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POLICY TRACKER

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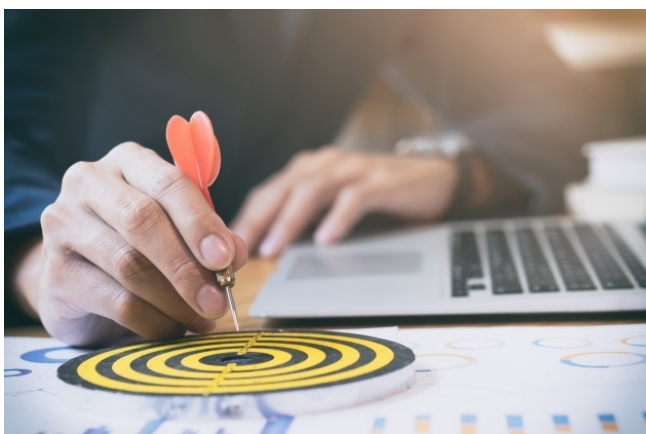


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CBN'S REGULATORY SAND BOX FRAMEWORK EXPOSURE DRAFT¹

A sand box is a methodology for promoting innovation and inclusion in the financial system. Critics argue it could also be used to stifle innovation, distort market competition² and seldom advances inclusion³. CBN's Draft expressly seeks: "...to promote effective competition, embrace new technology, encourage Financial Inclusion and improve customer experience..." and is a welcome measure. Our humble comments follow.



1.2. Scope: Does paragraph 3 relate to the outcome of the sand box or a threshold step for admittance? If the latter, as CBN cannot lawfully waive regulations that are outside its regulatory mandate, it may mean that products that straddle several regulatory jurisdictions, for example include payment, insurance and pension benefits, will be outrightly disallowed from the sand box. This may mean that such applicants must first clear hurdles of those other regulators. But what happens if those regulators do not have sand boxes? This may suggest that a cross-regulatory sand box is more ideal.

1.3 Eligibility of Sandbox Participants: Contribution to, or promotion of financial inclusion should be a qualifying condition, or at the very least among explicit eligibility criteria.

Criteria for determining "innovation" is required, as this may require disclosure of a patent filing or application to obviate infringement of acquired rights.

1.4. Participants in the Sandbox Operations. It may be pragmatic to also allow foreign players thereby encouraging them to come into the regulatory net

rather than operate surreptitiously on the web. As a prior condition they should establish a Nigerian business vehicle or joint venture with local companies before commencing sand box activity.

1.5. Risk Assessments and Safeguards: Specific financial caps to the amount of individual or aggregate transaction size per consumer and overall aggregate amount of transactions per period in the Sand Box before the interim report are recommended. This is implicit in Article 7.0 (i) & (ii). Complementarily or alternatively, a cap in the number of transactions may also be considered for some categories of transactions, or a minimum number of transactions involving financially unserved consumers, either where financial inclusion is the central objective or even where complementary.

Interim reports should be required within three months or specified overall aggregate transaction limit in money or number, whichever comes first. However, if transactions in the Sand Box are covered by Nigerian Deposit Insurance Corporation (NDIC) there may be less reason to impose caps on financial size or volume of transactions.



3.1. Filing Requirements: Proposed 30 days to respond to sand box applications contradicts the reciprocal speed and innovativeness in administrative processes required when dealing with innovation, especially given that applicants will thereafter be engaged to co-construct the testing protocols, safe guards and exit strategy. A time frame for concluding those set of activities should be specified.

¹ CBN, DRAFT FRAMEWORK FOR REGULATORY SANDBOX OPERATIONS, June 23 2020. Available at:

<https://www.cbn.gov.ng/Out/2020/PSMD/Exposure%20Draft%20of%20Regulatory%20Framework%20for%20Sandbox%20Operations.pdf>

² C.f., Frank Eleanya, The good and not so great of CBN's Regulatory Sandbox, Business Day Newspaper, 2 July 2020. Available at:

<https://businessday.ng/technology/article/the-good-and-not-so-great-of-cbns-regulatory-sandbox/>

³ Ivo Jenik, et al, Do Regulatory Sandboxes Impact Financial Inclusion? A Look at the Data, C-Gap Blog, 30 September 2019. Available at: <https://www.cgap.org/blog/do-regulatory-sandboxes-impact-financial-inclusion-look-data>

Editor's Note continued...

