Building Resilience Through Digital Financial Services

Africa COVID-19
Digital Finance Market Impact Series

Nigeria

The **COVID-19 pandemic** highlighted the important role **digital financial services (DFS)** can play in reducing disruptions to supply chains, maintaining economic activity, supporting social transfers and ensuring safe transactions while maintaining social distancing.

In these challenging times, IFC's DFS advisory has worked with clients to build resilience and capacity through the Covid-19 crisis while designing, building and developing innovative business models for financial inclusion. This DFS market research series endeavors to share the insights gathered through this work.

Nigeria is large thriving economy where DFS has made strong inroads, even more so since the onset of the Covid-19 crisis, which saw digital payments increase in both volume and value, especially thanks to e-commerce, in the context of reduced social interactions. This rise is supported by a DFS ecosystem which includes hundreds of dynamic fintechs. However, low level digital ID amongst the population, limited infrastructure, and financial access especially in the rural areas which are home to almost two thirds of the population, still leaves many of the mostvulnerable Nigerians underserved by DFS.

Increased payment integration, logistics coordination, support to changing merchant expectations and product design targeted at underserved and unserved holds tremendous promise to further strengthen the DFS market.

NIGERIA: KEY COUNTRY STATISTICS

Population

>200 million

Male: 50.7%
Female: 49.33%
Rural: 63.3%

47% of West Africa's population & Large Youth Population

Internet

45.43%

Broadband Penetration:
86.71 Million

Internet subscriptions:
151 million significant bottlenecks inhibit growth

Bank accounts:
73.2 million
Active Bank Customers (individual)

GDP Sectors:
Services (Information & Communication)
Highest

Mobile Phone:
196 Million active users

Fintechs: 200+ companies
Payment: 39%, Savings: 11%, Lending: 28%
Investment Funding: ~$600 million

Financial Inclusion:
40 million unbanked adult population

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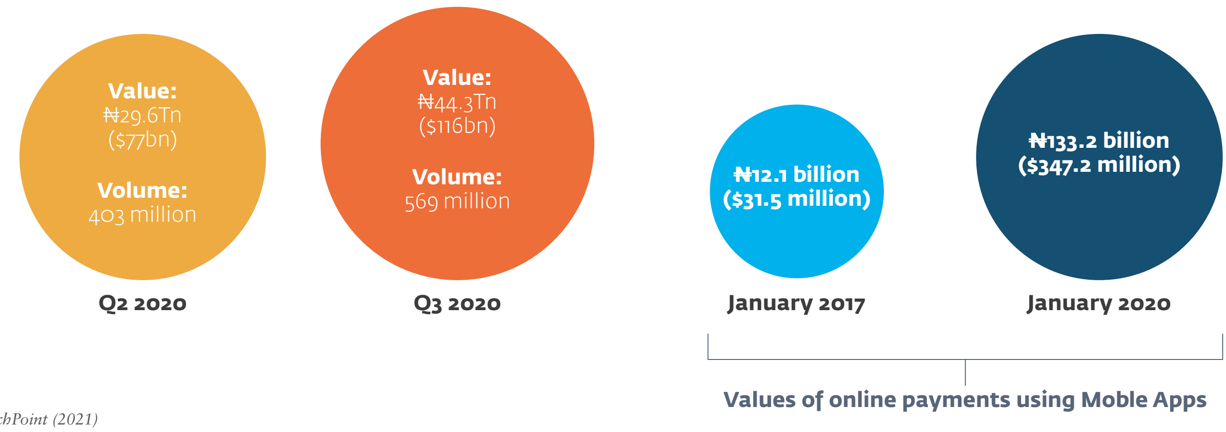
IMPACT OF THE COVID-19 PANDEMIC ON DFS

While there was a noticeable dip in both the value and volume of transactions in April as a result of the lockdown measures imposed when the pandemic first hit Nigeria, 2020 DFS figures are much higher than 2019. In 2021, they continue to show strong growth, driven by a rebound of the e-commerce transactions, which DFS players must keep supporting. The greater portion of these transactions are from Lagos, Ogun, Oyo, Rivers, FCT which were cashless policy kick-off states.[1]

Since the onset of the pandemic, increasing consumer trust drives up the value of digital transactions

The value of digital transactions in Nigeria has hit $116 billion in the third quarter of 2020 as people transact more across all digital channels[2] as trust in DFS increased in the context of reduced social interactions.

Figure 1: Volumes and value of DFS transactions



Source: TechPoint (2021)

The e-commerce market has rebounded, growing by more than 10 times since 2017

Online payments values using mobile apps has jumped from $31.5 million in January 2017 to $347.2 million in January 2020. More growth is possible and expected as the number of internet users continues to increase. Between February and April 2020 market players like GT Bank, Remita, Flutterwave and OPay each launched e-commerce platforms on top of their existing core payments solutions. Meanwhile, Jumia which went public in 2019 with its IPO on the New York Stock Exchange, continues to grow.

