GOODWILL ADDRESS BY CHIEF (DR) J.O SANUSI, GOVERNOR, CENTRAL BANK OF NIGERIA

The President/Chairman of Council, The Chartered Institute of Bankers of Nigeria,
My Lord, the Chief Justice of Nigeria,
Justice M. L. Uwais,
His Excellency, The Governor of Rivers State,
Dr. Peter Odili,
My Lords, Justices of the Supreme Court and
Other Judges here present,
Honourable Members of the National Assembly,
Honourable Members, State House of Assembly,
The Inspector General of Police,
Fellows and Associates of the Institute,
Distinguished Participants, Ladies and Gentlemen.

1.0 It is a privilege to be invited as a Special Guest of Honour and to deliver the goodwill address at this very important National Seminar on Banking

and Allied Matters for Judges. I, therefore, thank the organisers for the honour. I understand that the seminar is designed for the cream of the judiciary, company secretaries and heads of legal departments of banks, and the law enforcement agencies, with a view to providing an opportunity for exchange of ideas on contemporary banking and allied issues. The seminar could not have come at a better time, given the critical role that the judiciary is expected to play in the on-going financial sector reforms and institutional development towards building a sound and efficient banking industry in Nigeria. It is, indeed, relevant to note here that a well functioning legal system is critical to resolving the lingering problems of corporate governance and financial crimes in the banking industry.

2.0 Distinguished Ladies and Gentlemen, the banking industry has witnessed a phenomenal growth since the late 1980s, following the adoption

of a liberal licencing policy. For example, the number of banks about tripled from 41 to 119 between 1986 and 1991. Following the distress situation experienced in the industry in the 1990s, however, the number plummeted to 90 by 2001. The liberalisation policy promoted a more competitive banking environment in the country and enhanced the efficiency of financial intermediation. Specifically, the reforms resulted in the increased number of banks and the emergence of new financial institutions, improvement in financial services delivery as well as encouragement to develop new financial products and innovations in the industry. Moreover, since the adoption of the universal banking system in 2001, the dichotomy between commercial and merchant banks has ceased to exist, as banks are now allowed to engage in activities in both money and capital markets as well as the insurance business, depending on their

operational focus and capacity, thus providing a level playing field for all the banks. In Nigeria and elsewhere, improvements in information and telecommunication technologies contributed substantially to the accelerated growth and development of the banking industry.

3.0 These developments are, however, not without the attendant risks and problems. Notably, the growth in the number of banking institutions over-stretched our operational and regulatory capacities, while the growing sophistication in the design and use of financial instruments heightened the risks of malpractices and fraud in the industry, thereby posing serious challenges for the regulatory authorities and, of course, the judiciary. In particular, mismanagement such as insider abuse and poor credit appraisal systems, resulted in the accumulation of unpaid loans and advances, which eventually contributed to the emergence of distress

situation in the banking system in the early 1980's to mid-1990s.

4.0 It is important to note at this juncture, that the CBN has been responding to these challenges through the introduction of a number of regulatory measures, designed to strengthen the capital base of banks and promote a more professional approach to banking business. Specifically, the CBN adopted the risk-weighted measurement of capital adequacy ratio, recommended by the Basle Committee of the Bank for International Settlements (BIS), while prudential guidelines and mandatory accounting standards for all licenced banks were introduced. Taken together, these were expected to ensure the stability and soundness of the banking system.

5.0 Also, a number of legislative initiatives were introduced during the reform years to address operational problems in the sector and the economy

at large, including the promulgation of the following laws: The Nigeria Deposit Insurance Act of 1988; Central Bank Of Nigeria, Act (1991) and the subsequent amendments of 1998 and 1999; Banks and Other Financial Institutions Act (1991) and the subsequent amendments of 1998 and 1999; Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Act of 1994; Money Laundering Act of 1995; Advance Free Fraud and Other Fraud-Related Offences Act of 1995. The application of these laws in the context of financial sector surveillance has placed enormous responsibilities on the Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), and the Judiciary, in the effort to sanitise the system and the economy for improved performance. It is noteworthy that in the discharge of their supervisory responsibilities, the CBN and NDIC have co-operated with the Judiciary and law

enforcement agencies to facilitate the adjudication of cases brought before the courts.

6.0 Your Excellencies, despite these initiatives, there is still a need for further strengthening of the legal processes in order to complement the efforts of the regulatory authorities, in tackling the problems facing the industry, effectively. For instance, while the sanctions, which the regulatory authorities could impose on banks to deal with breaches of the Banking Acts and unprofessional behaviour have become subject of litigations in the courts, the adjudication has, at best, been very slow. The observed delays have the potential to engender speculation and uncertainty which could adversely affect public confidence in banks and impair the stability of the financial system. We are often subjected to inexplicable exparte injunctions designed to frustrate due process.

7.0 With due respect to the rule of law, the fundamental rights of operators in the financial

sector as well as verdicts of the law courts, it should be noted that the current system that allows for long legal procedures on cases brought before courts by individuals and institutions to challenge the actions of the regulatory authority could jeopardise efforts to reform and sanitise the system. While such legal challenges represent a healthy development, the delays in the legal processes could be counter-productive. There is, therefore, an urgent need for such cases to be treated with dispatch in order to make the system more credible and effective.

8.0 Distinguished Ladies and Gentlemen, the need to tackle financial crimes in our society cannot be over emphasised. While there exist various laws to deal with the problem of money laundering, advance fee fraud and corruption, the menace of money laundering and other financial crimes remain unresolved. The international community

has shown great displeasure on the lack of an effective mechanism to address these problems. It is therefore important that concerted efforts be made to redress the situation. The challenge is not only for the regulatory agencies like the CBN and NDIC, but also for the Judiciary, which must be at the fore-front in ensuring that cases bordering on financial crimes are promptly treated.

9.0 Nigerian banks face various kinds of vices including fraud, armed robbery and loans default. A situation where the perpetrators resort to long judiciary process, knowing fully well they are not going to win but just to exploit the process to frustrate the banks is not good for the financial system and the economy as a whole. Therefore, there is need for prompt enforcement of financial contracts and dispensation of justice in the sector.

10.0 This seminar provides a unique opportunity for the various stakeholders to re-double their

efforts at finding solutions to the various problems confronting the financial sector. The Chartered Institute of Bankers of Nigeria (CIBN) and the National Judicial Institute (NJI) should be congratulated for the initiative of organising this forum, which will go a long way to foster greater understanding and cooperation between the financial sector and the Judiciary. It is expected that at the end of this exercise, issues relating to the administration of justice, especially on financial matters, would have been thoroughly examined and credible solutions proffered by the participants.

11.0 On its part, the CBN shall continue to co-operate with the Judiciary in its efforts to build a sound and stable financial system. I would, at this juncture, call on the various stakeholders in the financial sector to imbibe the culture of good corporate governance in order to achieve a stable

and sound financial system, which the nation can be proud of.

12.0 I wish the seminar participants fruitful deliberations and thank you for your kind attention.

Chief (Dr.) J. O. Sanusi,
Governor,
Central Bank of Nigeria

October 23, 2002

AN ADDRESS BY CHIEF (DR) J. O. SANUSI, GOVERNOR, CENTRAL BANK OF NIGERIA, AT THE OFFICIAL COMMISSIONING OF LECTURE HALLS/CLASSROOM BLOCK AT THE NNAMDI AZIKIWE UNIVERSITY, AWKA BUILT UNDER CBN CAPACITY BUILDING PROGRAMME, ON 12TH MARCH, 2004.

Honourable Minister of Education, Prof. Fabian Osuji,
The Vice Chancellor, Nnamdi Azikiwe Univ., Awka,
Deputy Vice Chancellors,
Members of the University Governing Council,
Members of Senate of the University,
Other Principal Officers of the University,
Directors of the Central Bank of Nigeria here present,
Members of the Academia,
Distinguished Ladies and Gentlemen.

I am greatly delighted to be here for the official commissioning ceremony of the new Block of Lecture Halls Building at the Nnamdi Azikwe University, Awka. The project was a collaborative effort between the Central Bank of Nigeria and the Nnamdi Azikiwe University, under the CBN Capacity Building Programme (CBP) established in 1998.

The programme was aimed at mitigating the infrastructural decay in our Universities, which constrained them from discharging their responsibilities, particularly in the areas of research and manpower development.

2. Against this background, we consider our modest contribution under the Programme as a demonstration of the Bank's commitment to ensuring the rehabilitation of the ailing infrastructure in the country's educational sector. I am happy to report that, since the inception of the scheme, the CBN has financed various priority projects amounting to ₦435.0 million in twenty-four (24) Federal Universities throughout the country. Let me add that, last month we commissioned a Health Centre Project at the University of Benin and just a week ago, the Graduate School Building at the University of Calabar was commissioned along with other projects financed by donor institutions and individuals

4. Distinguished Ladies and Gentlemen, it is pertinent to note that the Project being commissioned today, cost the University a total of ₦21. 493 million. Of this amount, the Bank provided N15 million, while the balance was augmented by the University from its own internal resources. I would, therefore, like to commend the University Authority for its prudent fund management and cooperation with the CBN that facilitated the completion of the project.

5. It is important to emphasize that the CBN Capacity Building Programme is also expected to play a catalytic role of encouraging similar organizations, particularly, those in the private sector to support Nigerian Universities in rehabilitating their fast deteriorating infrastructural facilities as well as provide new ones. Thus far, the responses have been very encouraging, as many of the financial institutions in the country have successfully funded priority projects in most of the Nigerian

Universities. This effort must be sustained. Besides, we should learn from lessons of experience in other countries, particularly the USA where Alumni Associations are known to have undertaken major capital projects in Universities, as well as leveraged financial support from corporate organisations for development projects. I hope that your Alumni will pick up the challenge.

6. I would like to thank the entire members of the University Community, particularly the various steering committees that nurtured this project to this success story. The Central Bank of Nigeria is proud to be associated with the Nnamdi Azikiwe University and hopes that the building will help to reduce the current congestion in lecture theatres, as well as serve as a lasting legacy of the cordial relationship between our two institutions.

7. On behalf of the Board, Management and Staff of the Central Bank of Nigeria, it is my honour to commission the

lecture halls/class room for the use and benefit of members of the NAU Community.

8. I thank you all for your kind attention and God bless.

Chief (Dr.) J. O. Sanusi
Governor
Central Bank of Nigeria

March 12, 2004

AN ADDRESS BY CHIEF (DR) J. O. SANUSI, (CON), GOVERNOR, CENTRAL BANK OF NIGERIA, AT THE OFFICIAL COMMISSIONING OF JOSEPH SANUSI GRADUATE SCHOOL BUILDING OF THE UNIVERSITY OF CALABAR BUILT UNDER CBN CAPACITY BUILDING PROGRAMME, ON 6TH MARCH, 2004.

All Protocols Observed.

I am delighted to be in the ancient city of Calabar this morning for the official commissioning of the University of Calabar's Graduate School Building. This project was built through a collaborative effort between the Central Bank of Nigeria and the University of Calabar under the Bank's Capacity Building Programme (CBP).

2. The Central Bank of Nigeria's intervention through grants to Nigerian Universities under the CBP arose from our understanding that these institutions are challenged by a number of difficulties arising principally from inadequate funding. This interest is predicated on our strong belief that everyone of us

look up to the education sector to help turn out the right calibre of manpower to effect social, political and economic development which the country is in dire need of. We at the Central Bank consider this modest contribution of ours as a demonstration of our commitment to the rejuvenation and revival of the ailing education sector. Since the inception of the scheme, I am happy to report that the CBN has financed various priority projects amounting to N435.0 million in twenty-four (24) Federal Universities throughout the country.

3. The project being commissioned today, I was told cost the University N24, 964,810.00. We are delighted to note that the N15, 000,000.00 grant provided by the Bank was augmented by the University's Endowment Fund. That is how it should be. The Central Bank of Nigeria is proud to be part of this project and we consider it as a very positive way of contributing to national development. We commend the

administration of the University of Calabar for its co-operation, hard work, efficient and effective utilization of the resources that has led to the completion of the project.

4. Mr. Pro Chancellor, Distinguished members of the University Community, Ladies and Gentlemen, The CBP of the Bank was initiated in 1998 out of a genuine desire to lead and encourage similar organisations, particularly, those in the private sector, to follow in assisting Nigerian Universities in rebuilding their fast deterioration infrastructural facilities. I am therefore, highly delighted to learn that fifteen projects are being commissioned by the University today. I hope they are all built by private sector organisations or well-meaning individuals.

5. Ladies and Gentlemen, I thank the entire University of Calabar community, particularly the various steering committees which nurtured this project to today's success story. The Central Bank of Nigeria is

proud to be associated with the University of Calabar and we hope that the building will be one of the lasting legacies of our cordial relationship.

6. I thank you for your kind attention.

Dr. J.O.Sanusi

Governor, Central Bank of Nigeria

Law, Institutions and Nigeria's Quest to Join the First World Economy

Professor Charles C. SOLUDO
Governor
Central Bank of Nigeria

Being a Lecture Delivered in Honour of the retired Justice of the Supreme Court, Justice Kayode Eso, at the Obafemi Awolowo University, Ile-Ife: July 25, 2006.

I: Introduction

The invitation to deliver the third annual lecture in honour of the revered Justice Eso (following the earlier two by Professors Soyinka and Nwabueze) is indeed a great honour for me, and I must thank the Vice Chancellor, the Dean, Faculty of Law and the Law Students Association. I never had the privilege of meeting or interacting with Justice Eso but I am one of the millions of Nigerians who admire and hold him with awe. Many would agree with me that Justice Eso has lived a very successful life and had a most distinguished career. He is the sort of Nigerian that we all should be celebrating, and I am particularly happy that we are celebrating him while he is still alive. Although retired from the Supreme Court, I believe he is not yet tired and this gesture will encourage him to further advance the life of service to our fatherland. Furthermore, I am excited to be back in Ife since I left after my one year national youth service at the Department of Economics in 1984/85. I was invited to deliver the Faculty of the Social Sciences lecture here last year and I regret that my schedule did not allow me to make it: maybe I will make up for the lost opportunity one day or am I killing two birds with one stone today?

The topic assigned to me for this lecture is***: "From Third World To First World Economy"***. This is exactly the title of the 729 paged book on the Singapore story by Lee Kuan Yew. The topic seemed too obtuse for us to effectively discuss in a couple of minutes. Forgive me therefore for taking the liberty to modify the topic. In doing so, I have been guided by two principles: first, is to focus on a topic that falls largely within the scope of experience and career of the celebrant, and which also would be of interest to the audience here--- mostly students and practitioners of law. The second principle is a selfish one and derived from the first, that is: I have chosen a topic in which I am not an expert but eager to learn something about, and hence I want to take advantage of this lecture to provoke the experts here to teach me a few lessons. I understand that my topic falls within the ambit of jurisprudence--- which I know little about. If, therefore, I amuse you by the crass ignorance I exhibit in the course of my presentation, I excuse you to laugh quietly.

Disclaimer: Let me therefore start with a disclaimer. The views that I express in this lecture are my personal views as a citizen and do not necessarily represent the views of, nor should they be attributed to, the Central Bank of Nigeria or the Federal Government of Nigeria. Second, this lecture has been hurriedly written in

the last one and half days, and you should please excuse the incoherence and errors.

My approach to the lecture is to be provocative: raise more questions than provide answers. I do not get into deep conceptual and definitional issues---- as many are obvious to the audience here. The rest of the lecture is structured as follows: In the next section II, I briefly summarize the current challenges of rapid economic transformation in Nigeria as a background; Section III evaluates the role of law and institutions in overcoming the lingering challenges; in Section IV we attempt to provoke debate around some unfinished business pertaining to the legal and institutional infrastructure and also conclude the lecture.

II: Nigeria and the challenges of economic transformation

As we all know, Nigeria has been a country of paradoxes. It is a country abundantly blessed with natural and human resources but in the first four decades of its independence, the potentials remained largely untapped and even mismanaged.

With a population estimated at about 140 million, Nigeria is the largest country in Africa and one-sixth of the black population in the world. Nigeria is the 8th largest oil producer and has the 6th largest deposit of natural gas in the world. Currently, barely 40 percent of the arable land is under cultivation. With over 100 tertiary institutions producing more than 200,000 graduates per annum, the basic human capital for progress is there. There are abundant solid mineral deposits that remain largely untapped. It is estimated that over 5 million Nigerians live outside of Nigeria, with tens of thousands as world class medical doctors and other professionals. In the midst of these resources, Nigeria (on the average) stagnated over the period up to 1999. The poverty situation worsened consistently such that by 1999, the incidence of poverty was estimated at 70 percent.

A classic example to underscore the scope of our misfortune is to compare Nigeria with Indonesia and even Malaysia. By 1972 before Nigeria and Indonesia had the first oil boom, both countries were comparable in almost all counts: agrarian societies; multi-ethnic and religious societies; with comparable size of GDP; etc. Both experienced oil boom in 1973 and thereafter, but took different policy choices. The outcomes of the differences in policy regimes are such that today, while manufactures exports as percentage of total exports is about 40 percent in Indonesia, it is less than one percent in Nigeria---- where we were in the 1970s. We

hear of how Malaysia got their first palm seedlings from Nigeria in the early 1960s when oil palm produce was already a major export of Nigeria. In the 1990s, it was estimated that Malaysia's export of palm oil produce earned it more than Nigeria earned from oil exports, and Nigeria had become a net importer of palm produce. What a tragedy! In contrast, two brand names emerged in the international community to define Nigeria: 419 scams, and corruption as Transparency International consistently ranked Nigeria either number one or two most corrupt country. In international relations, Nigeria was literally a pariah state. In economic terms, the decade of the 1990s witnessed an average GDP growth rate of 2.8 percent--- just about the rate of growth of the population (2.83). This means that on a per capita basis, growth was zero during the decade of the 1990s and no wonder poverty incidence worsened to 70%. All basic infrastructure was in a state of crisis, with barely 1700MW of electricity being generated for a country that needed at least 40,000. Needless to recount the dilapidated transportation infrastructure and the nascent, albeit fragile financial system that was ill suited to the demands of socio-economic transformation. Unemployment and poverty were the twin faces of the economy. Real wages were declining precipitously since the 1970s until the wage increases in 2000 that began to reverse the trend but not yet recovered to the mid 1970s levels in real terms. The educational system was down and out as the University system was characterized more by the days of strikes rather than days in classrooms. Lawlessness prevailed at all levels, and a culture of impunity occasioned by decades of militarization of all aspects of governance and society dominated our psyche. It was indeed an environment of 'anything goes'. The people became atrophied by cynicism and mistrust for government and people in government--- a result of several years of seeing government systematically lying to its people. As the late Pius Okigbo once argued, the socio-economic environment was one beckoning for a social revolution rather than ready for an industrial revolution. This was our past, and it is important in any analysis of the future, to keep a perspective on where we are coming from. Justice Eso in the first T. O. Elias annual lecture entitled, "The Place of Law in a Democracy", quoted Soren Kierkegaad as saying that: "Life can only be understood backwards; But it must be lived forwards".

Since the new democratic dispensation in 1999, and more fundamentally since 2003, efforts have been at top gear (at the Federal Government level) to reverse the trend and lay the foundation for Nigeria to realize its potentials and join the first world economy. My sense is that not many people in Nigeria, including those in government fully appreciated the extent of system collapse. In many instances, it has been akin to rebuilding a society from the scratch. Make no mistake about it: in the old order, some people (especially rent-seekers) made a lot of money and

profited from the disorder. To make progress, this class either has to be uprooted, displaced or compensated to give way. Either way, they are not going to give up without a fight. Currently, there is a persisting clash of the old and new order, with the entrenched 'business as usual' school fighting with two hands to overturn the ongoing reforms. The unfortunate thing about the struggle is that there is almost a whole generation of the elite that knows little about enterprise and hardwork but has made wealth through rents from the state. For such people, "there is too much suffering in the land" as avenues for easy money have dried up. Nigeria is not peculiar: every society at a similar place in history has faced similar challenges.

In a nascent democracy such as ours, especially one bereft of clear ideological orientations, individuals make a lot of difference. The quality and characteristics of the leadership that emerges define the trajectory of society. Over time however, it is institutions that would sustain the changes. The person, beliefs, and commitment of President Obasanjo to the Nigerian project have been critical in defining a leadership path, and leading a successful war in laying the foundation for Nigeria's socio-economic transformation.

The national crusade for a new economy is embodied in Obasanjo's socio-economic transformation agenda entitled "National Economic Empowerment and Development Strategy" (NEEDS) with a focus on four key objectives--- poverty reduction, employment generation, wealth creation and value re-orientation. The Federal Government has also assisted the States to develop the State Economic Empowerment and Development Strategy, SEEDS and every state in Nigeria has its own reform programme. The difference in outcomes so far between the Federal programmes and some of the states lies in effective implementation. The experience under NEEDS demonstrates that where you have a robust programme and implementation is effective, you have the desired outcomes.

Space and time would not permit me to exhaustively discuss the progress made so far which is laying a solid foundation for the continuing transformation. First, several of the key institutions of the state are being re-built. The army is once more being transformed (to rid it of politicians) and to focus on its key mandate. Several corrupt judges have lost their jobs and the judiciary is gradually undergoing reforms. The establishment of the Economic and Financial Crimes Commission (EFCC), Independent Corrupt Practices Commission (ICPC) and their activities have sent a sharp signal that it is not business as usual. The National Assembly has enacted some landmark legislations that are fundamentally changing the course of our economic history--- Energy Reform bill; Anti-money laundering Act; Public-private partnership in infrastructure provision; Pension reform Act; Debt

management Office Act; Privatization Act; etc, and there are several important legislations pending at the Assembly, eg the Procurement Bill; CBN/BOFIA Acts; mining reform Bill; Fiscal Responsibility Bill; etc. The federal public service is undergoing reforms, and the introduction and enforcement of the 'Due Process' in public procurement has saved government over N120 billion. There is an ongoing effort aimed at National Law reforms as most of the legal-institutional infrastructure need reforms. The ports and customs are undergoing reforms, and the maritime sector has been strengthened.

Several landmark successes that have fundamentally changed the dynamics of the economy include: the banking sector and telecommunication revolutions; the debt relief (which wiped off $30 billion of Nigeria's external debt), the sound macroeconomic environment; the privatization programme; deregulation of the down stream oil sector; fundamental sectoral reforms in agriculture and health; stable exchange rate regime and increasing external reserves (from $4.9 b in 1999 to about $37 b today, after paying $12.4 b to the Paris Club of creditors). Nigeria has been de-listed from the FATF list and even the rating on corruption has significantly improved despite the long lags in perception. End period inflation has remained at around 10% for three years and the goal is to reduce to single digit. Contrary to the growth rate of the 1990s (at 2.8%), the average growth rate since 2003 has been 7.4%, and the target is to raise and sustain it at 10% or more. The latest household survey by the National Bureau of Statistics indicates that the incidence of poverty has significantly dropped from 70% in 1999 to 54% as at 2004. As at 1998, FDI in the non-oil sector was negative as foreigners divested from Nigeria. Today, such FDI runs into billions of dollars per annum. In 2005 alone, about $650 million flowed into the banking sector alone. The message is that Nigerian economy is changing in fundamental ways and the rest of the world is taking notice. From a perception of Nigeria as a hopeless case, the growing view now is that Nigeria is the preferred destination.

Massive investment in infrastructure has begun to show modest results. For the first time in over twenty years, there is now a huge and sustained investment in power (with national generation more than doubling relative to the level in 1999). Private investors are also participating in building power plants as well as state governments. There is a plan for rehabilitation of the rail system and the roads are not spared.

The rapid successes and solid foundation already laid in the past few years have led many analysts (including Goldman Sachs) to predict that Nigeria is likely to be among the 20 largest economies in a few decades. President Obasanjo has

articulated a vision that in 2020 Nigeria should be among the 20 largest economies in the world. This is remarkable: that in a few years, the pessimism about Nigeria is giving way to optimism about joining the league of emerging and industrial countries. Nigerians share the optimism, if only the current programme of reforms can be sustained.

But the challenges ahead are huge. Overcoming the decay of four decades and joining the elite club of advanced economies will task the energies of all Nigerians and our development partners. We still have huge infrastructure deficiencies to fix; insecurity of lives and property to be solved; deal with huge urban unemployment emanating from the demographic structure and failure of development at the lower levels of government; provide housing and mortgage system; address the educational crisis and scale up rapidly on science and technology; continue to upgrade our capacity in agriculture; promote trade and integration with the rest of the world; drastically reduce the cost of doing business and build competitive advantages. More fundamentally, we need to build a socio-economic and political system that guarantees equal opportunity and voice to all---- a competitive and equitable system where each individual has every chance of success in life. We still have challenges of ethnicity and religion to deal with, as well as agitations of ethnic militia groups. These challenges cannot be dealt with in one day: it will take concerted efforts for a few decades to build that African superpower.

But the challenges are not insurmountable. Several countries have done it before. An instructive example is Singapore. According to the leader that laid the foundation for the modern Singapore, the key success factors for Singapore can be summarized as follows:

> *A united and determined group of leaders, backed by a practical and hardworking people who trusted them, made it possible. Did I expect an independent Singapore, with a GDP of S$3 billion in 1965, to grow 15 times to S$46 billion in 1997 at 1965 dollars and to have the 8th highest per capita GNP in the world in 1997 according to the World Bank? I have often been asked this question. The answer is 'no'. How could I have foreseen that science and technology, especially breakthroughs in transportation, telecommunications, and production methods, would shrink the world? The story of Singapore's progress is a reflection of the advances of the industrial countries--- their inventions, technology, enterprise, and drive….. With each technological advance, Singapore advanced---- containers, air travel and air freight, satellite communications, intercontinental fiberoptic cables. Information technology, computers, and communications and their manifold*

uses, the revolution in microbiology, gene therapy, cloning, and organ reproduction will transform people's lives. Singaporeans will have to be nimble in adopting and adapting these new discoveries to play a role in disseminating their benefits…. The future is as full of promise as it is fraught with uncertainty. The industrial society is giving way to one based on knowledge. The new divide in the world will be between those with the knowledge and those without. We must learn to be part of the knowledge-based world. That we have succeeded in the last three decades does not ensure our doing so in the future. However, we stand a better chance of not failing if we abide by the basic principles that have helped us progress: social cohesion through sharing the benefits of progress, equal opportunities for all, and meritocracy, with the best man or woman for the job, especially as leaders in government (Lee Kuan Yew, 2000: 689- 91)

From the experience of Singapore and Nigeria since 1999, there are few lessons:

- The first lesson is that basic economic theory works well in all climes. Demand curve does not slope upwards and supply curve downwards in any country. Economic agents in Nigeria also respond to incentives and sanctions--- where enforcement is effective.
- The secret of success lies in being focused on selected major ideas; do them right and keep doing them right for a sustained period of time. In the book entitled Can Africa Claim the 21st Century?, those few right things for Africa to claim the 21st century include: improving governance and resolving conflict; investing in people; increasing competitiveness and diversifying economies; and reducing aid dependence and debt and strengthening partnerships.
- No failure is final, and no success is permanent: empires and nation states also have cycles of boom and burst. Those that have endured have got a few fundamentals right and kept them right. Slippages or reversals are costly. Indeed, according to the new President of Togo in a recent public lecture in Benin City, every one year of bad leadership retards the progress of a country by ten years.
- There is no need to reinvent the wheel in several aspects of what is required to move the society forward: it only requires careful adoption and adaptation. Singapore plugged into the inventions and technology of the West and created institutions that ensured sustained prosperity.

- Institutions--- the way the society is organized, including its rules, laws and enforcement processes—matter greatly.
- What has also emerged is the new 'Can Do' spirit of Nigerians. There is nothing inherently inadequate about Nigerians. The Nigerian spirit is one that is determined to excel in all circumstances. The challenge is to channel that spirit into positive directions.

III: Law and Institutions in the National Transformation

You may be wondering what law and institutions have got to do with the discourse on economic transformation. As I stated above, individuals make a difference in national leadership and transformation, but for sustained progress, institutions and organizations make all the difference. The founders of America deliberately set out to craft a system based on rule of law rather than rule of men. The story of any successful transformation of society is incomplete without an understanding of the legal and institutional infrastructure that undergird it. For Nigeria, it will amount to naiveté to envision sustained prosperity without thinking through the kind of legal-institutional framework to underpin it. Douglas North as one of the leading lights of the new institutional economics has the following to say on the centrality of institutions:

> *The fundamental issue can be stated succinctly. Successful development policy entails an understanding of the dynamics of economic change if the policies pursued are to have the desired consequences. And a dynamic model of economic change entails as an integral part of that model analysis of the polity since it is the polity that specifies and enforces the formal rules…. Development economists have typically treated the state as either exogenous or as a benign actor in the development process. Neoclassical economists have implicitly assumed that institutions (economic as well as political) don't matter and that the static analysis embodied in allocative-efficiency models should be the guide to policy; that is, 'getting the prices right' by eliminating exchange and price controls. In fact the state can never be treated as an exogenous actor in development policy and getting the prices right only has the desired consequences when you already have in place a set of property rights and enforcement that will then produce the competitive market conditions.* (North, DC: 1993: 5).

North goes ahead to define institutions as the rules of the game of a society or more formally as the humanly-devised constraints that structure human interaction.

They include formal rules (statute law, common law, regulations), informal constraints (conventions, norms of behaviour, and self imposed codes of conduct), and the enforcement characteristics of both. Organizations, on the other hand, are the players---- groups of individuals bound by a common purpose to achieve objectives and include political bodies (political parties, the legislature, city council, a regulatory agency); economic bodies (firms, trade unions, cooperatives); social bodies (churches and religious organizations, social clubs, etc); and educational bodies (schools, colleges, universities, vocational training centres).

In this lecture, we focus on institutions, enforcement mechanisms and organizations that support market transactions and allocative efficiency of the state. At the outset, we make it clear that a market economy framework, where competition and private sector drive the process of economic development is the best framework to achieve rapid transformation of the economy, create wealth and reduce poverty. We are therefore concerned about the institutions and organizations that should underpin the process in Nigeria. But institutions and organizations interact in powerful ways:

- The continuous interaction of institutions and organizations in the economic setting of scarcity and hence competition is the key to institutional change;
- Competition forces organizations to continually invest in skills and knowledge to survive. The kinds of skills and knowledge individuals and their organizations acquire will shape evolving perceptions about opportunities and hence choices that will incrementally alter institutions.
- The institutional framework dictates the kinds of skills and knowledge perceived to have the maximum pay-off.
- Perceptions are derived from the mental constructs of the players.
- The economies of scope, complementarities, and network externalities of an institutional matrix make institutional change overwhelmingly incremental and path dependent.

Given the interactive nature of both institutions and organizations, we focus more narrowly in this lecture on ***institutions--- as formal rules, legal infrastructure, informal constraints, and enforcement mechanisms that constrain or shape behaviour in the process of market-based economic transformat***ion. Such institutions help to transmit information to economic agents, enforce property rights and contracts, manage competition in all markets and shape the allocative efficiency of the state.

A market economy framework requires a different legal-institutional system than a non-market economy. From a legal-institutional perspective, the supreme institution of a country is the Constitution, which is supplemented by the other enactments of the legislature and pronouncements of the courts. The Constitution among other things spells out the allocative powers in terms of who allocates economic resources in a society--- the state or the market. It should also spell out the economic relations embodied in property rights and rule of law. As the supreme institution, the Constitution in many cases prescribes the procedural aspects in terms of how law is promulgated and enforced and includes the functioning of the necessary legal and administrative institutions. The content and context of these institutional provisions and their enforcement make a fundamental difference in the speed and character of transformation of an economy. The system evolved by the framers of the American constitution based upon 'rule of law rather than rule of men' and unlocking human potentials by fashioning a society based on individual freedoms, competition, and private enterprise helped to unleash the progress of that society. On the contrary, the system of maximum controls by men over others as practiced in the communist countries showed in an experimental manner what the outcomes could be depending on the different systems of laws. With the experiments under communism and capitalism at the global scale, or even the systems of feudalism and republicanism in different parts of Nigeria and the outcomes for poverty and wealth creation, one can hypothesize that institutional arrangements make all the difference. Institutions drive human progress, and while some unleash, others inhibit human progress. As a layman, it is evident from all over the world that wherever the rule of law prevails and property rights and contract enforcements are more effective, progress has been faster than otherwise.

In Nigeria, examples abound as to how alternative legal-institutional infrastructure emasculated development. The constant changes or suspension of aspects of the Constitution during military rule created uncertainties. There was also unpredictability in the laws governing the society as specific laws could be enacted overnight and with retroactive effects. Such uncertainties were inimical to investment and property rights, and hence retarded growth. One is not sure whether the Indigenization Decrees did not retard the process of industrialization and private enterprise in Nigeria. It is possible that the action could have created uncertainties regarding foreign ownership of production in Nigeria and hence retarded FDI which we are later to seek after. A legal system that conferred powers of monopolies to the state over telecommunications, power, and some infrastructure obviously retarded private investment in these areas. An institutional framework (a legal system a la the Constitution) which has proliferated states and assured them of unconditional access to 'statutory allocation of revenues from the

centre' destroys the known basis of human progress--- competition. A constitutional provision that allocates such resources to states with powers to spend without any strong oversight institution has created a rentier system and perpetuated a culture of 'cake sharing' without any attention to 'cake baking' especially at some of the lower tiers of government. It has also destroyed the fundamental umbilical cord between the state and business. The relationship between state and business is a strategic and mutually beneficial one: states depend on businesses to create jobs and to pay taxes to the state; in turn states provide the enabling environment to help businesses thrive. The dependence on 'statutory allocation' has destroyed that relationship in most cases to the extent that many states hardly pay attention to enterprise development. If they can get all the money they need from 'allocation', why care about businesses whose taxes amount to pittance? Today, not many states care about creating an environment conducive for enterprises to locate in their states or aggressively marketing their states for investment. This Constitutional provision in Nigeria is one example of how a legal-institutional framework can create perverse incentive system and hence retard the process of economic transformation.

On the other hand, there are several new laws and institutions which have unleashed the momentum for progress. A few examples suffice:

- A programme of economic liberalization and deregulation which has enlarged the domain of businesses that private sector can get into, and see how it has unleashed progress in the airline industry, banking and finance, telecommunications sector, private universities, etc.
- Energy Reform Act and now private sector investment in building power plants
- The 'Due Process' in procurement system which has promoted competition and transparency in public procurement, and saved the federal government over N120 billion in money that would have been wasted or frittered away into private pockets
- The new Pension Act with potentials for shoring up Nigeria's capital market, and offering new incentive structure for workers
- The monetization programme and asset distribution programme thereby empowering workers and minimizing waste by government
- The privatization programme helping hitherto dead public enterprises to resurrect and survive under competition and also significantly altering the incentive system for politics as much of the expected 'cake' to be shared in the public sector will now reside with the private sector.

This anecdotal evidence from Nigeria corroborates evidence from the rest of the world that institutional quality and character significantly impact on economic development. Empirically, countries that have better institutional quality (however defined) grow much faster and enjoy better standards of living than countries with weaker institutions. Even the political and legal institutions define the incentive system under which policymakers operate, and determine whether government facilitates or inhibits economic development.

Empirically, the issue is no longer whether institutions matter; to a large extent also, it is not even about which institutions matter (at least the most critical ones that promote property rights, foster competition, enforce contracts, and make markets and allocation of resources more efficient and equitable can be identified). There is one fundamental question that needs serious analytical attention namely; **how to design and introduce effective and efficient institutions.**

Law circumscribes behaviour: it regulates and also creates new behavioural relationships. The dynamics is also important: do laws and institutions follow developments in the economy or can they be supplied ahead of demand for them? Do you merely transplant the institutions from one society to another (revolutionary or radical change), or is there path dependence (where initial conditions in society's evolution play a dominant role), and hence the process of institution creation is adaptive and evolutionary. This is a question for our eminent legal luminaries and institutional economists to address, and the jury is still out on these questions. Often, one hears Nigerians swing to either of the pendulums depending on the convenience. In one case, people will argue that it took the first world economies hundreds of years to evolve the institutions and legal infrastructure that have propelled them to their present state. The conclusion from this line of thinking is that Nigeria is trying to run too fast and we should adopt laws and institutions that 'suit our culture or environment' --- whatever that means. For these people, culture and environment are constant, and one needs only to search for appropriate laws and institutions to fit. On the other hand, people try to compare Nigeria with America, Japan, Malaysia, etc and wonder why our leaders cannot give us a society like those. Put differently, it is akin to the debate about the nature of leadership and society: some argue that a society gets the leadership it deserves (leadership as endogenous) while others argue that leadership emerges to propel a society to a path it could otherwise not evolve on its own (exogenous). In other words, does Nigeria have the kind of institutions it deserves given its culture and level of development or should we actively and creatively design new institutions that would propel us to achieve the vision of being one of the largest economies in the next two decades? What should those institutions be?

My view is that it is not an issue of either of the two polar positions of either evolution or revolution. We need both. Nigeria cannot and should not wait for another hundreds of years to 'evolve' the right kinds of institutions. We need rapid institutional adaptation: in most cases, we don't need to re-invent the wheel as it were. Ingenious adaptation and innovation in ways that reflect both our local conditions and our shared vision of the future are what we need. In others, we need to create the systems from our collective experience. We must not be afraid of trying or experimenting with new ideas or institutions: only those who dare can accomplish! Recall the institutional re-engineering we undertook in respect of the banking industry and the outcomes for the economy today.

As a template to ensure effective institutions, the World Bank (2002: 4-5) suggested the following principles:

- *Design them to complement what exists--- in terms of other supporting institutions, human capabilities, and available technologies.*
- *Innovate to design institutions that work---- and drop those initiatives that do not*. Even in countries with similar incomes and capacities, innovation can create stronger institutions because of differences in local conditions--- differences ranging from social norms to geography. Experimentation, which has some costs that must be recognized, can nevertheless help identify new and more effective structures.
- *Connect communities of market players through open information flows and open trade.*
- *Promote competition among jurisdictions, firms, and individuals*. Greater competition modifies the effectiveness of existing institutions, changes people's incentives and behavior, and creates demand for new institutions. Developing country actors may face too little competition, often because of current institutional structures. Changing this will improve the quality of other institutions. Competition among jurisdictions--- for example, among different states within a country or between countries --- highlights successful institutions and promotes demand for them. Competition among firms and individuals does the same.

In this section, we have made the case that the legal – institutional framework is the key to economic transformation. We know also that it can be adapted or created to fit the peculiar circumstances of a society. So, where do we go from here?

IV: Towards an Effective Legal and Institutional Framework for Nigeria's Economic Transformation: Selected Illustrations

It is almost impossible to win any game without having an enforceable set of rules to guide it. So also is the game of economic transformation. Institutions as rules of the game need to be clear and enforceable. Of course, like life itself, institutions are dynamic and will continue to evolve or lead the continuously changing economic circumstances. Institutional development is an interminable process. So far, we have made progress in building and strengthening some key institutions. We also know that there is still a long way to go.

For Nigeria to make rapid progress in the quest to join the first world economy, it has to run at extraordinary speed in the creation, adaptation and enforcement of relevant institutions. To start with, it needs to re-examine and possibly reconstruct the basic institutions of the state (political- legal and administrative arrangements as embodied in the Constitution) to enhance allocative and operational efficiency of the state. Second, institutions for ensuring the security of lives and property, secure property rights and enforcement of contracts need strengthening. Third, we need institutions that enlarge the domain of the private sector and promote competitiveness. Nigeria urgently needs a restructuring and strengthening of the Judiciary to ensure prompt and effective administration of justice and enforcement of the rule of law. The list is long, but I will briefly elaborate on a few below.

Restructuring and Strengthening the legal-institutional framework of the State
To make rapid economic progress, the institutions of the State need restructuring and strengthening. The focus is to eliminate perverse institutions, rebuild or create institutions that are developmental in orientation, tie the hands of governments from arbitrary behavior and circumscribe it to behave in a manner that is socially optimal. James Madison had underscored the need for such a concern when he observed:

> *But what is government itself, but the greatest of all reflections on human nature. If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable government to control the governed; and in the next place oblige it to control itself*.
> James Madison, Federalist Papers, No. 51.

The starting point is to keep our gaze on the Constitution. While no Constitution is perfect, it is important to recognize the myriad defects in the current 1999 Constitution which may retard our quest for rapid economic transformation. The

National Political Reform Conference recognized many of these defects as embodied in its Report, and many of the Clauses proposed for amendment by the National Assembly underscore the point. Several aspects of the Constitution require serious re-examination. Many aspects pertaining to land use to unleash the mortgage system; operations of the federation account for effective macro economic management, etc need urgent attention. The national law reform efforts should complement the constitutional review.

The contradictory provisions in the Constitution pertaining to the responsibility for managing the national economy and operations of Federation Account illustrate one of the defects in the Constitution in respect of managing the economy. On the one hand, the Federal Government is mandated to manage the national economy for the benefit of all Nigerians, but on the other, the provisions on the Federation Account takes away a key instrument for economic management (control over fiscal policy). If all revenues accruing to the Federation Account are shared among all tiers of government and each with statutory right to spend irrespective of the economic implications, then the Federal Government has very little control over fiscal policy. The monetary policy implications of such a regime are also complicated. Given the peculiar source of revenue (oil), analysts need to come up with a more credible and sustainable mechanism for operating the Federation Account. One possible suggestion is for the key elements of the Fiscal Responsibility Bill to be enshrined in the Constitution. To complement such a provision, the Central Bank could also be mandated by the Constitution to ensure price stability. These legal- institutional arrangements will guarantee macro stability, fiscal sustainability and signal to economic agents that reforms are permanent.

A fundamental missing link today is how to strengthen institutions at the lower levels of government to promote competition, efficient and accountable allocation of resources and poverty reduction. In many states, the State Assemblies are co-opted by the Executive and the Governors literally run the states without any oversight by anyone, except sporadic complaints by few citizens (mostly those cheated out of the 'cake-sharing'). Poverty reduction and employment generation are mostly local issues, and unless the system works at those lower levels, the efforts at the Federal level will continue to be grossly undermined in terms of outcomes. This is the challenge to our lawyers, law makers, and institutionalists. How do we build and strengthen institutions at the lower levels of government? What institutional design could provide incentives to minimize dependence on the Federation Account or ensure efficient deployment of such resources in a measurable and monitorable manner? Alternatively, how could the law help to

unleash competition among states and restore the umbilical cord between business and government at the state level? Governments usually depend on businesses to pay taxes and create jobs. If because of guaranteed revenue from the Federation Account many states do not have any incentive to attract or grow private business, then our quest for rapid transformation will be delayed. The question then is, how do we redesign the operations of the Federation Account in such a manner that it induces competition and accountability? In so far as the states are not under pressure to create wealth through promotion of private enterprise, propelling the Nigerian economy would amount to an aeroplane trying to fly with only one wing.

Another set of institutional reforms to move the economy forward pertains to the judiciary itself. Its processes and skill-set may need scaling up. Specially, improvements may be required in the remuneration, technology and skills of judges. Structured training for judges in specialized areas and especially the use of IT in court processes will have to be encouraged.

One aspect of the reform of the judiciary is a consideration of a specialized division of the High courts devoted to commercial cases, especially bordering on property rights and contract enforcement. This is the heart of a market economy. The first principle of justice I learnt is that justice delayed is justice denied. Indeed, the speed of dispensation of justice especially the enforcement of contracts and property rights is increasingly becoming one of the measures of extent of economic advancement. This is because if commercial issues--- contract rights and property rights are not easily enforceable, market-based economic systems cannot prosper. The Central Bank of Nigeria is committed to this reform, and is ready to partner with the Judiciary and other stakeholders to ensure its success.

The final example of an institutional process that must be strengthened to ensure rapid economic transformation is to evolve a free and fair electoral system in which every vote is counted and every vote counts. Without this, it is difficult to have responsive and responsible leadership. This is the path to sustainable democracy and hence sustained economic progress. If people believe that election results can be 'written or manipulated', then political parties will not be under pressure to search for qualified, credible candidates who can win elections; and responsible candidates will be discouraged from offering themselves for service. For sustained economic transformation, credible leadership must emerge out of a fair electoral process.

Conclusion:

I must now conclude this boring lecture. Nigeria has all it takes to rapidly transform from a third world to a first world economy. The Obasanjo administration is laying a very solid foundation for that to happen. The challenge is to sustain the momentum for several decades as Singapore and other newly industrializing countries did. Today in Nigeria, the most frequently asked question is whether the Obasanjo's reforms will be sustained. The answer, in my view, lies in the law and institutions. It is my belief that individuals make a difference, but for sustained development of a society, institutions make all the difference. Evolving, adapting or creating the appropriate institutions remains the cardinal challenge of our transformation agenda. Now that we have the courage to envision a prosperous society in the near future, we must also have the ingenuity to fashion the legal- institutional framework to propel the new economy. And Nigeria has enough geniuses like the retired but not tired Hon. Justice Kayode Eso to help us. May God bless you Sir, as you continue to serve Nigeria.

Thank you for listening!

ISSUES ON THE LEVEL OF INTEREST RATES IN NIGERIA

Professor Chukwuma C. Soludo
Governor
Central Bank of Nigeria
June 2008

Outline

- Stylized Facts
- Is the Level of Interest Rates in Nigeria High?
- From Regime of Controlled Interest Rates to a Liberalized Regime
- Interest Rate Dynamics in Nigeria Under a Liberalized Regime
- Elements of Banks' Cost of Funds
- What can be Done?
- The Road Ahead

Stylized Facts

What constitutes "High" or "Low" Interest Rate?

- Interest rates are regarded as "high" or "low" relative to some economic fundamental, namely:
  - The level of inflation rate;
  - The degree of uncertainty and risks economic agents face; and
  - How developed and deep financial markets are;
  - The structure of the banking system—how competitive it is;
  - The cost of funds to the banks including deposit rates;

Stylized Facts

- The demand for credit by government when it runs deficit and whether it competes with the private sector.

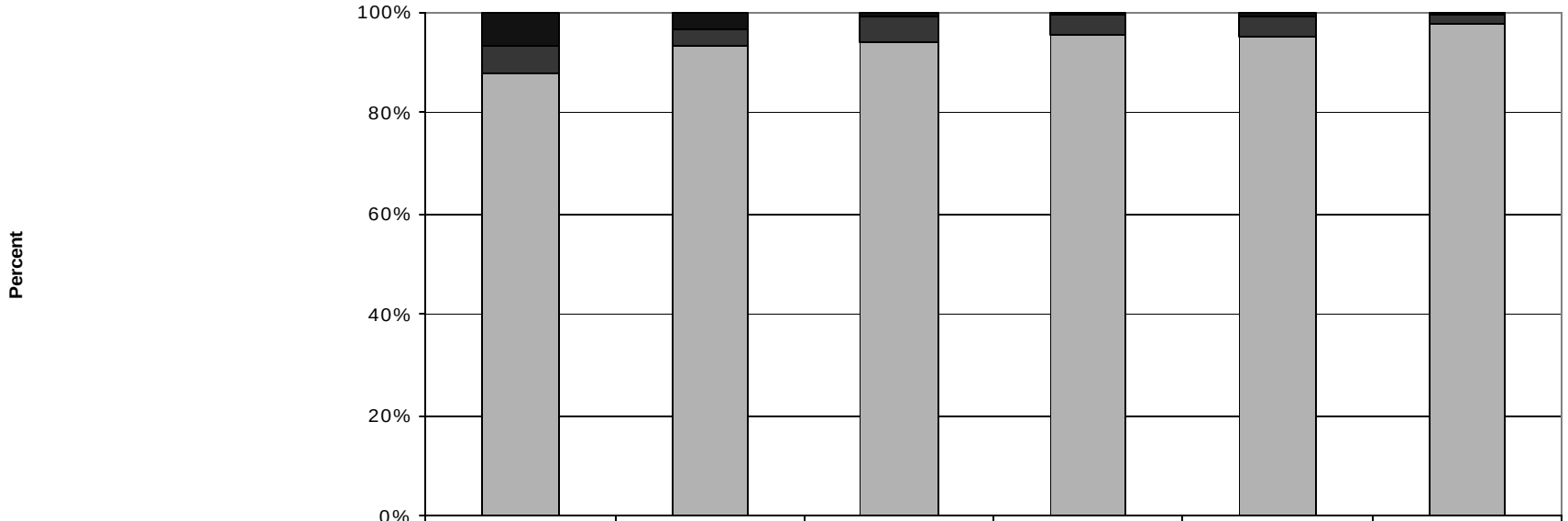
- There are conflicting and competing views about what constitutes an appropriate interest rate depending on whose perspective—savers or lenders/borrowers.

Stylized Facts

- Generally, interest rates are prices and must be right and attractive to:
  - Reward depositors and encourage long-term savings as well as reward lenders;
  - Long-term savings can only occur when inflation is tamed;
  - Currently over 90 percent of deposits mobilized by banks are short-term (0-365 days), hence they are constrained to lend short (see next slide).

Stylized Facts

Figure 1: Maturity Structure of DMBs Deposits

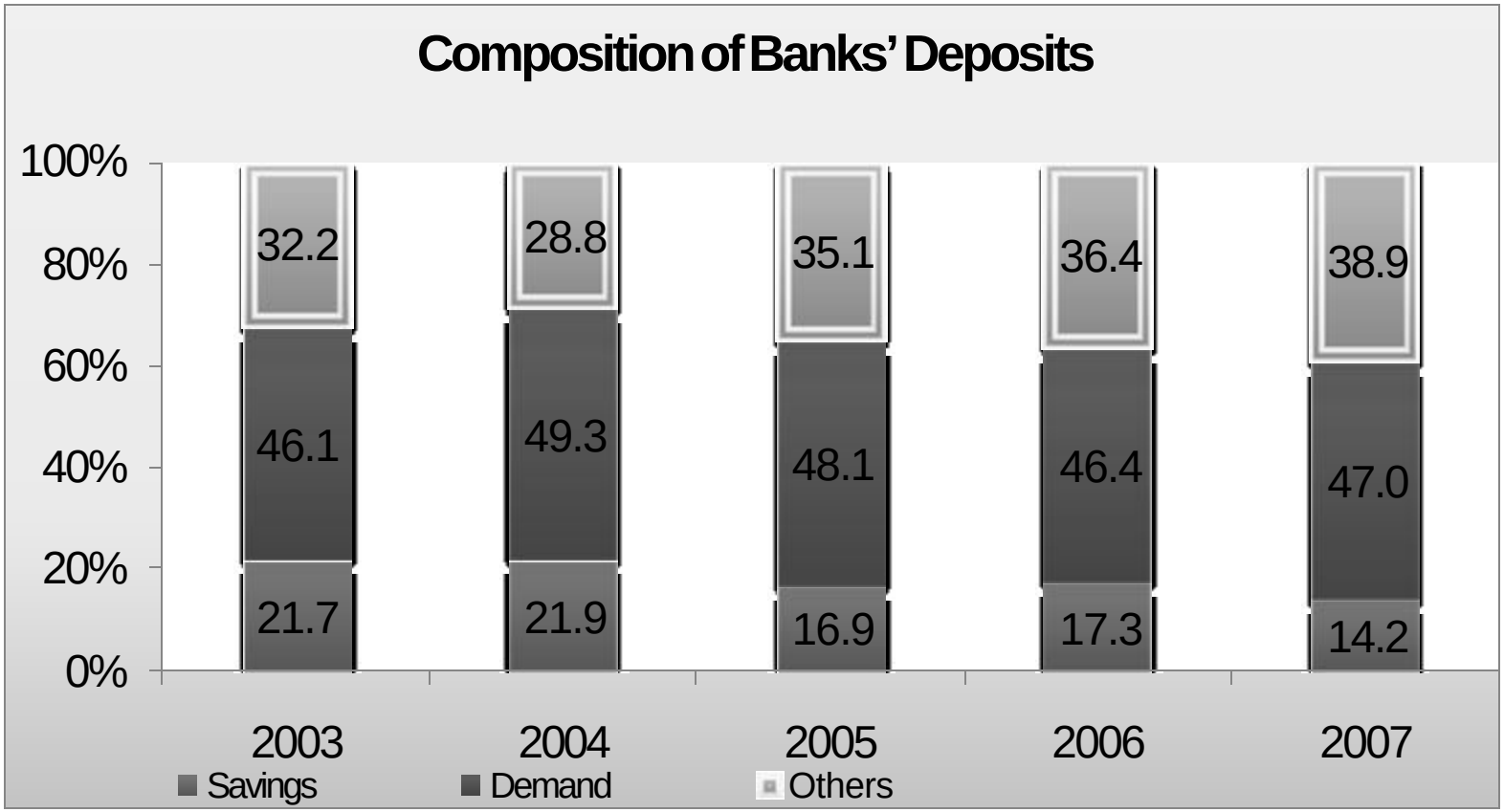


	2006	2007	Jan-08	Feb-08	Mar-08	Apr-08
Long-term (3 yrs and above)	6.5	3.3	0.5	0.4	0.7	0.3
Medium-term (Above 1yr and below 3yrs)	5.4	3.3	5.6	4.2	4	2.2
Short-term (0-365 days)	88.11	93.34	93.88	95.37	95.27	97.47

Month/Year

Short-term (0-365 days) Medium-term (Above 1yr and below 3yrs) Long-term (3 yrs and above)

Stylized Facts

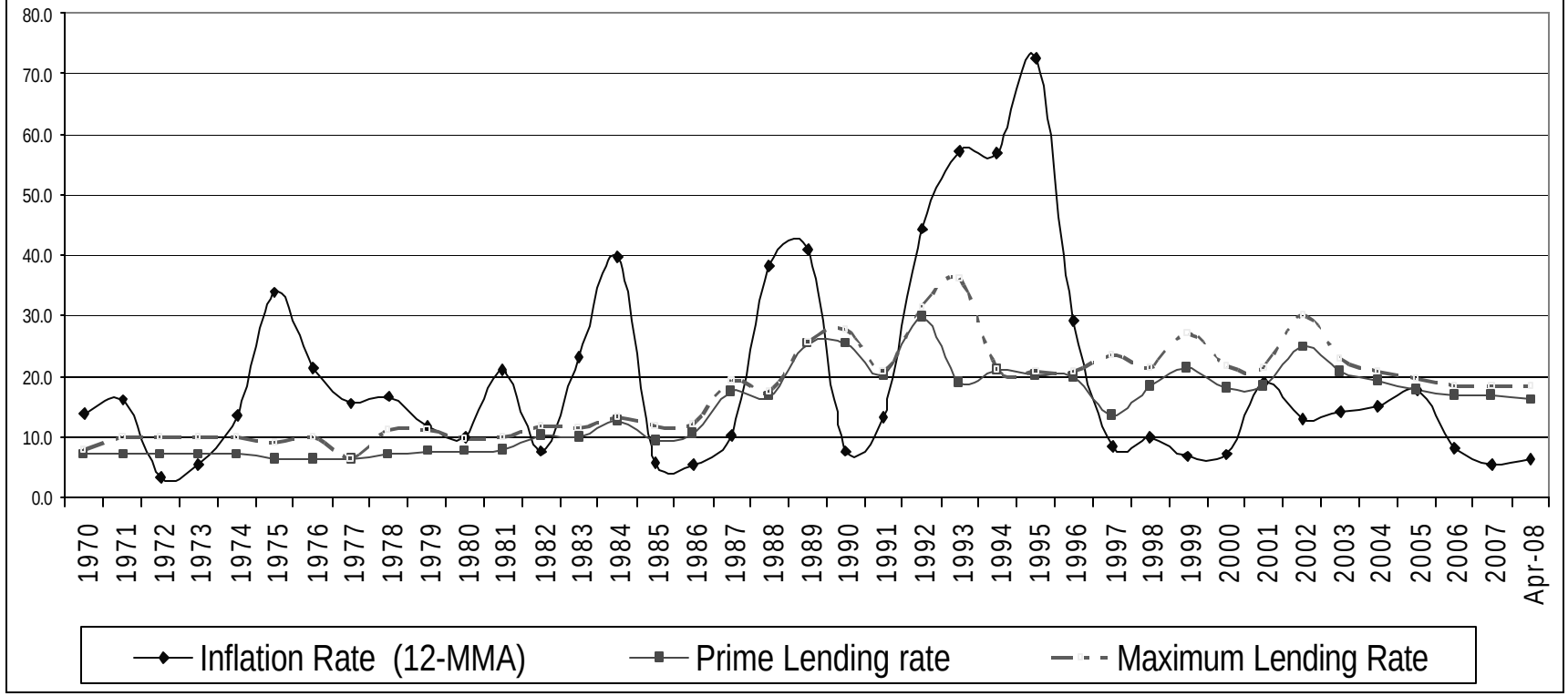


Stylized Facts

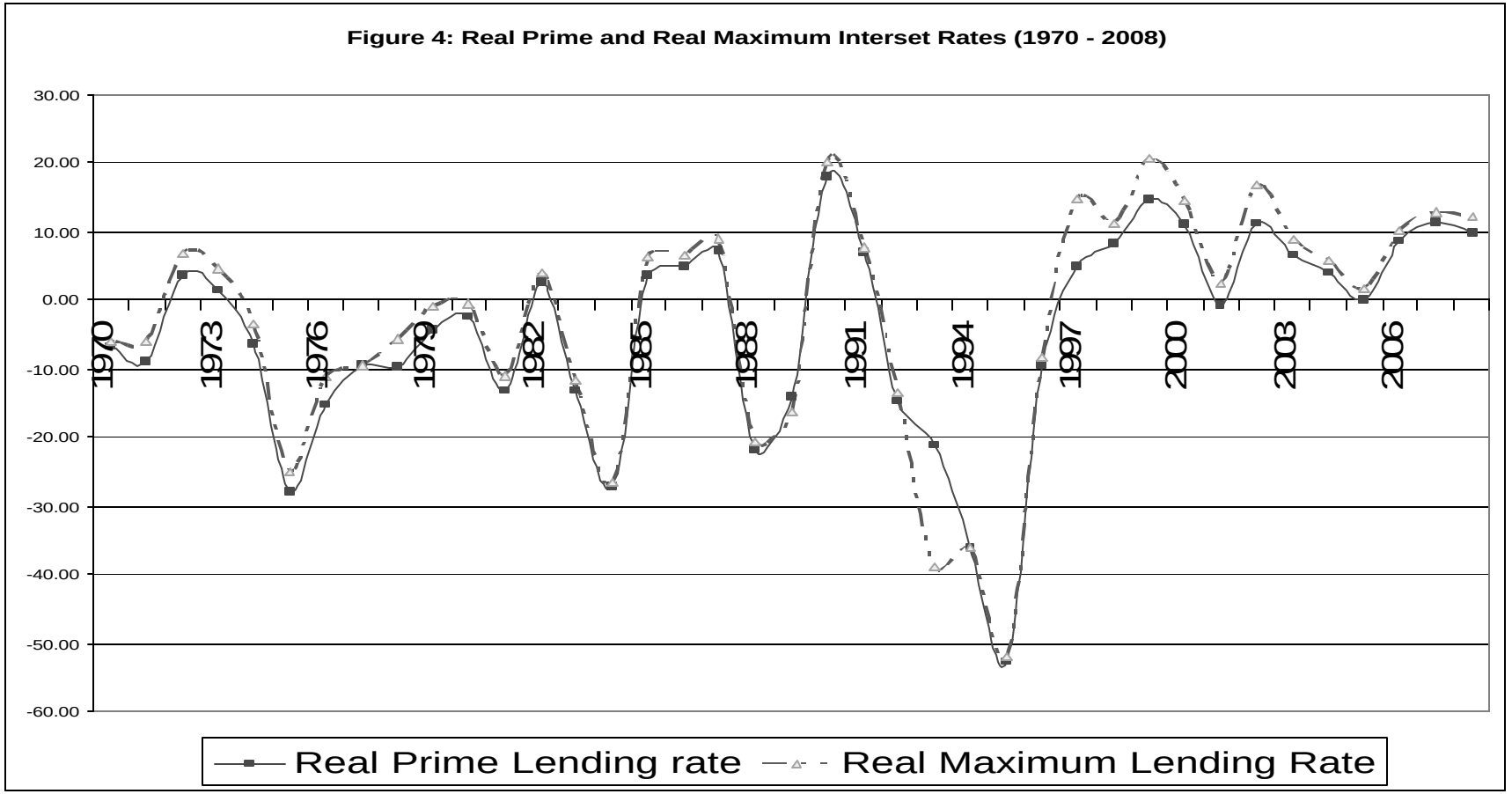
Table 1: Maturity structure of Deposits in India			
Period	Short term	Medium term	Long term
2000	28.9	38.2	32.9
2001	31.1	37.2	31.6
2002	34.8	36.5	28.7
2003	35.2	40.9	23.9
2004	38.1	34.1	27.8
2005	39.4	34.1	26.5
2006	39.5	36.0	24.5

Is the Level of Interest Rates in Nigeria "High"?

Figure 3: Inflation and Nominal Lending Rates (1970 - 2008)



Is the Level of Interest Rates in Nigeria "High"?



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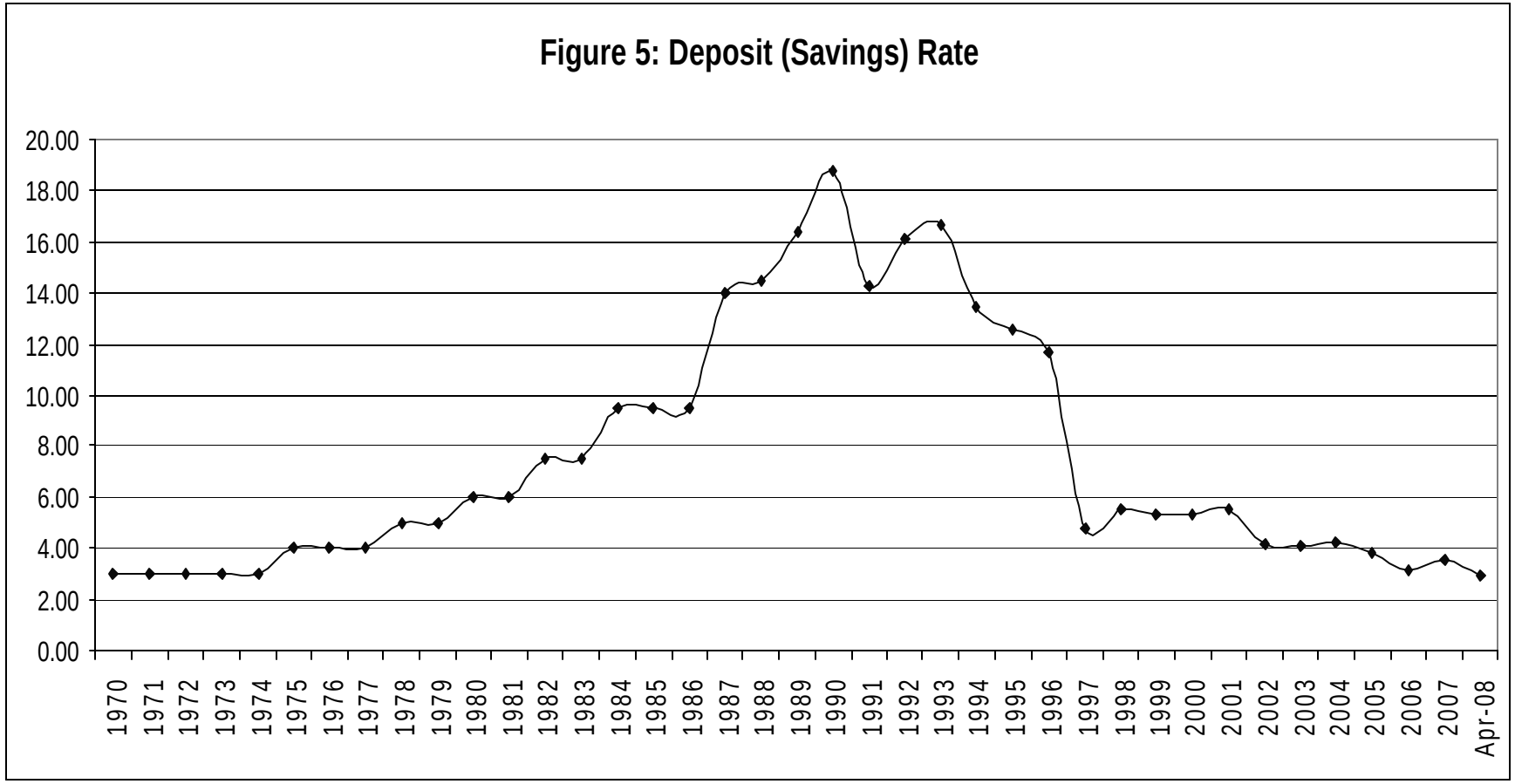
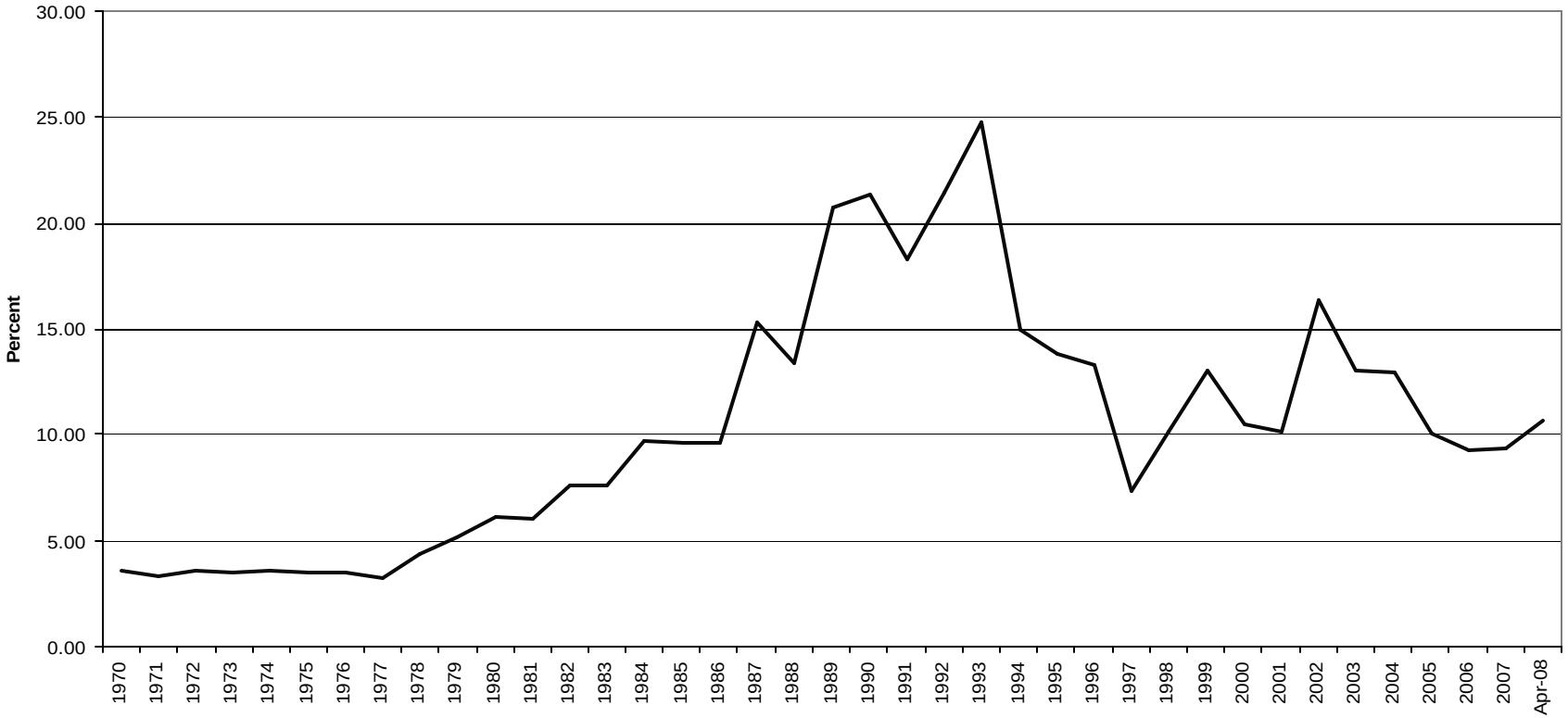


Is the Level of Interest Rates in Nigeria "High"?