Whilst financial innovation requires some caution, it may be more constructive to conclude all administrative clearance processes in a shorter period (say, 30 or 40 days) and then allow a longer time phase for sand box activity, say nine to twelve months, if need be.

3.2. Reporting Requirements while in the Sandbox/Evaluation and Review of an Approval: No time frame for interim reports is specified in the draft. As suggested earlier, this could be mid period (3 months), or on reaching a particular financial threshold or number of transactions, as the case may be, for pragmatic risk management.

Third party or neutral observers of sand box operations, including specialists, academics and NGO's may be appointed to assist transparency of the review process following the submission of interim and final report. CBN must also have sufficient staff assigned to sand box operations or leverage external assistance. If Sand Box products straddle the mandate of several regulators, the relevant agencies ought to be part of monitoring, supervision and review of the Sand Box. A coordinating mechanism will then be required in the guidelines, or a cross regulatory sand box more ideal.

4.0. Sandbox Cohorts: Recruitment of cohorts should be explicitly flexible to allow more than one cohort per annum, if the need arises.



5.0. Responsibilities of the Central Bank of Nigeria: If innovations that straddle regulatory mandates will be considered the framework ought to incorporate processes for their inclusion and for incorporating coordinating mechanisms, as suggested above.

Conclusion: The Draft suggests commendable openness to innovation. As there is a need for relevant agencies to move in tandem, it is respectfully suggested that a quasi-cross-regulatory sand box or one facilitative of inter-agency collaboration, as adumbrated above will much better help financial inclusion.

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Global Identity Management / Know Your Customer

BNV: CBN Global Standing Instructions (GSI)



The Central Bank of Nigeria (CBN) has issued guidelines, effective 1 August 2020, aimed at monitoring chronic loan defaulters and reducing non-performing loans.¹ The GSI shall serve as a last resort by a Creditor bank, without recourse to the Borrower, to recover past due obligations (excluding any Penal Charges) from a defaulting Borrower through a direct set-off from deposits/investments held in the Borrower's qualifying bank accounts with participating financial institutions.

The NIBSS will manage operations of the GSI on behalf of banks using customers Bank Verification Numbers (BVN). Customers have the responsibility to execute GSI mandate, understand the underlying terms and conditions and link their BVN numbers to all relevant accounts (including savings and joint accounts) across the banking system. Failure to do so will result in their being watch listed.

Know Your Farm Hands App

Know Your Farm Hands App by VD & S Farms Ltd. enables the biometric registration of itinerant farm workers in Nigeria, in order to enhance farm security and facilitate their employment. Data is deployed on a

digital platform that also aims to connect farmers to consumers, provide access to agricultural inputs and services, and support agriculture credit. It has been useful for financial inclusion, as according to the MD, Mrs. Folake Aina, "...when they come to work...we [issue] them ID cards ...Majority of them get to open bank accounts when they come to work with us."²

Consumer Protection, Privacy and Data Protection, Cybercrime and Fraud

Consumer Complaints Resolution



The Nigerian Communications Commission (NCC) on 14 July 2020 announced that it had expeditiously resolved 25,575 out of 26,169 service-related complaints (98%) received from consumers between January 2019 and April 2020.³

The Executive Vice Chairman (NCC), Prof. Umar Danbatta, urged consumers to report complaints to NCC Contact centres, NCC Consumer Portal and Social media handles or deliver written complaints to NCC offices.

