysis

	2018	2021	2022	Growth 2018/2022	Growth 2021/2022
Volume of e-bills payment transactions (millions)	1.1	1.1	2.8	154.55%	154.55%
Value of e-bills payment transactions (₦ trillions)	0.5	2.2	2.6	420.00%	18.18%
Volume of mobile money (millions)	87.1	284.5	714.6	720.44%	151.18%
Value of mobile money (₦ trillions)	1.8	7.1	19.4	977.78%	173.24%

Figure 11:
Proportion of the adult population with a bank account (millions)
Source: The World Bank and EnterpriseNGR analysis



More surprising has been the exponential growth in the volume of e-bill payments and mobile money transactions between 2021 and 2022, which grew by 154.55% and 151.2%, respectively.

Bridging financial inclusion gaps

In 2021, 45% of adult Nigerians were banked, compared to 30% in 2011.[16] Despite 15% growth in a decade, the performance is not impressive considering the 31.3% growth in the total number of adults in the country during the same period (Figure 11). This suggests an urgent need to extend financial services' reach in the country.
These findings also reflect the fact that financial institutions need to extend the reach of services to remote/rural locations that lack physical bank branches, as the percentage of the adult population with a bank account in rural regions stood at 34% compared to the 54% in urban areas (see Figure 12).

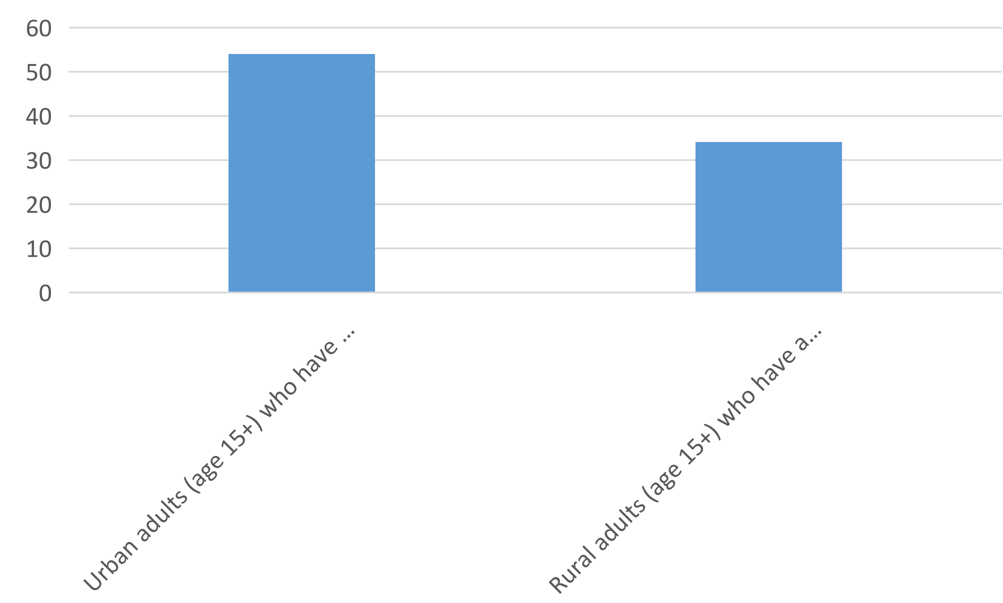


Figure 12:
Percentage of adults with a bank account in urban and rural areas, 2021
Source: The World Bank and EnterpriseNGR analysis

16 See Footnote 9

Conclusion

The Banking sub-sector's significant contribution to the performance of the Nigerian economy must be emphasised and much efforts are still required for significant growth. The following measures are recommended to address challenges and improve the role of Nigerian Banking in the economy,

Shortage of talent:

Banking is one of the sub-sectors that feels the impact of 'Japa syndrome' most, along with the lack of employable skills among graduates. The Nigerian Universities Commission (NUC) should collaborate with educational institutions to design comprehensive curriculums that equip students with practical, job-ready skills tailored to the Banking sub-sector's needs.
Banks, in turn, should institute policies focusing on skills development and training talent with specialised industry skills, a responsibility traditionally assigned to universities. Banks can foster talent growth and retention by providing challenging work environments for employees, embracing global best practices, such as offering remote working options, promoting work-life balance, providing basic clinical check-ups, offering on-site childcare facilities, ensuring competitive compensation, and offering self-growth-oriented incentives. While these incentives are appealing, more is needed to retain talent. Governments should consider substantial investments in healthcare and social infrastructure to create an environment in which talented individuals are incentivised to stay rather than emigrate. This holistic approach will not only benefit the Banking sub-sector, but will also strengthen the nation's human capital, contributing to overall economic growth and development.

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Undercapitalisation, exacerbated by currency devaluation, has been a significant concern for the Banking sub-sector. Regulators must take proactive measures to guarantee that banks maintain a minimum capital adequacy ratio sufficient to establish a financial buffer.

High cost of doing business and poor macroeconomic environment:

In Nigeria, it is no longer news that undesirable macroeconomic indices significantly impact the cost of doing business. The government has a pivotal role to play in mitigating these challenges by resolving critical issues such as power supply and exchange rates. Additionally, the government should focus on infrastructure development, fostering an enabling business environment.

Undercapitalisation:

Undercapitalisation, exacerbated by currency devaluation, has been a significant concern for the Banking sub-sector. Regulators must take proactive measures to guarantee that banks maintain a minimum capital adequacy ratio sufficient to establish a financial buffer. No institution should be allowed to operate below this minimum standard, and regulators should rigorously monitor and enforce compliance. Regulators should ensure that the capital base aligns with the scale and nature of the business operations of every financial institution.

Regulatory roadblocks/ disincentives:

In banking, some policies and regulations support growth, while others do not. To create a more conducive regulatory environment, it is imperative to foster increased collaboration with industry operators. This collaborative effort should aim at developing regulations and policies that are mutually favourable and conducive to the effective functioning of services. Also, the Central Bank of Nigeria (CBN) should focus on prioritising consumer protection over the interests of banks, thereby ensuring the well-being of financial service users. Additionally, there is a pressing need to bolster regulatory competence and efficiency to elevate the overall regulatory landscape in Nigeria.

Uneven growth:

There is uneven growth among different banking institutions, e.g. commercial banks versus mortgage banks, as well as among services, such as payment versus credit. These can be attributed to many factors, including low expansion of services and poor purchasing power. To address these issues, deliberate efforts must be made to expand services and enhance (financial) inclusion. Leveraging FinTech innovations can play a pivotal role in achieving this goal. Moreover, empowering individuals economically is essential, as it leads to increased productive activities and higher incomes that can be allocated to various financial services needs.

Inadequate credit to the productive sector:

Lack of credit to the productive sector stifles growth. To address this, regulators and operators should encourage the development of bankable projects. It is important to focus on project development and packaging in a manner that renders them appealing to investors. In addition, Commercial Banks should not be the major finance option for the productive sector; investors should be able to source credit from Development Finance Institutions and other channels that regulators can facilitate.

Lack of individual identification and adequate credit history:

The absence of a comprehensive national database still limits efficient and widespread services in the sub-sector. There is a crucial need for the harmonisation of all national databases. The consolidated database should be accessible to all relevant stakeholders and serve as a comprehensive resource for managing the credit histories of potential borrowers. Such harmonisation can significantly enhance efficiency while reducing redundancy in data management processes through regular updates. This unified database must be subject to continuous regulatory oversight to ensure its accuracy, security, and effectiveness in facilitating business decisions.

Innovation is no longer new to Banking. However, this should be spread wider to drive growth in all performance areas, such as customer experience and cost reduction. This challenge can be resolved by establishing innovation hubs and knowledge zones in every state, extending to local government areas.

Low spread of innovation:

Innovation is no longer new to Banking. However, this should be spread wider to drive growth in all performance areas, such as customer experience and cost reduction. This challenge can be resolved by establishing innovation hubs and knowledge zones in every state, extending to local government areas. Concurrently, we must invest in an education system that can support capacity-building and nurture the talent necessary to drive innovation. Incentivising innovation should be a priority, and encouraging Nigerians to embrace locally-made products will improve the supply of innovative offerings and consequently spread innovation. Competitive environments serve as fertile ground for innovation. It is imperative for regulators to actively promote competition within the Banking sub-sector.

Insurance

The Insurance sub-sector's performance in 2022 shows that the sub-sector continues to offer protection against damages and loss of assets and provide investable funds to the economy, albeit in limited amounts.

Key Facts

Insurance sub-sector's contribution to GDP

0.4% — 2022
0.37% — 2021
0.36% — 2020

Industry's total assets

2021 ₦2.2trn
2022 ₦9.2trn

+313.1%
GROWTH

Gross premiums

2021 ₦631.4bn
2022 ₦1.9trn

+201%
GROWTH

The Nigerian Insurance sub-sector has experienced a significant increase in both assets and gross premium income in the last few years.

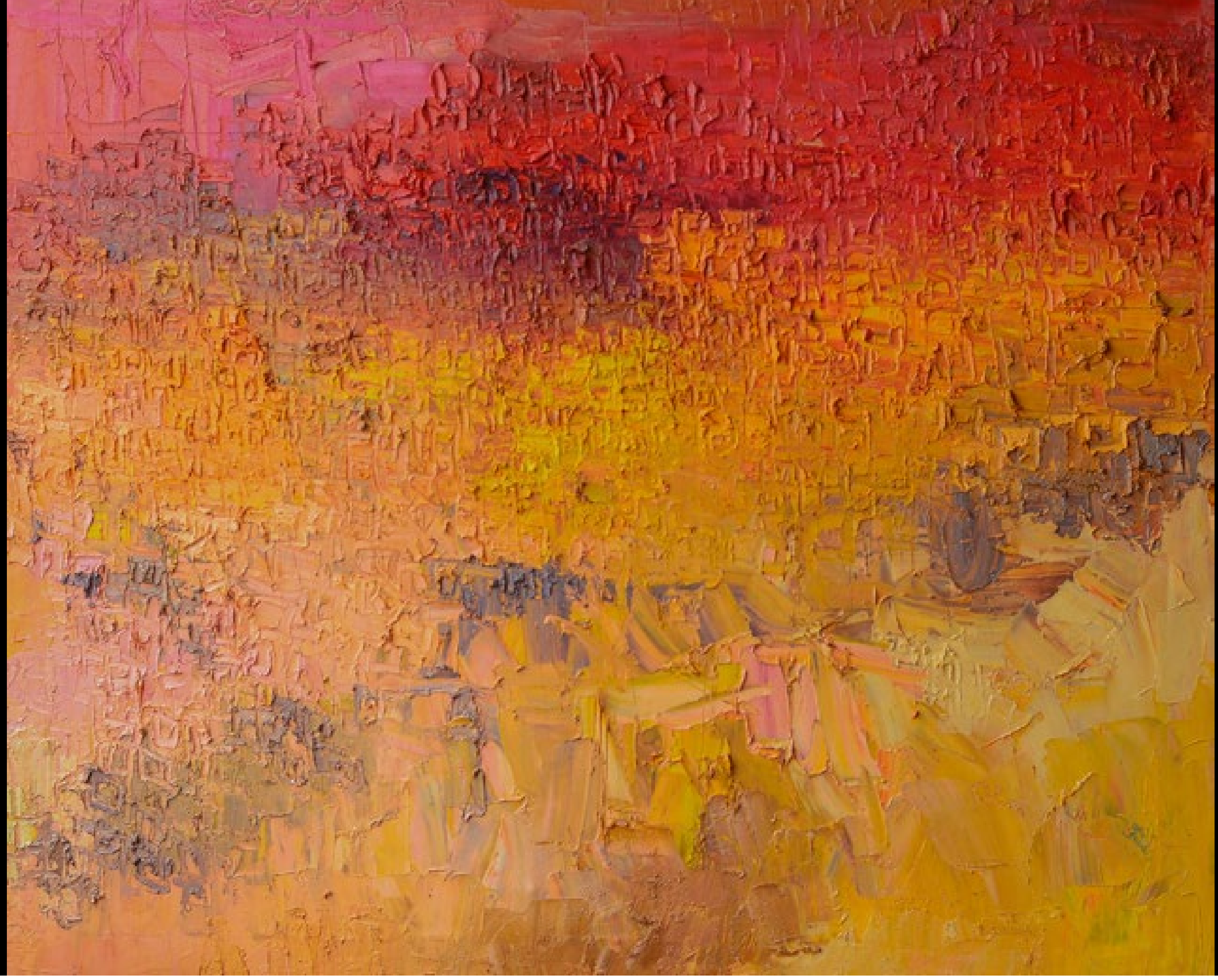
Gross claims paid out

2021 ₦323.8bn
2022 ₦844.5bn

+160.8%
GROWTH

Claim ratio

45.6% — 2022
51.3% — 2021



Duke Asidere, Freedom, oil on canvas, 24 x 36 inches, 2017

Providing protection against losses

Providing protection against damages and loss of assets

The Insurance sub-sector achieved moderate performance for many years up until 2022, when the sub-sector's gross premium income grew more than three times the performance recorded in the previous year, increasing from ₦631.4billion in 2021 to ₦1.9 trillion in 2022 (Figure 13).[17] A much higher growth is expected in 2023, considering ₦862.9 billion already recorded as of Q2 2023. The significant growth in gross premium income can be linked to regulation changes by the National Insurance Commission (NAICOM) that hike premium rates for certain policies covering marine and fire businesses, etc.

17 Computed using National Insurance Commission data of various periods; see National Insurance Commission 'Bulletin of the Insurance Market Performance', (December 2023), available at https://www.naicom.gov.ng/publications

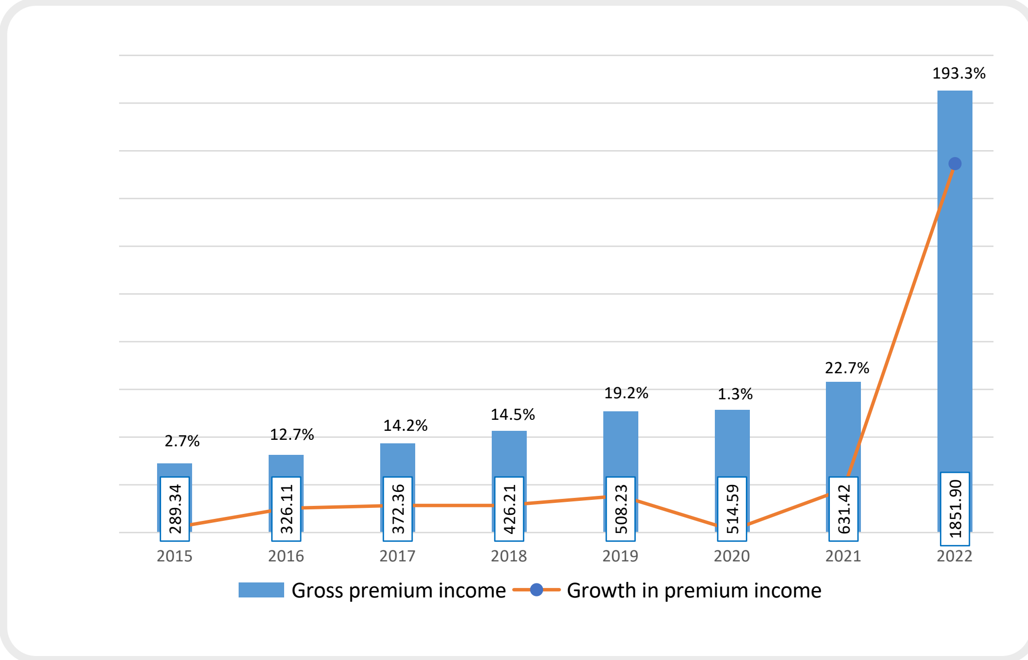


Figure 13: Gross premium income and growth, 2015-2022 (₦ billions)
Source: National Insurance Commission and EnterpriseNGR analysis

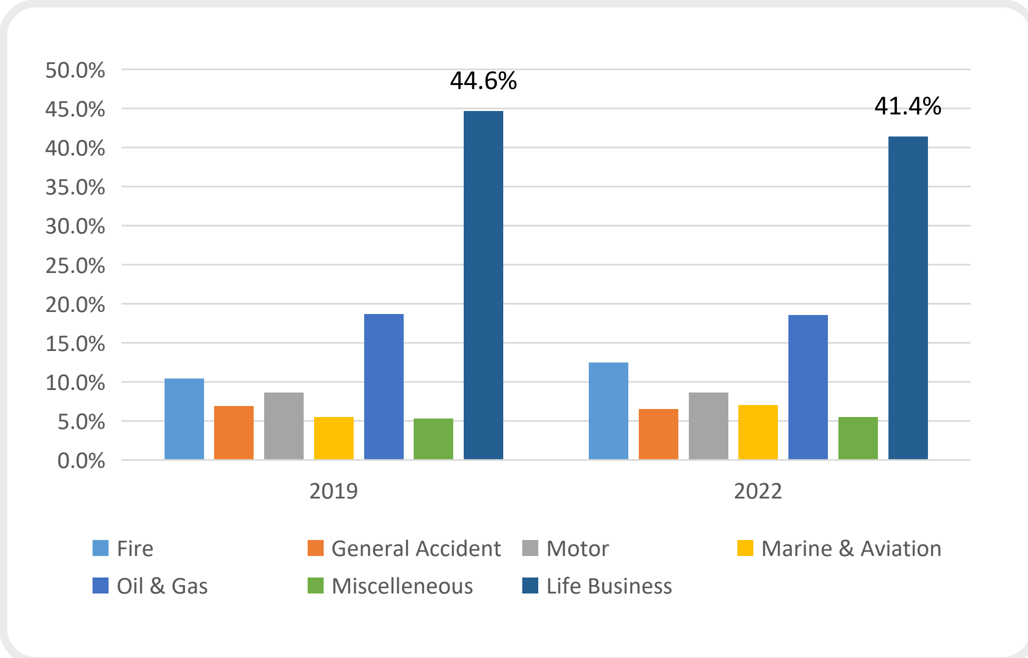


Figure 14: Share of gross premium income across insurance categories, 2019 and 2022
Source: National Insurance Commission and EnterpriseNGR analysis

Life insurance constitutes a significant portion in premium income (Figure 14). While this indicates increasing interest by Nigerians in protecting themselves and family members from future losses, it also means that life Insurers can make noteworthy long-term investments in Nigeria's economy.

The sub-sector recorded a marked increase in gross claims, from N323.8 billion in 2021 to N844.5 billion in 2022 (Figure 15)[18].However, the claim ratio[19] declined to 45.6%, below the 51.3% experienced in 2021. The growth in gross claims might be higher in 2023, considering that over ₦ 345.7 billion has been recorded as of Q2 2023. The increase in gross claims can be attributed to the growing appreciation of the need for insurance among Nigerians.

18 See Footnote 17.
19 Claims ratio is the percentage of gross claims in proportion to gross premium income.

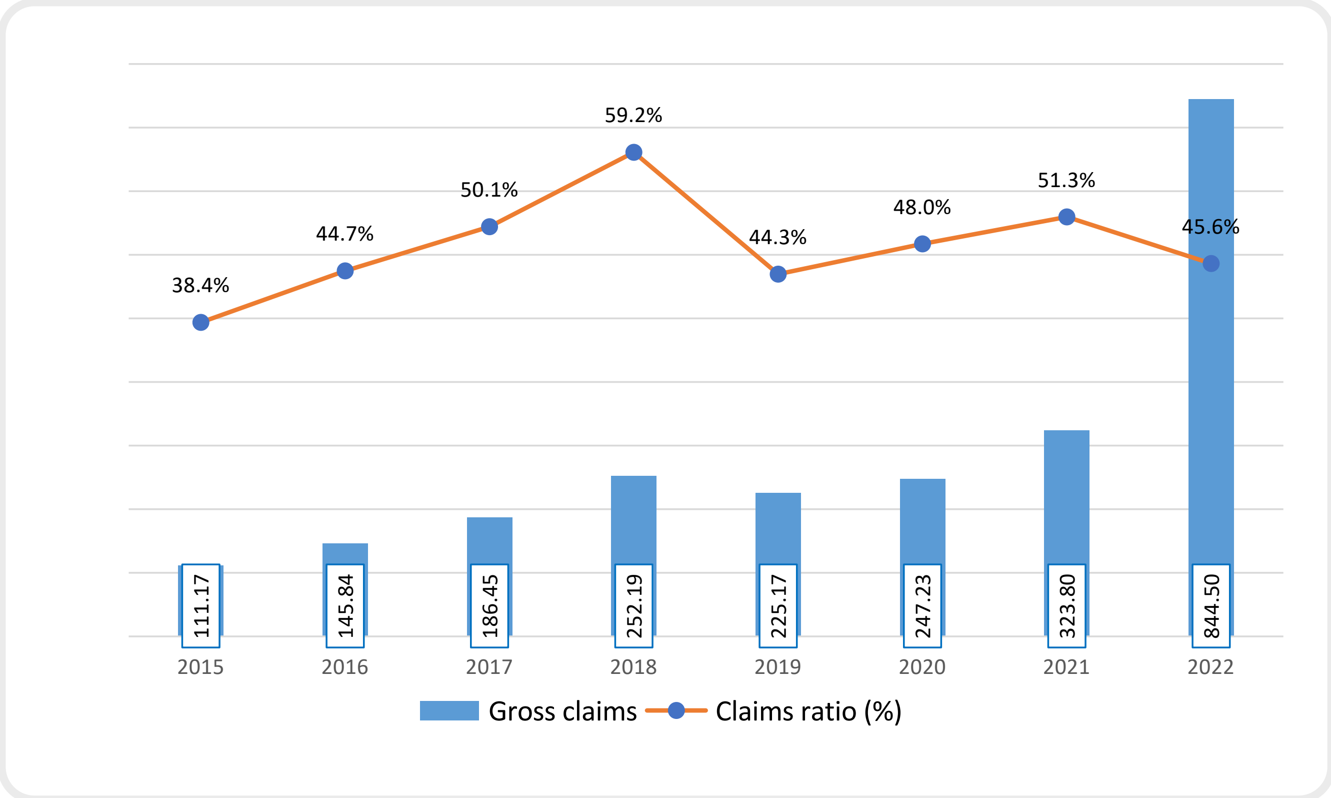


Figure 15:
Gross claims paid, 2015-2022 (₦ billions)
Source: National Bureau of Statistics and EnterpriseNGR analysis

Ensuring good health management

Nigeria's current health expenditure (CHE) report[20] shows that for the decade 2010 to 2020, the bulk of health expenditure was financed by out-of-pocket household spending, ranging between 76.9% and 74.7%. The share of out-of-pocket spending in total health expenditure has remained relatively unchanged, even with the increasing number of health maintenance organisations (HMOs) providing health insurance. Increasing the number of enrolments with HMOs can significantly drive down national out-of-pocket spending.

20 World Bank World, 'Development Indicators', (September 2023), available at https://databank.worldbank.org/reports.aspx?source=2&series=SH.XPD.OOPC.CH.ZS&country=NGA#

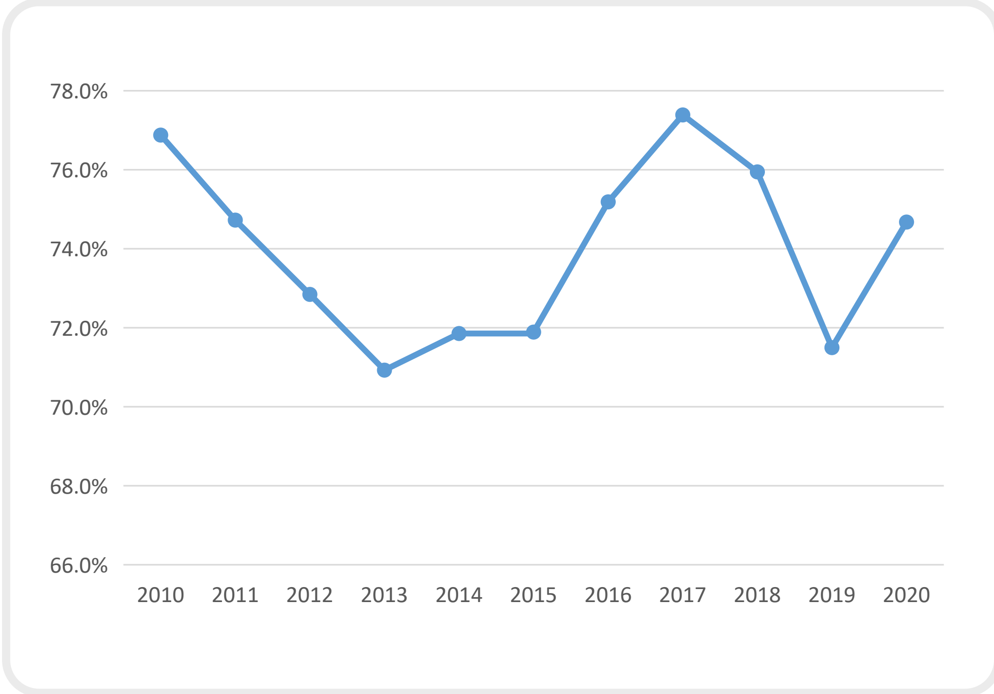


Figure 16:
Out-of-pocket expenditure (% of current health expenditure)
Source: The World Bank and EnterpriseNGR analysis

Providing funding and contributing to employment generation

Providing investible funds to the productive sector

The Nigerian Insurance sub-sector has experienced a significant increase in both assets (Figure 17) and gross premium income in the last few years. This suggests that the sub-sector has the potential to strengthen its contribution to national growth through the provision of investible funds.

