

Summary Report

National Seminar on measuring the contribution of financial services to regional value chains in Nigeria held in Lagos, Nigeria on the 4th and 5th of July 2019

Day One – 04 July 2019

Day One kicked off with opening remarks from Leonard Kange, Bank of Industry (BOI) Nigeria and Ghitu Mundunge (ECA).

In Leonard's opening remarks, he welcomed stakeholders and thanked them for carving out time to participate at the seminar. He shared expected outcomes of the seminar and encouraged stakeholders to be as interactive as possible during the course of the seminar. Leonard also informed business-owners present that they could speak with representatives of the Bank of Industry during lunch breaks and after close of seminar on both days.

In Ghitu's opening remarks he thanked stakeholders for being present despite their busy schedules on behalf of the UNECA Senior management and the Regional Integration and Trade Division. Ghitu explained to stakeholders that regional integration remains a priority for Africa, and that the ECA is committed to advancing regional integration in all its forms. Furthermore, he highlighted that African leaders more than ever have doubled their efforts in promoting regional integration, as evidenced by the establishment of the African Continental Free Trade Area (AfCFTA). Based on his remarks, the removal of tariff barriers will increase the share of intra-African trade in the total of African trade by 50 per cent. However, the reduction of non-tariff barriers and the improvement of trade facilitation will more than double intra-African trade. Ghitu explained that financial services is critical to trade across the continent as goods and services can only be rendered through financial transactions from suppliers and buyers. It is therefore important that we build and strengthen the capacity within the continent to measure and quantify services trade, especially in the broader context of services value chains.

Afterwards Komi Tsowou (ECA) gave a brief overview of the project and introduced the UNECA team as well as the project lead, Chinwe Egwim. He also shared potential outcomes of the two-day seminar. He shed light on the basics on Trade in Value Added, Global Value Chains (GVCs) and Regional Value Chains (GVCS/RVCs) and their importance in trade policy formulation. He also introduced and briefly discussed with participants the case of the African Continental Free Trade Area (AfCFTA) and how this would affect Africa's positioning in GVCs and RVCs. It was recognized that forward Linkages is more prominent than backward linkages in Africa, and particularly in Nigeria due to high reliance of exports of raw materials. The AfCFTA should contribute to addressing such issues by promoting "made in Africa" products. In this regards, promoting financial inclusion is critical. The role of Bank of Industry and other financial institutions cannot be overstated. BOI was acknowledged as a major promoter of cheap finance costs in Nigeria, thereby driving Investments. However, constraints to trade services include data scarcity & financial inclusion amongst others.

Following the photo-session and coffee break, Edem Kludza (ECA) led the session on measuring value chains. The topic was briefly introduced by Abdulhaviz Abubakar, Trade Statistician at the National Bureau of Statistics.

Edem Kludza (ECA) introduced qualitative and quantitative approaches to measure contribution of financial services to GVCs/RVCS. Qualitative approach is based on firm-level interviews as the basis for case studies. Quantitative approach is based Trade in Value Added concept derived from Input-Output tables

The deliberations during this session agrees that Qualitative data can become Quantitative data if sampling method is employed by going to the main target. Furthermore, Qualitative data helps to understand Quantitative data better. The findings from one type of methodology can be checked against the findings deriving from the other type. For example the results of a qualitative investigation might be checked against a quantitative study.

Quantitative data readily allows the researcher to establish relationships among variables, but is often weak when it comes to exploring the reasons for those relationships. A qualitative study can be used to explain the factors underlying the broad relationships.

After the lunch break, Vashti Dan Samdi, a senior banking professional, led the sub-session on target value chain: payment services used by Nigerians and challenges faced for the unbanked.

Vashti walked us through how Nigeria compares to peer countries by population or region and this revealed the dire need for evolution of agent banking in Nigeria. When comparing with other countries she noted that in Brazil, the central bank introduced and refined regulations to support the use of agents' banks and adopted agents as means of cost-cutting and reaching people in remote areas.

Vashti also highlighted a few challenges dampening financial inclusion efforts in Nigeria. Some of which include; cumbersome process for BVN enrolment, low proximity to financial access points - only about 17,000, high cost to serve for agents and for super agents, high cost of transactions to customers, lack of compelling products to attract the unbanked, inadequate financial literacy and campaigns among the unbanked, including language barriers, lack of simple Interoperable technology/payment platform for account opening and other transactions, absence of central coordination of stakeholder efforts on financial Inclusion.