Consumer Protection Forum/ICTADR

On 21 July 2020, the Director General of National Information Technology Development Agency (NITDA), Mr. Kashifu Inuwa, announced the launch of a consumer protection forum by the agency to review customer

¹GUIDELINES ON GLOBAL STANDING INSTRUCTION (GSI) (INDIVIDUALS)

July, 2020; Available at: <https://www.cbn.gov.ng/Out/2020/CCD/CBN%20-%20Operational%20Guidelines%20on%20Global%20Standing%20Instructions%20GSI%20-%20Individuals.pdf>

²Caleb Ojewale, "Farmers lose billions annually to farm theft, lack of employee vetting", Business Day, July 3 2020; Available at: https://issuu.com/businessdayresearch/docs/businessday_03_jul_2020

³PRESS RELEASE: NCC Resolves 98% Consumer Complaints in 15 Months, NCC Website, 14 July 2020. Available at: <https://www.ncc.gov.ng/media-centre/news-headlines/841-press-release-ncc-resolves-98-consumer-complaints-in-15-months>

dissatisfaction over poor service delivery on indigenous Information Technology products (ICT). He noted that the forum would enable NITDA to settle disputes for customers in an efficient way and would build innovative content for Nigeria's ICT sector.⁴ Also, a [Draft Framework on Alternative Dispute Resolution for the ICT sector](#)⁵ was launched to encourage the use of ADR as a means of settling ICT disputes and the management of disputes.

Agent Banking



An EFInA study has found that financial services agents lose about 2% of their recurring monthly cost to transactions associated with fraud, leading to arrests and imprisonment for transactions linked to fraud unknown to them.⁶ It reported that in recent times, agents have faced a wave of robbery, fraud, and harassment from law enforcement agencies.

About 2 out of 5 agents charge above the maximum fees prescribed by CBN with agent commission making up 55% of the price charged. The study recommended deregulation of agent pricing to allow for market-based pricing, likely to incentivize expansion of agent banking to difficult-to-serve remote areas with high rates of financial exclusion

DFS Environment: Interoperability, Collaboration and Competition

PSB Licensing

On Thursday, 23 July 2020, at the Business Day Newspaper Dialogue series, Mr. Musa Jimoh, Director, Payment System Management, noted that the Approval-In-Principal process for Payment Service Bank (PSB) granted in September 2019, which ordinarily should have taken 6 months, was still ongoing and had not concluded. He explained that the license will be issued to PSBs when the conditions stipulated are met.⁷

Bank-Fintech Collaborations



Mr. Abubakar Suleiman, MD/CEO of Sterling Bank informed that in collaboration with Specta, a retail lending platform, Sterling has offered loans of up to ₦50 billion at an average of ₦1 million per borrower.⁸ Over 500,000 requests were received on the platform since 2108, when the service launched.

According to him, banks will rather collaborate with Fintech's unless there is no cost saving incentive to outsource to them. However, partnerships should go beyond increasing user metrics and merely digitizing access to financial services to generating more productive value for customers and increasing economic inclusion – providing access to capital and resources, thereby increasing productivity and living standards.

⁴Oluwanifemi Kolawole, This is how Nigeria wants to protect consumers that use IT products and services, Techpoint Africa, 24 July 2020. Available at: <https://techpoint.africa/2020/07/24/consumer-protection-tech/>

⁵NITDA launches ICT Consumer protection forum, The Sun Newspaper, 23 July 2020. Available at: <https://www.sunnewsonline.com/nitda-launches-ict-consumer-protection-forum-2/>

⁶Henry Chukwu, Key Findings from EFInA Agents Survey: A tall order for financial inclusion in Nigeria, Vanguard Newspapers, July 21 2020. Available at: <https://www.vanguardngr.com/2020/07/key-findings-from-efina-agents-survey-a-tall-order-for-financial-inclusion-in-nigeria/>

⁷Frank Eleanya, Telcos may not get PSB licence in 2020, BusinessDay Newspaper, 27 July 2019. Available at: <https://businessday.ng/technology/article/telcos-may-not-get-psb-licence-in-2020/>

⁸Alexander O. Onukwue, Nigerian banks want fintech collaborations, but for specific and unique needs, techcabal, 22nd July 2020. Available at: <https://techcabal.com/2020/07/22/banks-fintech-collaboration/>

Enabling Financial Inclusion at the Last Mile

Non Interest Financing for Accelerated Agricultural Development



Under the Central Bank of Nigeria (CBN) revised Non Interest Guidelines for the Accelerated Agricultural Development Scheme (AADS) issued on 16 July 2020, 370,000 youths shall be empowered with financing over three years. The aim is to increase food security, job creation and economic diversification.