However, the expansion in assets and premium income has not translated into a significant increase in investible funds for the economy. In the allotment of FGN bond issuance to different investor categories, Insurance's share was 3% in 2019 and 1% in 2020 (Figure 18).[21] Insurance remains the least subscribed investor sub-sector in the sovereign sukuk, with only 0.08% share in 2022 (Figure 19).

21 Debt Management Office, '2020 Annual Report', (July 2022), available at https://www.dmo.gov.ng/publications/reports/dmo-annual-report-statement-of-accounts

Figure 17:
Total assets, 2015–2022 (₦ billions)
Source: National Insurance Commission and EnterpriseNGR analysis

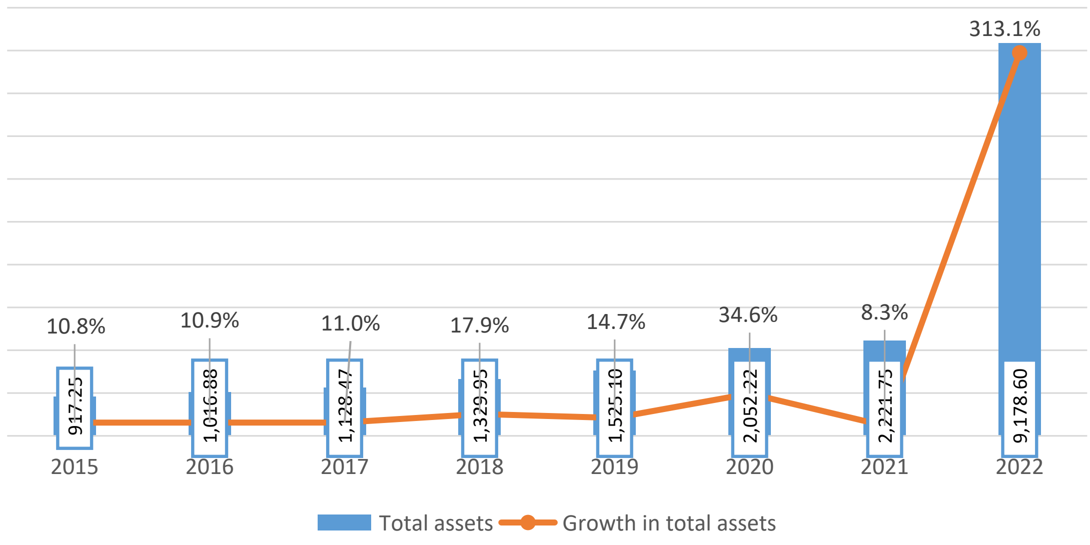
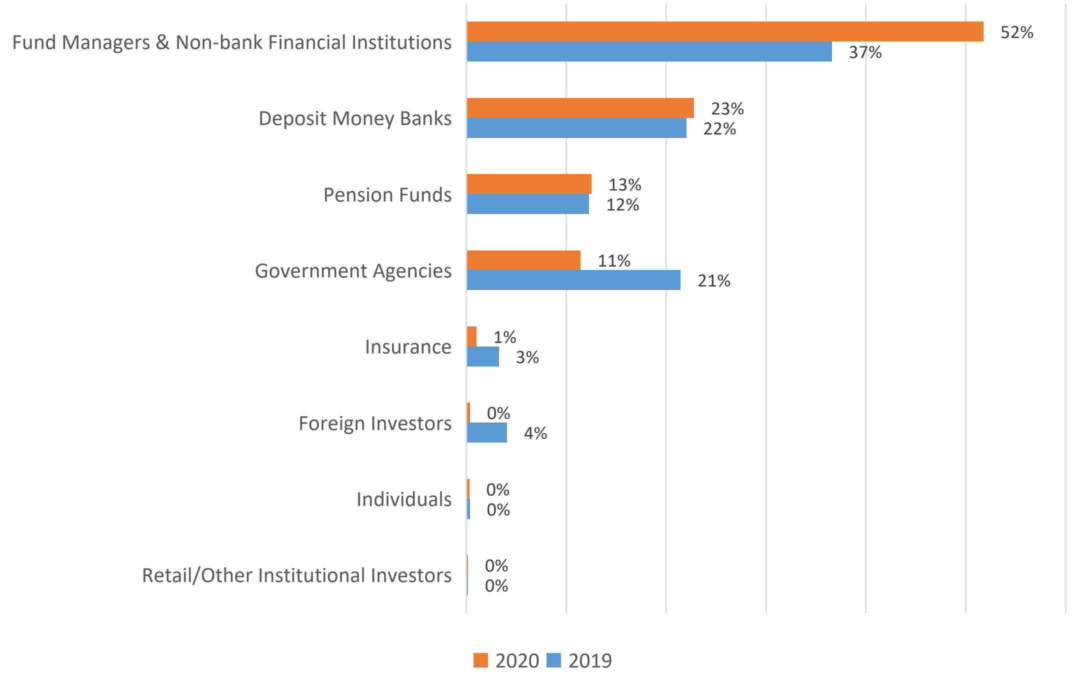


Figure 18:
FGN bond allotments by investor type, 2019 and 2020 (₦ billions)
Source: Debt Management Office and EnterpriseNGR analysis



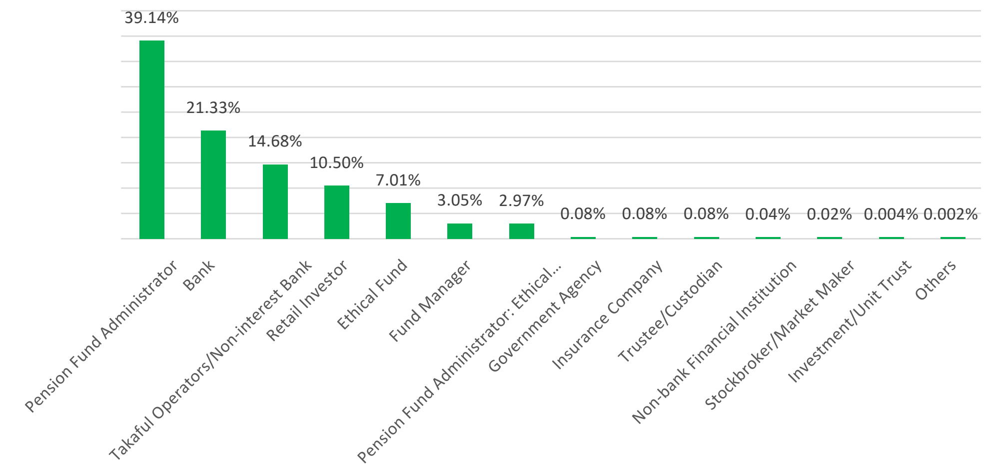


Figure 19:
Percentage of total allotment of sovereign sukuk, 2022
Source: Debt Management Office and EnterpriseNGR analysis

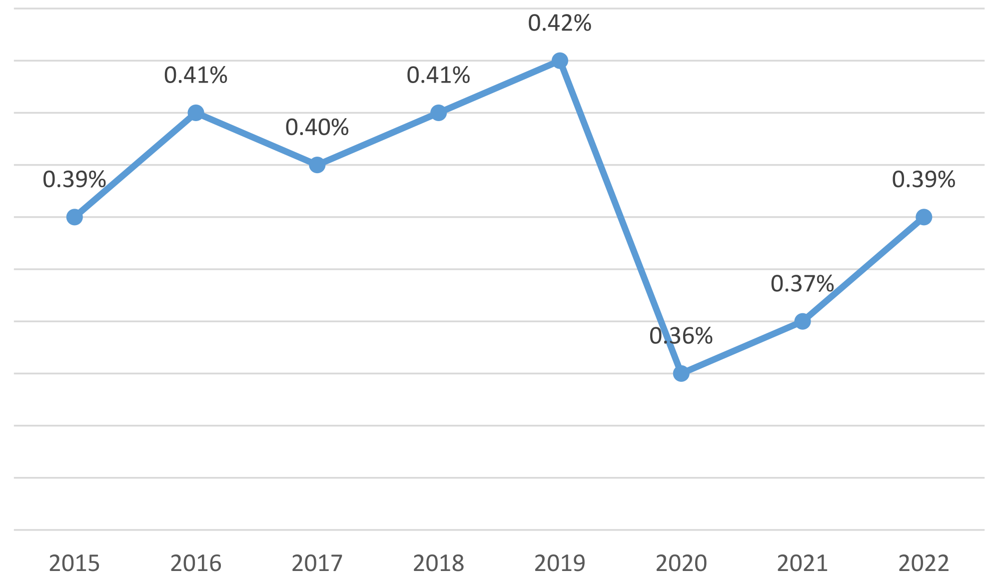


Figure 20:
Insurance sub-sector's contribution to GDP, 2015-2022
Source: National Bureau of Statistics and EnterpriseNGR analysis

Supporting the national economy

Over the past seven years, the Insurance sub-sector's contribution to GDP has remained at approximately 0.4% (Figure 20)[22].Its contribution declined from 0.42% in 2019 to 0.36% in 2020 and only increased to 0.37% in 2021. The estimate for 2022 shows a 0.02% basis-point increase over the previous year. Insurance has great potential, but significant effort is required to improve the low market penetration for a corresponding improvement in the sub-sector's contribution to economic growth.

22 Computed using National Bureau of Statistics GDP data of various years; see National Bureau of Statistics, 'E-library' (September 2023), available at https://nigerianstat.gov.ng/elibrary

Conclusion

The Nigerian Insurance sub-sector plays an important role in supporting a strong and resilient economy. Despite the growth potential of the sub-sector, evidence suggests it is still underperforming. The following are recommended actions to address key challenges in the sub-sector:

Low level of insurance literacy and awareness:

The sub-sector's low penetration rate is partly attributed to low literacy and awareness. Addressing this issue requires concerted efforts. The private sector should play a pivotal role in extending its outreach, providing education and raising awareness about insurance to bridge the knowledge gap.
In addition, there is an urgent need for advocacy within the Insurance sub-sector. Many individuals perceive insurance as immaterial, often influenced by negative experiences with early-generation insurers. Furthermore, the lack of readily-available credit options linked to insurance products has hampered industry penetration. Government intervention is essential to effect change.

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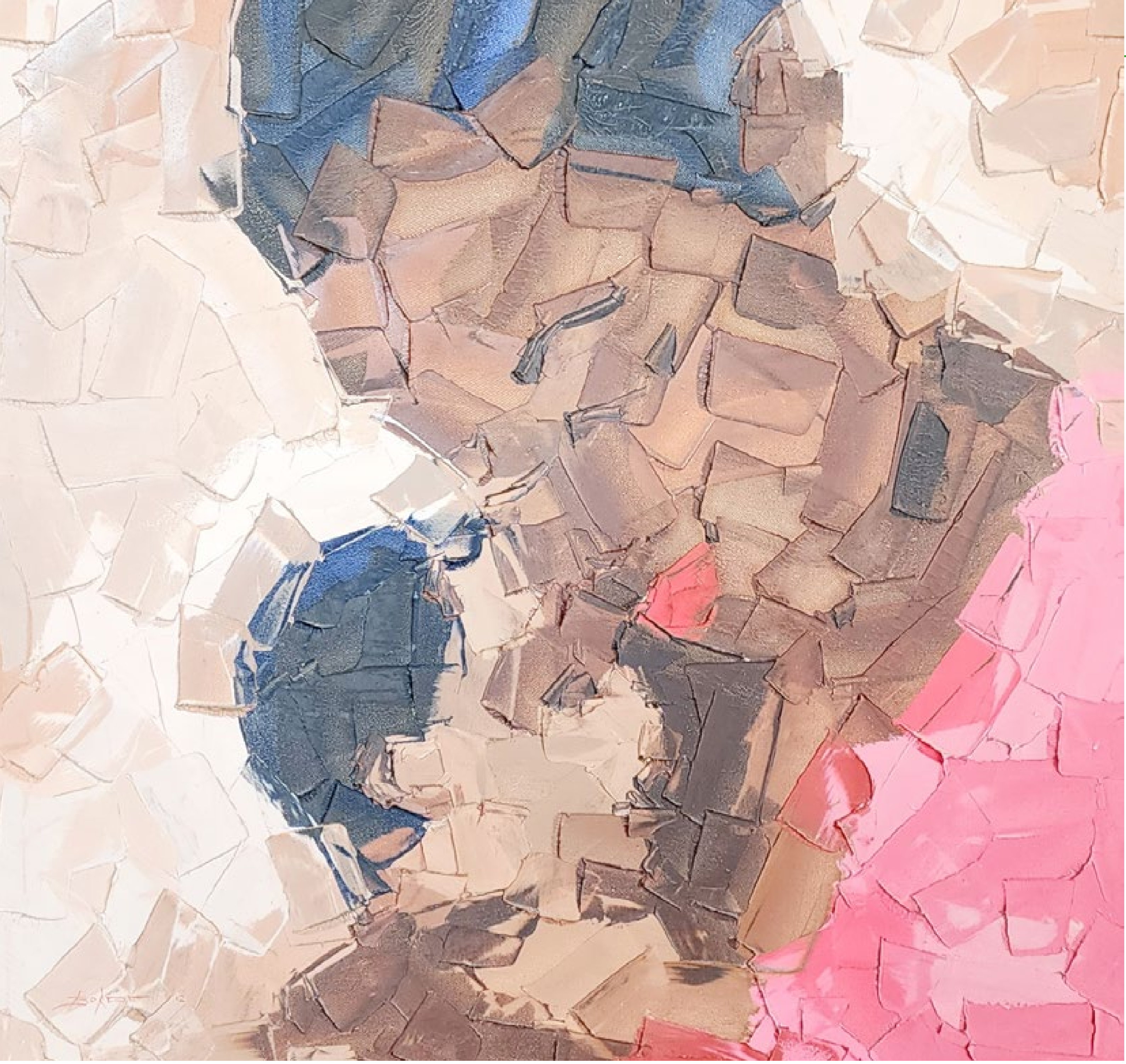
Poor collaboration and partnerships:

Collaboration within and outside the sub-sector is critical to growth and development, but this opportunity remains untapped. In partnership with operators, the regulator should establish and promote standardised rules and regulations that apply and benefit all insurance companies. Government intervention is pivotal. The government should consider making certain types of insurance mandatory, such as building, health, and asset insurance. Some state governments have already legislated these, but enforcement is still required. NAICOM should work closely with both state and federal governments to legislate and with law enforcement agencies, with the support of governments, to enforce different types of insurance.

NAICOM should collaborate with transport workers' associations to boost the adoption of motor vehicle insurance. Partnerships with governments and the Ministry of Education to implement group life insurance and personal accident insurance in educational institutions (at primary, secondary, and tertiary levels) should be explored.

The government should consider making certain types of insurance mandatory, such as building, health, and asset insurance. Some state governments have already legislated these, but enforcement is still required.



Maxwell, Sweet Mother, 48 x 48 inches, acrylic on canvas, 2012

Weak regulatory environment and lack of support from operators:

The Insurance sub-sector requires strong leadership by the regulators. It is imperative to enhance the competencies and capabilities within regulatory bodies. This will enable the effective implementation of appropriate regulations. Also, regulations should be designed to apply uniformly to all operators, ensuring that approval processes are not skewed to favour a select few companies. Considerations should be given to regulations that can enhance companies' operational efficiency and revenue generation while maintaining adequate risk management and protection.

Low technology adoption:

Not all insurance companies use technology equally. Regulators should take proactive steps to encourage the utilisation of technology in service delivery. This can be achieved by promoting the use of online platforms for policy settlements and facilitating the development of active online platforms that can seamlessly link to the NAICOM portal. In addition, regulatory authorities should focus on creating a competitive business environment that incentivises firms to embrace technology. Allowing technologically-inclined new entrants into the industry can serve as a catalyst for change, as their activities can displace incumbents and compel them to adopt technology-driven solutions. To further facilitate this transition, NAICOM should establish a register on its website that lists the technology platforms of all insurance companies. This initiative will encourage insurance companies to develop their technology capabilities and ensure they do not miss out on opportunities to showcase their businesses on the NAICOM website.

Unprofessional and corrupt practices:

Low trust and confidence persist in the insurance sub-sector due to unethical and unprofessional practices. NAICOM must take more proactive measures against corrupt practices. This requires the commission to strengthen its monitoring and supervisory functions to effectively identify and penalise those that violate regulatory guidelines. The Nigerian Insurers Association (NIA) has taken steps in the right direction by establishing a verification platform to authenticate insurance policies. Concerns about fake motor insurance policies still being sold in some places underscore the need for stricter oversight. Instituting significant penalties for unprofessional practices is imperative to discourage such behaviours effectively.

Undercapitalisation:

Low capitalisation in the Insurance sub-sector limits business, limiting the size of transactions and the quality of human resources to support business. NAICOM should consider the importance of insurance companies recapitalising to rejuvenate the industry's operations and services. Recapitalisation often triggers much-needed reforms within companies. For those unable to meet the new capital requirements, mergers between companies could be a viable option. NAICOM should assertively stand by its decision to ensure the effective implementation of capital base requirements.

Capital Markets

Capital Markets facilitate the generation and transfer of funds from surplus to deficit hands through the exchange of financial instruments such as stocks, bonds, debentures, and derivatives. The sub-sector facilitates and promotes access to finance for companies and governments.

Key Facts

Domestic transactions on the NGX in 2022

₦2.3trn

+22.4% 2021/2022 GROWTH

Foreign participation

16%

reduction compared to 23% increase in foreign participation in 2021.

All-Share Index

2021 42,716.44

2022 51,251.06

+19.98% 2021/2022 GROWTH

Companies listed

154

Companies listed on NGX as of 2022; 152 as of 2021

NGX total equity market capitalization

2021 ₦22.3trn

2022 ₦27.9trn

Q1 | 2023 ₦33.2 trn

Corporate bonds

15

Corporate bond issuances in 2022, versus 13 in 2021.

FMDQ fixed income market turnover

2021 ₦103.9trn

2022 ₦137.2trn

Capital inflows

2021 $6.7 bn

2022 $5.3bn

Infrastructure fund investments

Asset under management (AUM)

₦156.48bn

As of Q3 2022 versus N105.16 billion in 2021 (i.e. the whole year)

Number

10

As of Q3 2022 versus 7 in 2021

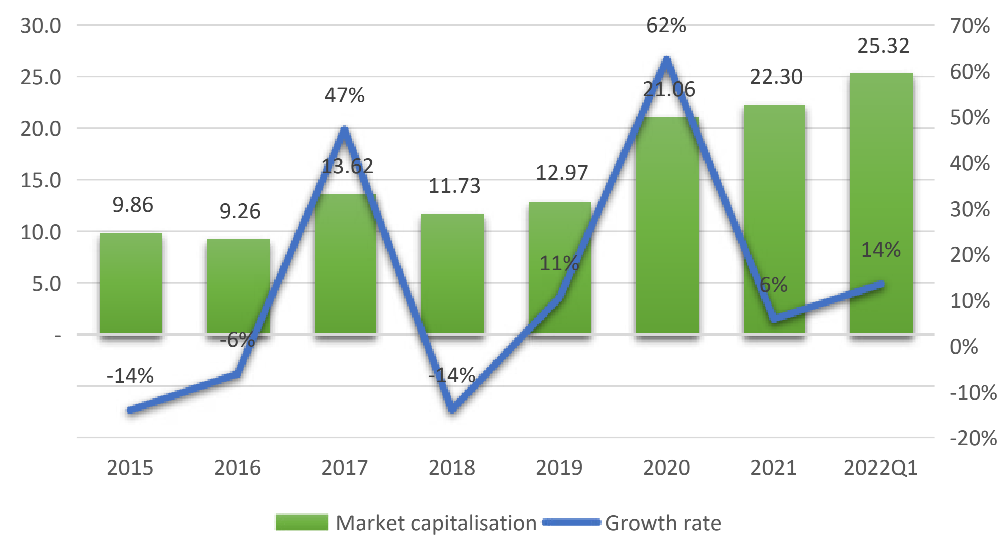
Facilitating growth through a supportive securities market

Promoting debt/equity finance

The Nigerian Exchange Group (NGX), the official stock exchange platform, has been instrumental in facilitating access to capital through equity and debt financing by corporates and investors. As of 2022, 154 companies were listed on the exchange across 12 sectors: Financial Services, Consumer Goods, Construction/Real Estate, Industrial Goods, Oil and Gas, Conglomerates, Services, Natural Resources, Healthcare, Agriculture, ICT, and Utilities. In addition, the FMDQ Exchange provides access to debt instruments.

Despite worsening macroeconomic conditions in 2022, the All-Share Index gained 19.98% to close at 51,251.06 pts, compared to 42,716.44 pts in 2021. Total equity market capitalisation grew to ₦27.9 trillion during the period and has increased to ₦33.2 trillion as of H1 2023[23] (also see Figure 21).[24] This underscores its increasing impact on the promotion of equity finance. During the period, there were notable corporate actions, including the listing of Geregu Power plc, ACCESSCORP's acquisition of a majority shareholding in Finibanco Angola SA, and Sigma Pensions Ltd and FBNH's acquisition of Access Pension Custodian Ltd.

