

The Central Bank of Nigeria and Its Developmental Functions: A Review of Current Initiatives

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I. Introduction

Government in any economy plays a central role in shaping the operation of the financial system and the degree to which the range of financial services is expanded and made available to a broader set of households, firms and sectors in the economy (Demirguc-Kunt and Levine, 2008). Specifically, the degree of political and macroeconomic stability and the operation of legal, regulatory and information systems all influence the financial environment. The role of shaping the financial landscape of an economy to promote growth is vested with the central bank, in the case of Nigeria, the Central Bank of Nigeria (CBN).

The function of central banks include the maintenance of price stability, issuance of legal tender, management of the external reserve to stabilize the exchange rate and promoting sound financial system and stability. Central banks also engage in developmental functions through the focus on real sector activities and growth

The financial systems of developing countries are narrow and shallow. They hardly provide adequate financing for real sector activities. Also, the market may not perform efficiently in the allocation of financial resources and the priority sectors of the economy may experience poor funding. Under these circumstances, the central bank may come up with special funding schemes and facilities that would address the needs of the sectors that ordinarily would not be accommodated by the banks. This role is classified as a developmental function. Such developmental activities include credit guarantees and insurance; promotion of the capital market and development finance institutions; priority sector lending, preferential interest rates to priority sectors, preferential rediscount rates and facilities and setting target credit/deposit ratios for rural branches of banking institutions.

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II. The Central Bank of Nigeria (CBN) and National Economic Development

II.1 The Mandates of the Central Bank of Nigeria

In line with the traditional functions of the central bank, the mandates of the Central Bank of Nigeria as contained in the CBN Act 2007 amended are to:

- Ensure monetary and price stability;
- Issue legal tender currency in Nigeria;
- Maintain external reserves to safeguard the international value of the legal tender currency;
- Promote a sound financial system in Nigeria; and
- Act as banker and provide economic and financial advice to the Federal Government of Nigeria.

But like most central banks in the developing world, the CBN has developmental functions which it has performed over the years. These developmental roles have been targeted mainly at promoting the real sector of the economy, especially agriculture and manufacturing.

II.2 The Central Bank of Nigeria and National Economic Development

The Central Bank of Nigeria impacts on national economic development through the discharge of its mandates and the promotion of some developmental functions.

(a) Ensuring Monetary and Price Stability

Ensuring monetary and price stability is one way through which the CBN impacts positively on national economic development. This mandate is intended to achieve stable prices and low inflation. It is achieved through the design and implementation of sound monetary policy, which is recognised as the most important function of the central bank. Monetary policy is defined as a combination of measures, designed by the monetary authority, to regulate the value, supply and cost of credit in an economy, in consonance with the estimated level of economic activity. The goal of monetary policy is to achieve price stability. Price stability or low inflation helps in the achievement of other macroeconomic objectives, such as growth in output and reduction in unemployment. Empirical evidence has shown that an environment with

relatively stable prices promotes macroeconomic stability, aids planning, encourages savings and investments, promotes higher standard of living and reduces poverty.

In view of this, the CBN has, over the years, committed huge resources to control inflation, mainly through the open market operations. In the last ten years, therefore, the year – on – year inflation moderated, falling to single digit in 2006 and 2007, and averaged 13.0 percent for the decade, compared with an average of 31.2 percent in the previous decade. Thus, the CBN's effort to achieve low inflation last decade was relatively successful. The quantum of credit that could be made available to the private sector is also determined by a monetary programme which the monetary authority adopts. In turn, credit availability determines the volume of investment the economy can achieve. Credit to the private sector has grown over the years, especially during the post consolidation era, though there was a decline in credit growth rate in 2009 and 2010. But interest rate remained high, as the maximum lending rate fluctuated around 20.0 percent, which may not have been investment friendly.

(b) Management of External Reserves

During the review period, the economy recorded remarkable improvements in the management of the external reserves. The CBN introduced the Dutch Auction System (DAS) to strengthen the foreign exchange management. The Bank and the fiscal authorities were also committed to the crude oil price-based budgeting system that allowed for oil export receipts above the specified budget price to be saved in an account in the CBN rather than being shared by the three tiers of government. Thus, there was a deliberate effort to build reserves. This policy has been given legal backing recently through the promulgation of the Sovereign Wealth Fund Act, 2011. Furthermore, to enhance the efficiency and effectiveness of reserves management, the CBN introduced the innovation of involving domestic banks in external reserves management. These measures were also supported by the phenomenal increase in crude oil prices in the international oil market, which boosted the external reserves.

Thus, the stock of external reserves, which stood at US\$5.0 billion in May 1999, rose to US\$10.3 billion in December 2001, and peaked at US\$51.3 billion in 2008. However, the reserves declined to US\$42.4 billion in 2009 and further to US\$32.3 billion in 2010, due to the huge drawdown made to finance balance of

payments deficits during the two years. As at December 2010 the reserves could finance over 7 months of imports, compared with the minimum three months of imports requirement. Building of high levels of reserves reflects the strength of the economy vis-a-vis the rest of the world. Also, the exchange rate was relatively stable, depreciating from ₦112.49/US\$ in 2001 to ₦150.7/U\$ in 2010.