Non-interest financial institutions⁹ shall act as agents of CBN in opening account registration of beneficiaries BVN on the National Collateral Registry, credit appraisal, amongst others.¹⁰ They shall access funds from the CBN on Wakala basis to purchase inputs for on selling to beneficiaries, using the CBN approved non-interest financing contract of Muragaha, Istisna, etc. at an all-inclusive rate of return of 9% per annum. For the financing of labour, they shall use Service Ijarah or any other appropriate CBN approved contract with the same all-inclusive rate of return of 9% per annum.

Non Interest Financing for Agri-Business, Small and Medium Enterprise Investment Scheme

Revised Guidelines for the Agri-Business, Small and Medium Enterprise Investment Scheme (AGSMEIS)

Non-Interest Fund has been issued by CBN to provide affordable and sustainable finance for Micro, Small and Medium Enterprises agri-businesses. Each Non-Interest Deposit Bank is to contribute 5% of its profit after tax annually to the Fund.¹¹

A Special Purpose Vehicle (SPV) shall be established to manage and monitor investments/projects under the scheme. Fifty percent of the Fund, comprising the debt component, shall be disbursed as financings to eligible businesses through Non-Interest Deposit Money Banks. Participating Finance institutions (PFI's) PFI shall purchase the assets on behalf of the SPV for on-selling to applicants using exchange-based contracts of Murabaha, Salam or Istisna'a at a mark-up of 5% due in whole to the SPV.

Micro, Small And Medium Enterprises Development Fund/ Gender A2F



Revised [Guidelines for MSME Development Fund for Non-Interest Financial Institutions](#) were issued by CBN on July 16 2020. It is notable that Sixty per cent (60%) of its N220 billion Micro, Small and Medium Enterprises Development Fund is reserved for women entrepreneurs. PFI's shall ensure that sixty per cent of the accessed fund is disbursed to women entrepreneurs.

Also, Access Bank Plc unveiled the second edition of its [Womenpreneur Pitch-a-ton Africa 2020 programme](#).

⁹Non-Interest Financial Institutions Means banks and other financial institutions under the regulatory purview of the Central Bank of Nigeria that provide banking and other financial services based on Islamic Commercial Jurisprudence.

¹⁰Section 3.2 and 4.5 of the Non Interest Guidelines for the Accelerated Agricultural Development Scheme (AADS). Available at:

<https://www.cbn.gov.ng/Out/2020/CCD/AADS%20GUIDELINES%20REVIEWED%20FOR%20THE%20ACCELERATED%20AGRICULTURAL%20DEVELOPMENT%20SCHEME%20final.pdf>

¹¹Guidelines for the Operations of the Agri-Business, Small and Medium Enterprises Investment Scheme (AGSMEIS) for Non-Interest Financial Institutions (NIFIs), June 2020.

Available at: [https://www.cbn.gov.ng/Out/2020/CCD/AGSMEIS%20Guidelines%20\(Revised%20%20version2\)%20Resolutions%2021%20final.pdf](https://www.cbn.gov.ng/Out/2020/CCD/AGSMEIS%20Guidelines%20(Revised%20%20version2)%20Resolutions%2021%20final.pdf)

The programme is geared towards providing female-owned businesses across Africa access to finance, business training and mentoring opportunities. This edition will provide these opportunities to female entrepreneurs not only in Nigeria, but Ghana, Rwanda, Zambia, Sierra Leone, Gambia and Congo. Application closes August 14, 2020.¹²