Figure 21:
NGX market capitalisation, 2015 -2022 (₦ trillions)
Source: Nigerian Exchange Group and EnterpriseNGR analysis



23 Exchange Ltd, 'Market Reports – weekly report' (10 December 2023), available at https://ngxgroup.com/exchange/data/market-report/
24 Computed using data from NGX Fact Sheet of various years: see Nigerian Exchange Ltd, 'Market Reports Fact Sheet' (24 August 2023), available at https://ngxgroup.com/exchange/data/market-report/

Figure 22:
Market returns of major equity indices, 2022
Source: Bloomberg and Meristem Research

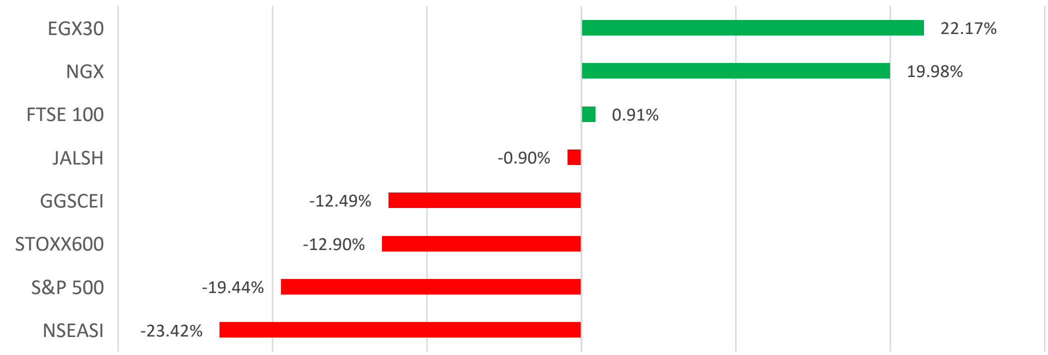
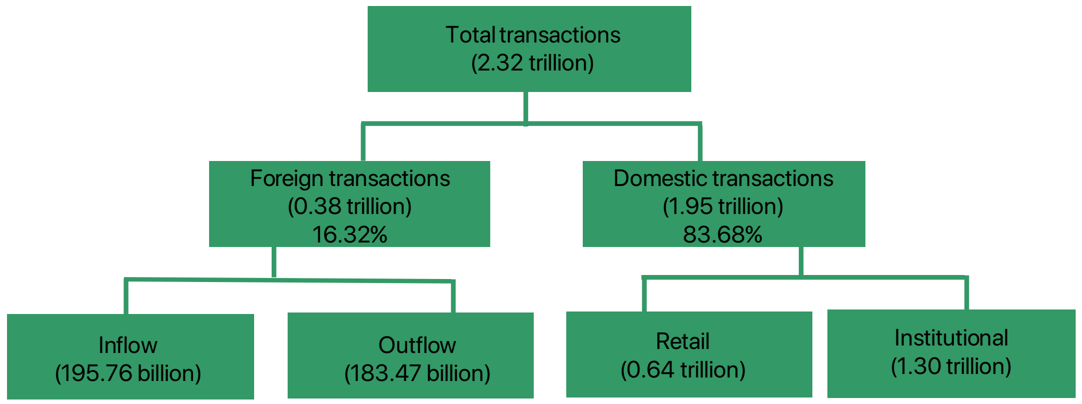


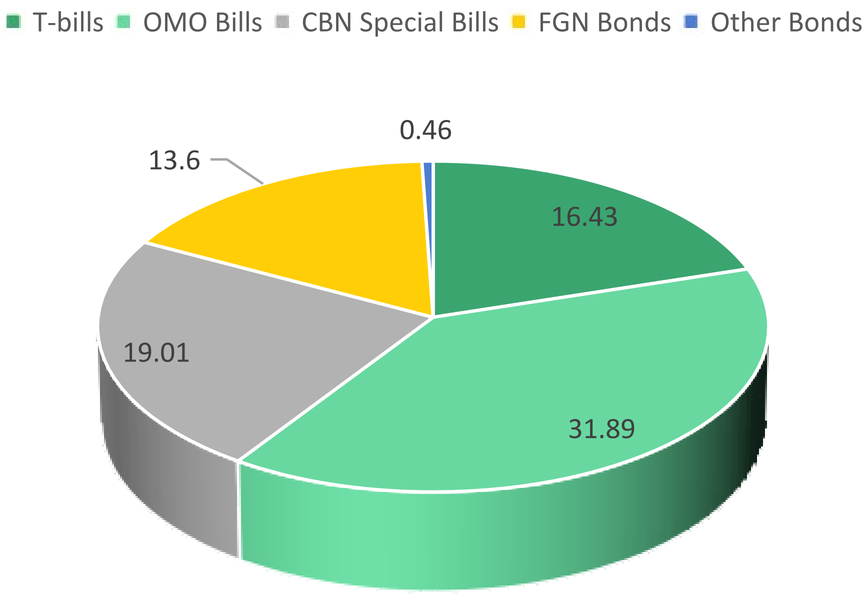
Figure 23:
Breakdown of equity transactions, 2022 (₦)
Source: NGX and Meristem Research



Total transactions on the local bourse for 2022 amounted to ₦2.3 trillion (22.4% higher than the 2021 (Figure 23)[25].However, there was reduced foreign participation during the period (approximately 16%) relative to the preceding year (approximately 23%), owing to the foreign exchange (FX) illiquidity and difficulty in repatriating investors' capital. In line with historical trends, domestic institutional investors account for more than half of transactions in the nation's bourse.The market witnessed increased participation in 2022, spurred by the consecutive rate hikes (500bps) and the Federal Government's affinity to finance its deficit through borrowings from the domestic debt market. According to data from FMDQ, fixed income market turnover in 2022 was ₦137.2 trillion,[26] compared to ₦103.9 trillion in 2021. There were also notable corporate bond issuances during the period (13 vs 15 in 2021). Additionally, there was an influx of commercial paper issuances mainly for refinancing and working capital needs.

25 Nigerian Exchange Ltd, 'Domestic and Portfolio Investment Report - December 2022' (August 2023), available at https://doclib.ngxgroup.com/market_data-site/other-market-information-site/FPI%20Report/NGX%20Domestic%20and%20Foreign%20Portfolio%20Investment%20Report-%20December%202022.pdf
26 FMDQ, 'Financial Markets Quarterly Report - Q4 2022' (August 2023), available at https://emarkets.fmdqgroup.com/market//Uploads/HistoricalOTCData/8717-Financial%20Markets%20Quarterly%20Report%20-%20Q4%202022.pdf

Figure 24:
Market turnover by product category in 2022 (₦ trillions)
Source: FMDQ and Meristem Research



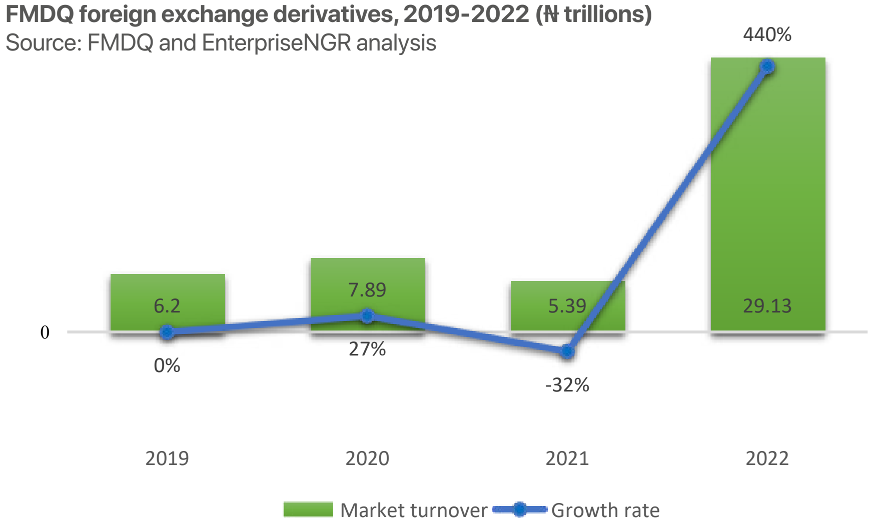
Promoting finance for capital projects and derivative markets

The capital markets, especially the domestic debt market, provide a platform for meeting long-term financing needs for capital projects. In 2022, a series of debt instruments for financing capital projects was issued.
As of Q3 2022, ten infrastructure fund investments with assets under management (AUM) totalling N156.48 billion were registered with the Securities Exchange Commission (SEC) compared to seven with AUM of N105.16 billion as of Q4 2021 (Figure 25).[27] The Nigeria Sovereign Investment Authority (NSIA), through the Nigeria Infrastructure Fund (NIF), was able to channel investments to various sectors of the economy.

Figure 25:
Infrastructure fund assets under management, 2019-2022 (₦ billions)
Source: Securities and Exchange Commission and EnterpriseNGR analysis

In April 2022, the NGX launched West Africa's first exchange-traded derivatives (ETDs) to promote Nigeria's sound and efficient derivatives market. FMDQ market turnover for foreign exchange derivatives increased by 348.15% between 2014 (₦6.5 trillion) and 2022 (₦29.1 trillion).[28] This reflects the increasing interest in derivative products in the country.

Figure 26:
FMDQ foreign exchange derivatives, 2019-2022 (₦ trillions)
Source: FMDQ and EnterpriseNGR analysis



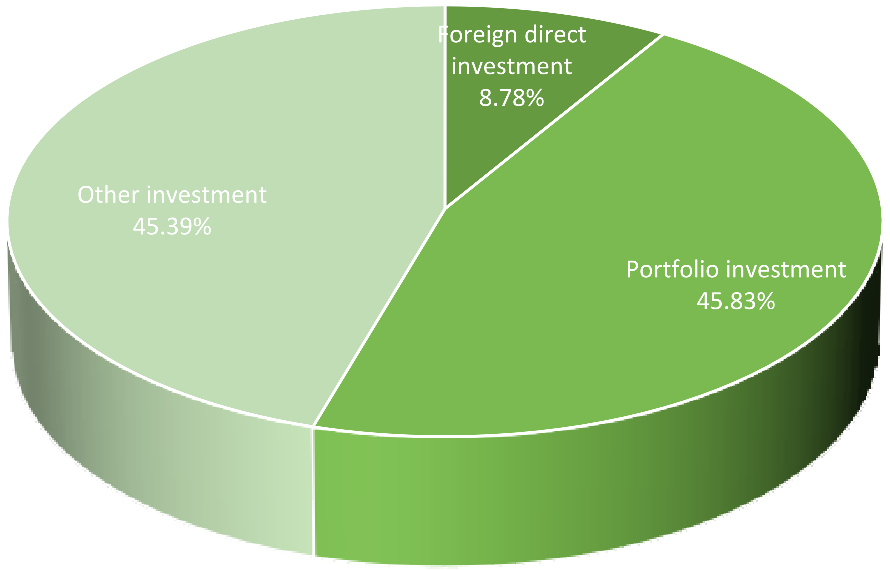
27 Securities and Exchange Commission, 'Quarterly Update on Private Equity and Infrastructure Funds,' (23 August 2023), available at https://sec.gov.ng/quarterly-update-on-private-equity-and-infrastructure-funds/

28 See Footnote 26

Facilitating foreign capital inflows

Despite declines in recent years, the capital market has been a major contributor to capital inflows, creating an enabling environment for investors. After peaking in 2019 at $23.9 billion, capital inflows have steadily declined. The COVID-19 pandemic prompted capital flight away from the country. Following this, FX illiquidity and difficulties experienced in capital repatriation exacerbated the situation. Subsequently, total capital inflow plummeted by 20.5% to $5.3 billion in 2022, compared to $6.7 billion the previous year.[29] Foreign portfolio investment accounts for the most significant portion of inflows (five-year average of 58%).

Figure 27:
Contribution to foreign capital inflows, 2022
Source: NBS and Meristem Research



29 National Bureau of Statistics, 'Nigeria Capital Importation Report - Q4 2022' (August 2023), available at https://nigerianstat.gov.ng/elibrary/read/1241308

Conclusion

Despite their contributions to economic growth in Nigeria, the Capital Markets sub-sector is limited by key challenges. The following measures are recommended to effectively address these challenges to ensure sustained growth in the market:

Undercapitalisation and limited listing of securities:

Limited listing of securities on Nigeria's exchanges fuels gross undercapitalisation and comparatively low-based capital markets both on the continent and globally. Funding mechanisms for government institutions and assets can leverage capital markets to access finance. Both governments and regulators should facilitate this transition.

While the fixed-income market has witnessed some improvement in recent times, the equity market has underperformed in terms of listing. The large number of small companies in Nigeria, which constitute over 90% of registered companies, could expand market capitalisation if listed and traded. This requires regulators to formalise structures that would make such access seamless for all potential small organisations and specific target industries with potential, including Entertainment and Creative Arts and Manufacturing. Another way governments can facilitate increased capitalisation is by ensuring that preference is given to listed companies in the federal procurement system. Critical to the market's growth, and in addition to the measures mentioned above, the regulator should remove barriers to entry for potential issuers and reduce the burden placed on listed companies to fulfil their ongoing regulatory commitments.

Low level of innovation:

Through increased regulatory efforts, both structural (product) and operational (technology/process) innovations can be facilitated. As practised in some other markets, deemed approval, which permits innovators to align with regulatory requirements without going through a difficult approval process, will significantly increase product and service innovation turnaround time. While deemed approval increases the responsibility shouldered by innovators to ensure things are done with great caution, it will also ensure that regulations catch up with innovation faster.

Low participation rate:

Capital Markets record low inclusion rates, in common with other non-banking sub-sectors. To address low participation, regulators must first improve product innovation, and second, governments must improve key macroeconomic indices. "The choice between participation rates for products is a choice between safety and returns." Product segmentation that offers expansive choices to different market participants can improve participation rates and uptake. Addressing the population's

Through increased regulatory efforts, both structural (product) and operational (technology/process) innovations can be facilitated. As practised in some other markets, deemed approval, which permits innovators to align with regulatory requirements without going through a difficult approval process, will significantly increase product and service innovation turnaround time.

The government should consider making certain types of insurance mandatory, such as building, health, and asset insurance. Some state governments have already legislated these, but enforcement is still required.

Ben Osaghae, Rains keep no Calender, 60 x 60 inches, acrylic on canvas, 2013

purchasing power at the macroeconomic level can translate into more savings and investment. Improving the economic environment translates into a more predictable business environment with increased investor confidence. In addition, access to credit and margin funds, tax incentives, and competitive exchange rates will also improve participation.

Low spread:

Growth in local markets should extend to regional markets in Africa, but can only be facilitated if countries operate under unified laws. Hence, governments and regulators should work on standardising laws and regulations that will facilitate expansion to regional markets in Africa. The African Continental Free Trade Area (AfCFTA) presents major opportunities that should be leveraged to pursue the spread of the local markets.

Regulatory roadblocks/ disincentives:

Currently, not all policies and regulations are market enablers. In harmony with the need to support innovation and an agile business environment, capital market regulators and regulators in related industries, including the Securities and Exchange Commission (SEC), National Pension Commission (PENCOM), and National Insurance Commission (NAICOM), must ensure their regulations are congruent and promote their mutual interests.

Asset Management

The Asset Management sub-sector is a critical part of the Capital Markets ecosystem. The total value of global assets under management was estimated at $98.3 trillion in 2022, a decline of 9.5% over the previous year.[30] The decrease in 2022 is attributable to the frequent hikes by monetary authorities, which caused a reduction in the value of fixed-income and equity investments. This section provides insights into the Asset Management sub-sector's contributions in Nigeria. The sub-sector drives activities in the Capital Markets, promotes product diversification and facilitates investments.

30 Boston Consulting Group. 'Global Asset Management 2023: The Tide has Turned' (21 August 2023), available at https://web-assets.bcg.com/c8/97/bc0329a046f89c7faeef9ab6a877/bcg-global-asset-management-2023-may-2023.pdf

Key Facts

Value of 12 exchange-traded funds listed on the Nigerian bourse

2021 ₦6.8bn

Q2 | 2022 ₦7.2bn

Registered mutual funds

Net asset value

₦1.4trn

In 2022 versus ₦1.3 trillion in 2021 | 13.3% growth

Number

133

As of 2022 versus 120 as of 2021

Raised through FGN bonds

2022 ₦2.8 trn

Q3 | 2023 ₦4.5trn

Value of domestic retail investment in the Nigerian equities market

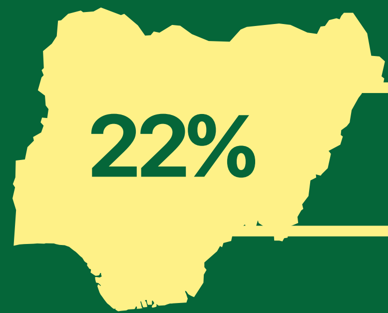
2021 ₦578.1bn

2022 ₦642.7bn

Q3 | 2023 ₦849.3bn

+11.18%

GROWTH 2021/2022



Nigeria remained the top African country in venture capital deals, attracting 22% of Africa's total venture capital deals.

Registered private equity funds

Total committed capita

₦65bn

As of Q3 2022, compared to ₦62.3 billion as of Q3 2021.

Value of investments

₦28.85bn

In Q3 2022, versus ₦31.3 billion as of Q3 2021

Assets under management

₦32.2bn

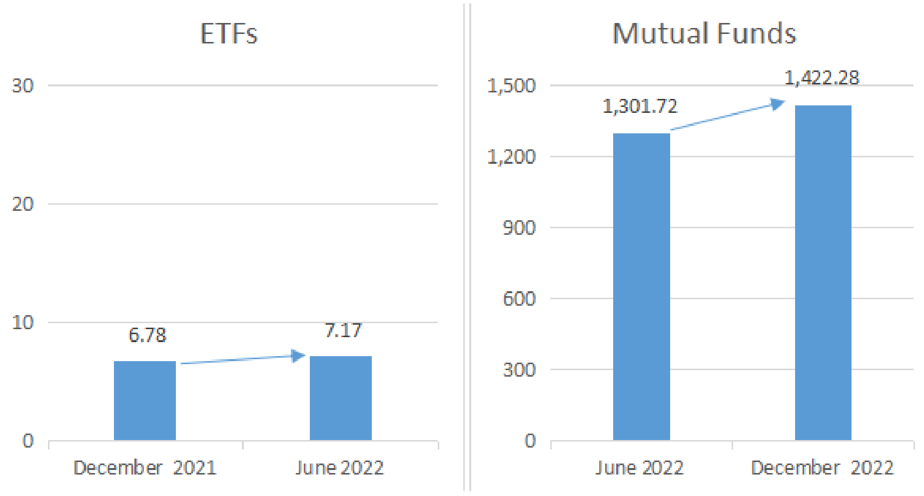
In Q3 2022, versus ₦38.5 billion as of Q3 2021

Promoting and supporting investment through a diversified market

Promoting varieties of investment activities in a diversified market

Beyond traditional investments, asset managers create tailored investments for their clients, including mutual funds and exchange-traded funds. As of Q2 2022, the net asset value of the 12 exchange-traded funds listed on the Nigerian bourse increased by 5.8% to ₦7.2 billion (from ₦6.8 billion in December 2021).[31] Furthermore, the Securities and Exchange Commission (SEC) reported that the number of registered mutual funds increased from 120 in 2021 to 133 in 2022, and the net asset value of mutual funds increased from ₦1.3 trillion to ₦1.4 trillion.[32]

Figure 28:
Net asset value of mutual funds and ETFs (₦ billions)
Source: SEC and Meristem Research



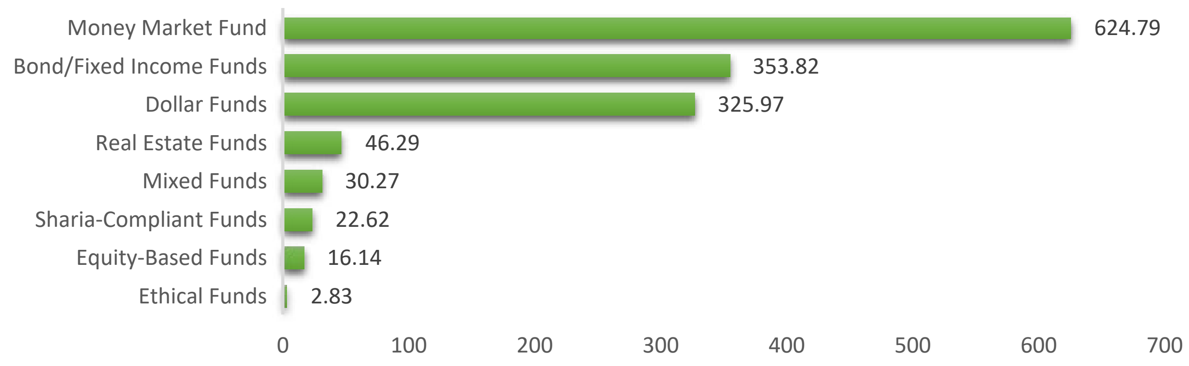
31 Securities and Exchange Commission, 'Monthly Net Asset Value of Exchange Traded Funds (ETFs)' (21 August 2023), available at https://sec.gov.ng/market-information/monthly-net-asset-valuenav-of-exchange-traded-fundsetfs/
32 Securities and Exchange Commission, 'Monthly Spreadsheet of Collective Investment Schemes', (21 August 2023), available at: https://sec.gov.ng/monthly-spreadsheet-of-collective-investment-schemes/

Supporting business and government through mutual funding

Given the shortfall in government revenue and soaring expenditure, the government has relied heavily on capital market funding. In 2022, the government raised ₦2.8 trillion through FGN bonds (approximately 16% and 43% of the total budget and deficit, respectively). In the first ten months of 2023, FGN raised ₦4.63trillion through bond issuance. In the first ten months of 2023, FGN raised ₦4.63trillion through bond issuance. In the corporate bonds market,[33] 11 companies received approvals to issue corporate bonds valued at ₦668.1 billion in 2022, compared to ₦369.8 billion in 2021,[34] providing long-term funding for businesses. Likewise, institutional players remained dominant in the equities market, making up 56% of total market activities.

Amid the dynamic landscape of business and governance, mutual funds emerge as a potent force for driving progress. As of December 2022, the market listed 133 mutual funds, a notable 13.3% increase from the 120 listed in 2021. These funds encompass a range of categories, including equity-based funds, money market funds, bond/fixed-income funds, dollar funds, real estate funds, mixed funds, ethical funds, and Sharia-compliant funds (Figure 29).[35]

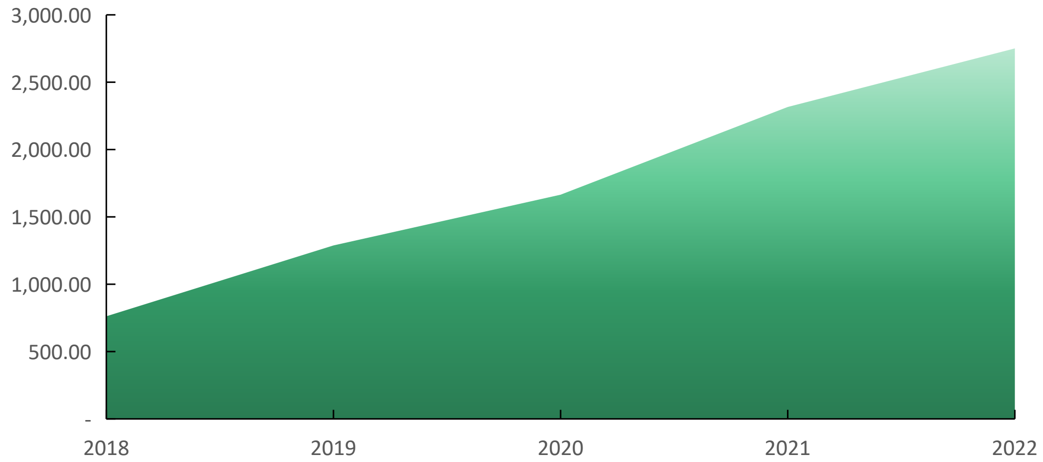
Figure 29:
Value of investments of mutual funds, 2022 (₦ billions)
Source: Securities and Exchange Commission and EnterpriseNGR analysis



Providing diversification and professional management without the need for expertise and knowledge makes mutual funds a convenient option for businesses and government. As such, money market funds (44%), bond/fixed income funds (25%), and dollar funds (23%) accounted for the most significant segments of the mutual funds market. Notably, the net asset value of mutual funds represented 2.5% of GDP as of 2022[36], an improvement from the 0.7% recorded in 2021.

33 Computed using Debt Management Office data: see Debt Management Office, 'Bonds Auction Results' (December 2023), available at https://www.dmo.gov.ng/fgn-bonds/bonds-auction-results
34 FMDQ, 'E-markets', (August 2023), available at emarkets.fmdqgroup.com/market/ViewHistoricalDQLExtended
35 See Footnote 32
36 Computed using National Bureau of Statistics 2022 GDP , see National Bureau of Statistics 'Nigerian Gross Domestic Product Report (Q4 2022)', (21 August 2023), available at https://nigerianstat.gov.ng/elibrary/read/1241288

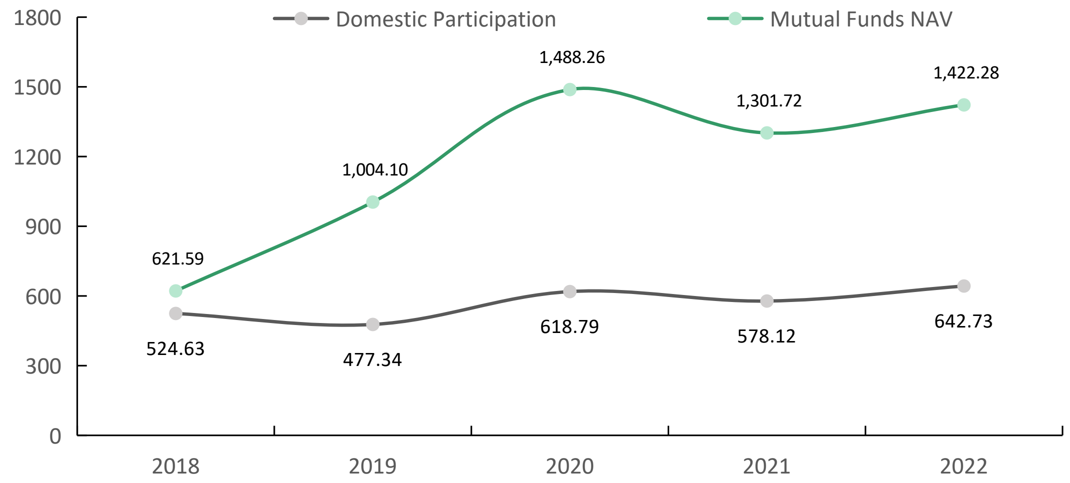
Figure 30:
Value of FGN bonds issued (₦ billions)
Source: DMO and Meristem Research



Supporting retail players' investment in securities

As asset managers continue the drive to democratise investments and to make them accessible to retail investors, the value of investment increases. The value of domestic retail investment in the Nigerian equities market increased by 11.18% to ₦642.7 billion in 2022, compared to N578.1billion in 2021.[37] As of Q3 2023, the value has increased by 33.7% to ₦849.3 billion. Also, as of Q3 2023, mutual funds unitholders totalled 666,129 [38] compared to 412,422 in Q4 2022, showing the increasing participation of retail players.