(c) Issue of Legal Tender Currency and Improved Payments System

The architecture of the payments system was strengthened in 2004, with the introduction of a new clearing and settlement arrangement, comprised designated settlement banks. This replaced the old system in which the CBN organised and supervised inter-bank settlements. Other initiatives undertaken to strengthen the payments system include:

- Issuance of a new ₦100, ₦200, ₦500 and ₦1,000 legal tender currency notes, which reduced substantially the cost of currency issue and administration and the volume of currency notes;
- Sustained automation of the clearing system; and
- Introduction of electronic money (e-money), smart cards, and the development of the Real Time Gross Settlement (RTG) system to deal with large value payments and settlements, as well as innovative money transfer arrangements.

Effort at reducing the clearing cycle to T+2 yielded positive results with the introduction of the Nigeria Automated Clearing System (NACS), which significantly increased the level of activities in the banking system and restored confidence in the use of cheques. The net result, is that the speed of financial transactions has increased and the clearing time for cheques for the banks that are fully automated, reduced considerably. All these have transformed the payments system, reduced the use of cash and promoted trade generally.

(d) Banking Sector Reforms

The current major reforms which began in 2004 were necessitated by the need to strengthen the banks. At the inception of the reforms, the thrust of policy was to grow the banks and position them to play pivotal roles in driving development in all the sectors of the economy, as well as induce improvements in their own operational efficiency. As a result, banks were consolidated through mergers and acquisitions, raising the capital base from ₦2 billion to a minimum of ₦25

billion, which reduced the number of banks, from 89 to 25 in 2005 and to 24, thereafter. Beyond the need to recapitalise the banks, the reforms focused on ensuring minimal reliance on public sector for funds, but rather relying on the private sector. Also, the CBN adopted risk focused and rule-based regulatory framework; zero tolerance in regulatory framework in data/information rendition/reporting and infractions; strict enforcement of corporate governance principles in banking; expeditious process for rendition of returns by banks and other financial institutions through e-FASS; revision and updating of relevant laws for effective corporate governance; and greater transparency and accountability in the implementation of banking laws and regulation.

In spite of the positive outcome of the reforms, a new set of problems emerged and threatened the financial system from 2008, coinciding with the global financial crisis (Sanusi, 2010). The surge in capital put pressure on available human capacity in the sector and this led to accumulation of margin loans and other high risk investments, especially in the capital market and the oil and gas sector. Consequently, when the capital market bubble burst, the balance sheet of many banks became eroded to the extent that some remained for some time on 'life support' from the CBN. Interbank rates spiked as banks could borrow at any rate in order to remain afloat, the size of non-performing loans enlarged, customer panic re-emerged and several unethical conducts among the managements of banks were revealed. These developments set the stage for another round of reforms which are currently being implemented.

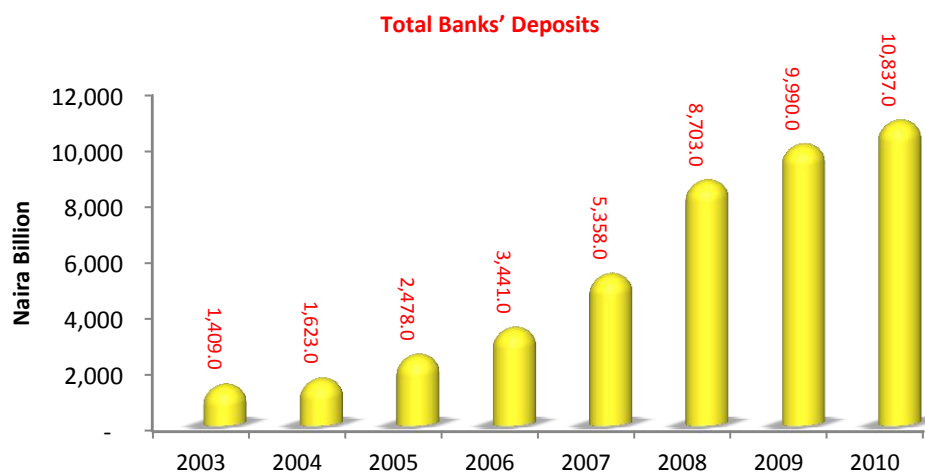
The current reforms could be broadly divided into two. The first part focused on ensuring that the nine banks, which examination revealed were in poor state, were rescued. Some of the actions taken by the CBN included reduction of cash and liquidity ratios, expanded discount window operations, which enabled the banks to borrow for up to 360 days from the CBN. It also admitted non-traditional instruments, like commercial papers, promissory notes and bankers' acceptances in the discount window. Interbank lending was also guaranteed to encourage banks to lend among themselves. The sum of ₦620 billion was injected into eight of the weak banks in direct rescue packages, while corporate governance was enforced with the appointment of new management teams for the affected banks. Over all, the system has been restored to the path of stability.