Repressive Taxation of Mobile Money and Bank Agents



On 27 July 2020, the Association of Mobile Money and Bank Agents in Nigeria (AMMBAN) [issued a press statement](#) on repressive and illegal taxation on Mobile Money and Bank Agents by Local Government Councils and their Contractors. The press statement reads in part:

“...local government councils/LCDAs officials and their contractors have been intimidating, disrupting and in many instances molesting ... all Mobile Money and Bank agents across the Country on the basis of collection of levies and daily tolls ...In the bid to provide financial services to the last mile, agents bear a plethora of overhead expenses, chief of which are Stamp duty charges and VAT of 7.5%. This is in addition to legally recognized local government trade permit and State's Personal Income Tax. Any levy or toll outside these are devilish and anti-people.”

Recently, Agbado/Oke Odo in Lagos State levied mobile money and bank agent's additional N600 naira tax outside the required statutory levies. AMMBAN called on relevant agencies to intervene, as the local government tax development threatens the existence of last mile drivers of financial inclusion.

Digital Inclusion

From the 20th to 24th of July 2020, NITDA trained 30 persons living with various form of disabilities in Kano, Kano State as part of the effort to make digital literacy all inclusive. The participants were given computer systems.¹³

Enabling Environment for DFS Ecosystem

Stamp Duty Charges



On 20 July 2020, the Federal Inland Revenue Service released a [circular](#) clarifying the administration of stamp duties in Nigeria. Specifically, Section 6 of the circular clarifies that:

“A fixed-rate of N50 FIRS Adhesive stamp is applicable in respect of all receipts. A N50 Stamp Duty is also due from customers in respect of electronic transfers done by them through the Money Deposit Banks (MDBs) in Nigeria where the transfer is N10,000 and above. The MDBs have the obligation to deduct and remit the

¹²Hope Ashike, Access Bank provides financing opportunity to Female SMEs across Africa, Businessday Newspaper, 28 July 2020. Available at: <https://businessday.ng/companies/article/access-bank-provides-financing-opportunity-to-female-smes-across-africa/>

¹³Yinka Okeowo, Digital Inclusion: NITDA trains, empowers PLWD in Kano, TechEconomy, 25 July 2020. Available at: <https://techeconomy.ng/2020/07/digital-inclusion-nitda-trains-empowers-plwd-in-kano/>

stamp duties due on such transactions.”

Also **Section 8(I)** clarifies that: “the burden of payment of stamp duties whether fixed or ad-valorem is that of the beneficiaries of a contract, or MDBs customers who transfer an amount of N10,000 and above from his account to another customer's account. In any case, the party making payment shall have the obligation to account for the applicable stamp duties”

Capital Markets Automation



In a meeting on 20 July 2020 with the Minister of Communication and Digital Economy, Mr. Lamido Yuguda, Director General of the Securities and Exchange Commission (SEC), disclosed that the Commission is willing to automate Nigeria capital markets, as it will make Nigeria attractive to investors and contribute to the country's foreign direct investment.

He noted that if the Commission can digitize all its processes and required documentation, it will be easier to regulate the capital market, stimulate growth, reduce costs, and increase efficiency in the capital market. He further sought collaboration with the Ministry of Communication and Digital Economy to achieve this goal.¹⁴

Banks and Other Financial Institutions Act (Amendment) Bill, 2020



The [Bill to amend the Banks and Other Financial Institutions Act \(BOFIA\), Cap B3, LFN 2004](#), was passed by the Senate on 23 July 2020.¹⁵ The Bill not only seeks to repeal the BOFIA Act of 1991 (as amended) but seeks to regulate banking and businesses of other financial institutions by explicitly providing that all such business must be incorporated and licensed in Nigeria. Aside adjustments/increase to fine fees for breach of license or certain aspects of the Bill by BOFI businesses in the country.