Figure 31:
Domestic participation on the NGX and mutual funds NAV (₦ billions)
Source: DMO and Meristem Research



37 Computed using Nigerian Exchange Limited reports: see Nigeria Exchange Limited, 'Market Report: Foreign Portfolio Investment Report' (December 2023), available at https://ngxgroup.com/exchange/data/foreign-portfolio-investment-report/
38 Securities and Exchange Commission, 'Weekly Net Asset Value Data for CIS' (10 December 2023), available at https://sec.gov.ng/weekly-net-asset-value-data-for-cis/

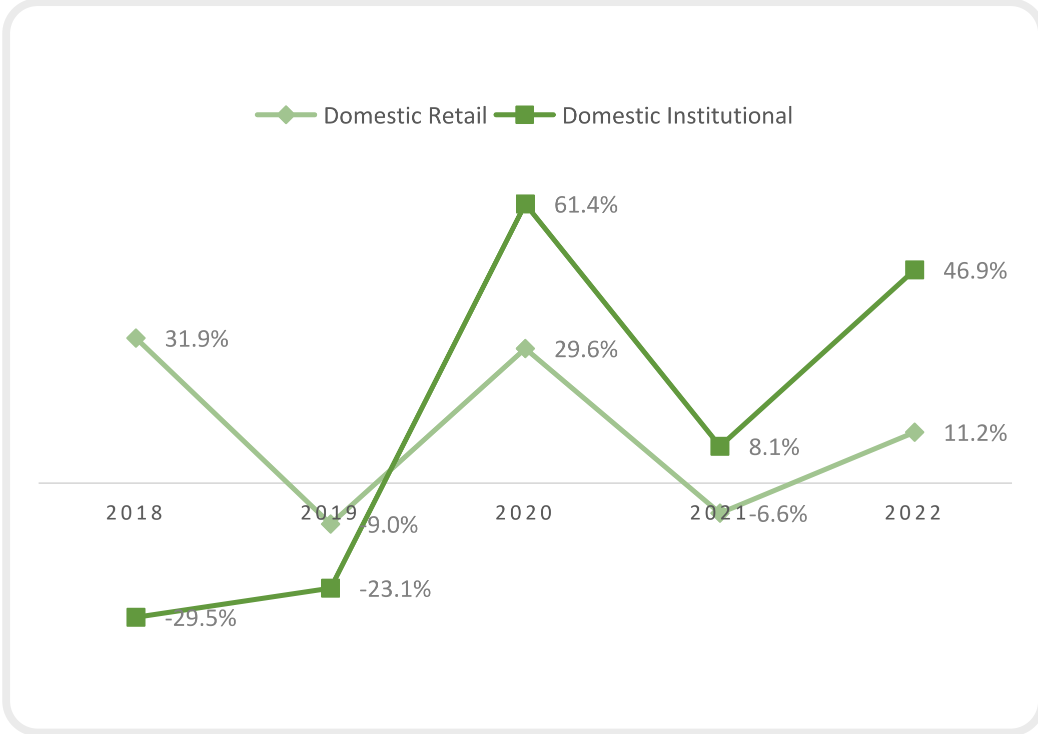


Figure 32:
Domestic retail and institutional transactions, 2018-2022.[39] Source: Nigerian Exchange Group and EnterpriseNGR analysis

Facilitating private equity investments

The Nigerian investment ecosystem primarily focuses on traditional financial and alternative investments (equity, debt and real estate). More unconventional investments, including private equity, have recently been explored. However, the space remains largely untapped and shows much room for growth. This is evident in the country's sluggish growth in private equity funds. There are currently ten registered private equity funds with total committed capital of ₦65 billion as of Q3 2022, compared to ₦62.3 billion in Q3 2021. In addition, In Q3 2022, the total value of investments and total assets under management declined to ₦28.85 billion and ₦32.2 billion from ₦31.3 billion and ₦38.5 billion in Q3 2021, respectively. [40]

39 See Footnote 37
40 Securities and Exchange Commission, 'Quarterly Update On Private Equity And Infrastructure Funds, (21 August 2023), available at: https://sec.gov.ng/quarterly-update-on-private-equity-and-infrastructure-funds/

Figure 33:
Private equity funds, 2019-Q3 2022 (₦ billions)
Source: SEC and Meristem Research

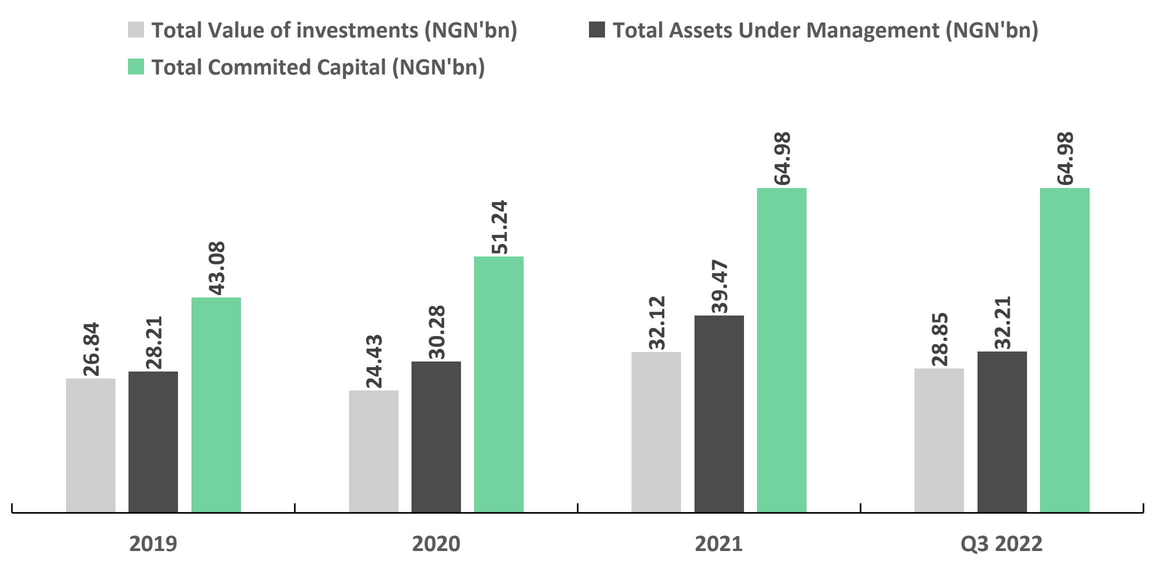
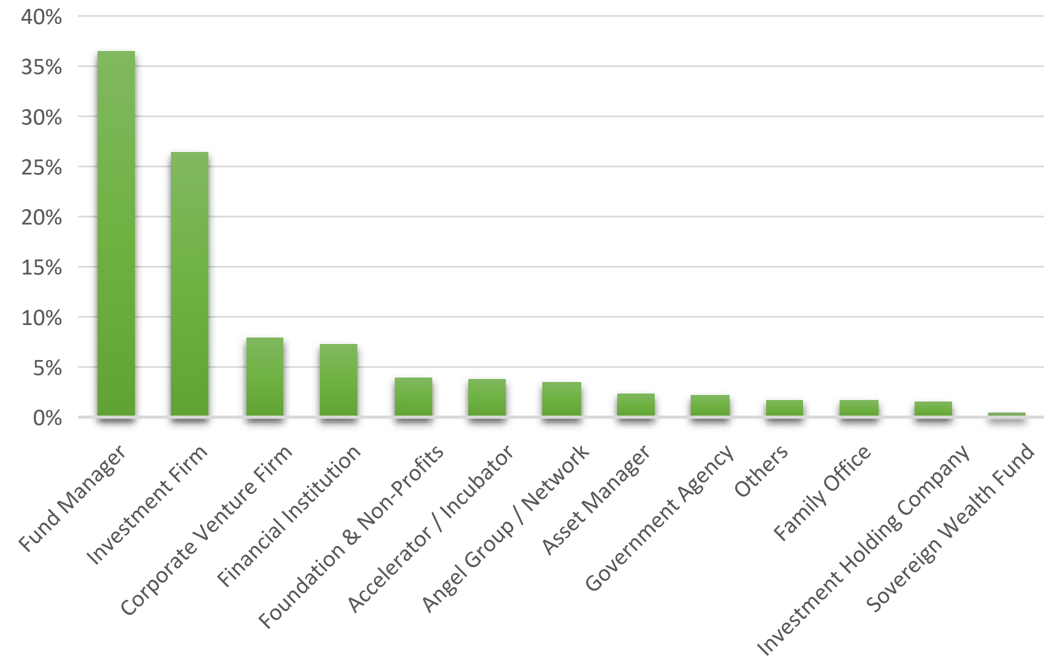


Figure 34:
Share of venture capital investors, 2022
Source: African Private Equity and Venture Capital Association and EnterpriseNGR analysis



Driving venture capital investments

Like private equity, venture capital activities in Nigeria are still in their early stages with sufficient room for growth.

In 2022, $5.2 billion was raised by 722 unique companies in 786 different deals in Africa. In addition, $1.3 billion was raised in 67 venture debt deals, bringing the total funds raised from venture deals to $ 6.5 billion.[41] This marked a 20.9% and 19.5% improvement in venture capital volume and unique companies in 2022. However, venture capital deal value remained unchanged from the prior year.

West Africa maintained its position as the most attractive region regarding deal volume for the second consecutive year, garnering about 30% of total venture capital deals in Africa. Nigeria remained the top African country in venture capital deals, attracting 22% of Africa's total venture capital deals. Playing a pivotal role in securing venture capital deals, asset management firms (Figure 34),[34] leveraged their expertise, networks, and resources to identify promising investment opportunities, conduct thorough due diligence, provide strategic guidance to start-ups, and facilitate the alignment of investor interests.

41 African Private Equity and Venture Capital Association, 'Venture Capital in Africa Report, April 2023' (16 August 2023), available at https://www.avca.africa/media/m3db4yt0/02175-avca-vc-report-2023_4-final-1.pdf

Conclusion

The general outlook for Nigeria's Asset Management sub-sector appears favourable, with notable market activity levels recorded in recent years. However, there is a need to address prevailing challenges and tap into its expansionary potential to achieve continued growth. Below are recommendations on how to address the identified challenges in the ecosystem:

Influx of unregulated operators:

Macroeconomic challenges, including inflation, are pushing potential investors to seek high returns on investments offered by illegal operators. Unfortunately, such investment opportunities come with extremely high risk. Regulators must intensify efforts to rid the market of unregulated operators. Also, regulators should provide a platform where investors can verify operators' authenticity before investing. This initiative must be backed by massive awareness, informing people about the verification platform and the process involved.

Low innovation:

Product and process innovation in the sub-sector is yet to witness wide application. As the world continues to evolve and technology becomes an integral part of business, regulators and operators must seek ways to leverage technology to ease processes and increase efficiency in the asset management business. This involves using artificial intelligence and machine learning to improve client experience and regulatory/supervisory roles. More innovative products that meet modern-day investment needs, such as sustainability mandates and cryptocurrency, are now required.

Low participation rate:

Low participation and low activity levels are two sides of the same coin. Most investors in the markets are from the middle to upper-income classes, and their income is sufficient to make saving and investment out of. People from lower-income classes need more financial capacity to save and invest. The Federal Government's efforts to promote financial inclusion can facilitate lower-income class participation. The level of financial education in the country could be improved. Regulators should adopt various methods (webinars, social media, seminars, etc) to educate the general public on the need to invest wisely and efficiently. This effort must be combined with the government's social and financial empowerment programmes to improve the earning power of the low-income classes.

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Difficulties in customer onboarding:

The customer onboarding process has been a significant deterrent to people participating in the capital markets because of the demanding requirements and the need for potential investors to carry out the process with each operator they are dealing with. Centralising the know-your-customer (KYC) process will reduce the burden for both investors and operators. A single platform that handles onboarding and KYC processes would be more efficient and effective. Regulators should work with operators to set up a single platform that will serve all operators in the market. Such a platform could reside with the Central Securities and Clearing System (CSCS).

Shortage of talent:

Like other sub-sectors in the FPS sector, Asset Management also suffers from the brain drain currently being witnessed in Nigeria. Other important Factors contributing to the talent shortage, including the poor education system, lack of security and macroeconomic conditions, can only be solved nationally. Effective government policies to address these challenges will improve talent supply, while operators need to provide adequate and ongoing training to groom new talent.

Pensions

Nigeria's Pensions sub-sector is a vital segment of the economy that is delivering benefits to retirees, employers and governments. The multi-fund structure of pension schemes is a significant innovation in Nigeria's Pensions sub-sector: Fund I (contributors aged 49 and below: ≥75% of funds invested in variable income instruments); Fund II (contributors aged 49 and below: ≥55% of funds invested in variable income instruments); Fund III (contributors aged 50 and above - ≥20% of funds invested in variable income instruments); Fund IV (retirees: ≥10% of funds invested in variable income instruments); Fund V (micro pensions); and Fund VI (55% of funds invested in Sharia-compliant instruments).

The sub-sector protects and provides returns on employee retirement savings, reduces employers' retirement burden, and provides long-term investment funds.

Key Facts

Retirement Savings Accounts(RSA)

2021 9,529,127
2022 9,862,129
Q2 | 2023 10,009,230

+3.5%
GROWTH 2021/2022

The Pensions sub-sector has played an essential role in alleviating the basic expense burden of employees through the payments of retirement benefits to workers who have either retired from active service or lost their jobs.

Pension assets under management

2021 ₦13.4trn
2022 ₦15trn
Q2 | 2023 ₦16.8trn

+ 11.9%
GROWTH 2021/2022

Pension assets in FGN securities

2021 ₦8.8trn
2022 ₦9.6trn
Q2 | 2023 ₦10.2trn

Paid out in retirement benefits

2010 ₦80bn
2022 ₦117.7bn
Q2 | 2023 ₦192.2bn

Micro Pensions Scheme

Contributions received

₦368m

As of 2022 versus ₦224.1 million as of 2021

Contributors

89,327

As of 2022 versus 73,691 as of 2021

Supporting lives

Helping employees save for old age and reduce the retirement burden

Retirement savings account (RSA) registrations increased from 9,529,127 in 2021 to 9,862,129 in 2022, representing a 3.49% growth rate (Figure 35).[42] During the same period, the total pension fund assets under management grew by 11.9% to approximately ₦15 trillion from ₦13.4 trillion. As of Q2 2023, RSA registrations increased by 1.5% to 10,009,230, while AUM increased by 12% to ₦16.8 trillion. The rising trend in pension contributions can be attributed to the increased level of compliance by employers.

42 National Pension Commission, 'Publications' (December 2023), available at https://www.pencom.gov.ng/category/publications/

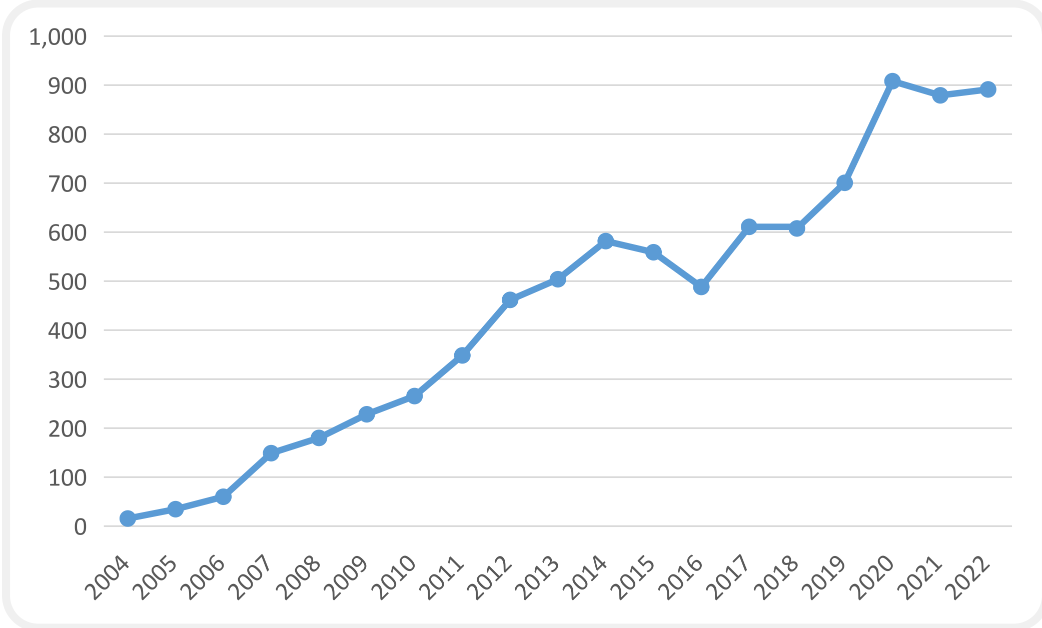


Figure 35:
Trend in total pension contributions, 2004-2022 (₦ billions)
Source: National Pension Commission and EnterpriseNGR analysis

The Pensions sub-sector has played an essential role in alleviating the basic expense burden of employees through the payments of retirement benefits to workers who have either retired from active service or lost their jobs. The yearly payment of retirement benefits to retirees rose from N80 billion in 2010 to N117.7 billion in 2022, a 47.1% increase (Figure 36)[36]. As of Q2 2023, the sector has paid out ₦192.2 billion since the beginning of the year. These payments have helped to improve the quality of post-retirement life for thousands of people.

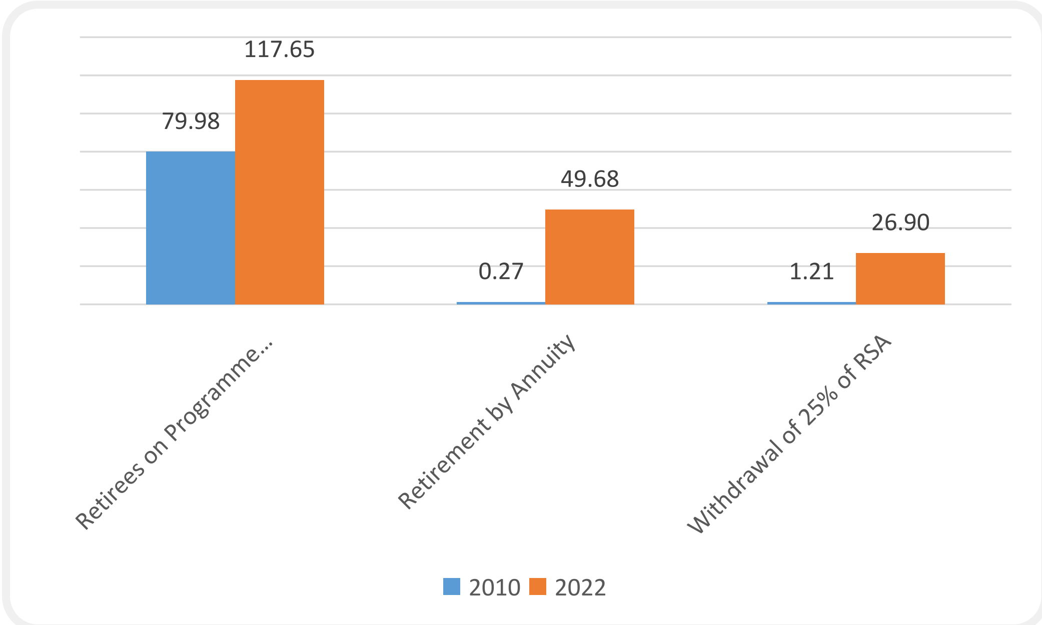


Figure 36:
Yearly payment of retirement benefits, 2010 and 2022 (₦ millions)
Source: National Pension Commission and EnterpriseNGR analysis

43 See Footnote 42

Supporting growth and the economy

Contributing to the national economy through pension fund assets/investments

Approximately 64.3% of total pension assets, ₦9.6 trillion, were invested in Federal Government (FGN) securities as of 2022[44], compared to ₦8.8 trillion in 2021; the share was 64.8% (₦10.2 trillion) as of Q2 2023. This underscores the growing importance of the Pensions sub-sector to government debt finance and the potential for greater impact on national infrastructure and development projects. Figure 37 represents the composition of FGN securities between 2021 and 2022. In addition, the total funds invested by the Pensions sub-sector to support the growth of companies through corporate debt securities increased to ₦1.7 trillion, up from ₦0.9 trillion in 2021.

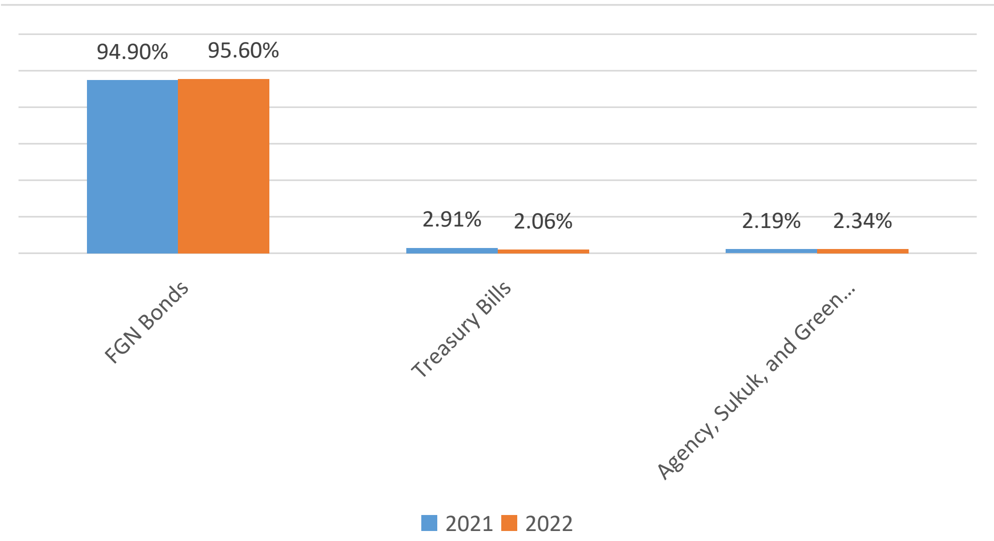


Figure 37: **Composition of investments in FGN securities, 2021-2022**
Source: National Pension Commission and EnterpriseNGR analysis

44 See Footnote 42

Contributing to the accumulation of long-term capital in the economy

Figure 38 shows that of the total pension assets of ₦14.99 trillion at the end of Q4 2022, 72% (₦10.7trillion) were in active RSA funds, belonging to people still in active employment (besides other employees that fall within CPF and Fund VI active [i.e. fund with a non-interest investment mandate]), while only 8% (₦1.19trillion) are held by people who have already retired (RSA only).