The second phase of the reforms is couched in terms of medium to long-term objectives. Under this, financial sector stability was emphasised alongside the need to position the banks to provide funding for the development of the real sector of the economy. The four cardinal pillars of the reform were: enhancement of the quality of banks, establishment of financial stability, enablement of a healthy financial sector, and ensures that the financial sector contributed to the real economy.

The fourth pillar of the reform has direct bearing on the development of the real sector as it sought to position the banking system to contribute to the growth and development of the various sectors of the economy. This pillar is anchored on the fact that real economic growth must be supported by actual rise in physical goods and services. This segment of the reform, therefore, sought to break from the classical orthodoxy of leaving the allocation of financial resources entirely to the market forces. Rather, the reform has identified priority sectors and developed tailored interventions to support and promote growth in these sectors. Some of the key interventions are discussed in the next section.

The effects of the overall reform efforts are manifold. First, the larger size of the banks engendered improved customer confidence and deposits increased phenomenally, from ₦2.5 trillion in 2005 to ₦5.4trillion in 2007 and further to ₦9.9 trillion and ₦10.8 trillion in 2009 and 2010, respectively.

Figure 1: Total Banks' Deposit (2003 - 2010)



Source: CBN

Second, banks by their increased size were enabled to fund large ticket projects, especially in infrastructure, and oil and gas sectors, through the new window in the enlarged single obligor limit. Credit to the private sector grew significantly from 2007 to 2009, but there was decline in 2010 (Table 1).

Table 1: Credit to Private Sector by Activity (₦' Billion)

Sectors	2003	2004	2005	2006	2007	2008	2009	2010*
Agriculture	62.10	67.74	48.56	49.39	149.58	106.35	135.70	128.41
Min. & Quarry	95.98	131.06	172.53	251.48	490.71	846.94	1,190.73	1,178.10
Manufacturing	294.31	332.11	352.04	445.79	487.58	932.80	993.46	987.64
Communication	293.70	382.76	375.73	500.24	1,158.10	1,304.85	776.58	821.02
Oil & Gas**	229.23	277.53	431.39	586.48	1,266.67	1,943.70	2,116.63	1,984.41
Others	227.89	328.04	610.89	690.92	1,260.85	2,655.75	3,699.04	2,606.86
Total	1,203.20	1,519.24	1,991.15	2,524.30	4,813.49	7,790.40	8,912.14	7,706.43

Note: * 2010 figures are provisional; ** Oil & Gas figures are estimates from 2008 – 2010

Source: CBN

The phenomenal growth in credit went to mining and quarrying, oil and gas sub-sectors, as well as to capital market investments. In contrast, the share of agriculture, manufacturing and communications fell substantially (Table 2).

Table 2: Credit to Private Sector by Activity (Per cent)

Sectors	2003	2004	2005	2006	2007	2008	2009	2010*
Agriculture	5.16	4.46	2.44	1.96	3.11	1.37	1.52	1.67
Min. & Quarry	7.98	8.63	8.66	9.96	10.19	10.87	13.36	15.29
Manufacturing	24.46	21.86	17.68	17.66	10.13	11.97	11.15	12.81
Communications	24.41	25.19	18.87	19.82	24.06	16.75	8.71	10.65
Oil & Gas**	19.05	18.27	21.67	23.23	26.32	24.95	23.75	25.75
Others	18.94	21.59	30.68	27.37	26.19	34.09	41.51	33.83

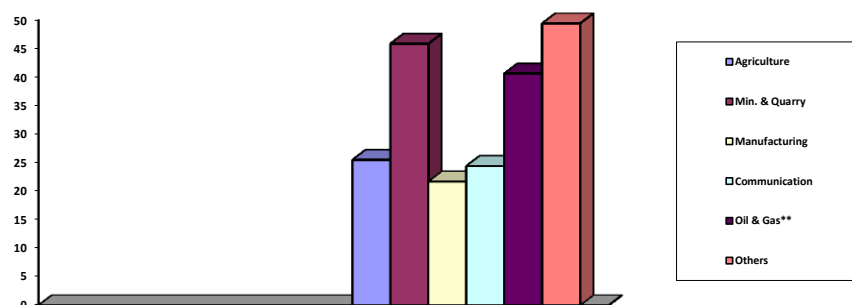
Note: * 2010 figures are provisional; ** Oil & Gas figures are estimates from 2008 – 2010

Source: Derived from Table 1

Table 3 shows the percentage change over the years of credit to private sector by activity. On average, credit to mining & quarrying, oil & gas, and 'others' rose by 45.9, 40.7 and 49.5 per cent, respectively. However, the effects were on other sub-sectors, change in credit to agriculture increased by 25.5 per cent; communications, 24.4 per cent; and manufacturing, 21.7 per cent.