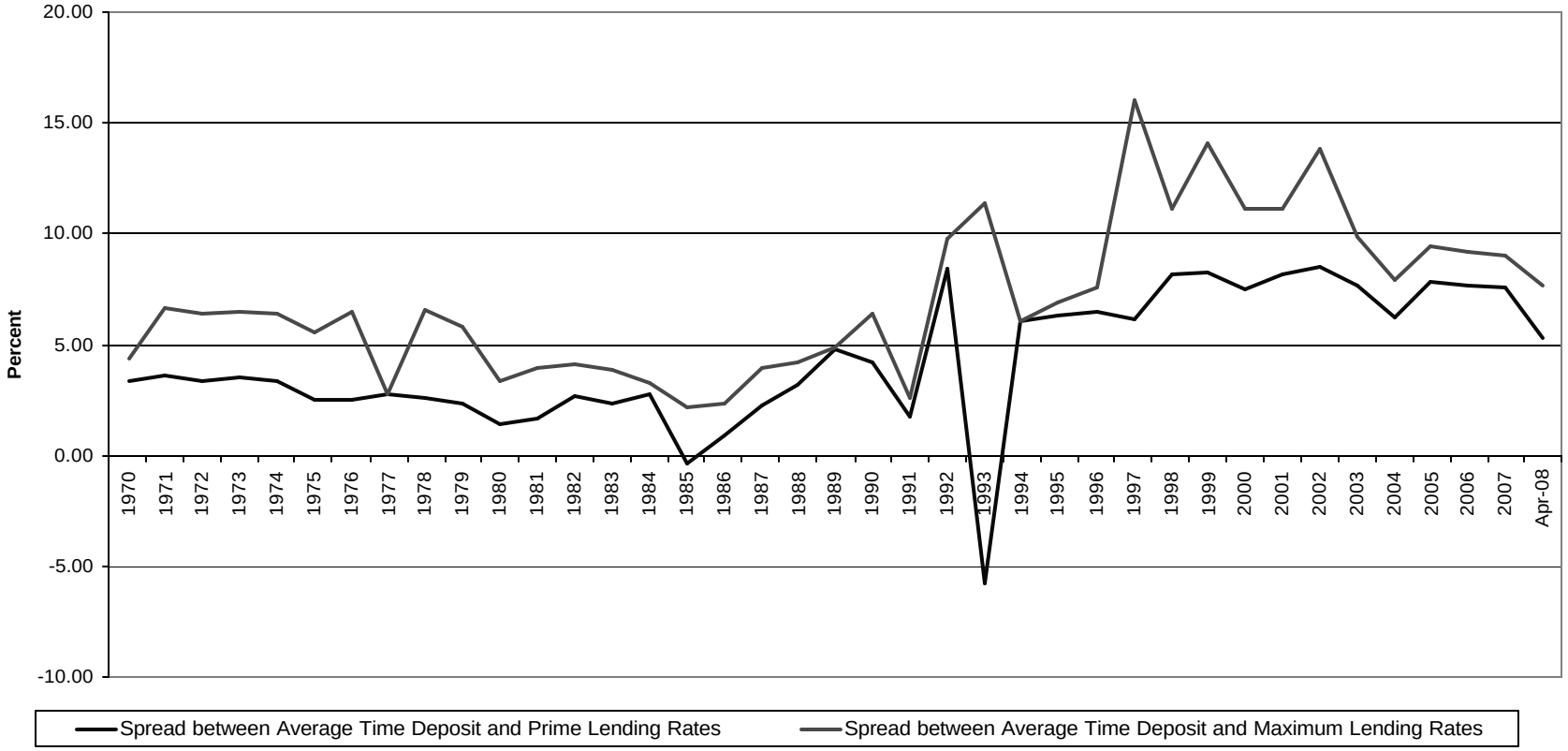
Figure 6: Average Time Deposit Rate 1/



1/ 3 Months Deposits and Above.

Is the Level of Interest Rates in Nigeria "High"?

Figure 7: Interest Rates Spread Between Average Time Deposit and Lending Rates



Is the Level of Interest Rates in Nigeria "High"?

- For Depositors?
  - Deposit rates are generally low, except for the period between 1986-1989 immediately following liberalization and 1990-1995 period of banking sector distress.
- For Lenders/Borrowers?
  - Relative to the periods 1986-1998, lending rates in the last three years have been low largely because inflation has declined on a sustained basis.
  - This is the first time since 1995 that lending rates have recorded such a feat.

Table 2: Comparative Average Lending Rates in Nigeria and Selected Countries

	Algeria			Botswana			Egypt		
	Average Lending Rate	Inflation Rate	Real Lending Rate	Average Prime Lending Rate	Inflation Rate	Real Lending Rate	Average Lending Rate	Inflation Rate	Real Lending Rate
2000	10.00	0.34	9.66	15.48	8.60	6.88	13.22	2.68	10.53
2001	9.50	4.23	5.27	15.75	6.56	9.19	13.29	2.27	11.02
2002	8.58	1.42	7.17	16.21	8.03	8.18	13.79	2.74	11.05
2003	8.13	2.58	5.54	16.40	9.19	7.21	13.53	4.51	9.03
2004	8.00	3.56	4.44	15.75	6.95	8.80	13.38	11.27	2.10
2005	8.00	1.64	6.36	15.74	8.61	7.13	13.14	4.87	8.27
2006	8.00	2.53	5.47	16.46	11.56	4.90	12.60	7.64	4.96
2007	8.00	3.51	4.49	16.22	7.08	9.13	12.51	9.32	3.19
2008	8.00	4.84	3.16	16.00	8.71	7.29	12.10	11.28	0.82

	Mauritius			South Africa			Uganda		
	Average Prime Lending Rate	Inflation Rate	Real Lending Rate	Average Lending Rate	Inflation Rate	Real Lending Rate	Average Lending Rate	Inflation Rate	Real Lending Rate
2000	20.77	4.20	16.57	14.50	5.34	9.16	22.92	2.83	20.09
2001	21.10	5.39	15.72	13.77	5.70	8.07	22.66	2.00	20.65
2002	21.00	6.47	14.53	15.75	9.16	6.59	19.10	-0.32	19.42
2003	21.00	3.88	17.12	14.96	5.86	9.10	18.94	7.84	11.10
2004	21.00	4.77	16.23	11.29	1.39	9.91	20.60	3.31	17.29
2005	21.04	4.91	16.14	10.63	3.40	7.23	19.65	8.15	11.49
2006	21.08	8.91	12.18	11.17	4.64	6.52	18.70	6.61	12.09
2007	21.87	9.34	12.53	13.17	7.10	6.07	19.11	6.24	12.87
2008	22.56	7.41	15.14	14.50	16.00	-1.50	19.44	8.25	11.19

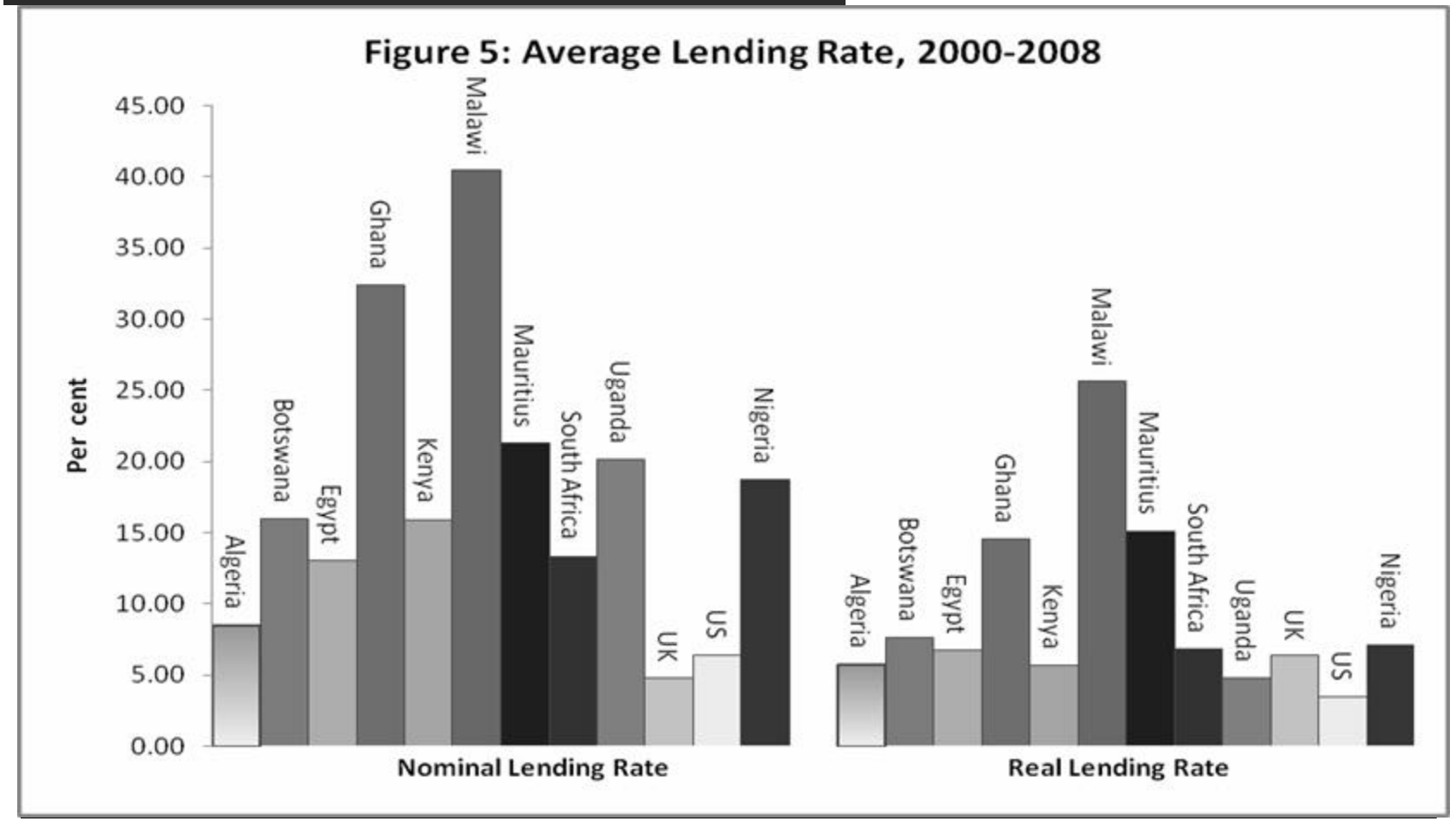
Sources: IMF (IFS), Central Bank of Nigeria and Bank of Ghana Statistical Bulletin.
Algeria, Malawi, Mauritius, South Africa, and UK are as at March 2008; Botswana, Egypt, Ghana, Kenya, and Uganda are as at February 2008; and Nigeria and US are as at April 2008.

Table 2 (contd.)

	Ghana			Kenya			Malawi		
	Average Lending Rate	Inflation Rate	Real Lending Rate	Average Lending Rate	Inflation Rate	Real Lending Rate	Average Maximum Lending Rate	Inflation Rate	Real Lending Rate
2000	47.00	25.19	21.81	22.34	9.98	12.36	53.13	29.58	23.54
2001	43.75	32.91	10.85	19.67	5.74	13.93	56.17	22.70	33.47
2002	38.50	14.82	23.68	18.45	1.96	16.49	50.54	14.74	35.80
2003	35.25	26.67	8.58	16.57	9.82	6.76	48.92	9.58	39.34
2004	28.75	12.62	16.13	12.53	11.62	0.91	36.83	11.43	25.40
2005	26.00	15.12	10.88	12.88	10.31	2.57	33.08	15.41	17.67
2006	24.25	10.91	13.34	13.64	14.45	-0.82	32.25	13.97	18.28
2007	24.17	10.70	13.47	13.34	9.76	3.58	27.72	7.95	19.76
2008	24.17	11.50	12.67	13.81	18.68	-4.87	25.36	7.96	17.40

	United Kingdom			United States			Nigeria		
	Average Lending Rate	Inflation Rate	Real Lending Rate	Average Prime Loan Rate	Inflation Rate	Real Prime Loan Rate	Average Prime Lending Rate	Inflation Rate	Real Lending Rate
2000	5.98	2.93	3.05	9.23	3.38	5.86	17.98	6.90	11.08
2001	5.08	1.82	3.26	6.92	2.83	4.10	18.29	18.90	-0.61
2002	4.00	1.63	2.37	4.68	1.59	3.09	24.85	12.90	11.95
2003	3.69	2.91	0.77	4.12	2.27	1.85	20.71	14.00	6.71
2004	4.40	2.96	1.43	4.34	2.68	1.66	19.18	15.00	4.18
2005	4.65	2.83	1.82	6.19	3.39	2.80	17.95	17.80	0.15
2006	4.65	3.19	1.45	7.96	3.23	4.73	16.89	8.20	8.69
2007	5.52	4.27	1.25	8.05	2.85	5.20	16.94	5.40	11.54
2008	5.38	3.97	1.41	5.97	4.06	1.91	15.97	6.10	9.87

Is the Level of Interest Rates in Nigeria "High"?



Summary Message

- In the last two years we have witnessed a sustained decline in nominal/real lending rates
- Relative to some selected countries, Nigeria's real and nominal lending rates are not outliers.
- The wide gap between lending and deposit rates in Nigeria is dominantly explained by: the depth of financial markets, level of inflation, risks and uncertainty.

From Regime of Controlled Interest Rates to a Liberalized Regime

- Prior to 1986, interest rates were fixed administratively by the CBN
  - It was intended to obtain socially optimum resource allocation
  - To promote orderly growth in the financial market
  - To facilitate flow of credit to the preferred sectors- agriculture, manufacturing, etc.
- Nominal interest rates lowest during this period, but the price paid was high inflation.
- Real interest rates were generally negative as a result of the repressed regime; consequence is financial disintermediation—leading to low savings, low investment and low growth.

From Regime of Controlled Interest Rates to a Liberalized Regime

- **Effects**
  - Failed to achieve the desired policy objective of enhancing investment and growth in the real sector
  - Resulting low interest rates were unable to keep pace with inflation
  - Negative real interest rates discouraged savings
  - Perpetuated inefficient pricing and misallocation of resources
  - It discouraged competition—neither the real nor the financial sector grew.

From Regime of Controlled Interest Rates to a Liberalized Regime

- Following liberalization of interest rates in 1986 with the adoption of SAP, the level of interest rates has been market-determined.
- Interest rates have risen relative to repressed regime era.
- Inflation rate moderated significantly (lowest) since then, particularly during 1998-2006, except for the aberration between 1993-1998, the period of "guided deregulation".

From Regime of Controlled Interest Rates to a Liberalized Regime

- Real interest rate generally positive since liberalization.

Interest Rates Dynamics in Nigeria Under a Liberalized Regime

- In a liberalized environment, a choice must be made with regard to the main objective and instrument of monetary policy.
- Under a liberalized regime, where market forces are at play, low inflation constitutes the *key objective* while interest rates become the main *policy instrument* leaving prices to adjust to ensure price stability.

Interest Rates Dynamics in Nigeria Under a Liberalized Regime

- Hardly any two customers are charged the same lending rate.
- It depends on a number of factors:
  - Customer's risk assessment
  - Information available to customer
- Prime customers tend to attract lower lending rate relative to non-prime borrowers.

Interest Rates Dynamics in Nigeria Under a Liberalized Regime

- What drives interest rates? Essentially, interest rate level is affected by movement in price level or inflation rate, fiscal policy stance, and intermediation cost (cost of funds), how deep and developed financial markets are, level of risks and uncertainty, among other factors.
- **Inflation Expectation (or Expected Movement in General Price Level):**
  - If inflation is expected to increase, the nominal interest rates need to adjust to induce positive real interest rates, which will not render savers worse-off.

Interest Rates Dynamics in Nigeria Under a Liberalized Regime

- In other words, lenders/savers will want to be compensated for inflation (for loss of purchasing power) and will push the nominal interest rate up to get the desired real rate of interest.

- **Fiscal policy stance:**
  - Because of peculiar source of government revenue, increase in benchmark oil price crowds-out the private sector

Interest Rates Dynamics in Nigeria Under a Liberalized Regime

- Sterilization actions of the central bank to neutralize the effects of the injection by fiscal authorities puts upward pressure on interest rates.
- This is worsened by current regime where higher benchmark oil price are used and at the same time run fiscal deficit.
- If banks acquire this riskless asset at such high rate of interest, it pushes interest rates up and risky private sector lending takes place at a much higher premium.

Interest Rates Dynamics in Nigeria Under a Liberalized Regime

- The higher the government spends, the lower the amount available to the private sector to spend.
- The variable to adjust to keep inflation under control becomes the interest rate.

Interest Rates Dynamics in Nigeria Under a Liberalized Regime

- **Intermediation Cost:**
  - Financial institutions incur cost in extending their services. Interest rates will tend to be high when intermediation cost is high. Intermediation costs include administrative costs and cash reserve and liquidity ratio requirements.

Table 3: Cash Reserve Requirement (CRR) and Liquidity Ratios (LR)

Year	Cash Researve Requirement (CRR) %	Liquidity Ratio ((L/R) %
1995	6%	30%
1996	8%	30%
1997	8%	30%
1998	8%	30%
1999	12%	40%
2000	10%	35%
2001	10% and 11% from Feb and 12.5% from March	35% and 40% from March 2001
2002	12.5% and 9.5% for real sector Banks	40%
2003	12.5% and 9.5% for real sector Banks	40%
2004	9.50%	40%
2005	11% and 5% from October 05	40%
2006	5% and 3% from November 06	40%
2007	3%	40%
2008	3% and 4% from June 08	40%

Interest Rates Dynamics in Nigeria Under a Liberalized Regime

- **Structural factors**, encompassing the following:
  - High cost of doing business—cost of power, communication and other infrastructural facilities, provision of security, high tax burden, etc;
  - Structure of the banking industry—oligopolistic structure where few banks control a significant share of the industry.
- **Judicial process:**
  - Ease of resolving commercial disputes and front-loading of future possible costs/losses through higher interest rates

Interest Rates Dynamics in Nigeria Under a Liberalized Regime

- **Low Level (Volume) of Long-term Savings:**
  - Net savings in Nigeria has averaged less than 10% of GDP as against over 18% in many emerging countries such as Indonesia, Malaysia and South Africa.
  - The domestic interest rates, in conjunction with the rate of return on foreign financial assets, and the expected change in exchange rate determine the allocation of accumulated savings among domestic financial assets, foreign assets and goods that are hedged against inflation.

Interest Rates Dynamics in Nigeria Under a Liberalized Regime

- Boosting the levels of long-term savings is core to achieving the desired level of interest rates as well as sustaining high investment and output growth.
- The predominance of short-term deposits (over 80%--see slide 6).
- Ability to encourage long-term savings depends on success in sustaining low inflation.

Interest Rates Dynamics in Nigeria Under a Liberalized Regime

- Other factors that could influence changes in interest rates include:
  - Maturity period of the financial instrument and perception of risks associated with the instrument. Those with longer-term maturity and with higher probability of incurring loss carry higher interest rates.
  - Large holdings of non-performing assets (NPAs) in banks' portfolio makes them more cautious in their lending. This will tend to induce an increase in interest rates charged as such costs are passed on to new borrowers.

Interest Rates Dynamics in Nigeria Under a Liberalized Regime

- Inability of specialized institutions, such as development finance institutions (DFIs), to play the specific roles for which they were set-up—due maily to low budgetary appropriations to capitalize these institutions appropriately.

Elements of Banks' Cost of Funds

- Interest Rates
- Financial charges
- Overhead and Operational Costs

Elements of Banks' Cost of Funds

Table 4: Effective Cost of Funds to Banks (Percent) 1/

1999	2000	2001	2002	2003	2004	2005	2006 2/
38.3	28.1	31.4	37.4	26.3	22.9	21.6	17.6

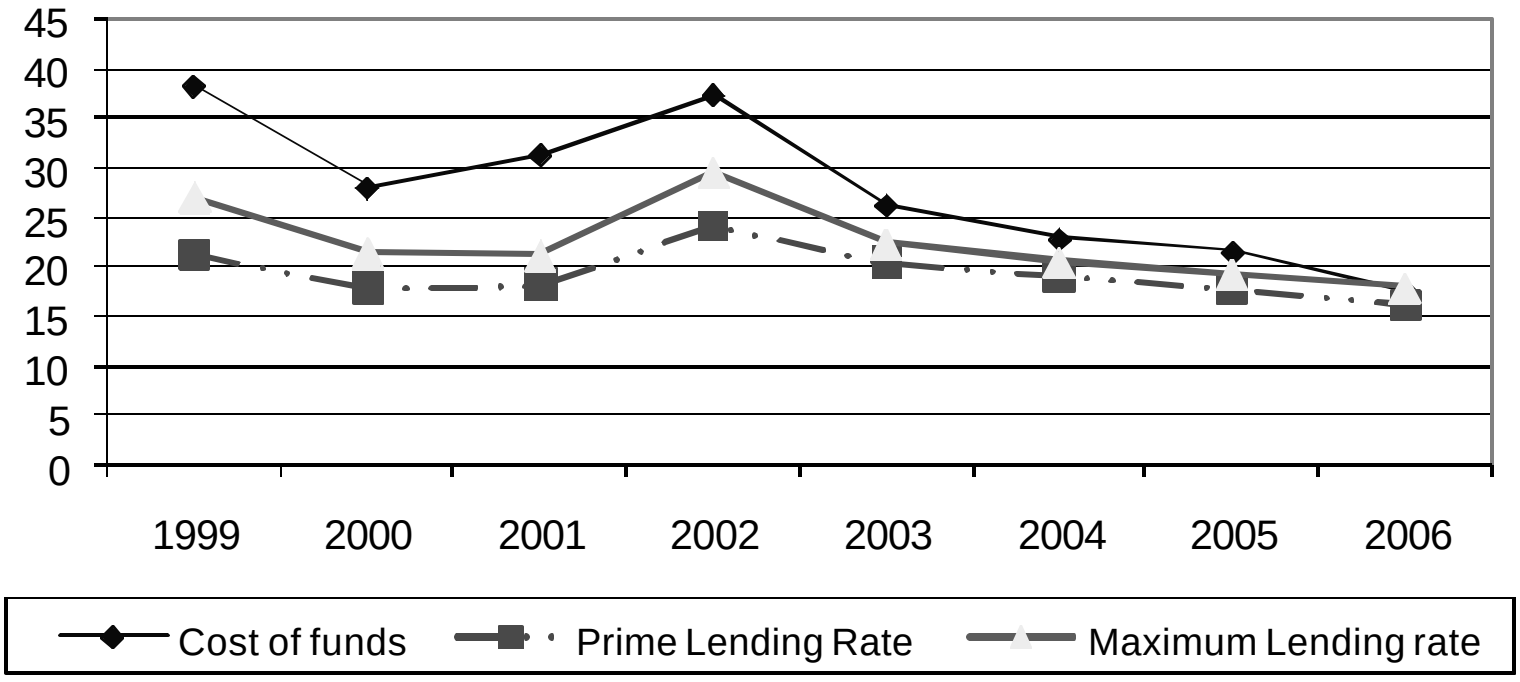
Source: Banking Supervision Department, CBN.

1/ Effective cost of funds include: interest expense, overhead costs, insurance premium and adjustment for cash reserve requirements (CRR).

2/ March 2006.

Elements of Banks' Cost of Funds

Figure 6: Effective Cost of Funds and Nominal Lending Rates (Percent)



Elements of Banks' Cost of Funds

- The effective cost of funds plus the cost of doing business (infrastructure, security, etc.) can significantly impact on interest rate.
- So the lower they are the lower interest rates are likely to be.

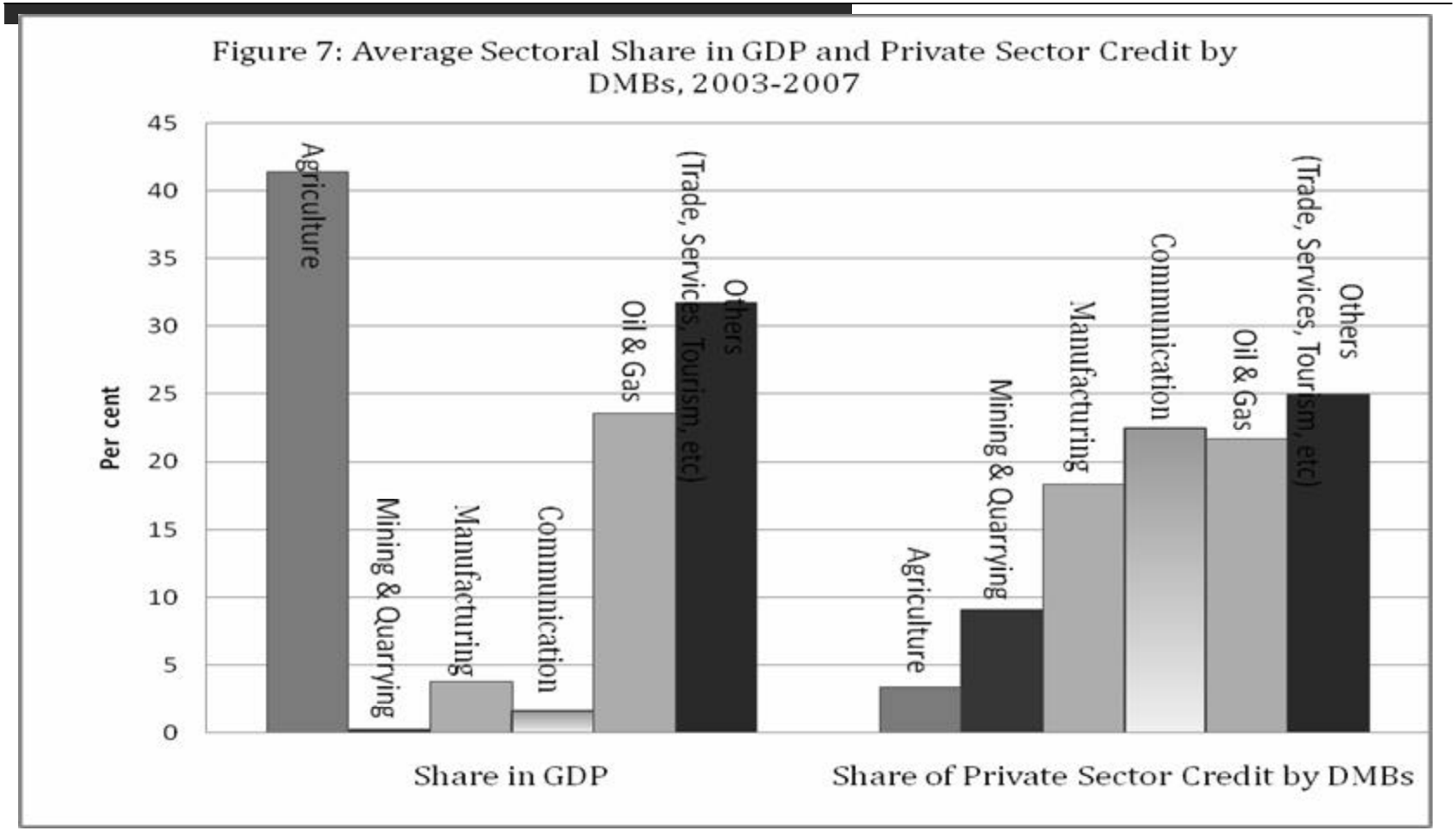
What Can Be Done?

- Sustain the current economic reform and maintain sound fiscal and monetary policy so that as inflation trends to single digit on a sustained basis, interest rates will inevitably come down to single digit as has happened everywhere else in the world, including.
- Government budget should be maintained at the same or lower benchmark oil price so as to put less pressure on interest rates, while the CBN mops up the liquidity injection by government.

What Can Be Done?

- Alternatively, the oil receipts should be monetized through the DMBs to avoid excess liquidity injections.
- In the medium term, government needs to address the high cost of infrastructure, especially power and security to banks (currently banks spend heavily on these two items and pass on the cost to borrowers).
- In the short-run, government should make special sectoral interventions—subsidy to selected sectors. From Figure 7, Agriculture deserves special attention.

What Can Be Done?



What Can Be Done?

- Manufacturing sector receives more than its proportionate share of bank credit. Its major problem is not lack of access to credit.

The Road Ahead

- Meanwhile, government needs to device a better way of administering subsidies to agriculture and manufacturing .
- In the short-term, governments/National Assembly should use the budget to increase the capitalization of the DFIs—Bank of Industry (BOI), Nigerian Agricultural, Credit and Rural Development Bank (NACRDB), Federal Mortgage Bank of Nigeria (FMBN), and Nigeria Export-Import Bank (NEXIM).
- The National Assembly should enact relevant legislations to deepen the financial markets.

The Road Ahead

- All states/FGN Judiciary to mainstream Commercial Courts.
- The N50 billion Micro Credit Fund—for micro entrepreneurs as replacement for SMEEIS
- CBN continue with promotion of Entrepreneurship Development Centres.
- CBN will continue with the interest subsidy on agriculture.
- CBN experimenting with "Inflation Targeting Framework.
- The Bank will undertake a careful review of the liquidity ratio.

The Road Ahead

- A careful review of the NDIC premium will also be undertaken.
- The CBN will work with Bankers' Committee to rationalize the non-interest charges/commission and enforce greater transparency in their administration.
- The Bank will continue with the ongoing efforts at deepening the financial markets, especially the secondary market trading of bonds.
- National Assembly/FGN to curtail fiscal expansion as this leads to higher interest rates.
- All governments to continue to improve the enabling environment for competitive industrialization—infrastructure, regulatory regimes, industrial parks, etc.

Thank You for Listening

Banking in Nigeria at a Time of Global Financial Crisis

By Prof. Chukwuma C. Soludo, CFR
Governor, Central Bank of Nigeria

Being Presentation at the
Special Interactive Session on the Banking System
At The Eko Hotel & Suites, Victoria Island, Lagos

30th March, 2009

Outline

I: Introduction

- Why Worry About the Banks?

II: Impacts on Nigeria and the Banking System

- The Pressure Points?

III: Responses So Far and Outcomes

IV: Contingency Plans?

V: Conclusion

I: Introduction

- Global economic crisis unprecedented in history in terms of scope and severity: global recession predicted (Africa and some others with lower positive growth)
- Global capital flows have largely frozen; credit crunch persists despite massive global liquidity injections; global aggregate demand fallen sharply (about $50 trillion value lost through capital markets, housing, etc); commodity prices collapsed; world trade shrinking; major global banks recapitalized by governments; international financial institutions without adequate resources to intervene: Global coordination failure.
- Major industrial countries and rich developing countries designing trillions of dollars stimulus packages

II: Why Worry About the Banks?

- The financial system is dominated by the banking sector (about 90% of the assets) and about 65% of market capitalization of the NSE
- It is the key driver of the economy--- supplier of oxygen– with new credit to private sector expected to exceed the combined spending by three tiers of government (this was the case in 2008 and never happened in Nigeria before). In 2009, FGN and State Governments expect to borrow approx. N1.6 trillion, and it is the banks that will provide much of this funding.
- Nigeria cannot afford a banking crisis: The non-deficit part of the FGN budget in 2009 is less than banks' capital; hence the totality of FGN budget cannot recapitalize the banks if the system should collapse. With the drying up of global finance, and non-bank investing public still nascent, the scope for funding any bank bailout in Nigeria is slim--- except by 'printing money'!

Banks: Financial Deepening

From 2003 - 2008							
Year	M2/GDP Ratio (%)	CIC/M2 Ratio (%)	COB/M2 Ratio (%)	CIC/GDP Ratio (%)	CIC/Non-oil GDP Ratio (%)	COB/GDP Ratio (%)	COB/Non-oil GDP Ratio (%)
2003	20.0	25.3	20.8	5.1	8.7	4.2	7.1
2004	19.8	24.1	20.3	4.8	7.6	4.0	6.4
2005	19.3	22.8	20.0	4.4	7.2	3.9	6.3
2006	19.5	19.3	16.2	3.8	6.7	3.2	5.6
2007	28.1	16.5	12.7	4.7	7.3	3.8	5.6
2008 /1	38.6	12.6	9.7	4.8	7.9	3.7	6.1

M2 is broad money stock (end period)

GDP at current basic prices

CIC is Currency in Circulation (end period)

COB is Currency Outside Banks (end period)

/1 Provisional ratios

Banks: Credit to the Real Sector

(N' Billion)							
Sectors	2003	2004	2005	2006	2007	2008	Feb. 2009
Agriculture	62.10	67.74	48.56	49.39	149.58	106.53	91.16
Min. & Quarry	95.98	131.06	172.53	251.48	490.71	846.94	813.57
Manufacturing	294.31	332.11	352.04	445.79	487.58	932.80	999.45
Communications	293.70	382.76	375.73	500.24	1,158.10	1,304.85	959.31
Oil & Gas	229.23	277.53	431.39	586.48	1,266.67	1,986.16	2,165.77
Others	227.89	328.04	610.89	690.92	1,260.85	2,622.12	3,097.79
TOTAL	1,203.2	1,519.24	1,991.15	2,524.30	4,813.49	7,799.40	8,127.05

II: Impact on Nigeria and the Banking System

Impact on Nigeria:

- Reduction in capital inflows and Divestment (FDI, Portfolio, ODA, remittances, etc) leading to crash of Nigerian capital market
- 'Confidence Trap' in Stock market with N trillions loss in value with the associated 'wealth effect' on domestic aggregate demand
- Collapse of commodity prices (especially oil) leading to reduction in export earnings and government revenue
- Demand pressure on the forex market arising from divestment and repatriation of capital and dividends by foreign investors
- De-cumulation of foreign reserves and pressures on exchange rate (depreciation)
- Greater forex outflows also means liquidity mop-up and hence tightness of liquidity in the financial system, combined with greatly reduced rate of monetization of forex inflows from oil sales means drastic reduction in growth rate of money supply
- Higher Govt borrowing, and slower growth rate of credit to the private sector
- Lower Growth Rate of oil and non-oil GDP projected; inflation at 10- 15%
- Outlook of Sovereign Credit Risk rating downgraded from 'Positive' to 'Negative' (although S&P confirms the BB-)

Impact on Nigeria and the Banking System

The Banking System

- Tightening of liquidity due to net forex outflows and lower monetization of oil earnings
- Further tightening of liquidity as lines of foreign credits enjoyed by Nigerian banks were called in.
- Depression of the capital market and drop in the quality of part of the credit extended by banks for trading in the capital market (liquidity pressures as loans not fully serviced or repaid)
- Greater loan-loss provisioning both due to capital market exposures and decline in growth of economic activities
- Potential exchange rate risks on foreign lines due to depreciation of the exchange rate
- Liquidity pressures push up domestic interest rates which if not addressed could pose systemic threat
- Global credit crunch and re-pricing of risks push up interest rates on lines of credit for Nigerian banks
- Slower growth rate of banks' balance sheet in response to the crisis and higher provisioning, leading to lower profitability

Impact on Nigeria....

Pressure Points for Banks?

- Liquidity pressures
- Potential Toxic Assets due mainly to capital market lending
- Economic meltdown: Impact on quality and growth rate of balance sheet (higher loan-loss provisioning, lower profitability, and depletion of capital)
- Possible contagion effects of global crisis of confidence
- Exchange Rate risks
- Counter-party risks
- Challenges of frozen global capital flows, including overpriced lines of credit
- Surviving the unguarded media onslaught/de-marketing campaign

III: Responses So Far and Outcomes

- Nigeria's responses so far include:
  - Implementation of the 7- Point Agenda of Mr. President
  - Stimulus Budgeting: FGN and State Govts expect to borrow N1.6 trillion (deficit spending as in many other countries)
  - Presidential Steering Committee on the Global Economic crisis
  - Proactive measures to conserve the foreign reserves, and also allowing the exchange rate to depreciate as a shock-absorber
  - Injection of Liquidity into the banking system
  - Tightening of regulation and supervision
  - Stimulating the dormant growth reserve—agriculture– through Special Agric Fund

Responses So Far....

- **Liquidity Management**
  - reduction of the MPR from 10.25 to 9.75 per cent (below inflation rate)
  - reduction in CRR from 4.0 to 2.0 percent
  - reduction of liquidity ratio from 40.0 to 30 per cent
  - directive to banks that they have option to restructure margin loans (if necessary) until December 2009
  - expanded discount window, which allows banks to borrow for up to 360 days (currently at interest rate not exceeding 500 basis points above the MPR)
  - Suspended aggressive mop–up of liquidity since September, 2008

Responses So Far...

- ***Foreign Exchange/Exchange Rate Management***
  - Exchange rate adjustment to preserve foreign reserves
  - Reversion from Whole Sale Dutch Auction System (WDAS) to Retail Dutch Auction System (RDAS) to check speculative demand for forex
  - Introduction of a band of plus or minus 3 percent to ensure stability
  - Temporary suspension of inter-bank forex transactions
  - Restructuring of the Bureaux de Change operations--- two classes 'A' and 'B'
  - Reduction in Net Open Position of banks from 20% to 1%
  - Sale of cash forex only through bank BDCs
  - Revision and enlargement of transactions that are eligible under the RDAS window

Responses So Far....

Tightening of Regulation and Supervision

- Greater emphasis on enforcement of Code of Corporate Governance
- Resident Examiners have been deployed to banks since January 2009
- Standby teams of target examiners being deployed to any bank at any time to ensure timely regulatory actions if necessary
- Review of Contingency Planning Framework for Systemic Distress in Banks
- Introduction of Credit Bureau
- Advice to banks on risk management--- extra conservatism during time of crisis--- capital conservation, cost minimization, de-emphasis on size, salaries/bonuses, etc
- Strengthening of institutional coordination through the Financial Sector Regulatory Coordinating Committee (FSRCC)

Responses So Far.... Regulation/Supervision

- Greater emphasis on e-FASS as a tool for banks' returns analysis for speedy identification of early warning signals
- Consolidated Supervision and Risk Based Supervision have been adopted and arrangements are being made to migrate from the current fragmented sub-sectoral supervision to all-inclusive financial sector supervision
  - All banks are to be examined in 2009 by consolidated teams
- Adoption of common accounting year end for all banks with effect from end-Dec. 2009, aimed at improving data integrity and comparability
- Adoption of the International Financial Reporting Standards (IFRS)
- Review of BOFIA to strengthen regulatory capacity

Responses So Far...

- Interest Rate Regime:
  - To reduce pressure on interbank rates, CBN reduced rates on Expanded Discount Window (EDW) to max. of 500 basis points above MPR effective from March 16, 2009.
  - Also as temporary measure, and to ensure that the liquidity pressures and run up to common year end do not drive banks to 'race to the bottom', Bankers' committee decided to peg the maximum deposit and lending rates at 15% and 22% respectively from April 1, 2009 until end of 2009. This would also have salutary effects on the real economy.

Responses So Far...

- Confidence Building:
  - Assurances about the state of the banks and that Govt/CBN would not allow any bank to fail
  - Advice to banks to ensure greater disclosure to the public
  - Bankers Committee increasing emphasis on maintaining high ethical standards in the operations of banks: using service delivery as key instrument of competition.

Outcomes: Interbank Interest Rates and Borrowing

Date: March 2009	OBB Interest rate %	Non-collaterized Interbank %	Total Inter-bank N' billion	Expanded Discount Window (EDW) N'billion
17	9.69	30.47	26.95	nil
18	9.61	27.08	33.25	72.10
19	9.20	15.78	46.56	Nil
20	9.31	15.04	65.68	Nil
23	9.66	17.0	48.97	46.75
24	9.75	16.59	42.10	68.93
26	9.0	10.67	54.85	nil

Outcomes…

- No bank has failed or gone out of clearing
- Total outstanding borrowing on Expanded Discount Window as at March 26: N370 billion
- Banks total exposure to Capital market as at end January 2009 is N784 billion or 10% of total loans
- Banks total risk assets as at end of Feb. 2009 = N12.78 trn.
- Non-performing risk assets as at end Feb. 2009 = 4.74%
- Banks total loans as at end of Feb. 2009 = N8.13 trn
- Total Non-performing loans as percentage of total as at Feb. 28, 2009 = 6.2%
- Estimated non-performing loans as at end of December 2009 = about 7.4%

Outcomes…

- Amount banks are prepared to turn over to an Asset management company (AMCON) if such were set up by end of the year = N350– N400 billion or approx 4 – 5% of loans as at Feb. 2009
- About 15 banks would have no need for AMCON
- Of those that indicated interest in AMCON, there is hardly any for which it would threaten their solvency
- CAMELS rating of the banks as at end-December 2008, showed an average composite score of 62 per cent and average industry rating is satisfactory
- Total shareholders' fund as at end of December 2008 was N2.8 trillion
- Average capital adequacy ratio of 22 per cent, among the highest in the world

IV: Contingency Plans

Objective? No bank will fail (Avoiding the Lehman brothers' phenomenon as contagion effect of any bank failure at this time will be catastrophic for the economy)

- Strengthen CBN's contingency planning framework for systemic distress
  - Keep vigilance on early warning signals through rigorous examinations
  - If chronic liquidity problems--- provide term loans; target examination, and seek restructuring of balance sheet and management
  - If solvency problem: Could change Management, and strategic plan to recapitalize bank, including possibility of merger with/acquisition by stronger bank
- Encourage banks to strengthen/ review bank-specific contingency plans
- Reviewing the draft Asset Management Company of Nigeria (AMCON) bill--- to be established to buy up toxic assets of banks (if necessary)

V: Conclusion

- Collective Action required for the banking system to continue to survive the global shocks
- Financial System Strategy 2020 (FSS 2020) as long-term strategy to build an international financial centre and Africa's financial hub.
- Call for open and constructive dialogue on how the banks, the public, the media, the Government and monetary/regulatory authorities could help Nigeria navigate the global financial crisis.

THANK YOU FOR LISTENING

TOWARDS VISION 2020

Prof. Chukwuma C. Soludo, CFR
GOVERNOR, Central Bank of Nigeria

Being Presentation at the Retreat for Members of the Senate of the Federal Republic of Nigeria.
October 29, 2007
Port Harcourt, Rivers State

OUTLINE

I: Introduction:
II: Nigeria's Lost Decades!
III: The Journey So Far: Reforms and Outcomes (1999 – 2006)
IV: Despite Progress, Stylized Facts and Challenges
V: Towards 20: 2020 --- Agenda and Strategies With a Deadline
VI: Is the Vision 2020 Doable?
VII: Conclusions

I: INTRODUCTION:

- Thanks for Invitation
- Nigeria's Date with History: 2020
  - Largest African/black country
  - Recent progress
  - The BRICs
  - The N-11: Nigeria to be 20th by 2025 (Goldman Sachs) --- under very low assumptions; GEM
- Question: Can it be done?

I: INTRODUCTION: It is the Economy, Full Stop!

"If a Government does not deliver on the economy, it will neither be credible nor sustainable…"

"Once a country has a democratic regime, its level of economic development has a very strong effect on the probability that democracy will survive… Democracy can be expected to last an average of about 8.5 years in a country with per capita income under $1000 per annum; 16 years in one with income between $1000 and $2000; 33 years between $2000 and $4000; and 100 years between $4000 and $6000… Above $6000 democracies are impregnable and can be expected to live forever. No democratic system has fallen in a country where per capita income exceeds $6055". ***Prezeworski, et al*** *(1996) "What Makes Democracy Endure?": Journal of Democracy. Vol. 7, No.1, pp. 39—59.*

To have a chance of sustaining Democracy for another 33 years from 2015, GDP must be at least $370 billion (from its current $142 billion), if population at current growth rate will be about 184 million. This means sustaining GDP growth rate of at least 12-15 per cent per annum for next 8 years starting from 2007. This will surpass China, and break the Guinness Book of Records on World Growth History!

This is the NATIONAL CHALLENGE!

II: Our Past: Nigeria's Lost Decades?

- **Recall the groundnut, palm produce, cocoa economies of the 1960s. Nigeria comparable to Indonesia in 1973**
- **By 1995 Indonesia's GDP was more than twice Nigeria's. Its manufactured exports was 40% and Nigeria's less than 1%.**
- **Malaysia borrowed palm seedlings from Nigeria, but now exports palm produce to Nigeria!**
- **Recall the Austerity Measures; Essential Commodities era; SAP era; Guided liberalization, and all forms of experiments with reforms**
- **Nigeria's Per capita income of $2,263 in 1980 declined to $547 in 1993; $463 in 1999**
- **GDP growth rate in decade of 1990s was 2.8%; same with population growth and poverty soared to estimated 70% in 1999.**
- **Frequent military interventions characterised Nigeria's first four decades as a nation**
- **By 1999, Nigeria was literally a pariah and Failed State--- with defining brand names of Corruption, 419; drug trafficking; lawlessness, and stagnation. Most Nigerians sought to flee the country, and not many people gave Nigeria a chance!**

5

III: THE JOURNEY SO FAR: REFORMS AND OUTCOMES (1999- 2003)

- De-militarisation and reforms of the military
- Re-building basic institutions of the state
  - Police force and law enforcement
  - ICPC and fight against corruption
  - Procurement Reforms --- 'Due Process'
  - Nurturing nascent Democratic institutions--- legislature, judiciary
- Liberalisation and Privatisation programme
  - GSM licences and telecom revolution
  - Liberalisation of downstream oil sector
- Attempts at rebuilding infrastructure--- NEPA, roads
- Re-integration of Nigeria into global community
- Nigeria as a stabilising force in Africa, especially West Africa
- Several Sectoral Reforms under the BPE and line Ministries

6

REFORMS AND OUTCOMES….

- Focus on Economy as foundation for new Nigeria --- NEEDS ….
- Macroeconomic Reforms
  - Budget and public expenditure reforms (transparency and procurement reforms, Due Process; oil price-based fiscal rule)
  - Non-accommodating monetary policy; Exchange Rate management

7

REFORMS AND OUTCOMES….

Structural/Institutional Reforms

- Tax Reforms
- Ports and Customs Reforms
- Banking and Financial Sector Reforms
- Exchange Rate and Forex management
- Micro Finance Policy--- Micro Finance Banks
- Trade Policy and Tariff Reforms--- adoption of CET
- Liberalization / deregulation (eg. petroleum pricing)
- Monetization Policy
- Public service reforms
- Strengthening the National Statistical System
- Pension Reforms---- silent revolution….
- Breaking public sector monopolies--- power, telecom, infrastructure, etc (Energy Reform Act, etc)
- Urban Renewal: The Abuja Example
- ICPC; EFCC; Police force quadrupled; Judiciary reforms

8

REFORMS AND OUTCOMES….

- Sectoral Reforms
  - Presidential initiatives on Agriculture
  - Solid minerals
  - Education ---- ??
  - Power and energy reforms especially local content in oil sector: understanding the nature of Power crisis
- Regulatory Reforms
  - NCC; NAFDAC; SON; SEC; CBN
- Pursuit of Debt Relief and Integration of Economy into global system
  - External Agencies of Restraint, including:
  - PSI with IMF; submit to External Rating Agencies
  - WAMZ, single currency and convergence criteria
  - Nigeria part of core of NEPAD and its Peer Review mechanism

OUTCOMES……SO FAR?

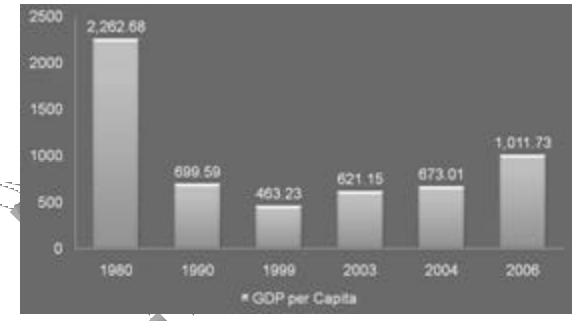
Nigeria on the way to 'Emerging Market' status

GDP: WHAT HAS CHANGED?

Indicator	1999	2005	2006*
GDP [Nominal Naira value] (Million)	**4,799,966.00**	**14,894,454.44**	**18,222,800.00**
GDP [Nominal US Dollar value] (Million)	**51,783.28**	**112,789.93**	**141,646.33**
GDP Growth Rate	1.19	6.51	6.0
Non-oil GDP Growth Rate	4.37	8.59	8.93
OIL GDP	-7.50	0.50	-4.67

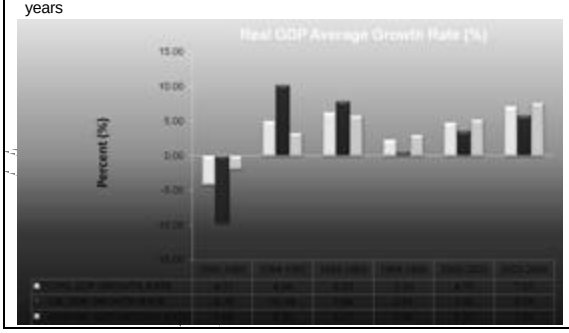
Source: National Bureau of Statistics
Note: 2006 Figure provisional
US dollar GDP value at N127.5 to 1 Dollar for all periods

GDP Per Capita (US$)

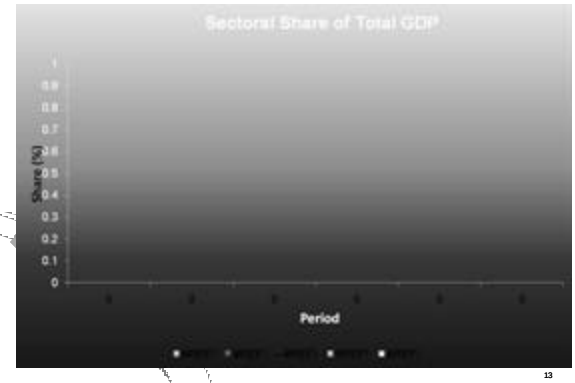


REAL GDP Growth (%)

- Non-oil sector powers a new economy
- Non-oil sector growth out-performed overall growth during the reform years



Sectoral Share of Total GDP



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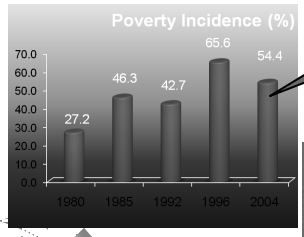
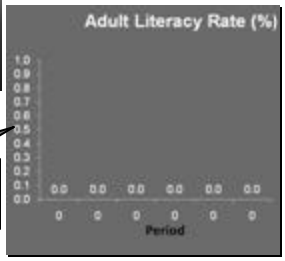
Poverty Incidence & Literacy Rate

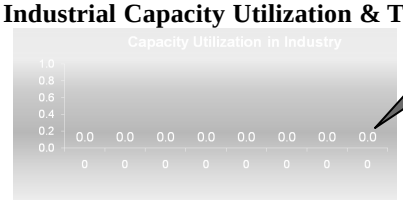


Poverty on the decline

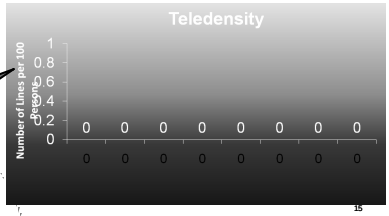


Adult literacy on the increase

Industrial Capacity Utilization & Teledensity



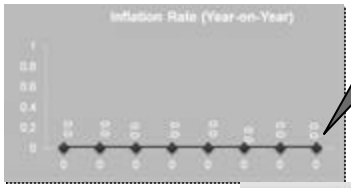
Poor power supply constrains capacity utilization in industry



Telecom revolution empowers economy

15

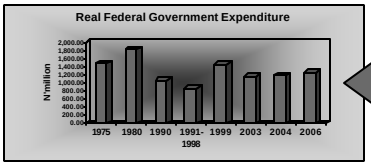
Movement in Inflation and Real Minimum Wage



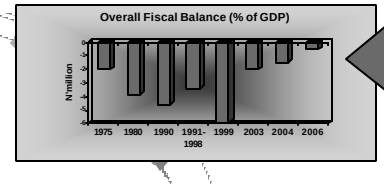
Inflation abates due to effective monetary, exchange rate, fiscal policy and growth of agric.

Real minimum wage on the rise again

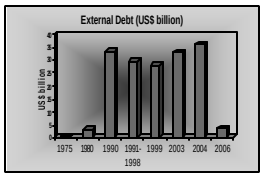
Federal Government Fiscal Operations

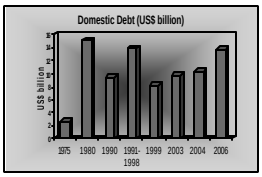


Federal Government expenditure falls In real terms

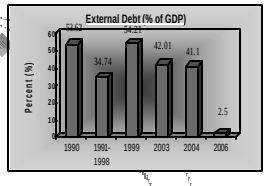


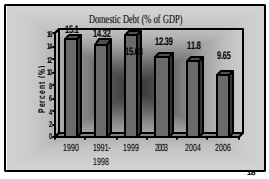
The nominal overall fiscal deficit narrows significantly

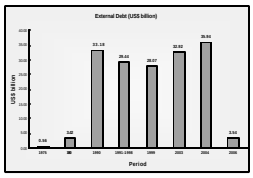


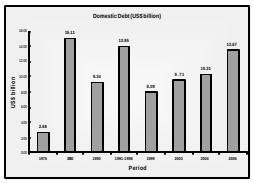


NIGERIA'S DEBT PROFILE

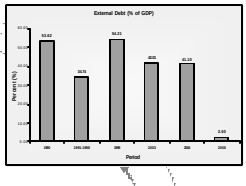


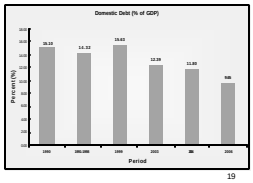




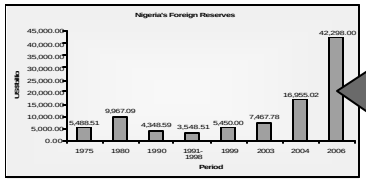


NIGERIA'S DEBT PROFILE

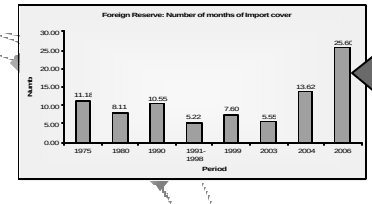




Movement in Foreign Reserves

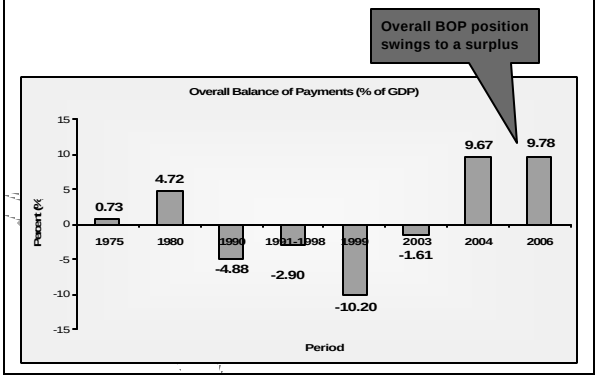


External reserves hit all-time high level

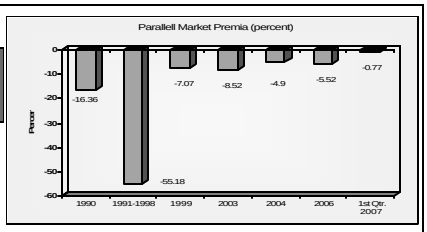


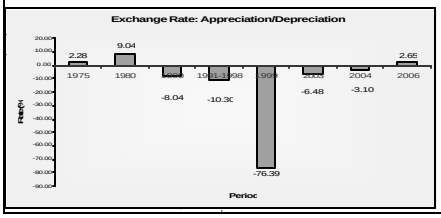
Significant surge In external reserves translates to more than 25 months of Imports cover

Overall BOP Position



EXTERNAL SECTOR INDICATORS





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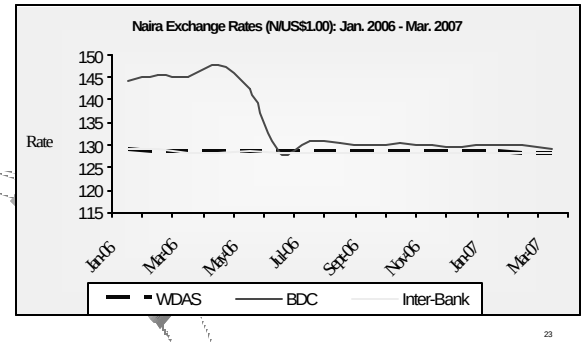
Nigeria Has Finally Achieved Convergence In Exchange Rates After 20 Years



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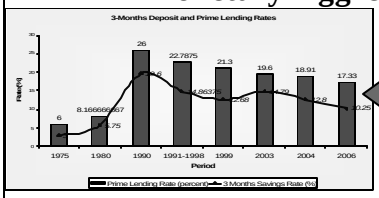
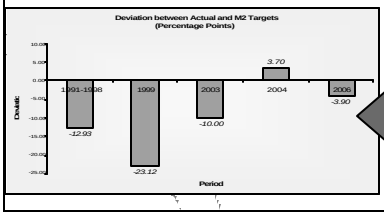
Monetary Aggregates



Spread between deposit and lending rates narrows



Deviation from target narrows - an indication of the effectiveness of monetary policy

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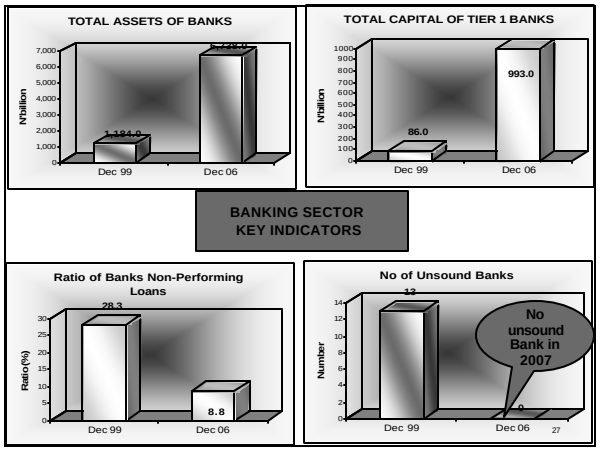
OUTCOMES…SO FAR?

- Services sector growing faster than industry; no change yet in agric share; ICT growth consistent with new economy
- Institutions are getting better: culture of impunity lessening; EFCC; ICPC; CBN; FIRS; NAFDAC; SON; Due Process

Emerging new Financial System…

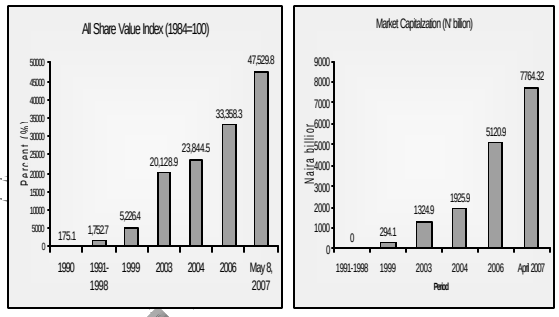
- New banking system powering new economy
  - About 6-7 banks expected with over US$1 billion in tier 1 (pure equity) capital by end of 2007
  - Now 12 banks with market capitalisation ranging between $1 bn and $5 billion. These could range between US$2billion and US$6 billion by end 2007
  - 16 Nigerian banks now in top 1000 in the world. There was none in 2003; and 5 out of top 10 in Africa; Nigerian Bank ranked 355th in the world---- The Banker
  - Banks are the soundest and safest they have ever been
  - Big ticket assets being created
  - AFC and An International Financial Centre
  - Vision 2020 as new Vision for the Next Economy



Emerging new Financial System…

- Capital Market Explosion
  - About 20 companies with market cap of US$1 billion and above (India has about 100): About 21 in West Africa, out of which Nigeria has 20. None in 1999.
  - Stable prices (exchange rate, inflation) and stronger banking system powering NSE
  - Thousands of Nigerians are making money out of the capital market
  - NSE capitalization expected to hit US$100 billion in 2008, ahead of Egypt and second only to JSE: now about N9 trillion (over $70 billion)
  - Pension assets (now over N600 billion) and long-term capital growing

Capital Market Indicators



International Community Voting with their Wallet….

The World Is Voting for the Nigerian Economy

- Nigeria exited external debt of about US$33 billion: frees resources for MDG; freer economic space--- less intrusion by BWIs and Creditors
- FATF de-listed Nigeria
- Fitch and S&P rated Nigeria BB- (1st Sovereign rating ever for the country)
- Fitch rated Nigerian banking system 'D'--- same group with China; Poland; India; Russia; etc.
- FDI and portfolio inflows more than doubling every year--- about US$7 billion in 2006
- Non-oil exports grew by 24% in 2006 with China and India becoming preferred partners
- Diaspora remittances over $4 billion per annum

IV: Stylised Facts and Challenges Ahead

- Despite Progress, Still a Very Long Way to Go!
- Per capita income barely $1,000; USA about $32,000; South Africa over $5,300. At current pop growth rate, and if GDP grows at 13% p.a, it will be in 2033 that Nigeria achieves today's per capita income of SA. At current 6% growth, it will be in 2065.
- POVERTY: 1 out of 2 Nigerians in poverty
  - Poverty becoming Dynastic – children of the poor likely to become poor due to widening gap in access to quality education and size of family
  - Spatial inequality ---- See Tables
- INEQUALITY: Nigeria one of most unequal societies
- UNEMPLOYMENT: Urbanization rate 5.3% as one of fastest in world, with urban youth unemployment at about 20%--- Time Bomb!

Stylized Facts and Challenges: Poverty Levels by Zones 1980-2004

Zone	1980	1985	1992	1996	2004
South South	13.2	45.7	40.8	58.2	35.1
South East	12.9	30.4	41.0	53.5	26.7
South West	13.4	38.6	43.1	60.9	43.0
North Central	32.2	50.8	46.0	64.7	67.0
North East	35.5	54.9	54.0	70.1	72.2
North West	37.7	52.1	36.5	77.2	71.2

Stylized Facts and Challenges: What Explains Poverty Incidence?

1. Household Size: In 2004, single member households had 12.6% poverty incidence; 2-4 member households 39.3%; 5-9 member households, 57.9%; 10- 20 member households, 73%; and above 20 member households, 90.7%
2. Education: Households headed by those without education had 68.7% poverty; primary education, 48.7%; secondary, 44.3%; post secondary, 26%.
3. Occupation: Dominant in agriculture and forestry, 67%
4. Rural Areas contributed 65% to poverty in 2004

Stylized Facts and Challenges …..

- Breaking the Natural Resource/Oil Curse--- culture of 'cake-sharing'.
- Productive Structure still dominated by Primary Commodities--- with oil and gas; agriculture, solid minerals: manufacturing and services are still insignificant
- Infrastructure Gap: power and transportation
  - Nigerian manufacturers face about 40% competitive disadvantage due to poor business environment
- Security of lives and property: law and order
  - Armed gangs and criminality a major threat everywhere
- Niger- Delta Crisis: Binding constraint on the economy!
- EDUCATION crisis: Nigeria cannot compete in today's world. Our R&D investment lowest among comparator countries, even in Africa. Universities cannot offer more than 10% placement to those who demand it, but even out of this, more than 60% of graduates are unemployable.
- Desertification and Deforestation
- Water Crisis ---- Nigeria cannot guarantee safe drinking water to more than 60% of population
- Agriculture still rain-fed: 60% of land fallow: Reinventing NALDA?

Stylized Facts and Challenges...

- Domestic Debt burden---- growing! Unfunded pension arrears huge (over N1 trillion)
- Over 17 million housing deficit--- to cost over N3 trillion
- High population growth rate--- over 3%--- one of highest in world
- Value for money in public expenditure still very low, especiallyin the States …. (some 25- 40%)
- Social service delivery still poor--- SERVICOM needs revolution
- No effective Gas Policy---Power and Industrial Parks Hampered
- Mass Urban decay---
- Pervasive corruption
- Weak public service: underpaid, inefficient
- Weak Ports and Customs procedures--- Cotonou more competitive
- Re-building confidence in Electoral process and Democratic institutions
- Challenge of Constitutional Reforms--- to strengthen institutions of Economic and Democratic Governance

V: TOWARDS 20: 2020 --- Agenda and Strategies With a Deadline

A clear VISION?

- Vision of a prosperous country based on hard work and productivity of the citizens and sound value system. A vision that breaks away from a natural resource and rent-dependent society to one based on intangible wealth, entrepreneurship, and competition

- Objectives of Economic Reform?---- poverty reduction; employment generation, wealth creation and value re-orientation?

Agenda and Strategies must be such that lead to:

- At least 13% annual GDP growth Rate that is broad-based (Diversified production structure, poverty-reducing and employment generating)
- Reduction in incidence of Poverty by at least 80%
- Create at least 3-4 million new jobs per annum

GROWTH SECTORS AND ENABLERS?.....

- GROWTH SECTORS?
  - Agriculture; Oil and Gas; Manufacturing; Tourism; Solid Minerals; and Services
  - Mortgage/Housing Revolution
- GROWTH ENABLERS

Five most important concerns of producers

  - Security of lives and property, law and order
  - Infrastructure, including Power
  - Macroeconomic stability --- Inflation, Exchange Rate, Interest rate.
  - Finance--- availability and cost
  - Enabling laws and regulatory effectiveness and policy consistency: Predictability of Level playing field for all operators

TOWARDS 2020 .....