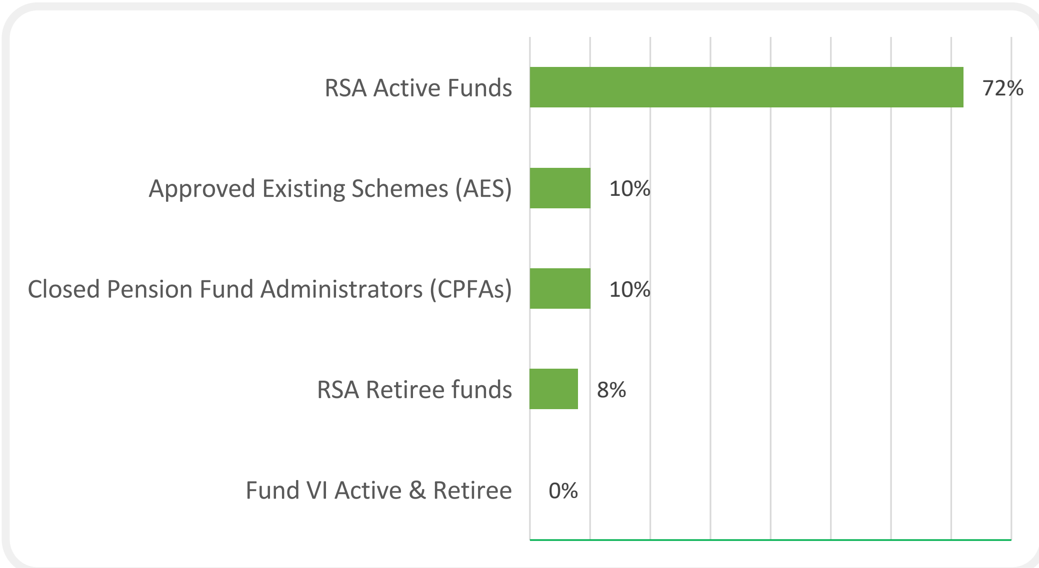


Figure 38: **Percentage of pension assets at the end of the fourth quarter, 2022**
Source: National Pension Commission and EnterpriseNGR analysis

Analysis of new registrations into the contribution pension scheme (CPS) at the end of Q4 2022 revealed that out of a total of 340,777 registrations in 2022, 72% were below 40 years of age.[45] This indicates that the CPS is increasingly sustainable, as more younger people are joining the scheme. This also reflects the availability of pension funds to finance long-term investments.

45 See Footnote 42

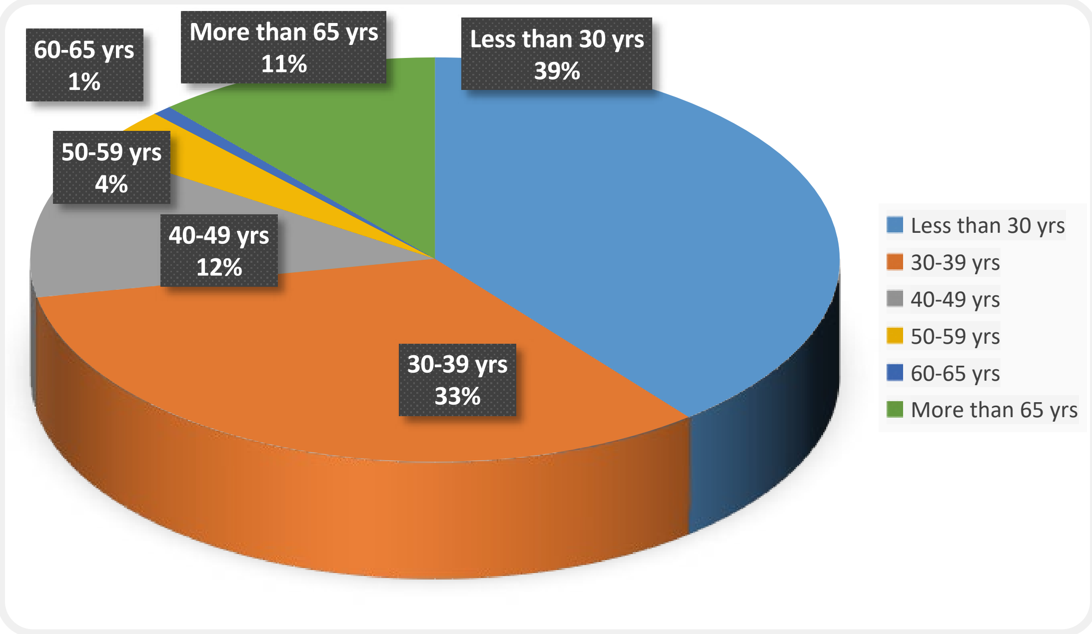


Figure 39: **Age distribution of contribution pension scheme, 2022** Source: National Pension Commission and EnterpriseNGR analysis

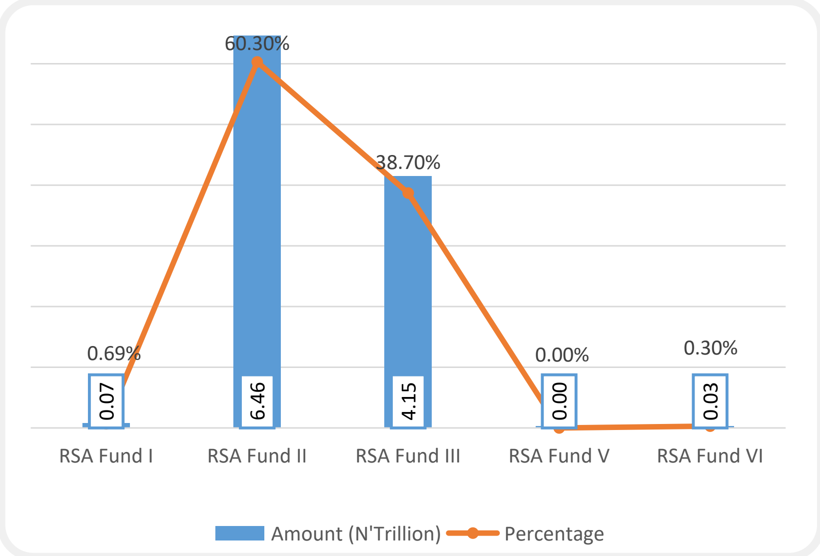


Figure 40: **Breakdown of the RSA Active Fund as of 31 December 2022.** Source: National Pension Commission and EnterpriseNGR analysis

The largest share of active RSA funds (60.3% or ₦6.45 trillion) is in RSA Fund II[46](Figure 40).[47] This suggests that a larger share of pension funds could be used to finance long-term investments since the class of the contributors permits pension fund administrators and managers to hold assets over longer-term horizons. Although only 0.0035% of RSA funds are in the micro pensions fund (or RSA V), the micro pensions scheme is an emerging area with high potential benefits for contributors and national investments. With a total of ₦368 million received from 89,327 contributors at the end of 2022 (versus ₦224.1 million from 73,691 as of 2021), a higher enrolment number will increase the volume of funds from the informal sector.

46 For contributors below the age of 49
47 See Footnote 42

Conclusion

Nigeria's Pensions sub-sector has brought about significant transformation and had a notable impact on the investment landscape, people (retirees), and the business sector. However, performance is still below potential. The following measures are recommended to address current challenges:

Persistent scepticism about the pension system in the country:

There is still much scepticism about and disinterest in Pensions in Nigeria. One factor contributing to this is persistent naira devaluation and inflationary pressure. Holistic macroeconomic policies will improve economic productivity and, consequently, earnings and standard of living. A strong and competitive economy will come with improvement in critical sectors like Agriculture, Security, and Power. For example, performance by the Power sector is increasingly noticeable; the effort should be sustained and triggered in other sectors.

Low cooperation from employers in the public and private sectors:

The failure of employers to regularly remit employees' contributions impedes the sub-sector's growth. Limited funds available to the federal government are driving low compliance. On the part of private-sector employers, poor business environments contribute to low profits, which disincentivises the payment of employees' pension contributions. Improving the general business and economic climate would increase government earnings and the business sector's profits. Ongoing efforts by the government to improve the macroeconomic environment should be sustained.

Low pension penetration in the informal sector:

Opportunities in the informal sector, where many Nigerians are employed, still need to be explored. The process will need to be less formal for pensions to penetrate the informal sector. The regulator should ensure that contributors from the informal sector have easy access to funds. The longer it takes to access funds, the more discouraged contributors will be.

Limited investment options and mono product:

Investment opportunities are limited for pension fund administrators (PFAs), which undermines innovation and growth. The regulator should democratise investment options by allowing PFAs to develop custom products in the same way as banks. For instance, they should be allowed to create products for different market segments. This will not only expand product offerings but create access to more markets.

Long regulatory process hampering service delivery:

Pension fund administrators require regulatory approval before carrying out almost all outbound financial transactions. The regulator in the pensions industry (PENCOM) should empower PFAs to meet customers' requests without a lengthy approval process with the regulator.

Non-interest Finance

Islamic finance is increasingly driving sustainability and the environmental, social and governance (ESG) agenda on the back of national efforts to achieve net-zero carbon emissions. In 2022, the global Islamic Finance sub-sector was valued at $4.2 trillion, and the industry's net income grew from $10.5 billion in 2020 to $32 billion in 2021.[48]This is evidence that Islamic Finance is evolving quickly on the back of many social and economic opportunities. Essentially, the market is driven by non-interest banking, sukuk issuances, and Islamic exchange-traded funds (ETFs).

Non-interest Banking grew 17% to reach $2.8 trillion in 2021. It is the largest segment in the sub-sector and accounts for 70% of its assets.[49] This is followed by Sukuk, which grew by 14% over the previous year and is valued at $713 billion. Islamic Funds, valued at $238 billion, is third and recorded impressive growth of 34% in 2021. The sukuk bond market rose to about $193.9 billion in 2022.[50]

Africa is the second-largest continental sukuk market, and Nigeria is among seven countries[51] making the greatest strides. In 2022, Nigeria's Islamic

48 Mordor Intelligence, 'Islamic Financial Market Size & Share Analysis-Growth Trends & Forecasts (2023-2028)' (September 2023), available at: http://www.mordorintelligence.com/industry-reports/global-islamic-finance-market
49 Refinitiv, 'Islamic Finance Development Report 2022 – Embracing Change' (September 2023), available at https://icd-ps.org/uploads/files/ICD%20Refinitiv%20ifdi-report-20221669878247_1582.pdf
50 Refinitiv, 'Green and ESG Sukuk Enjoy Rapid Growth in 2022' (September 2023), available at https://www.refinitiv.com/perspectives/market-insights/green-and-esg-sukuk-enjoy-rapid-growth-in-2022/#:~:text=2022%20was%20another%20good%20year,year%20on%20record%20after%202021.
51 Others are Gambia, Tanzania, Senegal, Egypt, and South Africa.

Key Facts

Estimate of Nigeria's Islamic Finance sector as of 2022

Industry value

Over ₦1.5trn

Sukuk valued at ₦756.2 billion
Non-interest Banking valued at ₦736 billion.

Sharia-compliant mutual funds

Number of funds	Total investment	Unitholders
10	**₦35bn**	**25,057**
As of 2022, versus 6 as of 2021	As of 2022, versus ₦17.4 billion as of 2021	As of 2022, versus 17,353 as of 2021

NGX Lotus Islamic Index

3,240.83

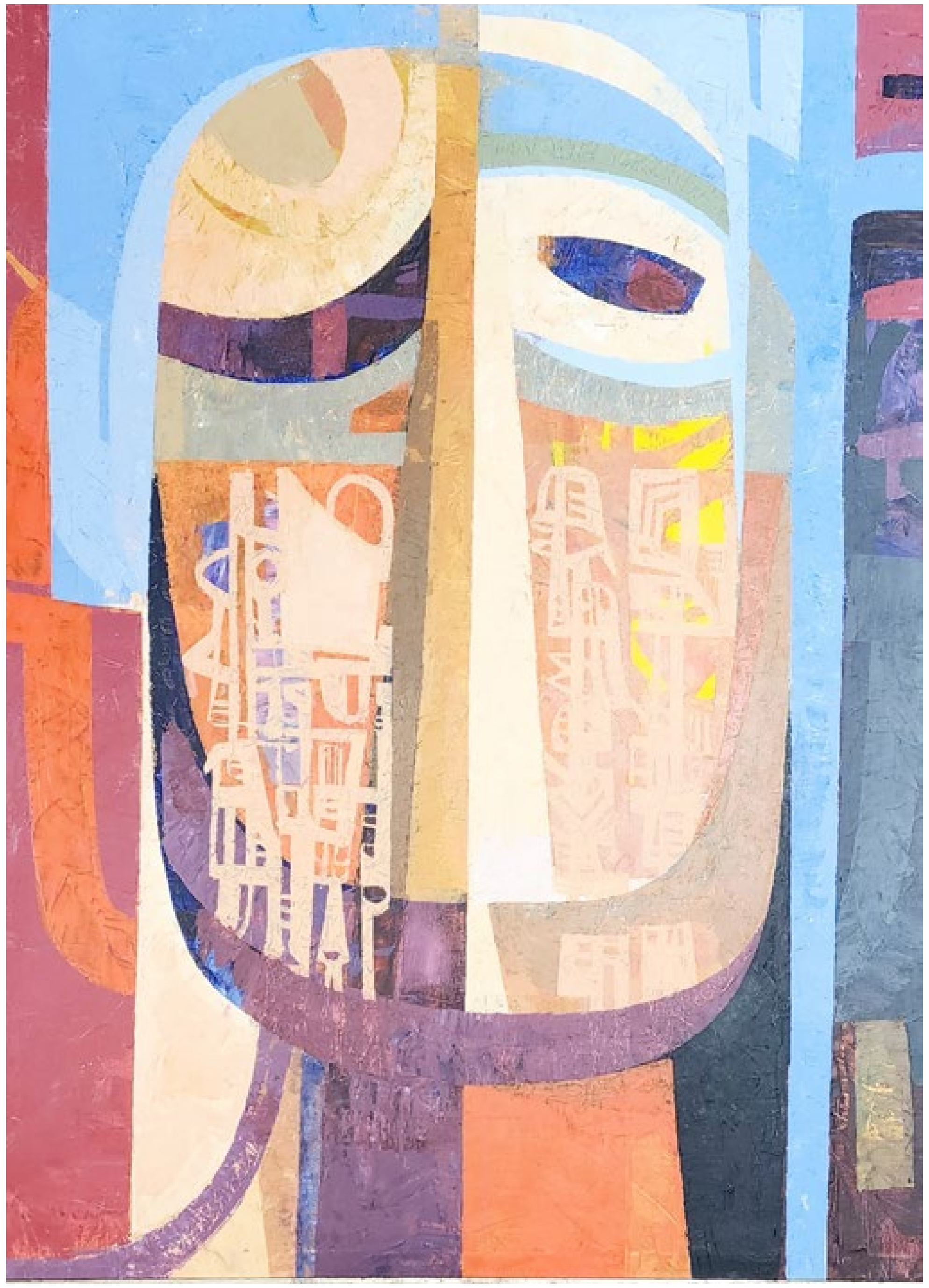
In 2022 versus 3,009.51 in 2021

+7.7% 2021/2022 GROWTH

Ranking

17th Out of 53 countries

Nigeria's ranking on the Islamic Finance Country Index in 2022



Onyema Ofoedu, Veteran Wearing Garlands of Experience, 48 x 36inches, 2014

Finance was estimated to be worth over ₦1.5 trillion. The largest segment is Sukuk, valued at ₦756.2 billion, followed by Non-interest Banking at ₦736 billion. The sub-sector consists of four Islamic banks (Jaiz Bank plc, Taj Bank Ltd, Lotus Bank Ltd and Sterling Alternative Finance), four takaful insurance companies (Jaiz Takaful Insurance plc, Noor Takaful Insurance plc, Salam Takaful Insurance Ltd and Cornerstone Takaful Insurance Ltd). Others are Islamic asset and fund managers, and Islamic microfinance institutions.

Contributing to national investments

Accelerating ethical investment

In 2022, Greenwich Merchant Bank Ltd supported the Debt Management Office in its Series V Sukuk Issuance of ₦100 billion. The issuance recorded a total subscription of ₦166 billion[52], allowing the issuer to upsize it to ₦130 billion ($282 million).

In Nigeria, sovereign sukuk is valued at ₦742.6 billion and forms a significant part of FGN's domestic debt (Table 2).

Table 2: Federal Government Securities, 2016-June 2023 (₦ billions)
Source: Debt Management Office and EnterpriseNGR analysis

	For the year ended December 31							JUNE 30
Instrument	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
FGN Bond	7,564.9	8,715.8	9,334.74	10,524.16	11,830.27	13,963.22	16,421.56	41972.74
Nigeria Treasury Bills	3,277.28	3,579.8	2,735.97	2,651.51	2720.43	3,786.14	4,422.72	4722.72
Treasury Bonds	215.99	175.99	150.99	125.99	100.98	75.99	50.99	50.99
FGN Savings Bond	-	7.2	10.8	12.67	12.29	16.42	27.51	30.7
FGN Sukuk	-	100.0	200.0	200.0	362.56	612.56	742.56	742.56
FGN Green Bond	-	10.69	10.69	25.69	25.69	25.69	15.00	15.00
Promissory Notes	-	-	331.27	-	971.66	762.54	530.03	780.0
Total	11,058.21	12589.49	12,774.41	14,272.64	16,023.89	19,242.56	22,210.36	48,314.74

52 Greenwich Merchant Bank Ltd, 'IFN Best Banks of the Year 2022, (August 2023), available at https://www.greenwichbankgroup.com/greenwich-merchant-bank-limited-wins-big-at-the-ifn-awards/#:~:text=In%202022%2C%20Greenwich%20Merchant%20Bank%20Limited%20supported%20the%20Federal%20Government,a%20subscription%20level%20of%20166%25.

In 2022, in addition to the fifth sovereign sukuk bonds issuance, TAJ Bank Ltd secured approval to launch a ₦100 billion sukuk issuance programme, the first private-sector sukuk bond. In the first quarter of 2023, the bank raised over ₦11.35 billion under the programme.[53] The issuance was oversubscribed at 113.6% due to heightened interest from both retail and institutional investors.

Pomegranate Nigeria Ltd, a third-party logistics company, raised ₦2.3 billion through the private placement of a sukuk al-ijarah three-year note in November 2022.

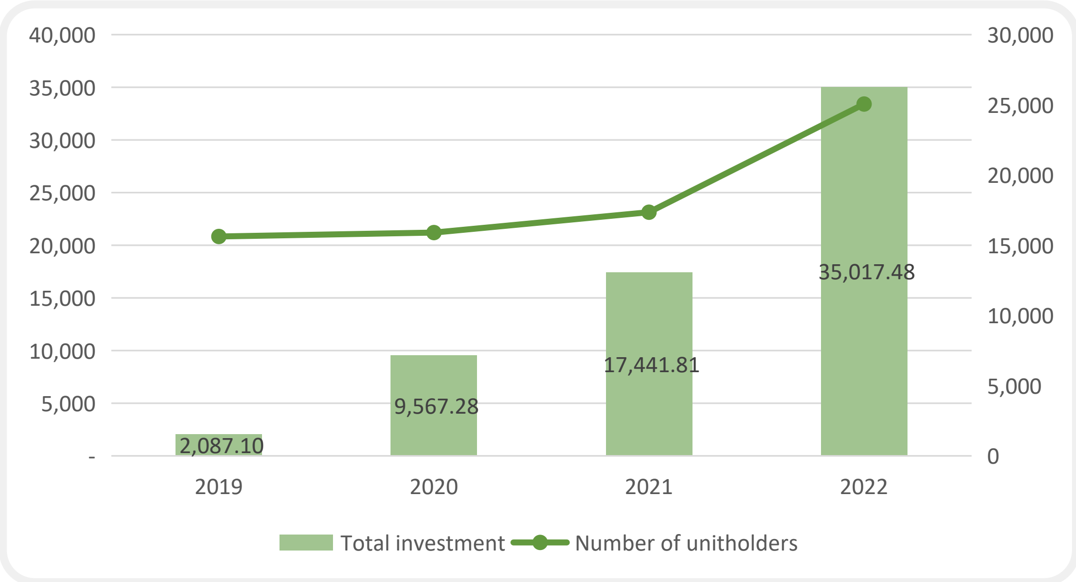
Contributing to the national investment pool and financial inclusion

The NGX Lotus Islamic Index, which tracks the performance of Sharia-compliant equities, grew to 3,240.83 points[54] (2021: 3,009.51), representing 7.7% growth, year to year.

In 2022, non-interest finance continued to deepen the investment landscape and participation in the market, thus helping to bridge the exclusion gap. The number of Sharia-compliant mutual funds listed on the market increased from six in 2021 to ten in 2022, with a total investment of ₦35.0 billion compared to ₦17.4 billion in 2021. The number of unitholders increased from 17,353 in 2021 to 25,057 in 2022, a 44.4% increase (Figure 41)[55]

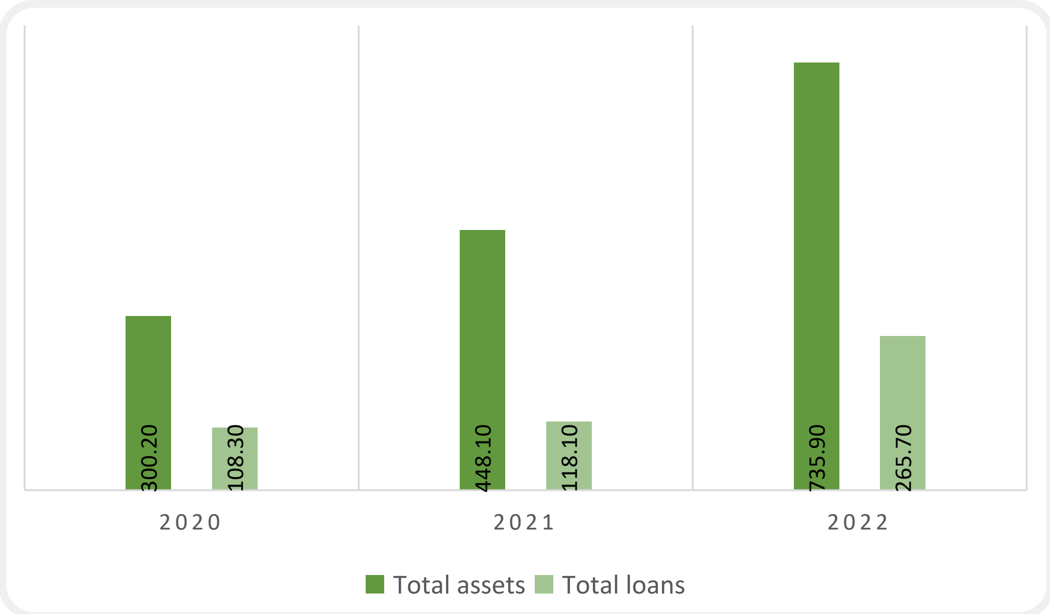
53 This Day, 'TAJ Bank Becomes First Corporate to List Sukuk Bond on NGX', (18 August 2023), available at https://www.thisdaylive.com/index.php/2023/02/15/tajbank-becomes-first-corporate-to-list-sukuk-bond-on-ngx.
54 NGX, 'Weekly Report: Market report for December 30, 2022', (August 2023), available at https://doclib.ngxgroup.com/market_data-site/other-market-information-site/Week%20Market%20Report/Weekly%20Market%20Report%20for%20the%20Week%20Ended%2030-12-2022.pdf
55 See Footnote 32

Figure 41:
Sharia-compliant mutual funds, 2019-2022 (₦ millions)
Source: Securities and Exchange Commission and EnterpriseNGR analysis



The assets of non-interest banks were valued at ₦735.9 billion in 2022, compared to ₦448.1 billion in 2021 and ₦300.2 billion in 2020. Loans worth ₦265.7 billion were facilitated by the banks, compared to ₦188.1 billion in 2021 and ₦108.3 in 2020 (Figure 42).[56]

Figure 42:
Assets and loans of non-interest banks (₦ billions)
Source: Central Bank of Nigeria and EnterpriseNGR analysis



Nigeria rose two places to rank 17th out of 53 countries on the Islamic Finance Country Index in 2022.[57]

56 See Footnote 5
57 Global Islamic Finance Report, 'Islamic Finance Country Index 2022' (August 2023), available at https://gifr.cambridge-ifa.net/islamic-finance-country-index?year=2022&screenshot=ifci

Table 3: Islamic Finance Country Index 2022
Source: Global Islamic Finance Report and EnterpriseNGR analysis

Country	2021 Rank	2022 Rank
Saudi Arabia	2	1
Malaysia	3	2
Indonesia	1	3
Iran	4	4
Pakistan	5	5
Sudan	6	6
Bangladesh	8	7
Brunei Darussalam	7	8
United Arab Emirates	9	9
Kuwait	10	10
Bahrain	12	11
Turkey	11	12
Qatar	13	13
Oman	-	14
Jordan	15	15
Egypt	16	16
Nigeria	19	17
Kazakhstan	17	18
United Kingdom	18	19
Morocco	21	20
Afghanistan	20	21
Tunisia	22	22
Lebanon	23	23
Djibouti	-	24
United States of America	24	25
Kenya	25	26
Somalia	-	27
Senegal	27	28
South Africa	28	29
Ghana	45	48
Mauritius	46	49
China	47	50
France	48	51
Gambia	49	52
Spain	50	53

Ablade Glover, 48 x 60 inches, oil on canvas, 2014

Conclusion

The following recommendations are put forward to improve the performance of the Non-interest Finance sub-sector in the challenge areas.