Table 3: Credit to Private Sector by Activity (Percentage Change)

Sectors	2004	2005	2006	2007	2008	2009	2010*	Average
Agriculture	9.08	-28.31	1.71	202.85	-28.90	27.60	-5.37	25.52
Min. & Quarry	36.55	31.64	45.76	95.13	72.59	40.59	-1.06	45.89
Manufacturing	12.84	6.00	26.63	9.37	91.31	6.50	-0.59	21.72
Communications	30.32	-1.84	33.14	131.51	12.67	-40.49	5.72	24.43
Oil & Gas**	21.07	55.44	35.95	115.98	53.45	8.90	-6.25	40.65
Others	43.95	86.22	13.10	82.49	110.63	39.28	-29.53	49.45

Figure 2: Average percentage change for each Sector (2004 – 2010) (see RSD).

Note: * 2010 figures are provisional; ** Oil & Gas figures are estimates from 2008 – 2010
Source: Derived from Table

Third, although the number of banks reduced by almost four folds, the number of bank branches increased by 80.0 per cent from 3, 247 in 2003 to over 5, 837 in 2010, while employment in the sector rose from 50, 586 in 2005 to 71, 876 in 2010. Fourth, the capital market received a boost as several banks recorded success in their initial public offers (IPOs). Fifth, the consolidation exercise impacted positively on the payment system as the fewer number of banks made it easier to deploy the new automated clearing systems and also reduced the length of time spent on the clearing floor. Lastly, supervision burden became lighter as the coverage reduced from 89 banks to 24.

(e) Developmental Role

Some interventions were made in other sectors of the economy, to enable the Bank achieve its prime mandate of price stability and contribute to economic

development in general. Thus, it promotes real sector activities through the instrumentality of agricultural finance, small and medium enterprises (SME) growth, entrepreneurship development, among others. These are discussed in Section 3.

III. An Overview of the Developmental Role of the Central Bank of Nigeria

The rapid growth experienced in the financial sector over the years did not impact much on the real sector of the economy as envisaged. The various developmental financial institutions set up for specific purposes, such as agricultural finance and industrial promotion, did not achieve the stated objective of promoting growth, as manufacturing production, building and construction, transport, communications, utilities and real estate, taken together, accounted for only 11.2 per cent of Nigeria's gross domestic product (CBN, 2010). But these sectors are the growth drivers in the emerging markets in Asia, Europe and Africa. In contrast, the primary production of agriculture and crude oil contributed as high as 35.6 and 32.7 per cent, respectively.

In the last ten years, the GDP growth has increased remarkably. But at an average of 6.5 per cent, the growth is grossly insufficient to lift a large number of people out of poverty in line with national objectives. Rather a growth rate of 13-15 percent over time would do the magic. Thus, over 50 per cent of Nigerians live below the poverty line, attributed largely to lack of investment capital and access to credit facility in various sectors, poor infrastructure and productive technologies and low capacity to manage resources (CBN,DFD, 2008).

In order to address the challenge of promoting growth in the priority sectors, the CBN collaborates with the government, private organizations, development partners, and other relevant institutions to design and implement schemes that would improve bank lending for real sector activities, empower small scale entrepreneurs, create employment opportunities and ensure food security, and alleviate poverty.

III.1 Major Developmental Activities of the CBN

The CBN has tried to promote real sector activities through the instrumentality of:

III.1.1 Agricultural Financing

Considerable effort was made by the Bank to strengthen the Agricultural Credit Guarantee Scheme Fund (ACGSF). The ACGSF is jointly funded by the Federal Government and the CBN. The objective of the scheme is to induce banks to participate actively in purveying credit to farmers, given the high risk and neglect of agricultural credit in recent times, coupled with the relative inadequacy of guaranteed loan sizes, in a high cost farming environment. The share capital of the Fund was increased from ₦1.0 billion to ₦3.0 billion in 2001. In 2003, the Board of the ACGSF ratified the participation of fully licensed community banks in the operation of the Scheme, with effect from January 1, 2004. Consequently, loan guarantee limits under the Scheme were raised for all categories of borrowers. As at end 2010, the cumulative loans guaranteed under the scheme from inception in 1978 was 698,200, valued at ₦42.15 billion.

Other developmental functions of the CBN that have impacted positively on the agricultural sector are the Trust Fund Model of the ACGSF and the Interest Drawback Programme.

III.1.2 Financing Small and Medium Enterprises

Over the years, the CBN has established a number of financing schemes designed to promote the growth of small and medium enterprises (SMEs). First, is the direct monetary policy measure of credit allocation to SMEs during the pre-SAP era? During 1966-1996, 20 per cent of total commercial and merchant banks' loans were channelled to the SME and any defaulting bank was sanctioned. Second, the CBN promoted the establishment of development financial institutions (DFIs), jointly with the Federal Government. The DFIs were mandated to make compulsory and concessionary credit to SMEs and other identified sectors. They included the Nigerian Industrial Development Bank (NIDB), established in 1962; the Nigerian Bank for Commerce and Industry (NBCI) (1973); and the Nigeria Export-Import Bank (1991).

Other pro-SME programmes of the Bank included the establishment of the Peoples Bank of Nigeria (1989); securing of the World Bank SME I Loan Scheme of US\$41 million (1984) and World Bank SME II Loan Scheme of US\$270 (1990); and the establishment of the Small and Medium Enterprises Equity Investment Scheme (2001).