CAC Digitalization



CORPORATE AFFAIRS
COMMISSION

As a result of the Covid-19 pandemic, and they need to reduce physical contact, the Corporate Affairs Commission announced that it will deliver electronic services to its customers with effect from August 10, 2020. Consequently, Certificate of Incorporation will now be sent to businesses/companies via email or courier.¹⁶

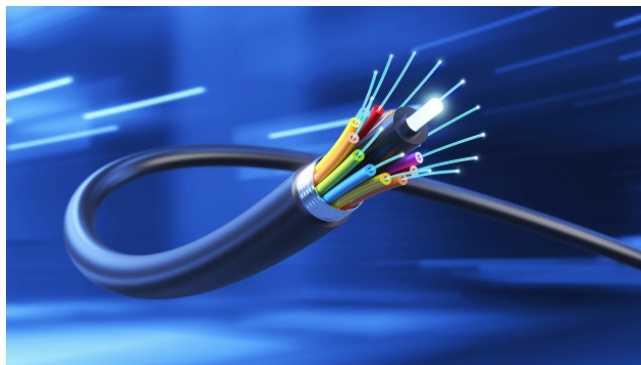
¹⁴William Ukpe, SEC to implement capital market automation, aid market efficiency, Nairametrics, 20 July 2020. Available at: <https://nairametrics.com/2020/07/20/sec-to-implement-capital-market-automation-aid-market-efficiency/>

¹⁵Helen Oji, Senate passes bill to strengthen Nigerian Financial system, TheGuardian Newspaper, 24 July 2020. Available at: <https://guardian.ng/news/senate-passes-bill-to-strengthen-nigerian-financial-system/>

¹⁶Ruth Okwumbu, CAC: Certificate of incorporation will now be delivered via email or courier, Nairametrics, 26 July 2020. Available at: <https://nairametrics.com/2020/07/26/cac-to-commence-electronic-service-delivery-from-august-10/>

DFS Infrastructure

5% Increase in Broadband Penetration in Nigeria



The Minister of Communications and Digital Economy, Dr. Isa Ali Ibrahim Pantami reiterated that the implementation of the new National Broadband Plan (2020 – 2025) has currently resulted in a 40.18% increase in broadband penetration in the country. This reflects a 5% increase of broadband penetration from August 2019.¹⁷ Further, on Thursday 9 July 2020, he inaugurated an Inter-agency and Multi-sectoral committee to ensure effective monitoring and steering of the overall implementation of the NBP (2020-2025).¹⁸

MTN expands fibre connectivity/accelerated rural telephony



MTN Nigeria Communications Plc has reached an agreement with Global Independent Connect Limited, INT Towers Limited and IHS Towers Limited to expand the scope of their current service agreements to include increased focus on rural connectivity and fiber access.¹⁹ The revised agreements will enable MTN enhance fibre networks while rapidly connecting those in rural areas that are currently unable to access telecommunication services.²⁰

¹⁷Yinka Okeowo, FACT-CHECK: Was broadband penetration 31% when Pantami resumed office as Minister?, 10 July 2020. Available at: <https://techeconomy.ng/2020/07/fact-check-was-broadband-penetration-31-when-pantami-resumed-office-as-minister/>

¹⁸NCC Chairs Ministerial Broadband Implementation Steering Committee, NCC Website, 9 July 2020. Available at: <https://www.ncc.gov.ng/media-centre/news-headlines/840-ncc-chairs-ministerial-broadband-implementation-steering-committee>

¹⁹IHS, IHS Netherlands Holdco B.V. and MTN Nigeria Communications Plc Announce Amended Service Contract. Available at: <https://www.ihostowers.com/news/ihs-netherlands-holdco-bv-and-mtn-nigeria-communications-plc-announce-amended-service-contract/>

²⁰MTN Nigeria Communications PLC and Global Independent Connect Limited, INT Towers Limited, IHS (Nigeria) Limited and HIS Towers NG Limited, Nigerian Affiliates of HIS Holding Limited amend services agreements, NSE Website, 23 July 2020. Available at: http://www.nse.com.ng/Financial_NewsDocs/30975_MTN_NIGERIA_COMMUNICATIONS_PLC-MTN_NIGERIA_COMMUNICATI.pdf

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