Insufficient awareness:

Awareness of non-interest finance remains inadequate. The government should promote awareness by ensuring that universities offer Islamic finance courses. Campaigns around capital projects and infrastructure, including transport infrastructure, funded by sukuk in Nigeria, should be leveraged to increase awareness of the significance of non-interest finance. More frequent issuance of sukuk would also help popularise non-interest finance in the country. The Debt Management Office should consider the issuance of sukuk more than once a year to finance significant national projects, such as schools and airports.

Low level of planning for talent pipeline:

As the sub-sector evolves, the availability of talent needs to grow commensurately. Currently, there is a shortage of non-interest finance specialists in Nigeria. The CBN should speed up training to ensure that non-interest finance skills are democratised. The Financial Regulation Advisory Council of Experts (FRACE) should expand and mentor people in Islamic finance, who will then be able to teach at various institutions and training centres.

Slow pace of financial innovation:

The sub-sector is challenged by the complexity of structuring instruments and regulations. The operators should work towards creating common standards, and the regulator should coordinate this effort. Regarding innovation, non-interest finance and FinTech face similar regulatory challenges in Nigeria. Regulators, the CBN, and the SEC should intensify efforts to allow non-interest finance operations to flourish while ensuring balanced risk management.

Low level of collaboration:

Non-interest finance requires synergy among regulators and operators to achieve desired growth. To improve collaboration among operators, the Non-Interest Financial Institutions Association of Nigeria (NIFIAN) should strengthen its activities to become a strong force in the sub-sector. The stronger NIFIAN gets, the more collaboration can take place, particularly with regulators.

Fintech

As one of the fastest-growing sub-sectors within the global Financial Services industry, Financial Technology (FinTech) has redefined Nigeria's financial services landscape as a transformative tool and an instrument of social integration. The sub-sector supports the business ecosystem and improves lives and livelihoods.

From digital lending to cross-border remittances, FinTechs are democratising access to financial services by leveraging blockchain, artificial intelligence and other emerging technologies. With four unicorns in 2022 (OPay, Interswitch, Flutterwave and Chipper Cash) and the likes of Kuda, Moniepoint and Paga emerging as 'soonicorns', the Nigerian FinTech ecosystem has recorded tremendous growth over the last few years.

Key Facts

Investments attracted by Nigeria's fintechs

2022 **$1.2bn**

Oct | 2023 **$952m**

FinTech market

Payment

26.6%

Digital lending

19.7%

6th

Nigeria was ranked 6th among countries with the most developed real-time payment systems in 2021

Over 250 Fintech companies

3 out of Nigeria's 5 unicorns are fintechs.

Use of electronic channels for transactions

Jan | 2022 **438.48m**

Jan | 2023 **638 m**

+45.5%
GROWTH

Nigerian FinTechs have attracted more than
$800 million
in funding

In 2021, Nigerian FinTechs attracted more than $800 million in funding — more than the combined funding they attracted in 2018, 2019 and 2020. Nigerian FinTechs also experienced impressive growth in 2022, attracting $1.2 billion in investments.[58] However, recent developments within the global tech ecosystem suggest that the rate of funding, particularly from the venture capital community, could be slowing as a result of greater investor circumspection and the consideration of different metrics in determining when to invest in a FinTech company. As of September, the funding in 2023 totalled $952 million.[59]

With respect to product offerings, the Nigerian FinTech market has evolved from being overly concentrated on payment processing and infrastructure deployment to a diversified range of products and services. By way of example, there has been increased market activity in digital banking and lending, securities trading and asset management, savings, and personal finance.

Surprisingly, the cryptocurrency space remains active in spite of challenges in conducting cryptocurrency transactions through the Nigerian banking system. Additionally, restrictions on the ability of Nigerians to make foreign currency payments with their naira cards have led to the increased use of foreign-currency-denominated virtual cards offered by the likes of Chipper Cash, Payday, CashEx and Fundall, which has fast become a convenient mode of payment on various e-commerce platforms.

58 Royal Ibeh, 'Nigeria's Fintech Firms Raise $1.2bn in 2022' (August 2023), available at https://leadership.ng/nigerias-fintech-firms-raise-1-2bn-in-2022/
59 Computed using TechCabal State of Tech in Africa quarterly reports: see TechCabal, 'Report' (5 December 2023), available at https://techcabal.com/reports

Accounting for roughly 19.7% of the Nigerian FinTech market in 2022, digital lending was second only to payments, which continued to dominate with market share of 26.6%

Supporting the business ecosystem

The range of services provided by FinTechs in Nigeria continued to expand in 2022. Although the payments industry has maintained its status as an industry leader, there has been an increase in digital lending. Significantly, the adoption of payday loans and buy now, pay later credit services is also on the rise. Accounting for roughly 19.7% of the FinTech market in 2022, digital lending was second only to payments, which continued to dominate with 26.6% market share.[60]

The Central Bank of Nigeria (CBN) launched a national domestic card scheme, known as AfriGopay, aimed at increasing financial inclusion by offering payment services that are more accessible and affordable. In March 2023, Access Bank announced its partnership with AfriGOpay, a financial services business affiliated with the Nigeria Inter-Bank Settlement System, to become the first bank to issue the live card of Nigeria's national card scheme.[61]

A unique feature of the FinTech sub-sector and one reason for its success in Nigeria is that each of its segments supports business in Nigeria with little duplication of services. The contribution of the payments segment also cannot be overemphasised, as the instant payment services provided have been critical to the growth of e-commerce in

60 Statistica, 'Share of fintech start-ups in Nigeria 2022, by sub-sector' (June 2023), available at https://www.statista.com/statistics/1337968/share-of-fintech-start-ups-in-nigeria-by-sub-sector/
61 This Day, 'Access Bank partners with AfriGOpay to Boost Payment Ecosystem' (August 2023), available at https://www.thisdaylive.com/index.php/2023/03/30/access-bank-partners-with-afrigopay-to-boost-payment-ecosystem

Nigeria. In 2021, Nigeria was ranked sixth among countries with the most developed real-time payment systems, with real-time payment transactions resulting in an estimated cost saving of $296 million for businesses and consumers and contributing an additional $3.2 billion to the economy.[62]

The digital lending segment has also had a remarkable impact on the business ecosystem by providing much-needed, quick, short-term loans. FinTechs that operate in this segment have developed their unique credit scoring models to enable medium and small enterprises to access funding with minimal administrative steps and/or restrictions.

Despite the operational and foreign exchange challenges in Nigeria, FinTech companies operating in the remittance segment (such as Flutterwave's Send and Send Cash Africa) have supported the business ecosystem in Nigeria by reducing the time and transaction costs for sending and receiving money to and from Nigeria. FinTech activities in Nigeria continue to expand into other areas (Figure 43),[63] providing much-needed solutions to challenges in healthcare, education, commerce, and related areas. In many cases, FinTechs are making access to healthcare, education and commerce easier by providing a way for people who don't have access to brick-and-mortar banks to pay for goods and services.

Figure 43:
Nigeria Fintech Map 2022
Source: Open Banking Nigeria

62 Nigeria Inter-Bank Settlement System, 'Nigeria's Real-Time Payment Transactions Surge 95% in 2021… ranks 6th in world's most developed real-time payments markets' (August 2023), available at https://nibss-plc.com.ng/nigerias-real-time-payment-transactions-surge-95-in-2021-ranks-6th-in-worlds-most-developed-real-time-payments-markets/

63 By Segun Adeyemi, see Open Banking Nigeria, 'Nigeria Fintech Map 2022', (October 2023), available at https://openbanking.ng/the-role-of-fintechs-in-nigerias-open-banking-ecosystem/

Building communities of innovators

While Nigeria is home to over 250 FinTech companies,[64] if there is one thing the Nigerian market can learn from Silicon Valley, it is the power of building innovator communities comprising developers, marketers, software engineers, brand and product managers, investors and beyond. On a larger scale, accelerators and incubators continue to have a very credible use case. Notwithstanding the challenges around low participation and the brain drain, accelerator and incubator programmes have helped boost the thriving entrepreneurial spirit among Nigeria's predominantly young and tech-savvy population, and improved the existing talent pool through training, upskilling and mentorship. Innovation hubs such as Co-creation Hub, GreyHub and Start Innovation, have attracted young people from diverse backgrounds, provided flexible and adaptable spaces, as well as various support services to aid participants in developing viable ideas and solutions that have ultimately had a positive impact on the business ecosystem.

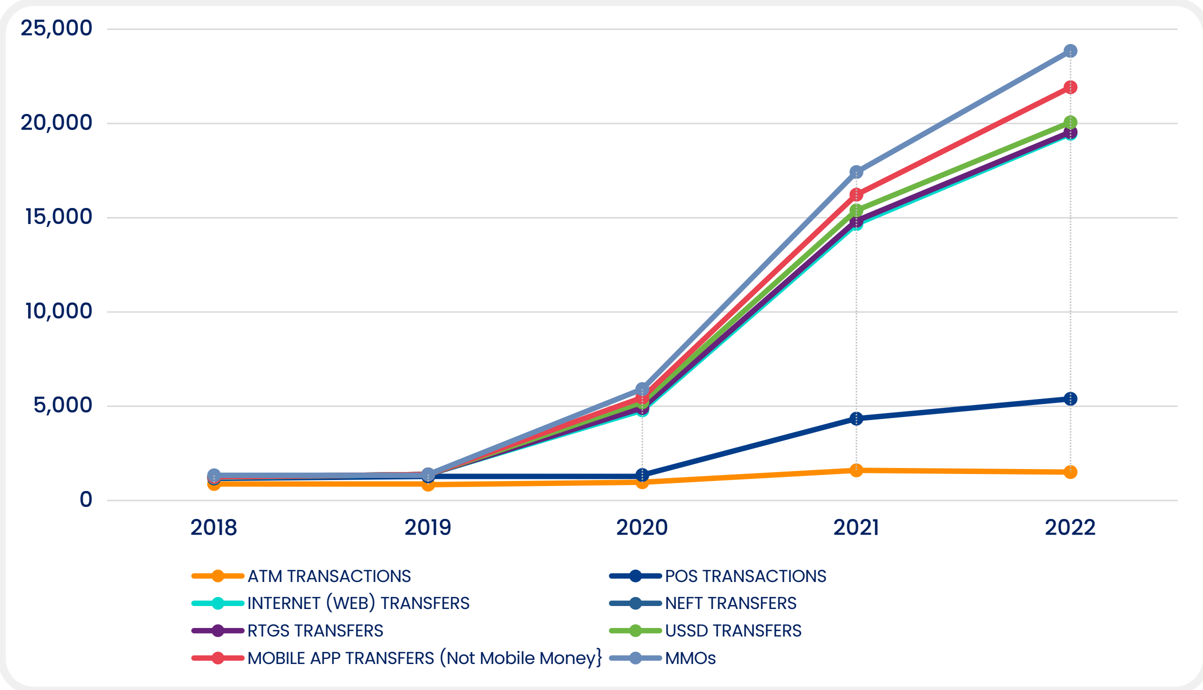
Improving lives

Improving lives and livelihoods

The combination of several factors, including (but not limited to) government policies, the unreliability of traditional banking infrastructure, and, most of all, necessity, has increased the use of a number of products offered by FinTechs in Nigeria. Kuda, Opay and Moniepoint, all digital banks, occupy the top positions for finance apps downloaded on Google Playstore in Nigeria.[65] The significant buy-in from Nigerians is attributable to the visible improvements these FinTechs have made with respect to service delivery. When Nigeria experienced a national cash crunch in early 2023 due to a now-aborted currency redesign and withdrawal limits policy introduced by the central bank, FinTech solutions were a ready recourse for most Nigerians. Nigerians (both individuals and businesses) turned to FinTechs like OPay, Kuda, PalmPay, Moniepoint and Parallex for banking services through USSD bank transfer options, point-of-sale (POS) machines, and other related services.[66] Data from the Nigeria Inter-Bank Settlement System (NIBSS) revealed that between January 2022 and January 2023, the use of electronic channels for transactions grew by 45.5%, from 438.48 million to 638 million transactions.

Transactions grew by **45.50%**, from **438.48** million times to **638 million** times.

Figure 44:
Volume of e-payments, 2018-2022 (millions)
Source: Nigeria Inter-Banks Settlement System and Templars analysis



Specifically, the buy now, pay later (BPNL) solutions offered by many FinTechs have gained immense popularity due to the flexible payment solutions that they provide to customers, especially in light of the decline of credit card use, in addition to the various instant, unsecured small-scale loans many FinTech companies continue to provide particularly to small and medium-sized enterprises (SMEs).

64 The Fintech Times, 'Nigeria's Fintech Landscape in 2022' (June 2023), available at https://thefintechtimes.com/wp-content/uploads/2022/07/Nigeria.jpg
65 Similarweb, 'Top Apps Ranking', (August 2022), available at https://www.similarweb.com/apps/top/google/store-rank/ng/finance/top-free/
66 Funmilayo Fabunmi, 'Fintech booms as Naira Crisis Stretches Banks' Digital Platforms' (August 2023) at https://punchng.com/fintech-booms-as-naira-crisis-stretches-banks-digital-platforms/

Regarding personal finance and investment platforms, the provision of automated means of disciplined and high-return savings options focused on young people is another way that FinTechs are impacting Nigerians' lives in a positive way. While traditional banks offer interest rates of 4-6% per annum, FinTech firms like CowryWise and PiggyVest offer interest rates within the 10-13% range[67] while also providing hassle-free savings and withdrawal processes. Bankly, a FinTech start-up founded in 2018, which raised $2 million in a seed round in 2021,[68] is focused on small-scale traders, digitalising the rotating savings and credit system known as *ajo* or *esusu*.

Conclusion

The FinTech sub-sector can be improved by pursuing the following recommendations targeted at addressing the challenges identified:

Lack of common data source and weak interoperability:

The government's mandatory National Identity Number (NIN) exercise has successfully documented the identities of about 93 million Nigerians and provided a valid means of identification for each of them,[69] but unifying these identities among multiple government agencies and providing access to these identities remains a challenge.
FinTechs should be encouraged to put in place more structures that allow for interconnectivity and swift data sharing without encroaching on each other's businesses. The Open Banking Guidelines are a good example of the CBN's effort to improve interoperability in Nigeria. The Guidelines aim to provide an enabling regulatory environment for innovative and customer-centric financial services by safely utilising shared data. The presence of regulation increases the participation and trust of customers as it offers them peace of mind that their data is safe.

Shortage of talent:

The inadequacy of talent in the FinTech space is a perennial global challenge[70] but appears to disproportionately affect Nigeria.[71] In the Nigerian context, this is both an attraction and retention of talent issue, the cause being, primarily, the exodus of highly skilled experts to other countries. This migration, referred to as the Great Resignation[72] by a Chief Executive of a Nigerian Bank, has been fuelled in recent years by worsening economic conditions in the country and the prospect of better opportunities in other places.
To solve this talent shortage, there needs to be concerted efforts from both the government and private individuals. On the part of the government, there needs to be a revamping of the secondary and tertiary education curriculums to include compulsory courses that would enable students to acquire rudimentary digital skills, at least. Moreso, funding opportunities ought to be provided for individuals interested in accessing advanced technology education beyond those provided in the available curriculum, and even outside of the country.
FinTech companies could offer more competitive packages to prized skilled workers in a bid to disincentivise them from pursuing better prospects abroad. In addition, FinTechs could develop robust skill development systems to enable employees to reskill and upskill. Finally, firms may want to explore employing talent outside the traditional talent pool. Skilled, but non-college-educated people, especially, could provide an alternative pool to meet the talent gap.

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67 See Footnote 64
68 Tage Kene-Okafor, 'Nigerian Fintech of the Unbanked Bankly Raises $2m By Vault', (August 2023), available at https://techcrunch.com/2021/03/24/nigerian-fintech-of-the-unbanked-bankly-raises-2m-led-by-vault-and-flutterwave/
69 Business Day, 'Unified identity to fix interoperability in financial services' (August 2023), available at https://businessday.ng/technology/article/unified-identity-to-fix-interoperability-in-financial-services/
70 By Pedro Nicolaci da Costa; see International Monetary Fund, 'Global competition for a limited pool of technology workers is heating up', (August 2023), available at https://www.imf.org/Publications/fandd/issues/2019/03/global-competition-for-technology-workers-costa
71 SAP, 'SAP Research Reveals Top Tech Skills Challenges for African Organisations', (August 2023), available at https://news.sap.com/africa/2023/03/sap-research-reveals-top-tech-skills-challenges-for-african-organisations/
72 Emele Onu, 'Nigerian Banks Hit by 'Great Resignation' of Top Tech Talent', (August 2023), available at https://www.bloomberg.com/news/articles/2022-04-15/nigerian-banks-hit-by-great-resignation-of-top-tech-talent#xj4y7vzkg

Slow pace of regulation:

As in much of the world, regulation in Nigeria is constantly striving to keep pace with new technology, particularly in the FinTech sub-sector. The issue appears to be exacerbated in Nigeria for a number of reasons, namely a seeming lack of coordination among regulators and government agencies on FinTech matters as well as a multiplicity of regulators and agencies often claiming simultaneous jurisdiction over the sub-sector (and rightly so in some instances based on their statutory powers). One initiative the new government could adopt would be establishing a coordinated one-stop shop for FinTechs in Nigeria to address all regulatory requirements. This would

One initiative the new government could adopt would be establishing a coordinated one-stop shop for FinTechs in Nigeria to address all regulatory requirements.

require collaboration among the various agencies and regulators, and the sharing of information and flexibility in their approach to innovation. It is expected that the recently signed Nigeria Startup Act will address some of these concerns once it is fully implemented.
While the regulators have made considerable progress, there is still a need to pick up the pace as innovations evolve. To tackle the slow pace of regulation in response to the FinTech industry,

agencies and regulators need to establish regulatory sandboxes to provide emerging FinTechs with a controlled environment to test new products and services under the regulators' watchful eyes. Both the CBN and the Securities and Exchange Commission (SEC) have introduced frameworks for regulatory sandbox operations to promote new ideas that could improve Nigeria's growing FinTech ecosystem. Although the sandbox policy introduced by the CBN and SEC has not gained wide acceptance and more engagement by the regulator is required to enable operators to take advantage of this policy, it is crucial to the sustained growth of the FinTech sub-sector that other regulators adopt a similar, but more proactive, approach to accommodate the diverse product offerings in Nigeria's FinTech ecosystem.

Both the CBN and the Securities and Exchange Commission (SEC) have introduced frameworks for regulatory sandbox operations to promote new ideas that could improve Nigeria's growing FinTech ecosystem.

Another approach that could assist with improving the pace of regulation is regular engagement with stakeholders in the sub-sector through consultation, public hearings and open forums. Also, collaboration and networking with international regulatory bodies, learning from their experiences, and participation in the global regulatory sandbox networks would assist in aligning regulation in Nigeria more closely to the global market.

Lack of patient capital:

Investment in the FinTech sub-sector is mostly driven by venture capitalists who are not focused on long-term growth and gain. It is, therefore, important for FinTechs to access patient capital that sits well with their long-term plans. Perhaps the slow development and uncertain nature of FinTech regulation is deterring investors with an appetite for longer-term investment from investing in Nigerian FinTechs.

In tackling this, government may put in place policies and regulations aimed at incentivising investors who invest in FinTechs for a prolonged period. This could come in the form of tax incentives or credits. The Startup Act has already set the tone for this sort of incentive. For instance, the Act grants an investment tax credit equivalent to 30% of the investment in a labelled start-up,[73] provided that such are applied to gains on investments subject to tax. Similarly, capital gains tax is not chargeable on gains accruing from the disposal of assets by investors in a labelled start-up, provided the assets have been held in Nigeria for a minimum of 24 months.

Notably, the Startup Act empowers the minister of finance to develop and implement a national policy of incentives for investors in labelled start-ups and for the start-up ecosystem to enjoy tax credits on their investments. It is expected that the Federal Ministry of Finance will take advantage of the powers conferred on it by the Act to drive an increased tenor of investment in start-ups (including FinTech start-ups) as this will assist in solving the persistent problem of lack of patient capital, which has plagued a number of FinTech businesses.

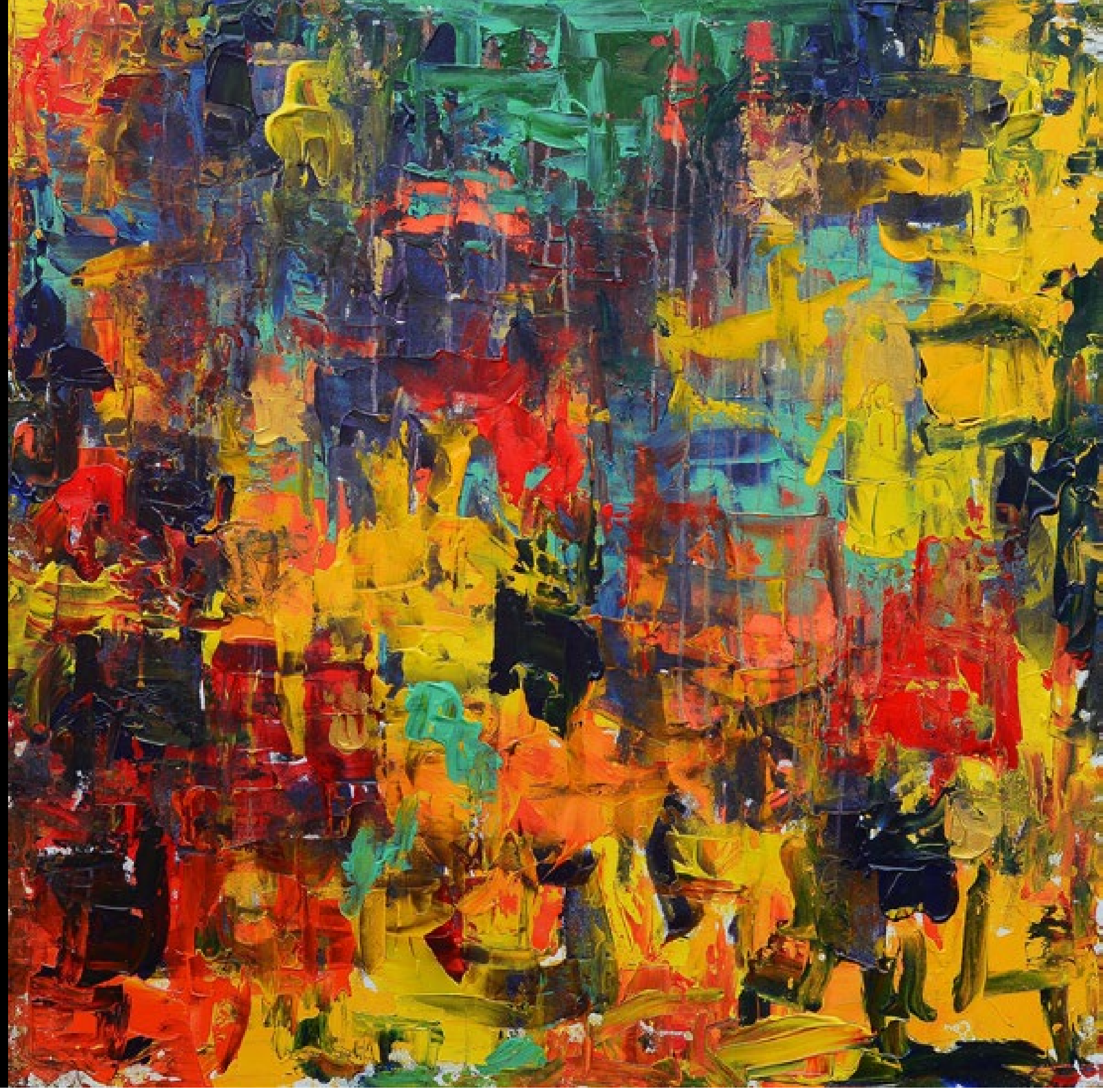
Weak political and regulatory support:

A cursory look at the growth of the FinTech ecosystem in recent times shows strong development without concerted political and regulatory support. The Nigerian government needs to demonstrate its commitment to supporting the growth of the FinTech sub-sector through enabling regulation, incentives and concessions. In 2022, in line with its desire to demonstrate its commitment to the FinTech sub-sector, the Nigerian government launched its National Fintech Strategy, which outlines its goals, objectives and recommendations for promoting the sub-sector. Some of the Strategy's recommendations include enhancing institutional coordination, digitalising regulatory and supervisory processes, building FinTech policy and technical enablers in the cryptocurrency segment, and building awareness of consumer protection, security and data privacy in the FinTechs. While implementation of the recommendations in the National FinTech Strategy is still in its early stages, effective implementation is crucial to the growth of the sub-sector.