Internet usage has increased significantly

Internet usage increased by 2.5 million subscribers, as many businesses and organizations shifted to 'Work from Home' (WFH) mode while schools closed and online schooling became the order of the day leading to high consumption of eLearning offers. Meanwhile, Instagram Live became the new television for most Nigerians.[3]

The government has prioritized many new digital initiatives

A number of initiatives were launched, targeting diverse quality of life and health issues, including support for improved remote communications, for COVID+ and the most vulnerable, for agri-business, and production of essential medical supplies. This comprehensive approach may have contributed to the increased trust in digital payments as well.

Financial Service Providers (FSPs) also responded rapidly through channel development

- **Contactless Channels:** As a result of the closure of banking halls and the suspension of the honoring of cheque payments, FSPs explore innovative contactless payment channels such as 'Pay with USSD' on PoS.
- **Agent Banking:** This channel was quickly educated on precautionary measures for social distancing and equipped with hand sanitizers to keep serving customers.

MARKET OVERVIEW

Nigeria is the largest economy in Africa. This translates into a very strong business opportunity insofar as any business that is able to achieve success domestically in Nigeria places itself in a position to also succeed in a major regional market worth approximatively $544 billion (African Development Bank, 2019).

Mobile technology has a direct and positive impact on daily lives of Nigerians, fostering inclusive growth and enhancing the productivity and efficiency of the economy. The high prevalence of multiple SIM users makes it difficult to estimate device penetration, while also suggesting potentially lower adoption rates than in other Africa countries.

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1 *In 2012, the Central Bank of Nigeria initiated a cashless policy whose goal was to encourage electronic based transactions and reducing the amount of physical cash in the economy. The policy was initiated in Lagos, Ogun, Oyo, Rivers, and FCT and in March 2020 it was extended to the entire country.*

2 *Point of sale (PoS) terminals, mobile inter-bank transfers, USSD, Internet banking, mobile apps, electronic bill payment as well as CentralPay (authorizer of customer payments to e-businesses).*

3 *In the context of the Covid-19 pandemic, the media and entertainment market must not be underestimated. With revenue reaching $4.5 billion in 2018, earnings are expected to keep rising at a 19.3 percent CAGR and are estimated to reach more than $10 billion by 2023 across Africa (PWC, 2019)*

There are over 151 million internet subscribers in the country, up from 20 million a decade ago. This has been a major driver for the improved payment and the resumption of e-commerce in the country. While internet subscription numbers are high, however, connectivity rates remain low, especially in rural areas which are home to almost 64 percent of the population.
As with SIM cards, there are many bank accounts to one user as the banking rate indicates. This leaves a large proportion of the adult population unbanked and in turn provides much room for the growth of DFS.

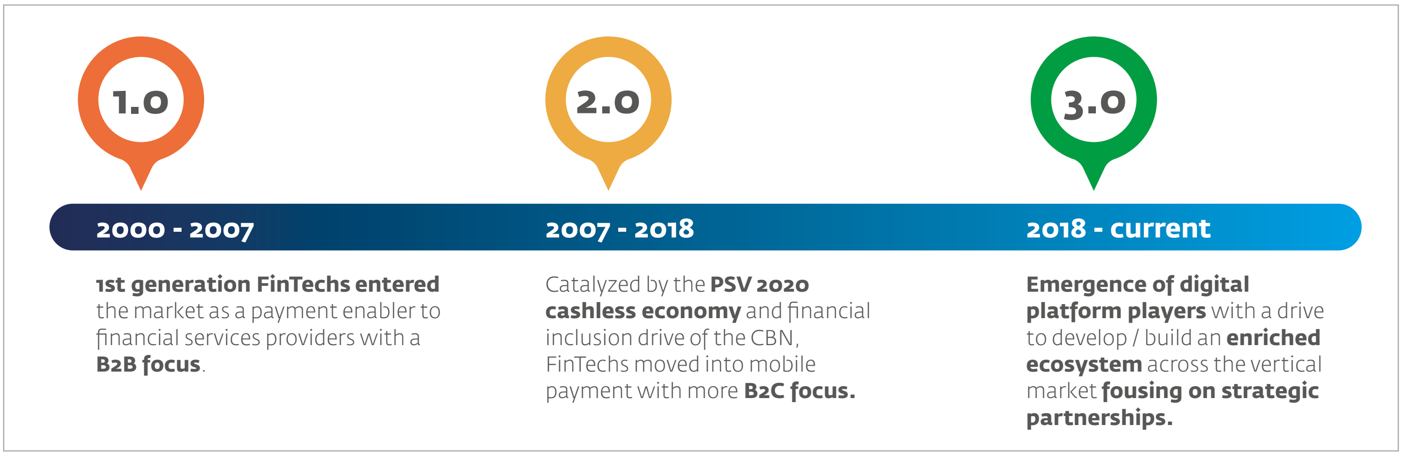
A diverse DFS ecosystem

As the public sector focuses on the core function of regulatory oversight, private sector financial actors can be grouped into several categories: banks and telcos, fintechs, capital providers, infrastructure providers and enablers.