She also noted a few payment services used by Nigerians especially for commodity and services transactions. A few of which include;

Point Of Sale (PoS): merchants typically use a POS system to complete sales transaction. In its most basic definition, a PoS system is a combination of PoS hardware and PoS software to create a PoS machine for processing a transaction and payment.

USSD: USSD payment is a fast and simple solution for the payment of bills in-country or to a service providers elsewhere in the world. Pay using any kind of mobile phone, by simply dialing a USSD code.

Mobile Banking: Mobile banking refers to the use of a smartphone or other cellular devices to perform online banking tasks while away from your home computer, such as check account balances, transferring funds between accounts, and bill payment.

Financial Inclusion:

In response to the stakeholders' enquiries about financial services in local dialect, Vashti explained that there are no services in native dialects but this is in the pipeline and a major focus for Nigerian banks. The focus on financial inclusion is a major one for the financial institutions in Nigeria to ensure complete diversification thereby ensuring efficiency in terms of deposit mix and cost of funds. In view of this, data for the newly on-boarded unbanked is barely available. It was disclosed that about 1.4 million unbanked Nigerians were on-boarded as at April, 2019.

Banks also avail financial and business education to MSMEs in order to support them financially as well as develop their business acumen. Initiatives that have been brought on board to initiate this include;

- Quality and Competitiveness Advisory Council
- Ease of doing business
- Market money and trader's money initiative (over 1 million recipients)
- Bol initiatives

Identified enablers for the financial service - trade value chain in Nigeria include:

- Regulatory environments
- Strong legal environments
- Insight into anti-money laundering
- Sound financial structure (i.e. liquidity management)

The next presentation was led by Kelechi Ekugo, Senior Technical Adviser to the former minister of Industry, Trade and Investment. He discussed measuring linkages between financial services, SMEs and trade.

Kelechi highlighted three key challenges when he discussed policy implementation geared towards trades and investments. See below;

- Lack of capacity building and engagement
- Bureaucracy of governance
- Reform of civil services through incentivizing

He noted that the US and Nigeria have a good relationship, particularly driven by the oil sector. The US has also collaborated with the non-oil sector participants e.g. technology. There is also an exchange of services (e.g. as seen with Andela).

Remittances were identified as a potential gold mine. Given the volume of capital flight to Canada and US, remittances were identified as a potential gold mine. Thereby, labelling human capital as an export commodity.

We learnt that there are at least 37 million MSMEs in Nigeria. However, they need better structure to support processes and businesses.

Made in Aba goods are being misrepresented because of lack of patronage from the domestic market, some of these goods are labelled made-in-Italy to boost to sales. This needs to be highlighted in the policy report. The grass root (low-income bracket) are not sensitized on financial services tools, this needs to be captured in the report as well.

Day One ended around 4:30pm

Day Two – 05 July 2019

Komi Tsowou gave a succinct recap of Day 1 by highlighting the major key points.

Edem Kludza proceeded with the first presentation on measuring value chains- use of input-output tables.

Edem established four key steps;

1) Input- Output table; A table showing countries, sectors and it's interaction with the foreign market. This table enabled stakeholders calculate the GVC

2) From the table, stakeholders measured GVC

3) Identify indicators;

Domestic Value Added

Foreign Value Added

Indirect Domestic Value Added.

4) Interpret result

A lot of questions arose during the calculation process as stakeholders were not clear as to how to get the desired results on first explanation. However, after Edem walked over the process again, stakeholders gained clarity.

A very key factor Edem identified was the data required to carry out analysis. For financial services, according to EBOPs 2010, he outlined:

1) Commissions and fees associated with financial transactions

2) Financial advisory services

3) Custody services for financial assets or bullion

4) Financial asset management services

- 5) Merger and Acquisitions services
- 6) Corporate finance and venture capital services
- 7) Credit card and other credit granting services
- 8) Foreign Exchange
- 9) Regulation and administration of financial markets
- 10) Credit rating
- 11) Service charges on purchases of International Monetary Fund's resources
- 12) Charges associated with undrawn balances under stand by or extended arrangements by IMF
- 13) FISIM

A representative of the National Bureau of Statistics assured stakeholders that most of the aforementioned data are available.

