

POVERTY REDUCTION STRATEGY PAPER: **A CBN PERSPECTIVE**

I. Introduction

The Nigerian economy has, over the years, been experiencing economic crisis of varying degrees of intensity. The prolonged weak growth in the economy has been attributed to policy failures, poor governance, as well as considerable social and political instability which aggravated the worsening poverty situation in the country.

2. It cannot be overemphasized that a major requirement for the alleviation of poverty in any country is the pursuit and maintenance of a high rate of economic growth at stable prices. The growth pre-requisite is, however, a necessary but not sufficient condition for poverty reduction as the pattern of income distribution among the population is also important.

3. Over the years, poor macroeconomic management in Nigeria resulted in low output and hence low income. The poverty problem was exacerbated by the inadequate provision and non-sustainability of socioeconomic and infrastructural facilities that could improve the condition of the poor. The rise in the rate of inflation worsened the incidence of poverty since the 1990s, except in 1997 to 2000 when the rate was brought down considerably to single digit. Thus, there has been a steady decline in economic performance and a sharp deterioration in living standards. It is the realization of this fact that motivated the present administration into instituting a poverty eradication policy framework as well as programmes for its implementation, monitoring and evaluation.

4. The policy framework involves all agencies and parastatals at all the three tiers of government, community-based organizations (CBOs), non-governmental organizations (NGOs) and international donor agencies (IDAs). The Nigerian

financial sector as an important part of the economy has continued to play its pivotal role of facilitating financial intermediation for economic growth and development which is a critical success factor for poverty reduction. Specifically, it has continued to provide the necessary financing to the productive sectors on appropriate terms, volume and value, and in a timely manner in order to enhance the poverty reduction efforts of government.

II The Financial Sector and the role of CBN in Economic Growth and Poverty Reduction

5. Generally, a stable macroeconomic environment with strong financial sector is essential to the promotion of sustainable growth and poverty reduction, especially, if such policies are designed to raise the level of savings and investment in human and physical infrastructure in order to enhance income generating capacities, especially in the rural areas where poverty is more pervasive. Prior to the adoption of the Structural Adjustment Programme (SAP) in 1986, the Central Bank of Nigeria's monetary policy guidelines made it mandatory for all commercial banks to open rural branches under the Rural Banking Scheme. The objective was to facilitate savings mobilization and extension of bank credit to the rural entrepreneurs. Also, commercial banks were mandated to extend specified proportion of their total loans and advances to agriculture as well as small and medium scale enterprises. These directives were expected to positively impact directly on the lives of rural dwellers and the poor in society by providing them with financial resources. In compliance with the directives, an appreciable number of rural bank branches were opened, which helped in promoting good banking habits in the rural communities. Community banks were also established to facilitate the mobilization of rural savings and to grant same to farmers, thereby improving the lots of the poor.

6. Furthermore, a number of development banks were established with programmes targeted at enhancing economic output. These included the Nigerian Bank for Commerce and Industry (NBCI), and the Nigerian Agricultural and Cooperative Bank (NACB). The CBN contributed at least 40 percent of the equities for the setting up of these banks and stipulated that shortfall in commercial and merchant banks' lending be transferred to the Bank for on-lending to the small-scale and the agricultural sectors of the economy. Other initiatives included the establishment of the National Economic Reconstruction Fund (NERFUND) as well as the SME II Loan Scheme for small and medium scale enterprises.

7. Since 1986 the Nigerian financial sector was deregulated with the de-control of the foreign exchange market and interest rates in August 1987. This had some salutary effects, especially in the growth of financial institutions and services. It also stimulated competition and enhanced efficiency in resource allocation as well as the speed and quality of service delivery. Other specific achievements of the financial sector reforms included:

- (i) **Increased number of financial institutions:** The relaxation of entry requirements led to the rise in the number of deposit money banks from 41 in 1986 to 119 in 1993 before declining to 89 in 2002. Other financial institutions were also encouraged to take advantage of the opportunities created through deregulation.
- (ii) **Improved service delivery and products development:** The reform efforts in the financial sector led to the continuous drive to improve service delivery through innovations and product development. Also, the use of modern information technology including computers, shortened the banking transaction time, significantly as typified by reduced queues in banking halls. This was further enhanced by the introduction of automated teller machines which dispensed cash at designated points.

8. The recent merger of the NACB, People's Bank of Nigeria (PBN) and the Family Economic Advancement Programme (FEAP) to form the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB), as well as the merger of the Nigerian Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI) and the National Economic Reconstruction Fund (NERFUND) to form the Bank of Industry are all efforts aimed at strengthening the capacity of the respective institutions to contribute more effectively to production, economic growth, job creation and poverty reduction.

9. The CBN also adopted the universal banking (UB) concept which removed the demarcation between commercial and merchant banking activities, such that deposit money banks can undertake any of the specified financial services. It is expected that UB will stimulate economic development by leveling the playing ground for all participants in the financial sector. The Agricultural Credit Guarantee Scheme Fund (ACGSF) operated by the CBN continued to make notable impact on poverty reduction through loans granted to beneficiaries of the Scheme which amounted to 3.3 billion since inception in 1978.

10. Similarly, the CBN successfully persuaded banks operating under the aegis of the Bankers' Committee in 2001 to set aside 10.0 per cent of their profit before tax for equity investment in small and medium enterprises in Nigeria under the Small and Medium Industries Equity Investment Scheme (SMIEIS). As at end-April, 2002, the sum of 7.06 billion has been set aside by 75 banks, while 566.7 million has been invested in the SMEs.

III Future Challenges for the Financial Sector in Poverty Reduction

I. Given the potential of micro-finance to alleviate poverty and stimulate economic growth, it is necessary to develop a viable and responsive micro-financial services strategy for the poor. The thrust of the strategy would be to attract low-income clients to banks through the use of financial intermediaries operating closer to the target clients. Such arrangement should strongly emphasise savings mobilization for on-lending to micro-enterprises.

12. The absence of viable financial institutions in most rural communities in Nigeria has led to continued reliance on informal financial services by rural dwellers. It is necessary to streamline and integrate such channels into the formal financial sector. The challenge therefore, is for the formal financial sector to tap into these traditional entities, pay the appropriate interest rates, and fulfil its role as financial intermediaries thereby facilitating access to banking and other financial services by the poor. This is one of the reasons why the CBN has recently paid special attention to revitalizing the community banks. It is our belief that because of their structure, they will fulfil this objective.

IV Conclusion

13. A sound, stable and efficient financial sector is therefore necessary for the attainment of the objectives of price stability, sustainable output and employment growth which are vital for poverty reduction. Therefore, it is necessary to sustain the existing political stability with good governance and disciplined fiscal operations in order to lay a firm foundation for the pursuit of poverty reduction. Similarly, the maintenance of market and foreign investment friendly environment are important in order to attract external resources to supplement domestic resources and technology which will enhance poverty reduction.

14. On its part, the CBN will continue to implement its proactive monetary policy stance to ensure price and exchange rate stability which is a pre-requisite for sustainable economic growth and development. It will also sustain its efforts at sanitizing the banking system to ensure its soundness and the entronement of credible and good corporate governance in banks.