- Remember Li Kuan Yew: "Get few things right, and keep doing them right"! Consolidate on few consensuses and Reforms
  - Democracy, Rule of Law and good governance
  - Private sector-led, competitive market economy
  - Fight against corruption and law and order
  - Macroeconomic stability --- price stability
  - Institutional reforms, including efficiency of public sector

TOWARDS 2020.....

COMPETITIVE BUT COORDINATED FEDERALISM, with increased devolution to States---- Getting the States to Work in coordinated manner will be a major revolution---- 36 states but ONE Economy!

- Fed. Govt to concentrate on what best to deliver on the 'Exclusive List', and providing the national 'public/common goods' e.g. security; law and order; macro stability; regulation; policy; etc.
- A strategy of Coordination/competition for items on the 'Concurrent List', eg. Infrastructure; Agriculture; Education; Health; Tourism; water; etc
- Use Matching Grants Framework and foster Peer Review Mechanism: Reward Innovation and Excellence in States
- Design Robust Measurement Framework--- State-level statistics to be mainstreamed (Benchmarking; eg. BECANS, etc)

TOWARDS 2020.....

ARTICULATE A NATIONAL PLAN; (caveat: This is Democracy!)
(Recognizing who our competitors in the global competition are):

- Some Elements of the Agenda include:
  - Infrastructure, especially POWER and Transportation
  - Security of Lives and Property-- including resolution of the Niger Delta crisis; Rule of Law. Is Federal Police enough?
  - Financial System Strategy 2020 (FSS 2020) with 400 initiatives
  - The New Naira Policy-- becoming Africa's Reference currency!
  - Establish an International Financial Centre
  - Consolidate on Macroeconomic Stability– Inflation, exch rate, interest rate
  - Revolution in Consumer Credit; Mortgage; and SME Financing

TOWARDS 2020.....

- Medium- Long- Term BUDGET Framework-- to underpin the long-term PLAN
  - New Framework for Managing a Petroleum Fund
  - Ports and Customs Reforms --- clear customs in 2 – 6 Hours
  - Tax policy consistent with production needs
  - National Strategy on Foreign Borrowing
- Electoral Reforms --- credibility and transparency
- Constitutional Amendments--- especially to create/strengthen institutions for a stronger economy
- Education and ICT revolution --- break Dynasties of Poverty
- Aggressive Fight Against Corruption: ICPC; EFCC; etc
- Deepen Public Sector Reforms: Size, efficiency, remuneration
- Strategy for Environmental Sustainability---
- Agricultural revolution: conquering nature....
- Etc, etc.

TOWARDS 2020 ..... Role of National Assembly?

- Without Requisite Legal Infrastructure, 2020 will not happen!
- Agenda setting through Appropriation and as Pressure Group
- Oversight function/champion for public accountability

TOWARDS 2020... Part of Legislative Agenda ....?

- General
  - International Financial Centre Law - *New*
  - Evidence Act - *Amendment*
  - Consumer Protection
  - Consumer Credit --- New
  - Creating commercial courts - *Constitutional amendment*
- Credit
  - Equipment Leasing and Hire Purchase Laws – *Amendment/New*
  - Law for establishing registries for moveable collateral assets in Nigeria - *New*
- Institutions
  - Banking and Other Financial Institutions Act (BOFIA) - *Amendment*
  - Company and Allied Matters Act (CAMA) - *Amendment*

Outstanding Legal Challenges

- Information and Communications Technology (ICT)
  - Cyber crime - *New*
  - E-transactions and e-payments - *New*
  - Privacy and data protection *New*
  - E-documentation - *New*
  - Electronic signature - *New*
  - National identity - *New*
- Investment Laws
  - Commodities trading (Derivatives – Options, Futures, Swaps etc) - *New*
  - Taxation - *Amendment*
- Insurance
  - NAICOM and Insurance Acts - *Amendment*
  - Insurance and Pension Protection Fund - *New*
- Mortgage (Real Estate)
  - Land Use Act – *Constitutional Amendment*
  - Tenancy laws - *Amendment*
  - Mortgage insurance laws - *New*

VI: IS VISION 2020 DOABLE?: OPPORTUNITIES ABOUND….

NIGERIA HAS ENOUGH GROWTH RESERVES TO UNLEASH AND SUSTAIN HIGH GROWTH

- Agriculture has huge untapped capacity: Over 60% of Nigeria's arable land not under cultivation
- Nigeria is a bed of gas (6th highest in the world). It is the world's future fuel of choice
- The Gulf Of Guinea is now a major exploration zone and Nigeria is discovering huge deepwater oil reserves.
- Oil prices to remain buoyant in medium term
- External Reserves at almost $47 billion
- Burden of External Debt (over $33 billion) lifted---- Freer Policy Space and not beholden to the BWIs.
- 17 million Nigerians in the Diaspora: remittances and potential supply of skills, global networks, etc
- Awakening Nigeria's dormant capital--- real estate/mortgage revolution

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Opportunities Abound….

- Nigeria's vast and largely youthful population has capacity to create huge demand through the emergence of a large middle class (population of 140 million)
- Improving telecommunications system and IT system for productivity
- Addressing the Business Environment will unleash capacity, by improving efficiency
- Financial System the most robust ever---- attracting US$ billions in private capital. Currently, "all portfolio/equity investors have packed their bags and heading to Nigeria…. If you don't have a Nigerian/African Strategy, you don't have a strategy at all". Risk is that 'countries that receive up to 5% of GDP as capital inflows over a period of time experience financial crisis. We are fine-tuning strategy to be pro-active!
- Economy about to Explode…..Needs orderly explosion!

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RISKS AND PRESSURE POINTS…

- Globalisation: capital flows and trade. Small differences among countries matter greatly and could make or mar countries….. Billions of dollars could flow out in a week…(*Herding Effect* as witnessed in Asia and Latin America during Contagion)
- WAMZ: Macro and structural convergence in West Africa.
- Message: Policy errors are heavily punished. Most of gains can be wiped out by any wrong policy measure.
- Pressure points: Economy becoming too sophisticated for the economic managers. Shortage of highly skilled economic managers! How do you attract them?
- Dominant voice is about 'sharing the cake', the issue is about 'Baking the Cake'. Overcoming pressure for distributional rather than Productive Efficiency is a key challenge!
- Every policy creates winners and losers: Losers will not walk away without a fight!

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VII: CONCLUSIONS….

Let us start running NOW--- the clock is ticking…

- MOBILIZE THE COUNTRY AROUND A PLAN? A National, not a Federal, Plan.
- National Assembly has critical role in providing the legal infrastructure
- All Stakeholders Have Major Roles to play

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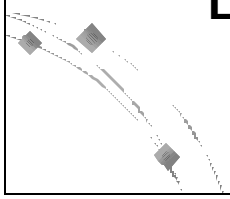
Thank You For Listening



Beyond Banking Sector Consolidation in Nigeria

BY
CHARLES C. SOLUDO
GOVERNOR
CENTRAL BANK OF NIGERIA

Presentation at the Global Banking Conference on Nigerian Banking Reforms; 29 MARCH 2006; The Dorchester Hotel, London

Outline

- Financial System as Pillar of the New Economy: The Vision, the Reforms
- Key Outcomes: The New Face of Banking
- Wrapping Up First Phase: Pressure Points?
- Beyond Consolidation:
  - Opportunities and Complementary Reforms
- The Sustainability Question: Medium Term Outlook

Background: Huge Potentials Largely Untapped…

Largest black population in world / Africa (140 million)

US$107 billion economy and growing

? Fairly developed infrastructural base (7 seaports, 6 international airports; 65 universities, etc.)

? Variety of solid minerals (Coal, gypsum, barites, iron ore, etc.); Largest bitumen deposit in the world

? 8th Oil producer in the world; 6th country with the largest reserve of natural gas.

One of the fastest growing telecommunication sectors in the world (18 million subscriber base from less than 500,000 in 2001)

? Huge untapped investment opportunities in tourism

? 65% of Arable land lying fallow; etc

Background: Financial System dominated by Weak Banking system

? **Where Were We?**

¦ 89 banks with 3,382 branches predominantly in the urban centers as at June 2004, characterized by structural and operational weaknesses such as:

- Low capital base
- Dominance of a few banks
- Insolvency and illiquidity
- Over-dependence on public sector deposits and foreign exchange trading
- Poor asset quality
- Weak corporate governance

¦ A system with low depositor confidence

Background

- Banks that could not effectively support the real sector of the economy
  - Banking sector with credit to the domestic economy at 24% of GDP, compared to African average of 87% and 272% for developed countries

The Vision, The Objectives…

- "Nigeria as Africa's Financial centre, and CBN as one of the best in the world"
  - Within 10 years, Nigerian bank(s) should be among the top 50—100 banks in the world.

- Facilitate evolution of a strong and safe banking system

- Improve transparency and accountability in the sector

- Drive down the cost structure of banks and make them more competitive and development-oriented

A New Banking System that depositors can trust, and investors can rely upon: to usher in a new economy

Some Elements of the Reforms…

The Reform Agenda

- Recapitalization of banks to N25bn shareholders' fund by December 31, 2005
- Zero Tolerance on misreporting and infractions
- Stricter enforcement of corporate governance principles
- Policy framework on Risk Management Systems
  - Strengthening risk management systems in banks
  - Risk-based supervision.
- Payments System Reforms

Some elements of reforms…

- Stringent application of the contingency planning framework for systemic distress
- Closer collaboration with the Economic and Financial Crimes Commission (EFCC) in the establishment of the Financial Intelligence Unit (FIU) and enforcement of the anti-money laundering measures
- Currency Reforms: Rehabilitation and effective management of the NSPM, Plc to meet the currency needs of Nigeria and West/Central Africa
- Etc.

KEY OUTCOMES: The New Face of Banks in Nigeria

Strengthened Universal banks

- Emergence of 25 banks through consolidation (compared to 89 banks before consolidation)
- Successful banks accounted for about 93.5% of aggregate deposit liabilities
- Larger aggregate capital base: from about $3 billion to $5.9 billion
- Nearly US$3 billion new investment--- largest in non-oil sector in one year
- Foreign investment inflows of about US$500 million

KEY OUTCOMES …

- Aggregate capitalization of banks as a share of stock market capitalisation rose from 24% to 38%
- Increased consciousness about capital market among the populace
- Enhanced liquidity and capitalization of the stock market
- Greater depositor confidence
- Returns on Investment in banks over 30% in US dollar terms

KEY OUTCOMES …

? All four foreign banks recapitalized despite initial hesitation – NIB, Standard Chartered, Stanbic and Ecobank

? Lending to the private sector rose by 31% and led to non-oil sector growth of 8.5% in 2005

? More banks can now access credit lines from foreign banks

KEY OUTCOMES …

- Economies of Scale to be Achieved
  - Unit costs of operations reduced as overlapping functions scrapped
  - Lower interest deposits due to ‘safety in bigness’ in minds of depositors
- Increased potential to finance big transactions--- (higher single obligor limits)
- No more Government dominant ownership

KEY OUTCOMES …

? Dilution of ownership--- as most banks become PLCs; and more regulators oversee them---- SEC and NSE.

? More effective supervision-- focus on fewer (25) banks rather than 89 mostly sick banks

? No more wholly regionally / ethnically based banks

? Nigerian banks going regional and global

Wrapping Up: Pressure Points

- Concluding Legal challenges to liquidation of failed banks
- Blanket guarantee and payment of depositors
- Re-verification of banks' capital to avoid 'bubble' capital
- Integration challenges within banks
- Contingency plans for any 'weak' bank
- Expeditious passage of Asset Management Company law; etc
- Pressure to ensure adequate returns to shareholders of banks with 'higher' capital
- Bridging the Skill and IT Gaps in the Merged Banks

BEYOND CONSOLIDATION: Opportunities for Brighter Future

- Aggressive pursuit of stable macro environ
  - Inflation; Exch Rate; fiscal responsibility; GDP growth
- Fitch; Standard and Poor's (BB-) rating
- Debt Relief
- Anti-corruption war and AML
- De-listing from the FATF list soon?
- JVs between Nigerian and Foreign banks
- Portfolio and FDI inflows growing
- Deepening of the bond/capital market
- Pension Funds and long-term funds

BEYOND CONSOLIDATION: Other Complementary Reforms

- Zero tolerance for infractions, misreporting, etc.
- IT and New Ways of Doing Business eFASS; RTGS; --- no place to hide– for banks to lie about their state of affairs
- Amendment of NDIC, CBN Act and Banks and Other Financial Institutions Act (BOFIA) to strengthen regulatory functions
- Restructuring / Strengthening Banking Supervision Department (risk-based; skills enhancement)
  - New corporate governance code issued to operators

BEYOND CONSOLIDATION: Other Complementary Reforms

- Rule-based supervision: transparency
- Further Liberalization of Forex Market
- Effective Monetary Policy Framework
- Payments System reforms (e-payment, etc)
- Introduction of Commercial Courts and Reform of Mortgage system
- Currency Restructuring; reforms of NSPM, Plc and currency management (outsourcing)
- Microfinance Policy and SME financing
- New African Investment Bank coming soon

BEYOND CONSOLIDATION…

? Training: Intensive and extensive training for:
  - CBN Staff--- re-orientation and skills
  - Board members of universal banks and Microfinance Banks (MFBs)
  - Staff of banks--- on critical skills in the industry and managing Change / transition in the 'new' industry

? Locking-in Reforms through international benchmarking for Nigerian banks:
  - Partnership with foreign banks in reserve management accelerates internationalization and global integration
  - International Rating Agencies for Nigerian banks

SUSTAINABILITY QUESTION: Medium Term Outlook

? Reforms Likely to be sustained due to ownership

- International oil market remains buoyant (unlikely to fall below US$40 per barrel in the medium term); boom in the gas sector and solid minerals sector
- NEEDS II: 2007—2011; and SEEDS (continued institutional/structural and economic reforms at all levels of government)
- Financial sector reforms continue as the wheel and lubricant of the economy
- Macroeconomic Stability---- stable prices (interest rate, exchange rate, CPI)
- Fight against Corruption continues
- Continuing improvement in Infrastructure and Security

SUSTAINABILITY QUESTION…

- Institutionalizing Reforms--- Legal (Bills at the National Assembly, eg. Fiscal Resp; CBN/BOFIA Acts; etc
- People: Ownership of reforms and Skills within institutions continue to improve
- Niger Delta not likely long-term threat
- Confident of Successful Political Transition
- There is no better time to be part of the new Industry!

? THANK YOU FOR LISTENING

CENTRAL BANK AND THE GLOBALIZING FORCES OF THE 21ST CENTURY

Director General, NIPSS,
Participants of the Senior Executive Course No. 25
Distinguish Lecturers and Staff,
Ladies and Gentlemen,

SECTION 1

1. Introduction

1.1 It is my honour and priviledge to address you once again on another important topic "Central Bank and the Globalizing Forces Of the 21st Century". Let me note at the onset that the closing decades of the twentieth century witnessed a world that has become spatially smaller as a result of globalisation, propelled by tremendous advances in science, and communication and information technology. Such advances as the internet have shortened the time and distance for production and distribution of goods and services. Thus, national borders have become less of a hinderance in international trade and financial transactions. These have also brought about lower transaction costs across businesses and new challenges for central banks.

1.2 Although many countries are at various stages of development, no country can ignore the significant changes in the world economy, which have been characterised by competitive pressures, volatile financial markets and paradigm shifts in the management of national and regional economies. In particular, central banks in developing countries can no longer remain inactive as the debate is no longer on whether globalisation is good or bad, but on how best to manage this irreversible process to ensure that the benefits are widely shared and the risks kept to the barest minimum.

1.3 The interdependence of national financial and economic systems has become greater today than ever before and nations that build protective walls around their economies would be undermining their growth and development. Thus, the interaction of development in technology with deregulation has contributed substantially to reshaping the financial landscape in most countries and therefore, challenged central banks in their task of maintaining monetary and financial sector stability.

1.4 The main objective of this paper is to highlight the implications of globalisation for central banks in the process of financial sector

surveillance, monetary management and macroeconomic stabilization. The rest of the paper is divided into five sections. Financial markets and the forces of globalisation are discussed in section two. Section three discusses the role of the central bank in a globalised environment, while the experience of the Central Bank of Nigeria is discussed in Section 4 the constraints and challenges to monetary policy and management in Nigeria are discussed in section five. Section six concludes the paper.

SECTION 2

2.0 Financial Markets And The Forces Of Globalisation

2.1 Generally, globalisation can be viewed as the integration of national economies through trade, capital flows and the accompanying convergence of economic policies. Beyond the economic perspective, globalisation also includes the harmonisation of political and socio-cultural systems. However, my presentation in this paper is going to focus on the former.

2.2 Globalisation is rooted in multilateral trading and investment arrangements and the opening up of trade through liberalization of the financial sector, and the adoption of current and capital accounts liberalization. The reasoning behind the policy thrust is that the promotion of trade enriches the wealth of nations. For instance, the trade liberalization under the Uruguay Round of multilateral trade agreement of 1995 was estimated to have provided over $100 billion a year in net benefits accruing mainly to those countries that have removed trade barriers. These gains have translated to faster economic growth and improved standard of living for the citizenry.

2.3 Financial integration as a part of globalisation therefore, envisages the free flow of loanable funds. Openness of capital flows, when combined with sound domestic policies, allow countries access to a much larger pool of capital. High capital flows lead to enhanced investment and economic growth, particularly when the inflows are in foreign direct investment – as against potentially volatile short term portfolio flows. Furthermore, foreign direct investment not only complements domestic savings, but also enhances the depth and efficiency of the domestic financial market and the absorption of foreign technologies. However, the monetary and fiscal policy framework of the nation must be appropriate for the economy to benefit from financial globalisation.

2.4 Globalization is not a new phenomenon as it has progressed throughout the course of history, dating back to the late 19th century. The history was, however, chequered and the speed slowed down until the new era of global intergration, facilitated by the removal of barriers to trade and capital flows as well

as the advancement in communications and computer technologies, which have made easy the collection and processing of data needed for decision making. Consequently, the world exports of goods and services have more than tripled between 1983 and 2003. These changes have also stimulated demand for cross-border finance, against the background of financial liberalization in many countries, promoted a pool of global capital and liquidity to meet such demand.

2.5 Financial sector liberalization and product innovation have, in many countries been helped by technological advances to create a more competitive market environment for financial institutions and enhanced efficiency in financial intermediation. The regulatory authorities in many countries have liberalized rules governing the provision of financial services to allow non-bank financial institutions, including investment banks, security firms, asset managers, mutual funds, insurance companies, finance companies, lodge funds, etc to provide services similar to those traditionally provided by banks. Even within the banking industry, the demarcation between merchant and commercial banking has been removed by globalisation and competitive funds, ushering in the era of universal banking, where banks are free to curve out their niches in the market.

2.6 These developments and the attendant innovations in financial products have altered the structure of financial markets with implications for central banks in the conduct of monetary policy and surveillance activities. Some of these notable changes are highlighted below:

i. Financial intermediation has increasingly shifted from bank loans and deposits to the use of tradable securities for corporate financing.

ii. Cross-border financial activities increased as investors diversify their portfolios internationally and major borrowers gain access to international capital markets from major financial centres

iii. Non-bank financial institutions compete aggressively with banks for household savings and corporate finance, thereby, driving down the prices of financial instruments.

iv. Banks have expanded their operations outside the traditional banking areas into investment banking, asset management and even insurance business because regulatory barriers to such operations have been relaxed, thereby enabling them to diversify their earning sources and business risks.

2.7 Globalization of financial markets has no doubt increased opportunities for accessing capital funds from both domestic and foreign sources more cheaply and

on better terms. Moreover, investors can more easily diversify internationally and tailor their portfolio risks to their preferences. Thus, savings and investment which promote real economic activity and growth are encouraged. The downside to those benefits is that international capital flows could be very volatile and, thereby, pose serious threats to financial and macroeconomic stability. The surge in inflows, often results in problems of macroeconomic stability, often requiring efforts by the monetary authorities to sterilize. On the other hand, reversal of capital flows as witnessed during the Mexican crises of 1994 – 95 and the Asian and Russian crises of 1997- 98 could endanger the financial stability of the individual countries particularly where banks are weak and poorly regulated. The contagion effect could as well threaten the stability of the international financial system. There is also the risk that during a period of boom and bust, asset prices may over-shoot economic fundamentals, thereby saddling banks with non-performing loans backed by collaterals that have lost much of their value. The central bank is therefore faced with challenges and a myriad of problems in ensuring macroeconomic stability and financial sector soundness.

SECTION 3

3. Central Banking In A Globalized Financial Environment

3.1 In a globalized and dynamic financial environment shaped by technological revolution and deregulation, a central bank has responsibility to maintain price stability as well as a sound and stable financial system.

3.2 The maintenance of price stability has indeed, become the primary objective of every central bank, the world over. While, central banks are of course, not insensitive to the growth objective, they believe that it should not be stimulated at the expense of price stability, because such a stimulus would be short-lived and would imply longer-term costs. Moreover, it is important to recognize that monetary policy would exert influence on the demand side of the economic, but cannot solve structural problems that could impede output and employment growth. Nevertheless, they can contribute to sustainable output growth, as far as the risks of price stability are linked to the business cycle.

3.3 The challenge of globalisation to central banking is that technological changes and financial developments have influenced changes not only on the instruments of monetary policy but also the transmission mechanism. Consequently, the strategy for the conduct of monetary policy by the central bank has changed as evidenced in the shift from direct instruments of monetary policy to indirect tools, in the wake of financial sector deregulation. The development of e-money, e-banking and e-finance also presents a great challenge in the conduct of monetary policy. With regard to the task of ensuring banking soundness and

stability, central banks face similar challenges in their surveillance activities. Financial market developments induced by technological changes could also be associated with high risks. The adoption and effective monitoring of international prudential standards, in line with the new Basle proposals are compelling. In this regard, national authorities have to streamline their supervisory structure and procedures.

3.4 In addition, a more globalized financial market calls for a more globalized approach to banking supervision. Already, several cooperative bodies and mechanisms have been established, either in form of unilateral fora or by means of bilateral protocols between the supervisory bodies of different countries to ensure effective coordination. The role of market discipline involves forcing financial institutions to be more transparent in providing credible and reliable information to guide public decision making. Also, central banks contribute to the strengthening of the financial system by developing efficient payment and settlement systems which are facilitated by these developments.

3.5 Overall, the close connection and the convergence existing between the two goals of financial and monetary stability must be recognized in a globalized world economy.

SECTION 4

4. The Role of the Central Bank Of Nigeria h a Globalised Economic Environment

4.1 Globalisation influences the financial sector in different and complex ways. Typically, capital flows, exchange rate crises and inflationary pressures are some of the major avenues through which the impact of globalisation can be quickly transmitted into the domestic economy.

4.2 The implications of globalisation for monetary policy can be seen mainly through two channels. First, volatile short-term capital flows and exchange rate movements, which are associated with globalisation can cause an increase in the uncertainties surrounding the outcome of monetary policy. This leads to changes in market expectations. Secondly, globalisation forces policy makers to undertake structural adjustment/reforms, which change the conditions under which monetary policy is implemented. This in turn can lead to changes in monetary policy targets, strategies and instruments. It is generally believed that the more discretionary monetary and fiscal policies are constrained the more open an economy becomes.

4.3 Globalisation compels governments to exercise greater fiscal discipline and to ensure sound institutional and political frameworks. In other words, it does "act as a force for stability by limiting the scope for countries to pursue policies that are consistent with medium-term financial stability". High fiscal deficits and unsound financial policies that lead to inflationary pressures, current account deficits and/or high real interest rates, sooner or latter tend to be penalized by international investors and global capital markets. Thus, the room for fiscal rascality or unsustainable policies is much reduced in a globalized world.

4.4 Specifically, monetary and exchange rate policies have undergone changes in line with broad economic objectives. From independence and up until 1986, the conduct of monetary policy was mainly by direct control, which involved the imposition of ceilings on aggregate bank credit expansion, sectoral allocation of credit, administrative control of interest rates, prescription of cash reserve requirement, exchange rate controls and the mandatory holding of government securities. The financial market during this period was mainly underdeveloped, repressed and restricted; with a few money market instruments and, fixed and inflexible interest rates. While sectoral allocation of credit was meant to stimulate investment and growth of the productive sectors, the fixed interest rate regime was expected to provide cheap credit to the preferred sectors of the economy.

4.5 Unfortunately, these policies produced unintended consequences during the period. The huge inflows from the oil boom of the 1970s fuelled accelerated growth of monetary aggregates. Government fiscal deficits increased substantially, averaging 4.2 per cent of nominal GDP in 1975–1978. Consequently, there was macroeconomic instability as inflationary pressures mounted and real GDP growth slowed from an average of 11.2 per cent in 1970-1974 to 2.3 per cent in 1975-1979. (see table 1).

4.6 The picture in the early 1980s was not different. Indeed, the oil shock of the period worsened economic performance. The sharp fall in the spot price of Nigeria's crude oil from US$38.82 per barrel in 1980 to US$30.0 per barrel in 1983 and to a low of US$14.16 per barrel in 1986 necessitated the enactment of the Economic Stabilization Act of 1982 designed, to stem further decline of the economy. However, direct monetary and exchange rate control was retained as the policy framework. Quantitative restrictions and high tariff walls to protect infant local industries also characterized the trade regime. The outcome of the policies was disastrous. Output growth averaged –3.8 per cent between 1980-1985. Despite the stringent stabilization measures adopted in 1982, imports continued to dominate foreign trade and as a result, net non-oil export was in deficit in dollar terms up to 1985 (see table 2).

4.7 The failure of monetary and exchange rate policies to achieve the desired economic objectives under the control regime, led to the adoption of the IMF

Structural Adjustment Programme (SAP) in 1986. In particular, its major elements were the deregulation and liberalisation of the financial sector and the trade regime. Thus, 1986 marked the beginning of Nigeria's response to the globalizing forces of the 21st century – and the adoption of international best practices in macroeconomic management.

4.8 Consistent with the policy of deregulation and globalisation, the CBN adopted the policy of liberal licensing of banks in order to improve the efficiency of financial sector, and enhance financial deepening. In addition, the Bank adopted a market based interest rate regime in August 1987. This was complemented by the subsequent deregulation of the foreign exchange market. However, market failure and pressures, caused by fiscal shocks compelled the monetary authorities to reintroduce ceilings on interest rate in 1991 as a temporary measure. In October 1996, interest rates were fully deregulated. In line with market-based approach to monetary control, the CBN also introduced the Open Market Operations (OMO) and discount window operations. These have remained the dominant instruments of monetary policy in Nigeria.

4.9 Similarly, the Bank had since 1986 adopted different techniques of exchange rate management including the Dutch auction system under a dual exchange rate regime (1986-1987), the Inter-bank foreign exchange Market (IFEM) (1992), the fixed exchange rate (1993), the managed float – the Autonomous foreign exchange market (AFEM 1995), and the re-introduction of the Dutch Auction System (DAS) since 2002 to date. These changes in exchange rate management policies were as a result of unintended policy outcomes and shocks from the external sector. In addition to deregulating the exchange rate, external sector policy such as the abolition of import and export licensing were implemented in recognition of the influence of globalisation. Indeed, the virtual adoption of current account convertibility by the CBN would not have happened if Nigeria were not a major player in international trade.

4.10 In the area of fiscal policy, a major step towards globalisation had been the harmonisation of the tariff regime to some extent along the WTO principles. Nigeria has discontinued the policy of import licensing, quotas and non-tariff protection. Bold steps have also been taken towards the commercialisation and privatisation of public enterprises to encourage private ownership and to improve their efficiency.

4.11 The deregulation and liberalisation of trade and the financial sector, embarked upon in 1986 has produced positive and negative macroeconomic outcomes. Overall, financial deepening has occurred, while real output (GDP) and employment performance have remained lacklustre. GDP, grew at an annual average of 6.2 per cent in 1971-1980 and stagnated at an annual average of 3.8 per cent in the post liberalisation years of 1986 up until 2001. However, counterfactual evidence strongly suggest that economic performance would have

worsened in the absence of liberalisation. Similarly, inflation, which averaged 16.1 per cent in 1970-1985, intensified in 1986-2001 to an annual average of 26.7 per cent and reached an all time high of 72.8 in 1995 (table 1). Also, the external sector performance has remained under severe pressure since 1986, despite repeated episodes of positive terms of trade shocks. The lack of external sector viability is actually manifested in the naira exchange rate volatility.

4.12 Nigeria's trade regime has been geared towards the dismantling of trade barriers and tariff harmonisation, in line with the WTO agreements. However, it appeared that the net gains from globalisation have been disappointing relative to expectations. The terms of trade in the non-oil sector have been persistently against Nigeria in dollar terms since the 1970s. Non-oil exports earnings which rose to a peak of US $1,195.3 million in 1979 dropped to an annual average of US $409.5 million in 1981-1985 and further to US $388.7 million and US $288.5 million in 1986-1990 and 1991-2001, respectively (table 2). The ratio of non-oil exports to non-oil imports, which averaged 20.2 per cent in 1970-1980, fell to an average of 3.4 per cent in 1981-1985, and recovered sluggishly to an average of 12.1 per cent in 1986-1990. However, it fell sharply to an average of 4.1 per cent in 1991-2001. Similarly, the balance of trade deficit, which peaked at US$19,433 million in 1981 improved significantly in 1986 when it moderated to US$1,362.12. Nigeria would have remained a net importer of goods and services in the absence of the oil sector (table 2).

4.13 Data on flows of foreign private capital between Nigeria and her major trading partners show that net flow of capital has been dwindling. For example, net flow of private capital between Nigeria and the United Kingdom, the United States Of America and Western Europe stood at annual average of US$560.7 million, US$87.3 million, US $166.4 million, respectively in 1980-1985. This average dropped to US$133.4 million, US$16.8 million and US$19 .0 million in 1986-1990. In 1991-2001 the average stood at US$49.9 million, US$60.4 million and US$156.3 million, respectively (table 3). The dwindling flow of capital could be attributed to Nigeria's political instability and un-conducive macroeconomic environment particularly during the military regimes.

4.14 What is evident from the foregoing is that globalisation per se, may be a necessary but hardly a sufficient condition for the flow of foreign direct investments into Nigeria. What the theory may have failed to acknowledge is the fact that capital will naturally flow only where the socio-economic fundamentals are right.

SECTION 5

5. Constraints and Challenges to Monetary Management In Nigeria

5.1 The CBN continues to face challenges in the conduct of monetary policy, especially, since the financial sector reforms began in 1986. Some of these challenges relate to fiscal, structural, legal/institutional, infrastructure and data issues. One factor that has constrained and undermined the efficacy of monetary policy is fiscal dominance. For instance, in the recent past, monetary expansion had exceeded stipulated targets by substantial margins, due largely to fiscal expansion, arising from the monetization of revenue from crude oil sales. At such times, advice by the CBN to government urging the sterilisation of excess revenue from crude oil had been ignored under the oegis of Federal capitalism,

5.2 Indeed, some State Governments even borrowed from commercial banks to spend on non-productive ventures. Although the Bank had made some progress in eliciting cooperation from the Federal Government, it has been difficult to get the state governments to appreciate the negative impact of fiscal indiscipline on the macroeconomy. Macroeconomic instability gives rise to market distortions, inflationary pressures and exchange rate volatility. Under such conditions, the economy cannot be internationally competitive and will therefore, not be in the position to exploit the advantages of globalisation.

5.3 The structure of the banking industry in Nigeria is oligopolistic with a few banks controlling over 60 per cent of the deposit market. This in itself constrains the much needed competition and efficiency in the industry. Secondly, it constrains the effective transmission of monetary policy pulse to the real economy due to inherent distortions in the financial market. Banks constitute the wheels of commerce, thus, the role, which banks play in international trade, cannot be overemphasised.

5.4 The changing financial landscape brings with it new challenges for bank management as well as the regulatory and supervisory authorities. The major challenges stem from the need to benefit from increased cross-border transactions, resulting from drastically lower transaction costs, greater ease of communication, and increased reliance on technology to provide banking services with the necessary security. Besides, financial opening means that banks can move beyond national frontiers. For example, some Nigerian banks have started to open branches outside the country. Moreover, globalisation has brought with it new innovations in the delivery of banking services/products. It is worth noting that Nigerian banks have joined the league of e-banks; moving away from the traditional "brick and mortar" branch delivery of banking services toward electronic and tele-service delivery that is not limited by physical boundaries. Although still at their rudimentary stages, banking services such as tele-money transfers, telephone

banking, electronic money purse, internet banking and automatic teller machines (ATMs) etc, are already available in Nigeria. Such innovations as virtual financial services may be difficult to regulate. Therefore, a major challenge facing the CBN is how to rapidly increase its competence and capacity in the design of appropriate regulatory and surveillance framework to deal with the emerging scenarios.

5.5 Another challenge that faces the CBN's monetary management in a globalized financial environment is the inefficiencies that characterize our payments system. The dominance of cash in financial transactions and the high ratio of currency outside the banking system (83.0 per cent in 2002) (table 4) is particularly worrisome. Under the circumstance, the transmission mechanism of monetary policy is constrained thus making it difficult for the CBN to gauge the pulse of the financial system.

5.6 Ensuring financial sector stability is a major challenge for open financial systems. A well functioning financial sector is critical for the growth of the economy because its role in financial intermediation links it to other sectors. A large-scale failure among financial institutions will negatively affect the supply and demand for loanable funds. It is widely acknowledged that only a few developing countries have the capacity to put imported capital safely to work. The experiences of the East Asian countries and others that have witnessed financial crises arose largely from mistakes in liberalising and regulating the financial sector.

5.7 In a globalized market environment, e-banking poses various challenges to consumers of banking services, deposit money banks and the monetary authorities. A fundamental implication of globalization is that e- banking could promote money laundering. Funds transfer executed from one country to another, involving the use of e-banking services, leaves the transactors sometimes in the shade. Once a customer opens an e-banking account, it is difficult for banks to identify who is conducting a transaction or even where the transaction is taking place. Thus, Money laundering can be facilitated by e-banking because of the anonymity it affords. The anonymity afforded by e-banking and internet banking makes fraud easier both for the inside and outside perpertrators. The reliance on technology to provide services makes security of the e-banking system problematic. This imposes great responsibilities on the Central Bank to take advantage of developments in information and computer technologies to design monetary mechanisms that will ensure the efficiency and effectiveness of its surveillance activities.

5.8 To ensure that electronic fraud do not lead to bank failure, the CBN has formulated appropriate guidelines that would guarantee the security, integrity and confidentiality of transactions in the system.

SECTION 6

6. Conclusion.

6.1 The paper highlighted the forces of globalisation, merits and demerits as well as its implications on the financial sector and management of monetary policy in Nigeria. Globalisation, driven by the ever-changing advancements in information technology is expected to bring about further changes in the financial system as well as the way monetary and financial policies are conducted. Overall, the net benefit of globalisation will differ within and among countries – depending on the mix of macroeconomic policies and trade regimes being pursued by the policy markers. The age of information technology will not only bring changes in monetary policy but also influence its effectiveness. Whatever the changes and their effects, it is important for central banks to adopt strategies and policies that will minimise the unintended adverse consequences of globalisation.

6.2 In the case of Nigeria, we do not really have a choice. The only option is for Nigeria, to understand and grapple with the changes that accompany globalisation promptly and to adopt policies that will have minimize down-side risks associated with it.

6.3 Thank you for your kind attention.

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PRESS BRIEFING BY PROFESSOR CHUKWUMA C. SOLUDO, CFR, GOVERNOR OF THE CENTRAL BANK OF NIGERIA IN RESPONSE TO RECENT DEVELOPMENTS IN THE BANKING INDUSTRY

In consideration of the recent developments and performance of the financial system, and a careful analysis of the medium term outlook, the CBN, at the end of the Financial System Surveillance Committee (FSSC) Meeting held today, July 23, 2008, has decided as follows:

1. ***To postpone the requirement for the adoption of a uniform accounting year-end in the banking industry from December 2008 to*** **December 2009**. This is in response to the observed desperate behaviour of some banks in deposit mobilization and hiking interest rates at levels that cannot be justified by the fundamentals. The core (non-food) inflation rate is currently at about 3.6 percent, and both the deposit and lending rates that currently prevail in the market are not justifiable. The CBN will investigate these practices by some banks.

2. ***To introduce RESIDENT EXAMINERS' PROGRAMME (REP) with effect from January 2009***. In effect, from January 2009, the CBN will post staff to each of the banks who will monitor and supervise the activities of the banks on a daily basis and report to Head office. This is to strengthen CBN's effectiveness in the Risk Based supervision. It is designed to enhance our hands-on knowledge of the banks' operations, the complexity of their risk profile and to provide real-time and continuous evaluation of their operations.

3. ***To further reaffirm to the general public that the CBN is still receiving and processing requests for banking licenses.*** This is to correct the wrong impression that requests for banking license are no longer being entertained by the CBN. The required conditions for banking license are available on the CBN website, and any investor that meets the conditions will be issued with a banking license.

Thank you for your kind attention.

Professor Chukwuma C. Soludo, CFR

Abuja, July 23, 2008

Press Briefing by the Governor of the Central Bank, Professor Charles C. Soludo, on the Programme for Further Liberalization of the Foreign Exchange Market in Nigeria; March 27, 2006

Ladies and Gentlemen of the Press

You will recall that the Central Bank of Nigeria, on February 20, 2006 started the Wholesale Dutch Auction (WDAS) in the effort to make the foreign exchange management more efficient and more effective. The WDAS is an inter-bank foreign exchange market and it is organized around authorized dealers, and sometimes assisted by brokers, with some dealers behaving as market-makers to maintain liquid and continuous market.

An inter-bank foreign exchange market represents a form of market structure where a decentralized allocation of foreign exchange is determined by market participants. Competition in the market is fostered by ensuring that participants are free to establish buying and selling exchange rates for transactions with their customers and among themselves by providing for efficient dissemination of information on bids and offers.

From the operations of the Forex market in the past one month, it is evident that the major objective of WDAS namely, greater efficiency of the Forex market and convergence of the interbank and official exchange rate has been achieved. Both interbank and official rates have converged.

However, another key problem has arisen: the increasing divergence between the interbank/official rate and the bureau de Change/parallel market rates. While the official market has witnessed appreciation of the Naira against major currencies, the parallel/bureau de change rates have been depreciating. The behaviour of the parallel market rates is mostly as a consequence two interrelated factors: completion of the banking sector consolidation and hence the exit of the marginal banks that used to round-trip forex and increase supply to the parallel market. Thus supply to the parallel market has drastically reduced as the existing banks largely comply with the forex regulations. Second, the demand pressure in the parallel market continues to rise due to two major reasons. The existence of a long list of banned items for imports means that those insistent on smuggling these goods patronize the parallel market. Also the continued existence of series of restrictions and requirements for heavy dose of

documentation impose a constraint on those intending to use the formal market.

The current situation of more than 10 percent premium in the parallel market rates compared to the official rates is simply unacceptable. While we hope that some of the structural constraints (especially relating to the trade policy and practices) will be eliminated over time, the CBN has resolved to take some concrete steps to further liberalize the market--- to ensure greater efficiency of the market and drastic reduction in the premium between the official/interbank rates under WDAS, and the Bureau de change/parallel market rates. Our strategy is to ensure increased supply of Forex to all markets and also reduce the demand pressure in the parallel market by reviewing or eliminating many of the restrictions imposed on users of the official market. This will make many of the hitherto ineligible transactions in the official market eligible, thereby reducing the pressu re on the parallel market.

It needs to be stressed that the structure of Forex inflows into the economy is such that further liberalization is warranted and is sustainable. Currently, we have stock of reserves to meet over 30 months of imports, and increasingly the CBN is a marginal player in the market--- currently supplying less than 40 of the market. The projections of forex supply to the economy over the next few years show that we can sustain adequate supply to the market to ensure greater efficiency.

The specific details of the liberalization are as follows:

<u>The Supply Strategy</u>

- **During 2005, the CBN used the special intervention as a supply strategy to direct the exchange rate. This was to fast track the move towards inter-bank market operation which has culminated in the operation of WDAS.**

- **The WDAS as mentioned also allows the involvement of brokers provided it is handled within the inter-bank framework.**

- **Consequently, the Bureuax de-change (BDCs) operato rs are now allowed to serve as brokers with in the inter-bank frame work.**

- **The BDCs are empowered by allowing them to transact business with Authorised dealers. In other words, BDCs will be allowed to buy foreign exchange from the official market (from and through the**

commercial banks). Further details on how this will operate will be released to the market by the CBN within the next seven days.

- **The BDCs will be allowed to effect transfers of forex through their domiciliary accounts with the commercial banks**

- **Commercial banks, Travelex, Amex and other authorized dealers will be allowed to import foreign exchange and supply to the market subject to the guidelines to be released soon.**

The Demand Strategy

- **For over 20 years we have moved gradually towards deregulation of the foreign exchange market.**
- **The WDAS is a signal for liberalization of the market.**
- **The restrictions imposed on the demand for foreign exchange in the areas of eligible transactions has reduced the effective flows of capital.**

- **Now that the country is having several key fundamentals moving in the right direction, we are liberalizing the demand side of the forex market to promote greater efficiency. Consequently, regulations and prudential controls that guide the operations in the inter-bank market should not unduly restrict or impede the effective rate setting. Exchange control liberalization is often an integral part of establishing the inter-bank foreign exchange market. This is a necessary complement to the financial sector reforms and macroeconomic consolidation.**

- **Further liberalization of the forex market is as detailed below:**

FURTHER LIBERALISATION OF FOREIGN EXCHANGE POLICIES

S/N	FOREX TRANSACTION	NEW/LIBERALISED POLICY
1	BTA/PTA	100% increase in the amount of BTA to $5,000 per quarter and PTA to $4,000 per quarter, i. e. annual BTA of $20,000 and PTA of $16,000.
2	FOREIGN	The restrictive requirements of section 8 of Circular No.

	BORROWING FOR ON-LENDING	BSD/DO/CIR/VOL.I/2001/22 dated November 29, 2001 is waived; hence funds for the repayment of the loans are eligible to be sourced from the forex market subject to provision of evidence of utilization of the borrowing in Nigeria, supported with the Certificate of Capital Importation (CCI) issued at the time of inflow of the proceeds of the loan.
3	UTILIZATION OF CCI	The requirement of CBN prior approval for utilization of CCI issued by one bank and transferred to another is removed. The latter bank should utilize the CCI based on guidelines provided. (The format of CCI is to be restructured to capture the nature of capital inflows; whether for portfolio investment, foreign direct investment or others.)
4.	TRAVELS TO ECOWAS SUB-REGION	BTA and PTA to be issued in ECOWAS Travellers' Cheques in addition to other currencies.
5	FOREIGN TRADE FINANCE FACILITY	The overseas trade finance facility is a reflection of the level of confidence foreign financial institutions have in the Nigerian banking sector and so it is liberalized.
6	FOREIGN GUARANTEES/ CURRENCY DEPOSITS AS COLLATERAL FOR NAIRA LOANS	The CBN prior approval requirement is waived. However, banks are required to do due diligence on the transaction
7	SECURITIES PAYABLE IN	The use of funds in the inter-bank forex market is allowed subject to repatriation of earnings which should be credited to

	FOREIGN CURRENCY	domiciliary account.
8	MODIFICATION OF EXPORT DOMICILIARY ACCOUNT OPERATIONS	The requirement that funds deposited in exports domiciliary accounts shall be sold to the dealing bank or any other bank or be utilized only for eligible transactions subject to prescribed documentation is now liberalized. Accordingly, exporters may now sell their export proceeds to any bank, withdraw for own use, issue instructions to the bank to transfer to any beneficiary and utilize the proceeds for transactions subject to prescribed documentation requirements.
9	TRANSPORT MODE OF EXPORT	The transport mode for exports can now be executed on Free-on-Board (FOB) or Cost and Freight (CFR) basis, depending on the choice between the Nigerian exporter and the overseas importer.
10	OVERSEAS MEDICAL TREATMENT	The documentation requirements have been reduced to include only: (i) Form 'A' (ii) A valid passport and visa (iii) A letter issued by the overseas specialist doctor stating the cost of treatment, maintenance, etc.
11	SCHOOL FEES	The documentation requirements have been reviewed to include only: **A. <u>UNDERGRADUATE STUDIES</u>** (i) Form 'A' (ii) Letter of admission/course programme (iii) Current school bill

		B. <u>POST-GRADUATE STUDIES</u> Same as (i) to (iii) above plus first degree certificate or statement of result evidencing completion of first degree.

Ladies and Gentlemen of the press, I want to thank you for your time and attention.

Professor Charles C. Soludo
Governor

ADDRESS BY CHIEF (DR.) J. O. SANUSI, (CON) GOVERNOR, CENTRAL BANK OF NIGERIA ON THE OCCASION OF THE 9TH MEETING OF THE COMMITTEE OF GOVERNORS OF THE WEST AFRICAN MONETARY ZONE (WAMZ), ABUJA, NIGERIA 27TH AUGUST, 2003

His Excellency, the Executive Secretary of ECOWAS,
Fellow Governors of Central Banks,
Distinguished Delegates,
Ladies and Gentlemen.

It is my special privilege and pleasure to welcome all of you to Abuja, Nigeria's capital, for the 9th Meeting of the Committee of Governors of the West African Monetary Zone (WAMZ). I hope my fellow Governors and all other delegates had a pleasant trip to Nigeria.

We are indeed, delighted that the Governors have accorded the Central Bank of Nigeria the honour of hosting this august meeting which is taking place as part of the series of meetings preceding the Convergence Council Meeting.

On behalf of the Committee of Governors, I wish to express our gratitude and deep appreciation to our out-going Chairman Mr. M. C. Bajo, the Governor, Central Bank of the Republic of The Gambia for the excellent manner he piloted the affairs of the Committee during his tenure. I also wish to thank the Executive Secretariat of ECOWAS

for providing the venue and excellent facilities for this meeting. The Director-General of WAMI and his staff are also highly commended for the elaborate arrangements put in place to ensure the success of this meeting.

Fellow Governors, the task before us today is the continued pursuance of the main objective of the WAMZ which is to “fast track” all necessary arrangements that would lead to the effective implementation of the ECOWAS Monetary Co-operation Programme (EMCP). It would be recalled that the Accra Declaration of 20th April, 2000 signed by the Anglophone countries of ECOWAS, including Guinea, marked the path for the WAMZ. The Authorities of WAMZ committed themselves to the introduction of a single currency and the establishment of a common central bank by July 2005 for eventual merger with UEMOA countries under the aegis of the ECOWAS integration programme.

The Committee of Governors, along with other institutional bodies, has maintained the momentum which has resulted in the achievements so far recorded by the WAMZ. I urge members of the Committee to sustain the momentum to complement the political will shown towards the successful completion of the monetary integration process by the Authority of the WAMZ.

Although the Committee has been up to its onerous task, it needs to do more by supporting national authorities in the attainment of the following tasks that are germane to monetary and price stability

- the usual areas that Central Banks are often interested in. These include:

- Creating appropriate national macroeconomic environment conducive to inter-regional trade, in order to promote rapid growth of the sub-region;
- Coordinating actions towards sub-regional macro-economic stability and convergence by pursuing appropriate monetary policies and encouraging the enthronement of fiscal discipline;
- Developing efficient and reliable payment systems capable of handling the massive transactions that will evolve in the face of the intended rapid expansion of sub-regional trade;
- Developing sound financial system, with efficient money and capital markets; and
- Coordinating and harmonizing activities, especially those relating to regulation and supervision of banks and non-bank financial institutions in the sub-region.

Distinguished Governors, Ladies and Gentlemen, I have no doubt that we are all definitely committed to the WAMZ project. I therefore, urge all of us not only to participate actively in the proceedings of this meeting but also to share experiences in order to record further progress in the march towards a single currency. The major issues we are expected to consider and make recommendations to the Convergence Council include: macroeconomic developments and convergence; revised WAMZ

Exchange Rate mechanism; the revised WACB Statute; proposed study on Payments System Development in the WAMZ; and the study on Banking Supervision. I am quite optimistic that we will deal with these issues competently and professionally and that today's meeting will bring us closer to the achievement of the WAMZ's objectives.

Ladies and Gentlemen, let me conclude my remarks by urging the Director-General of WAMI and his staff to sustain the tempo of their activities in order to ensure that the West African Central Bank (WACB) becomes a reality in 2005. On our part, we shall continue to give the necessary support to the Institute and interface between it and the political authorities.

I wish you, my fellow Governors fruitful deliberations and a delightful stay in Abuja.

I thank you all for your kind attention.

KEYNOTE ADDRESS

BY

CHIEF [DR.] J. O. SANUSI, [CON]
GOVERNOR
CENTRAL BANK OF NIGERIA

DELIVERED AT THE FIFTH FINANCE CORRESPONDENTS AND BUSINESS EDITORS SEMINAR, HELD AT THE IMO CONCORDE HOTEL, OWERRI, IMO STATE, FROM 26TH – 28TH JANUARY, 2004.

KEYNOTE ADDRESS BY CHIEF (DR.) J. O. SANUSI, (CON) GOVERNOR, CENTRAL BANK OF NIGERIA, AT THE FIFTH FINANCE CORRESPONDENTS SEMINAR, HELD AT THE IMO CONCORDE HOTEL, OWERRI, IMO STATE, FROM 26TH - 28TH JANUARY, 2004

CBN Board members,
Deputy Governors,
Special Advisers,
Directors and Branch Controllers here present,
Fellow Staff and Colleagues,
Seminar Participants and Facilitators,
Distinguished Ladies and Gentlemen

It is my delight to address you all at this year's Seminar organised for Finance Correspondents and Business Editors in the print and electronic media. As you are all aware, this is the fifth in the series of the seminar initiated by the Central Bank of Nigeria (CBN), to enhance the understanding and analytical ability of Finance Correspondents and Business Editors on topical economic issues, particularly monetary and financial sector developments. This, to our mind, would enable them to appreciate and analyse the Bank's policies and operations better, as well as, facilitate improvement in reporting on those issues. These would help promote healthier relationship between the Bank and media practitioners.

2. It is my expectation that, by the end of the seminar, participants would be better equipped with the necessary analytical tools to interpret, report and educate the discerning public on the major roles of

the financial system in the Nigerian economy and the efforts of the regulatory authorities to ensure the soundness and stability of the system.

3. I consider the theme for this seminar, "**Financial Sector Stability: Issues and Challenges**" quite appropriate, recognizing the important role of the financial sector in promoting economic growth and development in an increasingly liberalized world economic environment. It is also timely, in the light of recent developments in the financial system and public apprehension about the health and stability of the banking system in the country.

4. It is, perhaps, useful Distinguished Ladies and Gentlemen, to briefly outline the special place of financial institutions in the economy, in order to put the theme of this seminar into proper perspective. Banks and other financial institutions are providers of liquidity and payment services and, therefore, represent an important nerve center of the economy, and the link between the real and financial sectors. In particular, they facilitate the intermediation of financial resources through the promotion of the savings and investment process, as well as, constitute the institutional framework for the conduct of monetary policy and channel for the transmission mechanism. The relationship between the level of efficiency in the financial system and overall performance of the economy is, therefore, a very strong one.

5. The goal of ensuring the soundness and stability of the financial system, generally, is of paramount importance as bank failures may undermine public confidence in the system, and force a sudden contraction of the money supply, curtail savings and investment, induce a collapse of the payments system and cause severe dislocation of the real sector. The critical role of the Central Bank, therefore, is to regulate and monitor the financial system, ensure its development, prevent financial distress and facilitate sustained growth. One thing that all central banks have in common is the promotion of financial stability as a public policy objective, which is a key factor for influencing macroeconomic performance and reducing the potential for systemic distress.

6. As you may recall, the financial sector reform policies pursued in recent years have been designed to support the basic objectives of the structural adjustment programme adopted in September 1986. In the context of the reform, the CBN has shifted from direct control to a market-based mechanism in the conduct of monetary and financial policies. The driving force for the paradigm shift has been the desire to achieve enhanced efficiency in the mobilization and utilization of resources, as well as, develop an efficient framework for monetary management. In 2001, the Universal banking scheme was introduced, following further liberalization of the financial sector. Its adoption was borne out of the need to create a more level-playing field for the financial sector operators, encourage greater efficiency through

economies of scale, and foster competition by opening up various areas of entry by banks.

7. The supervisory role of the CBN, which is aimed at promoting a safe and sound financial system, has been expanded to cover non-bank financial institutions. The Banks and Other Financial Institutions Act (BOFI) of 1991 (as amended) conferred on the Bank the power to license and supervise banks. Through the Banking Supervision, Bank Examination, and Other Financial Institutions Departments, the CBN monitors financial institutions' compliance with existing laws and regulations. Activities of all the regulatory and supervisory authorities in the Nigerian financial sector, including the CBN, the Nigeria Deposit Insurance Corporation (NDIC), the National Insurance Commission (NAICOM) and the Securities and Exchange Commission (SEC) are coordinated through the Financial Sector Regulation Coordinating Committee (FSRCC) for enhanced efficiency and effectiveness.

8. In line with international best practices, the CBN has adopted the core principles of the Basle Committee on Banking Supervision, including the Prudential Guidelines for licensed banks to promote banking soundness and financial sector stability. I am pleased to note that facilitators have been invited to elaborate on current efforts by the supervisory authorities to strengthen surveillance activities and ensure financial sector stability in the country.

9. It is important to note that, the role of market discipline is being enhanced through the enforcement of necessary disclosure requirements that ensure timely publication of credible information that would guarantee safe and sound banking practices in Nigeria.

10. Permit me, Distinguished Participants to state that, recently, the BOFIA was amended to provide additional safeguards against insider abuse and promote good corporate governance by defining the functions and responsibilities of a Director and stipulating the procedures for lending to him and other related parties. The Bank has also adopted the code of good practices in monetary and financial policies, the international standards on auditing and is moving towards the full adoption of International Accounting Standards. The CBN is also making strides in implementing the recommendations of the Financial Action Task Force (FATF) to combat money laundering and advance fee fraud. The sustenance of these regulatory efforts is critical to ensuring a strong and stable financial sector capable of meeting the challenges of the 21st century within a globalized financial market and instruments.

11. Distinguished Ladies and Gentlemen, you will recall the distress situation in the financial sector in the early 1990s, which led to the ultimate liquidation of 26 banks on January 16, 1996, and its negative effect on public confidence in the system. There is the need for protecting the central role of the banking system and guarding against the negative externalities associated with bank failures, especially when

such failures are widespread. The supervisory authorities have accordingly adopted a robust framework of prudential regulation and supervisory practices, as well as, various distress resolution options that safeguard the system from widespread failures. In this context, problem banks are encouraged to promptly correct deviations from sound banking practices and failing banks are made to exit before they infect the system.

12. Indeed, the objective of supervisors is not to keep every problem bank alive at all cost, but rather to initiate an early, orderly and efficient exit of any bank that becomes severely under-capitalized. In this regard, I wish to dispel the distress rumour which made the round in recent times, following the suspension of some banks from the clearing system because of their unsustainably overdrawn accounts with the CBN. The banking system was not in crisis; in fact an analysis of relevant measurement criteria reveals that the banking system is enjoying relative calm and stability.

13. At this juncture, let me state that the maintenance of financial sector stability is complementary to the pursuit of monetary and price stability and, therefore, poses major challenges to central banks all over the world. Just as the causes of banking crises are multi-dimensional, so also are the strategies to avoid crises and ensure stability. They involve sound macroeconomic policy, effective conduct of regulation and supervision, creation of appropriate incentive/penalties structures, the development of market discipline as well as good corporate governance

and efficient management of financial institutions. It is a prime responsibility for central banks to contain financial crises, but the central bank is not the only body with financial stability responsibilities. Finance ministries share the role, so do other regulatory institutions, as well as, financial institutions themselves, as operators.

14. The CBN will sustain efforts at enhancing surveillance of the financial sector and also ensure that the operators play according to the rules of the game, through appropriate supervisory intervention and the encouragement of self-regulation in the financial services industry.

15. Given that financial institutions are at the heart of a market economy, it is therefore imperative that participants understand the issues involved in financial sector stability. With the formidable team of experts assembled here to share their knowledge and expertise on the salient issues relating to this important topic, I urge you to pay serious attention to the deliberations and to ask questions that will contribute to financial sector stability in Nigeria.

16. Once again, Distinguished Ladies and Gentlemen, I welcome you all to this seminar and wish you fruitful deliberations.

17. Finally, it is, therefore, my honour and privilege to declare the seminar open.

18. Thank you for your kind attention.

CHIEF (DR.) JOSEPH O. SANUSI (CON)
GOVERNOR
CENTRAL BANK OF NIGERIA

JANUARY 26, 2004

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THE UNFINISHED REVOLUTION IN THE BANKING SYSTEM

By

Professor Chukwuma C. Soludo, CFR

Being Presentation at the University of Agriculture, Abeokuta, Ogun State

18th March 2008

Outline

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I. Introduction
II. The Banking Sector Of Yesterday
III. The Revolution: Vision, Agenda and Strategy
IV. We Have Come A Long Way: Outcomes
V. The Unfinished Business

I. Introduction….

3

Finance Plays Key Role In Economic Growth:

- There is a substantial body of literature on the link between finance sector development (FSD), and economic growth and poverty reduction (King and Levine, 1993), (Levine and Zervos, 1998), (Rajan and Zingales, 1998) and (Levine, Loayza and Beck, 1999).
- Calomiris and Mason (2003) estimated an elasticity of real income growth to bank loan supply growth of 45% where a one standard deviation decrease in loan growth over three years (17.9%) reduces output growth over three years by about 7 percentage points.
- Strong correlation between output and credit.

I. Introduction….

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Rationale For Developing The Banking System

- Mobilization of deposits and intermediation – Redistribution of funds from surplus spending units to deficit spending units.
- Implementation of monetary policy – channel through which monetary impulses are transmitted to the real economy.
- Funding of infrastructural development.
- Improvement in the payment system
- Employment generation.
- Financing Investment in the real Sector
- Facilitate Trade Financing

I. Introduction....

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- Banking sector as the financial system in Nigeria
  - Banks have been the main sources of financing in the Nigerian financial market.
  - Bank loans were the predominant sources of debt financing in the economy

II. The Banking Sector Of Yesterday....

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- The statutory capitalisation requirement for Nigerian banks was N1 billion expected to rise to N2 billion by end of 2005.
- Total capitalisation of all Nigerian banks stood at N293 million, which was just the size of the No. 4 in South Africa
- No Nigerian bank could finance major transactions in the growing oil & gas and telecom sectors
- No Nigerian bank was in the top 1000 in the world

II. The Banking Sector Of Yesterday....

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- Prior to 2004, the Nigerian banking system could not deliver on its defined roles and was characterized by:
  - -Low aggregate banking credit to the domestic economy (18.4% as percentage of GDP)
  - -Systemic crisis – Banks were frequently out of clearing
  - -Inadequate capital base
  - -Oligopolistic structure -10 (out of 89) banks accounted for over 50% of total banking system asset
  - -Poor corporate governance
  - -Low banking/population density - 1:30,432
  - -Payment system that encouraged cash-based transactions
- ***Clearly, Nigeria's banking system was ill-suited for the task at hand***

II. The Banking Sector Of Yesterday...

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- The choice was between the 'evolutionary' and 'revolutionary' approaches to banking reforms
  - The ground to cover was just too large for the evolutionary approach
  - The potential losers in the impending reform had the capacity to scuttle a long drawn out reform programme
  - Previous attempts at the evolutionary approach did not yield much results

III. The Revolution: Vision, Agenda & Strategy

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The Vision:

- To implement a revolutionary transformation of the banking system to achieve the following objectives:
  - Establish a banking system that will rapidly drive Nigeria's economic growth and development
  - Integrate the Nigerian banking system into the global financial system
  - Target at least one Nigerian bank in the top 100 banks in the world within the next 10 years
  - In the long term make Nigeria Africa's financial hub
  - To create a new CBN for the 21st century that is best managed and most effective

III. The Revolution:

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The 13-point Reform Agenda

- Announced on 6th July, 2004 with the key elements as follows:
- Minimum capitalisation raised to N25 billion on or before end of December 2005
- Consolidation of banks through mergers and acquisition
- Adoption of a risk-focused and rule-based regulatory framework
- Adoption of zero-tolerance in the regulatory framework, especially in the area of data/information rendition and reporting
- The automation of the process of rendering returns by banks and other financial institutions through the e-FASS
- Strict enforcement of the contingency planning framework for systemic banking distress

III. The Revolution:

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The 13-point Reform Agenda (Action Steps)

- CBN took some actions for success of the consolidation programme and these included the following:
- Issuance of guidelines and incentives to banks to guide and encourage implementation
- Establishment of the Technical Advisory Committee on Banking Sector Consolidation
- Establishment of a help desk at the CBN office in Lagos
- Establishment of a Banking Consolidation Implementation Committee
- Collaboration with SEC, CAC, FIRS and other relevant government agencies
- Issuance of the procedure manual and circular on consolidation timeframe and returns

III. The Revolution:

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The 13-point Reform Agenda (Action Steps)

- Debt forbearance for some banks to make them attractive for merger/acquisition
- Technical support from the IMF and other international agencies
- Capital verification to ensure that no illicit or borrowed funds from the banking sector were used to finance the purchase of bank shares
- Interactive meetings with banks to ascertain the progress made
- Establishment of the Consultative Committee on Banking Sector Reform at the highest level to monitor implementation of reform

III. The Revolution.....

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- There were complementary reforms which followed the 13-point agenda
  - Exchange rate policy – Liberalisation of the foreign exchange market
  - Currency restructuring – Issue N1,000 notes and lower denominations
  - Payment system reforms
  - Corporate governance – strengthened across the industry

III. The Revolution:

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The Strategy

- Shock Therapy – Big Bang Approach to engineer a new equilibrium
- Size matters in banking
  - It helps eliminate 'marginal' banking
  - It protects against shocks and volatility
  - Raises size of single obligor limit
  - Ushers in new competition – locally and globally

IV. We Have Come A Long Way: Outcomes

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Nigerian Banking Sector

- Asset Base grew by approx. 277% between 2003 and 2007
- 11 banks with over $1 billion in Tier 1 capital, by end February, 2008.
- Microfinance Banks – 716 already licensed. More banks on the way
- Branch Expansion – 16 in Africa and 7 beyond Africa
- Share of Banks in NSE rose from 30% of the 20 capitalised stocks in the stock market in 2003 to 65% 2007%
- Fitch Rating:
  - Banking System Indicator (BSI) - 2 countries rated same as Nigeria and 2 below Nigeria
  - Macro-Prudential Indicator (MPI) – 4 countries rated same as Nigeria

IV. Outcomes.....

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- Nigeria was recently rated BSI 'D' and MPI '1' along with Morocco & Benin; Morocco and Nigeria are new entrants on the Bank Systemic Risk Report by Fitch Ratings.
- The assessment period for MPI under the current rating is 2004-2006, though 2007 developments were also considered.
- BSI – based on current bank individual Ratings, both published and unpublished for systemically important non-rated banks
- Four other African countries – Egypt, Tunisia, Benin and South Africa – have been on the rating list by Fitch before now.
- South Africa ranked BSI "B" along side most of the developed countries e.g. Canada, Germany, Japan, and France, and rated MPI "3" along with Canada, Korea and Iceland.
- The Challenge for Nigeria, now under Fitch Rating, is to improve on both MPI and BSI parameters over the next 3-5 years. This is consistent with VISION 2010

IV. Outcomes….

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BSI AND MPI RATED AFRICAN COUNTRIES			
Banking System Indicator (BSI)	Macro-Prudential Indicator (MPI)		
	1	2	3
B			SOUTH AFRICA
D	BENIN		
D	MOROCCO		
D	NIGERIA		
E	EGYPT		
E	TUNISIA		

Source: Fitch Ratings: Bank Systemic Risk Report, September 2007

IV. Outcomes…

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Real Effective Exchange Rate Index (2000=100)						
COUNTRY	2002	2003	2004	2005	2006	2007
BENIN	108.6	113.1	116.0	118.9	121.9	121.9
EGYPT	83.4	69.1	56.7	61.5	64.5	67.6
MOROCCO	95.6	94.6	93.5	91.8	91.8	91.8
NIGERIA	111.0	105.0	107.8	123.8	133.6	137.6
TUNISIA	97.4	92.5	89.4	84.7	82.0	81.0
SOUTH AFRICA	73.9	97.3	107.6	108.5	104.2	97.0

Source: Fitch Ratings: Bank Systemic Risk Report, September 2007

IV. Outcomes…

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	2003	2004	2005	2006	2007	2008*
Average Time Deposit Interest Rate (%)						
One Month	13.72	11.76	9.14	9.99	10.18	9.83
Three Months	14.79	12.80	9.10	10.25	10.29	10.19
Six Months	13.75	11.65	8.72	9.93	9.53	10.03
Twelve Months	13.52	12.71	8.77	7.45	7.92	9.80
Over Twelve Months	12.26	10.67	6.13	8.53	9.67	9.62
Lending Rates (%) – Prime	19.58	18.91	17.78	17.33	16.46	16.48
Maximum	21.61	20.42	19.54	18.66	18.21	18.24
Inflation Rate (%) – Year on Year						
Headline	23.80	10.00	11.60	8.50	6.60	7.70
Core	34.80	5.90	2.40	17.30	3.60	5.70

* Estimate (January 2008)

IV. Outcomes…

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WHY ARE LENDING RATES STILL "HIGH"?

