

The Central Bank of Nigeria & Development



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The Global Financial Crisis

Cause & Effect

- The Global Financial Crisis was caused by a series of complex events;
 - Customers with poor credit ratings were enticed to buy mortgage assets without down payment or credit checks
 - Lenders charged interest on sub prime mortgages below normal mortgage rates
 - Rates on these assets later rose as they were marked to US Federal Funds rate, leading to default
- Led to a collapse of government backed securities and insufficient capital of various institutions to guard against the shock of the credit bubble
- Growth in developing countries fell from an average of 7%, five (5) years before the crisis to 1.6% in 200.
- Response to the banking crisis varied by economy but Africa remained fairly resilient to its effects

The Global Financial Crisis

Cause & Effect (2)

- The indirect impact on the Nigerian economy through the second round effects included;
 - Reduced capital inflows into the economy
 - Collapse of prices within the stock market
 - Significant exposure of banks to the capital market in form of margin loans
 - withdrawal of liquidity from local subsidiaries of foreign banks
 - Depletion of external reserves
 - Significant decline in oil revenues leading to revenue attrition for all tiers of government
 - Inability of the local banks to effectively manage the sudden increase in capital inflows arising from high oil price preceding the crisis

The Global Financial Crisis

Cause & Effect (3)

- The crisis in Nigeria was further accentuated by;
 - Reduced capital inflows into the economy
 - Major failures in corporate governance at banks
 - Lack of investor and consumer sophistication
 - Inadequate disclosure and transparency about financial position of banks
 - Critical gaps in regulation and its framework
 - Uneven supervision and enforcement
 - Some internal weaknesses within the CBN
 - Weaknesses in the business environment

The Global Financial Crisis

Lessons Learnt

Lesson 1: Emerging market Central Banks have a role in Economic Development

- In addition to the bail out of stressed banks, the CBN also pursued other measures to unlock credit markets and inject funds to productive sectors
- Interventions were initiated by the CBN in various sectors of the economy including the Power & Airline Industry (PAIF), Agriculture (NIRSAL) and SMEs

The Global Financial Crisis

Lessons Learnt

Lesson 2: *The CBN has been a source of innovative solutions in resolving a crisis*

- The Asset Management Corporation of Nigerian (AMCON) was established as an innovative crisis resolution vehicle to soak up toxic assets and deal with non-performing loans
 - Recapitalization & restructuring vehicle combining best practices in different jurisdictions
 - Banks' contribute to a sinking fund to pay for the crisis with minimal cost to the tax payers

The Global Financial Crisis

Lessons Learnt

Lesson 3: Collaborative efforts between banks and regulators are required to building a strong and resilient financial system

- Bankers' Committee in 2009 commenced an annual retreat with a focus to develop three key sectors of the economy –Agriculture, Power and Transportation
- Some key outcomes of the 4th annual retreat which held in December, 2012;
 - Implementation of Financial Inclusion Strategy - Borno State Pilot
 - Institutionalization of sustainability principles by deposit money banks
 - Increase in lending to Agriculture and Transformation of Agriculture value chain
 - Continuing advocacy for Power sector transformation
 - Funding/investments for the Gas to Power plan and of Gas infrastructure

Recent Development Initiatives

Learning from the recent global financial crisis and recognizing the critical importance of the need for financial institutions to play a role in national development and economic growth, the CBN has lead in the development of certain initiatives

- **Sustainability**
- **Intervention Funds for key sectors of the economy (PAIF & RRF)**
- **Women Economic Empowerment**
- **The Nigerian Incentive-based Risk Sharing System for Agriculture Lending (NIRSAL)**
- **The National Financial Inclusion Strategy (NFIS)**

Recent Development Initiatives...

Sustainability

- At the Sustainable Finance Week in 2011 the need was established for a balanced approach to growth and development that is economically beneficial but socially relevant and environmentally sound
- A joint commitment statement was signed by all the members of the Bankers' Committee committing the industry to the development and implementation of the Nigerian Sustainable Banking Principles (NSBP)
- The NSBP and sector specific guidelines (agriculture, oil & gas, power) have been developed and adopted and implementation is currently underway.
- A Sustainability Committee has been set up within the CBN to lead by example and provide oversight for the industry implementation.
- Industry-wide awareness raising and training is on-going.

Recent Development Initiatives...

Sustainability – Nine (9) Sustainability Principles

- Managing **environmental and social risk** in business decisions
- Managing the bank's own **environmental and social footprint**
- Safeguarding **Human Rights**
- Promoting **women's economic empowerment**
- Promoting **inclusive finance** for people and communities who have little or no access to the formal financial sector
- Improving **governance**, transparency and accountability
- Supporting **capacity building** in the financial sector
- Promoting **collaborative partnerships** to accelerate sector progress
- **Reporting** to take stock of sector progress and attendant needs

Recent Development Initiatives...