III.1.3 The Microfinance Policy

The Microfinance Policy Regulatory and Supervisory Framework (MPRSF) for Nigeria was formally launched in 2005. The principal objective of the policy is to establish microfinance banks (MFBs) that are financially sound, stable, self-sustaining and integral to the communities in which they operate. MFBs are expected, as their primary focus, to provide access to financial services on a sustainable basis for the huge market of un-served and vulnerable groups, who otherwise would have no access to financial services from conventional banks and other financial institutions (CBN, 2008).

The policy framework aims to achieve many objectives that are related to uplifting the economic fortunes of the poor. These include, enabling access to credit for the unbanked poor, financial inclusion of the informal economy, smoothening the path of service delivery by microfinance institutions, providing a platform for interaction among formal and informal credit institutions, and ultimately energizing rural transformation. The framework also seeks to ensure that set objectives are consciously pursued and progress monitored, by stipulating targets to be met over the long term.

The targets are expressed in specific terms as follows:

- increasing the share of micro credit in total credit to the economy from 1 per cent in 2005 to 20 per cent by 2020;
- the percentage of micro credit in total Gross Domestic Product (GDP) to rise to 5.0 per cent from 0.2 per cent over the same time period;
- 67.0 per cent of states and local governments to participate in micro credit financing by 2015;
- adjusting the gender equation in business enterprises in favour of women by increasing their access to financial services by 5.0 per cent annually; and
- achieving 10.0 per cent financial integration annually.

There are two categories of MFBs; MFBs licensed to operate as a unit bank with a minimum capital requirement of ₦20 million; and MFBs licensed to operate in a state with a minimum capital requirement of ₦1 billion. The two categories can aspire to have national coverage provided they grow organically. MFBs could be owned by individuals, group of individuals, community development associations, and private corporate entities and foreign investors.

The total assets of MFBs had grown progressively since the policy was launched, from ₦55.06 billion in 2006 to ₦158.79 billion in 2009. Net loans and advances also rose to ₦55.823 billion as at end-2009, which was fourfold, the level in 2006. The same trend was observed for the volume of deposits mobilised by MFBs. It rose from ₦34.01 billion in 2006 to ₦72.75 billion at end-2009, an increase of 113.9 per cent. These are indicators of increasing financial intermediation, improved access to financial services and a boost to rural economic activities.

III.1.4 Entrepreneurship Development

The CBN established three Entrepreneurship Development Centres at Onitsha, Lagos and Kano, in partnership with the private sector. They were set up to achieve the following objectives:

- develop entrepreneurship spirit amongst Nigerians
- develop skills of would-be-entrepreneurs to successfully start, expand, diversify and manage business enterprises, as well as link them with financial institutions for start-up capital, especially the microfinance banks.
- generate employment opportunities for Nigerians
- raise a new class of entrepreneurs/business owners, who can compete globally, and provide the bridge for future industrialization of the country.

The state governments were encouraged to:

- set aside 1.0 per cent of their annual budgets for on-lending through MFBs to their residents
- mobilise local government areas (LGAs) to set aside 1.0 per cent of their budgets for on-lending purposes
- mobilise high net worth indigenes to float MFBs.
- sensitise citizens on microfinance in collaboration with the CBN

As at end of 2010, the centres had trained and counselled 49,697 graduates, created 1,825 jobs and 595 trainees were given assistance to access loans for their businesses.

III.2 Baseline Economic Survey of Small and Medium Industries in Nigeria

The CBN undertook a detailed study of the SMI in Nigeria in 2003/2004, as a means of providing widely disseminated and comprehensive information on SMI

in Nigeria. The Report on the study was launched on 13th September, 2005. It has four sub-reports on regional basis as follows:

- (a) **Survey of Existing SMIs:** This contains, among others, characteristics of SMI, employment profile, production inputs, production technology, infrastructure and capital investment, production capacity and cost structure, growth potentials and marketing, government policy and recommendations, on local and state government basis.
- (b) **Potential Investment Projects Profiles:** This contains potential SMI project profiles in different parts of the country. On the whole, 740 potential investment profiles were prepared with information on zonal advantages, raw materials, products, machinery and equipment and preliminary investment costing.
- (c) **Project Inventorising:** This provides information on the quality and quantity of raw materials, products, their possible uses, as well as infrastructural facilities available in each zone, state and community.
- (d) **Research and Development Activities:** This is a profile of research activities on SMIs carried out by different research institutions across the country.