Edem also listed data requirements for insurance

- 1) Direct insurance; Life insurance, Freight insurance, other direct insurance
- 2) Reinsurance
- 3) Auxiliary insurance
- 4) Pension and standardized guarantee services.

Edem admonished that stakeholders ensure that standard data quality is maintained.

Second Presentation

This was done by a representative from the Bank of Industry.

He explained specific services of the BoI which are government initiatives to provide timely intervention to small and medium-sized businesses at a subsidized interest rate.

Some of these interventions include trader money, with loans as low as N10, 000 and then farmer money, as high as N300, 000.

This would enable business owners get loans with ease. He also explained how they are utilizing technology to ensure transparency and accuracy at all levels.

Stakeholders had questions like "how long does it take for the loan to get disbursed?" "How sure are they that they are offering these loans to the right people? Who their loan provision partners are. These questions were answered exhaustively.

In summary, it takes about two to three weeks for the loan to get disbursed so they can ascertain the credibility of the trader, farmer or business-owner. The use of agencies to ensure the right traders, farmers or business-owners are targeted. Their loan partners are organizations with local presence and that they are in the quest to support the narrative of traders getting loans to further mitigate the disappointments rising from the commercial banks.

Third Presentation

This was done by the Project lead (National Consultant) Chinwe Egwim, an economist at a leading investment and merchant bank in Nigeria. It was focused on estimating the contribution of finance to GDP in Nigeria. The data used as explained by her was provided by the National Bureau of Statistics and is released quarterly. She showed stakeholders the latest data release and walked them through the process of estimating the contribution of finance to GDP.

Chinwe conducted an interactive session and asked for three volunteers to answer questions from her questionnaire. Two business owners and one banking professional volunteered.

Through this interactive session we discovered that none of the stakeholders had received loans from commercial banks, they funded their businesses from family and friends and through government financial interventions.

This led to a heated debate as traders and business-owners present shared their experience on difficulty of accessing loans from banks. On the flip side, the bankers present tried to mitigate the situation by stating reasons for limited release of credit to SMEs.

In response to deposits in regional banks, just one business-owner considered the regional presence of Standard Chartered Bank before opening a business account, others were fine with local banks.

Only one business- owner has utilized asset management products (i.e. money market instruments) as a means to grow business earnings. Other business-owners disclosed that the cost of running their business does not give room for investments in AM products or the capital market.

Fourth Presentation

Komi Tsowou explained the Africa Continental Free Trade Area (AfCFTA), stating that 52 countries had already signed and Nigeria was on the verge of signing. (Since the seminar, President Buhari has signed this agreement on behalf of Nigeria).

Komi explained that the AfCFTA would encourage free trade amongst African countries, boost industrialization which should in turn contribute to increasing growth. He presented in some details the scope the AfCFTA Agreement and the implications for the private sector in Nigeria.

However, stakeholders shared their concerns such as;

- Potential competition with the domestic market

- The need for more sensitization on AfCFTA
- The imbalance of markets amongst African countries due to infrastructure issues
- Production of substandard products and risk associated with importing these sort of products

Komi did a great job responding to these concerns and was able to calm stakeholders down. He promised to provide additional information on AfCFTA to all stakeholders present via email.

The closing remarks were given by Mundunge Ghitu and Leonard Kange, they individually thanked all the stakeholders and organizers for a productive two days experience and encouraged that stakeholders put into consideration all they learnt for their businesses.

Final remarks were given by Ms. Chinwe Egwim, she asked stakeholders to get ready to work with her to ensure the success of the subsequent phases of this project.

The meeting closed at a bout 3pm and stakeholders went for lunch.

The national seminar was a huge success, stakeholders left the seminar well educated and are open to providing responses to the questionnaire segment within the subsequent phases of this project when need be. The news of the national seminar travelled fast and it has garnered a lot of attention from a diverse group of people that utilize financial services for business operations as well as commodity and service exchange.

Chinwe Egwim

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**National Seminar on Measuring the contribution of Services to regional chains 4 – 5
July, Lagos Nigeria**

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