Intervention Funds

- **The Power and Aviation Fund (PAIF)**
 - To catalyze financing of the real sector of the Nigerian economy, the CBN set aside the sum of N300 billion to be applied to Power and Airline projects
 - The PAIF currently has led to savings on interest expenses and has generated a total of 698.6MW out of which 415.5MW as additional capacity was generated in the economy under the fund
- **The Restructuring & Refinancing Facility (RRF)**
 - The Restructuring and Refinancing Facility of N200 billion introduced by the CBN in 2010 to fast-track the development of the manufacturing sector of the Nigerian economy by improving access to credit for manufacturers
 - The Scheme has helped to create 13,886 new jobs and 257 companies with uncompleted projects were able to complete and resuscitate their operations after benefitting from the scheme

Recent Development Initiatives...

Women Economic Empowerment

- **Promoting Women into Leadership and Decision Making Roles**
 - Women are significantly underrepresented in secure wage employment in both public and private sectors. This is why, the Bankers' Committee, declared 2012 the year of 'Women Economic Empowerment'
 - Collective agreement that by 2014, 40 per cent of senior management and 30 per cent of board level positions should be occupied by women
- **Micro Small & Medium Enterprises Development Fund (MSMEDF)**
 - The MSMEDF is a fund being set up to promote the development of the Microfinance sub-sector and provide for wholesale funding requirements of Microfinance Banks and Microfinance institutions
 - It is intended that a minimum of 60 per cent of the MSMEDF should be committed to providing funding to women owned and run businesses in order to address their peculiar financial exclusion challenges

Recent Development Initiatives...

The Nigerian Incentive based Risk Sharing for Agriculture Lending (NIRSAL)

- NIRSAL Plc. is a Nigeria focused start-up, non-bank agric. financial services corporation which participates in the fast growing market for agribusiness in Nigeria i.e. 42% of current GDP; start-up founded in 2012 by team led by Central Bank of Nigeria
- Some achievements of NIRSAL till date include;
 - The launch of multiple “**Financing Guidelines**” to support bank capacity building and lending
 - Rice paddy cultivation (small scale); Cassava chip exports; Cassava grits equipment
 - Mechanization equipment; microfinance liquidity platform (in negotiation phase)
 - The Launch of multiple pilot “**value chain fixing**” initiatives based client requests. For example:
 - Lagos ₦30 billion aquaculture project to capture 25% of Nigerian fresh fish consumption
 - ₦48 billion tomato paste production & processing domestication project

Recent Development Initiatives...

The National Financial Inclusion Strategy

- The National Financial Inclusion Strategy aimed at reducing the number of adults excluded from access to financial services from 46.3% in 2010 to 20% in 2020 launched in October, 2012
- The strategy identifies the need to increase access to/take up of financial services (credit, payment, savings and products etc.) and channels (ATMs, POS', retail agents, DMB branch networks etc.) to achieve this target
- A pilot implementation phase for the country has been initiated in Borno state
- Significantly improving financial inclusion in Borno State will require an aggressive roll out of low cost distribution channels to efficiently cover a large geographic area
- The Banker's Committee, Ministry of Comm. Tech. and Borno State Government shall establish structures to track the performance of the programme on real time basis

Recent Development Initiatives...

Objectives of the Borno FI Pilot:

- Outline an implementation plan with clear targets and timelines for the attainment of financial inclusion in Borno state
- Engage and obtain state government buy-in and their commitment to deliberately push more activities through the financial system
- Propose business and operating models for financial services providers, to support the achievement of their corporate objectives
- Promote access to and usage of a diverse array of financial products that are well suited to the needs of the inhabitants of the state
- Promote an enabling financial environment for the growth and development of SMEs

Recent Development Initiatives...

Objectives of the Borno FI pilot...

- Significantly improve the rate of employment in the state and provide a sustainable platform for achieving greater security of lives and properties in the entire state
- Create financial awareness and enlightenment with respect to the financial inclusion initiative in the State
- Ultimately create better environment for the Central Bank of Nigeria in the pursuit of its key objectives of:
 - Ensuring monetary and price stability
 - Maintaining external reserves to safeguard the value of Nigeria
 - Effective and efficient currency issue and management
 - Promoting sound financial system in Nigeria
 - Performing effective role as economic and financial adviser to the Federal Government of Nigeria

Conclusion

- The Central Bank of Nigeria is committed to the provision of a safe, stable and sound financial system in line with our mandate
- Developing the real sector of the economy is key to ensuring growth and development
- On-going initiatives within the industry have significantly improved the state of the economy
- Bridging the financing gap of development priorities with innovative products and processes is key to the success of reforms and initiatives
- The economy is overly dependent on banks therefore other sectors are encouraged to develop complementary reforms to support those of the banking industry