- Cost of funds for banks still high (See Deposit Rates)
- In a risky business environment, banks price risks differently for different borrowers
- Uncertainty about future inflationary trends
- Poor Infrastructure means that banks' operating costs are very high
- High overhead costs for banks - emoluments
- Financing of budget deficits – crowds out the private sector

IV. Outcomes….

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Sectoral Share in Total Real GDP (%)					
Sectors	2003	2004	2005	2006	2007
Agriculture	41.01	40.98	41.19	41.72	42.21
Min. & Quarry	0.25	0.26	0.27	0.28	0.29
Manufacturing	3.57	3.68	3.79	3.91	4.04
Communication	1.06	1.27	1.53	1.91	2.38
Oil & Gas	26.53	25.72	24.26	21.85	19.38
Others	27.58	28.09	30.84	34.25	38.09

IV. Outcomes….

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Sectoral Share in Total Real GDP and in Private Sector Credit					
Sectors	2003	2004	2005	2006	2007
Agriculture	41.01 (5.16)	40.98 (4.46)	41.19 (2.44)	41.72 (1.96)	42.21 (3.11)
Min. & Quarry	0.25 (7.98)	0.26 (8.63)	0.27 (8.66)	0.28 (9.96)	0.29 (10.19)
Manufacturing	3.57 (24.46)	3.68 (21.86)	3.79 (17.68)	3.91 (17.66)	4.04 (10.13)
Communication	1.06 (24.41)	1.27 (25.19)	1.53 (18.87)	1.91 (19.82)	2.38 (24.06)
Oil & Gas	26.53 (19.05)	25.72 (18.27)	24.26 (21.67)	21.85 (23.23)	19.38 (26.32)
Others e.g Trade, Services, Tourism, etc	27.58 (18.94)	28.09 (21.59)	30.84 (30.68)	34.25 (27.37)	38.09 (26.19)

Note: Figures in parenthesis are share of credit to the private sector (%)

IV. Outcomes…

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Banking System: Key Facts (Data for 2006 - 2007)				
COUNTRY	Non Performing Loan Ratio (%)	Risk weighted capital ratio (%)	Public Ownership as % Assets	Foreign Ownership as % Assets
BENIN	12	8	90	n.a
EGYPT	20	10	58	14
MOROCCO	16	12	24	16
NIGERIA	32	25	5	9
TUNISIA	19	12	42	26
SOUTH AFRICA	2	13	0	30

Source: Fitch Ratings: Bank Systemic Risk Report, September 2007

IV. Outcomes….

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DMBs' Credit to SMEs As Percent of Total Credit			
Year	Credit to SMEs (N'Bn)	DMB Total Credit (N'Bn)	Credit to SMEs as % of DMBs Total Credit (%)
2003	38.51	1,203.20	3.20
2004	26.31	1,519.24	1.73
2005	66.28	1,991.15	3.33
2006	134.68	2,524.30	5.34
2007	203.58	4,813.49	4.23

IV. Outcomes….

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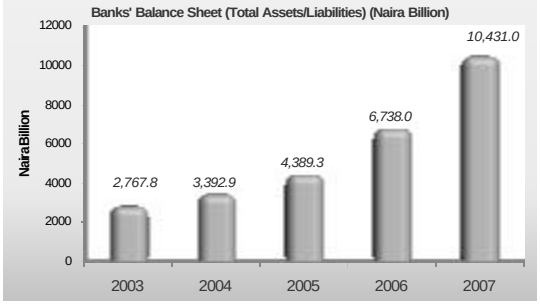

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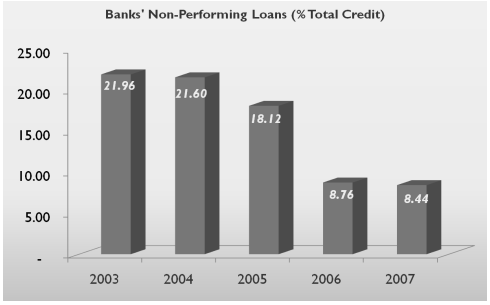

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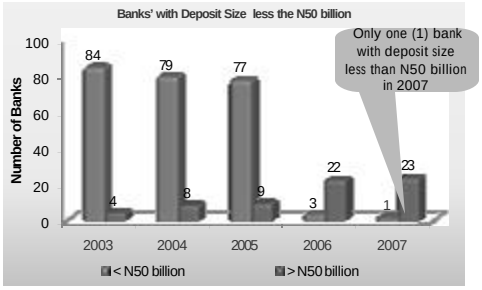

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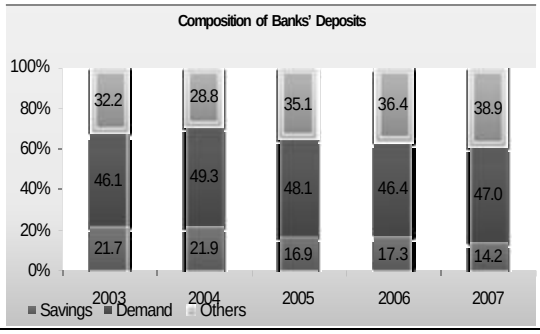

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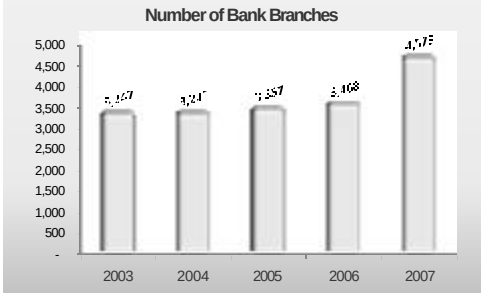

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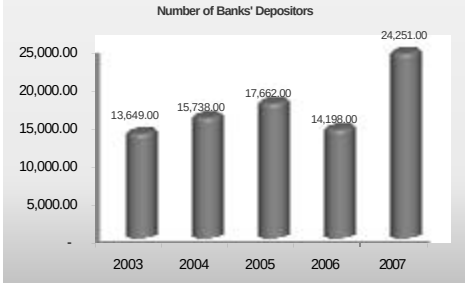

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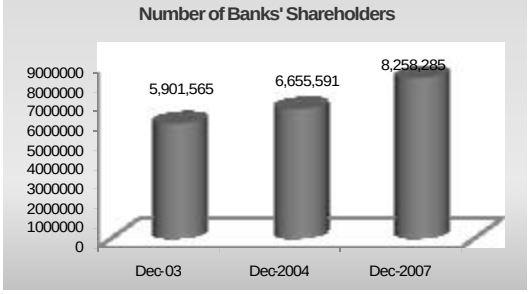

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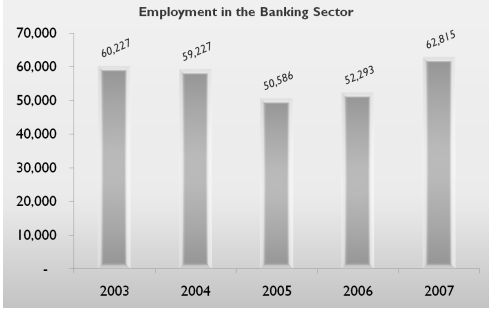

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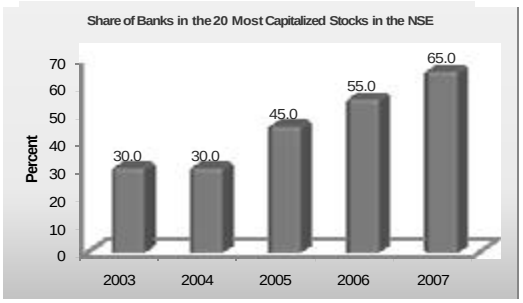

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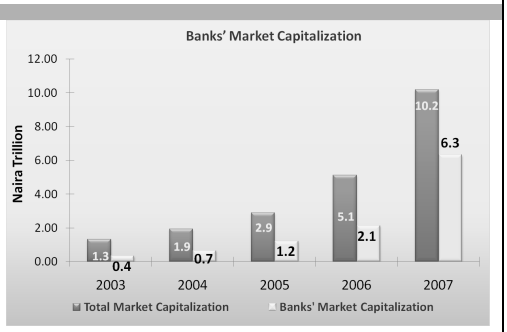

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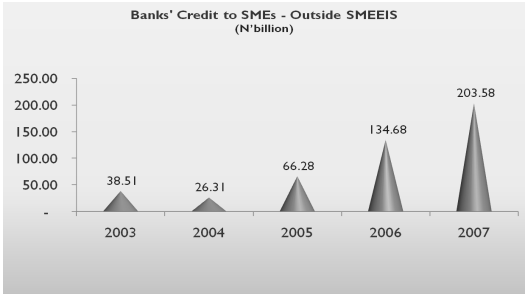

IV. Outcomes….

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Other Indicators of Financial Deepening

Year	M2/GDP Ratio (%)	CIC/M2 Ratio (%)	COB/M2 Ratio (%)	CIC/GDP Ratio (%)	CIC/Non-oil GDP Ratio (%)	COB/GDP Ratio (%)	COB/Non-oil GDP Ratio (%)
2003	20.0	25.3	20.8	5.1	8.7	4.2	7.1
2004	19.8	24.1	20.3	4.8	7.6	4.0	6.4
2005	19.3	22.8	20.0	4.4	7.2	3.9	6.3
2006	19.8	21.2	18.8	4.2	6.7	3.7	6.0
2007	21.0	20.0	15.2	4.2	6.1	3.2	4.6

M2 is broad money stock (end period)

GDP at current basic prices.

CIC is Currency in Circulation (end period)

COB is Currency Outside Banks (end period)

V. The Unfinished Business

37

Managing macro vulnerability and volatility

- With open markets and globalisation, the Nigerian economy is susceptible to incidents in the international financial markets
- Nigeria faces the risk of real exchange rate overvaluation which needs close monitoring
- Hot money (portfolio) flows can cause shocks and need close attention as foreign portfolio investors seek out profit opportunities in the Nigerian market

V. The Unfinished Business....

38

- Enforcing CBN's renewed mandate
- The five principal objects of the new CBN Act 2007 are:
  - 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
  - Act as banker and provide economic and financial advice to the Federal Government

V. The Unfinished Business...

39

CBN's Mandate:

- Keep the CBN more focused on macroeconomic policy with inflation fighting as its primary concern - *(Without low & stable inflation, financial deepening will not occur and single digit interest rate will not be sustainable)*
- Outsource non-core functions like facility management, currency processing and distribution, transportation, health, printing etc
- Keep reinventing the institution and its people *(skills training)* to meet the challenges ahead – Project EAGLES 2 -ERP, Temenos 24, eFASS, IDMS,

V. The Unfinished Business...

40

- Revamping the payment system
  - Real Time Gross Settlement System (RTGS) and improving the overall clearing system (NACS)
  - Boosting electronic banking
  - More efficient use of the cheque for payment
  - Improving the collection system for government funds and revenues
- Financial Deepening:
  - Credit to GDP ratio still at a paltry 31%
  - Deposit mobilisation
  - Building institutions to improve efficiency of credit market
    - Credit Bureaux
    - National identification
    - Commercial courts and legal reforms

V. The Unfinished Business...

41

CBN's Mandate:

- New emphasis on risk-based supervision
  - Greater emphasis on CBN's use of discretion and judgement as opposed to rigid rule-based regulatory framework
  - Strict corporate governance regime
  - International benchmarking of supervisory oversight activities
  - Supervision of the international subordinates of Nigerian banks
  - Implementing Basel II provisions

V. The Unfinished Business...

42

CBN's Mandate:

- Branch expansion to all states of the Federation (with the objective of banking services to all). First with currency centres and full-fledged branches following

V. The Unfinished Business...

43

Challenge of Currency Issuance and the Mint

- CBN took over the Mint in 2005 with results so far encouraging, but challenges exist:
  - Increasing production level and avoiding import of currency. Using spare capacity for other countries
  - Keeping the Mint debt-free
  - Keeping cost of production low
  - Determining an appropriate future for the Mint

V. The Unfinished Business....

44

- The FSS2020 Programme
  - There is need for an integrated, holistic and consistent approach to the reforms and developments in the financial system.
  - All stakeholders in the financial system are involved in crafting and implementing a new road map for the Nigerian economy

V. The Unfinished Business

45

- The FSS 2020 Programme
  - There are 400 initiatives some of which include:
    - Making Nigeria Africa's financial hub
    - Creating an International Financial Centre
    - Unleashing the mortgage revolution
    - Boosting Pension (with the Defined Contribution, N800 billion already generated in pension assets)
    - Reforming Insurance – ongoing reforms in line with banking
    - Deepening the capital market – capitalisation is growing rapidly (currently N12.4 trillion up from N300 billion in 1999)

V. The Unfinished Business...

46

- FSS 2020 Initiatives
  - Creating a consumer finance market
  - Establishing credit bureaux and ensuring there is greater credit to the private sector
  - Initiating Legal reforms in various areas, which include:
    - Commercial Courts
    - BOFIA
    - Electronic banking
    - Land laws
    - Property rights

V. The Unfinished Business...

47

Foreign participation in Nigeria's banking

- Foreign capital inflows (FDI and portfolio) have grown significantly. Annual capital importation which by end of 2003 stood at $433 million grew to $9.6 billion by end of 2007, up 137% from the 2006 annual inflow
- More foreign (commercial and investment) banks desire to operate in Nigeria and actually acquire existing banks
- There is need for orderly entry for the sake of Nigeria's economic and security interest

V. The Unfinished Business...

48

Mainstreaming microfinance

- There is the challenge of ensuring that all Nigerians are carried along and no one is left behind in the New Economy
- The new microfinance bank policy along with the launch of the N50 billion microcredit fund completes the primary loop for banking services – DMBs, NEXIM, BOI, NACRDB microfinance banks (with the deposits now insured), bureaux de change, mortgage banks,

V. The Unfinished Business...

49

- Addressing skill shortages
  - The world is now a knowledge society and skills are required for survival and success (Education, education, education)
  - Nigeria's education system is in a major crisis
  - Only 10% of potential entrants secure admission due to limited spaces
  - 60% of its graduates are unemployable
  - Graduate unemployment is unacceptably high

V. The Unfinished Business...

50

Creating a world class banking system

- The outstanding issues of settling the issues of deposits in failed banks
- Settling the outstanding Purchase & Assumption (P & A) issues
- Encouraging market-determined combinations and alliances

V. The Unfinished Business...

51

Management of foreign reserves

- Safeguarding and optimising the value of the reserves
- Using the reserves to boost local fund management and investment banking skills (through strategic partnerships)
- Diversification away from the Dollar?
- Time for Sovereign Wealth Funds?

V. The Unfinished Business...

52

Monetary Policy Management:

- Strengthened Monetary Policy Committee as intended under the CBN Act 2007
- Determining optimal ways of achieving liquidity management objectives. Current methods cost nearly N100 billion per annum
- Establishing a sustainable environment for market determined (exchange and interest) rates

V. The Unfinished Business....

53

Naira and the West African Monetary Zone

- An acceptable road map must be agreed upon towards a common West African currency. Issues to consider include:
  - How to create awareness for the Eco through healthy debates
  - Timing for the implementation of the Eco
  - Logistics and cost of implementation

V. The Unfinished Business…

54

- Consumer Credit not developed
- Provide financial support to industry in order to expand local productive capacity
- Introduce new products and services, and expand the scope of existing ones to support the local market
- Revolutionize critical support areas like credit and payments system to deepen the financial system
- The challenge of Infrastructure:
  - The cost of doing (banking) business is still relatively high due to poor infrastructure
  - Good infrastructure ultimately helps reduce interest rates also

V. The Unfinished Business…

55

- Shortage of qualified and experienced manpower
- Poor corporate governance and risk management framework in an era where the regulator has become stricter
- Risk- averse operator, regulator–led market
- Total credit as % of Non–Oil GDP just about 31%
- Total credit to SME about 4.2 % of total
- Low savings rate
- Formal banking only covers about 40% of the bankable public
- Mortgage system largely absent – Land/Legal Reforms

Conclusion

56

- The CBN will continue to play its primary role of formulating and implementing the right financial regulations, supervision of financial institutions and ensuring an efficient payment system
- The involvement of all and sundry is required to ensure that the unfinished revolution in the banking sector is concluded to the benefit of all Nigerians

Thank You For Your Attention

A VALEDICTORY SPEECH BY CHIEF (DR.) J. O. SANUSI, GOVERNOR, CENTRAL BANK OF NIGERIA, AT THE EXTRA-ORDINARY MEETING OF THE BANKERS' COMMITTEE, MAY 25, 2004.

The President, the Chartered Institute of
Bankers of Nigeria
My Colleagues from the CBN and CIBN,
The Chief Executive Officers of Banks and
Other Financial Institutions,
Distinguished Ladies and Gentlemen.

I feel greatly honoured to address you on this auspicious occasion, marking my exit from the Central Bank of Nigeria as Governor and Chairman of the Bankers' Committee. Let me use this opportunity to join you all in welcoming Mr. S. E. Kolawole as the new CIBN President, and bidding Mazi O.C.K. Unegbu farewell and congratulate him on the successful completion of his tenure as CIBN President.

2. You may recall that barely five years ago in this same auditorium, I had the privilege of making an inaugural speech as the incoming Chairman of this Committee when I outlined my vision for the financial system and called for your cooperation. I should, therefore, begin this address by expressing my profound and sincere appreciation to all members for the support and cooperation given to me during my tenure.

3. Ladies and Gentlemen, on my assumption of office as the CBN Governor and Chairman of this important Committee in 1999, I emphasized that we had a joint responsibility not only for the promotion of a sound, efficient and stable financial system, but also the revitalization of our ailing economy towards the path of sustainable growth and development. This occasion provides a unique opportunity to assess our performance, during the past five years in, meeting those laudable objectives.

4. Despite some encouraging developments, particularly the inflation rate, albeit induced by the lull and inactivity in the economy when this

management team assumed duty in June 1999, there were serious institutional problems that continued to render efficient management of the Nigerian economy very difficult. In particular, the financial sector was beset with problems that were capable of precipitating generalized distress and loss of public confidence in the system, increasing the inefficiency of the payments system, and aggravating the problem of excess liquidity in the banking system.

5. Recognising the central role of the financial sector, particularly the banking system, in a market economy, I underlined the urgent need for embarking on financial sector reform as well as the imperative of promoting the efficiency, soundness and stability of the banking system, without which the conduct of effective monetary policy would be impossible.

6. Against the background of my exhortation, I would like to acknowledge, with profound gratitude, the invaluable contributions of this august Committee to whatever may be ascribed as our achievements. As a matter of deliberate policy, the Bankers' Committee was deeply involved in the policy making process, through regular consultations, open-house discussions and regular submission of memoranda on major monetary and financial policy issues before final decisions which, of course, our responsibility and prerogative.

7. In pursuit of our reform agenda, my management team, at its inception, took bold initiatives to restructure and re-engineer the CBN operations and processes with renewed commitment and focus on prompt and efficient service delivery to major stakeholders to promote economic efficiency, growth and development. The implementation of the restructuring/re-engineering programme, code-named Project EAGLES, has been sustained over the period, with tremendous success. Now in the third and final stage of its implementation, we have realized a number of successes, which have enhanced our efficiency and effectiveness in the discharge of our mandate.

Price and Exchange Rate Stability

8. Despite the constraints imposed on the effective conduct of monetary policy, by fiscal dominance and a slut of other exogenous factors, relative price and exchange rate stability has generally been maintained over the review period. We relied on the leverage provided by the instrument

autonomy granted the Bank in 1998 in taking prompt and courageous policy decisions to deal with critical challenges to macroeconomic management. You may recall that, in February 2001, I drew public attention to the likely adverse macroeconomic consequences of the State and Local Governments' reluctance to heed my warning against the immediate use of their shares of the Excess Crude Reserve Account, stressing the importance of macroeconomic stability and the need to save for the rainy day and recognize the limit of the absorptive capacity of the economy. As predicted, the draw-down of the account resulted in excessive growth of money supply, which fueled the inflation rate to double digits and substantial depreciation of the naira.

9. The consequent sustained tightening of monetary policy that involved the issuance of CBN's own intervention security (CBN Certificate) in 2001, among other measures, succeeded in subduing inflation to an acceptable level until its resurgence in September, 2003. Also, the Dutch Auction System of exchange rate determination was re-introduced in July 2002 to achieve a realistic exchange rate of the naira and reduce the persistent demand pressure on the foreign exchange market. The effect was salutory in enhancing the allocative efficiency of the foreign exchange market and in reducing the unacceptably wide arbitrage premium between the official and bureaux-de-change/parallel market exchange rates from over 21 percent in May 2001 to less than 5 percent, currently. The DAS policy is constantly being reviewed to ensure its continued relevance.

Ensuring Banking Soundness

10. Realizing that the soundness and stability of the financial system depend largely on the efficiency and effectiveness of the supervisory process, the regulatory framework and supervisory capacity of the CBN were strengthened to enhance the effectiveness of the Bank's surveillance activities. In the process, the operating licenses of a few terminally distressed banks were withdrawn, while penalties, including suspension from foreign exchange dealership were imposed on a number of other banks that were found guilty of foreign exchange malpractices and unethical behaviour.

11. Following the adoption of universal banking system in 2000, the CBN redefined banking business in Nigeria and granted uniform licence to all banking institutions. Thus, the distinction between commercial and

merchant banks was removed and banks became free to undertake, in addition to traditional banking, capital market activities and insurance marketing services directly or through subsidiaries. This act unleashed the latent capacity and potentials of some banks, which up to that point had operated as merchant banks. Consequently, they grew rapidly, thus enhancing the competitiveness of the banking industry. With the adoption of universal banking, however, the CBN faced new regulatory and supervisory challenges that required capacity building in the areas of both manpower and infrastructural development, which are being effectively addressed.

12. Cognizant of the need to protect the central role of the banking system and guard against the negative externalities associated with bank failures, especially when such failures become wide-spread, the CBN introduced various safeguards to foster good internal governance and protect the banking system. Accordingly, the framework on Contingency Planning for Banking System Crisis for the Nigerian banking system was adopted in 2002, in line with best practices in other jurisdictions for the prevention, management and containment of banking system crisis. Its implementation would enable the supervisory authorities to reduce the incidence of systemic distress through the sharpening of supervisory processes, including self-regulation among the banks and lowering the cost of crisis resolution by ensuring that liquidation comes only as the ultimate resolution option for a bank that is terminally distressed and, more importantly, that when the ultimate option becomes inevitable that the CBN acts decisively to protect the interest of the depositors and stop possible contagion.

13. The Sub-committee of the Bankers' Committee on Ethics and Professionalism was set up in 2001 to address the problem of unethical and unprofessional practices that had become the bane of the Nigerian banking industry. The issuing of Code of Ethics and Professionalism in the Banking and Financial Services Industry by the Sub-Committee was a demonstration of the priority attention that has been accorded to the sanitization of the banking industry. The Sub-committee has been doing a wonderful job and I must specifically thank the members for their immeasurable contribution.

14. Recognizing that there is no single factor that contributes more to institutional failure than the lack of good corporate governance the CBN has, in recent times, placed increased emphasis on the enthronement of good corporate governance in the financial sector. A corporate governance code

has consequently been issued to ensure the establishment of good corporate governance.

15. Despite these initiatives, the CBN efforts toward ensuring a safe, sound and stable banking system are constrained by legal and institutional rigidities. For example, a few banks that are good candidates for merger/acquisition or outright liquidation cannot be decisively dealt with because the legal and institutional frameworks for such actions are weak and porous. In particular, revocation of licence had triggered protracted law suits that virtually frustrated the regulatory efforts of the CBN to effectively protect the interest of the depositors. The best practices in most other countries is that failing banks are made to exit the system before their capital is completely eroded and before they could infest other banks with distress. Ideally, when a bank becomes severely under-capitalized, the regulatory authorities should initiate its early, orderly and efficient exit before the health of other banks, that are otherwise sound, could be jeopardized. Only by so doing can the regulatory authorities, in case of ultimate failure, minimize the loss of bank creditors, sustain depositors' confidence in the system, reduce claims on deposit insurance and maintain the soundness of the banking system as a whole.

16. We, of course, know that the supervisory authorities cannot single-handedly do all these. The Government needs to put in place proper banking and financial legislation that empowers the supervisory authorities to enforce prudential regulations. The establishment of the EFCC is in the right direction and we hope for effective performance of its functions.

Enhancing the Efficiency of the Payments System

17. Towards enhancing the efficiency of our payments system, the CBN embarked on currency restructuring, involving the introduction of higher currency denomination, comprising ₦100 note in December 1999, ₦200 note in November 2000 and ₦500 note in April, 2001. Arrangements for the coinage of ₦5 and ₦10 notes and the introduction of ₦1000 notes, already approved by government, are at an advanced stage of implementation. The restructuring has helped to reduce the volume of currency in circulation and thereby substantially moderate the cost of currency issue and administration. The adoption of automated cheque clearing system, which has facilitated a

considerable reduction in the number of clearing days represents another concrete action towards enhancing the efficiency of banking operations and the payments system.

18. Lately, the CBN Head Office has been linked to its Branch Offices electronically to facilitate real time inter-bank settlements. Also, a new clearing and settlement system became operational on April 1, 2004. The new scheme is designed to further enhance the efficiency of cheque clearing system in the country. The settlement system has seven settlement banks, approved to undertake the clearing of payments instruments, including cheques for the other banks, known as non-settlement banks. This should eliminate the incidence of incessant and unbridled banks' over-drawn account with the CBN for clearing purposes, and allow the CBN to truly play the role of lender of last resort. The reform of the payments system is on-going. Already, the guidelines for the introduction of e-banking that will encourage the use of electronic payments instrument are being issued.

Development Function

19. Without compromising the pursuit of its primary mandate to maintain price and exchange rate stability, the CBN has supported various initiatives designed to strengthen the growth performance of the economy and promote the diversification of its productive base. Specifically, the following schemes were adopted to facilitate development financing in the country:

(i) Agricultural Credit Guarantee Scheme Fund (ACGSF)

20. Existing efforts to promote the development of the agricultural sector were further strengthened. In this regard, the ACGSF Fund was raised from ₦100 million in 1998 to ₦1.0 billion in 1999 and further to ₦3.0 billion in 2001, to ensure increased access to bank credit by farmers. To enhance the impact of ACGS on the development of the agricultural sector, the Interest Drawback Programme (IDP) was developed as an interest rate management framework to assist borrowers under the guarantee scheme to reduce their effective borrowing rates without the risk of introducing discriminatory and administrative control of interest rates.

(ii) Small and Medium Industries Equity Investment Scheme (SMIEIS)

21. Under the aegis of the Bankers Committee the Small and Medium Industries Equity Investment Scheme (SMIEIS) was established to promote the development of small and medium scale industries, as an engine of growth and job creation, reminiscent of the experience of many developed countries and economies of South East Asia. Under the Scheme, all deposit money banks in the country agreed to set aside 10 per cent of their profit before tax annually, for equity investment in small and medium industries. The SMIEIS initiative, in addition to providing finance, also facilitates capacity building as banks are expected to identify, develop and package viable industrial projects, in partnership with their enterprising customers.

22. Despite its initial slow take-off and the teething problems, which were not unexpected, satisfactory progress has been made in the implementation of the scheme. As at end-March 2004, a total of ₦22.3 billion had been set aside, of which ₦8.7 billion had been invested in 167 projects by 53 banks. The funds will continue to grow and, as more experience is acquired by both the banks and the entrepreneurs, and infrastructure improves, the rate of utilization will increase. I believe that it is the most successful SME programme so far designed in the country and the momentum should be maintained.

(iii) Baseline Economic Study by Universities

23. In order to facilitate accelerated utilization of the set-aside fund, the CBN commissioned 7 universities in 2003 to undertake baseline economic studies in the six geo-political zones of the country with a view to compiling a compendium of viable potential industrial projects that can easily be accessed by prospective investors in every state of the Federation. Efforts have also been made to encourage State Governors to provide industrial estates/parks and basic economic infrastructure to woo investors and attract their fair shares of the SMIEIS fund. It is my hope and prayer that this scheme will be sustained after my exit.

(iv) Development Finance Institutions

24. Finally, the Bank has participated actively in the restructuring and recapitalizing of the development banks for enhanced effectiveness. The

Bank of Industry and the Nigerian Agricultural and Rural Development have emerged to support industrial and agricultural development in Nigeria, respectively.

(v) Micro Finance Policy

25. The CBN has collaborated with the World Bank to establish Micro Finance Policy and Programme Development Committee (MFPPDC) to work out the modality for the operation of micro finance institutions in Nigeria as well as prepare the legal and the regulatory/supervisory frameworks under which they would operate efficiently. The SMIEIS has a micro component which is 10 per cent of the funds set aside under the scheme. This should serve as a base fund for the MFPPDC.

(v) Revitalising the Community Banks

26. The community banking scheme is a laudable initiative aimed at redressing the lack of adequate and efficient institutional facilities for mobilising savings for productive activities among the less privileged segment of the society. The CBN has, during the past three years, adopted necessary institutional and regulatory framework, including the creation of the Other Financial Institutions Department to regulate and supervise community banks. Moreover, the Bank has also been supporting capacity building in the banks by providing free training programmes for community bank personnel since 2002.

Challenges Facing the Banking Industry

27. As at the end of March 2004, there were 89 banks in operation in Nigeria with total assets amounting to ₦3,032 billion, compared to ₦1,184 billion as at end-December, 1999. Similarly, aggregate deposit liabilities increased to ₦1,722 billion in March 2004 from ₦535 billion as at end-December, 1999.

28. While a number of banks still exhibit symptoms of weaknesses ranging from under capitalization, illiquidity, poor/weak assets quality and earnings, the profitability of the industry increased phenomenally. The shares of the weak banks' assets and deposit liabilities as percentage of the industry's total were 19.16 per cent and 17.61 per cent respectively, while the industry ratio of non-performing credit to total credit was 19.48 per cent.

These ratios are within the target prescribed by the CBN, which is also in accordance with international standards. In other words, the Nigerian banking system is generally sound.

29. Despite the progress, several challenges still face the banking industry, among which are strengthening/consolidating the gains made in banking corporate governance and soundness, the dilemma of protecting the bank depositors and maintaining macroeconomic stability and reducing fiscal dominance.

Corporate Governance

30. Good corporate governance provides for the separation of powers and duties to ensure checks and balances in any corporate entity. The absence of good corporate governance in some banks has led to insider abuse, fraud and forgeries, and poor lending policies. While we have made significant progress in redressing the problem and placing the issue in the front burner, there is need for the Bankers' Committee to sustain its efforts at attaining zero tolerance to all forms of corporate malfeasance.

Capital Deficiency and Illiquidity

31. The importance of capital as a cushion for supporting operations and absorbing unexpected losses cannot be over-emphasized. Apart from a few banks, which have not met the ₦1billion minimum capital requirement prescribed for existing banks, some others have had their capital eroded by losses. There is need to respond positively to CBN initiative for mergers and acquisition so that some of the current weak banks that constitute a threat to systemic stability can be absorbed.

Protecting Bank Depositors

32. Banking, as a business, is a risky endeavour. However, because of the uniqueness of the sector, stringent regulatory and supervisory oversight is normally imposed on operators to ensure the protection of depositors, especially, in case of bank failure. While the Nigerian Deposit Insurance Corporation (NDIC) was established to instill confidence in the banking system and settle depositors in case of bank failure/revocation of banking licence, the CBN has been constrained in the past to the speedy enforcement of various distress resolution options available to the Bank. There are a

number of marginal banks in the system that are good candidates for merger/acquisition or outright liquidation which are overdrawn with the CBN. The CBN could not speedily send them out of clearing for fear of triggering banking system contagion and crisis of confidence. Furthermore, the Bank could not liquidate the banks so as to settle the bank depositors in a timely manner because of legal constraints.

33. In this regard, it is my belief that once the regulatory/supervisory authorities are satisfied that the condition of a bank is irredeemable, the CBN should be given the powers to quickly withdraw the bank's operating licence and pay off its depositors without resort to long drawn litigation. There is, therefore, the need to strengthen the CBN Act, among other things, to render the revocation of banking licence a purely administrative matter. Besides, since the Bank is not adverse to due legal process, a time limit should be placed on the quick disposal of cases involving bank liquidation if the need arises. The CBN is in dialogue with relevant authorities and it is hoped that acceptable solution will be found in due course.

Macroeconomic Stability and Fiscal Dominance

34. A major challenge facing the banking industry and the economy as a whole is the problem of maintaining macroeconomic stability – low inflation and interest rates, as well as stable naira exchange rate based on Nigeria's economic fundamentals – in the face of fiscal dominance, poor and low economic productive base and poor infrastructure. To maintain stable macroeconomic environment and grow the economy, government should in the short-term save the windfalls from the excess crude revenue and also direct its expenditure to priority areas such as the provision of infrastructure and strengthening of poverty reduction programmes. The saving is critical not only will it be needed on the rainy day, but also to limit the injection of resources above the absorptive capacity of the economy. In the medium to long term, government should ensure the passage of the Fiscal Responsibility Act which would provide the backbone for the sustenance of macroeconomic stability and wealth creation in Nigeria.

CONCLUSION

35. Distinguished Executives, Ladies and Gentlemen, it has been great working with you as the Chairman of the Bankers' Committee in the past

five years. I thank you most sincerely for the co-operation you gave to me during the period and implore you to extend the same to my successor.

36. More importantly, while I retire physically to my country home, I will in my mind continue to remain part of the Nigerian Banking System.

37. I thank you for your attention and God bless.

Chief (Dr.) J.O. Sanusi (CON),
Governor,
Central Bank of Nigeria.

25th May, 2004.

Making Finance Work For The Poor

Being a Convocation Lecture Delivered By

Prof. Chukwuma C. Soludo, CFR
Governor, Central Bank of Nigeria

At the Federal University of Technology, Owerri, Imo State
15th February, 2008

Outline

I. Introduction
II. Poverty as a National Crisis
III. How Does Finance Matter?
IV. Overview of Recent Performance of Nigerian Financial System
V. Past Attempts at Finance for the Poor
VI. Where Do We Go from Here?
VII. Conclusions

I: Introduction

- The boom in the financial system and economy, and challenges of “leaving no one behind”.
- Poverty becoming Dynastic--- the “poor cannot sleep because they are hungry, and the rich cannot sleep because the poor are awake”---- in everybody’s interest to have an INCLUSIVE society.

II: POVERTY AS A NATIONAL CRISIS: Stylized Facts

- Using the World Bank's estimates (based on 1993 Purchasing Power Parity) about 2.6 billion or 40% of the world's population (2005) live in poverty with over 1 billion people in extreme poverty
- Sub-Saharan Africa has the highest incidence of extreme poverty.
- Sub-Saharan Africa is the most likely region to miss the Millennium Development Goals of reducing poverty in half by year 2015
- Less than 20% of African households own bank accounts or have access to financial services

POVERTY AS A CRISIS...

- According to 2004 surveys, 54% of Nigerians still live in poverty although down from about 70% less than a decade ago in spite of significant growth in GDP over the past five years
- Banking services are available to about 40% of the population. More than 70% of the poor do not have access to formal finance
- Total bank Credit is about 30% of GDP
- Nigeria has a highly unequal income distribution profile: about 8% of those that have access to financial services own about 90% of the available deposits

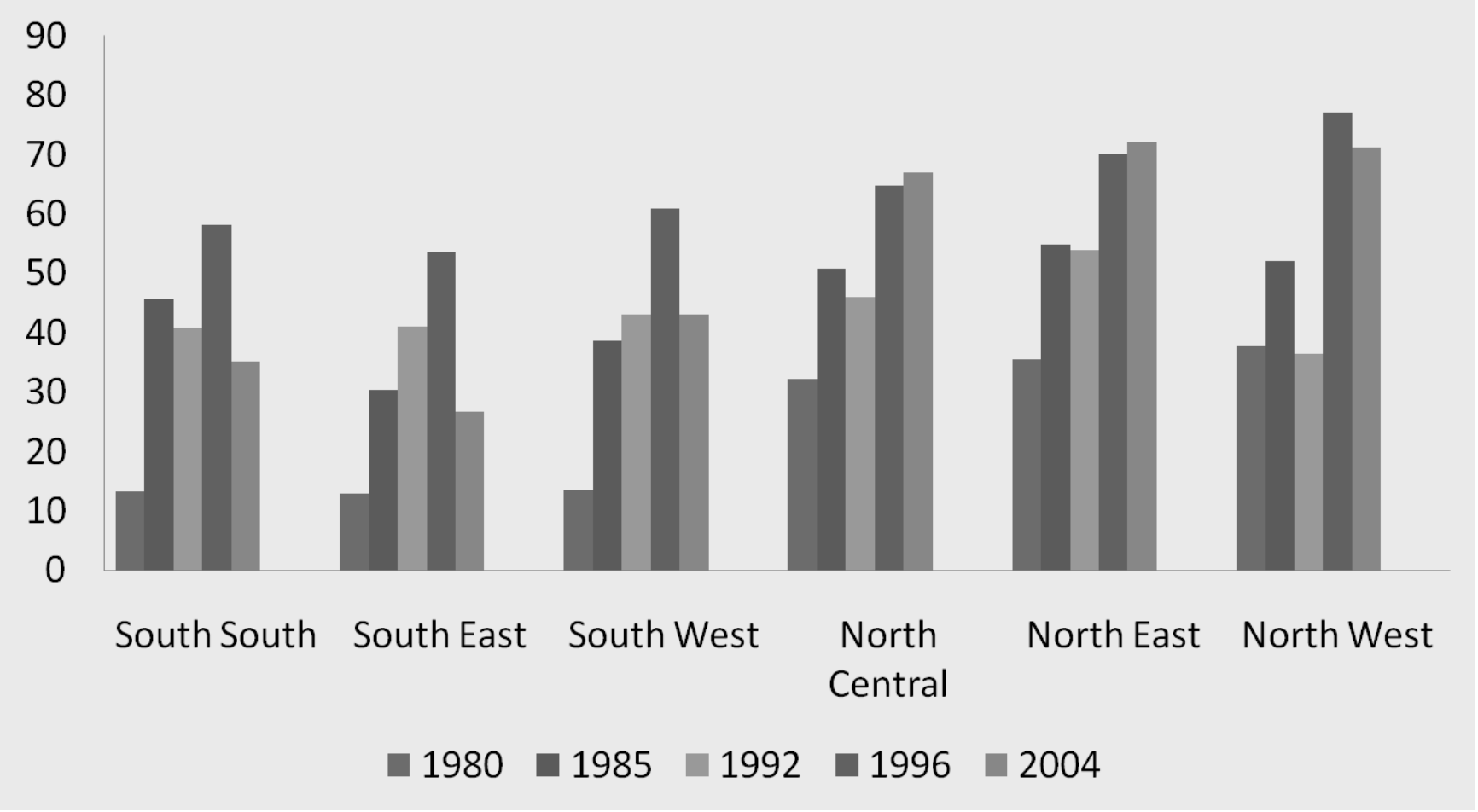
POVERTY AS A CRISIS ....

- ***PER CAPITA INCOME:*** Nigeria's per capita income is barely $1,000; USA about $32,000; South Africa over $5,300. At current population growth rate, and if GDP grows at 13% p.a, it will be in 2033 that Nigeria achieves today's per capita income of SA. At current 6% growth, it will be in 2065.
- ***POVERTY:*** 1 out of 2 Nigerians in poverty
  - Poverty becoming Dynastic– children of the poor likely to become poor due to widening gap in access to quality education and size of family
  - Spatial inequality **----** See following Tables
- ***UNEMPLOYMENT:*** Urbanization rate 5.3% as one of fastest in world, with urban youth unemployment at about 20%**----** This is a TIME BOMB waiting to explode!

Poverty as a Crisis: Nigeria's Poverty Levels by Zones 1980-2004 *(latest available surveys)*

Zone	1980	1985	1992	1996	2004
South South	13.2	45.7	40.8	58.2	35.1
South East	12.9	30.4	41.0	53.5	26.7
South West	13.4	38.6	43.1	60.9	43.0
North Central	32.2	50.8	46.0	64.7	67.0
North East	35.5	54.9	54.0	70.1	72.2
North West	37.7	52.1	36.5	77.2	71.2

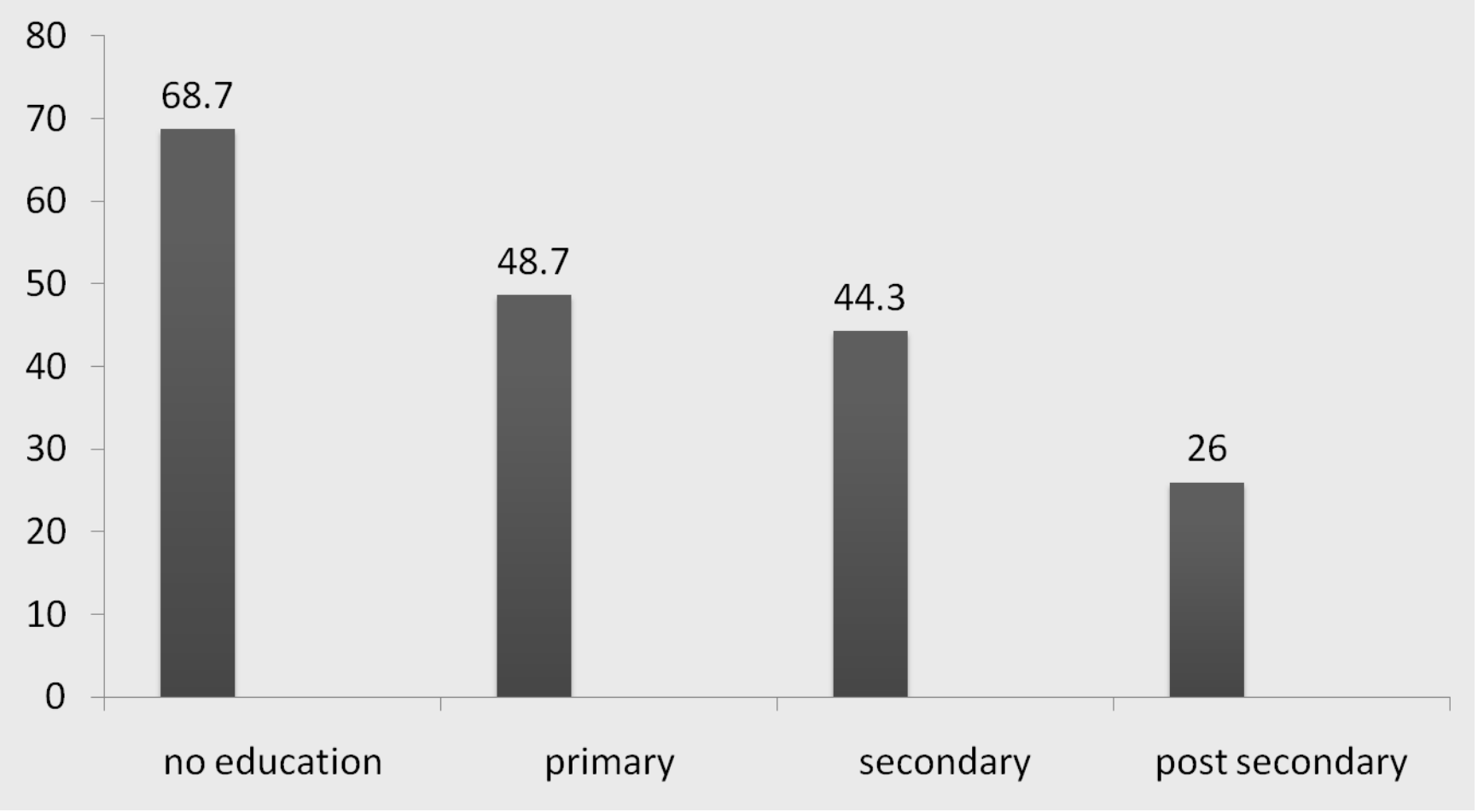
Nigeria's Poverty Levels by Zones (1980-2004)



What Explains Nigeria's Poverty Incidence?

1. Household Size: In 2004, single member households had 12.6% poverty incidence; 2-4 member households 39.3%; 5-9 member households, 57.9%; 10- 20 member households, 73%; and above 20 member households, 90.7%
2. Education: Households headed by those without education had 68.7% poverty; primary education, 48.7%; secondary, 44.3%; post secondary, 26%.
3. Occupation: Dominant in agriculture and forestry, 67%
4. Rural Areas contributed 65% to poverty in 2004
5. Orientation towards private enterprise

Poverty Incidence According to Household Head (%)



Poverty Incidence According to Household Classification (%)

III.HOW DOES FINANCE MATTER?

- Banks play intermediation role—deposit taking/lending
- Resource allocation—from surplus units to deficit units
- The financial system facilitates risk sharing—spreads/reduces risk faced by economic agents
- The financial system generates wealth in the economy
- It facilitates the exchange of goods and services
- FINANCE is the 'poverty trap breaker'--- allowing the poor to access education, health, investment, etc more than current income can allow…..

III.HOW DOES FINANCE MATTER?

- There is a substantial body of literature on the link between finance sector development (FSD), and economic growth and poverty reduction (King and Levine, 1993), (Levine and Zervos, 1998), (Rajan and Zingales, 1998) and (Levine, Loayza and Beck, 1999).

- Calomiris and Mason (2003) estimated an elasticity of real state income growth to bank loan supply growth of 45% where a one standard deviation decrease in loan growth over three years (17.9%) reduces output growth over three years by about 7 percentage points.

- Strong correlation between output and credit.

IV: Banks and the Nigerian Economy: *Recent Evidence*

Nigerian Banking Sector

- Asset Base grew by approx. 277% between 2003 and 2007
- About 11 banks with over $1 billion in Tier 1 capital, by end February, 2008.
- Microfinance Banks – 716 and more to come
- Branch Expansion outside Nigeria – 16 in Africa of which 9 are new branches; 5 outside Africa.
- Share of Banks in NSE most capitalized companies rose substantially – 30% (2003); 65% (2007)

IV: Banks and the Nigerian Economy: *Recent Evidence*

Banking System Indicator (BSI)	
BSI	**Countries**
D	Benin, Bulgaria, China, Columbia, Costa Rica, Croatia, El Salvador, Georgia, Hungary, India, Indonesia, Israel, Kazakhstan, Lebanon, Lithuania, Morocco, **Nigeria,** Panama, Peru, Philippines, Poland, Romania, Taiwan, Thailand, Turkey, Ukraine, Venezuela, Russia
E	Argentina, Armenia, Azerbaijan, Belarus, Bolivia, Dominican Republic, Ecuador, Egypt, Iran, Sri Lanka, Tunisia, Uruguay, Vietnam

Source: Fitch Ratings: Bank Systemic Risk Report, September 2007

BSI measures system quality or strength: D indicates low while E indicates very low.

IV. Banks and the Nigerian Economy: *Recent Evidence*

Macro-Prudential Indicator (MPI)	
MPI	**Countries**
1	Argentina, Austria, Benin, Bermuda, Bolivia, Chile, China, Cyprus, Dominican Republic, Ecuador, Egypt, El Salvador, Germany, Hong Kong, Hungary, Indonesia, Israel, Japan, Lebanon, Malaysia, Mexico, Morocco, **Nigeria,** Oman, Panama, Peru, Philippines, Poland, Singapore, Sri Lanka, Taiwan, Thailand, Tunisia, Uruguay
2	Armenia, Bahrain, Belarus, Belgium, Brazil, Bulgaria, Colombia, Costa Rica, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Greece, India, Ireland, Italy, Kazakhstan, Kuwait, Latvia, Lithuania, Luxembourg, Malta, Netherlands, New Zealand, Norway, Portugal, Qatar, Romania, San Marino, Spain, Slovakia, Slovenia, Switzerland, UK, US, Saudi Arabia, Sweden, Turkey, UAE, Ukraine, Venezuela, Vietnam
3	Australia, Azerbaijan, Canada, Iceland, Iran, Korea, Russia, South Africa

Source: Fitch Ratings: Bank Systemic Risk Report, September 2007

MPI measures vulnerability to systemic crises: 1 indicates low risk; 2 indicates moderate risk; 3 indicates high risk.

IV. Banks and the Nigerian Economy: *Recent Evidence*

Bank Credit to Private Sector as % of GDP						
COUNTRY	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
BENIN	11.4	14.2	14.6	16.3	17.0	16.9
EGYPT	52.1	50.7	50.7	48.3	45.9	42.4
MOROCCO	48.5	49.3	50.3	54.4	59.4	60.7
NIGERIA 1/	18.4	20.5	21.0	21.9	21.5	31.4
TUNISIA	64.2	66.7	65.1	65.0	64.2	63.0
SOUTH AFRICA	62.4	69.1	70.0	75.2	84.2	92.1

1/ CBN data using Non Oil GDP
Source: Fitch Ratings: Bank Systemic Risk Report, September 2007

IV. Banks and the Nigerian Economy: *Recent Evidence*

Other Indicators of Financial Deepening

Year	M2/GDP Ratio (%)	CIC/M2 Ratio (%)	COB/M2 Ratio (%)	CIC/GDP Ratio (%)	CIC/Non-oil GDP Ratio (%)	COB/GDP Ratio (%)	COB/Non-oil GDP Ratio (%)
2003	20.0	25.3	20.8	5.1	8.7	4.2	7.1
2004	19.8	24.1	20.3	4.8	7.6	4.0	6.4
2005	19.3	22.8	20.0	4.4	7.2	3.9	6.3
2006	19.8	21.2	18.8	4.2	6.7	3.7	6.0
2007	21.0	20.0	15.2	4.2	6.1	3.2	4.6

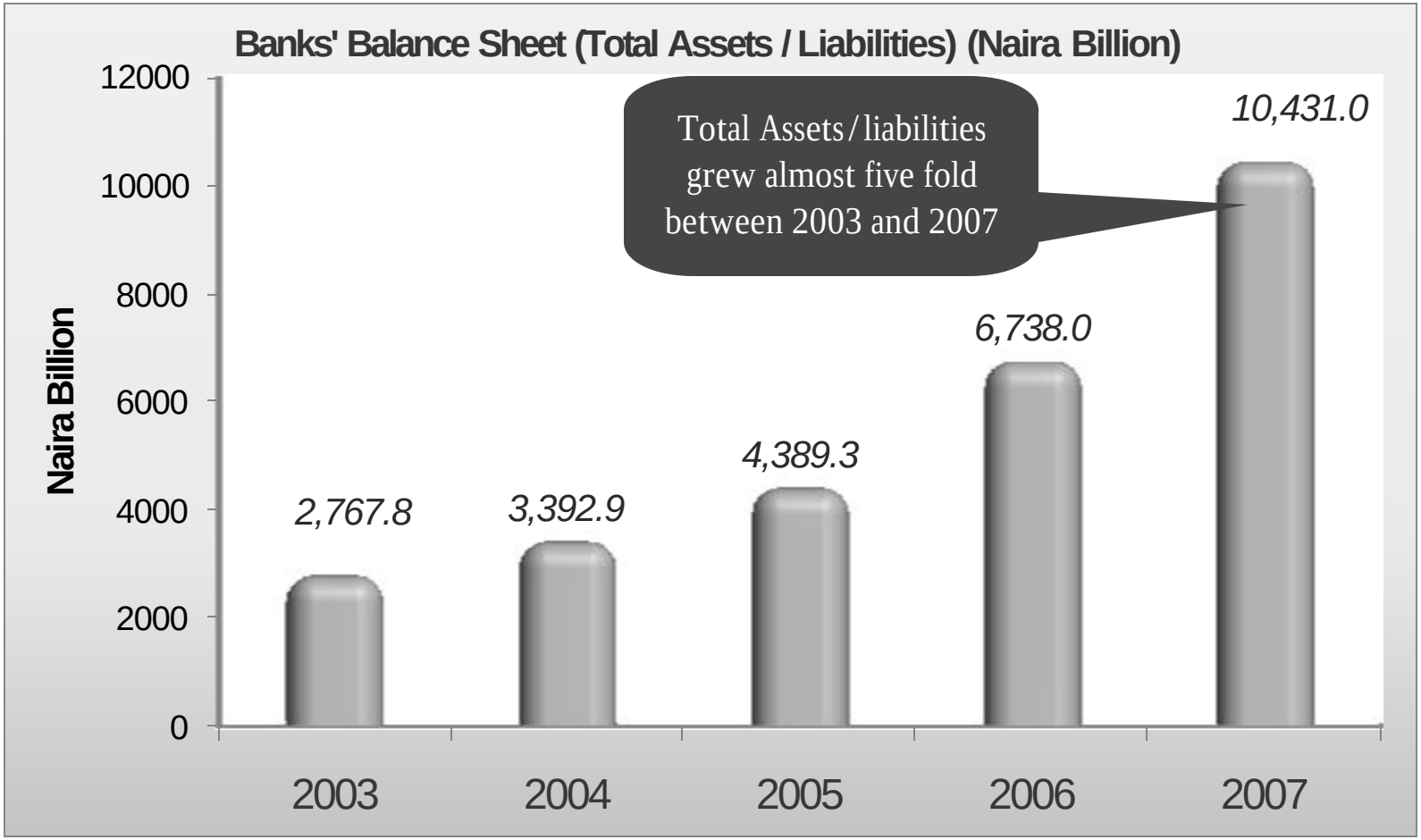
M2 is broad money stock (end period)

GDP at current basic prices.

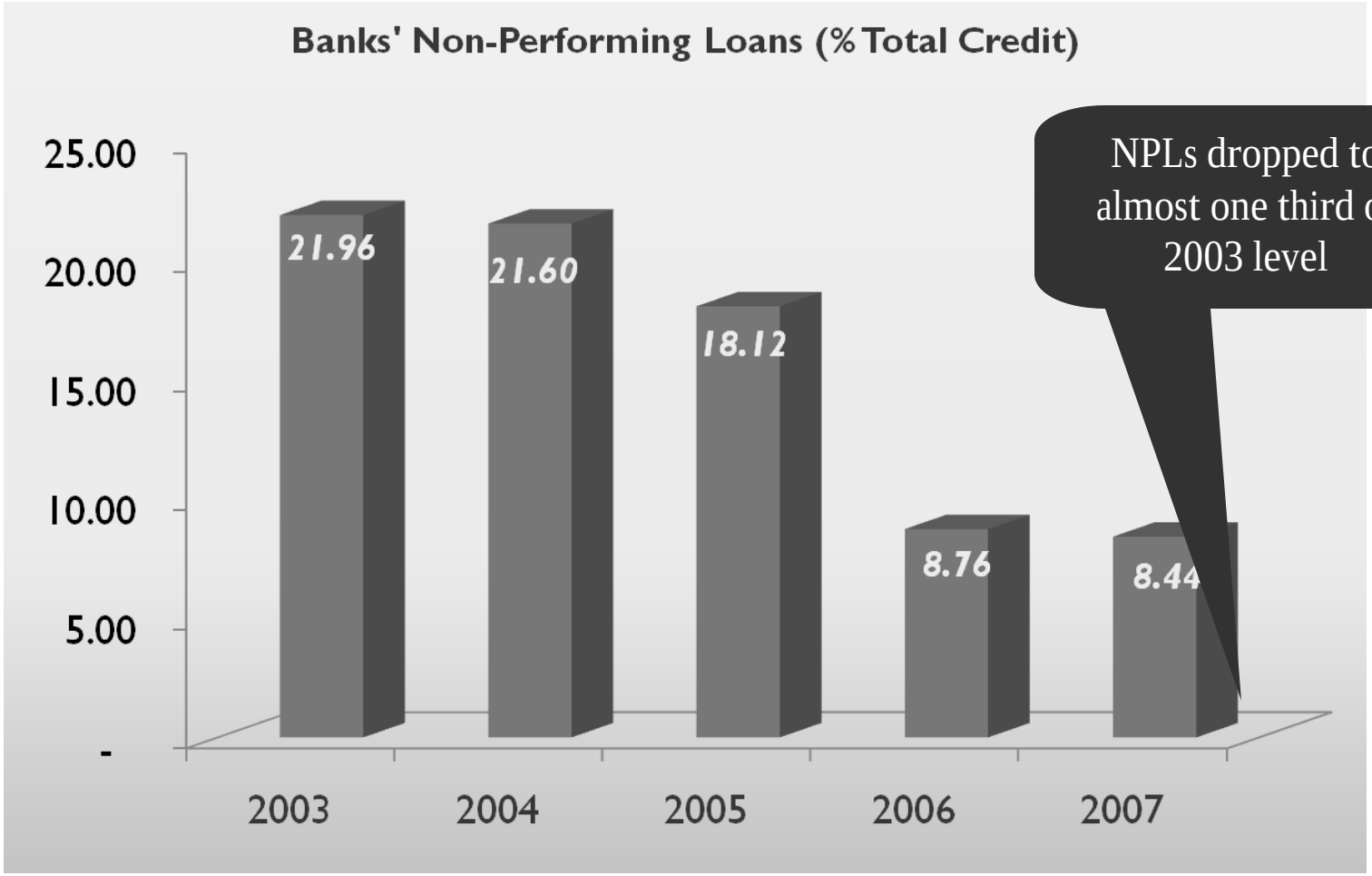
CIC is Currency in Circulation (end period)

COB is Currency Outside Banks (end period)

IV. Banks and the Nigerian Economy: *Recent Evidence*



IV. Banks and the Nigerian Economy: *Recent Evidence*



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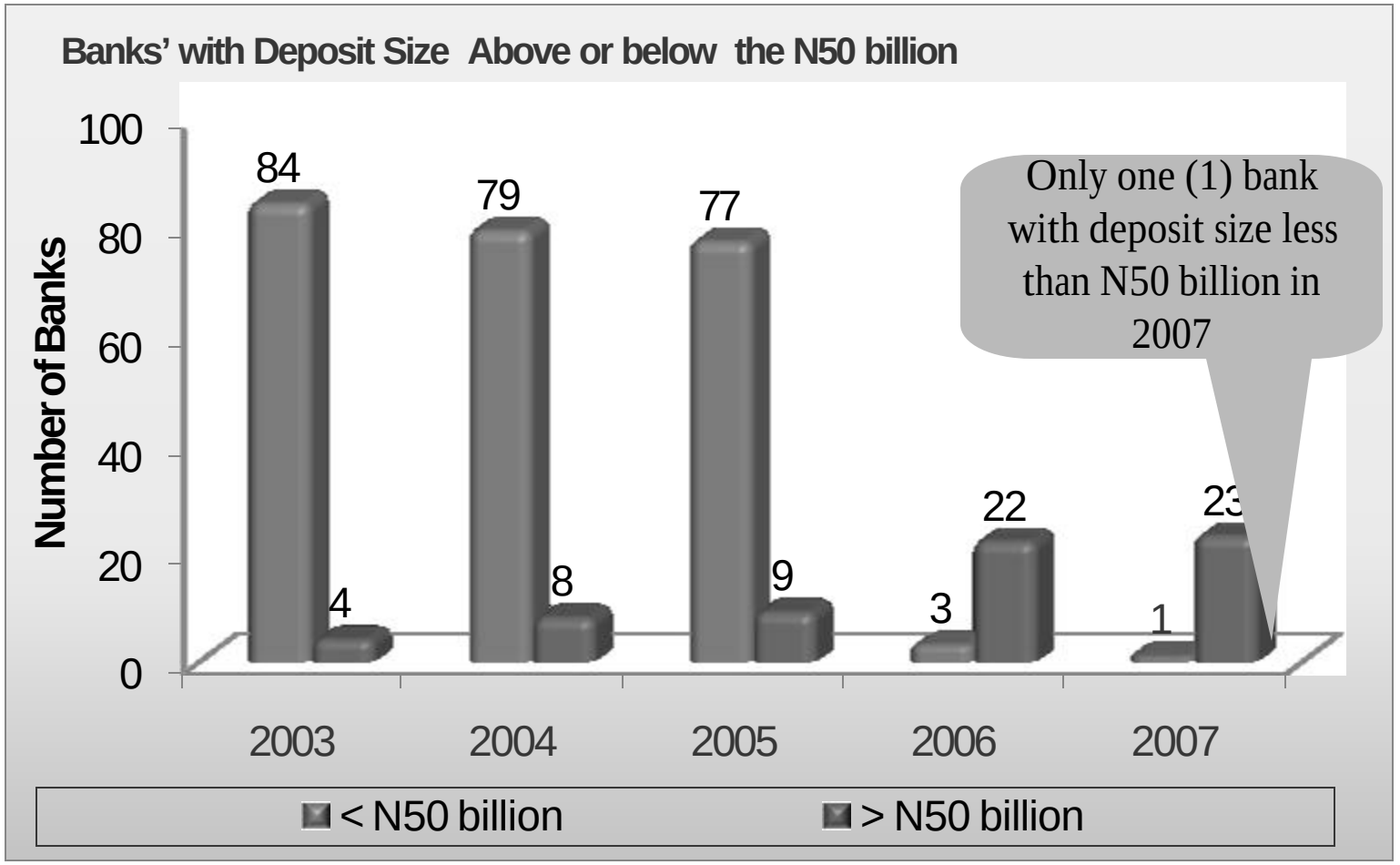

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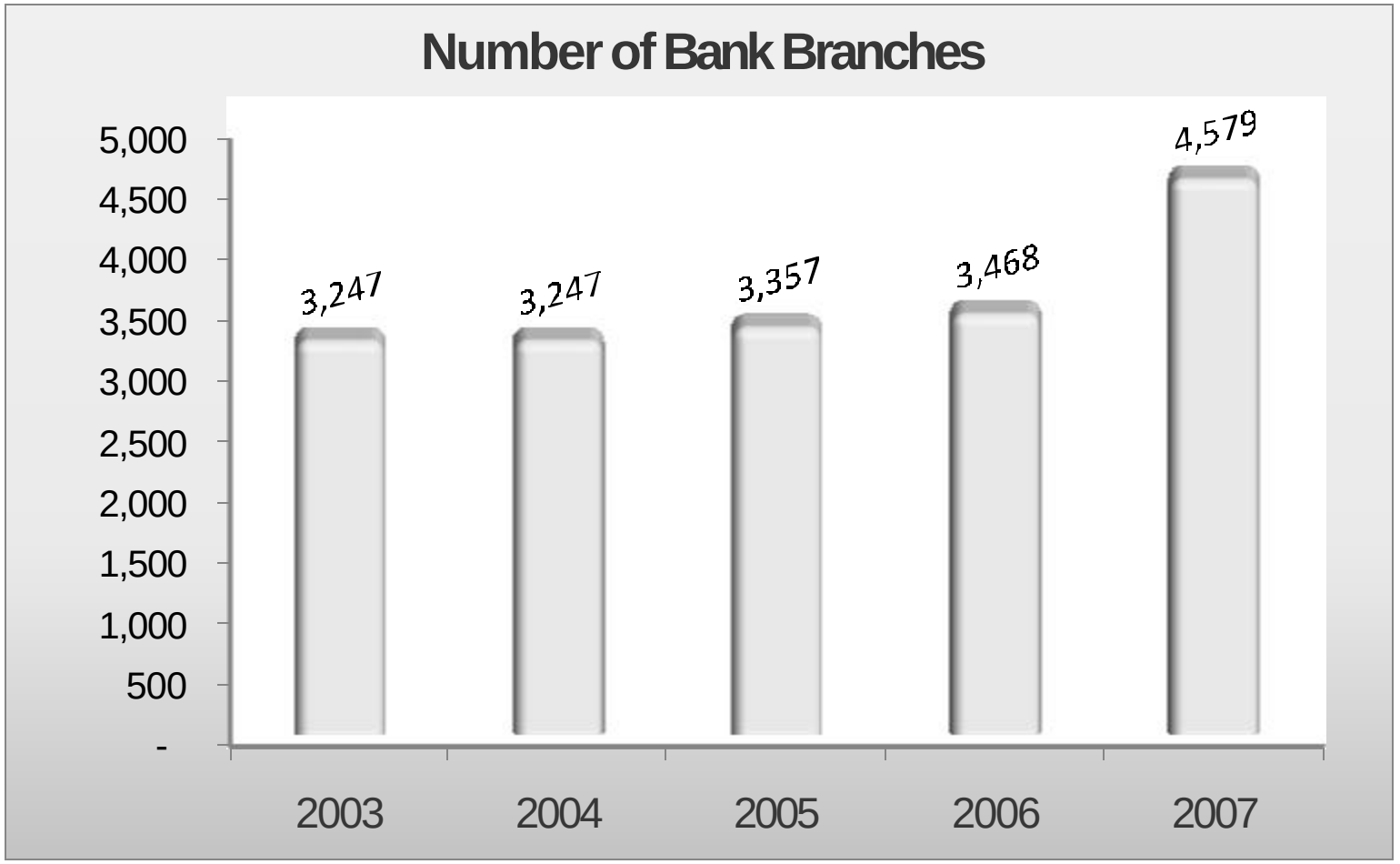

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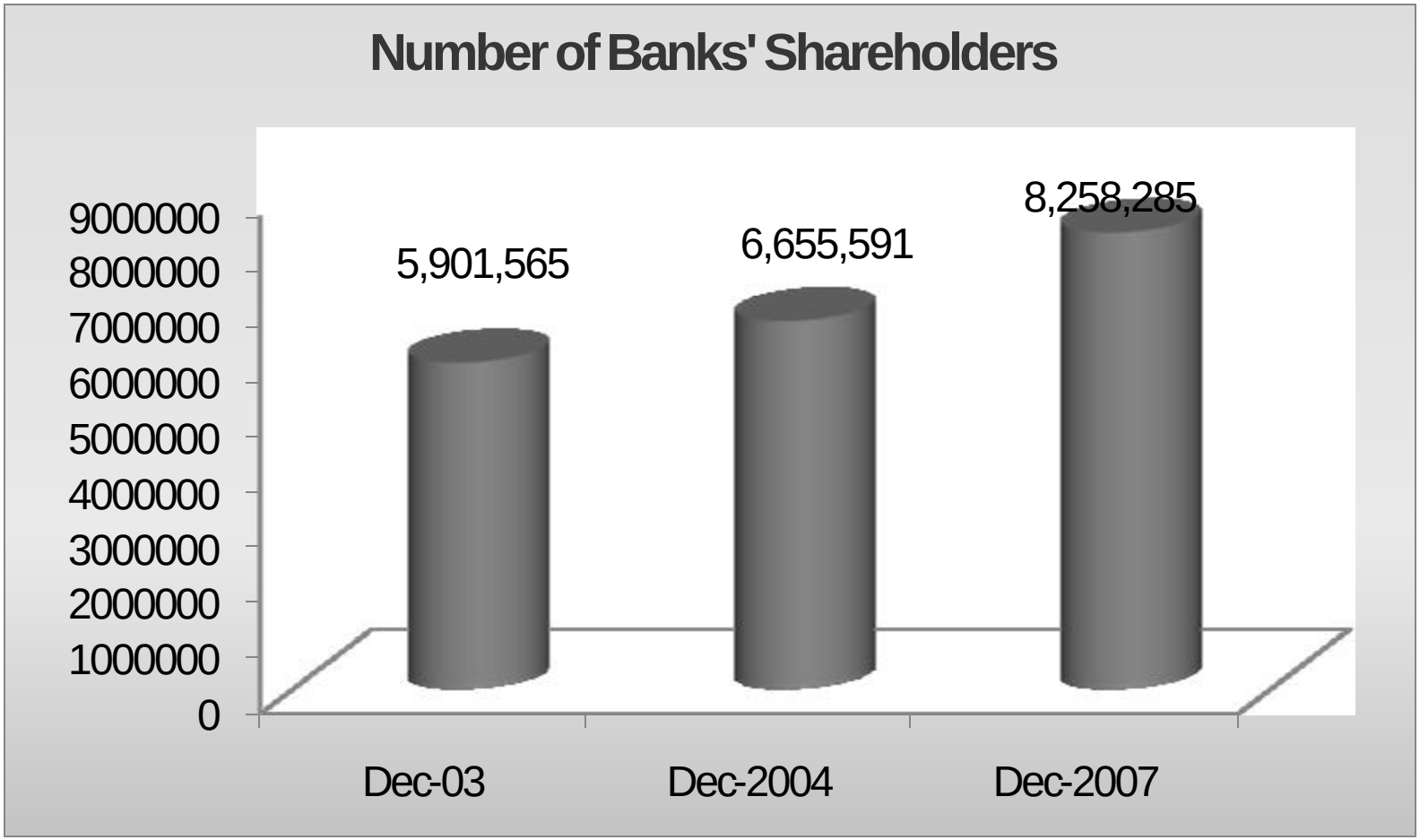