Shortage of local funding:

Arguably, no segment within the tech ecosystem has received as much funding in Nigeria in the last five years as the FinTech sub-sector. Between January and August 2022, FinTech start-ups in Nigeria registered a total funding value of $507 million.[74] However, most of the funding attracted by FinTechs in Nigeria came from the international market, illustrating the need for more domestic participation in FinTech investments.

73 For more on labelled start-ups, see Nigeria Startup Act, (October 2023), available at https://nigeriastartupact.ng/
74 Statista, 'Total value of fintech startup funding in Nigeria from 2015 to 2022', (August 2023), available at https://www.statista.com/statistics/1340349/total-value-of-fintech-startupstart-up-funding-in-nigeria/



Amaka Okolo, Untitled, 36 x 36 inches, oil on canvas, 2020.

In March 2023, it was reported that the Nigerian government, in collaboration with the African Development Bank Group, the French government and the Islamic Development Bank, raised a $618 million fund aimed at supporting FinTech start-ups in the country.[75] Notwithstanding this, a shortage of funding remains a challenge for Nigerian FinTechs. Generally, this is because while it is relatively easy for these firms to get initial seed funding, the reverse is true for scale funding.

In all, these are challenges that may be eradicated by looking away from privately sourced funds and turning to opportunities offered by security exchanges. A key provision in the Startup Act, for instance, is the provision of assistance by the National Council for Digital Innovation and Entrepreneurship (NCDIE) to labelled start-ups to meet eligibility requirements for listing on the board of the Nigerian Exchange (NGX).[76] In December 2022, the NGX introduced the technology board, which is waiting to be tapped into by FinTechs and other tech companies in Nigeria.

FinTechs may take advantage of the Security and Exchange Commission's crowdfunding provisions, which essentially provide access to a large pool of investors. The NCDIE, and indeed the government's support in this regard, is needed in terms of formulating policies to provide investor relations support to FinTechs. Many FinTechs, especially those in their early years, simply do not have the technical know-how and expertise to manage a large number of investors in instruments offered through a crowdfunding portal.

75 Chinwe Michael, 'Nigeria Fintech to Gain as Funding Rise in 2023', (August 2023), available at https://businessday.ng/technology/article/nigeria-fintech-to-gain-as-funding-rise-in-2023/#:~:text=With%20the%20Nigerian%20government%20renewed,report%20by%20CSL%20stockbrokers%20limited.
76 Section 36 of the Startup Act, see Footnote 73

Professional Services

The Professional Services sub-sector is the powerhouse that energises the government, business and social sectors through the provision of expert knowledge and skills, which it builds for the rest of the economy. In this section, the performance of the sub-sector in Nigeria is highlighted in terms of its contribution to national output and tax receipts.

The global Professional Services market reached $5.9 trillion in 2022, up from $4.9 trillion in 2017, and growing at a compound annual growth rate (CAGR) of 3.8%.[77] The market is projected to reach $7.4 trillion by 2027 at a 4.7% CAGR. The sub-sector maintains consistently high growth rates that validate its increasing relevance to other sectors and contribution to the economy.

77 Research and Market, 'Professional Services Global Market Opportunities and Strategies to 2032', (September 2023), available at https://www.researchandmarkets.com/reports/5749402/professional-services-global-market

Key Facts

The global Professional Services market

COMPOUND ANNUAL GROWTH RATE (CAGR) = 3.8%

$5.9 trn 2022

$4.9trn 2017

Number of registered chartered accountants in Nigeria

June 2022 **21,917**

Jan | 2023 **27,420**

Over 140,000 legal practitioners in Nigeria in 2022, versus over 120,000 in 2021

Professional, Scientific and Technical Services (PSTS) sector's contribution to GDP

(3.2% OF THE GDP IN 2022)

₦2.4trn 2022

₦2.3trn 2021

Professional, Scientific and Technical Services (PSTS) sector contribution to company income tax (CIT):

(1.2% OF CIT IN 2022)

₦20.2bn 2022

Top 12

RANKED AS THE TOP 12 OUT OF 21 SECTORS

In Nigeria, professional services firms, categorised into accounting, management consulting and legal services firms, continue to offer valuable commercial services to large organisations and government. In many instances, they support various social impact initiatives, including assisting small enterprises and start-ups as well as helping businesses in challenging times to survive.

The number of registered members of the Institute of Chartered Accountants of Nigeria (ICAN) increased to 27,420[78] as at January 2023, higher than the 21,917 recorded in June 2022. The Nigerian Bar Association (NBA) now reports over 140,000[79] registered legal practitioners in the country, compared to over 120,000 members in 2022.

Contribution to the economy

Contribution to national output

Professional Services is categorised under the Professional, Scientific and Technical Services (PSTS) sector in the National Bureau of Statistics (NBS) data inventories. The PSTS sector's contribution to national output is estimated at ₦2.4 trillion, up from ₦2.3 trillion in 2021 (Figure 45).[80] The 2022 estimate represents 3.2% of the GDP, and this puts the contribution of the entire Financial and Professional Services sector above 7%.[81]

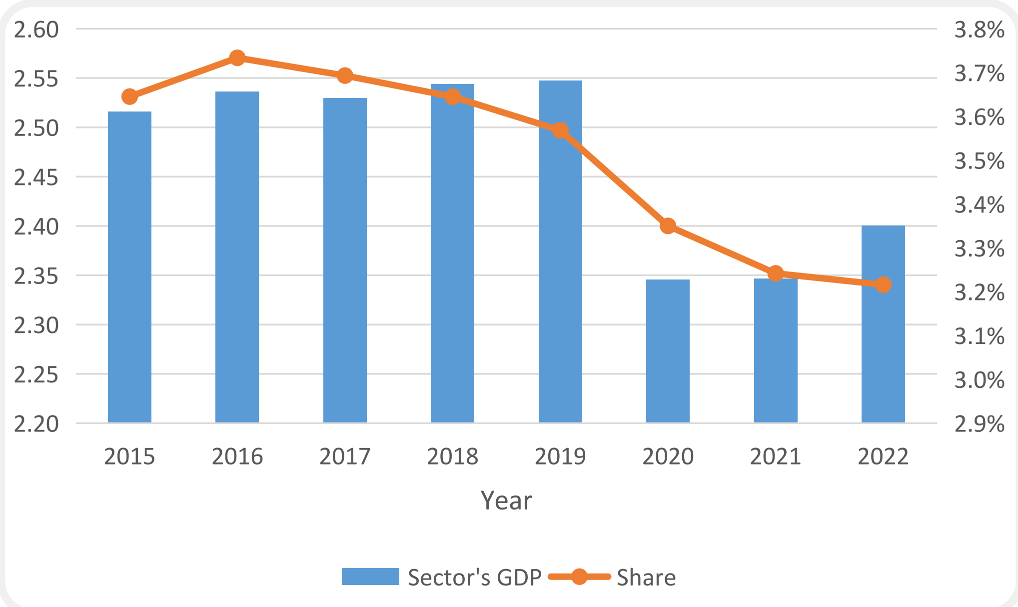


Figure 45: **The Professional, Scientific and Technical Services sector's contribution to GDP, 2015-2022 (₦ trillions)**
Source: National Bureau of Statistics and EnterpriseNGR analysis

78 Institute of Chartered Accountant of Nigeria, 'FM List as at January 15, 2023 up to year 2022 subscription', (September 2023), available at https://icanig.org/members/documents/FM_LIST_15-01-23.pdf
79 Nigerian Bar Association, Website homepage (September 2023), available at https://nigerianbar.org.ng/
80 Calculated using the National Bureau of Statistics Gross Domestic Product data (Gross Domestic Product at 2010 constant prices); see National Bureau of Statistics, 'E-library', (September 2023), available at https://nigerianstat.gov.ng/elibrary
81 This has taken into account the Financial Services sector's contribution to GDP at 3.6%.

Contribution to tax revenue

In 2022, the PSTS sector contributed ₦20.2 billion in company income tax, which represents 1.2% of total tax receipts and ranks the sector among the top 12 out of 21 sectors in the classification (Figure 46).[82]

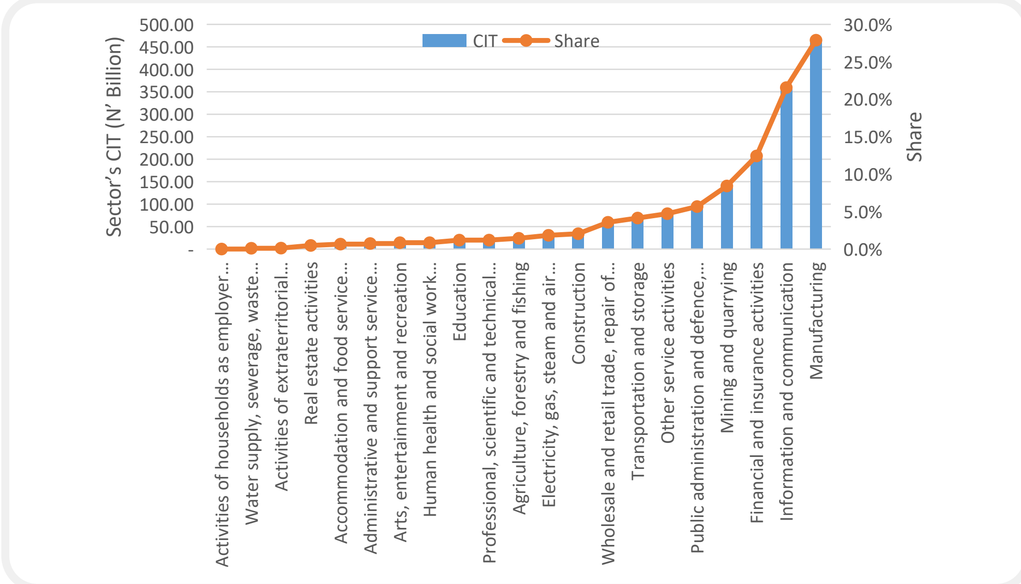


Figure 46: **The Professional, Scientific and Technical Services sector's contribution to company income tax (CIT), 2022**
Source: National Bureau of Statistics and EnterpriseNGR analysis

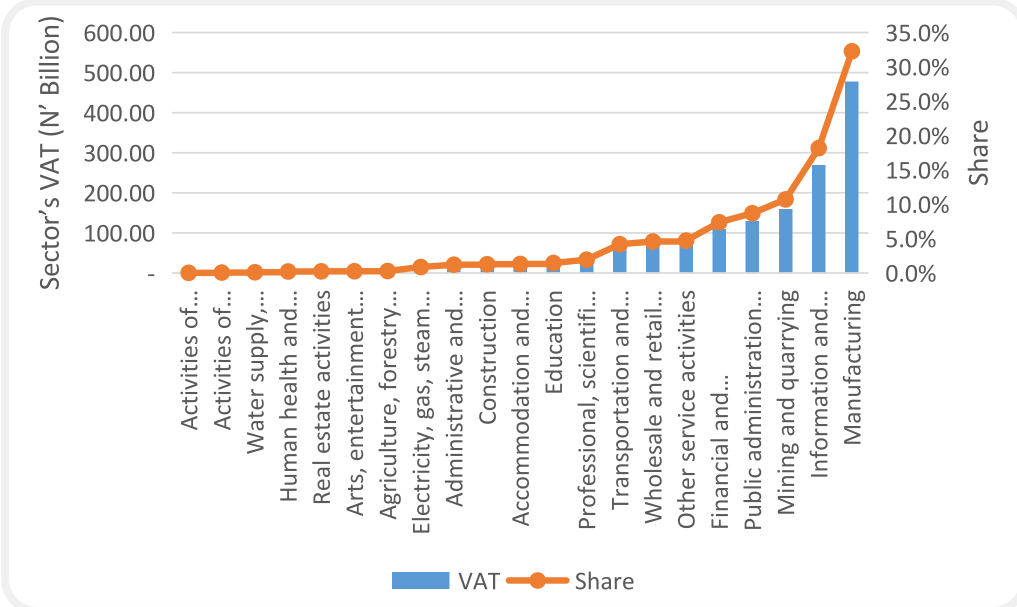


Figure 47: **The Professional, Scientific and Technical Services sector's VAT contribution, 2022**
Source: National Bureau of Statistics and EnterpriseNGR analysis

For value-added tax (VAT), the sector performed well above its CIT record. The sector generated ₦28.7 billion in VAT in 2022. This represents 1.9% of total VAT generated in the year and ranks the sector ninth among 21 sectors/activities in the classification (Figure 47).[83]

82 See Footnote 6.
83 See Footnote 7

Conclusion

The global Professional Services market is growing at an impressive rate. Nigeria's Professional Services sub-sector must develop and catch up with global development. To achieve this, the following are recommended to address limiting challenges in the sub-sector:

Low adoption of technology:

Technology is still not accessible to many professional firms on the lower rungs of the ladder. In the last few years, governments have initiated different programmes and agendas to speed up innovation in the country. However, technology adoption in the Professional Services sub-sector will only increase when enough job opportunities require firms to acquire technology. It is, therefore, important for governments to start promoting growth in the industry by awarding work to operators in the industry. Often, local firms compete with international names for jobs. Governments can ensure that no job is awarded to international firms without requiring the international firm to partner with a local professional service firm. The local firms can be empowered and equipped to scale through such a local content strategy.

Shortage of talent:

Shortage of talent is prevalent across industries, but Professional Services is more negatively impacted than most because of global demand and many

The sub-sector is dominated by small-scale operators that require incentives to scale and need more government support. The government should start promoting the sub-sector by ensuring that local content policies encourage the participation of local operators in big-ticket transactions.

Nigerians desire to migrate to greener pastures. To address the shortage of talent, it is essential to focus on revamping the educational system to build and develop relevant skills for industries. Ample examples of this abound in developed economies. In addition, after-school training programmes should be set up for graduates to acquire employability skills. The Youth of Enterprise (YOE) internship programme, established by EnterpriseNGR[84] to improve graduates' employability skills and increase their chances of employment, is a model for the nation. The government can partner with the private sector to reconceptualise the National Youth Service Corps and make it more relevant to industry needs. In the short term, the large number of graduates currently seeking employment can be retrained. The government should establish a national strategy to quickly turn jobless graduates into talent for industry and productive activities.

84 For more information about Youth of Enterprise, visit: https://enterprisengr.com/yoe/

Lack of national support:

The sub-sector is dominated by small-scale operators that require incentives to scale and need more government support. The government should start promoting the sub-sector by ensuring that local content policies encourage the participation of local operators in big-ticket transactions. The government procurement system should emphasise a preference for local firms. Where it is obliged to engage international firms, the work should be awarded in partnership with local firms.

Corrupt practices and influx of unprofessional service providers:

Professional Services has many unregistered and unprofessional service providers. This often results in poor service, which colours people's perception of the quality of work in the sub-sector. Governments must play a supervisory role over the regulatory bodies to ensure that they strengthen the sub-sector and the activities of members. Regulatory bodies for consulting, accounting, and legal services, working with government agencies, should improve their efforts to enforce regulations and implement adequate sanctions.

Sustainable Finance

Increasing campaigns and interest in sustainable development are expanding demand for, and supply of sustainable finance. This section highlights the Sustainable Finance sub-sector's performance in 2022. The sub-sector is helping to accelerate access to green finance through sustainable bonds, sustainable project loans, and ethical mutual funds.

Growth in sustainability-themed investment products was estimated at 12% in 2022, reaching a value of $5.8 trillion.[85] These products include sustainable bonds ($3.3 trillion), sustainable funds ($2.5 trillion) and voluntary carbon markets ($2 billion). In 2022, the sustainable bond market added $892 billion, classified into green bonds ($501 billion), social bonds ($169 billion), mixed-sustainability bonds ($144 billion) and sustainability-linked bonds ($75 billion). The total number of sustainability-themed funds grew by 18% in 2022 to reach 7,012, a significant increase from 1,538 in 2012.

85 See Footnote 1.

Key Facts

Global sustainability-themed investment products market in 2022

+12% Growth in 2022

$5.8trn

These products include:

- Sustainable bonds ($3.3 trillion)
- Sustainable funds ($2.5 trillion)
- Voluntary carbon markets ($2 billion)

Nigeria green bonds

₦32.83bn

4 corporate green bonds valued at ₦32.83 billion listed on Nigeria's exchange as of 2022

$50 m

1 corporate green bond valued at $50 million listed on the London Stock Exchange in 2022

₦25.69

2 sovereign green bonds valued at ₦25.69 listed on Nigeria's exchanges as of 2022.

United Nations' Green Climate Fund support

Project funds:

$188.7m

As of August 2023
For 14 projects

Readiness support

$3.4m

As of August 2023
For 2 readiness activities

In Nigeria, there are opportunities for tapping into the global sustainability-themed market to solve many climate and development challenges. Sustainable development is the primary outcome of sustainable practices and adaptation, and the benefits for Nigeria could be widespread, whereas the costs of not taking this course could be as high as $450 billion by 2050.[86]To date, record growth has been reported in Nigeria on the back of emerging efforts from both the government and corporate sectors.

Contributing to national investments and development

Accelerating green finance

Sustainable bonds

Since the issuance of the first sovereign green bond in 2017, Nigeria's green bond market has made some advancements in line with the country's Nationally Determined Contributions pledge. As of 2022, five corporate green bonds valued at ₦32.83 billion were listed on Nigeria's exchanges and $50 million listed on the London Stock Exchange; two sovereign green bonds valued at ₦25.69 were listed on Nigeria's exchanges. See Table 4

Year	2017	2019			2021		2022
Value (million)	₦10,690	₦15,000	₦8,500	₦15,000	₦6,320	₦3,000	$50
Issuer	FGN	FGN	North South Power Company Ltd	Access Bank plc	North South Power Company Ltd	One Watt Solar Ltd	Access Bank plc

Table 4: Green bond issuances
Source: EnterpriseNGR analysis

86 African Development Bank Group, 'Country focus report 2022 Nigeria: Supporting climate resilience and a just energy transition', (August 2023), available at https://www.afdb.org/sites/default/files/documents/publications/nigeria_-final.pdf

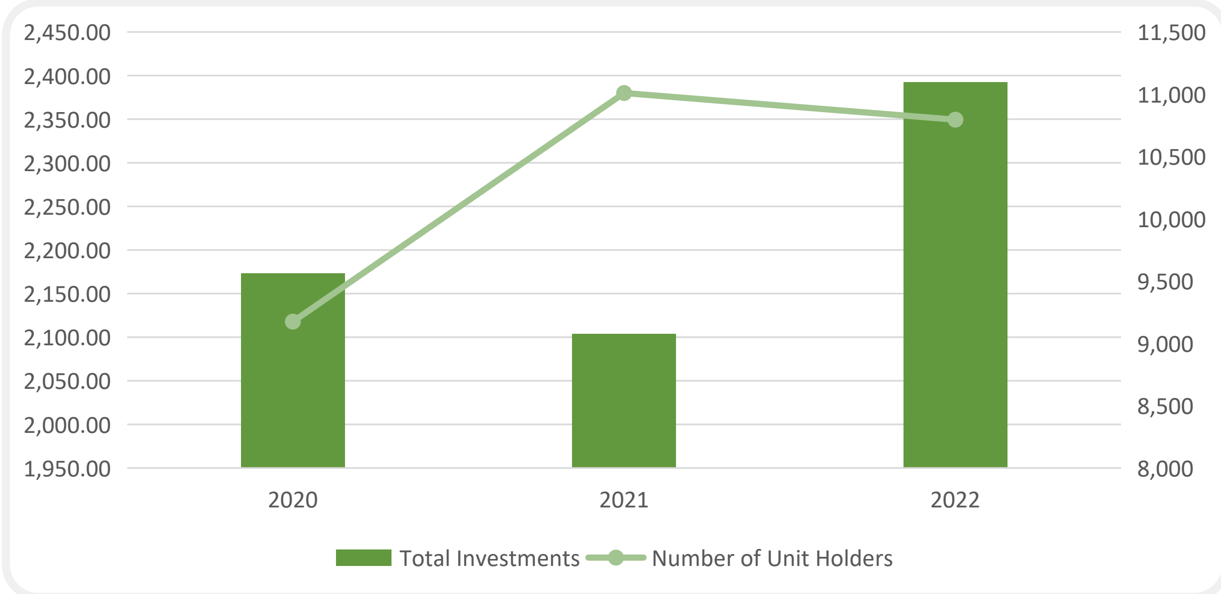
Sustainable project loan

In 2022, the Lagos State Government secured a loan facility of $50 million from the International Finance Corporation.[87] The loan facility was approved to support the development of two Quality Bus Corridors (Command–Abule Egba [6 km] and Ile Ile–Ile Epo [4.3 km]) to reduce carbon emissions accrued from the use of privately owned vehicles.

ESG ethical mutual funds

Sustainability-themed mutual funds are gradually emerging in Nigeria's capital markets. There are two principal ESG ethical mutual funds, namely the Stanbic IBTC Ethical Fund[88] and Zenith ESG Impact Fund. Total investment in these funds was valued at ₦2.4 billion in 2022 with 10,796 unitholders, an improvement over ₦2.2 billion value and 9,175 unitholders recorded in 2020 (Figure 48).[89]

Figure 48:
ESG and ethical mutual funds, 2020-2022 (₦ millions)
Source: Securities and Exchange Commission and EnterpriseNGR analysis



87 International Finance Corporation, 'IFC Project Information & Data Portal', (September 2023), available at https://disclosures.ifc.org/project-detail/SII/40065/lagos-city-infra
88 Fund targeting investments in socially-responsible projects
89 See Footnote 32

At the international level, as of August 2023, Nigeria has accessed $188.7 million in project funds for 14 projects and $3.4 million in readiness support for two readiness activities from the United Nations' Green Climate Fund.[90] Besides the Green Climate Fund, other sustainability-themed fund providers are making inroads in Nigeria, including Climate Investment Funds, Climate Finance Accelerator Nigeria, Green Finance Platform and African Development Bank's Africa Climate Change Fund.

Conclusion

The Sustainable Finance sub-sector in Nigeria is still emerging. Although appreciable progress is being reported, stakeholders need to focus on addressing the major issues slowing down sustainability financing in Nigeria. The following measures are recommended to address pressing challenges in the sub-sector:

Lack of funding:

There are comparatively few green projects in Nigeria for several reasons, including insufficient funding from international investors, who have little knowledge of green projects' potential in Nigeria. Also, many potential green projects are low-scale, and that discourages big envelope investors. This issue can be addressed by establishing accelerator finance programmes that will bring together small projects in the same category to access funding. The National Council on Climate Finance (NCCF) should set up a fund that can be channelled to viable and well-vetted projects to address the lack of funding for green projects. The Central Bank of Nigeria (CBN) can incentivise banks to back green projects while working to ensure the full implementation of sustainable finance guidelines. The NCCF and CBN should support research to bridge the gap between academia and business in the country, to improve the knowledge and awareness about the potential of green projects.