IV. A Review of Current Initiatives for Real Sector Development

In line with the objective of making financial sector developments to impact positively on the real sector of the economy, as enunciated in the current banking sector reforms, the CBN embarked on new initiatives, aimed at enhancing the flow of finance to some priority sectors. These include:

IV.1 ₦200 Billion Commercial Agricultural Credit Scheme (CACCS)

The CACCS was established in 2009 by the CBN, in collaboration with the Federal Ministry of Agriculture and Water Resources (FMA&WR). It is being funded through the issuance of FGN Bond worth ₦200 billion, by the Debt Management Office (DMO) in two tranches. The first tranche of ₦100 billion has been raised and passed on to participating banks for on-lending to farmers. Loans made under this scheme are at single digit interest rate subject to a maximum of 9.0 per cent while the CBN bears the interest subsidy at maturity. The scheme was initially to promote commercial agricultural enterprises but was later revised to

accommodate small scale farmers through the on-lending scheme of the state governments. All the 24 banks in the country are expected to participate in the administration of the scheme. As at end-December 2010, a total of ₦96.81 billion had been disbursed to eleven banks, including disbursements to 15 state governments, for financing 104 projects.

IV.2 ₦500 Billion Development Bond

As part of the effort by the CBN to show the way towards enhanced financing of the real sector and infrastructure projects, and improve credit flow to the sector, a ₦500.0 billion Fund was established out of which ₦300 billion is earmarked for Power/Infrastructure and Aviation projects, and ₦200.0 billion for the Refinancing/Restructuring of banks' existing loan portfolios to manufacturers/Small and Medium Enterprises (SMEs).

IV.2.1 ₦300 Billion Power and Aviation Intervention Fund

From the ₦500 billion Development Bond, the CBN allocated the sum of ₦300 billion to stimulate credit to the domestic power sector and the troubled airline industry. The main objective of the initiative was to help finance badly needed power projects and to allow banks to refinance loans to the heavily-indebted airline industry. It was intended to refinance existing loans and leases and provide working capital for the two sectors. The programme would operate in such a way that banks will be able to access the fund at an interest rate of 7.0 per cent (BOI 1.0 per cent as management fee and participating banks, 6.0 per cent), including all charges, payable on a quarterly basis. The Fund is managed by the Bank of Industry (BOI) while the Africa Finance Corporation (AFC) is the technical adviser. All the 24 commercial banks and development finance institutions (excluding BOI) have all been enlisted to participate in the scheme. The framework for the take-off of the scheme was in place by the end of 2010.

IV.2.2 ₦200 Billion Restructuring/Refinancing to the Manufacturing Sector/SME

Also from the bond, the CBN made available ₦200 billion for the re-financing/re-structuring of banks' existing loan portfolios to the manufacturing sector and SMEs. The main objective of the Fund is to fast-track the development of the manufacturing sector by improving access to credit by manufacturers as well as improving the financial position of the DMBs. The types of facilities under the Fund include long-term loans for acquisition of plant and machinery, refinancing of existing loans, resuscitation of ailing industries, working capital and refinancing of

existing lease. The loan amount for a single obligor is a maximum of ₦1 billion in respect of re-financing/re-structuring with an interest rate of 7.0 per cent payable on quarterly basis. As at end December 2010, the sum of ₦199.67 billion had been disbursed to BOI, out of which the participating banks received ₦197.59 billion.

IV.3 Small and Medium Scale Enterprises Credit Guarantee Scheme (SMECGS)

The SMECGS was established by the CBN in 2010 with an initial capital of ₦200 billion to promote access to credit by SMEs in Nigeria. The scheme provides guarantees on loans by banks to the sector to absorb the risk element that inhibit banks from lending to the real sector. The activities covered under the scheme include manufacturing and agricultural value chain; SMEs with assets not exceeding ₦30 million and labour force of 11 to 300 staff; and processing, packaging and distribution of primary products.

The main objectives of the Scheme are to: fast-track the development of SME/Manufacturing sector of the economy by providing guarantees; set the pace for industrialisation; and increase access to credit by promoters of SMEs and manufacturers. The maximum amount to be guaranteed under the scheme is ₦100 million, which can be in the form of working capital, term loans for refurbishment, equipment upgrade, expansion and overdraft. The guarantee covers 80 per cent of the borrowed amount and is valid up to the maturity date of the loans, with maximum tenure of 5 years. All the deposit money banks are eligible to participate in the scheme and the lending rate under the scheme should be the prime lending rate of the banks since the CBN is sharing the credit risk with the banks by providing guarantee. At end-December 2010, two applications valued at ₦107.5 million had been processed.

IV.4 Nigerian Incentive-based Risk Sharing for Agricultural Lending

In spite of the plethora of financing schemes, the issue of adequate, affordable and timely access to credit by Nigerian farmers remains a major challenge. For example, between 2006 and 2010, the agricultural sector attracted on average just 2.0 per cent of the total credit to the economy in contrast to its average contribution of 41.7 per cent to the GDP over the same period (CBN, 2010). The low credit to the sector by the banking industry could be attributed to a number of reasons, notable among which are the high risk inherent in the sector and the perception that it is non-strategic to their business models. Hence, as long as

these concerns linger, the issue of financing agriculture in Nigeria would require more than just providing funds to the sector. It is against this background that a new financing framework, the Nigerian Incentive-based Risk sharing System for Agricultural Lending (NIRSAL) is being introduced.