As banks and telcos take the lion's share of the payment market, fintechs tend to latch onto the banked community, thus leaving the unbanked segment a rather untapped market with great potential. An increasing number of nationally owned capital providers are emerging in a space previously dominated by foreign venture capitalists. Infrastructure providers bring in the rails while enablers within the economy, such as universities link the youth to the digital economy, and accelerators, think tanks, international development partners and the likes provide much needed support to small and medium enterprises (SMEs).

A rising fintech sector

The Nigerian fintech terrain is attractive and fast growing and is focused mainly on banked customers providing payment, savings and lending solutions. There are over 200 fintech companies in Nigeria, growing fast leveraging the large youth population. However, despite increased activity and a positive multiplier effect, economic impact remains low, accounting for only ~1.25 percent of retail banking revenues in 2019. The potential for collaboration between fintechs and traditional players remains under-realized as fintechs have failed to establish themselves as complementary players within the ecosystem with the power to make DFS more inclusive.



As fintechs have gradually moved from providing business-to-business payment (B2B) to developing strategic partnerships, from 2000 to date, a new phase 4 integrating the lessons of the Covid-19 pandemic into more tailored offerings should be watched closely, especially products aimed at those currently financially excluded.

GAPS AND CHALLENGES

While there is undeniable momentum supporting the digital economy of Nigeria, many challenges remain. They primarily center around digital ID, infrastructure and financial access.

Digital ID

Nigeria has a fragmented identity landscape with over a dozen identity programs run by different government agencies—e.g., the Central Bank, the Election Commission, and the Communications Commission. There was only a 6% national ID (NID) registration rate in 2017. Efforts by the National Identity Management Commission (NIMC) to roll out unique national ID numbers (NINs), and issue NID smart cards to registered individuals have been very slow (World Bank, 2017). While accelerating the issuance of digital ID remains the best answer to this challenge, **expanding the base of KYC-client ID, defining e-KYC measures or multiplying ID proxies can all support risk-based customer due diligence and support financial access.**

Infrastructure

Reliable electricity supply, smart phone and broadband internet penetration are key enablers to harness the digital economy transformation. However, despite recently rolled out rural electrification programs, drops in device price and growth in fiber installations, the quality and density of the communication infrastructure remain poor, and much improvement is still needed. For instance, mobile systems are the primary means for carrying retail and enterprise data traffic. **Supported strategic investment by MNOs and infrastructure providers in key geographies in close collaboration with government ministries could unlock part of this challenge.**

Financial access

Out of the adult population (<18.yo.) of 99.6 million, 56 million people do not have access to a basic bank account. This number may be significantly higher when adding the part of adult population that on top of having a bank account also lacks access to informal financial services such as social savings groups (NIBSS, 2020). This financial exclusion rate is particularly high among women, youth and SMEs and MSMEs. Meanwhile, the banking rate grows at an annual rate of approximatively 1.2 percent, a much slower rate than in other West African countries. What is more, limited financial access is compounded by the two above-mentioned challenges. **Supporting the digitization of government payment and developing business models that support high volume small value transactions has proven to be successful strategies.**

OPPORTUNITIES FOR MARKET GROWTH

Market growth opportunities exist in the areas of **payment integration, logistics coordination, changing merchant expectations** and **reaching the unbanked.**

Payment Integration | **Logistics** | **Changing merchant expectations** | **Reaching the unbanked**

Payment integration

Strategic partnerships can be developed to strengthen digital marketplaces and ecosystems that integrate various industries and value chains (e.g. agriculture, transportation, education, hospitality etc.).

Logistics coordination

Seizing the recent surge in e-commerce transactions across the different states, there is benefit in leveraging agent banking and telco networks with larger last-mile footprints so as to improve access and uptake.

Changing merchant expectations

Digital credit can be offered based on transactional data (digital footprint) if unified scoring models are developed. This can have an impact on value-added services (VAS) such as inventory, reporting and monitoring solutions.

Reaching the unbanked

Fintechs, in particular, can play a role in expanding the growth of low value bundled offers that include savings, credit, loyalty and rewards etc. for individuals and MSMEs.

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