Oil & gas-dependent economy:

Nigeria's dependence on oil can deter consideration for alternative energy. Interestingly, there is hope with the Climate Change Act, green project initiatives of the rural electrification agency, and the establishment of the NCCF. Governments at the federal and state levels should intensify efforts to diversify the economy and ensure the full implementation of climate change laws. They should disincentivise the use of fossil fuels and incentivise alternative clean energy sources, such as by providing tax breaks for using sustainable energy and promoting circular economy habits, including converting waste to energy. A reconsideration of the law on the single use of plastic could accelerate progress. Governments should issue more green and blue bonds to finance infrastructure projects. Also, the country can move away from being oil-dependent by targeting investments in other natural resources, such as copper.

There are comparatively few green projects in Nigeria for several reasons, including insufficient funding from international investors, who have little knowledge of green projects' potential in Nigeria. Also, many potential green projects are low-scale, and that discourages big envelope investors. This issue can be addressed by establishing accelerator finance programmes that will bring together small projects in the same category to access funding.

Lack of knowledge and awareness of sustainable finance options:

The Sustainable Finance sub-sector needs to create more awareness to accelerate progress. Only a few around the world know about the achievements of Nigeria's states and federal government green projects. Deliberate efforts should be prioritised to get the support of the media to drive campaigns and awareness. This could entail providing resources, including training to support the media drive. In addition, governments, academia, and the corporate sector must disseminate facts and statistics about Nigeria's Sustainable Finance sub-sector on a regular basis.

Governments at the federal and state levels should intensify efforts to diversify the economy and ensure the full implementation of climate change laws.

90 Green Climate Fund, 'Federal Republic of Nigeria' (August 2023), available at https://www.greenclimate.fund/countries/nigeria

FPS and Sustainable Development Goals

In addition to the significant achievements presented in different parts of this report, Nigeria's FPS sector supports the global drive toward attaining Sustainable Development Goals (SDGs). In this section, the SDGs impacted by the sector are spotlighted.

Sustainable Development Goals Impacted

Today, an increasing percentage of Nigerians have access to a wide range of financial products, including loans, mortgages, savings, credit, insurance and payment platforms. These services ultimately lead to income generation and improved livelihoods.

Goal 1: No poverty

The FPS sector contributed to Sustainable Development Goal 1 — No poverty — through Pensions and FinTech sub-sectors.
The Pensions sub-sector has contributed to reducing poverty by providing financial security to retired individuals, helping them maintain their standard of living and reducing their reliance on social welfare programmes. In essence, pension schemes function more or less as poverty alleviation schemes. Retirement or terminal benefits paid to retirees amounted to N117.65 billion in 2022.
FinTechs have played a critical role in reshaping Nigeria's financial inclusion journey by making it easier for people living below the poverty line to access financial services, particularly those focused on providing banking services to adults who do not have their own bank accounts (i.e. the unbanked). With a combined strength of over 120,000 active agents spread across Nigeria, FinTechs and telcos such as Opay, Paga and MTN are making giant strides to include the unbanked and underbanked population in rural locations by providing affordable mobile money services. Today, an increasing percentage of Nigerians have access to a wide range of financial products, including loans, mortgages, savings, credit, insurance and payment platforms. These services ultimately lead to income generation and improved livelihoods.[91]

91 Okafor Endurance, 'How Nigeria can bank its unbanked population', (September 2023), available at https://businessday.ng/financial-inclusion/article/how-nigeria-can-bank-its-unbanked-population/

SDG 2: Zero hunger

The FPS sector contributed to Sustainable Development Goal 2 — Zero hunger — through the Banking sub-sectors.
The Banking sub-sector plays an important role in achieving food security and sustainable agriculture through the provision of finance. The Agricultural Credit Guarantee Scheme Fund (ACGSF) and the Anchor Borrowers' Programme (ABP) established by the CBN provided credit facilities for farmers to boost production. The CBN has offered 31,666 loans worth N5.92 billion through ACGSF. This is consistent with SDG 2, which aims to achieve food security and sustainable agriculture, though the impact is yet to be ascertained. The CBN established the ABP to create economic linkages between smallholder farmers and reputable companies in the production and processing of key agricultural commodities. The programme aims to reduce poverty among smallholder farmers and improve financial inclusion.[92] As at February 2023, the CBN has disbursed ₦1.1 trillion to over 4.6 million smallholder farmers.[93]

The CBN established the ABP to create economic linkages between smallholder farmers and reputable companies in the production and processing of key agricultural commodities.

SDG 3: Good health and well-being

The FPS sector contributed to Sustainable Development Goal 3 — Good health and well-being — through Asset Management and Pensions sub-sectors.
Capital Trust Investment manages the Nigerian Healthcare Development Fund, a private equity fund seeking to invest in the Healthcare sector to develop a resilient, large-scale ecosystem of city-based assets designed to meet the healthcare needs of Nigeria's soaring population. As of the third quarter of 2022, the fund's total committed capital and assets under management stood at ₦7.5 billion and ₦635.8 billion, respectively.
By contributing to retirees' financial security, the Pensions sub-sector helps alleviate financial stress during retirement, thereby supporting individuals' overall well-being. Pension schemes provide opportunities for retirees to access quality healthcare. With growth in the number of contributors to the compulsory pension scheme, which was 3.49% in 2022, more Nigerians will be able to afford private healthcare, which will reduce the burden on public healthcare services.

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92 Central Bank of Nigeria, 'Anchor Borrowers' Programme Guidelines', (August 2023), available at https://www.cbn.gov.ng/Out/2020/CCD/Anchor%20Borrowers%20Programme%20Guidelines%20-December%202018%20(Non-Interest%20Banking%20Principle)%20Cleaned%2004012019%20(2).pdf
93 The Cable, 'CBN: We have disbursed ₦1.09 trillion loans under anchor borrowers' programme' (September 2023), available at https://www.thecable.ng/cbn-weve-disbursed-n1-09trn-loans-under-anchor-borrowers-programme

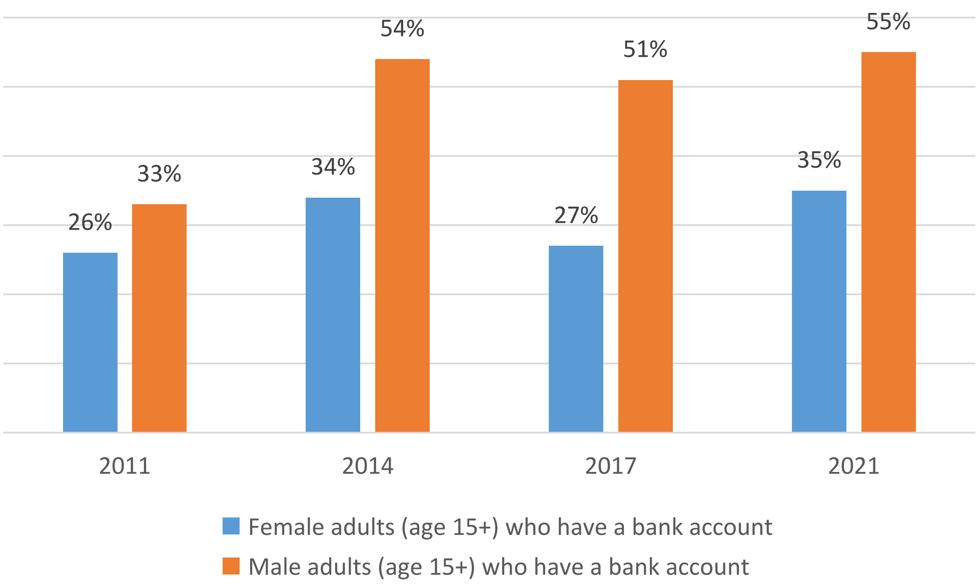
SDG 5: Gender equality

The FPS sector contributed to Sustainable Development Goal 5 — Gender equality — through Banking and Asset Management sub-sectors.

SDG 5 focuses on reforms to give women equal rights to economic resources and access to financial services. The gender disparity in the percentage of bank account holders is narrowing. In 2017, 51% of men had a bank account, while only 27% of women did; in 2021, this was 55% for men and 35% for women (Figure 49).[94]

The gender disparity in the percentage of bank account holders is narrowing.

Figure 49:
Percentage of bank account holders by gender
Source: World Bank Development Indicators and EnterpriseNGR analysis



In 2022, 26% of venture capital investments in Africa were in early-stage companies with a female founder or multiple founders that included at least one female. Of particular note in 2022 was the announcement by female-led Aruwa Capital Management (a Nigerian early-stage growth equity and gender-lens investment firm) of the successful closure of its $20 million gender-lens fundraising.[95]

The #ThisGirlInvests campaign by United Capital plc promotes women's financial independence and security, addressing the gender gap in financial inclusion and encouraging women's participation in capital markets. By setting up the United Capital Wealth for Women Fund, the company aims to promote an investment culture among females. The net asset value of the United Capital Wealth for Women Fund is ₦645.8 million as of 2022, compared to ₦ 579.5 million in 2021.

SDG 7: Affordable and clean energy

The FPS sector contributed to Sustainable Development Goal 7 — Affordable and clean energy — through Banking and Sustainable Finance sub-sectors.

The Banking sub-sector has provided finances for renewable energy. First City Monument Bank (FCMB) offers a N10-million clean energy loan to households and small businesses. The loan is targeted at improving homes and small businesses using clean energy.[96] In 2021, the Bank of Industry (BOI) supported six emerging renewable energy players in Nigeria with N852 million in credit, creating an estimated 3,791 jobs.[97] Part of the proceeds from FGN green bonds in 2017 and 2019 were invested in solar and wind projects, including renewable energy micro-utilities in rural communities and the Katsina wind farm. The Katsina wind farm has 37 functioning turbines and can generate about 275kW of power. Access Bank's green bond proceeds financed solar photovoltaic generation in South-East (Enugu), South-West (Lagos), South-South (Port Harcourt), and the Federal Capital Territory (Abuja). The project will generate 35,718.02 MWh per year.

The Banking sub-sector has provided finances for renewable energy. First City Monument Bank (FCMB) offers a N10-million clean energy loan to households and small businesses.

SDG 8: Decent work and economic growth

The FPS sector contributed to Sustainable Development Goal 8 — Decent work and economic growth — through Non-interest Finance, FinTech and Professional Services sub-sectors.

Non-interest Finance, which adheres to principles that emphasise ethical investment, risk sharing and inclusive growth demonstrated its capacity

94 See Footnote 9
95 See Footnote 41

96 The Cable, 'FCMB offers N10m clean energy loan to households and small businesses', (August 2023), available at https://www.thecable.ng/fcmb-offers-n10m-clean-energy-loan-to-households-and-small-businesses
97 Bank of Industry, 'Renewable Energy', (August 2023), available at https://www.boi.ng/renewable-energy/

to address the pressing issue of decent work in the country. Examples of this in 2022 include Jaiz Bank[98] financially empowering over 6,500 women to the tune of ₦117.3 million through its Financial Inclusion Centre (JAFIC). Through its financing-for-growth strategy, the bank empowered artisans with ₦175 million. In addition, by partnering with GIZ, the bank disseminated ₦768.8 million to more than 2,000 smallholder farmers. Other non-interest finance institutions have provided support to small-scale entrepreneurs and individuals in starting or growing their businesses.

The products offered by FinTechs, such as micropayments to SMEs and remote payments, easy access to loans and BNPL products (offered by companies such as Carbon, Renmoney and Paylater), have positively impacted the economy as they have increased the buying capacity of lower-income earners who, in turn, utilise these services to better their economic state by building business through access to short-term loans.

Further, the fast pace of FinTech growth has led to job creation on a massive scale, with niche areas and skills becoming ever more relevant. This has helped tackle Nigeria's significant unemployment rate — projected to reach as high as 41% in 2023[99] — by directly and indirectly employing thousands of predominantly young people. Additionally, the flexibility afforded by the remote nature of most of the jobs in the FinTech sub-sector could potentially contribute to integrating more people (who may otherwise have remained unemployed due to restricted working hours and proximity) into the global workforce.

The Professional Services sector is a training ground for graduates and skills development for employees in diverse sectors. Firms such as Deloitte and PwC offer graduate trainee programmes to young graduates, which has contributed to requisite skill development. A professional body like ICAN promotes quality education initiatives, including the Library Fund, which makes high-quality library facilities, materials and equipment available to members. Up to 3% of the Institute's annual gross income is set aside for library development.[100]

SDG 9: Industry, innovation, and infrastructure

The FPS sector contributed to Sustainable Development Goal 9 — Industry, innovation, and infrastructure — through Banking, Capital Markets, Asset Management, Non-interest Finance and Pensions sub-sectors.

SDG 9 targets increasing the role and capacity of small-scale industrial enterprises in industrial development. Access to finance is vital for small-scale industries as it allows entrepreneurs to innovate, improve efficiency, expand to new markets, and create new job opportunities. There has been a remarkable rise in the value of loans to small-scale enterprises. A total amount of N287.6 billion in loans was advanced to small-scale enterprises by commercial banks in 2021, compared to N44.8 billion in 2018 (Figure 50).The Nigerian capital markets support the achievement of goal 9 by providing capital to companies and governments for the development of infrastructure and industrialisation. As of Q3 2022, three infrastructure funds managed by Stanbic IBTC Capital Ltd, United Capital Asset Management Ltd, and Iroko Capital Investment Management

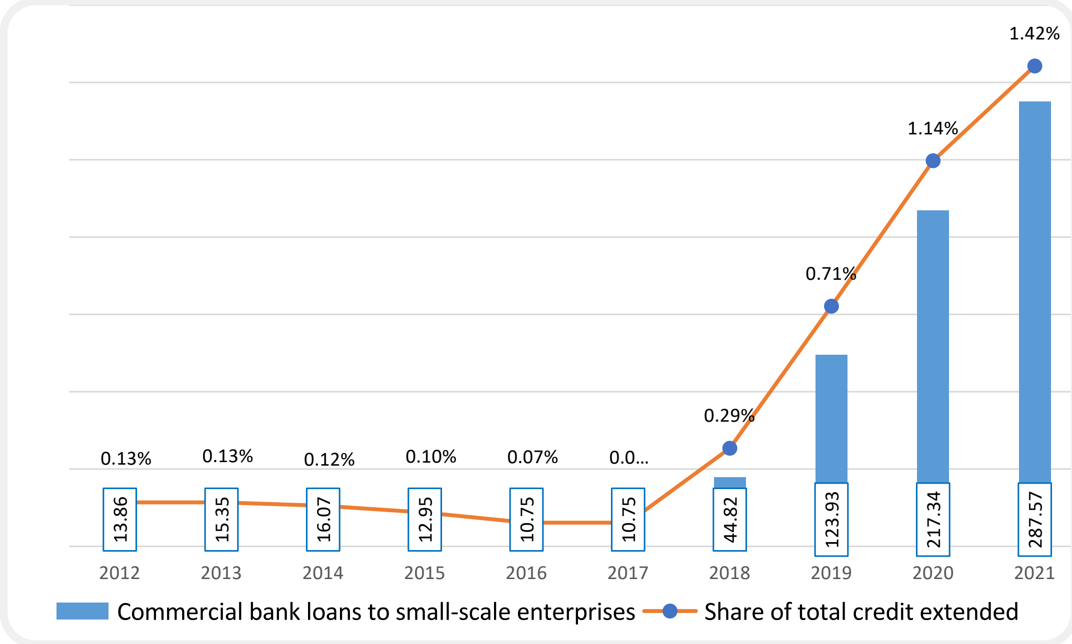


Figure 50: Commercial banks' loans to small-scale enterprises (N billions)
Source: National Bureau of Statistics and EnterpriseNGR analysis

were registered. Thus, the total committed capital of investment funds stood at ₦146.46 billion[101] as of the review period. In May 2022, Helios Investment Partners (a Nigerian-founded private equity investment firm) announced the introduction of Helios Digital Ventures, a venture capital initiative focusing on tech-enabled start-ups at an early growth stage in Africa.

98 Jaiz Bank plc., 'Our sustainability Journey - 2022' (September 2023), available at https://jaizbankplc.com/wp-content/uploads/2023/06/YEAR-2022-JAIZ-SUSTAINABILTIY-REPORT.pdf
99 KPMG, 'KPMG Global Economic Outlook H1 2023', (September 2023), available at https://kpmg.com/dp/en/home/media/press-releases/2023/03/global-economic-outlook-h1-2023.html#:~:text=The%20global%20organization%20is%20forecasting,and%205.4%20percent%20in%202024.
100 ICAN, 'Annual Report and Financial Statements for the Year Ended 31 December 2022', (August 2023), available at https://icanig.org/members/documents/ICAN_Signed_FS-%2031December2022.pdf

101 See Footnote 40

The acquisition of 40 logistic trucks by Pomegranate Nigeria Ltd with proceeds from its ₦2.3 billion sukuk al-ijarah note is intended to increase the sourcing and distribution of raw materials and final products in Healthcare, Beverages, Telecoms and other industries. This will increase the industry share of employment, thereby supporting growth and human well-being.

Pension funds are largely (64.3%, or about ₦9.6 trillion as at 2022) invested in FGN securities. These funds are used by the government to build and maintain infrastructure such as roads, bridges, airports, and energy facilities. Since no less than 72% (₦10.7trillion) of pension contributions are in active RSA funds, belonging to people still in active employment, the Pensions sub-sector has a high capacity to invest in such long-term, development projects, thus, contributing to SDG 9.

SDG 10: Reduced inequalities

The FPS sector contributed to Sustainable Development Goal 10 — Reduced inequalities — through the Non-interest Finance sub-sector. By offering alternative finance and investment sources to people whose values and ethics prevent them from taking part in conventional financial services, the Non-interest Finance sub-sector is helping to reduce inequalities and support financial inclusion. Sharia-compliant mutual funds' total investment grew from ₦17.4 billion to ₦35.0 billion between 2021 and 2022, and the number of unitholders grew from 17,353 to 25,057 in the same period.

Goal 11: Sustainable cities and communities

The FPS sector contributed to Sustainable Development Goal 11 — Sustainable cities and communities — through Pensions and Sustainable Finance sub-sectors.

Pension funds are invested in various financial instruments, including bonds, equities and money market. The sub-sector has its largest share of investment in bonds, including green bonds and sukuk.

In 2022, the sub-sector's share in the total allotment of sovereign sukuk was approximately 42%. Nigeria's pension funds are the largest investors in assets and projects that prioritise sustainable practices and environmentally responsible activities.

So far, both sovereign and corporate bonds issued have been used to finance projects with improved access to safe, affordable, and sustainable transport systems: Abuja Rail Mass Transit and Lagos Rail Transport. These enable sustainable cities and communities and reduce "the adverse per capita environmental impact of cities", air quality, and other pollutants. Access Bank's $50 million bond issued on the London Stock Exchange in 2022 aims to support low-carbon rail transportation in Lagos. The project is predicted to reduce emissions (relative to current emissions) by 63.6%, equivalent to 4,032 tCO2 per year. Part proceeds from both sovereign and corporate green bonds were targeted at afforestation and climate adaptation projects. Under the national afforestation programmes financed by the green bond, the federal government has successfully forested 6,191,363 hectares of land.[102]

Access Bank's flood defence project, a sea revetment spanning 8 km of Victoria Island shoreline, was financed with the proceeds from the bank's first green bond. The project contributes to SDG 11 by reducing erosion threats, damage, and destruction to properties and livelihoods.

Goal 13: Climate action

The FPS sector contributed to Sustainable Development Goal 13 — Climate action — through the Capital Markets sub-sector.

NGX promoted leadership in sustainability reporting by implementing the Global Reporting Initiative (GRI) Sustainability Reporting for Responsible Business (SRRB) programme. NGX also partnered with GRI and the Principles for Responsible Investment (PRI) to educate trading licence holders and investors on ESG reporting and the use of ESG metrics. The Exchange promoted sustainability among companies by giving special commendations to companies that excel in sustainability initiatives, such as Courteville Business Solutions plc, Dangote Cement plc, Flour Mills of Nigeria plc, Lafarge Africa plc, and Seplat Energy plc.

102 Vanguard, 'Afforestation: FG forests over 6 million hectares of land through green bond project - Ikeazor', (October 2023), available at https://www.vanguardngr.com/2022/02/afforestation-fg-forests-over-6-million-hectares-of-land-through-green-bond-project-ikeazor/

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Goal 16: Peace, justice and strong institutions

The FPS sector contributed to Sustainable Development Goal 16 — Peace, justice and strong institutions— through the Professional Services sub-sector.

SDG 16 is about promoting peaceful and inclusive societies for sustainable development, providing access to justice for all and building effective, accountable and inclusive institutions at all levels. In Nigeria, law firms play a pivotal role in advancing this goal by offering pro-bono legal services to individuals who have suffered from human rights abuses and those less fortunate. They champion cases linked to human rights violations, vigorously advocating for the preservation of civil liberties and fundamental freedoms. The Nigerian Legal Aid Counsel provides legal services to individuals without income.[103] The Nigerian Bar Association(NBA), with financial support from the MacArthur Foundation, promoted the adoption and implementation of the Administration of Criminal Justice Act in different states in the country.[104] Olisa Agbakoba Legal's (OAL) public interest litigation programme has worked across different areas, including the financial independence of the judiciary and the Jail Delivery Project with the aim to reducing the national prison population by 25%.[105]

103 Bukar Waziri, 'NBA gives a major boost to pro bono legal services in Nigeria' (December 2023), available at https://www.prawa.org/nba-gives-a-major-boost-to-pro-bono-legal-services-in-nigeria/
104 MacArthur Foundation, 'Nigerian Bar Association was awarded $1,200,000 between 207 and 2017, including 3 grants in On Nigeria and Human Rights, (December 2023), available at https://www.macfound.org/grantee/nigerian-bar-association-34377/
105 Olisa Agbakoba Legal, OAL's Human Right Advocacy through Public Interest Litigation (PIL) Programme' (December 2023), available at https://oal.law/project/public-interest-advocacy-through-public-interest-litigation-pil-programme/

Olu Ajayi, 48 x 60 inches, oil on canvas, 2010

Conclusion

This report shows the significant achievement of the Financial and Professional Services (FPS) sector and its contributions to people, businesses, and the economy. Despite the economic challenges marked by a slowdown in GDP growth to 3.3%, an uptick in inflation to 18.9%, and significant national debt running at 23.2% of GDP, the FPS sector demonstrated resilience and growth across its various sub-sectors in 2022. The Nigerian FPS industry, encompassing Banking, Insurance, Capital Markets, Asset Management, Pensions, Sustainable Finance, Non-interest Finance, and Professional Services, was pivotal in supporting businesses, governments and individuals while making substantial contributions to employment, fiscal revenues, investments and national output. These various impacts indicate that the collective sector is indeed an enabler of national growth and development.

Beyond these achievements, Nigeria's FPS sector is recognised as a contributor to the global effort on sustainable development. The sector impacts 11 of the 17 Sustainable Development Goals — SDG 1: No poverty, SDG 2: Zero hunger, SDG 3: Good health and well-being, SDG 5: Gender equality, SDG 7: Affordable and clean energy, SDG 8: Decent work and economic growth, SDG 9: Industry, innovation and infrastructure, SDG 10: Reduced inequalities, SDG 11: Sustainable cities and communities, SDG 13: Climate action, and SDG 16: Peace, justice and strong institutions.

While the achievements of 2022 are noteworthy, the sector still has enormous potential to contribute more significantly, but immense efforts are still required, particularly from the federal government and affiliate industry regulators and policymakers, to address critical challenges standing in the way of progress. Following interactions with experienced industry experts, and informed by our own analysis, this second edition of the SOE Report provides recommendations to help fine-tune policy changes, initiatives, reforms, and actions that can move the needle in each of the nine classified FPS sub-sectors. If followed through, we believe these would significantly accelerate growth in the FPS sector.

Key stakeholders, including regulators, policymakers, operators, and other industry participants, must come together to work collaboratively to advance the growth of Nigeria's FPS sector. EnterpriseNGR promotes this cooperation and partnership, and the SOE Report 2023 provides an evidence base to support this important mission.

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