This model of financing agriculture is different in many ways from the current financing models which have not yielded the desired impact of making adequate credit available to the sector. NIRSAL is a demand driven credit facility rather than the current supply driven funding. It adopts a value chain approach to lending as banks would be free to choose which part of the value chain they would be interested in lending to. It would build the capacity of the banks to engage and deliver loan; reduce counterpart risks facing banks through innovative crop insurance products; reward performance in agricultural lending; and would be managed with performance- based incentives. The objectives of the programme include to:

- Stimulate innovations in agricultural lending;
- Encourage banks to lend to the real sector;
- Eliminate state dependency by banks for deploying loanable funds to agriculture;
- Leverage DMBs balance sheet for lending into agriculture; and
- Ensure risk sharing approach that will build a business model in which banks share in the risk of lending to the sector.

V. The Nigerian Economy: Development Perspective

Nigeria is the single largest territorial unit in West Africa, with a land area of 923,768 square kilometers and a population of about 159 million people (CBN, 2010). The annual population growth rate is 3.2 per cent, with a gender population ratio of 51.2 per cent male and 48.8 per cent female. Approximately 60 per cent of the labour force earns livelihood from farming. Nigeria has vast natural resources with oil reserves of about 37 billion barrels estimated to last over the next 30 years, while gas reserves of about 176 trillion cubic meters could be depleted in approximately 72 years. In the early 1970s, Nigeria's per capita GDP was estimated at US\$1,000, which was well above the world poverty line. But times changed. The promise of greatness has been betrayed as Nigeria used her enormous wealth from oil export for massive importation of goods and services, to the utter neglect of domestic production. This state of affairs could not be

sustained owing to the vagaries of oil production and prices in the international oil market. As the oil boom burst from the mid-1980s, the Nigerian economy headed downward in spite of the effort made by the CBN through monetary policy measures and developmental functions.

Analysis of the performance of the economy revealed a deteriorating state (Table 2).

Table 2: Average GDP Growth (Per cent)

Period	Growth Rate
1960-1970	5.9
1971-1973	8.0
1976-1980	3.2
1982-1990	3.2
1991-1998	1.9
1999-2007	8.3
2008-2010	7.1

Source: National Bureau of Statistics

From an annual average growth rate of 8.0 per cent in the period 1971-73, the growth of the GDP nose-dived to 3.2 per cent during 1976-80 and 1982-90, just the same as the population growth, implying that there was no real growth. Yet the 1990s was the worst period for Nigeria, as the growth plummeted further to 1.9 per cent. However, during the period 1999-2007, output growth rebounded to 8.3 per cent, reflecting the effects of massive macroeconomic reforms and policies embarked upon by the democratic dispensation from 1999. Thus, the economy recorded improved performance during the 2000 decade.

Table 3: Nigeria's Major Macro-Economic Indicators (1991 - 2010)

Indicator	Average 1991 - 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Average 2001 - 2010
GDP Growth Rate (%)	2.3	4.7	4.6	9.6	6.6	6.5	6	6.5	6	7	7.9	6.5
Inflation Rate (%)	31.3	16.5	12.1	23.8	10	11.6	8.5	6.6	15.1	13.9	11.8	13
M2 Growth Rate (%)	32.6	27	21.6	24.1	14	24.4	43.1	44.2	57.8	17.5	6.7	28
Current Account Balance (as % of GDP)	-	4.7	1.5	7	17.6	32.8	23.5	16.8	13.7	7.9	1.5	12.7
External Reserves (US \$ Billion)	4.3	10.3	7.7	7.5	17	28.3	42.3	51.3	53	42.4	32.3	29.2
Exchange Rate End-Period (N/US\$)	48.5	112.5	126.4	135.4	132.7	130.3	128.3	117.9	132.6	149.6	150.7	131.6
External Debt (US \$ Billion)	29.2	28.3	31	32.9	35.9	20.5	3.5	3.7	3.7	3.9	4.6	16.8
Maximum Lending Rate (% per annum)	24.4	21.3	30.2	22.9	20.8	19.5	18.7	18.2	21.2	23.8	21.9	21.8
Credit to Private Sector	-	43.5	19.7	18.4	26.6	30.8	32.1	90.8	59.4	26.6	22.5	37.1

Source: CBN Annual Reports (various issues)

The economy grew modestly from 4.7 per cent in 2001 to 7.9 per cent in 2010, with a peak of 9.6 per cent in 2003. The decade average growth was 6.5 per cent, compared with 2.3 per cent of the previous decade. The sectoral growth drivers during the decade were agriculture, crude oil and gas, building and construction, commerce, communications, and real estate development.

Other macroeconomic indicators improved significantly. Inflationary pressures moderated, recording single digit in 2006 and 2007, averaged 13.0 per cent, compared with 31.3 per cent in previous decade. The external reserves rose steadily, from US\$10.3 billion in 2001 and peaked at US\$53.0 billion in 2008. Nigeria's external debt moved in the reverse order, from US\$28.1 billion in 2001 to just US\$3.5 billion in 2006 and remained low since then.

In spite of these improvements, many development indicators headed downwards, indicating that the growth was externally driven and not inclusive.