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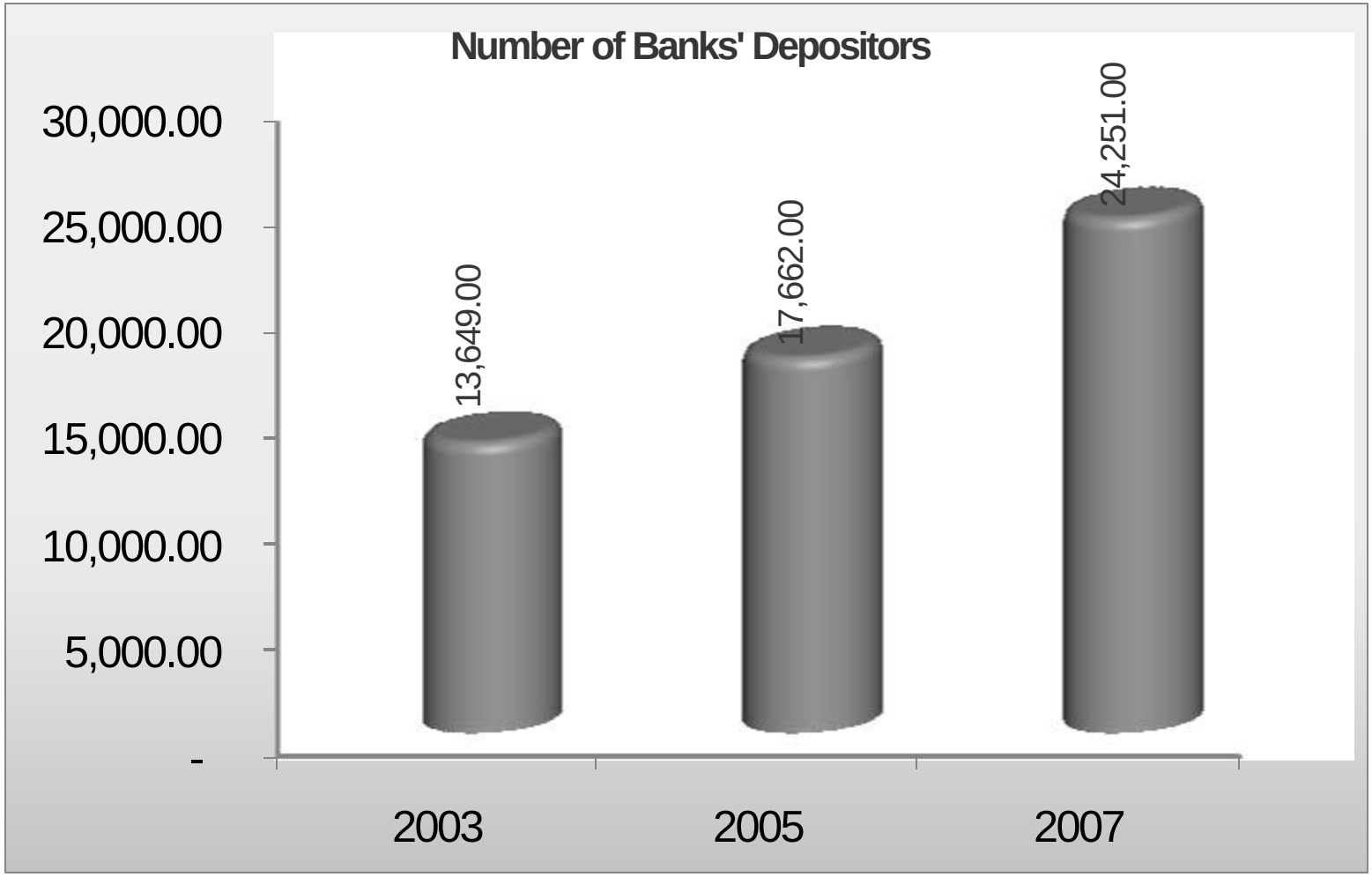

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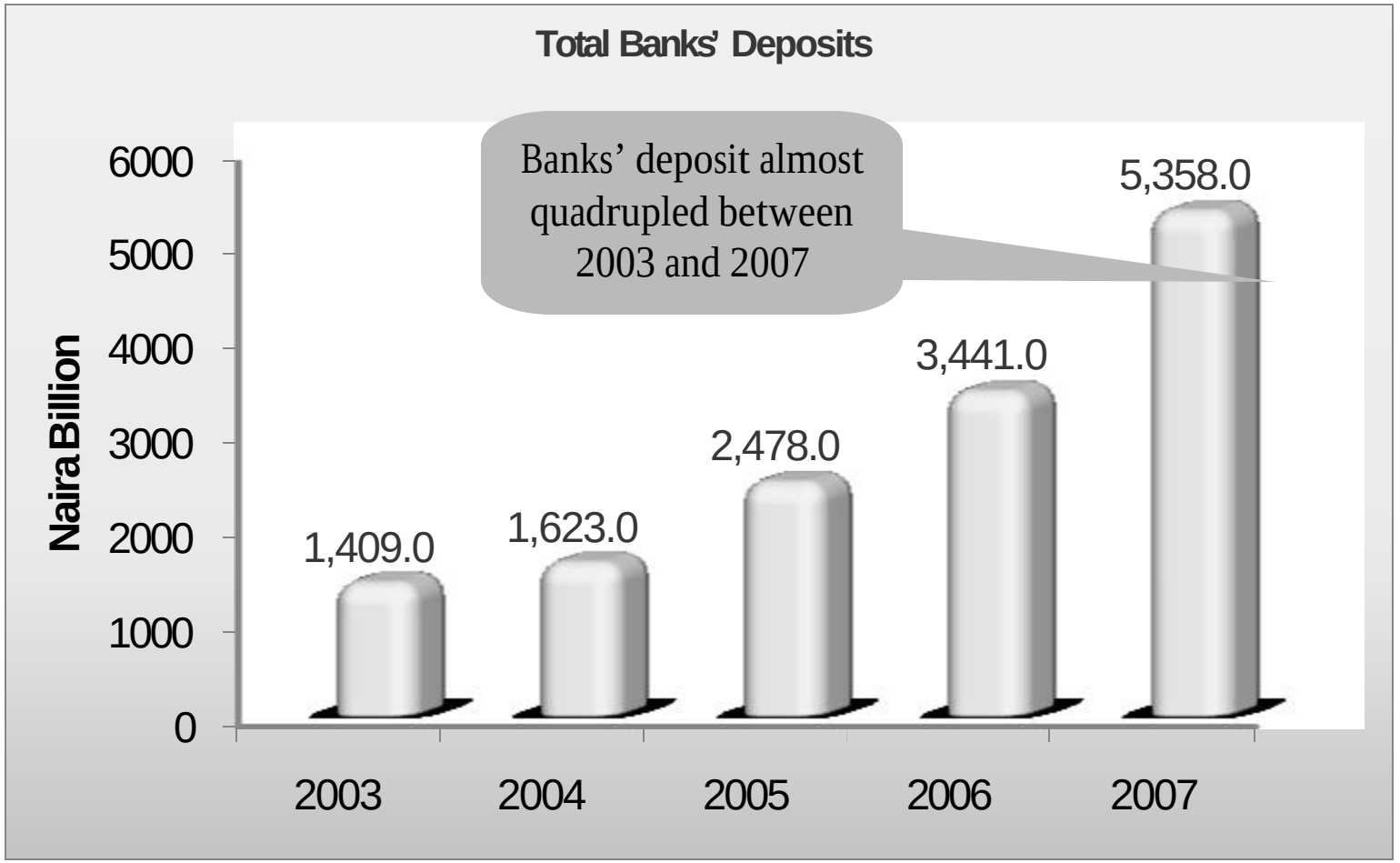

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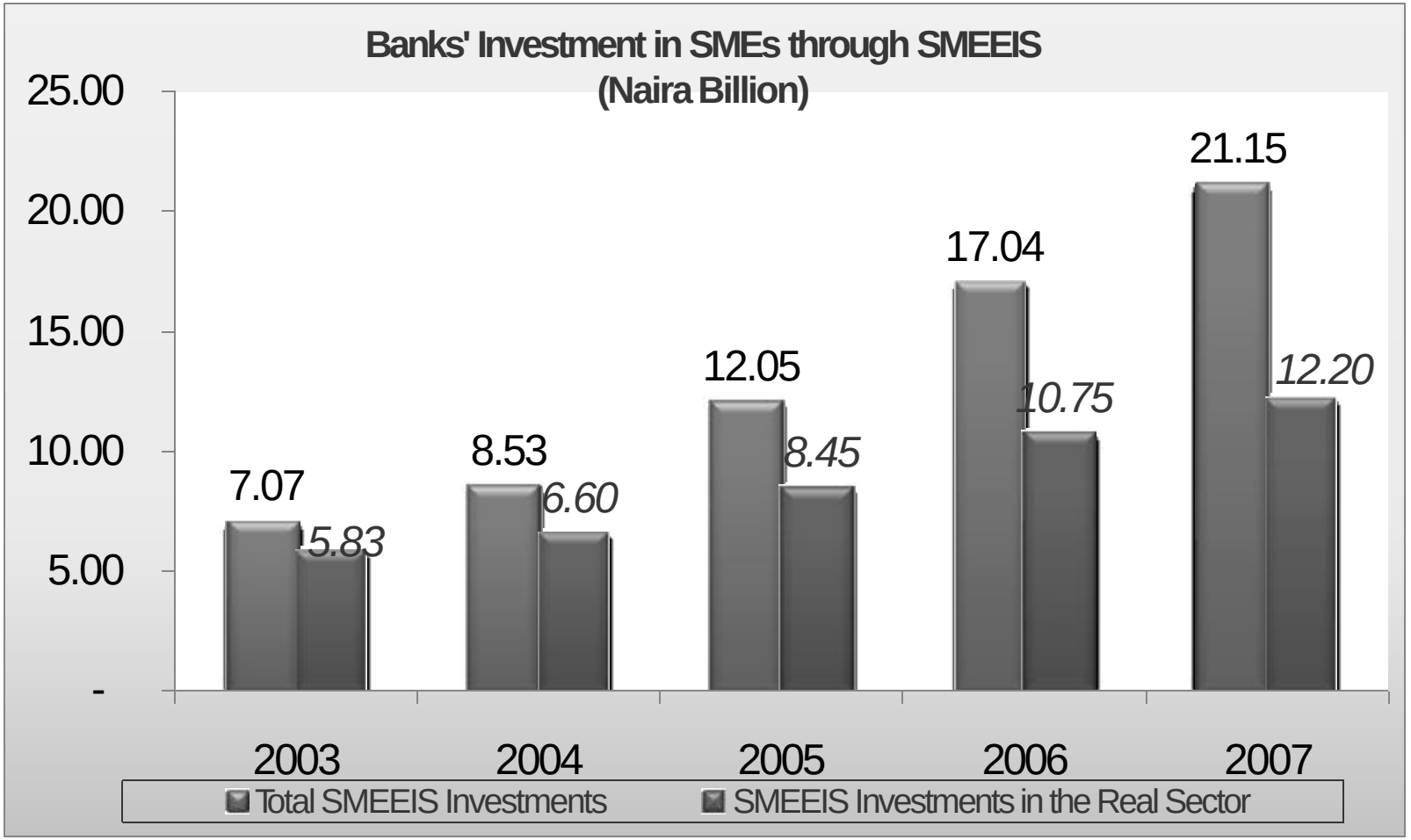

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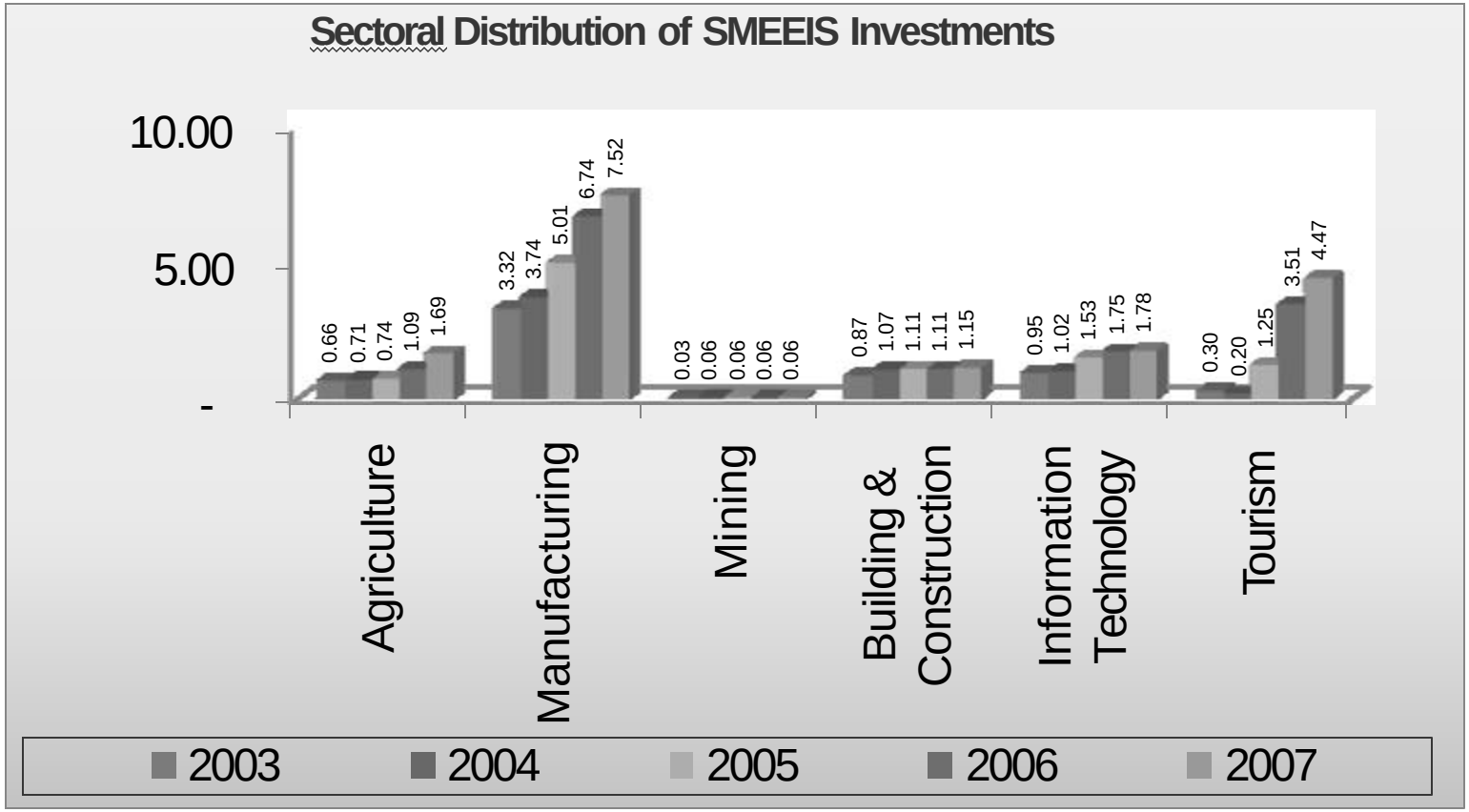

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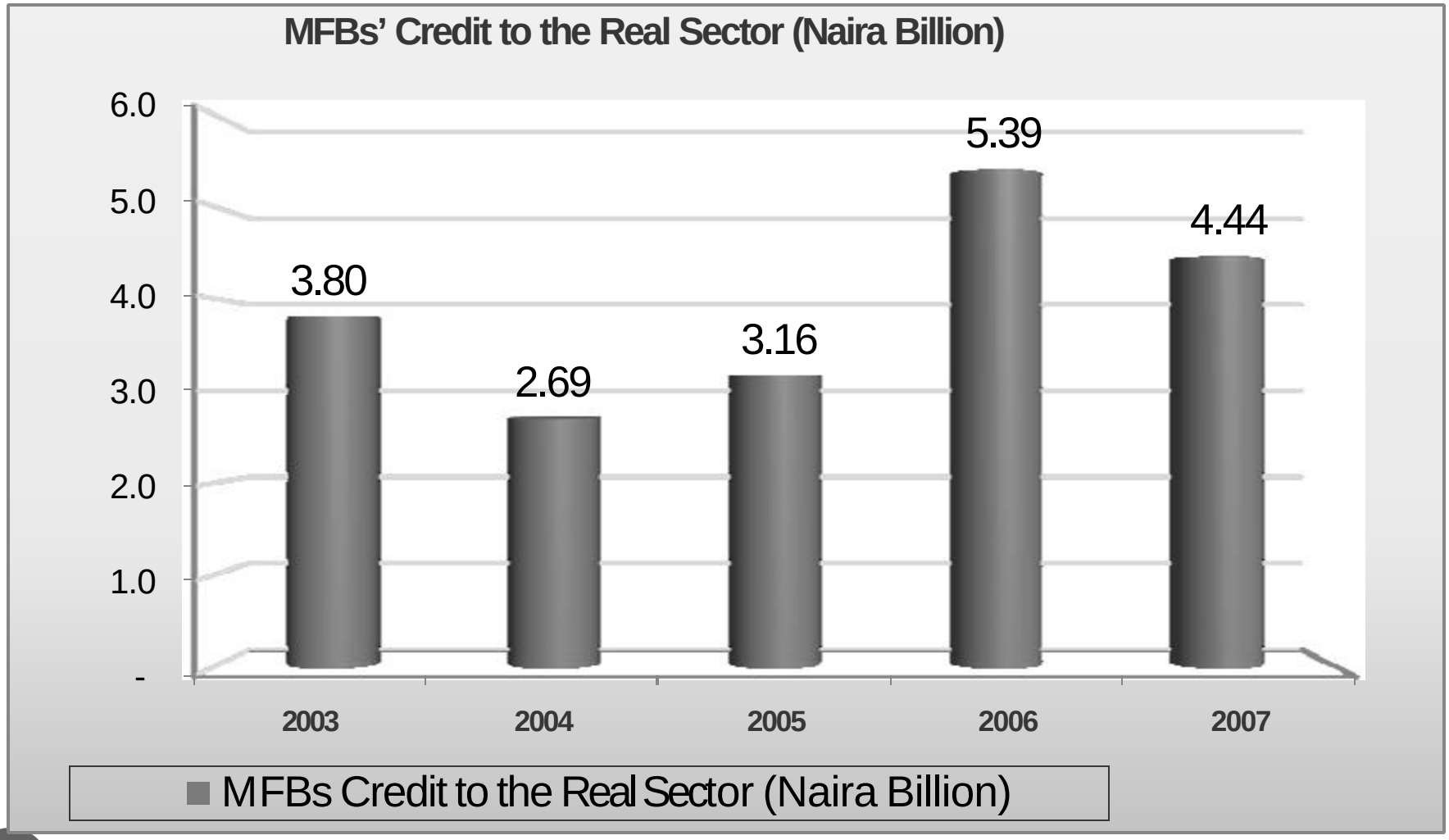

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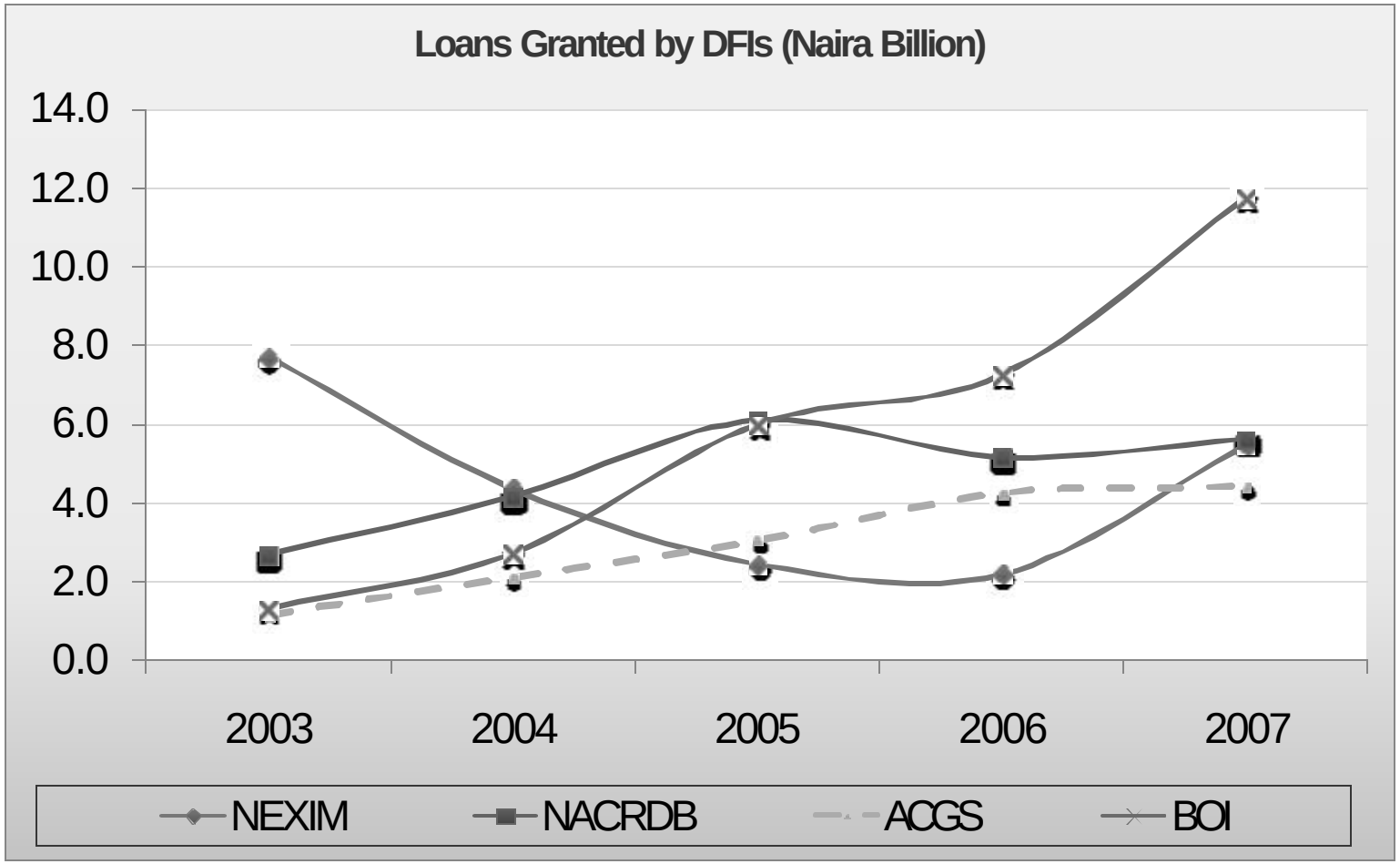
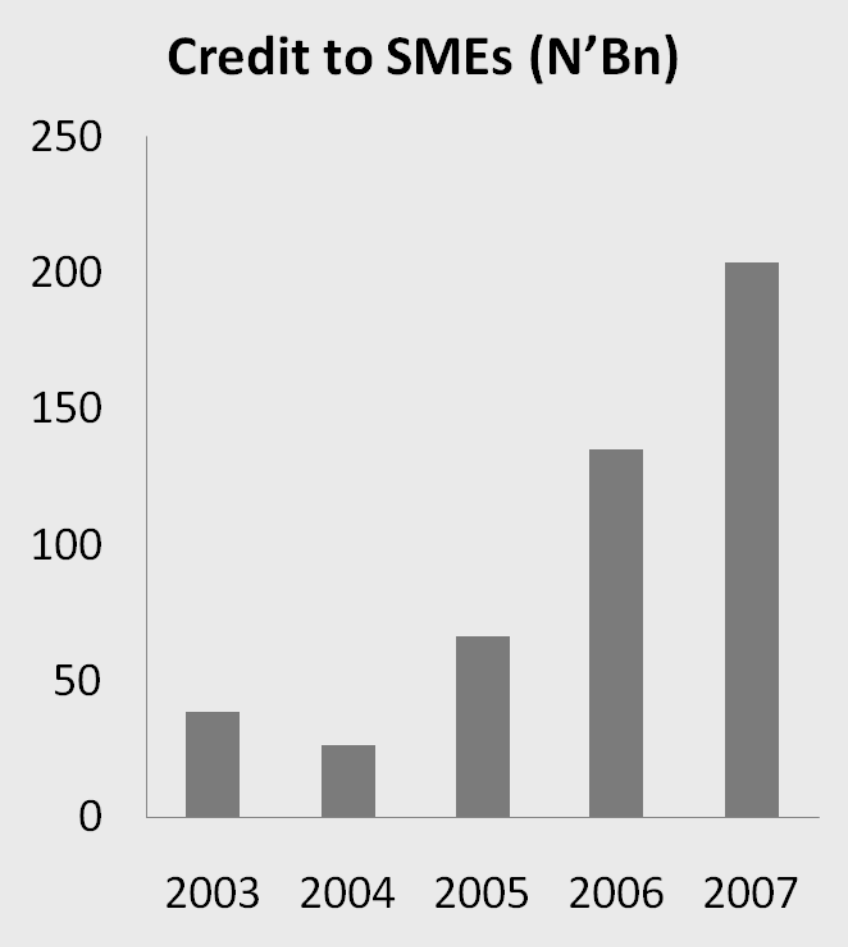
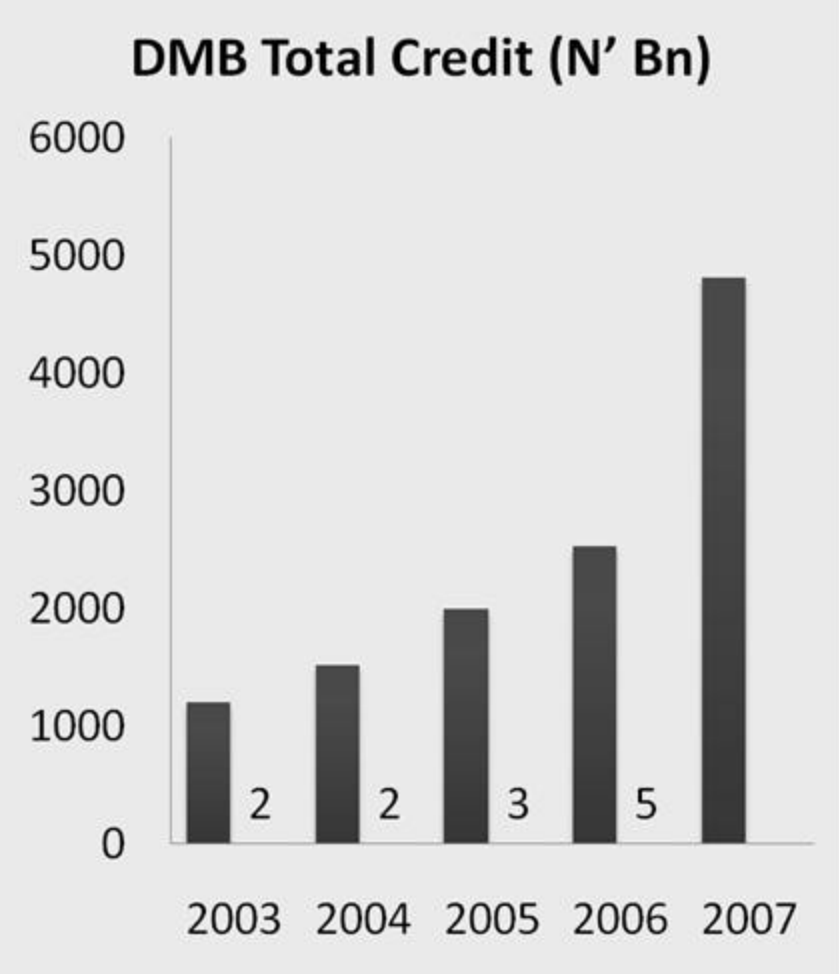


IV. Banks and the Nigerian Economy: *Recent Evidence*

DMBs' Credit to SMEs As Percent of Total Credit			
Year	Credit to SMEs (N'Bn)	DMB Total Credit (N'Bn)	Credit to SMEs as % of DMBs Total Credit (%)
2003	38.51	1,203.20	3.20
2004	26.31	1,519.24	1.73
2005	66.28	1,991.15	3.33
2006	134.68	2,524.30	5.34
2007	203.58	4,813.49	4.23

IV. Credit to SMEs And Total Credit





V: PAST ATTEMPTS AT FINANCE FOR THE POOR..... *SMEEIS*

- Small & Medium Enterprises Equity Investment Scheme (SMEEIS) was a voluntary initiative in 1999 by the Bankers Committee through CBN's moral suasion, to assist in providing finance to the small enterprises
- About N40 billion was raised but as at end 2007, only 60% had been utilised in 523 projects nationwide.
- The location of projects was skewed in favour of urban area (Lagos/Ogun and Cross River [Tinapa] got 70% of projects.
- 12 states had no SMEEIS projects at all
- Even with full deployment, SMEEIS impact is projected at 0.018% of the nation's GDP
- More DMB loans to SME is more than 400% of SMEEIS

V. PAST ATTEMPTS AT FINANCE FOR THE POOR

- ***Rural Banking Scheme:***
  - In the 1980s, banks were mandated to set up branches in the rural areas
  - Objective was to improve access to financial services and to bank the unbanked
  - However it was not market driven and the branches were largely unprofitable
  - The scheme has since been suspended

V. PAST ATTEMPTS AT FINANCE FOR THE POOR

- People's Bank (Government's social lending)
- Family Economic Advancement Programme (FEAP)
- Nigerian Agricultural Credit Guarantee Scheme
- NERFUND
- Various poverty alleviation programmes with credit and financial services components

PAST ATTEMPTS: WHY THEY FAILED

Challenges To Providing Finance to the Poor

- ***Supply Side:***
  - Identifying profitable pool of market niches to service in relation to other viable options
  - Managerial capacity to meet the huge small accounts
  - Documentation requirements
  - Availability of financial institutions: most rural areas not served

  Demand Side:
  - Lack of effective national identification system
  - Poor quality collateral
  - Property titles and land/property as dead capital
  - Low savings capacity - sometimes improper savings assets in kind like cattle, crops, land, etc
  - Educational status/skill requirements to manage business
  - Cultural constraints against borrowing, interest payment, etc
  - Psychology – fear of the unknown, past unpleasant experiences

VI.WHERE DO WE GO FROM HERE?...

Microfinance Banks and Micro Credit Fund as a Response

- In place of community banks, the CBN has set up a framework for establishing microfinance banks
- December 31st 2007 was deadline for all community banks to transform into microfinance banks
- About 716 already licensed nationwide

ROAD AHEAD... *Microfinance Banks*

- Rationale for Microfinance banks- The erstwhile community banks were bedevilled with various challenges including:
  - Weak institutional capacity (poor management, weak internal controls, lack of deposit insurance scheme, poor corporate governance regime)
  - Weak capital base (first N250k, then N500k and N5m)
  - Restrictive regulatory/supervisory requirements
  - Relatively poor regulatory oversight
  - Restrictive ownership
  - Absence of clear business model
  - No insurance scheme for deposits

ROAD AHEAD... *Microfinance Banks*

- Improvements under the new microfinance banking regime:
  - Higher capital base (minimum of N20 million)
  - Scope for branch expansion provided they have free funds
  - Clearly defined business model
  - Capacity building programmes
  - More liberal ownership requirements
  - More stringent corporate governance regimes
  - Insurance for deposits

ROAD AHEAD.... *N50 Billion Micro Credit Fund*

- On February 12, 2008, President Musa Yar'Adua launched the N50 billion micro credit scheme– expected to grow to more than N100 billion per annum in a few years time
- It is a Bankers' Committee initiative to pool funds for lending to the micro sector
- Banks will transfer the outstanding SMEEIS to the fund (about N20 billion)
- States are to dedicate at least 1% of their annual budget as matching fund for micro credit
- Borrowing by States from the Banks will be at single digit rates (currently set at 8%)

THE ROAD AHEAD.... *DFIs*

- Development Financial Institutions are being strengthened to help improve access
  - Various government DFIs have been pooled under Bank of Industry to provide developmental (non-commercial) loans
  - Nigeria Agricultural Cooperative And Rural Development Bank Limited (NACRDB)
  - Nigeria Export Import Bank (NEXIM)
  - Agricultural Credit Guarantee Scheme (ACGS)

ROAD AHEAD...

- Entrepreneurship Development Centres (EDCs)
  - CBN's effort to supplement the efforts of SMEDAN and others in skill acquisition and business management
  - Provides centres to teach skills on running businesses--- one per geopolitical zone
  - The EDCs will be supported for a while and ultimately passed to the private sector
  - EDUCATION, EDUCATION: TECHNICAL AND BUSINESS EDUCATION AS COMPULSORY (treated as General Studies)
  - Population control measures--- through public education
  - National identity system:
  - Land reforms
  - Fix the infrastructure– power, transportation, security, etc
  - Fix the commercial court system

VII: CONCLUSION

- Only an INCLUSIVE national development will be SUSTAINABLE
- FINANCE CAN greatly assist in the war against poverty
- BUT FINANCE ALONE is NOT ENOUGH
- OTHER COMPLEMENTARY REFORMS NEEDED
- ALL NIGERIANS MUST WORK TO MAKE THIS HAPPEN

Thank You
For Your Attention

KEYNOTE ADDRESS DELIVERED BY CHIEF (DR.) J.O. SANUSI (CON), GOVERNOR, CENTRAL BANK OF NIGERIA AT THE OPENING CEREMONY OF THE SEMINAR ON CASH HANDLING,AUTOMATION AND MANAGEMENT HELD AT THE EKO TOURIST BEACH RESORT, AKODO, IBEJU-LEKKI, LAGOS ON 23RD FEBRUARY, 2004.

The Hon. Minister of Finance,
The Deputy Governor, Operations, Central Bank of Nigeria,
Managing Director/Chief Executives of Financial and
Non-Financial Institutions,
Directors and other Executives of the CBN
Distinguished Participants,
Ladies and Gentlemen.

It is a great honour to be invited to the opening ceremony of this seminar as the special Guest of Honour, and my pleasure to present the keynote address on the seminar theme, "Cash Handling, Automation and Management". The seminar, which is organized by the Central Bank of Nigeria (CBN) in collaboration with the Financial Institutions Training Centre (FITC) is an important one, recognizing that the Nigerian economy remains largely cash-based, despite the current efforts to evolve a cashless society. For example, up until December 2003, the currency ratio of narrow money (M1) was in excess of 40 percent compared to less than 10 per cent in most mature economies.

2. Over the years, from the inception of the Central Bank of Nigeria in 1959 up until the mid-1980's, currency management in Nigeria was a simple and straight-forward operation because the magnitude of currency in circulation was low in absolute terms. For example, from a

low of ₦154.2million in 1960, total currency in circulation in the country increased steadily to ₦505.1 billion as at the end of 2003. Indeed, from the later part of the 1980s, the amount of currency in circulation grew rapidly. The significant increases in the volume of currency issued by the CBN reflected the inflationary effect of the expansionary fiscal operations of government funded through the monetization of crude oil export proceeds and deficit financing by the banking system, particularly by the CBN. Consequently, the task of currency management became a more difficult and challenging task, creating various problems for the monetary authorities. Important among which were: supply shortages, storage, distribution, processing and disposal.

3. Distinguished Participants, Ladies and Gentlemen, it would be pertinent to outline briefly some of the efforts made by the CBN in the last twenty years to address these problems and enhance the efficiency of currency management in the country.

(i) Currency Processing:

The inadequate capacity of the Nigerian Security Printing and Minting Company (NSPM) to meet the CBN demand for mint notes to cater for the increasing transaction need of the economy resulted in massive importation of currencies from foreign countries. Moreover, in 1987/88, currency processing/sorting which hitherto was manual, was automated. It was through this project that the Bank had been able to speedily retrieve reasonable quantities of clean notes from those deposited by the banks for re-issue and put into circulation. The currency processing/sorting project had undergone tremendous expansion ever

since and today, there are about 123 high speed modern machines in 20 outstations of the Bank nationwide. The attempt by the CBN to make the deposit money banks to participate in currency processing/sorting has, so far not yielded the desired response.

(ii) Currency Disposal

As currency processing/sorting had been automated and modernized, so also had been the disposal of unfit notes withdrawn from circulation. There are six (6) modern and environmentally friendly disposal machines located in six branches of the Bank. This process has, indeed, helped to reduce the level of dirty notes in circulation.

(iii) Currency Restructuring

It is pertinent to state that despite the continuous and phenomenal increase in the volume of currency in circulation and the acceleration of the inflation rate, the currency structure remained substantially unchanged up until 1999. Between 1999 and 2001, however, higher currency denominations, including the ₦100, ₦200 and ₦500 notes were introduced to reduce the volume of currency– in-circulation, reduce costs and make management to be more amenable. Although a new coin structure (which includes ₦2 and ₦5) was approved in 1999 along with the banknotes, we are moving cautiously in their design to ensure that they are acceptable to the public, when issued.

(iv) Revamping the NSPM PLC

As you are all aware, the problem of inefficiency in the NSPM PLC is being addressed in a comprehensive manner in the context of the on-

going structural reforms of public sector institutions. In this regard, the company will be revamped through privatization. The ownership structure of the NSPM PLC has been reviewed to facilitate the reforms.

4. Ladies and Gentlemen, it must be admitted that our efforts towards efficient and effective currency management may remain futile, if we do not promote and develop alternative means of payments, including the use of cheques, credit cards, electronic transfers, etc. When these alternatives are developed, cash usage would be minimized along with the attendant problems.

5. The Nigerian payments system remains largely cash-bound as a large proportion of financial transaction is not channeled through the banking system, thereby constituting leakages in monetary management. In this regard, the CBN has remained focused in enhancing the efficiency of the payments system by developing alternative payments instruments. Efforts aimed at promoting chequeing habit in the country, including the promulgation of the Dud Cheque Act have yielded less than desirable results, largely because of the difficulties in enforcing the law. Nevertheless, spirited effort continues to be made to enhance the efficiency of the payments and settlement systems in Nigeria. Notably, the Nigeria Automated Clearing System (NACS) has gone live in the Lagos Clearing Zone, while the remaining 21 Zones have been partially automated.

6. The clearing cycles have been considerably reduced to conform with international best practices. Satisfactory progress has been made

in the drive towards electronic banking in the country to encourage the use of electronic modes of payment. The CBN has also embarked on the Real Time Gross Settlement (RTGS) project, which is expected to go live in the third quarter of this Year. The strategy for a comprehensive reform of the Nigerian Payments System is being drawn up by the National Payments System Committee.

7. Ladies and Gentlemen, it would be unrealistic to create the impression here that the CBN has all the capability for achieving an efficient currency management in Nigeria. We, therefore, consider that the time is now opportune for private sector participation in currency management, particularly, in the areas of currency movement and processing. This seminar would not have come at a better time than now, when every effort is being made to increase the role of the private sector in the economy.

8. I am reliably informed that eminent resource persons with years of valuable experience, both from within and outside the country have been invited to facilitate at this seminar. It is my hope that at the end of the seminar, the problems associated with currency management in the country would have been identified and appropriate solutions proffered. I wish you all active and successful deliberations.

9. Finally, it is my privilege to declare this seminar open.

10. I thank you for your kind attention.

CHIEF (DR.) J. O. SANUSI, (CON),
GOVERNOR,
CENTRAL BANK OF NIGERIA.

FEBRUARY 23, 2004

PRESS BRIEFING ON THE DEVELOPMENTS IN THE BANKING SECTOR BY THE GOVERNOR OF THE CENTRAL BANK OF NIGERIA, PROF. CHUKWUMA C. SOLUDO.

The Bankers Committee held an emergency meeting on Saturday, 21st March, 2009, and reviewed developments in both the international and the domestic economy with special focus on the banking sector.

As part of the response to the global economic crisis, the Bankers Committee reached the following decisions:

Interest Rates

- It was observed that interest rates have recently risen to levels considered to be intolerable and not supportive of the desired economic recovery. Accordingly, the bankers decided that they would not source deposits at rates above 15 per cent.
- They would also observe a lending rate which will be at most 7 per cent above the deposit rate. All other charges would be at most 2 per cent. This implies that lending rates will not exceed 24 per cent at the maximum. This regime will be in place up to end December 2009 when a review will be undertaken.
- On the discount window, the Central Bank of Nigeria would lend to the banks at rates not more than 500 basis points above the monetary policy rate (MPR)

Exchange Rates

The Bankers committee noted the salutary effects of the recent reforms in the foreign exchange market with the appreciation of the Naira in the parallel market. In order to sustain the momentum, the CBN intends to sell US$100 million to the Bureau De Change

(BDCs) on a weekly basis to further dampen the rates in that segment of the foreign exchange market.

It should also be noted that the CBN will fund fully the demand in the RDAS representing all eligible transactions.

Consolidated Supervision

The consolidated supervision scheme, that is, the joint examination of banks by the following regulators would begin this year:CBN, SEC, NAICOM and NDIC

CONCLUSION:

These decisions have been taken in order to stimulate lending and get the economy back on track. When the situation normalizes the market will be allowed to play its role. The CBN will continue to monitor developments in the money market and stands ready to take appropriate actions to ensure liquidity and stability of the financial system.

Thank you for your kind attention.

Prof. Chukwuma C. Soludo, CFR
Governor,
Central Bank of Nigeria,
Abuja.

February 23, 2009

THE GOVERNOR, PROF. CHUKWUMA C. SOLUDO'S BRIEFING OF THE SENATE ON THE GLOBAL FINANCIAL MELTDOWN
HELD AT
THE SENATE CHAMBERS
ON TUESDAY, OCTOBER 21, 2008

Your Excellency, the president of the Senate,
Your Excellency, Deputy Senate President,
Distinguished Senators of the Federal Republic of Nigeria,
It is indeed a great honour for me Mr. President and the distinguished Senators to be here with my colleagues to address you on the global financial crisis and the possible impact on the Nigerian economy and even more so on what Nigeria is doing and what Nigeria should be doing in the context of the crisis.

Mr. President of the senate, I have come with my colleagues and I also like to say it basically as it is and I will tell you as it is. Four years ago, I did say to this house but not as a group like this that our financial system was in trouble and needed a fundamental change but I don't think many believed this. But we took the steps that were necessary, all be it unpopular and today I am here in the wake of another, all being the global one, therefore Mr. President, what I will also tell you is also what you see because we examine these banks, we supervise hem. The information I will like to share with you are truly as they are.

I know in this time, particularly when there is some perceived crisis, various people have their own data bank and peddle all manner of information and some people have rolled out numbers which I don't know where they got them from. That is what you get when you have a crisis. But what I will share with you now, Mr. President, distinguished senators is simply as it is. And I want to thank the Senators for being responsible for organizing this kind of briefing because the financial system whatever it is, the level of poverty incidence in Nigeria by the last count is about 54 percent, whether we are going to fix the infrastructure decay, whether we are going to resume roads and reduce poverty, whatever it is we want to do, the financial system is at the heart of it.

Currently, this year alone the total credit by the banking sector to the private sector is more than the total expenditure of the federal government. So far, that is up to the end of September and in years to come, it will even be much more so. Everywhere in the world, it is basically the financial system that oils the economy and therefore, whatever happens to the financial system especially in Nigeria's case where the banking system account for more than 90 percent of the assets of the financial system, banking system is the de-facto driver of financial system in Nigeria. Whatever ails the financial system ails the economy. And therefore, I want to put it in context of this public presentation to the senate that there should be nothing more important in the discourse of the national

economy than to be able to be sure that our financial system is in a form that will not only see us through today but will also be able to see us through tomorrow and I want to thank you very much.

What are the stylized facts? My colleagues have elaborated on the nature of the crisis abroad, the financial derivatives, the unregulated market especially in Europe and OECD markets, the easy money and this has not even been emphasized, the low interest rate and the easy monetary policy in these economies that provided what economists call the ***moral hazard*** that is causing irresponsible behaviour in lending even to people that don't have the capacity to repay. What happened? This is what has now imploded and when it imploded, these people could not service the loans.

There is a fragmental regulatory regime in many of these markets. They tried to divorce the banks; I mean several of the banking activities were actually not within the ambit of the regulatory policy of their Central Banks. Now, we see in the US, several of them are coming back and have divorced. Now when the shock came, their banks began to make huge loses. Several of them were posting cumulatively 20, 40 billion dollars cumulatively as loses and as they wrote off these losses, that eroded their capital base, especially in the market that were so heavily connected with the US market. That led to credit crunch and with the credit crunch then reverberated around the world. A lot of the markets in the world have also borrowed

heavily because of these interdependencies; several of these markets became also affected.

One key point is the late response by many of the governments. There was loss of confidence in the market and the contagious across the financial markets around the world. I mention late response so as to underscore the point I will make later because here we tried to act in a most proactive manner in anticipating what will possibly go wrong and we have been acting, acting in anticipation of this.

What are the potential effects, what are the likely ways that the crisis could affect the Nigerian economy? Of course the first one is as crystallised and that is the commodity prices. Because of the down turn of economic activities globally, the oil price has come down significantly, the Minister of Finance has mentioned that from 50 percent, certainly in excess of 40 percent.

The institutional investors, at about late March in Nigeria existed Nigeria's capital market or at least sold down. Faced with credit crunch in their markets, with some of them under pressure to repay some of their facilities; sold their holdings in some of the most profitable markets. When some of them sold, prices came down significantly in late March and what then followed was some bit of panic, panic on the part of the nascent investors. If you also recall, several of the investors in the capital market have gone in there for

speculation and not to invest and hold. One of the first rules you learn when investing in capital market is that you do not put in money you cannot forgo or you put in money for a long term. If you want short term, you go to the money market. But this was lost and a lot of people went for speculation and once the first shock came, prices came down; many people panicked and went to sell. Banks on their part for risk management purposes, wanted to cut their losses and they stopped giving facilities to people to go to the market and were recalling some of their existing facilities.

So, you have two things, first the liquidity that was flowing into the market dried up and many people wanted to sell. There was only one way the market could go, up and it is important to understand the context of why our own capital market and how it is linked to what is happening globally. Of course potentially, it could affect trade finance for the banks. But Mr. President it is good to know that on the aggregate, indeed trade finance to the banks has not actually gone down relative to where we were last year, it has actually increased.

Banks depending on credit lines from overseas for example in some countries abroad Asia, their credit to deposit ratio, some of their banks went as high as 350 percent, that means they were even lending out of the borrowed money from abroad. We don't have that here, that is why when it came, most of their own banks

started crumbling and this is the situation around most countries of the world.

This is not likely to happen in the case of Nigeria. Potentially if you have the currency crisis, in South Africa today, the currency depreciate by more than 40 percent and many other emerging markets have experienced that, we have not experienced such depreciation. The reason is by the time institutional investors portfolio exit your market, they are demanding for foreign exchange and therefore, a currency will depreciate. Many countries are having that we are not yet having that. Thank goodness, we have a buffer of foreign reserves to be able to shore up and deepen the currency. This has not happened.

Potentially, you could have counter party risks in the sense of where you put your reserves, are those banks safe and sound? And so far, I want to tell you Mr. President of the Senate and distinguished Senators that so far, the CBN is very , very vigilant. First of all, we insisted on putting our reserves in certain grades of banks- triple 'A's and so on, and the one when we noticed that it was beginning to fall, we moved out from there. I want to say Mr President and distinguished Senators that our foreign reserves are safe, very safe and will remain very safe in the sense that the institutions where they are, even though they are all triple 'A' rated but also these are now the countries where they have signalled that no bank should be allowed to fail by putting out resources if

necessary to recapitalize it. So our foreign reserves are safe.

There are second round effects, these are first round possible effects. The second round effects, the physical constraint have been mentioned because of our dependence on oil and oil revenue. Then the asset quality because of the exposure of banks to the capital markets, could potentially deteriorate, some of the assets could become non performing, that is when the borrowers borrowed money, invest in the capital markets and unable to service the loan or pay back, then some of those loans will go bad, this is a potential risk.

But I want to say Mr. President, distinguished Senators; there are various factors that provided what we might call a buffer or an insurance that are helping Nigeria to weather through the global crisis. The first I must say Mr President of the Senate, is because the banking sector, thank goodness, I said this at the beginning, what is going in much of the rest of the world in terms of recapitalising their banks, assurance for deposit and so on were completed in Nigeria three years ago. So, the banking sector consolidation, the recapitalization of our banks happen to provide the most important buffer that is helping to shield us from the full weight of the global financial crisis. Before the recapitalization of our banks, the non-performing total loan was about 23, 24 percent getting to about 25

percent, then it ought to trigger off financial systemic distress.

With the recapitalization of our banks three years ago, the capital … ratio of our banks was about 23 percent today, the recommendation is about 8 percent, now being moved to 10 per cent. Indeed many of the banks abroad that have capital … ratio up to 8 percent, one of the banks now has 9.7 percent ratio, 8.5 percent, 10 percent. It is not something they will show you that they are sound. Average for Nigerian banking system happens to be one of the most capitalised banking systems in the world today.

And this, Mr. President, means that our banks have the muscle to be able to take losses, it means even if some of their assets or loans they have given go bad, they have the muscle to write them off. It means as well that when they write them off, they will still have the capacity to extend more credit.

The second point is that unlike what is going on in most parts of the world, many of the companies quoted on the Nigerian Stock Exchange are making profit, declaring dividends. Secondly, most of the Nigerian banks if not all, have their resources formation since this year have all been declaring profit unlike what you find in most countries of the world where they were declaring losses and thereby writing off those losses. So, the contexts are different and it is those looses that actually eroded their capital and thereby provided

the basic for their government to inject money into the economy. We don't face that in Nigeria today, Mr. President, distinguished Senators.

On the capital market, as you could see, within this month of October alone because of the contagious effects a lot of the markets in the emerging market lost value, I think Taiwan or so lost 30 percent, several of them lost more than 60 percent of their capitalization.

But let me say something, this is something that affects a whole lot of Nigerians especially the middle class and I don't know the extent to which distinguished senators are also affected because wherever I go even at social functions, you hear people calling and saying you people must do something about this. I borrowed money to buy shares and it has gone down, you people should do something to prop it up. I can tell from the smile on people's faces that this is the question on everybody's mind. But one fact, Mr. President, that I want to stress is that in spite of the shock we have in the capital market, in spite of the capital market meltdown, compare to other exchanges, American Exchange went down to about 6 years loan by this October, the London Exchange went down about 5, 6 years loans and several other exchange went down 5, 6, 7 year loan. It is important to state Mr. President, Distinguished Senators, that the largest capitalization of the Nigerian stock exchange as at the date that this present administration took over, actually the eve

of the swearing in of Mr. President on the 28th of May was gross of total market capital of 8.14 trillion, the equity share which is what most people watch everyday was about 7.12 trillion, that was the total market capitalization. By the end of May last year, the total market count was 8.4 trillion, the equity part which was the bid we all watch everyday was 7.38trilion of the market capitalization. As at yesterday, the total market capitalization of the whole exchange, equities and bonds was 12.75 trillion and the equity's part was 9.365 trillion. In percentage terms, even on the equity part which has been the most volatile component of our stock market relative to where it was at the commencement of this administration, we still have a positive of about 27 percent. Relative to the eve of the commencement of this administration, it is about 31 per cent. This point is often lost in the discussion because probably we saw it balloon to about 12.6 trillion in March this year and then coming down but we have to put it in context in terms of where we are coming from.

What have others done and what have we done? Most of other markets have responded, you can put them in six bouquets. First, there is liquidity injection by their central banks; second cut in interest rate, bail-out plan of distressed institutions, banks and companies. I said bail out plan for distressed institutions. No government is going there to intervene in order to prop up prices in the markets. You can bail out distressed institutions; you don't bail out the market, deposit guarantees,

that's what we did in banking sector consolidation, guaranteeing deposits, they are also doing the same thing because of loss of confidence, purchase of …assets, fiscal expansion.

What have we done? Almost each one of these, we have done something proactively. We did not wait for our banking system to collapse before we did our own capitalization. If you remember, I said part of the crisis today in many of these markets is that they reacted too late. We did not wait for our banking system to collapse before embarking on recapitalization. So we have finished our own recapitalization which is part of what they are doing today. On guarantee on private sector deposit, we did the same thing then. We restricted government ownership in our banks and restricted foreign ownership of our banks and this has proved, with the benefit of hindsight, to be beneficial because many of these were transmitted via Diaspora ownership of banks.

We proposed an asset management company during consolidation programme but it was not passed by National Assembly. This is the time, Mr. President of the Senate, Distinguished Senators; this is the time to pass the **Asset Management Company where banks and other financial institutions will go to sell some of their distressed assets.** We need it like yesterday.

There is liquidity surge in the banking system, we suspended mop up operations, extended our discount window and ready for long term lending to the banks. We have allowed our banks to restructure some of their exposure to the capital market for up to the end of next year. We have taken steps to safe guide Nigeria's foreign reserves and the SEC has also reduced transactions cost of the exchange.

What are the other measures, the summary of what I have said so far distinguished Senators is that the circumstances of our banking and financial system happens to be different from what is happening in the rest of the world. Much of what they are doing today as a reaction is actually what we have done two years ago. But in order to pre-empt and make sure that the contagion does not wipe out our own system, we have also taken proactive measures by making sure that the system is as liquid as possible and we have opened our lending window to be able to extend credits to any bank as much as we can. And that is why the inter bank rate is still slightly less than ten per cent today. Confidence is taking a while to restore everywhere.
There are other measures we took, we said it to our banks and I want to say this to Distinguished Senators, that distance from where we see our banks, where they are today and with the contingency plan that we have in place, no Nigerian bank will be allowed to fail. At the extreme we have opened our window to be the lender of last resort. That is part of our function as the Central Bank to be able to extend credit and as the

lender of last resort; no Nigerian bank will be allowed to fail.

Second is that, in the limit of it, let us even assume that the banks exposure to the capital market gets bad, at most we could also have arrangements to take off some of those assets from their balance sheet and free them off from those assets. We need to recapitalise, *this bit should be a discussion within the executive about the development banks to recapitalize*, the development banks to make them much more vibrant,

Today, the market is failing; we are trying to expand that even further to make it more liquid. Credit to the private sector as I mentioned up to the end of of September was about 2.3 trillion actually. The banks exposure to the capital market is barely about 9.6 percents of their aggregate rate.

On annualized basis, I did say that credit to the private sector as at end of September have grown to about 71 percent from the end of December last year, this is against the target growth rate of 30 percent which was set. So even if they don't extend any credit again for the rest of the year, they have already exceeded the target for the year. The total non performing loan of our bank is miniscule, at about 5.9 percent. The stage it gets and you begin to think of distress is about 20 -25 per cent. US dollar is much stronger; this is the good news of the global financial

crisis that it has not metamorphosed into currency crisis. To be frank, the dollar has in recent weeks strengthened against other major currencies in the world.

And one of the buffer that we have as insurance in Nigerian economy is that our productive sector is still dominated by the non-oil sector. It is still dominated by agriculture at about 40 percent and this is not so much responsive to the global financial crisis and this is why output is still expected, we are not likely to get into a recession. Second quarter GDP growth rate was about 8.5 percent for this year and I don't think it will be greatly dampened by next year.

Foreign reserves, as at end of August, the total foreign direct investment was 8.5 billion dollars compared to last year, it is expected that every year will excess the total for this year and trade finance has not fallen

In conclusion, I have tried to lay in details the difference between the two regimes, what is happening, where we are and why we would likely survive. But there are challenges going forward and that is the responsibility for this Hallowed Chamber, the Senate. I think there are several bills before the National Assembly that should have been passed like yesterday that are needed to strengthen the financial system. The banks and other financial institutions Acts has been here since early 2006. It still requires

amendment to strengthen the regulatory capacity. There is a bill for consumer credit, it is before the National Assembly, and mortgage reform is before the National Assembly.

Mr. President, Distinguished Senators, these bills need to be passed urgently because they are required to unleash the boom in Nigeria's financial system and also useful for moving the economy forward. There are several other legislations pending here that I think my own recommendation is that we could treat them like the way the US Congress treated their own stabilization Act and emergency. We could say within the next 100 days let us pass ten most critical legislations required to strengthen the financial system and move the economy forward. We can select those ten major legislations and several of them have been pending here for years now. This is the time to have that as an emergency and that's what we do at the executive and I think I will leave that, I just want to focus essentially on the agenda of the National Assembly.

Thank you, Mr. President of the Senate.

KEYNOTE ADDRESS DELIVERED BY THE GOVERNOR, CENTRAL BANK OF NIGERIA AT THE 14TH ANNUAL BANKING CONFERENCE HELD ON THURSDAY, 19TH SEPTEMBER 2002

The Managing Director and Chief Executive Officer,
- Maryland Finance Company and Consultancy Services Limited,

Managing Directors and Chief Executives of Banks here present,
Captains of Industry,
Distinguished Guests,
Ladies and Gentlemen,

It gives me great pleasure to be here this morning as your guest and to deliver the Keynote Address at this year's 14th Annual Banking Conference. The Annual Banking Conference, which started fourteen years ago, compares favourably with the World Bank Conference organized by the Financial Times of London. The Annual Conference is designed to provide all stakeholders in the banking industry a forum to discuss contemporary issues on the practice of banking in Nigeria. The Conference being the 14th in the series, is a clear demonstration that previous conferences had not failed and I want to congratulate the organisers: Maryland Finance Company and Consultancy Services Limited, especially its Chairman/Managing Director and Chief Executive Officer, Mr. M.A. Kazeem, *FCIB*, for his efforts in organising the conference.

2. The focus of this year's conference, "Advanced Telecommunications and their Continued Imperative to the Financial Sector of the Economy", is quite topical as it brings together the relevant issues arising from the advancements in telecommunications and the need for quality banking services in Nigeria. It is very important that we understand these issues, particularly the need for new initiatives and innovations in telecommunications, so as not only to sustain the relevance of an effective and efficient telecommunications system in Nigeria, but also to improve on the banking culture among Nigerians. More importantly, the conference theme is of greater relevance to us now that mobile and electronic banking (tagged m-banking and e-banking in the telecoms parlance) has debuted in the Nigerian banking industry.

3. As you are aware, telecommunications combine the need for interaction with the application of technology to facilitate the process of delivery of information. It is important to note that, communication itself, deals with the interchange of information between two or more parties on an issue or event, such that a message from one person is delivered to another person. Communication is said to be effective when all the parties have the same

understanding of the issues or events involved. On the other hand, technology which is science-based, provides innovative ways to solving life's problems and to helping people clearly understand what is being communicated. It is therefore imperative that we understand the link between telecommunications and technology because it presents a vivid picture of their relevance in the banking and financial services delivery.

4. Distinguished Participants, you would recognise that the essence of the use of telecommunications in the delivery of financial services is to enhance the capacity of the operators to solve problems for their customers and other stakeholders. The right perspective is therefore, to ensure that financial institutions do not invest in irrelevant technologies to the detriment of the stakeholders. It is also to ensure that the peculiarities of present day banking practice and the interest of the clientele are considered, when banks embark on the decision to deploy telecommunication and technological innovation in its delivery of banking/financial services.

5. At this juncture, permit me, Ladies and Gentlemen, to outline some of the advantages of this linkage between telecommunications and technology in the delivery of financial services in Nigeria. As you all know, telecommunications work to facilitate interactions between people and business organisation and, in particular, make those transactions more efficient. We are also aware that some of the performance indicators of transaction efficiency include, response time, turnaround time and delivery time – all bordering on the timeliness of conclusion of transactions. Added to these time-related issues is convenience, especially in these days of modern banking, which put tremendous pressure on the operators to carry their services to the doorsteps of their customers.

6. You are also aware that, the use of telecommunications in the financial sector has helped to drastically reduce or sometimes completely eliminate the need for physical interaction between the banker and his/her customer every time the latter has a transaction to effect. Thus, wherever telecommunication services are available and there is firm and sufficient inter-connectivity between the service providers, banking services (i.e. mobile and electronic banking) can be rendered with little or no hindrance.

7. Electronic banking or e-banking connotes the form of banking transaction in which both the bank and customer interact electronically, via a telecommunications device, rather than the physical exchanges or direct physical contact. E-banking relies on the existence of adequate operational infrastructure like telecommunications and power. As you are all aware, the introduction of the global system of mobile communications (GSM) has improved the telephone facilities in Nigeria, but the number of lines remains

inadequate and far from optimal. The inadequate supply of telecommunications infrastructure in Nigeria has therefore resulted in low usage of internet technology and this has, in turn, adversely affected our general acceptance of mobile and electronic banking.

8. We all recognise that, m-banking and e-banking should be operated on a 24 hours in a day, and 7 days in a week, basis. You would agree with me that this cannot be achieved except there is a reliable source of electricity supply. This brings us to the need to develop our infrastructure, particularly telecommunications for the purpose of improving the commitment of the service providers to deliver excellent services as well as in promoting the technical capability of bankers, to utilise the opportunities offered by technology.

9. The Federal Government has, however embarked on some far reaching reforms, aimed at improving the supply of electricity in Nigeria. Those efforts have started to yield positive results, which would definitely help the banks to reduce the cost of financial intermediation, as well as revolutionize banking services in Nigeria. However, until the telephone system and supply of electricity in the country are both optimal, some banks that have installed Wide Area Networks in order to provide online services to their customers, would have to contend with network failures from NITEL, which are often due to insufficient communication lines, inadequate bandwidth or incessant power failure. I would at this juncture, also like to call on Nigerian banks as stakeholders in the economy, to invest massively in technology, telecommunications and people (especially those that will apply the tools acquired) and to develop innovative ways of deploying these resources for the benefit of its customers. The need for aggressive recruiting and continuous training of internal and external technical support personnel cannot be over-emphasized. The lack of adequate information technology skills represents a critical problem that banks must address as they pursue mobile and electronic banking.

10. On the part of the regulatory authorities, let me reiterate that, we will continue to strengthen our capacity in these regard, so as to ensure system integrity and to advise banks on how to handle issues arising from our unfolding hi-tech banking environment. Distinguished Participants, Ladies and Gentlemen, permit me to sound a note of warning, that with all the advantages of telecommunications and information technology to banking, they also provide a veritable platform for frauds and hacking. As stakeholders in the financial sector, you must therefore ensure that the euphoria of m-banking and all other forms of application of advanced telecommunications do not obliterate

the need for adequate and firm controls, since technology can be both a blessing and a curse, depending on the user and intentions.

11. It is also my hope that this conference would, among other issues, consider the question of how far NITEL, would help banks in Nigeria to deliver efficient and quality financial services, both locally and internationally under the current reforms in the telecommunications sector. This Keynote Address is to set the pace for further discussions on the issues raised and provide the telecommunications and technological experts here, as well as the bankers some food for thought. In the main, the outcome should confer some advantages on the participating institutions and the individuals that represent them. There is no doubt in my mind that the future of banking business in Nigeria is inextricably tied to the extent to which we embrace advancements in technology and telecommunications.

12. Distinguished Guests, Ladies and Gentlemen, before I conclude this address, May I observe that from the high caliber of speakers invited to speak, each of whom I consider an icon in the area, and with the carefully selected list of topics for discussion at this three-day conference, I am confident that you will have a fruitful and rewarding deliberations.

13. I will be glad to receive a copy of the conference communiqué and I thank you for your kind attention.

Chief (Dr.) J. O. Sanusi
Central Bank of Nigeria

September 19, 2002.

Preserving Stability and Accelerating Growth

By

Prof. Chukwuma C. Soludo
Governor, Central Bank of Nigeria, *and*
Ag. Economic Adviser To The President

16th January, 2007

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II: Explaining 2006 Performance

HOW WE ENDED LAST YEAR		
INDICATOR	**2005**	**2006**
GDP [at current prices, Naira Value (Million)]	**14,572,239.11**	**18,067,833.96**
GDP [at current prices, Dollar Value (Billions)]	**114.74**	**142.27**
GDP Growth Rate	**6.51**	**5.63**
OIL Growth Rate	**0.50**	**- 4.67**
Non-oil Growth Rate	**8.59**	**8.93**

Source: National Bureau of Statistics
Note: US Dollar GDP Value at N127: $1

Explaining Macro Performance

GDP: What changed in 2006?				
INDICATOR	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
GDP Growth	**6.38**	**4.79**	**5.35**	**6.01**
GDP [Dollars (Millions)]	**31,324.95**	**32,406.84**	**38,392.16**	**40,142.48**
Oil	**0.08**	**-7.80**	**-6.23**	**-4.82**
Non-oil	**8.80**	**8.74**	**8.86**	**9.25**
Sectoral Growth				
Agriculture	**6.88**	**7.10**	**7.20**	**7.36**
Solid Minerals	**9.58**	**9.55**	**9.56**	**9.59**
Manufacturing	**9.17**	**9.04**	**9.83**	**10.02**
Telecommunications & Post	**31.49**	**31.64**	**31.81**	**32.58**
Finance & Insurance	**3.12**	**3.13**	**3.14**	**3.15**
Wholesale & Retail	**12.52**	**13.93**	**14.21**	**14.33**
Building & Construction	**12.07**	**12.17**	**11.83**	**12.43**
Others	**7.67**	**7.70**	**7.72**	**7.69**

Explaining Macro Performance ..cont'd.

- **2006: Growth Drivers**
  - Overall economic performance recovering following initial setback in the oil sector
  - Economic growth propelled for the most part by the non-oil sectors of the economy

- **Non-oil growth essentially driven by:**

	2005	2006
Agriculture	7.06	7.17
Manufacturing	9.61	9.71
Telecommunications	29.61	31.98
Banking & Finance	2.75	3.13
Wholesale & Retail Trade	13.51	13.73

- Non-Oil export grew by 24% in 2006
- Capital Market Capitalization as at end Dec.N4.2 trillion up from N2.5 trillion in 2005: Stock Market Index up from 24,085 to 33,189

Explaining Macro Performance ..cont'd.

Additional External Sources Of Funds For The Economy

- Diaspora remittances bring about US$4 billion annually
- FDI and portfolio inflows growing and bonds are oversubscribed due to high earnings in real dollar terms
- Capital Inflows doubling every year--- About $2.5billion in 2006---- portfolio and non-oil sectors
- Banks are acting as on-lending entities to foreign financial institutions especially multilateral agencies
- Guarantees and grants are growing

Monetary Policy's Set and PSI Targets Were Met….

- Growth in M2 = Target 28% vs actual of about 29%
- Reserve Money = Target N820 billion vs Actual of N776.9 billion
- Credit to the Private sector of approx. 30.9% growth.
  - Fiscal Policy was also largely on course

Explaining Macro Performance ..cont'd.