Table 4: National Unemployment Rates

Year	Rate (Per cent)
2000	13.1
2001	13.6
2002	12.6
2003	14.8
2004	13.4

2005	11.9
2006	12.3
2007	12.7
2008	14.9
2009	19.7

Source: National Bureau of Statistics, Labour Force Survey, March 2009

The unemployment situation has been worrisome, as it deteriorated from 13.1 per cent in 2000 to 19.7 per cent in 2009. An intriguing paradox is that there is high and rising unemployment rate despite the exciting recent GDP growth rates. For example in 2008 and 2009 when the GDP growth rates were 6.0 and 7.0 per cent, unemployment rate was 14.9 and 19.7 per cent, respectively. This ugly situation has revealed that Nigeria's growth has not generated commensurate employment opportunities.

Using the United Nations Development Programme (UNDP) Human Development Index-a comparative measure of life expectancy, literacy, education, and standards of living- Nigeria is in the list of Low Human Development countries. In 2010, it took the 145th position out of the 172 countries evaluated, with a score of just 0.423, in deed below many countries in Africa. This information tends to support the NBS report which shows that about 54.0 per cent of the total Nigerian population live below the poverty line, out of which 63.3 per cent are in the rural areas.

V.2 Vision 2020

The Vision was aimed at restructuring the economy for industrial development, increasing national and per capita incomes, improving the living standards of the people and ultimately reducing poverty in the country. The target of raising the level of the GDP from US\$191.4 billion to US\$900 billion in 2020, almost a five-fold increase, and becoming one of twenty largest economies in the world, requires that all the sectors be made to work efficiently and effectively.

Building on the gains from the National Economic Empowerment and Developmental Strategy (NEEDS), the key features of Vision 2020 are:

- Polity – The country will be peaceful, harmonious and stable.
- Macro-Economy – A sound, stable and global competitive economy with a GDP of not less than US\$900 billion and a per capita income of not less than \$4000 per annum.
- Infrastructure – Adequate infrastructure services that support the full mobilisation of all economic sectors.
- Education – Modern and vibrant education which provides for every Nigerian the opportunity and facility to achieve his maximum potentials and provides the economy with adequate and competent manpower.
- Health – A health sector that supports and sustains a life expectancy of not less than 70 years and reduces to the barest minimum the burden of communicable diseases such as tuberculosis, cholera, HIV/AIDS and other debilitating diseases.
- Agriculture – A modern technologically agricultural sector that fully exploits the vast resources of the country, ensure national food security and contribute significantly to foreign exchange earnings.
- Manufacturing – A vibrant and globally competitive manufacturing sector that contributes significantly to GDP with a manufacturing added value of not less than 40 per cent.

Thus, the Vision 2020 sets out the framework and agenda for the development of Nigeria, and putting her in the league of the twenty largest economies in the world. But seven years after the adoption of the Vision and eleven years to the target date, the country seems not to be moving along this path of development. It has not made any significant importance in any of the parameters. At end-2010, Nigeria's economy was estimated at US\$193.7 billion and ranked as the 44th largest economy by the World Bank, far behind Poland, Switzerland and Indonesia that took the 20th, 19th and 18th positions, respectively. Growing at the current rate of 6.5 per cent per annum, Nigeria would produce a GDP of US\$380.2 billion by 2020, which is below the GDP of Poland, Switzerland and Indonesia in 2010. Indeed, Nigeria needs to grow by 14 per cent per annum to overtake Poland in 2020, Switzerland 13 per cent and Indonesia 20 per cent (World Bank).

Table 5: Comparative Analysis of the Nigeria's GDP with Some Selected Countries

Countries	Nigeria (44th)	Poland (20th)	Switzerland (19th)	Indonesia (18th)
2010 GDP (millions of US\$)*	193,669	468,585	523,772	706,558
Current GDP Growth Rate (10yrs Average, Percent)*	6.5	3.90	1.63	5.17
2020 GDP Projection (Using Current Growth Rate, millions of US\$)	380,263	686,980	615,689	1,169,679
Growth Rate (Percent) needed to match Poland, Switzerzland and Indonesia	-	13.50	12.26	19.70

Source: *The World Bank

VI. Summary and Conclusion

The paper x-rayed the role of the Central Bank of Nigeria as an agent of economic development. The central bank impacts the economy via: ensuring monetary and price stability; management of external reserves; issue of legal tender currency; financial system management; the payments system; and developmental roles. Its developmental role has been given special attention in recent years with its intervention in the real sector.

Monetary and price stability is a necessary but not sufficient condition for attaining higher growth rate and development. Other necessary conditions for the attainment of Vision 2020 include, but not limited to, harmonious and consistent research-based policy formulation and implementation; political will that can see initiatives through and ensure continuity through the setting up of strong institutions backed up by law; and massive investment in the energy sector, particularly electricity generation and distribution, as well as in petroleum refinery development. Other sectors that call for urgent attention are extensive road rehabilitation and construction of new ones, development of the rail system, expansion and modernisation of the airports and the seaports, improvement in the quality of education and health in order to ensure the provision of healthy manpower.

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