Confidence In The Economy Is Growing

- Sovereign rating expected to improve from BB- given performance indices
- Market capitalisation of US35 billion projected to double in 2007 and about $100 billion in 2008
- Capital inflows more than doubling every two years
- Low inflation, stable exchange rates and declining interest rates
- Rate of return on investment in dollar terms remains high
- Elimination of the external debt burden

EMPLOYMENT AND POVERTY SITUATIONS IMPROVING BUT CHALLENGES REMAIN….

- UNEMPLOYMENT (15- 64 years): down from 18% in 1990s to 5.3% in 2006, BUT:
  - Youth Unemployment (15- 24 years):14%-- (20% urban) and South-South 23.8%
  - Under-employment (15- 64 years): 20.2% (20.5% rural) and South-South 26.2%

Poverty incidence down from 70% in 1999 to 54% in 2004, but Regions differ…

Trends in Poverty Level by Zones (1980- 2004)

ZONE	1980	1985	1992	1996	2004
South South	13.2	45.7	40.8	58.2	35.1
South East	12.9	30.4	41.0	53.5	26.7
South West	13.4	38.6	43.1	60.9	43.0
North Central	32.2	50.8	46.0	64.7	67.0
North East	35.6	54.9	54.0	70.1	72.2
North West	37.7	52.1	36.5	77.2	71.1

Poverty is strongly correlated with size of household and level of education

---But individual self-assessment of Poverty status is different…

ZONE	Self-Assessment of Poverty Status	Actual Incidence of Poverty
South-South	74.8	35.06
South-East	77.6	26.74
South- West	71.5	43.01
North-Central	80.0	66.97
North-East	81.8	72.16
North-West	71.9	71.17

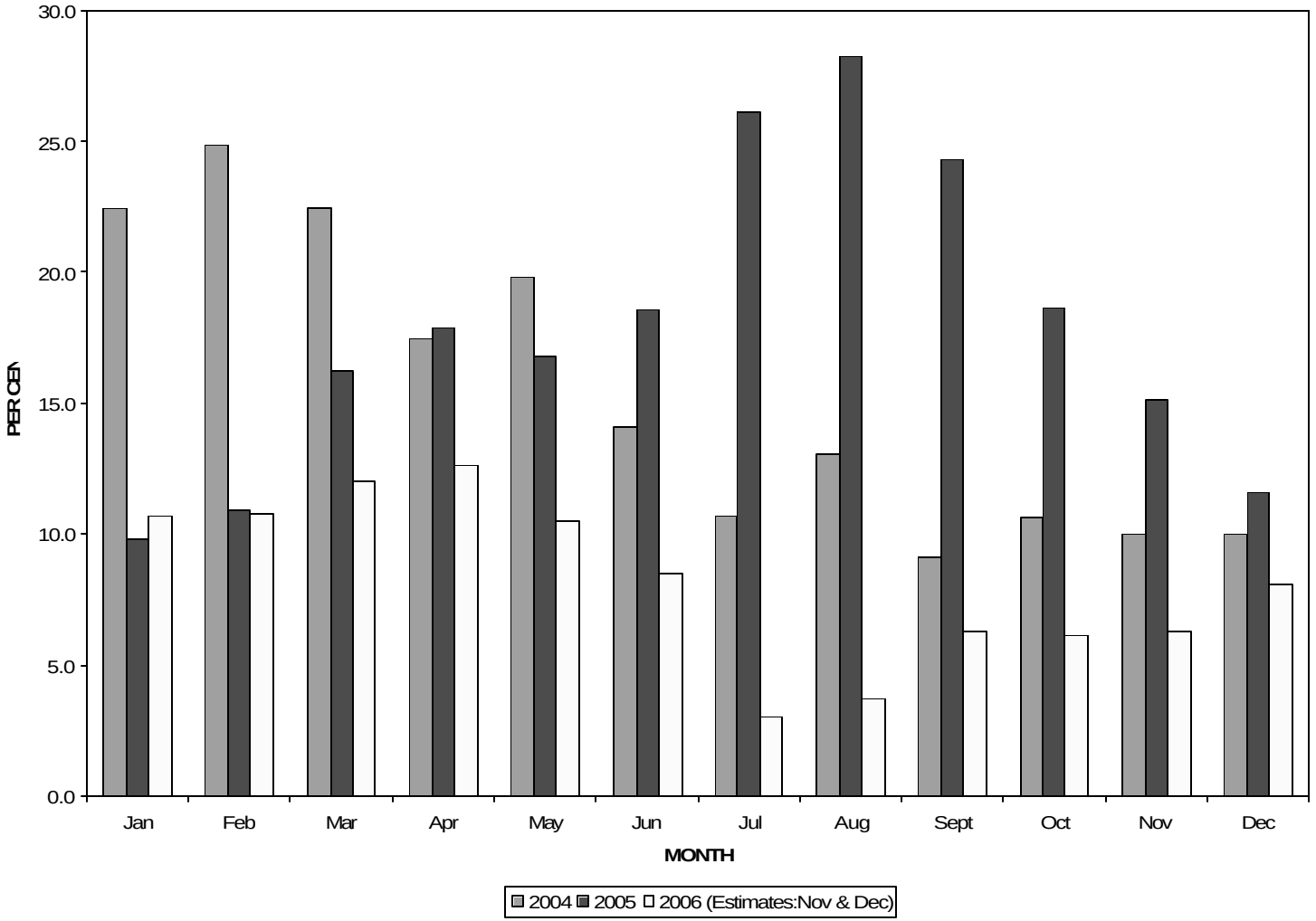
Very High Levels of Poverty is Essentially a Northern Phenomenon

10 STATES WITH HIGHEST INCIDENCE OF POVERTY	10 STATES WITH LOWEST INCIDENCE OF POVERTY
1. JIGAWA -----95.0	1. BAYELSA ---20.0
2. KEBBI -------89.7	2. ANAMBRA ---20.1
3. KOGI ------- 88.6	3. ABIA ---------- 22.3
4. BAUCHI ---- 86.3	4. OYO ---------- 24.1
5. KWARA ------85.2	5. IMO ---------- 27.4
6. YOBE ------- 83.3	6. RIVERS -------29.1
7. ZAMFARA ---80.9	7. ENUGU ------- 31.1
8. GOMBE -----77.0	8. OGUN --------- 31.7
9. SOKOTO ----76.8	9. OSUN ----------32.4
10. ADAMAWA– 71.7	10. EDO ---------- 33.1

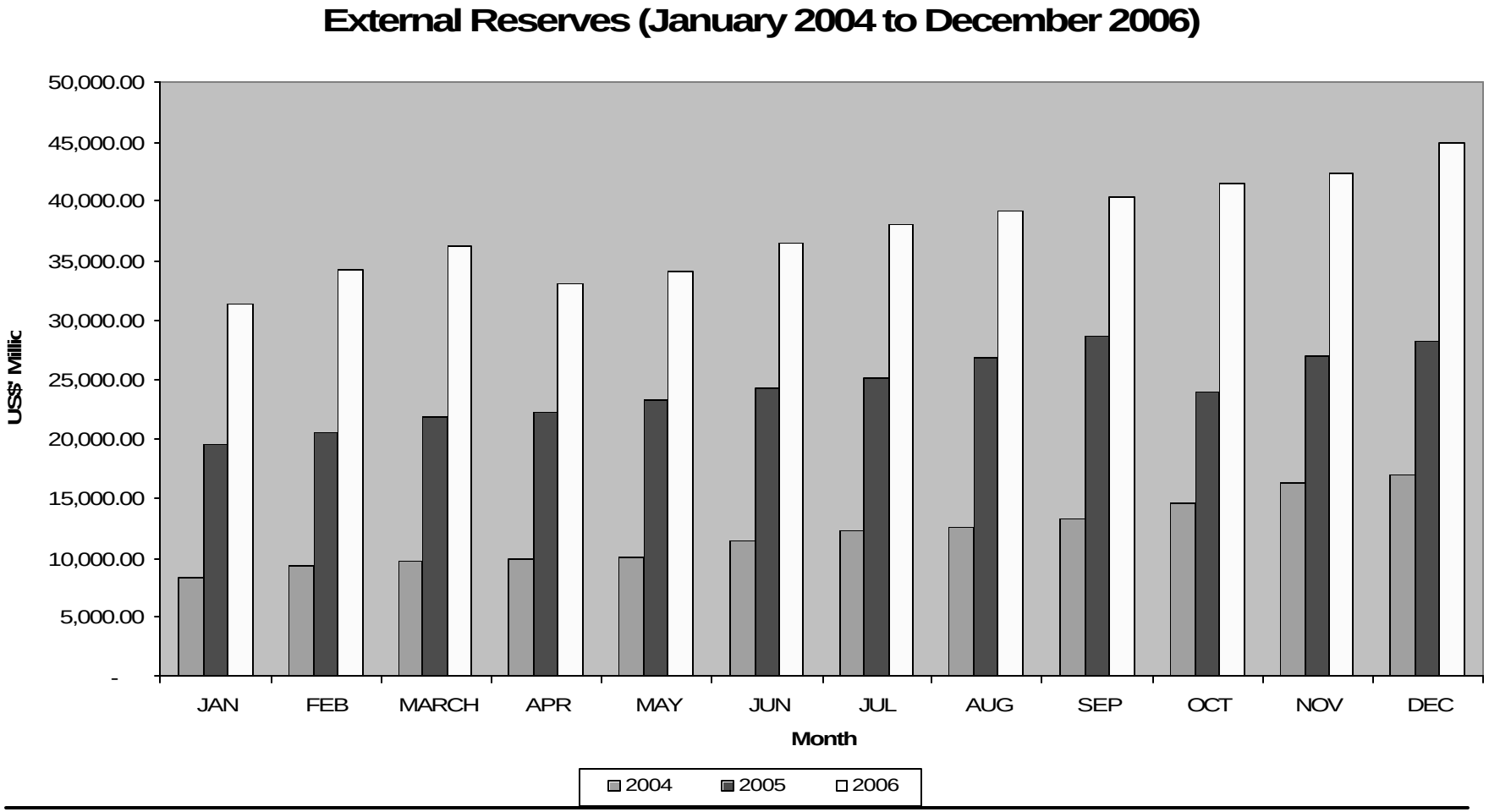
Where Is Nigeria's Money?

- Lagos State accounts for 48% of deposit, and 69.96% of total loans.
- FCT accounts for 16.86% of deposits and 4.6% of total loans
- 3 Zones in North (excluding FCT) have less bank deposit than South-South Zone
- Excluding FCT, 3 Zones in North account for approx. 10.75% of deposits, and 8.5% of bank loans. If we net out Govt deposits, the picture could be more gloomy.
- The above statistics corroborate the Poverty profile of the States/Regions
- The Poverty status in turn is highly correlated with Adult literacy rates; size of average household; orientation to private sector-led wealth creation as opposed to dependence on Government or few people; Active intervention of states/LG Government towards empowerment of the people; etc.

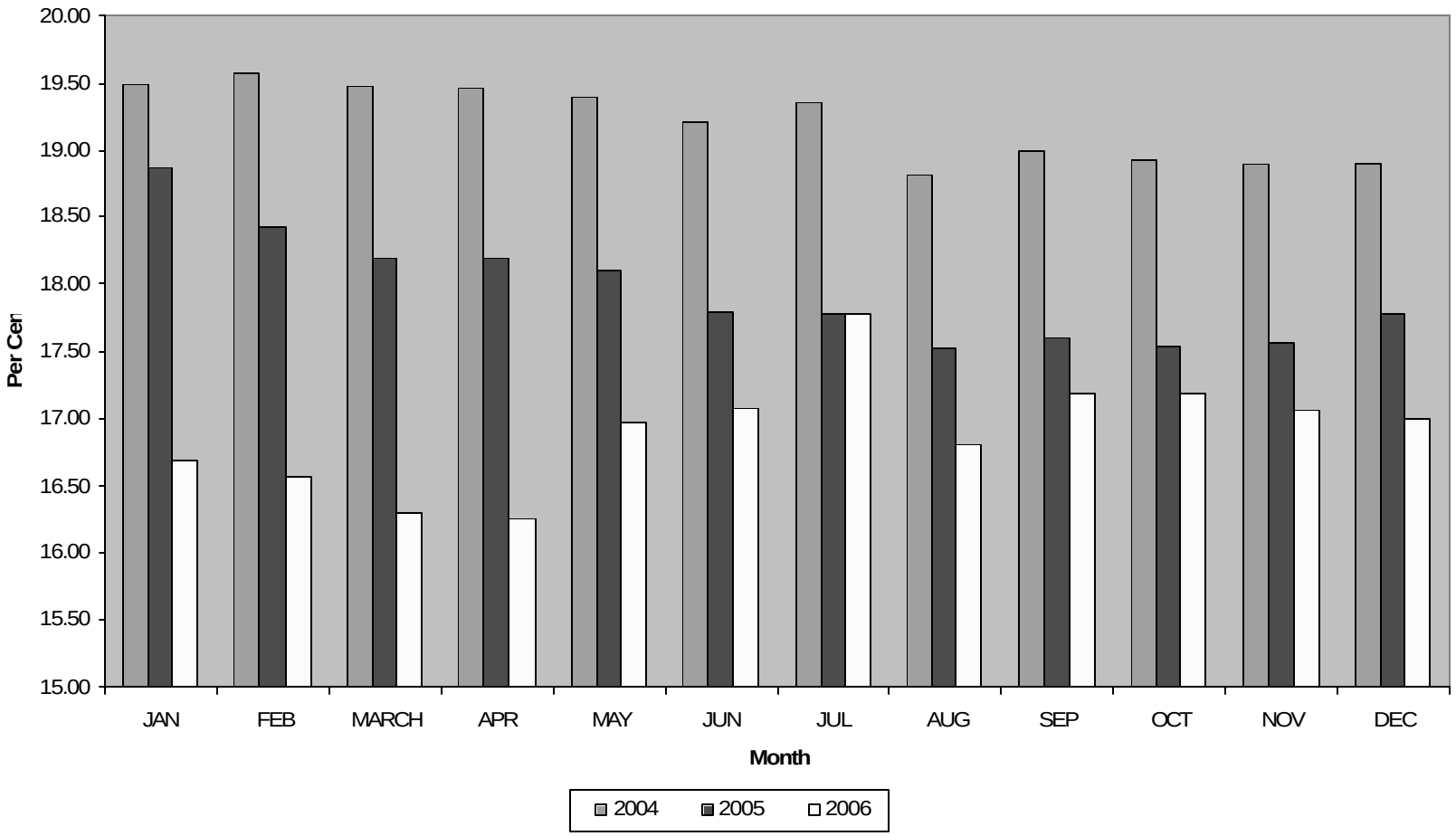
INFLATION RATES - ALL ITEMS (YEAR-ON-YEAR)



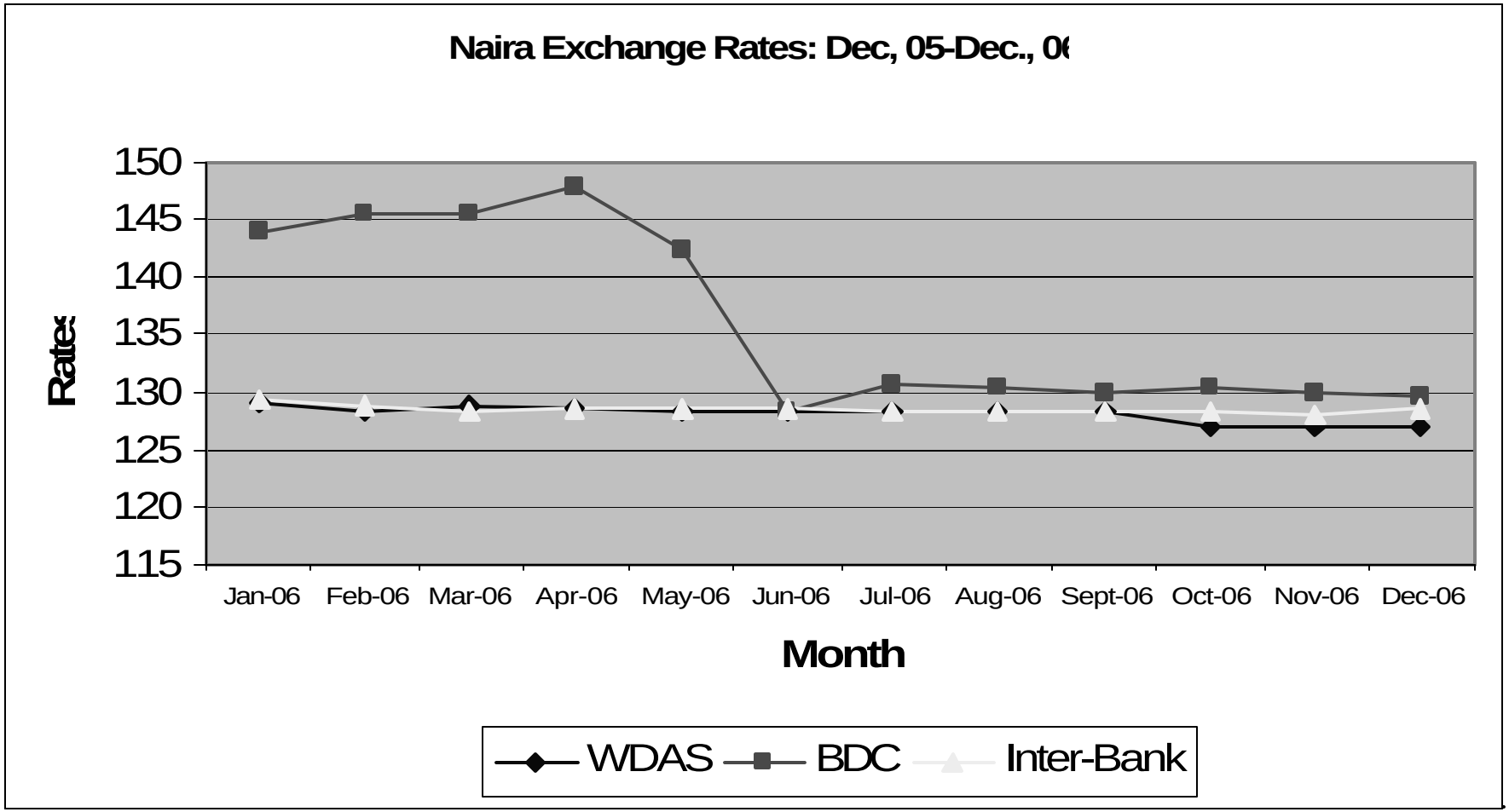
Sub-Saharan Africa's Largest External Reserves



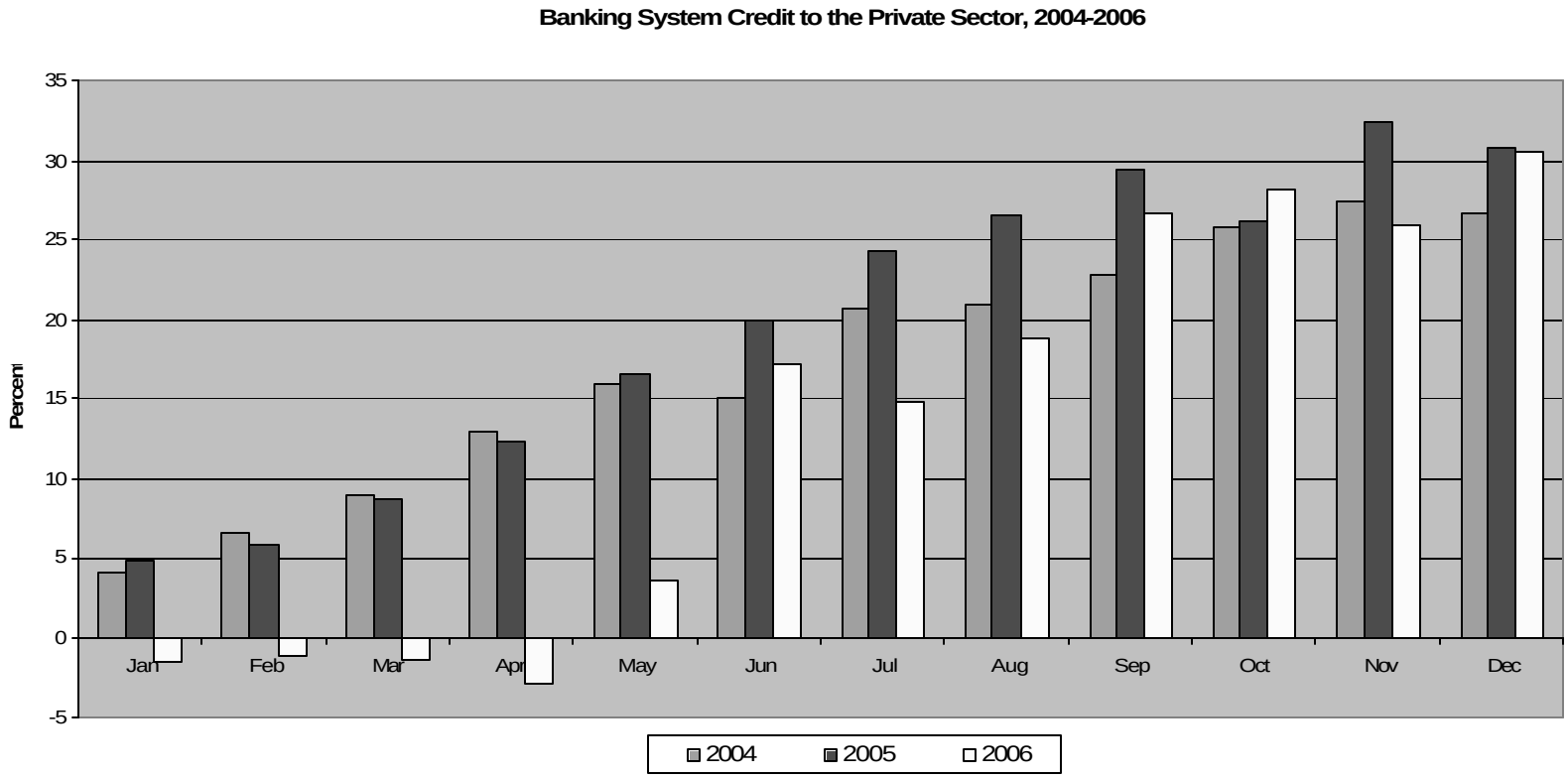
Prime Lending Rate (2004 to 2006)



Nigeria Has Finally Achieved Convergence In Exchange Rates After 20 Years

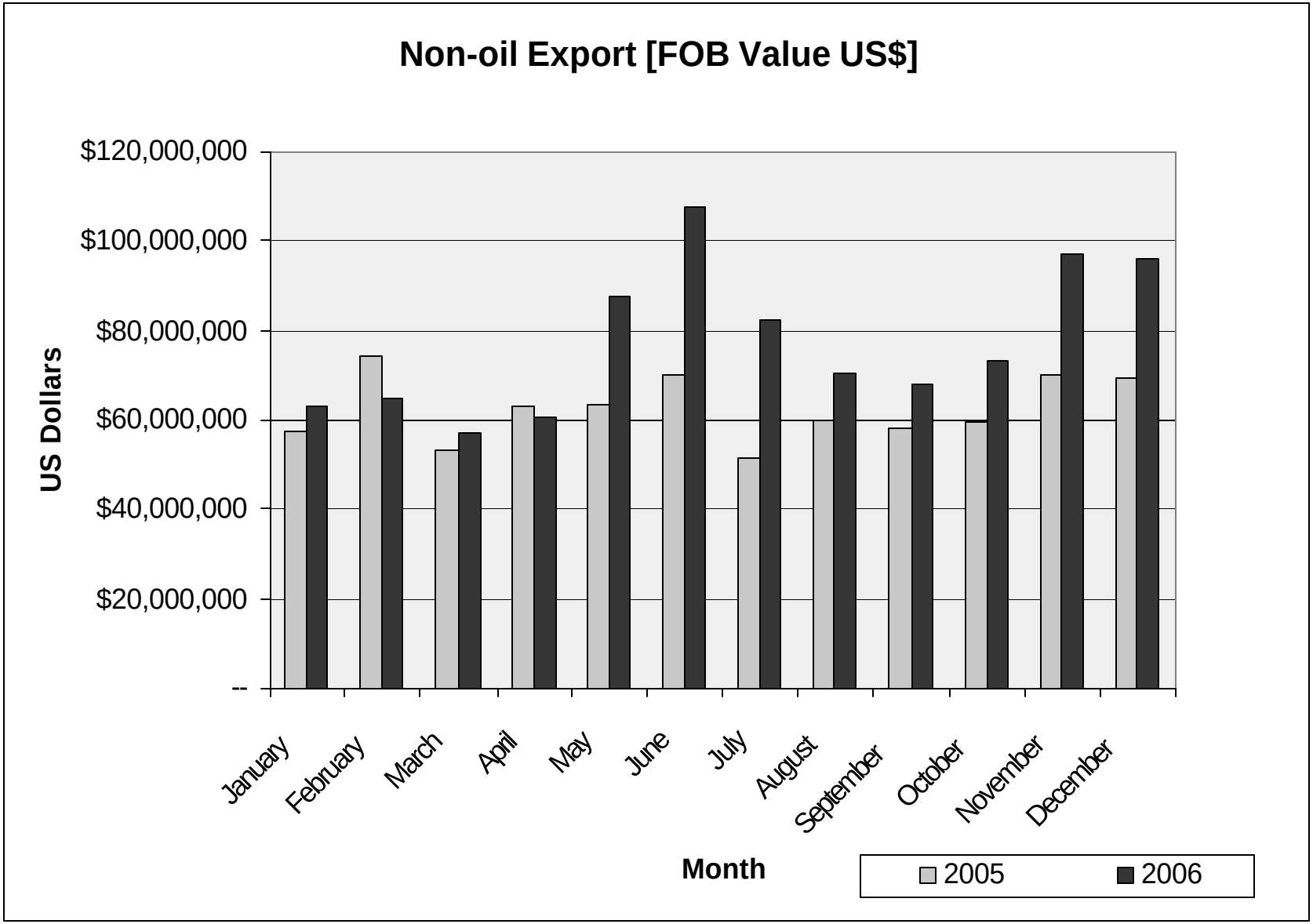


Banking System Credit To The Private Sector



Non-Oil Export ……..Growing

Non-oil Export [FOB Value U$]			
Month	**2005** US $	**2006** **US $**	**Variation %**
January	**57,657,613**	**62,933,104**	**+9%**
February	**74,340,350**	**65,106,600**	**-12%**
March	**52,967,250**	**57,174,820**	**+8%**
April	**63,164,253**	**60,351,165**	**-4%**
May	**63,291,380**	**87,826,134**	**+39%**
June	**69,675,816**	**107,705,245**	**+55%**
July	**51,501,855**	**82,539,018**	**+60%**
August	**60,186,405**	**70,513,253**	**+17%**
September	**58,079,476**	**68,072,709**	**+17%**
October	**59,293,716**	**73,484,904**	**+24%**
November	**69,725,599**	**97,022,496**	**+39%**
December	**69,586,506**	**96,120,357**	**+38%**
Year Total	**749,472,219.00**	**928,849,805**	**+24%**


Non-oil Export [FOB Value US$]
US Dollars
$120,000,000
$100,000,000
$80,000,000
$60,000,000
$40,000,000
$20,000,000
--
January
February
March
April
May
June
July
August
September
October
November
December
Month
2005
2006

Volume Non oil Export to top 11 Destinations

[FOB Value in US$]

Destination	2005	2006*	Rank 2005	Rank 2006*
Italy	133,016,717	142,057,126	1	1
Netherlands	118,927,419	86,497,187	2	2
Spain	52,423,046	35,087,391	3	3
India	37,688,143	34,656,004	5	4
China	26,949,217	29,992,987	8	5
United kingdom	28,240,921	28,033,671	6	6
France	38,672,027	27,972,947	4	7
Vietnam	-	24,636,766	-	8
Japan	27,919,418	23,942,642	7	9
Germany	19,101,363	20,064,687	9	10
Pakistan	15,001,071	-	10	-
ECOWAS	95,017,751	78,071,393	11	11
Others	156,515,127	131,209,247		
Total	749,472,219	662,222,048		

MAIN EXPORT PRODUCTS TO TOP NON-OIL EXPORT MARKETS

Country	Commodities
Italy	Leather, Rubber, Wood & Articles of Wood, Charcoal
Netherlands	Cocoa, Wood & Articles of Wood, Charcoal
Spain	Leather, Cocoa, Prawns & Fish
India	Cashew Nuts, Aluminum & Articles
China	Leather, Aluminum & Articles, Cotton & Yarns & Woven Fabrics
Vietnam	Cashew Nuts & Edible Fruits, Gum Arabic
Japan	Sesame Seeds & Oil, Aluminum & Articles
France	Cocoa, Gum Arabic
United Kingdom	Cocoa & Cocoa Products, Rubber
Germany	Cocoa, Gum Arabic

III. Latest Developments in the Financial & Payments System

- **Currency Reforms:**
  - Nigeria on course to stopping importation of currency
  - New NSPM, Plc plant, with capacity to print 4 billion pieces of currency notes per annum, to be commissioned April, 2007
  - Redesigned currency notes and coins will be launched by February 28, 2007.
  - Lower denominations of currency will be printed on varnished paper substrate or polymer

Latest Developments in the Financial & Payments System …. Cont'd.

BANKING SECTOR GETTING STRONGER AND SOUNDER

- Total asset base of banks increased by 104% from N3,209 billion in June 2004 to N6,555 billion as at end-September, 2006
- Capital and Reserves of N957 billion as against N327 billion in June 2004 (192% increase)
- Industry Capital Adequacy Ratio of 21.64 per cent, which was above the statutory minimum ratio of 10% compared to 15.18 per cent in June 2004
- The CAMEL parameters rating of the banks as at September 30, 2006 showed there was no UNSOUND bank
- The industry ratio of non-performing credit to total credit was 9.5 per cent compared to 19.8 per cent in June 2004

Banking Sector Fastest Growing in Africa…

- 25 strong and reliable banks: soundest the sector has ever been, with no unsound bank
- 25 banks now the size of first and second largest banks in South Africa combined (contrast to 89 banks in 2003 being the size of 4th largest bank in South Africa)
- Growth in Assets; Deposits; Credit; Profitability; etc since 2004 astounding; Performance on capital adequacy and liquidity ratios is good; size of non-performing loans as percentage of total loans declined significantly……
- 20 out of 25 Nigerian banks in top 100 banks in Africa, and indeed, 17 out of top 40; and 4 in top 10
- About 17 out of 25 Nigerian banks in top 1000 banks in the world by end of 2006 (there was none in 2003)
- Nigerian banking industry as fastest growing in Africa
- The Banking Sector is the dominant sector in the Nigerian Stock Exchange; and indeed the key driver of the recent phenomenal growth of the Exchange
- More commercial bank branches now than pre-consolidation
- Awaiting results of ongoing survey to know if employment in the sector has declined or increased since consolidation

Latest Developments in the Financial & Payments System …. Cont'd.

- **Recent Initiatives**
  - A fast-track programme for registration of microfinance banks and Bureau de Change to be announced this month
  - The Minimum Rediscount Rate (MRR) replaced with Monetary Policy Rate (MPR) for greater stability in interest rates and better functioning of the money market
  - A comprehensive roadmap for the development of the entire financial system will be launched first half 2007 (FSS 2020)
  - INTEREST RATE SUBSIDY ON AGRICULTURE BY CBN TO CONTINUE IN 2007: STATE GOVTS TO EXPLORE BORROWING ON BEHALF OF THEIR FARMERS!

IV. Short and Medium-Term Outlook

- **SHORT TERM OUTLOOK FOR 2007**
- **GDP Projection**
  - **Aggregate – 7.87% (Oil – 2.46%; Non-Oil – 9.39%)**
- **<u>Provided:</u>**
  - Peaceful election and transition
  - Broad momentum of reforms is sustained
  - Weather remains clement
  - CBN's interest rate subsidy on agriculture continues
  - Power supply output improves
  - Macroeconomic stability continues
  - Oil output is not worse than 2006 and prices do not fall below $40 per barrel
  - Budgetary performance and value for money spending at all levels of government improves

Medium Term Outlook & Challenges

- **Economy has capacity to sustain over 10% growth rate in the medium term and achieve Vision 20: 2020,**
- Enough Growth Reserves
  - Fallow agricultural land (60%)
  - Abundant natural resources
  - Youthful population/educational reforms
  - Diaspora as a Resource (17 million)
  - Improving Business Environment--- huge potentials

NBS Survey on State of the Socio-Economic Environment: Nationally and States….

- RESULTS EXPECTED END OF MARCH

Thank You For Listening

KEYNOTE ADDRESS BY CHIEF (DR.) J. O. SANUSI *(CON);* GOVERNOR, CENTRAL BANK OF NIGERIA, AT THE OPENING CEREMONY OF THE REGIONAL COURSE ON FINANCIAL PROGRAMMING AND POLICIES HELD AT THE CHELSEA HOTEL, ABUJA, NIGERIA
JULY 14, 2003

Deputy Governors, Central Bank of Nigeria,
Representative of the IMF Institute
Director General, Debt Management Office,
Director General, WAIFEM,
Departmental Directors, Central Bank of Nigeria,
Course Facilitators and Participants,
Ladies and Gentlemen,

On behalf of the government and people of Nigeria, the Managements of the CBN and WAIFEM, I welcome you to Abuja, the nation's capital. Let me bid particular welcome to the facilitators and participants who are visiting Abuja for the first time. I am aware that you have a crowded programme before you. Let me urge you, nonetheless, to take out some time to visit the numerous interesting places in the city and its environs.

2.0 I should, at the outset, thank the WAIFEM and IMF Institute, the organizers of this course, for the honour of inviting me to chair this ceremony and deliver the keynote address. I view the conduct of this course on Financial Programming and

Policies as another giant step in capacity building for macroeconomic management in the sub-region. You will recall that prior to the establishment of WAIFEM, the opportunity of participating in a course like this was restricted to only a few in the sub-region who would compete with candidates from other IMF member countries for participation in Washington DC. Presently, it has been brought to our door steps. Let me, therefore, commend the two institutes for this collaborative effort. I urge our visitors from the IMF Institute to, please, convey the appreciation of the Board of Governors of WAIFEM to the Management of the IMF.

3.0 Faced with structural problems, mounting imbalances, and declining growth rates, the poor economic performance of most Sub-Sahara African Countries since the mid-1970s was attributable largely to poor implementation of macroeconomic policies, reflecting the problem of inadequate executive capacity. For the overall macroeconomic environment to improve, the need for the implementation of rigorous macroeconomic policies has, since the mid-1980s, become very obvious. This requires that economic policy makers, and national economic managers must acquire the technical skills to analyse, formulate and implement economic policies, such that they can respond effectively to internal and external shocks. Despite several years of foreign technical assistance, however, a very serious management skills gap remains.

Efforts to bridge this gap in the sub-region led to the establishment of WAIFEM and the motivation for organizing this regional course, the seventh in the series.

4.0 Ladies and Gentlemen, the overall economic performance in the sub-region remains unimpressive. With about 10 percent of the global population, the West African sub-region accounts for less than one percent of world output. This compares unfavourably with the East Asian and Pacific countries and Latin America and the Caribbean with which ECOWAS countries share a comparable colonial past. Whereas the Asian countries experienced double-digit economic growth rates in the 1970s and 80s, ECOWAS countries grew at a mere annual average rate of 2.5 percent. That state of affairs informed the adoption of Structural Adjustment Programmes (SAPs) in the early to mid-1980s, with a view to correcting macroeconomic imbalances and promoting growth.

5.0 Despite two decades of adjustment, West African economies are still defined by macroeconomic imbalances manifested in slow growth, rising unemployment, high inflation and huge external imbalances. To my mind, the time has come for a new approach and commitment to macroeconomic policy design and management, if ECOWAS countries are to grow out of their current lack luster performance. This paradigm shift calls for the use of modern techniques of economic analysis

and policy formulation such as financial programming. At this juncture, one may ask: **What is financial programming**?

6.0 Ladies and Gentlemen, I am informed that a robust team of experts is here to answer that question and also shed light on the various aspects of the theme of this course. I have no intention to pre-empt their presentations. What I will do in the rest of my remarks this morning is to prepare the stage for their soft landing by provoking your thoughts on some salient issues about financial programming. First of all, let me attempt to answer the question I posed a short while ago.

7.0 According to the IMF, a financial programme is **a comprehensive set of policy measures designed to achieve a given set of macroeconomic objectives**. These objectives usually include growing the economy, full employment, low inflation and a healthy balance of payments position. In general, a financial programme is usually adopted to correct macroeconomic imbalances, **preferably as soon as they occur**. In the past, many developing countries have, however, failed to adjust in a timely manner when faced with macroeconomic imbalances. The result, more often than not, was that the remedies came too late to make the desirable impact.

8.0 Crafting a credible financial programme begins with an assessment of economic problems and the quantification of a set of policy instruments to deliver a given outcome. In our sub-regional context, this phase of the design of a financial programme is especially challenging owing to the perennial problem of paucity of timely and reliable data. I urge you to give serious thought to this fundamental problem and proffer a lasting solution to it in your deliberations.

9.0 The financial programmer is often faced with policy dilemma. Using a holistic and integrated system of national accounts, the balance of payments, as well as the fiscal and monetary accounts, a **financial programme** would typically use monetary, fiscal and exchange rate policies to eliminate macro-economic imbalances and spur growth in an orderly and sustainable manner. In this context, a **financial programmer** could be confronted with conflicting policy choices in designing a financial programme. It is important therefore, that the programmer takes adequate care to ensure the coherence and internal consistency of all the elements in the financial programme. In our nascent democracies, where the society's expectations (sometimes conflicting) are high, it is particularly important that the framework takes into account trade-offs between competing goals. For instance, the financial programmer should bear in mind that:

- devaluation of the domestic currency aimed at reducing the current account deficit, could also push up local currency costs of external debt service and exacerbate inflation;
- dismantling price controls could also drive up inflation, at least in the short term;
- raising domestic interest rates to mop up excess liquidity may increase the cost of funds, spike domestic debt service payments and reduce growth in the real sector;
- trade liberalization and removal of exchange controls may worsen the balance of payments in the short run as a deluge of imports rush in to satisfy pent -up demand.

The ability of a financial programmer to reconcile these conflicting goals is a critical factor in coming up with a credible and implementable reform programme.

10. Drawing on successful adjustment experiences elsewhere and taking the Sub-Saharan Africa's circumstances into account, I would suggest four (4) strategies that should guide member countries of the Economic Community of West African States (ECOWAS) undertaking reform programmes:

i Get Macroeconomic Policies Right

Keeping budget deficits small helps in controlling inflation and avoiding balance of payments problems, while the use of a realistic exchange rate enhances international competitiveness of the domestic economy.

ii Encourage Competition

Competition leads to innovation, higher productivity and consumer-friendly activities by firms. In general, firms that are exposed to the rigours of competition are likely to be more efficient than others with privileged access to credit, foreign exchange, or protected market.

iii Use Scarce Institutional Capacity Effectively

ECOWAS countries have limited capacity to design, implement and effectively monitor economic policies. Therefore, high priority should be given to reforms that minimize unnecessary government involvement in the economy.

iv Good Governance

Good governance is manifested in the rule of law, equity, participatory democracy and the provision of basic services. In its absence, undesirable side effects of economic globalization and liberalization can take hold. These include, widespread non-compliance, corruption, organized crime and drug trafficking.

11. Among the major policy concerns, facing some West African countries today is the problem of fiscal dominance that constrains the effectiveness of monetary policy. The concerns for high budget deficits and inflation emanate from their negative consequences on growth and employment and thus general welfare. Since both can adversely affect growth, they are inimical to poverty reduction as evidenced by recent studies, which established a strong relationship between growth and poverty reduction. Also, budget deficit is particularly harmful if the content of the government expenditure is biased towards imports, which would place pressure on domestic production and the exchange rate of the local currency. Moreover, it is undesirable if government expenditure to GDP ratio is unduly high, resulting in the government dominating the economy, thereby crowding out the private sector. However, the strongest argument against a budget deficit lies in the consequences of its sources of financing and their sustainability.

12. As you are aware, authorities of WAIFEM member countries are implementing a programme to create the West African Monetary Zone (WAMZ). The implementation of the programme has been characterized by the failure of most of the member countries to meet the critical convergence criteria relating to fiscal deficits and inflation targets. Recognizing the

importance of macroeconomic stability to the promotion of investment and output growth towards poverty reduction in the sub-region, it is expected that participants at this course would, at the end of two weeks, be able to appreciate the need for ensuring the formulation and implementation of sound economic policies. They would also have acquired the skills to understand and be able to shape the institutional framework to review and analyze policy directions on a regular basis. In this regard, all participants must participate fully and actively in order to derive maximum benefit from the course.

13. In concluding, Ladies and Gentlemen, I am aware that you have a long day ahead of you and are itching to make an early start. Before I leave you to commence the technical sessions, I would, once again, like to welcome you to Abuja and wish you a pleasant stay.

14. It is now my privilege and honour to declare the 7th **Regional Course on Financial Programming and Policies** jointly organized by WAIFEM and IMF Institute open.

15. Thank you and God bless you all.

CHIEF (DR.) J. O. SANUSI (CON),
CENTRAL BANK OF NIGERIA
JULY 14, 2003

ADDRESS BY THE GOVERNOR OF THE CENTRAL BANK OF NIGERIA, MALLAM SANUSI LAMIDO SANUSI ON DEVELOPMENTS IN THE BANKING SYSTEM IN NIGERIA ON AUGUST 14, 2009.

Distinguished Ladies and Gentlemen of the Press,

As we are all aware, the world economy has been hit by the repercussion of the financial meltdown that started with the sub-prime mortgage crisis in the United States of America and spread to Europe and other parts of the World. This crisis has led to the collapse of many banks and other financial institutions, and even rendered an entire nation bankrupt.

In Nigeria, the banking system appears to have weathered the storm due to a number of factors. Among these are the facts that our financial system is not strongly integrated into the International Financial System, as well as the relatively simple nature of financial products and strong capitalization and liquidity of Nigerian banks.

However, there are many who have been aware for a while now that whereas the system in general is likely to absorb and survive the effects of crisis, the effects vary from bank to bank. A few Nigerian banks, mainly due to huge concentrations in their exposure to certain sectors (Capital Market and Oil and Gas being the prominent ones), but due to a general weakness in risk management and corporate governance, have continued to display signs of failure.

As far as October last year, some of the banks showed serious liquidity strain and had to be given financial support by the Central Bank in the form of an "Expanded Discount Window" (EDW) where the CBN extended credit facilities to these banks on the basis of

collateral in the form of Commercial Paper and Bankers' acceptances, sometimes of doubtful value.

As at June 4, 2009 when I assumed office as Governor of the CBN, the total amount outstanding at the Expanded Discount Window was N256.571billion most of which was owed by the 5 banks.

A review of the activity in the EDW showed that four banks had been almost permanently locked in as borrowers and were clearly unable to repay their obligations. A fifth bank had been a very frequent borrower when its profile ordinarily should have placed it among the net placers of funds in the market. Whereas the five banks were by no means the only ones to have benefited from the EDW, the persistence and frequency of their demand pointed to a deeper problem and the CBN identified them as probable source of financial instability, most likely suffering from deeper problems due to non-performing loans.

The impact of the situation of these banks was being felt by the market in different negative ways. Because of this strain in their balance sheets, the banks pushed up the interest rate paid to private sector deposits and their competitors had to follow suit. They also contributed to the destabilization of the inter-bank market as many of their competitors were unwilling to take an unsecured risk on them. It was primarily because of these banks, or at least some of them, that the CBN took the step of guaranteeing the inter-bank market when it stopped granting new lines under the EDW. Without that guarantee, almost four banks would not have been able to borrow in the inter-bank and would probably have collapsed.

As you are aware, we guaranteed the inter-bank market to give us the time to conduct a thorough diagnostic of the banks and ensure that appropriate remedial action is taken. At least four of the banks in question have since the guarantee came into force either

remained heavy users of funds at the EDW or drawn heavily from other banks under cover of the CBN guarantee to wind-down at this window. In all events, it is clear that they do not have the ability to meet their obligations to depositors and creditors as they are in a grave situation.

In view of the aforementioned circumstances, I instructed the Director of Banking Supervision of the CBN to carry out a Special Examination of the following five banks:

1. Afribank Plc
2. Finbank Plc
3. Intercontinental Bank Plc
4. Oceanic Bank Plc and
5. Union Bank Plc.

The examination was conducted by a joint team of CBN and NDIC officials. The major findings on the 5 banks included:

1. Excessively high level of non-performing loans in the five banks which was attributable to poor corporate governance practices, lax credit administration processes and the absence or non-adherence to the bank's credit risk management practices. Thus the percentage of non-performing loans to total loans ranged from 19% to 48%. The 5 banks will therefore need to make additional provision of N539.09 billion.
2. The total loan portfolio of these five banks was N2,801.92 billion. Margin loans amounted to N456.28 billion and exposure to Oil and Gas was N487.02 billion. Aggregate non-performing loans stood at N1,143 billion representing 40.81%.

3. From 1 and 2 above, it is evident that the five banks accounted for a disproportionate component of the total exposure to Capital Market and Oil and Gas, thus reflecting heavy concentration to high risk areas relative to other banks in the industry.

4. The huge provisioning requirements have led to significant capital impairment. Consequently, all the banks are undercapitalized for their current levels of operations and are required to increase their provisions for loan losses, which impacted negatively on their capital. Indeed one is technically insolvent with a Capital Adequacy Ratio of (1.01%). Thus, a minimum capital injection of N204.94 billion will be required in the 5 banks to meet the minimum capital adequacy ratio of 10%.

5. The five banks were either perennial net-takers of funds in the inter-bank market or enjoyed liquidity support from the CBN for long periods of time, a clear evidence of illiquidity. In other words, these banks were unable to meet their maturing obligations as they fall due without resorting to the CBN or the inter-bank market. As a matter of fact, the outstanding balance on the EDW of the five banks amounted to N127.85 billion by end July 2009, representing 89.81% of the total industry exposure to the CBN on its discount window while their net guaranteed inter-bank takings stood at N253.30 billion as at August 02, 2009. Their Liquidity Ratios ranged from 17.65% to 24% as at May 31, 2009. (Regulatory minimum is 25%).

It is important to note that at least three of the banks are systemically important (accounting for more than 5% of Assets and Deposits in the Banking System) and together the five banks account for 39.93% of loans, 29.99% of deposits, and 31.47% of total assets as at May 31, 2009.

Given the extent of the asset quality problem leading to liquidity stresses, and the variety of stress points on the banks' balance sheets, failure to act to secure the financial health of these banks will clearly place the system at risk. The Central Bank has a responsibility to act to protect all depositors and creditors and ensure that no one loses money due to bank failure. The Bank also needs to move decisively to remove this principal cause of financial instability and restore confidence in the Banking System.

Consequently, having reviewed all the reports of the examiners and the comments of the Directors and Deputy Governors, I am satisfied that these 5 institutions are in a grave situation and that their Management have acted in a manner detrimental to the interest of their depositors and creditors. Therefore, in exercise of my powers as contained in Sections 33 and 35 of the Banks and Other Financial Institutions Act 1991, as amended, and after securing the consent of the Board of Directors of the CBN, I hereby remove the Managing Directors and the Executive Directors of the following banks from office with effect from Friday, August 14, 2009.

1. Afribank Plc
2. Intercontinental Bank Plc
3. Union Bank of Nigeria Plc
4. Oceanic International Bank Plc
5. Finbank Plc

These persons forthwith cease to be directors and officers of their respective banks.

The Board of the Central Bank of Nigeria has also appointed the following as the MD/CEOs of the affected banks:

1. Mr. John Aboh – MD/CEO Oceanic International Bank Plc
2. Mr. Mahmud L. Alabi – MD/CEO Intercontinental Bank Plc
3. Mr. Nebolisa Arah – MD/CEO Afribank Plc
4. Mrs. Suzanne Iroche – MD/CEO Finbank Plc
5. Mrs. Funke Osibodu – MD/CEO Union Bank Plc

Each of the above will head a management team that will include Executive Directors and Chief Financial Officers to be appointed by the CBN. This team is tasked with continuing the businesses of the banks as a going concern. I therefore appeal to the Boards of the affected banks, in their own interest, to co-operate with the newly appointed Executive Management.

We are conscious of the fact that changing management alone will not resolve this problem. Consequently, the CBN is injecting a total of about N400 billion into these five banks with immediate effect in form of Tier 2 Capital to be repaid from proceeds of capitalization in the near future. This injection is sufficient to resolve and stabilize all the institutions and enable them continue normal business. The injection of fresh capital by the CBN is a temporary measure as government does not intend to hold the shares for long and shall divest its holdings as soon as new investors recapitalize these banks.

Let me also advise all debtors of Nigerian banks, that the CBN and all government agencies are united in our commitment to support the recovery efforts of the banks. Debtors who do not pay shall have their names published in National Newspapers in due course and we will solicit the support of law enforcement agencies in recovery.

Let me reassure especially the customers of the affected banks and all the banks in general that there is no cause for alarm. They should continue to transact their normal business in the banks where their accounts are domiciled as this exercise is meant to further strengthen the banking industry and recapitalize the affected banks.

I should also state at this point that the scope of the Special Examination was widened to cover all 24 banks. So far, we have concluded the audit of 10 banks including these five, the others being Diamond Bank, First Bank, United Bank for Africa, Guaranty Trust bank and Sterling Bank. We have also commenced the next batch of 11 banks and hope to conclude them by end of August. All in all, we expect to conclude the audit in mid-September. The Central bank is requiring all banks to make appropriate provisioning for non-performing loans and disclose them. We hope that by the end of this quarter, all banks would have cleaned up their Balance Sheets. On the basis of the information available to us so far, we are confident that the banking system is safe and sound and we have dealt with the major sources of systemic risk.

I will conclude by restating that, going forward, the CBN will not waiver in its desire to ensure that public confidence in the Nigerian banking system is maintained through appropriate disclosures and the reinvigoration of its policy of zero tolerance on all professional and unethical conducts.

We will not allow any bank to fail. However, we will also ensure that officers of banks and debtors who contribute to bank failures are brought to book to the full extent of the law and that all proceeds of infraction are confiscated where legally feasible.

Thank you.

Strategic Agenda for the Naira

Professor Chukwuma C. Soludo, CFR
Governor
Central Bank of Nigeria

Abuja; August 14, 2007

0. Protocol

I: Introduction

It is my pleasure to welcome everyone to this important briefing on the 'Strategic Agenda for the Naira'. As you may recall, it is about three years since we launched (in this very Auditorium on July 6, 2004) the 13-point reform agenda designed to restructure, refocus and strengthen the Nigerian banking and financial system. At that meeting, I observed that the agenda constituted 'Phase One' of the reforms. We have since introduced other complementary reforms designed to stabilize the exchange rate, reduce inflation, reform microfinance, restructure the lower denominations of our currency and re-introduce coins, as well as promote the efficiency of the payments system. We have also launched the design of a comprehensive long-term reform agenda for the financial system (the Financial System Strategy 2020 ---FSS2020).

All these reforms are driven by our medium and long-term objectives to ensure economic prosperity of Nigeria, and for Nigeria to become the Africa's financial hub by the year 2020. Only a sustained stable macroeconomic environment and a sound and vibrant financial system can propel the economy to achieve our national desire to become one of the 20 largest economies in the world by the year 2020.

The Strategic Agenda for the Naira is therefore being launched today as 'Phase Two' of our reform agenda, and as a necessary complement to the 13-point agenda of Phase One and other reforms. Phase Two of the reforms has become all the more imperative given the progress so far on Phase One, as well as the emphasis of the new Central Bank of Nigeria Act on ensuring monetary and price stability. According to the "Central Bank of Nigeria Act, 2007", (Section 2) the key objects of the Central Bank shall be to: (a) ensure monetary and price stability; (b) issue legal tender currency in Nigeria; (c) maintain external reserves to safeguard the international value of the legal tender currency; (d) promote a sound financial system in Nigeria; and (e) act as banker and provide economic and financial advice to the Federal Government. The Phase Two, by focusing on the Naira, means that the Central Bank intends to give greater emphasis to the most important function of central banks everywhere in the world namely, to issue legal tender currency and to defend its value (domestically by ensuring low inflation and externally by ensuring appropriate and stable exchange rate regime). Our specific objective in Phase Two of the reforms is to make the Naira the currency of reference in Africa, and thus a strategic catalyst for achieving the goal of an international financial centre as well as promoting Nigeria's rapid economic development. We also need the Phase Two to ensure that the results being achieved under Phase One are deepened and sustained.

II: Overview of the Reforms since 2004 and Outcomes

Before we outline the elements of the Strategic Agenda, it is germane to briefly review our progress so far. As you are aware, most of our reforms have focused on structural and institutional reforms, and have included the following:

- Strengthened the institutional framework for the conduct of monetary policy
- Bank recapitalization/consolidation
- Programme to possibly eliminate or reduce government ownership of any bank (to no more than 10 percent)
- Improved transparency and corporate governance
- Zero tolerance to misreporting and data rendition, and strict adherence to the Anti-money laundering regulations
- Implementation of Basel II Principles and Risk-based supervision
- Payments system reforms for efficiency---- especially the e-payment
- Reforming the Exchange rate management system--- adoption of the Wholesale Dutch Auction System (WDAS) and increased liberalization of the forex market (which since 2006 led to the convergence of the parallel and official exchange rates for the first time in 20 years).
- Restructuring the Nigerian Security Printing and Minting, Plc;
- Addressing issues of technology and skills in the banking industry especially in risk management and ICT.
- Launching of a new Micro finance policy and regulatory framework to serve the un-served 65 percent of the bankable public
- Ongoing Pension, Consumer credit, and Mortgage system reforms
- Forging strategic alliances and partnerships between Nigerian banks and foreign financial institutions especially in the area of reserve/asset management
- Establishment of Africa Finance Corporation (AFC), as first private-sector led African Investment Bank
- Encouragement of Nigerian banks to go global, leading to more than doubling of branch network in West Africa since 2004; setting up of subsidiaries in London as well as Nigerian banks successfully issuing Eurobonds and getting listed on the London Stock Exchange.

Our grand objective in the banking sector reforms was to re-engineer and fast-track a system that will engender confidence and power a new economy. So far, the grand objectives of that policy are being achieved, and our consolidation programme has been adjudged about the most successful and at least cost to the tax payers in the world. The total deposits trapped in the failed banks as percentage of GDP is about 0.7% (the lowest in the world), and no private sector depositor would lose a kobo of his/her deposit. The banking system is the safest and soundest it has ever been in history.

Deposits and credits have more than doubled, and non-performing loans as percentage of total loans have gone down from about 23% before consolidation to about 7% currently. Individual banks now finance big projects valued at hundreds of millions of dollars and also operate in the oil and gas sector --- a feat they never could do before now. Interest rates are gradually coming down (with average lending rate at about 16.9%, down from 25%). Currently, commercial bank branches have gone up from about 3,200 before reforms to over 4,100, and total employment in the sector has gone up from about 55,000 before reforms to over 61,000 currently. The world is celebrating Nigeria's success, and over $1.5 billion of foreign investment has gone into the sector since 2005. By end 2007, there will be about 7 or more banks with shareholders fund in excess of $1 billion and over 10 banks with market capitalization of over $2 billion each (there was none in 2004). In 2004, there was no Nigerian bank in the top 1000 banks in the world. As at the end of 2006, there were 12 banks in the top 1000, with one ranked 355th (top 500 in the world). Our banking system is powering the Nigerian Stock Exchange. Today, Nigeria has the fastest growing banking system in Africa, and one of the fastest in the world. As seasoned commentators have observed, it has taken Nigeria less than three years to achieve what it took South Africa 20 years to achieve in the area of banking. To put it succinctly, a new banking system has emerged, and will only get stronger for the benefit of the Nigerian economy. We firmly believe that with the sustenance of the reforms as the CBN is determined to do, the best is yet to come.

On the macroeconomic front, double-digit and volatile inflation rate (which used to be the norm) have been subdued as inflation rate has remained at single-digit since last year. However, inflation risks remain high. The Naira/US dollar exchange rate has remained stable (with steady appreciation of Naira against the dollar) since 2004, and the GDP has maintained a robust growth rate of over 6% per annum since 2003.

III: Matters Arising and Challenges Ahead

Despite progress on a number of fronts, there are still enormous challenges and unfinished business. At the economy-wide level, there are still chronic challenges of insecurity of lives and property, infrastructure deficiency (especially power and transportation), education crisis, among others.

At the level of the financial system, we have the huge task of effectively implementing the FSS 2020. There is still the risk of fiscal dominance and volatility in the fiscal operations of government. Evolving Fiscal Responsibility arrangements and framework for managing highly volatile oil revenues will be critical. Other unfinished business in the reforms includes:

- Risk-based, consolidated and strengthened banking supervision

- Mortgage, SME, and consumer credit reforms
- Adherence of States and LGs to the requirement under the Micro Finance policy to devote at least 1 percent of their annual budget to micro credit
- Continued reform of the payments system, especially the e-payments system and enforcement of the Dud cheque offences Act.

Efforts will continue to be made to address these unfinished issues.

IV: The Strategic Agenda

The thrust of the agenda focuses on the Naira as our national currency---- to realign its denominations, ensure its stability and global integration. These will help to deepen the reforms of the financial system and national economy, and make the Naira the currency of reference in Africa thereby facilitating our quest for international financial status.

The new focus is an extension of our previous currency redesign and re-issuance of the lower denominations and attempt to re-introduce coins. Our goals were to redesign the currencies after 23 years (contrary to the international norm of currency redesign after 6- 8 years), drive down the cost of currency printing and experiment with the polymer substrate. Our objectives are largely achieved and we have learnt a lot from the exercise. However, in the light of the new mandate by the CBN Act (2007) to 'ensure monetary and price stability', as well as the vision articulated under the FSS 2020, it has become imperative for us to evolve a more comprehensive strategy for the Naira as a reference currency.

Currency redenomination and liberalization are not without risks especially for small open economies such as Nigeria. However, we believe that the time is auspicious for such reforms especially in the light of the following enabling conditions:

- overall commitment of the Federal Government under Alhaji Umaru Musa Yar'Adua (GCFR) to sustaining macroeconomic and other structural reforms
- a robust external reserves to meet almost 20 months of foreign exchange disbursements and 25 months of imports
- Stronger banking system powering a new economy and capital market
- Inflation down to single digit, and robust GDP growth of about 6% and above
- Exchange rate stability and elimination of multiple currency practices that had been prevalent before now
- Strong capital inflows (with Central Bank as increasingly marginal player in the forex market)
- Debt relief: Nigeria without a debt burden
- Non-oil exports growing strongly (24% in 2006)
- Nigeria de-listed from the FATF list

- New CBN Act not permitting CBN to grant ways and means advances to Government exceeding 5% of previous year's revenue provided such financing is retired before end of the financial year. Indeed, CBN is not positively disposed to granting any ways and means advances.

It is in the view of the foregoing enabling conditions, and our vision for a Naira that is the currency of reference in Africa that the Board of Directors of the Central Bank of Nigeria has approved the following agenda for the Naira:

A: Currency Re-Denomination

Here, we intend to restructure the entire currency by dropping two zeroes or moving two decimal points to the left from the currency, and issuing more coin denominations. This would entail a total currency exchange and phasing-out of all the existing denominations from August 1, 2008. Effectively, at the current exchange rate, this policy would mean that the Naira/US dollar exchange rate would be around N1.25 to US$1 then. All Naira assets, prices and contracts will be re-denominated by dropping two zeroes or two decimal points to the left with effect from this date.

The proposed currency structure is as follows:

- COINS:
  - 1 kobo
  - 2 kobo
  - 5 kobo
  - 10 kobo
  - 20 kobo

- NOTES:
  - 50 kobo
  - 1 Naira
  - 5 Naira
  - 10 Naira
  - 20 Naira

Effectively, our plan will restore the value of the Naira (in the short-term) close to what it was in 1985 before the commencement of the Structural Adjustment Programme (SAP) in 1986.

Re-denomination and re-introduction of totally new currency structure (notes and coins) following the progress so far with other reforms and the enabling conditions in the

economy today are designed to better anchor inflationary expectations, strengthen public confidence in the Naira, make for easier conversion to other currencies, reverse tendency for currency substitution, eliminate higher denomination notes with lower value, reduce the cost of production, distribution and processing of currency, promote the usage of coins and thus a more efficient pricing and payments system, and lay the foundation for the convertibility of the Naira as well as make it the 'Reference currency' in Africa. The African Union has granted Nigeria the right to host the Headquarters of the African Central Bank when the common currency in Africa materializes. We must therefore lead the way in terms of properly aligned currency structure and sound monetary policy framework.

Several countries in the world have undertaken currency re-denomination at various times and for different reasons, including: Afghanistan (2002); Germany (1923, 1948); Argentina (1970; 1983; 1985; 1992); Bolivia (1963, 1987); Brazil (1967, 1970, 1986, 1989, 1990, 1993, 1994); China (1955); South Korea (1962); Mexico (1993, 1996); Ghana (2007); Israel (1948, 1960, 1980, 1985); Turkey (2005); Angola (1995, 1999); and others. Evidently, many countries have had to undertake the re-denomination more than once. In the case of Brazil, it had to do it many times before it got it right. The major challenge is to undertake other complementary reforms, particularly macroeconomic reforms that will underpin price stability and continuing confidence in the economy. This is where we believe Nigeria's experience is likely to be different from others, having learnt from the experiences of other countries.

Consequently, as necessary complements to the currency re-denomination, we intend to introduce three additional measures:

- Adoption of Inflation-Targeting Framework for the conduct of monetary policy;
- Sharing Part of the Federation Account in US Dollars to deepen the Forex Market and for Liquidity Management
- Current Account Liberalization/Convertibility and Accession to Article VIII of the IMF.

B: Adoption of Inflation-Targeting Framework for the Conduct of Monetary Policy: to commence from January 1, 2009.

In the light of the new mandate as contained in the new CBN Act (2007) urging the CBN to "***ensure monetary and price stability***" as well as the need to provide a ***transparent, credible*** framework to lock-in inflationary expectations, the CBN will adopt ***inflation target*** as the ***nominal anchor*** for monetary policy with effect from January 1, 2009. Low and stable inflation will be our monetary policy's primary long-term goal. Focusing on inflation targeting does not mean that the CBN will not be

interested in other broader objectives of macroeconomic policy--- output growth, employment, exchange rate, and balance of payments. Rather, an inflation-targeting framework will enable CBN to pursue these objectives in a more disciplined and consistent manner rather than the ad-hoc processes of the past. Locking-in inflationary expectations is one effective way of ensuring that the currency re-denomination will be sustainable. The outcome of this new framework will greatly improve the credibility of the CBN as the Monetary Authority, as well as deepen the financial markets and promote rapid development of a private sector-led economy.

We will use the next 16 months to fully prepare for the introduction of this framework especially in the light of the deep technical issues involved. The CBN would collaborate with the National Bureau of Statistics in significantly improving the availability of high frequency and reliable data especially those of the GDP and more robust measures of the price indices.

C: Sharing Part of the Federation Account Allocation in US Dollars to Deepen the Forex Market and for Liquidity Management: to commence from September 2007.

Given the structure and development of the financial system, the underdeveloped nature of the Forex markets, as well as the restrictions on foreign exchange transactions, the CBN has traditionally fully monetized the foreign currency receipts in the Federation Accounts, to be shared by the three tiers of government. Initially, the CBN also maintained the accounts for all the tiers of government--- as part of the liquidity management framework. Subsequently, as the banking system developed, the CBN allowed the share of the states and LGs to be deposited with the commercial banks.

Recently, following the reforms in the banking sector and the further liberalization of the Forex market, both the financial system and the forex market have deepened and become increasingly sophisticated. Since 2006, the CBN adopted the Wholesale Dutch Auction System (WDAS) in the forex market and significantly liberalized the forex market. Furthermore, Nigeria has exited the debt trap, built up significant external reserves, and the autonomous inflows into the Forex market are such that the CBN has become a marginal player in the forex market. The forex market has become so efficient that Nigeria no longer has multiple currency practices (as defined by the IMF). In the last two years also, the CBN has consistently intervened in the forex market through the increased sale of foreign exchange as an instrument of liquidity management (the so-called special auctions). In December 2006, the CBN introduced the Monetary Policy Rate (MPR) with the corridor, and this has eliminated the high volatility in the money market interest rates. The money market is deepening, and the bond market is also evolving.

The above conditions indicate that the private financial markets are getting deeper and sophisticated enough to warrant further steps on the part of the Central Bank to gradually withdraw as a dominant player in the forex market. The inter-bank forex market is now the dominant segment of the market, and needs to be deepened.

Consequently, the Monetary Policy Committee (MPC) of the CBN has approved the sharing of part of the Federation Account allocation to the Federal Government and the State Governments in US dollars. The Local Governments are excluded in this phase. For the Central Bank, this could also provide an additional instrument for effective liquidity management as we migrate to inflation-targeting framework.

The proportion of the Federation Account to be distributed in dollars will be determined from time to time, but largely dependent on the assessment of the forex market as well as the liquidity management requirements of the CBN. Both the States and Federal Government will be required to open 'Special Domiciliary Accounts' with commercial banks of their choice. The special account can only be accessed by monetizing the balances into Naira. In other words, the Governments cannot withdraw dollar cash but may also utilize part of their domiciliary accounts for settlement of external obligations (e.g. opening of letters of credit). From September 2007, the exchange rate that will be applied in the monetization of Federation Account as well as the 'Special Domiciliary Accounts' will be the inter-bank rate on that day.

As the market deepens, the CBN will gradually withdraw from the WDAS, and only intervene in the market (buy or sell forex) as may be required to achieve defined policy objectives.

This new policy thrust is expected to deepen the forex market, promote financial market development, and improve the degree of integration among the domestic markets and with international markets. This policy will complement the ongoing programme of allowing Nigerian banks to manage part of our external reserves in collaboration with foreign asset managers. The net effect of these will be to create and deepen capacity within our banks. All these will also provide important building blocks for the external current account convertibility and attainment of the IMF Article VIII status. The challenge here is that both the CBN and the commercial banks would have to manage the risks inherent in foreign exchange trading and deploy a sound system of monitoring foreign asset-liability matching. The CBN in particular, would need to sharpen its skills to monitor and regulate the use of domiciliary accounts in accordance with the international best practices as well as the rules and guidelines governing the anti-money laundering laws and regulations. The Governments too would need to be on top of the risk management techniques for optimal management of their portfolios.

The CBN is conscious of the risks of dollarization of the economy and will take steps to avoid such. Also, we are conscious of the dangers of the Dutch Disease and hence the need to avoid the repeat of history in terms of high overvaluation of the Naira in real effective terms as happened during the 1970s until early 1980s. Non-oil exports have begun to recover and grew by 24% in 2006. Also, capital inflows have been growing rapidly and highly overvalued exchange rate would hurt these trends. More fundamentally, without a currency re-denomination/realignment, a significant appreciation of the Naira/dollar exchange rate would lead to fiscal crisis given that much of the revenue is dollar denominated, and such appreciation would also significantly deplete our external reserves. Thus, while we deepen the forex market and effectively manage our liquidity, we would not lose focus on ensuring appropriate exchange rate regime for macroeconomic balance.

***D: Current Account Liberalization/Convertibility and Accession to Article VIII of the IMF: to commence January 1, 2009*.**

As a necessary complement to the foregoing policy initiatives, and to further deepen the integration of our financial system and economy into the global economy, we intend to embark upon full current account liberalization/convertibility by January 1, 2009. This would entail that Nigeria eliminates all restrictions on current account transactions, and accession to Article VIII of the IMF means that the policy is not easily reversible. Out of the 185 member countries of the IMF, 167 have acceded to the Article VIII on current account convertibility. It is our belief that the conditions are right for Nigeria to now join the world league. The timing is proposed to coincide with the commencement of the inflation-targeting framework.

V: Conclusion

These measures constitute a key component of the FSS 2020 agenda: our quest to become an international financial centre and Africa's financial hub. They will complement and deepen the ongoing financial system reforms. The conditions are now right, and despite the challenges, we are determined to ensure effective design and implementation.

Furthermore, we are working towards greater transparency in the formulation and implementation of our monetary policy. A new Monetary Policy Committee (MPC) will soon be reconstituted in accordance with the new CBN Act, and Minutes of the MPC shall be made public. We also intend to undertake greater public education about what we do and why we do them the way we do.

Are these policies consistent with the drive towards a single currency in West Africa? Yes: Nigeria remains committed towards the ECOWAS goal. Currently, the Nigerian economy constitutes about 70 percent of the entire ECOWAS economy and accounts for about 80 percent of the total external reserves. It therefore goes without saying that if the Naira is properly aligned and can become the 'Reference Currency', the goal of a monetary union becomes all the more credible and sustainable. Nigeria has met all the primary convergence criteria and hopes that the other countries will do same on a sustained basis. In the meantime, Nigeria must continue to make progress.

I thank you all for listening.

Professor Chukwuma C. Soludo, CFR
Governor

ADDRESS BY CHIEF (DR.) J. O. SANUSI (CON), GOVERNOR, CENTRAL BANK OF NIGERIA ON THE OCCASION OF FIRST STAKEHOLDERS' ANNUAL DINNER OF THE ASSOCIATION OF CORPORATE AFFAIRS MANAGERS OF BANKS (ACAMB)

His Excellency, Deputy Governor of Lagos State, Mr. Femi Pedro,
Chairman of this Occasion, Dr. Oladimeji Alo,
1st Guest Speaker and Managing Director
MTN Nig. Ltd., Mr. Adrian Wood,
2nd Guest Speaker – V.C. Pan African University, Prof. Alos,
Banks' Chief Executives, here present,
President of the Association of other Corporate Affairs
Managers of Banks, Mr. Lanre Alabi,
Executives and Members of the Association,
Invited Guests,
Distinguished Ladies and Gentlemen.

I thank the Association of Corporate Affairs Managers of Banks (ACAMB) for inviting me to its First Annual Dinner as the Special Guest of Honour. As one who has been keenly interested in your activities, I would like to use this opportunity to commend your initiatives and collective efforts to launder the image of the banking industry, which had, for some time now been smeared with the malfeasance of a few operators. In my opinion, you have made satisfactory progress, which I enjoin you to sustain.

2. The world over, banks are regarded as special institutions because of their distinctive role in the economy as the repository of

liquidity, the core payments mechanism, and the principal source of finance for productive activities.

3. As financial intermediaries, banks are highly leveraged organizations and can sustain their operations if only they enjoy the confidence of the financial market. Moreover, as credit institutions, banks are linked to one another through a complex chain of inter-bank relationships, which provides a mechanism for accelerating contagion in the case of a distress in one bank, and thus create distress in the entire financial system. The soundness and stability of the banking system must, therefore, be ensured and not taken for granted. The responsibility of building and sustaining a sound banking system, which will galvanize the required confidence falls heavily on banks as individual institutions and collectively at the industry level, with the Central Bank playing a stabilizing role.

4. The importance of good corporate governance in this endeavour, cannot be over emphasized. It has been established that, with the possible exception of a serious macroeconomic disturbance, no single factor contributes more to institutional problems than lack of effective governance. On the other hand,

improvement in corporate governance would enhance the soundness, efficiency and competitiveness of the system.

5. Distinguished Guests, you may wish to ask, what is good corporate governance? Good corporate governance is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance. The importance of ownership and internal governance cannot be overestimated in this regard. For example, a good bank can survive even under a sub-optimal regulatory environment, whereas a good bank cannot survive under a bad system of ownership governance.

6. Proverbially, quite often the regulatory authorities try to chase the horse after it has escaped from the barn, but it is the owner who really controls the barn and holds the key to its door. Thus, banks must recognize that they have primary responsibility for ensuring their own soundness and survival. In this context, for good corporate governance to subsist, the following critical requirements must be met:

i. People that control and manage the business of banking must be men of integrity, above board and trustworthy.

ii. Those in the business of banking must possess necessary skills and experience as credit losses are often explained by management failures and deficient technical skills. In this regard, at both the individual bank and industry levels, efforts to broaden and strengthen training programmes to provide a solid core of professional bankers in the country must be intensified.

iii. Disclosure and transparency are key pillars of a corporate governance framework, as they provide stakeholders with necessary information to form their judgment on the soundness or otherwise of the institutions they do business with. For transparency to be meaningful, therefore, information should be accessible, timely, relevant and qualitative.

iv. Good corporate governance starts with the owners and extends through the board of directors, the management and the employees. Bankers are therefore expected to exhibit good and professional behaviour that will uphold the integrity of the industry and, thereby, instill confidence

in the system. These are the essential blocks for building a good corporate image for any financial institution.

7. Distinguished Ladies and Gentlemen, let me at this point make some brief remarks on the future of banking in Nigeria, which I think is the theme of your discussion this evening. The new world of banking is characterized by the following features: consolidation of institutions; globalization of operations; development of new technologies; and universalization of financial services. These developments pose serious challenges for financial institutions as well as the regulatory/supervisory authorities. It is important to note that, whether we like it or not, Nigeria is a part of the global community and cannot afford to ignore the process of change.

8. Firstly, in most parts of the developed world and the emerging markets, the total number of banking institutions has been declining, while the average size of each institution is increasing through mergers and acquisitions. Indeed, we have seen the creation of the world's largest banking groups through mergers, during the last two years. Secondly, reflecting the effect of globalization and liberalization, national borders no longer constitute barriers to financial institutions in their expansion and quest for opportunities for

growth and increased profitability. Consequently, industrial country banking groups have embarked on the exploitation of the growth potentials in the emerging markets. Thirdly, development in technology, especially the growth in internet banking, has allowed conglomerates to invade the retail banking markets, with many banks using their on-line operations to expand into foreign markets, without incurring the high cost of building retail network of branches.

9. Finally, the emergence of universal banking is increasingly blurring the boundary between bank and non-bank financial services. This trend has already gained a strong foothold in a number of European countries, as reflected by widespread distribution of insurance products through bank branches, a development otherwise known as “bancassurance”. In a country like the United States of America, the law that separated commercial from investment banking (the Glass-Steagall Act) has since 1999 been repealed. In the same vein, we in Nigeria have adopted the universal banking system since 2000. The rationale is that developments in technologies and financial products have made any separation of the various financial services artificial and rendered the regulatory enforcement ineffective. Particularly, the emergence of financial innovation has encouraged

the use of financial derivatives for off-balance sheet operations, which have rendered the traditional risk-management techniques obsolete.

10. The logical conclusion from these developments is that the Nigerian banking system cannot be insulated from the rest of the world. They have to be as competitive as their foreign counterparts if they are to survive as ongoing concerns. In this regard, our banks have to be adequately capitalized and should enthrone enhanced management efficiency, as well as invest in technological and staff developments, if they are to be relevant in the new world of banking.

11. The regulatory authorities on their part, also face daunting challenges that require greater focus, increased transparency, and strengthening of prudential regulations and supervision that would address the risks arising from increasing liberalization and globalization of banking services. In this context, national authorities in various countries are pushing for greater transparency and disclosures that will facilitate the discipline of the market and enhance the effectiveness of supervision in assessing the risk profiles of financial institutions. In many countries, the weaknesses of the capital-adequacy ratio recommendations by the Basel Committee in 1988, which allow bank managers to engage in regulatory capital

arbitrage, through the use of credit derivatives and securitisation, are being addressed in an effective manner.

12. In this endeavour, regulatory authorities, at the national level, have relied on technical support from international agencies, such as the IMF, World Bank and Bank for International Settlements (BIS) to complement their own efforts in addressing the challenges that globalization poses for the stability of the financial system. The international agencies also have been encouraging the adoption and harmonization of international accounting and auditing standards as well as information disclosure.

13. Finally, Ladies and Gentlemen, let me conclude by challenging Nigerian banks to reposition themselves and re-focus their operations beyond the current narrow short-term profit maximization objective and show greater commitment to building a stable and viable economy. I should note, in this regard, that the establishment of the Small and Medium Industries Equity Investment Scheme (SMIEIS) represents a laudable initiative. Cognizant of the important and revolutionary role, which the Small and Medium Scale enterprises can play and, indeed, have played in the industrial development and overall economic growth of other countries, particularly those of

South East Asia, it is a scheme that holds great prospects for Nigeria's industrial development. Notwithstanding the initial delays experienced since the SMIEIS took off in August, 2001, we have made satisfactory progress and prospects for improved performance this year are high.

14. I, hereby, challenge the ACAMB to educate the public and effectively market the scheme, recognizing that in the medium to long-term, the gains would be to the mutual benefits of all stakeholders in the economy, including the banks.

15. Thank you and God bless.

Chief (Dr.) J. O. Sanusi (CON)
Governor,
Central Bank of Nigeria

March 13, 2003

KEYNOTE ADDRESS BY CHIEF (DR.) J.O. SANUSI, GOVERNOR, CENTRAL BANK OF NIGERIA, PRESENTED AT THE PGDPA AND CPA GRADUATION CEREMONY OF THE ADMINISTRATIVE STAFF COLLEGE OF NIGERIA, ON 13TH DECEMBER, 2002

The Chairman,

Director General, Administrative Staff College of Nigeria,

Graduands,

Distinguished Ladies and Gentlemen,

It gives me great pleasure to witness this graduation ceremony for the Post-Graduate Diploma (PGDPA) and Certificate (CPA) courses, both in Public Administration, of the Administrative Staff College of Nigeria (ASCON). I have been told that the PGDPA programme is run in conjunction with the University of Lagos, which attests to its high standard. These programmes have become more relevant than ever before, given government's current drive on building human capacity, with a view to enhancing productivity growth in the country. I therefore commend the two institutions for this collaborative effort.

It has been my earnest desire to share my vision on the need for effective human resource development, which is central to economic growth and development of any nation, and the imperative of according it the priority attention it deserves. The efficiency of the workforce can only be enhanced and sustained through continuous training and re-training.

Consequently, I have opted to focus on the topic "Capacity Building for Economic Management in Nigeria: The Role of Tertiary Institutions." My objective is to share with you my ideas on the role of tertiary institutions in

effective capacity building for efficient economic management in Nigeria. This should not come as a surprise, given that I have been pre-occupied with economic management for over four decades of my public and private service.

Capacity building is central to sustain economic growth and development because human capital is the greatest asset of any organization. This explains why most developed and emerging economics focus on building human capital, as only those countries and enterprises that possess what it takes to be competitive will survive in the current global economy. The Nigerian economy has to be efficient and competitive in the new world order in which national frontiers no longer constitute barriers to human, material and capital flows. One of the greatest challenges facing Nigeria in this millennium is, therefore, the issue of capacity building to enhance productivity in the economy.

Attempts shall, therefore, be made in this address to discuss the roles of tertiary institutions in capacity building for economic management. To accomplish this objective, I shall discuss the concept of capacity building, its role in economic development, the role of tertiary institutions, challenges and conclusion.

II. The Concept of Capacity Building

Capacity building has been defined in several ways. Generally, it entails the development of a workforce through the acquisition of technical and managerial efficiency and effectiveness in the overall performance of an organization. Indeed, the efficiency of a workforce can only be enhanced and sustained through continuous capacity building. It could also be defined as the internalization of the knowledge, skills and processes that enable the

formulation, implementation, monitoring and evaluation of set goals in an efficient manner . Yet, it could be viewed as a series of activities, which an organization, enterprise or even a nation needs to undertake to provide for itself, on a continuous basis, as well as the regular supply of skilled manpower to meet its present and future needs.

Capacity building entails investment in human capital, institutions and practices necessary to enhance human skills, overhaul institutions and improve procedures and systems. This requires forecast of the manpower needs and other requirements of the economy over a period of time in respect of each industrial and occupational group, supported with policies and programmes that guarantee their sustainability. Capacity building, thus enhances the ability of human resources and institutions to perform or produce. It can be likened to an industrial processing by which basic "ores and raw metals are converted into useful tools, through heating, molding, tempering, shaping and sharpening for some ultimate purposes"[(1)]. In the same manner, human beings can be fashioned to lead useful and happy lives and contribute to societal goals, through education and training.

Capacity building could be through any or a combination of the following:

- On-the-job training;
- Off-the-job training;
- Formal apprenticeship programmes combined with either or both of the above;

(1) U.O. Anyanwu: "Productivity and Capacity Building" Proceeddings of the Ninth Annual Conference of the Zonal Research Units – Gateway Hotel, Abeokuta 12 – 16 June, 2002.

- Rotation among a series of jobs, either as part of job enlargement or an enrichment programme;
- Tuition aid programmes to assist staff to become better qualified in their present assignments or for promotion; and
- Correspondence courses.

Indeed, what we are celebrating here today, represents a victory for capacity building for which ASCON must be congratulated.

III. The Role of Capacity Building in Economic Development

Economic development has traditionally meant the capacity of a national economy to generate and sustain an annual increase in its gross national product (GNP), at rates significantly higher than the population growth rate. It implies not only an increase in real output but growth accompanied by changes in the structure of the economy, including its social and political elements. Indeed, changes in both the technical and institutional arrangements by which output is produced and distributed are part of economic development. It is thus, a phenomenon, in which rapid gains in overall and per capita GNP growth would either "trickle down" to the people in the form of jobs and other economic opportunities or, create the necessary conditions for a better distribution of the economic and social benefits of growth.

The pace at which a country generates gthe processes, which lead to sustainable economic growth and development, depends largely on the quantum, quality and diversity of its human resource endowment, which to a large extent, determines technological change. The engine of growth of the East Asian countries, for instance has been powered by sustained and productive high levels of investment in human capital, which resulted in

highly skilled labour force and impacted positively on growth and development. Human capital investment has multiplier effects, which engender long-term economic growth and increases in the standard of living. Thus, any country that desires to enhance and accelerate its development process, must take capacity building seriously, and execute it methodically and comprehensively.

IV. The Role of Tertiary Institutions in Capacity Building

The enterprise of human capacity building is practicalised on the transfer of knowledge and skills to the trainee through education and training. Higher education and research are essential components of cultural, socio-economic and environmentally sustainable development or individuals, communities and nations. It has never been in doubt that investment in university education and other tertiary institutions such as ASCON is core to the development of high level manpower. During the early decades of the 21st century, such investment becomes a priority as the world steers in the direction of a knowledge-based economy.

The planks on which a knowledge-driven economy rests are provided by tertiary institutions. The more people can attend these institutions and benefit from advanced studies, the better for the individual and the society. However, it should be noted that while higher education leads the way to gainful employment (including self-employment) and an appreciable standard of living, the relationship between education and employment is not one-to-one. It depends on the extent to which educational attributes are congruent with the labour market and also, the extent to which education is adaptable to the emerging dynamics in the economy. The relationship also depends on the

volume of investments and the efficiency with which applicants and employers sort out their demands and expectations, resulting in job offers.

It is indisputable that government recognizes the importance of higher education in national development, as reflected in the goals for tertiary education enunciated in the National Policy on Education (NPE 1998), which are to:

a) Contribute to national development through high-level manpower training.
b) Develop and inculcate proper values for the survival of the individual and society.
c) Develop individual's intellectual capabilities to understand and appreciate their local and external environments.
d) Acquire both physical and intellectual skills, which will enable individuals to be self-reliant and useful members of the society.
e) Promote and encourage scholarship and community service.
f) Forge and cement national unity.
g) Promote national and international understanding and interaction.

Tertiary institutions are expected to achieve the se goals through teaching, research and development; sustainable staff development programmes; generation and dissemination of knowledge; a variety of modes of programmes including full-time, part-time, block release, day-release, sandwich, etc; access to training funds such as those provided by the Industrial Training Fund (ITF); students industrial work experience; maintenance of minimum educational standards; inter- institutional

cooperation and dedicated service to the community through extra-mural and extension services[1].

Over the years, our educational institutions, especially the tertiary institutions, have rapidly multiplied and expanded. For instance, in 1972 there were only 5 universities in Nigeria. By 1982, the number had jumped to 27. In spite of the problem of under-funding, today there are 46 Polytechnics, 63 Colleges of Education, 55 Universities and 6 other degree awarding institutions in Nigeria.

There are negative developments as well. Experience, as revealed by members of the Nigerian Employers Consultative Association (NECA), with respect to the recruitment of new employees, has revealed that there are increasing problems in the educational system, especially at the tertiary level. Some of these problems include:

- A sharp deterioration in communicative abilities, especially with respect to the use of English Language, both oral and written.
- Inadequate practical exposure for science related and engineering graduates.
- The brain-drain phenomenon resulting in loss of teaching and non-teaching staff to local private companies, foreign tertiary institutions and international agencies.
- Inadequate funding and poor disbursement pattern.
- Irregularities in access to education and admission policies.
- Poor administration.
- Cultism.
- Examination malpractices

(1) NPE, 1998

These deficiencies and problems have continued to create pitfalls in the molding of people in the tertiary institutions.

V. Challenges and Conclusion

There is great need for the pursuit of capacity building that can equip people with the skills and competences required both for gaining employment and job creation. In charting a new way forward, we are faced with the challenge of refocusing our formal educational system, especially, the tertiary institutions for a paradigm shift in curricula towards entrepreneurial skill development. This shift will lead to the production of graduates imbued with the requisite skills, knowledge and abilities to become entrepreneurs and to function properly in society. There should also be an effective linkage between the tertiary institutions and industries in undergraduate training, and in research and development. Our tertiary institutions should be guided strictly by a credible admission policy on course basis with a view to checking the imbalance in the system and reflecting national development needs. They should be adequately funded and equipped to compete favourably with those in developed countries.

The challenge for capacity building was expressed by Dr. Kofi Anan, the United Nations Secretary General, when he said "The day will come when nations will be judged not by their military or economic strength, nor by the splendor of their capital cities and public buildings, but by the well-being of their peoples: by their opportunities to earn a fair reward for their labours; by their ability to participate in the decisions that affect their lives; by the respect that is shown for their civil and political liberties; by the provision that is made for those who are vulnerable and disadvantaged; and by the protection that is afforded to the growing minds and bodies of their children."[1]

I thank you and with those words, I wish the graduands a fruitful future in their various disciplines.

Merry Christmas and New Year in advance

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(1) U.O. Anyanwu: "Productivity and Capacity Building" Proceedings of the Ninth Annual Conference of the Zonal Research Units – Gateway Hotel, Abeokuta 12 - 16 June, 2002

Preliminary Draft: Do Not Cite

Creating Effective Governance and Leadership for Sustained National Prosperity

Professor Chukwuma C. Soludo, CFR
Governor, Central Bank of Nigeria

Being Draft of a Presentation as Part of the 12th Murtala Muhammed Memorial Lecture, delivered at the ECOWAS Auditorium, Abuja: February 12, 2007.

I: Introduction

I am grateful to the organizers of the Murtala Muhammed Memorial Lecture for the invitation to participate in this panel presentation on "Exemplary Governance through Leadership", to mark the 12th of the lecture series. I must confess that I have disobeyed the instruction to deliver the presentation in Powerpoint. As I struggled with the materials for my presentation, I thought that given the short time period for my intervention, it might be more useful to write down a few points I won't have the time to elaborate in a PowerPoint presentation. I regret any errors or incoherence of the paper as I only hurriedly put down my thoughts yesterday.

I am particularly glad to be invited to participate in the celebration of Nigeria's heroes. Reading through the life and history of Murtala Muhammed, and also his first address as the new Head of State on July 30, 1975, you cannot but agree that he was a man of immense courage. As an analyst summarized about his regime, "in a short time, Murtala Muhammed's policies won him broad popular support, and his decisiveness elevated him to the status of a national hero". The organizers deserve special commendation not only for recognizing this hero, but for doing what is not common here in Nigeria---- celebrating our heroes. As a people, we must learn to celebrate the best among us, for by so doing, we also celebrate the best in ourselves.

The theme of this panel presentation is "Exemplary Governance through Leadership". Together with my two co-panelists (Mallam Nasir el-Rufai, OFR; and Prof. Dora Akunyili, OFR) we are expected to share some perspectives on the subject, probably drawing from our individual experiences. Without knowing what my co-panelists will focus upon, I have rather chosen to focus my short intervention on how to create or mainstream effective governance and leadership for national prosperity. I focus narrowly on 'national' or 'public' governance and leadership and do not cover 'corporate governance and leadership'. I have also chosen not to dwell so much on personal examples (as I hope my co-panelists will cover) but on broad issues of highlighting the complex interrelationships between effective governance and leadership, and also between both variables on the one hand and national prosperity on the other. I argue that the critical challenge we face as a nation today is how to create or mainstream some irreducible minimum standards of governance infrastructure that will promote the emergence of developmentalist leadership and hence ensure sustained prosperity in Nigeria. My aim is to provoke debate rather than proffer solutions.

The rest of the paper is organized as follows. Section II clarifies the context, and meaning of Governance and Leadership as used in this paper. In Section III, we examine the extent to which Governance and Leadership matter for national prosperity and illustrate with some Nigerian case studies. Section IV provokes debate on the challenge of mainstreaming effective governance and leadership for prosperity. We conclude in Section V.

II: Understanding Governance and Leadership

At the outset, we need to set the boundaries of our discourse. First, our focus is not on corporate governance (which is a broad and important subject), but on national governance and leadership. Second, we see the primary objective of such national governance and leadership as that of creating environment for shared national prosperity. For a firm or corporation, leadership is about value creation or increasing the firm's competitive advantage in the market place. Leadership in the broadest sense is the ability to bring people together to dedicate themselves to the pursuit of a common goal. Such goals are often defined by the organization, firm or nation, and in some cases, the leader actually envisions such goals and motivates/mobilizes people and materials to attain them.

Governance and leadership are closely related but also different. Different definitions and concepts of governance and leadership exist. Here, we adopt a rather operational meaning of both. While governance may be broadly defined as "the traditions and institutions by which authority in a country is exercised", leadership itself is the act of exercising that authority. We shall argue later that both governance and leadership are so intricately related that one circumscribes the other.

In a very important empirical work, Kaufmann, Kraay, and Mastruzzi (2004: 2-4) construct six aggregate governance indicators motivated by the definition above. Governance as traditions and institutions by which authority is exercised include: the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them. Operationally, the six aggregate indicators of good governance are shown in Box 1 below.

BOX 1: SIX AGGREGATE INDICATORS OF GOOD GOVERNANCE

(i) Voice and Accountability:
This includes a number of indicators measuring various aspects of the political process, civil liberties and political rights. They measure the extent to which citizens of a country are able to participate in the selection of governments, and also measure the independence of the media.

(ii) Political Stability and Absence of Violence
This combines many indicators measuring perceptions of the likelihood that the government in power will be destabilized or overthrown by possibly unconstitutional and/or violent means--- including domestic violence and terrorism. The higher the uncertainties faced by the political process the more likely the quality of governance is compromised.

(iii) Government Effectiveness
This measures the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies. Emphasis here is on 'inputs' required for the government to be able to produce and implement good policies and deliver public goods.

(iv) Regulatory Quality or Soundness of Policies
This focuses on the soundness of policies pursued by government. It measures the extent of market unfriendly policies such as price controls, inadequate bank supervision, regulatory burdens imposed on foreign trade (customs and ports regimes) and business development (cost of doing business), soundness of the macroeconomic policies (fiscal and monetary policies); etc.

(v) Rule of Law
Measures the extent to which agents have confidence in and abide by the rules of society. The indicators here measure the success of a nation in developing an environment in which fair and predictable rules form the basis for economic and social interactions, and crucially, the extent to which property rights are protected. Indicators here include perceptions of the incidence of crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts.

(vi) Control of Corruption
Indicators here measure the perceptions of corruption.

What is obvious is that aggregating these six clusters of governance indicators and pronouncing a judgment on whether a particular regime is 'exemplary' or not is not easy. It depends on who is judging, what weights are attached to each of the clusters, and what outcomes that are focused upon. Somehow, exemplary governance, like beauty, is in the eyes of the beholder. For many analysts and especially in a developing country context, it is unlikely that a regime will emerge as 'exemplary' on all the six clusters. Exemplary is therefore a relative concept. Even for developed countries, it all depends on what one is interested in. There are still many critics of Pinochet, Margaret Thatcher, Ronald Reagan, Lee Kuan Yew; etc for failing in one or some aspects of the governance indicators. For the purposes of our discourse however, the key issue is whether the aggregate governance indicators improved significantly and whether such governance has significantly strengthened the foundations for current and future prosperity of the nation.

Leadership as stated earlier is the act of mobilizing to get things done. University and Executive Management courses on Leadership are replete with myriad definitions of leadership, the key habits or attributes of effective leadership and even some self-help tips on how to 'lead' your organizations to success. 'Change Leaders' are often said to have certain key attributes some of which include unusual capacities to: envision and plan; and courage and commitment to implement --- the 'execution advantage'. Heifetz and Linsky (2002: 3-4), *Leadership on the Line: Staying Alive through the Dangers of Leading* suggest that to lead means putting yourself and your ideas on the line, responding effectively to the risks, and living to celebrate the meaning of your efforts. According to the authors:

> *To lead is to live dangerously because when leadership counts, when you lead people through difficult change, you challenge what people hold dear--- their daily habits, tools, loyalties, and ways of thinking--- with nothing more to offer than a possibility. Moreover, leadership often means exceeding the authority you are given to tackle the challenge at hand. People push back when you disturb the personal and institutional equilibrium they know. And people resist in all kinds of creative and unexpected ways that can get you taken out of the game: pushed aside, undermined, or eliminated*.

History books are full of accounts of the dangers of leadership and many people who paid the ultimate sacrifice for daring to provide leadership. Murtala Muhammed is one such example.

The literature is also full of the essential steps in leading change. In the January 2007 edition of the Harvard Business Review (p.99), eight key steps are identified as critical for Change leaders to succeed, and they are as shown in Box 2 below.

BOX 2: EIGHT STEPS FOR TRANSFORMATIVE LEADERSHIP

1. *Establishing a sense of Urgency:*
   - Examining market competitive realities
   - Identifying and discussing crises, potential crises, or major opportunities
2. *Forming a Powerful Guiding Coalition*
   - Assembling a group with enough power to lead the change effort
   - Encouraging the group to work together as a team
3. *Creating a Vision*
   - Creating a vision to help direct the change effort
   - Developing strategies for achieving that vision
4. *Communicating the Vision*
   - Using every vehicle possible to communicate the new vision and strategies
   - Teaching new behaviors by the example of the guiding coalition
5. *Empowering Others to Act on the Vision*
   - Getting rid of obstacles to change
   - Changing systems or structures that seriously undermine the vision
   - Encouraging risk taking and nontraditional ideas, activities, and actions
6. *Planning for and Creating Short-Term Wins*
   - Planning for Visible performance improvements
   - Creating those improvements
   - Recognizing and rewarding employees involved in the improvements
7. *Consolidating improvements and Producing Still More Change*
   - Using increased credibility to change systems, structures, and policies that don't fit the vision
   - Hiring, promoting, and developing employees who can implement the vision
   - Reinvigorating the process with new projects, themes, and change agents
8. *Institutionalizing New Approaches*
   - Articulating the connections between the new behaviors and corporate success
   - Developing the means to ensure leadership development and succession.

I am sure many of us who have had to lead successful transformations of organizations have (knowingly or unknowingly) followed these steps. The puzzle however is: if the "leadership steps" can easily be followed in a cook book fashion, why hasn't every head of an organization become a great leader? Why do different

people, faced with similar challenges (even with same cook book steps on what to do) end up with dramatically different results?

This raises the old question as to whether leaders are born or can be made. Another, subtly different question is whether leadership is endogenous to the system, that is, whether it is true that every society gets the type of leadership that it deserves. According to this school of thought, leadership is endogenous, depending on a society's values, level of development, quality of institutions, etc. If leadership is a 'representative' of the larger society, it then follows that it is an embodiment of the society's virtues and vices. Since one cannot give what one doesn't have, it follows that leadership *evolves* in accordance with existing dominant structures and interests and cannot be expected to go beyond them. On the other hand, a different view believes that leadership can be *exogenous*- either able to convince or mobilize the society towards higher or different interests or is able to emerge in spite of the major interests and determined to wheel the society towards a different direction. This is the super man concept--- leaders possessing characteristics beyond the norms of the society and therefore able to provide 'leadership to a new society'. These are individuals possessing characteristics that often transcend the society's level of consciousness---- such people said to have 'come before their time'. The issue with the exogenous view is that the society can only depend on luck or chance event to get a good leader. The jury is still out on which view correctly describes the reality about the emergence of good leadership. While we await the final answers from the Sociologists, it is evident from history that both models--- the evolutionary and revolutionary concepts of leadership abound. We will however return to a slightly different issue of the relationship between governance institutions and leadership.

III: Does Governance and Leadership Matter for Prosperity?

In a public lecture at Benin City last year, the Togolese President stated what might seem to be an empirical relationship between governance and national development. According to him, every one year of bad governance retards national development by ten years. Is this assertion corroborated by empirical evidence?

It must be admitted that while a growing literature concludes that governance institutions are critical for growth, there are also some who question both the governance measures and the empirical results. For example, Kurtz and Schrank (2005: 23) *("Growth and Governance: Models, Measures, and Mechanisms")* conclude as follows:

> *The balance of the evidence available to date leaves us with two imperfect conclusions. Either we cannot reasonably conclude that improvements in governance produce meaningful increases in the rate of economic growth, or the absence of such an observed connection implies that our conceptualization and measurement of governance is as of yet quite imperfect. We remain agnostic as to which (or perhaps both?) is true, but have sought to make the case that the oft-asserted connection between growth and governance lies on exceedingly shaky empirical pilings. At the same time, potentially flawed indicators of governance quality are being utilized by policymakers to condition development aid and shape development efforts. But until we know more about what is (and is not) malgovernance, and the process by which it can be cured, such conditionality may do more harm than good.*

The point that needs emphasis here is that almost all existing measures of governance that exist today are subjective and based mostly on perceptions. Kaufmann, Kraay, etal however show that there is no better measure and that in the end, perceptions matter. It is important to always bear this point in mind--- that measurement of governance is still controversial.

The various studies by the World Bank (especially in the last seven years) and the work of many independent scholars emphatically conclude that good governance is a major determinant of economic progress. For Sub-Saharan Africa, Ndulu and O'Connell (1999) ("Governance and Growth in Sub-Saharan Africa": *Journal of Economic Perspectives*) suggest that a major explanation for Africa's growth shortfall lies in the political economy literature. Governance models practiced in much of Africa are seen as the key explanatory variable for Africa's underdevelopment. In cross-country studies, Kaufmann and Kraay (2003) find that per capita incomes and the quality of governance are strongly positively correlated across countries. They however find two interesting results. First, there is a strong positive causal effect running from better governance to higher per capita incomes; and second, a weak and even negative causal effect running in the opposite direction from per capita incomes to governance. According to the authors, the first result confirms existing evidence on the importance of good governance for economic development. The second result is new and suggests the absence of 'virtuous circles' in which higher incomes lead to further improvements in governance. Put in a simple language: the second result shows that bad governance is possible even in rich societies or that higher per capita income is not a guarantee for good governance. A clear evidence of this is demonstrated by the authors with examples from some Latin American countries.

However, it might be too early to conclude from the lone work of the authors that prosperity does not increase the quality of governance. My view is that this is issue

needs further empirical scrutiny. It is common sense that prosperity creates a demand for effective governance and leadership. The middle class that is the bastion of good governance is a consequence of shared prosperity.

The message that has emerged so far is that however subjectively measured, indicators of governance are at best positively correlated with growth. A lot of work remains to be done on the measurement of governance.

What about national leadership? Do leaders make a difference with regard to national growth? What is the relationship between governance and leadership?

An important paper by Jones and Olken (2005) ("Do Leaders Matter? National Leadership and Growth Since World War II"; *Quarterly Journal of Economics*) provides great insights on the subject. The authors (pp.4-6) review the historical (albeit, unsettled) debate about the role of individual leaders in national development. Extreme views abound. Tolstoy's historical theory is very dismissive of leaders, seeing so-called historic figures as mere ex-post justifications for events wholly beyond any individual's influence (Berlin, 1978). Karl Marx, in his Eighteeenth Brumaire of Louis Napoleon (Marx 1852) allows some minimal role for leaders but argues that leaders must choose from a historically determined set of choices, which means that they have much less freedom to act than they think they do. More broadly, Marx's materialist dialectic inspires many to see the contest of social or economic forces trumping the roles of individuals. To Tolstoy, Marx, and others, leaders typically claim immodest powers although they are in fact of little consequence. A more modern view of leadership in the psychology literature considers the very idea of powerful leaders as a social myth, embraced to satisfy individuals' psychological needs.

Other extreme views see individuals as the decisive influences in history--- the so-called "Great Man" view. From this perspective, the evolution of history is largely determined by the idiosyncratic, causative influences of certain individuals, and perhaps a very small number. To illustrate this extreme viewpoint, the British historian John Keegan has argued that the political history of the twentieth century can be found in the biographies of six men: Lenin, Hitler, Mao, Roosevelt, and Churchill.

In the middle however are other views that see both institutional factors and individuals as playing key roles. Marx Weber, whose sociological theories act as a counterpoint to Marx on many dimensions, sees a role for "charismatic" leadership in certain circumstances (Weber, 1947). He allows for possibly substantial

individual roles, but only in those cases where the national bureaucracy, or possibly traditional social norms, do not stand in the way of the individual. According to Weber, individuals, historical forces and institutions are all important and they interact in an important way. The political science literature has investigated this middle ground extensively, especially the extent to which institutions restrain leaders in democracies. More broadly, the presence of many "veto players", either constitutionally-based institutions or opposing political parties, may severely constrain the action space of leaders and policy outcomes. In summary, evidence seems to suggest that the extent to which political leaders may affect economic outcomes depends on the institutional context.

On the empirical level, Jones and Olken (2005: 26) summarize their findings as follows:

> *We find that countries experience persistent changes in growth rates across these leadership transitions, suggesting that leaders have a large causative influence on the economic outcomes of their nations. The paper further shows that the effects of leaders are very strong in autocratic settings but much less so in the presence of democratic institutions. These results add texture to a growing literature on institutions in shaping economic outcomes. In particular, this paper suggests that while political institutions may matter, their impact is not deterministic. Rather, one important effect of political institutions is to constrain the power of individual leaders. Democracies may be able to prevent the disastrous economic policies of Robert Mugabe in Zimbabwe or Samora Machel in Mozambique; however, they might also have constrained the successful economic policies of Lee Kuan Yew in Singapore or Deng Xiaoping in China…. We find that leaders do matter, and they matter to something as significant as national economic growth.*

It is important to stress that governance institutions should not be seen as 'constraints' on leaders, but as a framework to 'guide' leadership. In the history of countries, individual leaders can make a difference, but for sustained prosperity, sound governance institutions make all the difference. Sound institutions circumscribe leadership and prevent arbitrary and harmful behaviors, while providing a framework for good leaders to excel. For prosperity to be sustained there must be certain irreducible minimum standards of governance infrastructure. The scope for leaders to do harm must be eliminated, while a good institutional design should provide unlimited scope to grow the society. Here lies the contradiction: the impact of individual leadership is felt more (for better or for worse) under circumstances of weak governance institutions. The so-called benevolent dictatorships have been known to transform their societies more

radically, and more quickly than under popular democracies with effective institutions for checks and balances.

We argue however that there is a two-way causation between governance institutions and leadership: without sound institutions, any so-called 'effective leadership' will end up as a flash in a pan---- not sustainable. But effective leaders can also create productive institutions (laws, procurement reforms; pension reforms; de-regulation; privatization; constitutional reforms, etc). The institutional context also defines the rules of the game and facilitates the emergence of certain types of leaders. It is our view that it requires collective leadership to build and sustain effective Governance Infrastructure. The remaining challenge is how to deliberately orchestrate the sustained emergence of able leaders under given institutional framework. This is the subject of the next section.

IV: Towards the Deliberate Creation of Sound Governance and Leadership Infrastructure

As shown above, there is a bi-directional causality between good governance and effective leadership. Effective leadership can orchestrate the continuous improvement and refinement of governance institutions, while sound institutions circumscribe leadership, preventing arbitrary/harmful behavior, while promoting a conducive environment for agents to prosper.

Nigeria has, at different times and in different circumstances, experienced exemplary leadership. Unfortunately, much of the experiences were short-lived---- a flash in the pan! The emergence of effective leadership at different times in our history has been dictated by one crisis or the other---- a phenomenon which is global. Successive military regimes in Nigeria (applauded by the populace) cited widespread corruption and misgovernance as the key reason for their intervention; Dora Akunyili in NAFDAC faced the crisis of fake drugs; Nasir el-Rufai faced the crisis of a distorted Abuja masterplan and a dying new capital city; there was the crisis of a weak banking/financial system ill-suited to national development and which faced the imminent threat of a collapse; Nuhu Ribadu faced the crisis of monumental corruption at all levels; etc. Like painful adjustment and reforms under the structural adjustment programs (SAP) which were foisted by crisis in most developing countries, it seems the emergence of reformers in Nigeria today is a response to the crisis of underdevelopment. More fundamentally, the crisis of underdevelopment has led to the emergence of a national leader--- President

Obasanjo---- who understands the state of emergency and not only has a vision of a prosperous Nigeria but has gone the extra mile in recruiting a team of reformers with whom, and under his direction and leadership, he is building a new Nigeria. The crises of underdevelopment continue. But how do we, as a nation, ensure the continuous supply of effective leadership? How do we ensure that the present reforms are not reversed after the leaders on the scene today have gone? In other words, how do we ensure that history does not repeat itself? Do we have to orchestrate other crises to ensure the emergence of leadership? This begs the question as these crises have been with us for a long time: how come that the reforms are only happening in the way the are at this present time?

An evolutionary theory of history would argue that we are able to have the kind of leaders we have today only because the time is right for it to happen. Governance and leadership are cumulative, building upon past foundations, experiences and mistakes. A society only makes progress by building cumulatively on the successive building blocks of the past as no regime begins on a *tabla rasa*. President Obasanjo partly endorses this viewpoint as he regularly reminds us that he would not have been able to assemble the kind of Economic Team he set up in 2003 in 1999. This, according to President Obasanjo is because the political-governance infrastructure was in a state of flux, and he needed a different kind of 'leadership'----- to maintain a certain political equilibrium. Once he achieved a certain level of political reorganization and consolidated power during his first term in office, he then embarked upon far reaching socio-economic reforms in his second term. He then had the political space to appoint 'political outsiders' like the panelists in today's lecture and empowered them to lead in their various sectors. So, timing and circumstances also define leadership.

But having muddled through some of the major crises and laid firm foundation for prosperity, how do we ensure continuous supply of such leadership? How do we create a critical mass of leaders so as to avoid the flash in the pan or sporadic supply of leadership? How do we orchestrate prosperity inspired, and mission driven leadership? These are questions to elicit debate: I don't have any answers. I have raised these questions in the hope that as we brainstorm on them, we could move closer to finding answers that will serve Nigeria better. What I offer below are but few suggestions to possibly inflame the debate.

The suggestions below are organized around three clusters of issues: deepening the governance infrastructure or institutions; orchestrating effective demand for effective leadership; and systematic framework for continuous supply of leaders.

The very first step is to keep our eyes on the ball---- the vision to build a strong and prosperous economy which is among the 20 largest economies in the world by 2020. Related to this is the need to keep a gaze on the template of critical success factors to attain the long term objectives including the requirements for effective governance institutions as outlined earlier. The next is mobilizing the national leadership and the entire citizens around this vision as a collective aspiration. The objective is to keep everyone focused on the big picture and to ensure that the leadership has a clearly defined terms of reference and deliverables on the basis of which the people can monitor and evaluate performance.

a) Deepening the Governance Infrastructure or Institutions

Nigeria is part of the emerging global village in which countries are benchmarked against one another on virtually every subject. Governance institutions constitute one such area of international benchmarking. Analysts in Nigeria need to take forward the clusters of governance indicators we summarized earlier and develop measurable indicators for monitoring and evaluation. We need major and continuous improvements in almost all the six clusters of governance indicators as shown in Box 1 above. More fundamentally, we need improved governance especially at the State and Local Government levels. These levels of government are critical for empowerment and poverty reduction. Legal and judicial reforms are crucial: if the judiciary fails, the society is finished, and no credible leadership can survive under the circumstance. The rule of law should be mainstreamed as a way of life in Nigeria. The Constitution is the super governance institution. The Nigerian Constitution needs serious review to make it developmental and consistent with creating a framework for prosperity. The various laws to institutionalize reforms need to be enacted, while the institutions for public accountability and fight against corruption should be strengthened.

b) Creating Effective and enduring demand for good governance and leadership

It is often argued that a society gets the kind of governance and leadership that it demands. Effective mobilization of informed citizenry is key to a demand for good governance and leadership. In this regard, we suggest the following medium-term actions:

- Mass and qualitative education, with secondary school education as the minimum standard. This will, over time, create a pool of well

informed citizens that will demand effective governance and participate actively in the political-governance process.

- Peer Review Mechanism and Role of Independent Monitors. Peer Review Mechanism challenges leaders to show results, introduces the principle of healthy competition, and also encourages sharing of ideas and learning among cohorts. The SEEDS benchmarking among State Governments is an example of such peer review mechanism. We suggest that such benchmarking exercises be extended to Federal Government Ministries, Departments and Agencies, using defined indicators of governance and performance. There should be independent Governance and Leadership Monitoring Groups to monitor government institutions. Furthermore, it is suggested that donor agencies and development partners operating in Nigeria subject themselves to benchmarking based on aid governance indicators.

- Effective public-private partnerships should be forged for sustaining reforms and reaching the national vision. Such partnerships provide conducive environments for demanding, and refining reforms and for building coalitions for implementation.

c) Supply of Effective leadership?

A conscious effort should be made to strengthen the institutions that encourage the emergence of honest and exemplary leadership. The politics of the day needs major reforms. When politics is not driven by ideas, there is no incentive for men and women of vision and capacity to emerge. The political parties and the political process need fundamental reforms. For example, as we approach the April elections, it is difficult to tell the differences among the political parties and candidates in terms of ideologies, and programs. Politics that is essentially driven by money scars honest but poor people from seeking leadership positions in society. To move forward, we need to encourage the following:

- Free, fair and transparent electoral system is the key to evolving a system to guarantee the emergence of effective leadership. An effective electoral system where every vote is counted, every vote counts and only legitimate votes count, will put political parties

under tremendous pressure to field only candidates that possess leadership characteristics---- have electoral value. If only the people's votes determine who should be in power, then leaders at all levels will be under pressure to serve through exemplary leadership so as to earn the people's mandate to retain power. Without a sound electoral system, systematic and effective leadership cannot emerge or endure.

- Competitive Politics under an effective electoral system helps to clarify the choices facing the electorate. We hope that over time, there will be two or three major political parties based on alternative ideologies and programs for prosperity. This should evolve over time rather the current confused state of dozens of parties and no one knows what they stand for.

- Course on "Governance and Leadership" in the curricula of Secondary schools? How about having such a course in the Universities as one of the General Studies? What about specific schools devoted to Governance and Leadership?

- Mandatory two-week Governance and Leadership Workshop for newly elected and appointed officers at all levels to be organized by international professionals. Such workshops should offer opportunities to the Executive and the legislature to share their visions of development, the governance and leadership demands for such to happen, and possibly agree on a work program. Such workshops should be organized at the beginning of every budget year.

Banks and the National Economy: Progress, Challenges and the Road Ahead

By
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Governor
Central Bank of Nigeria

Outline

I. Introduction
II. What Drives Real Sector Development?
- Macro Environment
- Micro Environment

III. How Does Banking/Financial System Matter?
IV. Banks and the Nigerian Economy: Recent Evidence
- Nigerian Banks as Fastest Growing in Africa
- Banks and the Real Sector
- We Still Have a Long Way To Go

V. Challenges to Efficient and Effective Banking and the Road Ahead
- Challenges
- The Road Ahead

VI. Conclusion

1. Introduction

- This presentation x-rays the progress thus far with respect to the contributions of banks to the Nigerian economy post consolidation, the challenges faced by them and the prospects in the medium to long term.

II. What Drives Economic (Real Sector) Development?

Macroeconomic Environment

	2003	2004	2005	2006	2007
Inflation Rate – Year on Year (%)	23.80	10.00	11.60	8.50	6.60
Interest Rate – Prime Lending Rate (%)	19.60	18.91	17.78	17.33	16.46
Exchange Rate (=N=/USD) (End period)	137.0	132.86	130.29	128.27	117.97
External Debt (US$' Billion)	32.92	35.94	20.48	3.54	3.63
Credit to Private Sector (N' Billion)	1,191.55	1,507.89	1,950.38	2,490.38	4,941.48
Net Domestic Credit (N' Billion)	1,803.94	2,020.17	2,313.39	753.81	2,212.67

II. What Drives Economic (Real Sector) Development?

Microeconomic Environment

- Security of Lives and Property
- Property Rights
- Rule of Law
- Hard Infrastructure – Transportation, Power, Water
- Soft Infrastructure – Human Capital, Legal, Institutional
- Regulatory and Supervisory Capacity
- Land and Mortgage Reforms
- Trade Policy – Efficiency of Ports/Customs System

II. What Drives Economic (Real Sector) Development?

Nigeria's Rankings in the World Doing Business Reports

Indicators	2006	2007
Ease of Doing Business	108	108
Starting a Business	77	80
Dealing with Licenses	170	161
Employing Workers	30	30
Registering Property	172	173
Getting Credit	80	84
Protecting Investors	49	51
Paying Taxes	105	107
Trading Across Borders	135	138
Enforcing Contracts	92	93
Closing a Business	86	89
Note: Ranking out of 178 Countries.		

III. How Does Banking/Financial System Matter?

- Banks play intermediation role—deposit taking/lending
- Resource allocation—from surplus units to deficit units
- Facilitate risk sharing—spreads/reduces risk faced by economic agents
- The financial system generates wealth in the economy
- Facilitates the exchange of goods and services

III. How Does Banking/Financial System Matter?

- There is a substantial body of literature on the link between finance and economic growth (King and Levine, 1993), (Levine and Zervos, 1998), (Rajan and Zingales, 1998) and (Levine, Loayza and Beck, 1999).
- Calomiris and Mason (2003) estimated an elasticity of real state income growth to bank loan supply growth of 45% where a one standard deviation decrease in loan growth over three years (17.9%) reduces output growth over three years by about 7 percentage points.
- Strong correlation between output and credit.

III. How Does Banking/Financial System Matter?

Correlation Between Nominal GDP and Domestic Credit

	AC	CPS	AC 1/	CPS 1/
South Africa	2003-2006 0.9903	2003-2006 0.9930	2003-2006 --	2003-2006 --
Nigeria	0.3776	0.9879	0.3807	0.9982
Egypt	0.9792	0.9893	--	--
India	0.9990	0.9999	--	--
Brazil	0.9652	0.9663	--	--
Malaysia	0.9806	0.9941	--	--
UK	0.9982	0.9964	--	--
US	0.9976	0.9999	--	--

Source: CBN; IMF, IFS

1/ Using Non-oil GDP at constant basic prices.

AC= Aggregate banking system credit to the economy.

CPS=Banking system credit to private sector.

III. How Does Banking/Financial System Matter?

DMBs Credit and Non-oil GDP

Year	Nominal Non-oil GDP (N billion) & Growth Rate	DMBs Total Credit (N billion)	Credit to Core Private Sector (N billion)	Total Credit/Non-oil GDP (%)	Credit to Private Sector/Non-oil GDP (%)
2003	5,799.6 (5.2%)	1,203.2	1,191.5	20.7	20.5
2004	7,163.4 (7.8%)	1,519.2	1,507.9	21.2	21.0
2005	8,907.4 (8.6%)	1,991.1	1,950.4	22.4	21.9
2006	11,581.7 (9.4%)	2,524.3	2,490.4	21.8	21.5
2007	15,747.6 (9.8%)	4,813.5	4,941.5	30.6	31.4

Figures in parenthesis are real GDP growth rates.

IV. Banks and the Nigerian Economy: Recent Evidence

Nigerian Banking Sector

- Asset Base grew by approx. 277% between 2003 and 2007
- About 11 banks with over $1 billion in Tier 1 capital, by end February, 2008.
- Microfinance Banks – 716 and more
- Branch Expansion outside Nigeria – 16 in Africa of which 9 are new branches; 5 outside Africa.
- Share of Banks in NSE most capitalized companies rose substantially – 30% (2003); 65% (2007)

IV. Banks and the Nigerian Economy: Recent Evidence

Banking System Indicator (BSI)

BSI	Countries
D	Benin, Bulgaria, China, Columbia, Costa Rica, Croatia, El Salvador, Georgia, Hungary, India, Indonesia, Israel, Kazakhstan, Lebanon, Lithuania, Morocco, **Nigeria,** Panama, Peru, Philippines, Poland, Romania, Taiwan, Thailand, Turkey, Ukraine, Venezuela, Russia
E	Argentina, Armenia, Azerbaijan, Belarus, Bolivia, Dominican Republic, Ecuador, Egypt, Iran, Sri Lanka, Tunisia, Uruguay, Vietnam

Source: Fitch Ratings: Bank Systemic Risk Report, September 2007
BSI measures system quality or strength: D indicates low while E indicates very low.

IV. Banks and the Nigerian Economy: Recent Evidence

Macro-Prudential Indicator (MPI)

MPI	Countries
1	Argentina, Austria, Benin, Bermuda, Bolivia, Chile, China, Cyprus, Dominican Republic, Ecuador, Egypt, El Salvador, Germany, Hong Kong, Hungary, Indonesia, Israel, Japan, Lebanon, Malaysia, Mexico, Morocco, **Nigeria,** Oman, Panama, Peru, Philippines, Poland, Singapore, Sri Lanka, Taiwan, Thailand, Tunisia, Uruguay
2	Armenia, Bahrain, Belarus, Belgium, Brazil, Bulgaria, Colombia, Costa Rica, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Greece, India, Ireland, Italy, Kazakhstan, Kuwait, Latvia, Lithuania, Luxembourg, Malta, Netherlands, New Zealand, Norway, Portugal, Qatar, Romania, San Marino, Spain, Slovakia, Slovenia, Switzerland, UK, US, Saudi Arabia, Sweden, Turkey, UAE, Ukraine,
3	Australia, Azerbaijan, Canada, Iceland, Iran, Korea, Russia, South

Source: Fitch Ratings: Bank Systemic Risk Report, September 2007

MPI measures vulnerability to systemic crises: 1 indicates low risk; 2 indicates moderate risk; 3 indicates high risk.

IV. Banks and the Nigerian Economy: Recent Evidence

Bank Credit to Private Sector as % of GDP

COUNTRY	2002	2003	2004	2005	2006	2007
BENIN	11.4	14.2	14.6	16.3	17.0	16.9
EGYPT	52.1	50.7	50.7	48.3	45.9	42.4
MOROCCO	48.5	49.3	50.3	54.4	59.4	60.7
NIGERIA 1/	18.4	20.5	21.0	21.9	21.5	31.4
TUNISIA	64.2	66.7	65.1	65.0	64.2	63.0
SOUTH AFRICA	62.4	69.1	70.0	75.2	84.2	92.1

1/ CBN data using Non-Oil GDP

Source: Fitch Ratings: Bank Systemic Risk Report, September 2007

IV. Banks and the Nigerian Economy: Recent Evidence

Other Indicators of Financial Deepening

Year	M2/GDP Ratio (%)	CIC/M2 Ratio (%)	COB/M2 Ratio (%)	CIC/GDP Ratio (%)	CIC/Non-oil GDP Ratio (%)	COB/GDP Ratio (%)	COB/Non-oil GDP Ratio (%)
2003	20.0	25.3	20.8	5.1	8.7	4.2	7.1
2004	19.8	24.1	20.3	4.8	7.6	4.0	6.4
2005	19.3	22.8	20.0	4.4	7.2	3.9	6.3
2006	19.8	21.2	18.8	4.2	6.7	3.7	6.0
2007	21.0	20.0	15.2	4.2	6.1	3.2	4.6

M2 is broad money stock (end period)

GDP at current basic prices.

CIC is Currency in Circulation (end period)

COB is Currency Outside Banks (end period)

IV. Banks and the Nigerian Economy: Recent Evidence

Banking System: Key Facts (Data for 2006 - 2007)

COUNTRY	Non Performing Loan Ratio (%)	Risk weighted capital ratio (%)	Public Ownership as % Assets	Foreign Ownership as % Assets
BENIN	12	8	90	n.a
EGYPT	20	10	58	14
MOROCCO	16	12	24	16
NIGERIA 1/	8.4	20.3	5	6.3
TUNISIA	19	12	42	26
SOUTH AFRICA	2	13	0	30

1/ CBN data.

Source: Fitch Ratings: Bank Systemic Risk Report, September 2007

IV. Banks and the Nigerian Economy: Recent Evidence

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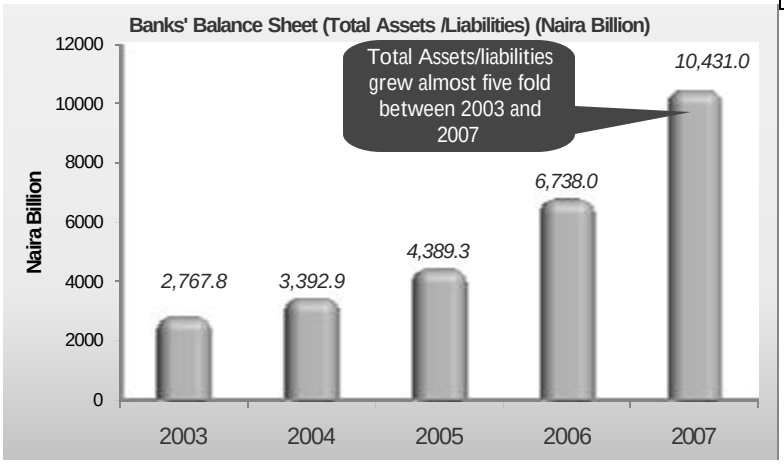

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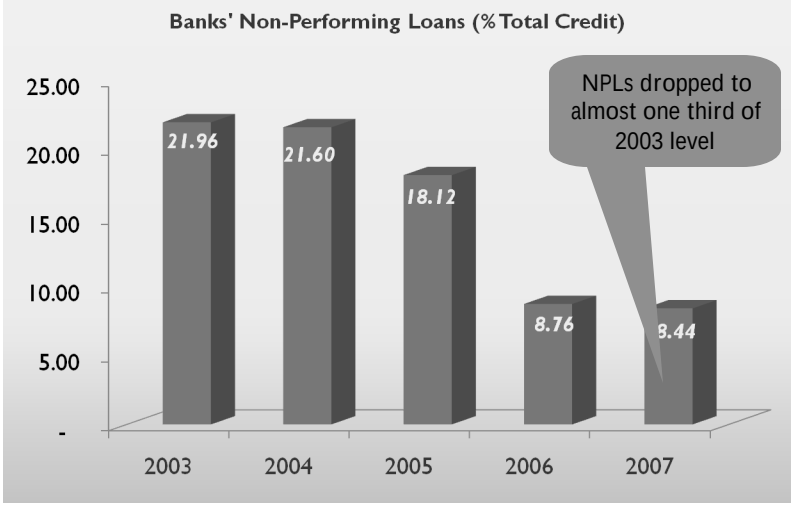

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u1 Total assets/liabilities grew almost five fold from 2003 level
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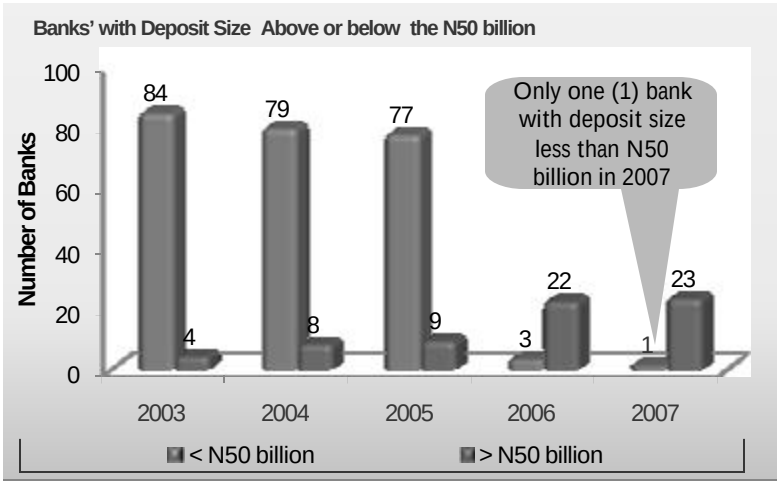
IV. Banks and the Nigerian Economy: Recent Evidence



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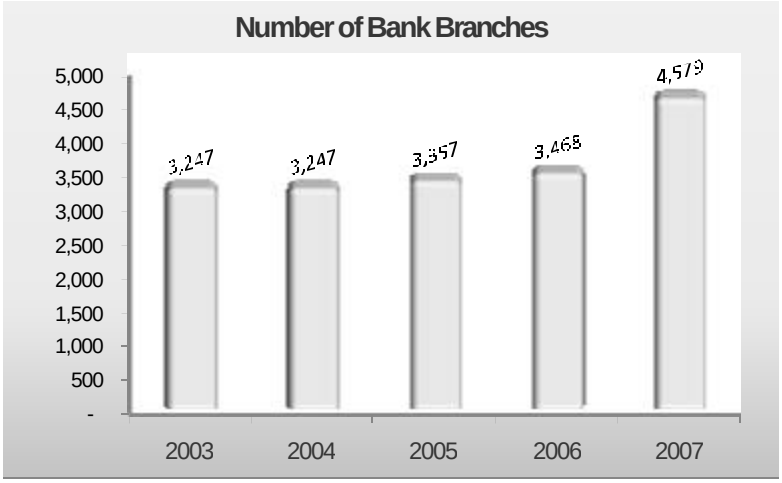

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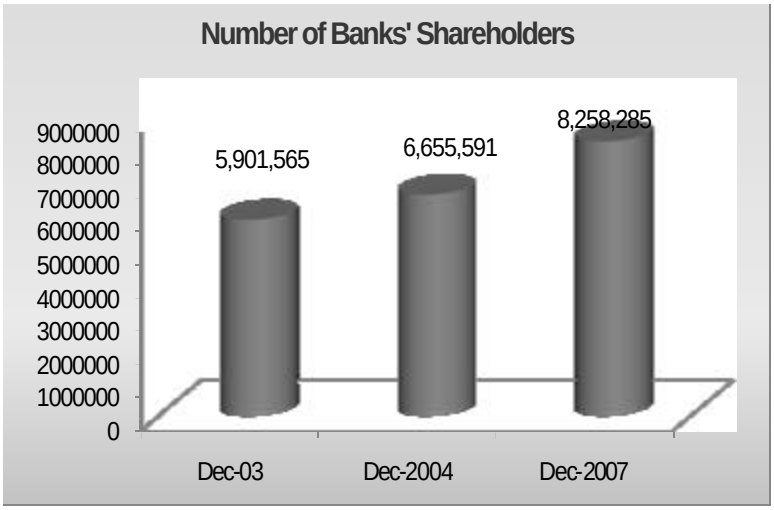

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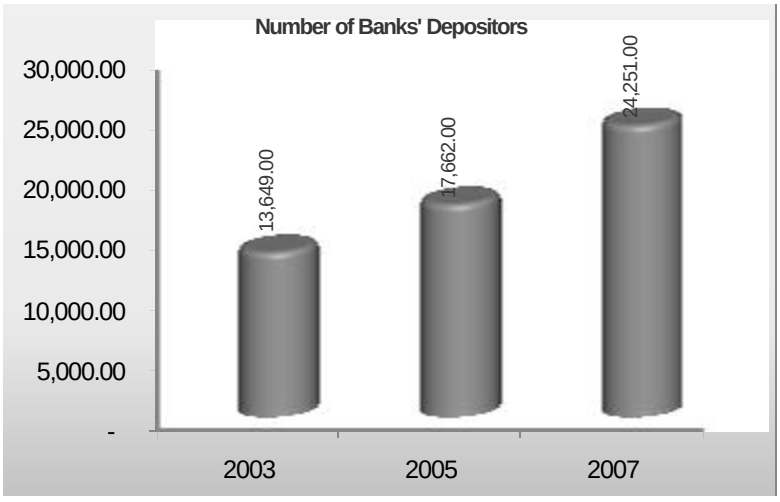

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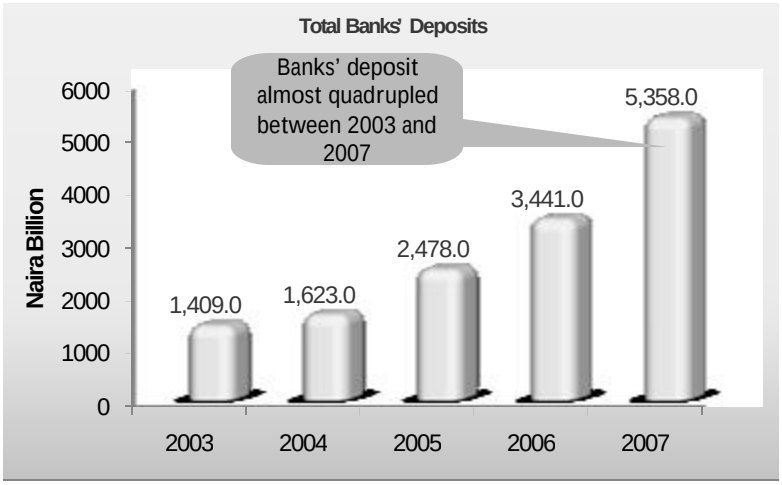

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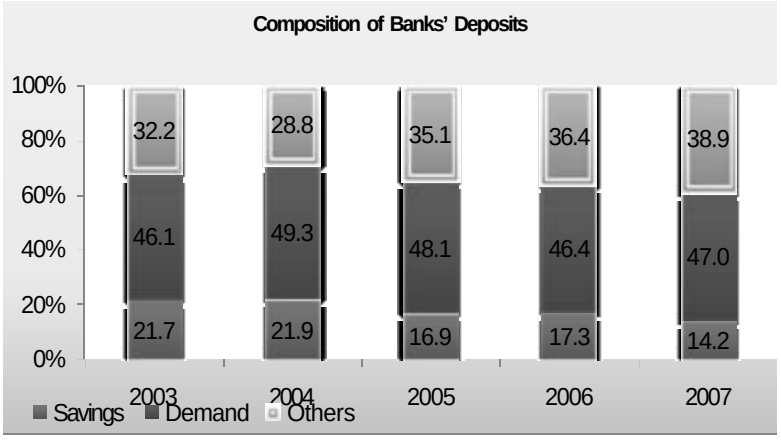

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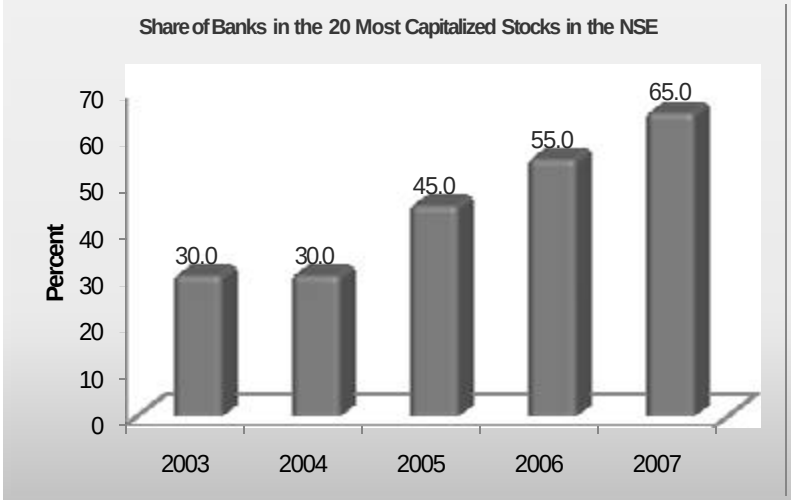

IV. Banks and the Nigerian Economy: Recent Evidence

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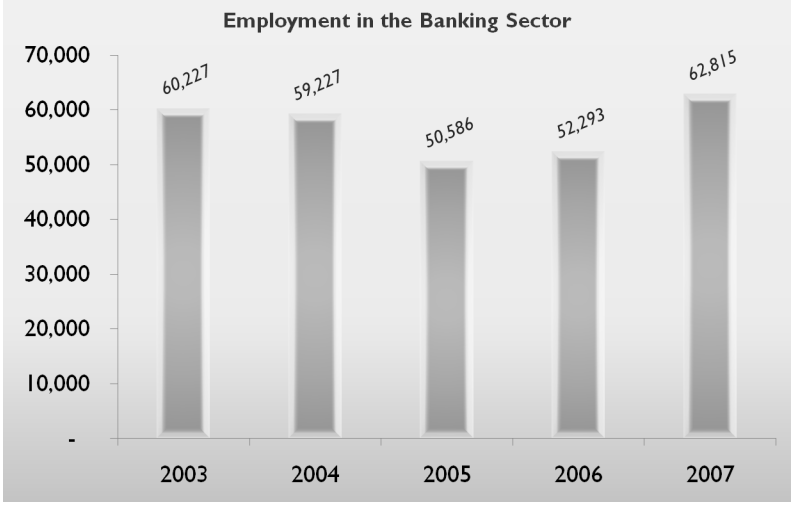


IV. Banks and the Nigerian Economy: Recent Evidence

Sectoral Share in Total Real GDP and in Private Sector Credit

Sectors	2003	2004	2005	2006	2007
Agriculture	41.01 (5.16)	40.98 (4.46)	41.19 (2.44)	41.72 (1.96)	42.21 (3.11)
Min. & Quarry	0.25 (7.98)	0.26 (8.63)	0.27 (8.66)	0.28 (9.96)	0.29 (10.19)
Manufacturing	3.57 (24.46)	3.68 (21.86)	3.79 (17.68)	3.91 (17.66)	4.04 (10.13)
Communication	1.06 (24.41)	1.27 (25.19)	1.53 (18.87)	1.91 (19.82)	2.38 (24.06)
Oil & Gas	26.53 (19.05)	25.72 (18.27)	24.26 (21.67)	21.85 (23.23)	19.38 (26.32)
Others e.g Trade, Services, Tourism, etc	27.58 (18.94)	28.09 (21.59)	30.84 (30.68)	34.25 (27.37)	38.09 (26.19)

Note: Figures in parenthesis are share of credit to the private sector (%)

IV. Banks and the Nigerian Economy: Recent Evidence

Credit to Private Sector by Activity (N' Billion)

Sectors	2003	2004	2005	2006	2007
Agriculture	62.10	67.74	48.56	49.39	149.58
Min. & Quarry	95.98	131.06	172.53	251.48	490.71
Manufacturing	294.31	332.11	352.04	445.79	487.58
Communication	293.70	382.76	375.73	500.24	1,158.10
Oil & Gas	229.23	277.53	431.39	586.48	1,266.67
Others	227.89	328.04	610.89	690.92	1,260.85
TOTAL	1,203.20	1,519.24	1,991.15	2,524.30	4,813.49

IV. Banks and the Nigerian Economy: Recent Evidence

Loan for Share Purchase As Percent of Credit to Core Private Sector

Period	Advances for Shares (N' Billion)	Credit to Core Private Sector (CPS) (N' Billion)	Advances for Shares as % of CPS
Jan. 07	7.55	2,519.32	0.30
Feb. 07	105.46	2,817.61	3.74
Mar. 07	103.90	2,931.54	3.54
Apr. 07	172.05	3,125.82	5.50
May 07	171.50	3,364.09	5.10
Jun. 07	285.56	3,412.04	8.37
Jul. 07	172.23	3,778.20	4.56
Aug. 07	150.68	3,900.89	3.86
Sept. 07	416.33	4,085.58	10.19
Oct. 07	430.10	4,287.77	10.03
Nov. 07	35.84	4,538.13	0.79
Dec. 07	32.17	4,941.48	0.65

IV. Banks and the Nigerian Economy: Recent Evidence

Growth Rate of Sectoral Real GDP (%)

Sectors	2003	2004	2005	2006	2007
Agriculture	6.64	6.50	7.06	7.40	7.67
Min. & Quarry	5.44	10.85	9.53	10.28	10.51
Manufacturing	5.66	10.00	9.61	9.39	9.90
Communication	35.87	27.77	28.38	32.45	32.85
Oil & Gas	23.90	3.30	0.50	-4.51	-5.61
Others	2.13	8.56	9.80	11.04	11.22

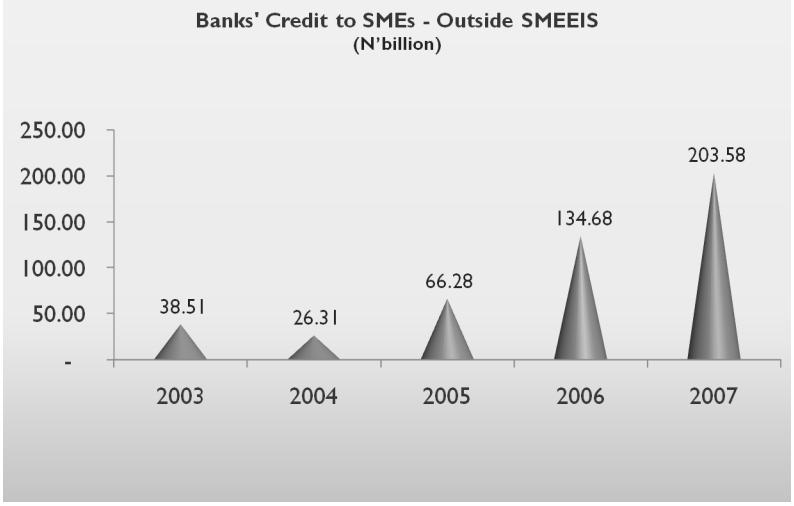
IV. Banks and the Nigerian Economy: Recent Evidence

Average Time Deposit Rate, Lending Rates and Inflation Rate

	2003	2004	2005	2006	2007	2008*
Average Time Deposit Interest Rate (%)						
One Month	13.72	11.76	9.14	9.99	10.18	9.83
Three Months	14.79	12.80	9.10	10.25	10.29	10.19
Six Months	13.75	11.65	8.72	9.93	9.53	10.03
Twelve Months	13.52	12.71	8.77	7.45	7.92	9.80
Over Twelve	12.26	10.67	6.13	8.53	9.67	9.62
Lending Rates (%) – Prime	19.58	18.91	17.78	17.33	16.46	16.48
Maximum	21.61	20.42	19.54	18.66	18.21	18.24
Inflation Rate (%) – Year on Year						
Headline	23.80	10.00	11.60	8.50	6.60	7.70
Core	34.80	5.90	2.40	17.30	3.60	5.70

* Estimate (January 2008)

IV. Banks and the Nigerian Economy: Recent Evidence



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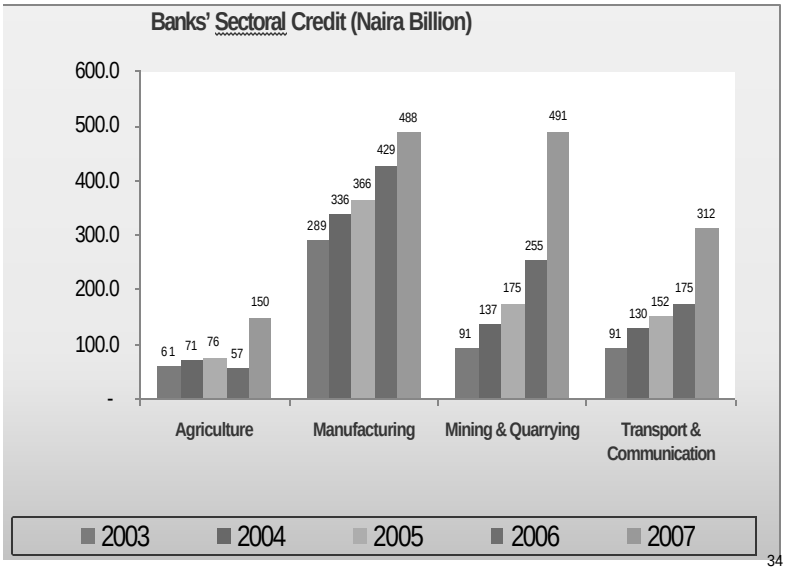

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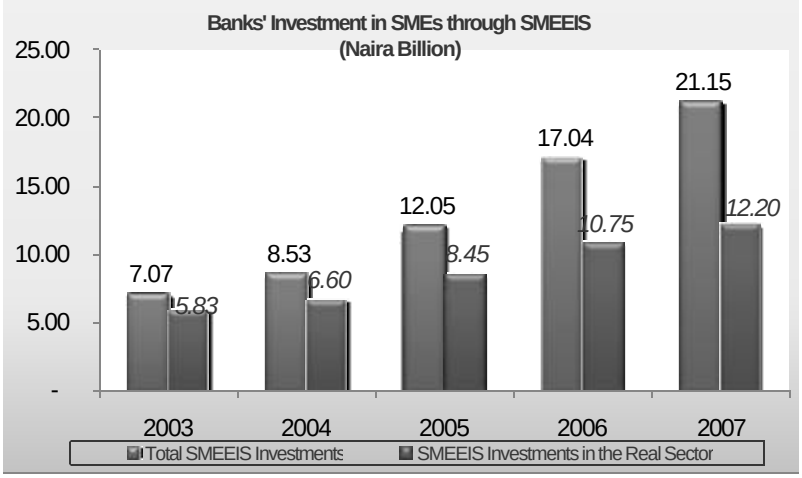
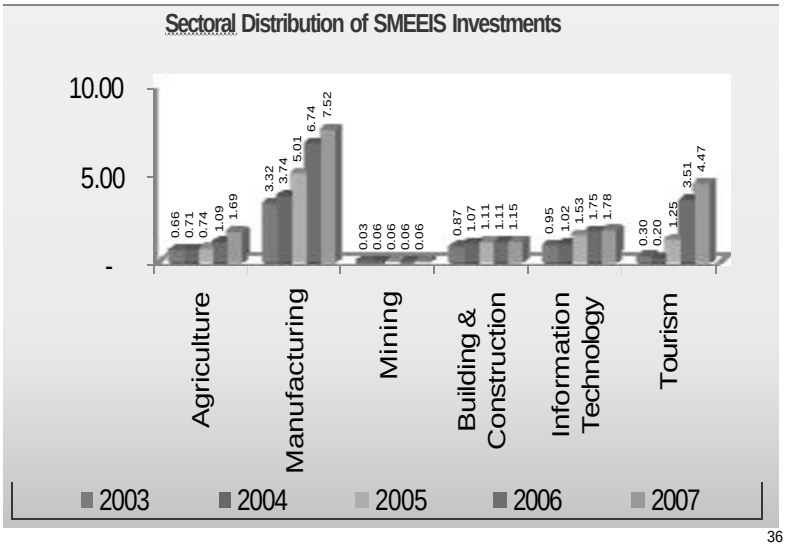
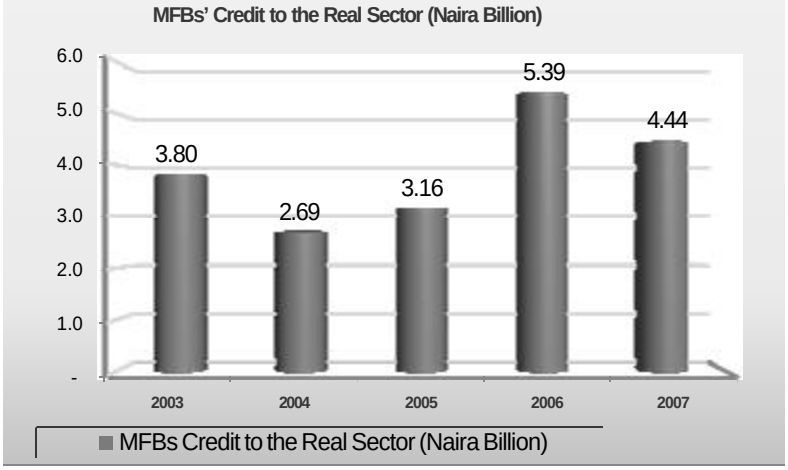


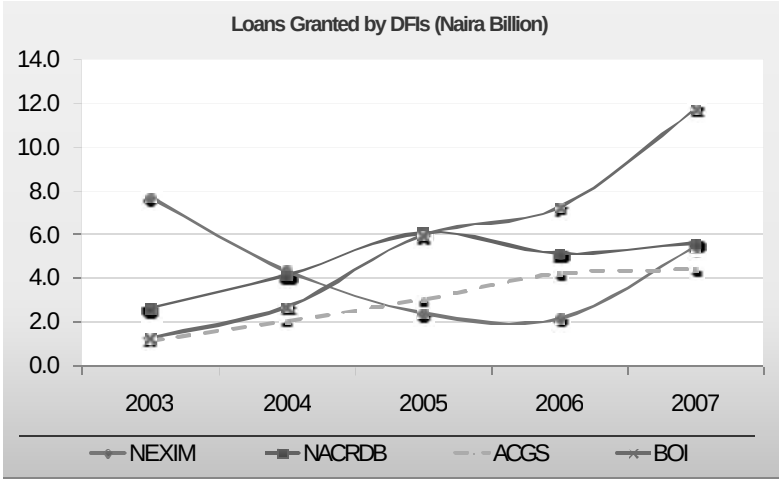
IV. Banks and the Nigerian Economy: Recent Evidence



IV. Banks and the Nigerian Economy: Recent Evidence



IV. Banks and the Nigerian Economy: Recent Evidence



IV. Banks and the Nigerian Economy: Recent Evidence

DMBs' Credit to SMEs As Percent of Total Credit			
Year	Credit to SMEs (N'Bn)	DMB Total Credit (N'Bn)	Credit to SMEs as % of DMBs Total Credit (%)
2003	38.51	1,203.20	3.20
2004	26.31	1,519.24	1.73
2005	66.28	1,991.15	3.33
2006	134.68	2,524.30	5.34
2007	203.58	4,813.49	4.23

V. Challenges to Efficient and Effective Banking and the Road Ahead

V.1 Challenges

- Shortage of qualified and experienced manpower
- Poor corporate governance and risk management framework in an era where the regulator has become stricter
- Risk- averse operator, regulator–led market
- Total credit as % of Non–Oil GDP just about 31%
- Total credit to SME about 4.2 % of total
- Low savings rate – see slide 41 below
- Formal banking only covers about 40% of the bankable public
- Mortgage system largely absent – Land/Legal Reforms

V. Challenges to Efficient and Effective Banking and the Road Ahead

Financial Savings Ratio

Year	GDP (N billion) 1/	Non-oil GDP (N billion) 1/	Total Bank Deposit (N billion)	TD/GDP Ratio (%)	TD/Non-oil GDP Ratio (%)
2003	9913.52	5,799.60	1337.3	13.49	23.06
2004	11411.07	7,163.40	1661.5	14.56	23.19
2005	14572.24	8,907.40	2036.1	13.97	22.86
2006	18564.59	11,581.70	2852.0	15.36	24.63
2007	22907.31	15,747.60	4010.5	17.51	25.47

1/ GDP at Current basic prices

V. Challenges to Efficient and Effective Banking and the Road Ahead

V. 1 Challenges Cont'd

WHY ARE LENDING RATES STILL "HIGH"?

- Cost of Funds for Banks Still High (See Deposit rates)
- In a risky business environment, banks price risks differently for different borrowers
- Uncertainty about future inflationary trends
- Poor Infrastructure means that banks' operating costs are very high
- High overhead costs of banks - emoluments
- Financing of budget deficits – crowds out private sector

V. Challenges to Efficient and Effective Banking and the Road Ahead

V.1 Challenges Cont'd

ARE BANKS MAKING "TOO MUCH" PROFIT?

- No!
- Return on Equity still relatively small
- Still huge potential for significant growth

V. Challenges to Efficient and Effective Banking and the Road Ahead

V.2 The Road Ahead

- FSS 2020 as Road Map to the Future

1. Continue to maintain macro stability – low price inflation
2. Amend BOFIA to strengthen regulation/supervision
3. Legal Reforms – to fast-track markets/institutions for efficient credit system
4. Address critical infrastructure – power, transport, ports, water – to also reduce cost of funds for banks
5. Mainstream a Commercial Court System throughout Nigeria

V. Challenges to Efficient and Effective Banking and the Road Ahead

V.2 The Road Ahead Cont'd

6. Mortgage and Consumer Credit Reforms
7. Deepen and Mainstream Microfinance System
8. Continued Strengthening of Regulatory and Supervisory capacity
9. Capacity Building for bank staff

VI. Conclusion

- Banking and Telecoms as the fastest growing sectors of the economy
  - ? They are driving the emergence of a new economy and growth is showing
  - ? Credit to private sector grew by 97% in 2007
  - ? Credit to SMEs grew by 51.2% in 2007
  - ? Non Oil GDP grew by 9.8% in 2007
- Need to deepen and sustain the momentum of growth
- Need wide ranging reforms under the FSS 2020
- Finance ALONE will not see Nigeria to 20:2020: Need to fast-track other reforms- infrastructure, security, judiciary, education, etc.

Thank you for your
attention

AN ADDRESS BY CHIEF (DR.) J. O. SANUSI, (CON), GOVERNOR, CENTRAL BANK OF NIGERIA, AT THE OFFICIAL COMMISSIONING OF THE CENTRE FOR BIOTECHNOLOGY RESEARCH AND TRAINING OF THE AHMADU BELLO UNIVERSITY, ZARIA BUILT UNDER CBN CAPACITY BUILDING PROGRAMME, ON 10TH MAY, 2004.

The Pro Chancellor,
The Vice Chancellor,
Members of Senate of the University,
Other Principal Officers of the University,
Directors of Central of Bank of Nigeria,
Members of the Academia,
Distinguished Ladies and Gentlemen.

I am delighted to be here this morning for the official commissioning of the Centre for Biotechnology Research and Training, Ahmadu Bello University, Zaria. This project was built through a collaborative effort between the Central Bank of Nigeria and the Ahmadu Bello

University under the Bank's Capacity Building Programme (CBP).

2. It might interest you to know that the intervention of the Central Bank of Nigeria through financial assistance to Nigerian Universities arose from the recognition that these institutions are faced with a number of difficulties arising primarily from inadequate funding.

3. Our intervention is predicated on the awareness that investment in human capital, through improved funding of the education sector helps to accelerate the pace of economic growth and development. We note in particular that the impressive productivity growth, which

mainly explained the East Asia's economic success, was largely attributable to the high rate of investment in education and training. Thus, the CBP initiative represents the Central Bank's commitment to the rejuvenation and revival of the ailing education sector in the country.

4. More importantly, the CBP was initiated in 1998 out of the Bank's genuine desire to lead and encourage other corporate institutions, particularly those in the financial sector, to support Nigerian Universities in re-habilitating their fast deteriorating infrastructural facilities, as well as, provide additional ones. It is noteworthy that we have made satisfactory progress in realising these objectives, as

revealed by the level of financial support given to Nigerian Universities by many banks and other financial institutions in the country.

5. I am aware that the Research Centre being commissioned today represents the cutting edge of science in today's world with various benefits in the areas of biological and medical research, drug production, diagnosis, safety testing, agriculture and engineering, etc. It is also recognized that, although these benefits are valuable and desirable, some people are concerned about the risks associated with some products of biotechnology, such as genetically modified foods or organisms. While some of these risks may be real, they do not undermine the benefits or weaken the growing acceptability

and endorsement of biotechnology as the solution to the problems of poverty, health and quality of life.

5. I understand that the main objectives of the University for establishing this Centre are to:

- **provide training facilities in molecular biology techniques to undergraduate, postgraduate and post-doctoral students;**
- **carry out basic and applied research in the areas of medical, agricultural and veterinary sciences;**
- **provide molecular diagnostic facilities for Ahmadu Bello University Teaching Hospital, Veterinary Teaching Hospital and referrals from other hospitals in the country,**

including HIV/AIDS diagnosis, and checking of vaccines and drugs for potency;

- **provide full complement of equipment and facilities for teaching and research in the areas of recombinant DNA technology, cell and tissue culture and immunology; and**
- **enhance the research capability and academic leadership of the University.**

Recognizing the importance of these benefits to ABU and the nation, the Central Bank is proud to be associated with the Project. Indeed, we see our involvement as a positive contribution to national economic development.

7. Mr. Pro Chancellor, I understand that the Centre being commissioned today was built at a cost of ₦70 million, signifying that the ₦25

million provided by the CBN represented the seed-money for the take-off of the project. Let me, therefore, commend the University Administration for its appreciable contribution and the efficient resource management that facilitated the timely completion of the project.

8. Distinguished Members of the University Community, Ladies and Gentlemen, I call on all Scientists and Researchers from this University and other institutions to take full advantage of the facilities being assembled here for the advancement of scientific knowledge for the good of mankind, in general, and the Nigeria nation, in particular. We hope that this centre will be jealously guarded and protected.

9. I congratulate the Governing Council, Senate and, indeed, the entire academic community of the Ahmadu Bello University on this epoch making occasion.

10. I thank you for your kind attention.

Chief (Dr.) J. O. Sanusi (CON)
Governor,
Central Bank of Nigeria

May 10, 2004

OPENING REMARKS BY CHIEF (DR) JOSEPH SANUSI, GOVERNOR, CENTRAL BANK OF NIGERIA AT THE NATIONAL SUMMIT ON THE SMALL AND MEDIUM INDUSTRIES EQUITY INVESTMENT SCHEME (SMIEIS) HELD AT THE LAGOS CHAMBER OF COMMERCE AND INDUSTRY AUDITORIUM, VICTORIA ISLAND, LAGOS.

Representative of the Honourable Minister of Industry;
The President, Lagos Chamber of Commerce and Industry;
Captains of Industry;
Eminent Bankers;
Members of the Organized Private Sector;
Entrepreneurs;
Distinguished Ladies and Gentlemen.

I am most delighted to join the President of the Lagos Chamber of Commerce and Industry in welcoming all dignitaries to this National Summit on the Small and Medium Industries Equity Investment Scheme (SMIEIS) and to make a few opening remarks.

The establishment of SMIEIS was informed by the lingering problems of the dearth of long-term funding and poor business management skills which have inhibited the realization of the potentials of the small and medium-scale industries as the engine of growth in the Nigerian economy, despite the various schemes that had been initiated in the past to provide incentives for development of this sector.

SMIEIS is an innovation designed for our peculiar situation in the country. This initiative has recorded satisfactory progress so far within the short period of its existence. As at 31st May, 2003, a total of ₦14.6 billion had been set aside by banks for equity investment under the Scheme. However, despite the rapid accumulation of resources, only ₦4.3 billion, or 29.4 per cent of the fund had been invested so far.

The reasons for this slow pace are not far-fetched. First, equity investment requires skill-sets which are quite different from what the banks are familiar with in credit appraisal and management. Secondly, at the time the Scheme took off in 2001, the necessary structures for the investing banks to effectively administer the Scheme were not in place. However, it is encouraging to note that several applications are being processed by the Securities and Exchange Commission (SEC) for the registration of subsidiaries of banks as venture capital companies for the purpose of channeling investments under the Scheme.

Thirdly, the dearth of attractive projects in which banks can invest, owing to poor record-keeping, poor managerial capability and lack of business packaging skills remains a limiting factor. Fourthly, there was resistance from the entrepreneurs who were reluctant to dilute their shareholding. It took them time to accept the idea of patronizing equity investment instead of loans. The main resistance was unwillingness to accept discipline resulting

from sharing control. They wish to persist in the sort of indiscipline that made some of the SMEs fail in the first instance. It has taken some time to effect a paradigm shift and for them to appreciate that it is better to own 10 per cent of a successful and profitable business than to own 100 per cent of a moribund business. Last, but not the least, of course, is the issue of poor infrastructure, which is constantly recurring.

I wish to sound a note of warning on the banks setting up subsidiaries and venture capital companies:

Banks should;

(1) avoid creating cost centres that will eat into the funds available for the Scheme; and

(2) take advantage of their branch network and spread to get close to various areas (rural/urban) in the country. Specifically, banks should therefore actively involve their branches in implementing the Scheme.

It is my firm belief that investments will soon increase to catch up with the accumulated fund as the capacity building efforts of the banks, other stakeholders and our investment partners targeted at the bankers and entrepreneurs begin to yield dividends and the necessary structures are put in place.

Conscious of the continuing need for capacity building and to create a conducive investment environment for the optimal utilization of the SMIEIS fund, the Central Bank of Nigeria has recently initiated a project for Baseline Economic Study to develop an integrated information system for small and medium enterprises (SMEs) to foster better implementation of SMIEIS and the development of SMEs, generally. The information so gathered from the exercise will serve as a compendium for prospective investors in small and medium industries and will be widely disseminated.

The study, which will be carried out by selected universities, based on their proposals, in seven economic zones into which the country has been sub-divided for this purpose, will identify the various possible industries that can be established in each region, taking into account their natural, human and material endowments and proffer strategies for achieving them. Specifically, the study will compile a compendium on project ideas and profiles, effectively disseminate information so gathered to all stakeholders, including investing banks and prospective entrepreneurs, design a generic information system that would assist SMEs overcome their financing, management, marketing and other problems.

I will like to conclude my opening remarks by sharing with you my faith and optimism in the SMIEIS. With a concerted effort and renewed commitment from all stakeholders, this Scheme will surely succeed and realize

its intended objective of making SMEs the engine of growth in this economy and a veritable tool for the development of indigenous technology, rapid industrialization, generation of employment for our teeming youths and the pivot for sustainable economic development in Nigeria.

Distinguished Ladies and Gentlemen, it is now my honour and privilege to declare this National Summit on SMIEIS open.

I thank you for your kind attention.

Chief (Dr.) Joseph Sanusi,
Governor, Central Bank of Nigeria.
Abuja.
10th June, 2003.

OVERVIEW OF GOVERNMENT'S EFFORTS IN THE DEVELOPMENT OF SMEs AND THE EMERGENCE OF SMALL AND MEDIUM INDUSTRIES EQUITY INVESTMENT SCHEME (SMIEIS)

BY

CHIEF (DR.) J.O. SANUSI
GOVERNOR,
CENTRAL BANK NIGERIA,
ABUJA

PRESENTED AT THE NATIONAL SUMMIT ON SMIEIS ORGANISED BY THE BANKERS' COMMITTEE AND LAGOS CHAMBERS OF COMMERCE AND INDUSTRY (LCCI), LAGOS ON 10TH JUNE, 2003

OVERVIEW OF GOVERNMENT'S EFFORTS IN THE DEVELOPMENT OF SMEs AND THE EMERGENCE OF SMIEIS

1.0 INTRODUCTION

The role of the Small and Medium Enterprises (SME) as a catalyst for economic growth and development has been well documented in the economic literature and recognized in most countries. For example, in many of the newly industrialized nations, more than 98 percent of all industrial enterprises belong to the SMEs sector and account for the bulk of the labour force. SMEs enjoy a competitive advantage over large enterprises in servicing dispersed local markets. Cognisant of this fact, programmes of assistance, especially, in the areas of finance, extension and advisory services, as well as provision of infrastructure have been designed by the Nigerian government for the development of the SMEs.

Specifically, successive governments in Nigeria have in the last three decades shown much interest in ensuring adequate financing for Small and Medium Enterprises (SMEs), by establishing various schemes and specialized financial institutions to provide appropriate financing to the sub-sector. The failure of most of these schemes revealed that the problem of SMEs in Nigeria is not limited to lack of long-term financing, but also inadequate management skill and entrepreneurial capacity. The need to address these problems comprehensively for a sustainable source of long term financing necessitated the introduction of the Small and Medium Industries Equity Investment Scheme (SMIEIS) by Bankers' Committee at the initiative of the Central Bank of Nigeria. This paper aims at reviewing past government support for the small and medium enterprises in Nigeria as the background for the introduction of the Small and Medium Industries Equity Investment Scheme. Accordingly, the paper is structured into five sections. Section two, which follows this introduction, appraises the various government efforts aimed at promoting the development of SMEs in

Nigeria, while section three highlights some of the lingering problems of the sub-sector. The SMIEIS initiative is discussed in section four, while section five highlights the prospects of the scheme and concludes the paper.

2.0 OVERVIEW OF GOVERNMENT'S EFFORT IN THE DEVELOPMENT OF SMEs IN NIGERIA

Over the years, the Federal Government has taken various steps, including monetary, fiscal and industrial policy measures to promote the development of Small and Medium Scale Enterprises (SMEs). Specifically, the Government has been active in the following areas:

(i) funding and setting up of industrial estates to reduce overhead costs;

(ii) establishing specialized financial institutions, including the Small Scale Industry Credit Scheme (SSICSs), Nigerian Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI) to provide long-term credit;

(iii) facilitating and guaranteeing external finance by the World Bank, African Development Bank and other international financial institutions;

(iv) facilitating the establishment of the National Directorate of Employment (NDE), which also initiated the setting up of new SMEs;

(v) establishment of the National Economic Reconstruction Fund (NERFUND) to provide medium to long-term local and foreign loans for small, and medium scale businesses, particularly those located in the rural areas; and

(vi) provision of technical training and advisory services through the Industrial Development Centers.

The review and appraisal of some of these government initiatives and incentives are outlined as follows:

1 **Industrial Development Centers (IDCs)**

Essentially, the IDC were established to provide extension services to the SMEs in such areas as project appraisal for loan application, training of entrepreneurs, managerial assistance, product development, production planning and control, as well as other extension services. The first IDC was established in Owerri in 1962 by the former Eastern Nigeria Government, Ministry of Trade and Industry, and was taken over in 1970 by the Federal Government. Subsequently, more IDCs were established at Zaria, Oshogbo, Maiduguri, Abeokuta, Sokoto, Benin City, Uyo, Bauchi, Akure, Ilorin, Port Harcourt, Kano and Ikorodu. The IDCs were poorly implemented as they were inadequately equipped and funded.

2. **Small Scale Industries Credit Scheme (SSICS)**

In 1971, the Federal Military Government set up the Small Industries Development Programme to provide technical and financial support for the SMEs. That led to the creation of the Small Industries Credit Fund (SICF), which was formally launched as the Small Scale Industries Credit Scheme (SSICS) in the third National Development Plan, 1975- 1980. The scheme, which operated as a matching grant between the Federal and State Governments, was designed to make credit available on liberal terms to the SMEs and was managed by the States' Ministries of Industry, Trade and Co-operatives. The success of the scheme was constrained by the dearth of executive manpower to supervise and monitor projects. Thus, many unviable projects were funded, leading to massive repayment default.

3. The Nigerian Bank for Commerce and Industry (NBCI)

The Nigerian Bank for Commerce and Industry (NBCI) was set up in 1973 to provide, among other things, financial services to the indigenous business community, particularly the SMEs. The NBCI operated as an apex financial institution for the SMEs and also administered the SME 1 World Bank Loan Scheme under which total

credit amounting to ₦241.8 million were approved between 1981 and 1988 while actual disbursements were 36.5 per cent lower than the approvals during the period. The bank also financed a total of 126 projects under the World Bank loan scheme, some of which were however cancelled due to the failure of the project sponsors to contribute their counterpart funding. The NBCI suffered from operational problems, culminating in a state of insolvency in 1989 and absorption into the newly established Bank of Industry in 2002.

4. The Nigerian Industrial Development Bank (NIDB)

The Nigerian Industrial Developmental Bank was established in 1962 with the primary mandate of providing medium to long-term loans for investments in industrial activities. Although its loan portfolio covers mainly large-scale industries, the bank established special units to focus on SMEs. An attractive feature of NIDB's financing programme was its policy of equity participation in some of the projects it financed. It disbursed a total of ₦174.6 million to the SMEs between 1980 and 1988 and was also responsible for the bulk of credit delivery to the sector under the World Bank SME II loans scheme, accounting for more than 80 per cent of the total amount of disbursements. Arising from financial and other constraints, NIDB was merged with similar institutions to form the newly established Bank of Industry.

5. **Central Bank of Nigeria (CBN)**

The Central Bank of Nigeria has since its inception been instrumental to the promotion and development of Small and Medium Scale Enterprises. The CBN credit guidelines required that banks allocate a specified minimum percentage share of credit to important sectors including the SMEs at preferential interest rates. For instance, in 1979/80 the CBN directed that at least 10 per cent of the loans advanced granted to indigenous borrowers be allocated to the sector. This was subsequently

raised to 16 and 20 per cent in April 1988 and 1990, respectively. Loans and advances to the SMEs as a percentage of total loans rose from 1.8 per cent in 1980 to 9.3, 22.9, 40.0, 26.8, 6.6 and 8.6 per cent in 1986, 1990, 1992, 1996, 2001 and 2002, respectively. However, given the risks attendant to such loan and the high cost of its administration, banks preferred to pay prescribed penalties for non-compliance rather than give credit to the SMEs. The CBN reacted by transferring the shortfall taken from defaulting banks to NBCI for on-lending to the SMEs. This brought about a remarkable improved performance in compliance with bank lending to the SMEs. Because of the inherent weaknesses and inefficiency of direct credit control by the CBN, this practice was discontinued and replaced by a system of market mechanism, supported by moral suasion.

6. **World Bank –Assisted SME II Loan Project**

In order to further expand credit allocation to the SMEs, the Federal Government, in 1989, negotiated a programme of financial assistance with the World Bank to complement other sources of funding the SMEs. Altogether, this facility involved a total of US$ 270 million for on-lending to the SMEs through the participating banks. The credit components and other related activities of the World Bank loan were administered by the CBN, which in 1990 established an SME Apex unit for its efficient implementation. The SME apex office approved loans for 211 projects valued at US$132.8 million between 1990 and 1994 when further approvals were stopped. A total disbursements of US$ 107.1 million had been recorded as at June 1996 in respect of 102 projects.

7. **The National Economic Reconstruction Fund (NERFUND)**

Following the adoption of the Structural Adjustment Programme (SAP) in 1986 and the subsequent tightening of monetary policy, many SMEs found it difficult to secure finance for their working capital and

investment purposes. In order to bridge the observed widening resource gap for the SMEs, the Federal Government set up the National Economic Reconstruction Fund (NERFUND), effective 9th January, 1990 with the CBN as one of the facilitating institutions. It was aimed at providing medium to long-term loans (5-10 years), to SMEs at concessionary rates of interest, thereby removing one of the most formidable handicaps to SME development. Between 1990 and 1998, NERFUND disbursed US$144.9 million (foreign exchange component) and ₦681.5 million (Naira component) to support 218 projects. NERFUND lending activities were seriously constrained by the impact of Naira devaluation which worsened the burden of debt servicing under the programme in 2001. NERFUND was merged with two other DFIs to form the Bank of Industry.

8. **State Governments**

Most State Governments, through their Ministries of Commerce and Industries as well as the state owned Finance and Investment Companies, provided technical and financial assistance to SMEs.

9. **The National Directorate of Employment (NDE)**

Established in 1986, the NDE is another programme by which the government has promoted the development of SMEs. In January 1987, NDE launched a number of programmes to generate self-employment. These were (i) Small Scale Industries (SSI), (ii) Agriculture (iii) Youth Employment and Vocational Skills Development and (iv) Special Public Works. The programme operates two credit guarantee schemes complemented by an entrepreneur development programme to assist in the development of SMEs. The two credit schemes are the Graduate Job Creation Loan Scheme (GJLS) and the Mature People's Scheme (MPS). Facilities under the two schemes are repaid over a five-year period at a

concessionary interest rate with varying periods of moratorium. SME projects covered included soap making, food processing and flour milling.

10. International Financial Assistance

Governments have continued to approach international financial agencies such as the World Bank and its affiliates, United Nations Agencies and the African Development Bank (ADB) to source capital for the SMEs. The Federal Government often guarantees and agrees to monitor or co-finance the SMEs receiving such external financial support. For example, in 1988, the African Development Bank granted an export stimulation loan of US$252 million repayable in 20 years with a concessionary interest rate of 7.3 per cent for SMEs in Nigeria.

11. Bank's Equity Holding in Companies

The 1988 Amendment to the Banks and Other Financial Institutions, Section 7.3 (f) lifted the provision that restricted banks from holding equity shares in non-banking related enterprises. The policy objectives were to stimulate increased availability of equity capital to SMEs and help in restructuring their capital bases for survival and growth.

12. The Second Tier Securities Market (SSM)

In order to simplify the stringent listing requirements for sourcing funds in the capital market, the Second Tier Securities Market (SSM) was established in 1985 to assist small and medium sized indigenous enterprises in accessing funds from the capital market for expansion and modernization. The number of SMEs listed on the Second Tier Market (SSM) have risen to 16, 19 in 1990 and 1991 and stood at 20 in 1995, respectively, while at least four SMEs have moved to the Main list of the market.

13. Technical, Training and Extension Services Programmes

Institutions such as the Industrial Training Fund (ITF), Raw Materials Research and Development Council (RMRDC), Federal Institute of

Industrial Research, Oshodi (FIIRO), Project Development Agency (PRODA), and Centre for Management Development (CMD) have in their activities supported the promotion of SMEs in the country.

3.0 SOME LINGERING PROBLEMS OF THE SME SUB –SECTOR

The fact that has emerged from the appraisal of the various past schemes and policy initiatives on the promotion of SMEs in Nigeria is that although finance is a major constraint to the development of SMEs in Nigeria, it is by no means the only or most important constraint. Indeed, the effective utilization of the substantial financial resources provided under the various past programmes, was constrained by such factors as lack of adequate entrepreneurship and managerial skills as well as absence of the enabling environment for investment in small and medium scale industries. An attempt is made below to outline some of those other constraints.

1. Constrained Access to Money and Capital Markets

The banking sector tends to be lukewarm in meeting the credit requirements of SMEs. This is because project proposals are poorly prepared, financial documentation and inadequate collateral are not provided, as well as the inability of the promoters of SME projects to raise the required equity contribution. Moreover, the banks regard many SMEs as high risk ventures because of absence of succession plan in the event of the death of the proprietor. As a result, working capital is still a major constraint on production, as most SMEs are restricted to funds from family members and friends and are therefore unable to respond to unanticipated challenges in a timely manner. More worrisome is SMEs' inability to adequately tap available finance from the capital market. This has been attributed to their aversion to disclosure and ownership dilution, although many SMEs blamed this phenomenon on the cumbersome requirements and procedure for listing on the Stock Exchange. The establishment of the

second-tier security markets of the Nigerian Stock Exchange, which was expected to solve this problem, has been shunned by most of the SMEs.

2. **High Rate of Enterprise Mortality**

The incidence of inadequate working capital, which constrains productive capacities of the SMEs as well as absence of succession plan in the event of the death of the proprietor, leads in many cases to frequent early demise of SMEs. Moreover, the persistence of unstable macroeconomic environment, arising mainly from fiscal policy excesses has often smothered many SMEs.

3. **Shortage of Skilled Manpower**

Inadequate financial resources, as well as desire to operate with limited openness on the part of proprietors lead many SMEs to employ semi skilled or unskilled labour. This of course, affects productivity, restrains expansion and hinders competitiveness.

4. **Financial Indiscipline**

Some SME proprietors deliberately divert loans obtained for project support to ostentatious expenditure. Others refuse to pay back as and when due, the interest and the principal, because of political involvement and the misconceived notion of sharing the so-called National cake. There are however, genuine cases of loan defaults arising from operational difficulties and macroeconomic shocks.

5. **Lack of Infrastructural Facilities:**

Inadequate provision of essential services such as telecommunications, access roads, electricity and water supply constitutes one of the greatest constraints to SME development. Most SMEs resort to private provisioning of these at great expense. A World Bank Study (1989) estimated that such cost accounted for 15-20 percent of the cost of establishing a manufacturing enterprise in Nigeria. Contemporary evidence has shown that the relative burden of the private provisioning of

infrastructural facilities is much heavier on SMEs than on large scale enterprises.

6. **Poor Implementation of Policies**

The poor implementation of policies including administration of incentives and measures aimed at facilitating SMEs growth and development have had unintended effects on the sub sector. This had resulted for instance, into confusion and uncertainty in business decisions and planning as well as weakened the confidence by the SMEs on government's capacity to execute faithfully its programmes. Moreover, there has often been weak or no effective monitoring mechanism of the implementation.

7. **Poor Management Practices and Low Entrepreneurial Skill**

Many SMEs do not keep proper accounts of transactions. This hinders effective control and planning. Moreover, lack of relevant educational background and thorough business exposure constrains their ability to seize business opportunities that may lead to growth and expansion.

8. **Restricted Market Access:**

Insufficient demand for the products of the SMEs also imposes constraint on their growth. Although many SMEs produce some inputs for larger industrial enterprises, the non-standardization of their products, the problem of quality assurance as well as weak purchasing power, arising from consumers' dwindling real incomes, effectively restrict their market access. This is further compounded by the absence of knowledge about the existence of fringe markets by SMEs.

9. **Overbearing Regulatory and Operational Environment**.

The plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges have continued to exert

serious burden on the operations of SMEs. Many of them have to deal with a myriad of agencies at great cost.

4.0 THE EMERGENCE OF THE SMALL AND MEDIUM INDUSTRIES EQUITY INVESTMENT SCHEME (SMIEIS)

4.1 Background

The Small and Medium Industries Equity Investment Scheme was initiated not only to bridge the dearth of long-term finance, but also to deal with other bottlenecks to small and medium scale industries development in Nigeria.

The Bankers' Committee at its 246th meeting held on December 21, 1999 took a decision to the effect that 10 per cent of banks' profit before tax should be channeled into equity investments in small-and-medium-scale industries (SMI). A Sub-Committee was, thereafter set up to fashion out the modalities for implementing the scheme. After reviewing the report of the sub-committee, the Bankers' Committee contracted Messrs African Development Consulting Group Limited (ADCG) to conduct a full-scale study on the programme.

ADCG submitted its report in October, 2000, which, among others, supported the initiative and recommended the modality for its implementation. The Bankers' Committee thereafter directed the Sub-committee on SMI to draft the Operational Guidelines and Stakeholders Responsibilities for the scheme. These two documents along with the Guidelines for the Beneficiaries were approved by the Bankers' Committee on June 19, 2001. The Guidelines outlined the objectives of the Scheme, definition of SMI, mechanism for the management of the funds, the coverage of its activities, among others. The Small and Medium Industries Equity Investment Scheme was formally launched by the President of the Federal Republic of Nigeria, Chief Olusegun Obasanjo, on August 21, 2001.

4.2 Features of the Scheme

The initiative, in addition to providing finance, also requires banks to identify, develop and package viable industries with enterprising customers. Through this scheme, banks are expected to jump start the real sector of the economy by providing venture capital that would spearhead the restructuring and financing of SMIs, many of which, have become moribund, owing partly to inadequate funding. The main features of the scheme include the following:

Objectives

The specific objectives of the scheme are:

(i) To facilitate the flow of funds for the establishment of new SMI projects, reactivation, expansion and modernization or restructuring of on going projects.

(ii) To stimulate economic growth, develop local technology and generate employment.

Definition of A Small and Medium Industry

For the purpose of the scheme, a small-and-medium-scale industry is defined as any enterprise with a maximum asset base of ₦200 million, excluding land and working capital, with the number of staff employed by the enterprise not less than 10 and not exceeding 300.

Focus and Content of the Scheme

The 10 per cent of the profit before tax (PBT) to be set aside annually shall be invested in equity in small and medium industries. This will eliminate the burden of interest and other financial charges expected under normal bank lending. The scheme also includes the provision of financial, advisory, technical, and managerial support from the banking industry.

Activities Covered by the Programme

The range of activities in respect of which the funds shall be applied are those in the real sector of the economy and related services as listed below, excluding trading activities:

- Agro-allied
- Information technology and telecommunication
- Manufacturing
- Educational establishments
- Services
- Tourism and leisure
- Solid minerals
- Construction

Eligibility for funding

To be eligible for equity funding under the scheme, a prospective beneficiary shall:

(i) register as a limited liability company with the Corporate Affairs Commission and comply with all relevant regulations of the Companies and Allied Matters Act (1990), such as filing of annual returns, including audited financial statements;

(ii) comply with all applicable tax laws and regulations and render regular returns to the appropriate authorities; and

(iii) engage or propose to engage in any of the businesses set out above.

Modalities of the Scheme

- Funds invested by participating banks shall be in form of equity investment in eligible industries.
- Equity investment under the scheme may be in form of fresh cash injection and/or conversion of existing debts owed to a participating bank.
- A participating industry may obtain more funds by way of loans from banks in addition to equity investment under the scheme.
- Eligible industries are free to approach any bank, including those they presently have relationships with, to seek funding under the scheme.
- Prospective beneficiaries are encouraged to seek the opinion of third party consultants such as lawyers, accountants and valuers in determining the value to be placed on the assets and capital of their businesses in order to determine a fair price during negotiations with the banks.

Recommendations from Industrial Associations

The recommendations of industrial associations, particularly Manufacturers Association of Nigeria (MAN), National Association of Chamber of Commerce, Industry, Mines and Agriculture (NACCIMA), National Association of Small and Medium Scale Enterprises (NASME) and National Association of Small Industries (NASSI) and recognized NGOs engaged in entrepreneurial development and promotion of small and medium scale industries will be an additional advantage in assessing funds under the Scheme.

Options for Banks' Participation in the Scheme

Under the scheme, banks' participation in the financing of SMI shall be through the following:

- Banks' direct equity participation: Under this arrangement banks acquire shares in new or existing businesses after putting in place necessary framework (financial, management, legal, etc). For this, the bank would be represented on the Board and/or management team, thereby ensuring the best possible practices for the project's success. A bank may instead establish a subsidiary to operate the scheme on its behalf.
- Equity participation through a venture capital company: For this, banks will pool their 10 per cent pre- tax profit together and channel it through a venture capital company or fund managers. The bank may be represented on the Board of the venture companies, while venture companies will essentially be represented on the Board and Management of the SMI.

4.3 Committees on SMIEIS

From the beginning, the Bankers' Committee set up a Sub-committee on SMIEIS, comprising representatives of the Central Bank of Nigeria and the Deposit Money Banks. This Sub-committee articulated the Scheme, interviewed and selected the Consultant that carried out the study and prepared the guidelines for its operations. All these were approved by the Bankers' Committee. Since the Scheme came into being, the Sub-committee has been responsible for monitoring the implementation of the Scheme and makes recommendations to the Bankers' Committee.

There is also a Presidential Advisory Committee on SMIEIS, comprising representatives of the Federal Ministry of Industry, the Organised Private Sector, the Office of the Secretary to the Government of the Federation and the Bankers' Committee. The Committee is charged with the responsibility of advising the Government and submitting periodic assessments on the Scheme.

4.4 Responsibilities of Stakeholders in SMIEIS

Stakeholders in the Scheme include, Government, Central Bank of Nigeria, Bankers' Committee, Individual banks, Independent Fund Managers, SMI Promoters, and Securities and Exchange Commission (SEC).

Their responsibilities are as follows:

GOVERNMENT

- Stable macro-economic environment
- Stable and reliable regulatory and legal framework
- Adequate physical infrastructure
- Prudent fiscal regime
- Capacity building
- Pass enabling legislation to provide the following tax reforms and incentives:

* Make the banks' contribution to the Scheme enjoy 100 per cent investment allowance
* Reduce tax paid by SMI to 10 per cent
* Provide 5 years tax holidays to the SMI under the Scheme
* Exempt divested fund under the Scheme from capital gain tax

CENTRAL BANK OF NIGERIA

- Ensure sound financial system
- Liaise with the Federal Ministry of Finance to ensure that the required tax incentives are granted
- Monitor the implementation and gather statistics to quantify the impact of the Scheme
- Articulate clear guidelines for the implementation of the Scheme
- Liaise with SEC to facilitate and simplify the registration of venture capital operators

- Ensure each bank's compliance with the guidelines of the Scheme and penalize erring banks in accordance with the penalty stipulated for non-compliance.
- Capacity building
- Disseminate information on the Scheme to SMI and the larger public
- Prepare annual progress report
- Provide data for the review of the Scheme after 5 years for the Bankers' Committee

BANKERS' COMMITTEE

- Obtain the cooperation of the major stakeholders
- Disseminate information on the Scheme to SMI promoters and the larger public
- Oversee joint collaborative efforts under the Scheme
- Monitor the implementation of the Scheme
- Capacity building
- Review the Scheme after 5 years

INDIVIDUAL BANKS

- Provide funding for equity investment in SMI
- Comply with the guidelines of the Scheme
- Report on the activities of the Scheme on quarterly basis to the Development Finance Department of the Central Bank of Nigeria
- Capacity building

INDEPENDENT FUND MANAGERS

- Manage equity investment in SMI on behalf of banks
- Report on the activities of the investment to the banks on a monthly basis

- Provide strategic support to Small and Medium Industries to minimize the risk of the investment
- Exit the investment at the instance of the bank
- Comply with the guidelines of the Scheme
- Register with SEC

PROMOTERS OF SMALL AND MEDIUM SCALE INDUSTRIES

- Ensure prudent utilization of funds
- Keep up-to-date records on the companies' activities under the scheme
- Make the companies books, records and structures available for inspection by the appropriate authorities (including banks, CBN, etc) when required
- Comply with guidelines of the scheme
- Provide monthly financial and operational reports to the investing banks before the 15th of the next succeeding month

SECURITIES AND EXCHANGE COMMISSION (SEC)

- Facilitate and simplify registration of Venture Capital Operators
- Provide enabling environment, specifically, the development of the Capital Market
- Liaise with other arms of government to reform the capital market to ensure that SMI have access to the market.

4.5 IMPLEMENTATION OF THE SMIEIS TO DATE

In order to facilitate the take-off of the scheme, steps were taken to: organize workshops to educate and sensitize stakeholders on the scheme at nine industrial cities (Lagos, Ibadan, Benin, Aba, Calabar, Maiduguri, Jos, Kano, Kaduna). Currently, another round of sensitization/education on the scheme is being undertaken in other selected cities around the country. Also, the compilation and circulation to banks, a list of moribund industries

from the records of NIDB, NEXIM, NBCI and NERFUND for possible revitalization and resuscitation was undertaken.

As at 31st March, 2003, the sum of ₦14.595 billion has been accumulated out of which ₦2.866 billion had been invested in small and medium industries. At its 262nd meeting held on 25th August, 2002, the Bankers' Committee took steps to ensure that all banks should invest:

- not less than 60 per cent of the fund set aside go to the real sector;
- not more than 30 per cent to services; and
- 10 per cent to micro-enterprises.

It is also important to note that the Sub-Committee has taken steps to link the large corporations with SMI for the latter to supply inputs to the former, in order to promote complimentarity instead of competition between large and small industries.

5.0 PROSPECTS AND CONCLUSION

Given the enthusiasm shown by the banks in coming up with this Scheme, the advantages such as provision of financial advisory services, entrepreneurial management and risk capital to the SMIs, as well as the progress so far, there is very good prospect for the scheme. This is particularly anchored on the growing needs for these facilities by the SMIs.

Governor,
Central Bank of Nigeria,
Abuja.

10th June, 2003.

SPECIAL REMARKS ON INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) FOR THE SOCIAL TRANSFORMATION OF NIGERIA

BY

Chief (Dr.) J.O. Sanusi, CON

Governor,

Central Bank Of Nigeria,

Abuja

Delivered at the Dinner/Investor Forum Organized by Leapfrog Venture Partners Ltd. During the National Summit on SMIEIS held at the Federal Palace Hotels,

Victoria Island, Lagos on June 10, 2003.

Special Remarks By Chief (Dr.) J. O. Sanusi, CON, Governor, Central Bank Of Nigeria, Delivered At The Dinner/Investor Forum Organized By Leapfrog Venture Partners Ltd During The National Summit On SMIEIS Held At The Federal Palace Hotels, Victoria Island, Lagos On June 10, 2003.

The Representative of the Honorable Minister of Industries,
The Executive Governor of Lagos State, His Excellency,
Alhaji Bola Ahmed Tinubu,
Chief Executives of Banks and Other Financial Institutions,
Members of Non-Governmental and Multilateral Agencies,
Distinguished Industrialists,
Ladies and Gentlemen.

It is my pleasure and privilege to make this special remark at this historic investor forum/dinner aimed at educating and enlightening us on the efforts of Leapfrog Venture Partners Nigeria Limited in promoting and training skilled manpower for the social transformation of Nigeria. Let me state at the onset that, when the organizers of this forum approached me to be the Special Guest of Honor, I was hesitant in accepting it. However, because of how close this subject is to my heart and in my firm belief of the role of Information and Communication Technology (ICT) in the promotion of SMEs in Nigeria, I accepted to attend. May I seize this opportunity to congratulate the organizes of the forum, for their foresight and wisdom in selecting such an important and relevant theme, "Information and Communication Technology for The Social Transformation of Nigeria". The effort is also commendable because currently we require massive investments in Information and Communication Technology in order to develop our

socio-economic infrastructure.

2. As you all know, advances in Information and Communication Technologies (ICTs) were pivotal to the recent social and economic transformation in both the industrialized and developing countries. The increasing spread of ICTs has opened new opportunities for developing countries to harness for the attainment of their socio-economic and developmental goals. It is, pertinent to note that, although there have been several efforts at the highest levels of government and industry to promote the construction of a national information infrastructure, the attempt by Leapfrog Ventures is a very bold step by a private entrepreneur in this direction. We must all join hands with Leapfrog Ventures in order for Nigeria to reap the predicted social and economic benefits.

3. Distinguished Participants, Ladies and Gentlemen, as you are aware, recent advances in digital technologies have separated further, the divide between the rich and poor countries. Since there is no comprehensive solution for this problem within the current conventions, it is imperative therefore that we explore the potential ways of utilizing digital technologies in empowering our people and communities to better perform their tasks and roles in our increasingly technologically driven, information centered and knowledge-based economy.

4. We are all aware that, by developing and executing a robust ICT strategy, many developing nations and companies have enhanced their cutting edge and vastly improved their core competencies in these areas. Some of these nations and companies have achieved competitive edge because the improvements in their ICT had allowed them to leverage the benefits of network economies, knowledge

management and the advantages of rapid, frictionless, information flow. They have optimized the full spectrum of their capabilities and have from it, realized significant gains in sharing information, products, ideas, and intellectual capital. They have, in that way, positioned themselves in leadership roles in the global market place of the new millennium. There is no gainsaying that, the evidence with independent initiatives all over the world, has revealed the potentials of Information and Communication Technology in, namely:-

(i) Empowering people to help themselves in a very broad range of applications, irrespective of their age, gender, race or level of education;
(ii) Addressing the multi-dimensional nature of poverty; and
(iii) Transferring the initiatives for development from outside sources to individuals, communities, local authorities and nations.

5. These developments had together put a lot of emphasis on information networks and data bases for both government and large scale commercial uses. The social application of these technologies calls for emphasis on more user-friendly software, that people (including illiterate people) could interact with by entering their own information, for their own purposes, at a very low cost and at their own time. In addition, it demands quick access to the relevant information from distant sources.

6. It is my noble opinion therefore, that since the technology is already here, what is absent is, a funding mechanism that will allow poor people access to such information and, the enabling environment in which this can be achieved. I think it

was, Peter Drucker, the doyen of Management, who stated that, “the importance of information technologies is not in their ability to increase the efficiency of current approaches but because they enable us to do new things”.

7. Distinguished Ladies and Gentlemen, it is in this vein that I commend the efforts of the West African Institute of Information and Communications Technology (WAIICT) in their endeavor to build the first West African advanced and integrated information and communications technology institution of higher learning and to concomitantly, create Nigeria’s Silicon Valley (ICT cluster). I was reliably informed that, the Institute will provide an opportunity for Nigerian and West African youths, to acquire the relevant skills and critical competencies required to participate in the new global information and communications technology-driven economy and provide the necessary human capital that would give them a competitive edge in the global market place.

8. I am also aware that, WAIICT’s proposition is simply to identify the best and brightest young men and women with interests in technology, and train them into world-class programmers and software developers. In addition, the Institute will equip students with the strategic and operational skills to manage projects and corporate enterprises to ensure that technology remains tied to market needs.

9. The WAIICT initiative is also patterned along global ICT developments, where software development and programming languages require basically similar skills. I am tempted to say that with such an initiative, the West African sub-region and indeed the entire continent of Africa, can enjoy the benefits of an ICT revolution

because of the availability of English-speaking, high quality and low cost labor. The need for software engineers in Germany has led the Foreign Minister to visit India on several occasions to lure Indian engineers into Germany. It has even prompted a revision of the German Immigration laws to accommodate that economic need. Another example is the case of ACS, a Ghanaian telecomputing, data processing and transcription service company, which is focused on serving high end U.S. clients and providing hardware and software training all over the continent. These examples suggest to me that Nigerian companies can also compete in the offshore IT space.

10. Permit me, Ladies and Gentlemen to stress that, overall, the application of ICTs to facilitate the provision of public services, achieve productivity gains, improve the quality of life of our citizenry, and enhance access to information and facilitate knowledge-based sharing are all not only desirous but very necessary, for Nigeria to properly position itself and assume the much desired leadership role in our increasingly globalizing, information and communications technology driven world economic system. It is instructive to note that, since these achievements represent feats that Nigerian companies are yet to emulate, taking advantage of such opportunities requires the systematic creation of a competitive knowledge economy. This is what I think WAIICT is going to provide. It is a need that they have correctly identified to provide and I am calling on all patriots to join WAIICT in meeting this need.

11. In concluding my brief remark this evening, May I state that poverty sits like an open sore on the consciences of the Nigerian elite. We should remember

that many of the South East Asian countries who have leapfrogged their stages of development and are today, part of the emerging economies, were at the same level of development with Nigeria some three decades ago. With a mono-cultural economy totally dependent on oil, the diversification of the Nigerian revenue base becomes a compelling necessity and this can only be achieved through massive investments in Information and Communications Technology (ICT). India currently earns twice as much from software exports as Nigeria earns from oil. The time for us to act is now. Leapfrog Ventures Nigeria limited is bold to take the bull by the horn. Let us therefore support this worthy endeavor to transform the Nigerian economic landscape by investing in the shares of the West African Institute of Information and Communications Technology, giving grants or endowing Professorial chairs.

12. I urge WAIICT investors to explore opportunities in the SMIEIS scheme which has accumulated over ₦14.6 billion naira as at end-May, 2003

13. With these few remarks, Distinguished Ladies and Gentlemen, I wish you an appetizing dinner.

14. Thank you for your time.

Chief (Dr.) Joseph O. Sanusi *CON*

June 10, 2003

PRESS RELEASE

CENTRAL BANK OF NIGERIA COMMUNIQUE NO. 47 OF THE MONETARY POLICY COMMITTEE, AUGUST 9, 2006

The Monetary Policy Committee of the CBN met today and decided to maintain the Minimum Rediscount Rate (MRR) at 14.0 per cent.

1) The Monetary Policy Committee (MPC) met on 9th August, 2006. The MPC reviewed the major macroeconomic developments and the implementation of fiscal, monetary and exchange rate policies in the first seven months of 2006, as well as the challenges for the rest of the year. The meeting, the third in the year, lasted four hours. The MPC noted with satisfaction the improvement in the overall macroeconomic environment during the review period, and restated its commitment to ensuring monetary and price stability in the rest of the year.

Key Macroeconomic Developments

2) **Inflation:** The MPC noted that at end-June both the headline and core inflation rates had decreased to 8.5 and 13.6 per cent from

12.0 and 16.3 per cent at end-March, 2006 respectively. It, however, noted that core inflation at 13.6 per cent was still unacceptably high. Furthermore, the MPC observed that the overall downward trend in inflationary pressure reflected the effects of monetary policy tightening to address the excess liquidity in the second quarter as well as the appreciation of the exchange rate. In addition, the early harvest of some agricultural food products, sustained stable prices of petroleum products in the domestic market and the narrowing of the BDC market premium all helped to dampen inflationary pressure in the review period. Nevertheless, some threats to the sustenance of low inflation still exist; they include the planned supplementary budgetary expenditure of the Government, and rising private (autonomous) inflows, both of which are likely to shore up liquidity in the system.

3) **Economic activity**: Gross domestic output (GDP) was low reflecting the decline in oil production and the seasonal slow down in agricultural production. Economic activity, however, is projected to pick up in the months ahead, during which the harvesting of

crops (the major agricultural sector growth driver) would commence in earnest.

4) **Exchange rate:** The MPC noted with satisfaction the sustained stability of the naira following the Bank's liberalization of the forex market since March 27, 2006. The naira exchange rate in the BDCs has continued to appreciate. From US $1/N151 in March, the naira appreciated to US $1/N130 at end-June 2006, and further to $1/N128.6 in July. Against the DAS exchange rate, which has stabilized at about US $1/N128, the BDC market premium has dropped to below two percent. The MPC restated its commitment to sustain the BDC exchange rate premium within the 3 per cent margin.

5) **External Reserves:** Following the US $4.6 billion exit payment to the Paris Club in April, the stock of external reserves stood at US $32 billion at end-April, and rose to US $38 billion at end-July 2006.

6) **Growth in Monetary Aggregates:** Broad money (M2) grew by 34. 69% as at end-July 2006 over the December 2005, which represented an annualized growth rate of 59.46 per cent compared with the target of 15 – 17 per cent for 2006. The rise in money

stock was due to a combination of factors which included: the credit to government which increased by about 16 per cent in June, as against -0.4% programmed target reflecting sustained expansionary fiscal operations; The net foreign assets also continued to increase.

7) **Credit**: Growth in aggregate domestic credit (net) was 15.2 per cent in the first six months. This increased to 16.9 per cent at end-July 2006 and 28.96 per cent on annualized basis. The credit development was driven largely by DMBs credit to government through investments in treasury securities. Credit to the private sector, however, fell short of the target for the year.

8) **Reserve Money:** At end-June 2006, reserve money was N794 billion, which was lower than the target of N800.0 billion for the second quarter 2006. The level of RM was also within the target in July.

9) **Interest Rates:** The MPC noted the general decline in banks' deposit and lending rates following the excess liquidity in the system. Consequently, the spread between the average savings deposit and maximum lending rates fell from 16.2 percentage points

in December 2005 to 15.2 percentage points at the end of June 2006, and slightly further down to 15.1 per cent by end-July.

Current Challenges/Risks

10) Some risks to low inflation and monetary management still exist. They include: increasing cost of liquidity management; rapid growth in M2; planned extra-budgetary spending by the government; increasing autonomous (private) inflows. The expansionary fiscal operations remain a major source of risk to monetary policy.

Decisions

The Committee thus decided to:

(a) maintain the MRR at 14% with a proviso to review it should the threat to monetary policy continue.

(b) approve a new framework for monetary policy implementation. The IT and other logistics requirements are to be sorted out between now and October, 2006. Pilot

implementation is expected to commence on or before November 1st, 2006

(c) sustain the CBN's zero tolerance to lending to government

(d) reaffirm that there is no control on interest rate or pegging of lending rate to the MRR.

(e) approve operational guidelines on the CBN Discount Window

(f) approve guidelines for discount window operations in FGN bonds and

(g) sustain the on-going liberalization of the forex market.

Thank you for your kind attention.

Prof Charles C. Soludo
Governor,
Central Bank of Nigeria,
Abuja.

August 2006

NIGERIAN ECONOMY: CAN WE ACHIEVE THE VISION 20: 2020?

By

Prof. Chukwuma C. Soludo, CFR
Governor, Central Bank Of Nigeria

8th January, 2007

OUTLINE

- I: Introduction
- II: Stylized Facts About Nigerian Economy and the Reforms (NEEDS)
- III: The Vision 20: 2020 and the Growth Potentials
- IV: The Next Generation of Reforms?

I: Introduction

- Retreat very timely:
- Party and Electoral System as framework for canvassing/generating competing Policies/programmes
- Economic well-being and security of citizens as most important deliverable of Democratic governance---- “Sound economics is excellent politics”: Prosperity as foundation for sustainable democracy----- threshold of $1,000 per capita required for enduring democracy.
- Goal of Presentation: Provide information and provoke Debate towards broad ‘consensus’!

II: Stylized Facts and Reforms

- Stylized Facts
  - Nigeria with abundant resources (human and natural resources--- largest black nation; 8th largest oil producer and 6th largest deposit of gas; 34 solid minerals; 44 exportable commodities; huge arable land; etc
  - Yet stagnated in first 40 years as a nation
    - 2.8% GDP growth in 1990s; Poverty 70% in 1999; Power only 1700MWH against 50,000 needed; 419 and corruption as trade marks; Collapse of education system; unemployment; culture of impunity and 'anything goes'
  - Compare with Indonesia and Malaysia
  - But NOTE: No country like Nigeria– with over 250 ethno-linguistic groups!

Stylized Facts and Reforms contd…

- Obasanjo's two phases of reforms:

a) 1999- 2003: Socio-political reconstruction (de-militarization of the state and reconstructing the military; Due Process– for accountability and transparency; strengthening institutions for democratic governance--- judiciary, legislature, executive, DMO, ICPC; re-integrating Nigeria into global community of nations; foundation for private sector take-off--- GSM, privatization, infrastructure provision, security---tripling size of police, etc

b) 2003—2007: NEEDS: Economic reforms, fighting corruption, and strengthening institutions
   - Objectives of NEEDS: Poverty reduction; employment generation; wealth creation and value re-orientation
   - Assisted States with SEEDS
   - EFCC and anti-corruption stance
   - Several landmark legislations--- AML-EFCC, Energy Reform; Pension Reform; PPP in infrastructure; etc

Reforms and Outcomes contd…

- Fiscal, Monetary and Exchange Rate Policy Reforms
- Banking and Insurance reforms
- Presidential initiatives--- Agriculture; etc
- De-regulation of downstream oil sector
- (see the full reform program in NEEDS document)

Outcomes of Reforms contd…

- Average GDP growth of 7% since 2003 (2.8% in 1990s)
  - Non-oil sectors growth above 8% since 2004, led by agriculture
- External reserves grown from $4bn in 1999 to $43.5 in Dec 2006--- even after paying about $14 billion to Paris and London Clubs
- Debt relief (from Paris and London clubs)--- about $33 billion of debt wiped out
- De-listed from FATF; and BB- credit rating
- Foreign investment over $3 bn in 2006 (was negative in 1990s); Remittances about $4 billion per annum
- End period inflation has declined to single digit in 2006
- Exchange rate has been appreciating and Stable: Parallel and Official rates have converged
- UNEMPLOYMENT (15- 64 years): down from 18% in 1990s to 5.3% in 2006, BUT:
  - Youth Unemployment (15- 24 years):14%-- (20% urban) and S-S 23.8%
  - Under-employment (15- 64 years): 20.2% (20.5% rural) and S-S 26.2%

Reforms and Outcomes. ….

…Poverty incidence down from 70% in 1999 to 54% in 2004, but Regions differ…

Trends in Poverty Level by Zones (1980- 2004)

ZONE	1980	1985	1992	1996	2004
South South	13.2	45.7	40.8	58.2	35.1
South East	12.9	30.4	41.0	53.5	26.7
South West	13.4	38.6	43.1	60.9	43.0
North Central	32.2	50.8	46.0	64.7	67.0
North East	35.6	54.9	54.0	70.1	72.2
North West	37.7	52.1	36.5	77.2	71.1

Poverty is strongly correlated with size of household and level of education

Reforms and Outcomes…

---But individual self-assessment of Poverty status is different…

ZONE	Self-Assessment of Poverty Status	Actual Incidence of Poverty
South-South	74.8	35.06
South-East	77.6	26.74
South- West	71.5	43.01
North-Central	80.0	66.97
North-East	81.8	72.16
North-West	71.9	71.17

Very High Levels of Poverty is Essentially a Northern Phenomenon

10 STATES WITH HIGHEST INCIDENCE OF POVERTY	10 STATES WITH LOWEST INCIDENCE OF POVERTY
1. JIGAWA -----95.0	1. BAYELSA ---20.0
2. KEBBI -------89.7	2. ANAMBRA ---20.1
3. KOGI ------- 88.6	3. ABIA ---------- 22.3
4. BAUCHI ---- 86.3	4. OYO ---------- 24.1
5. KWARA ------85.2	5. IMO ---------- 27.4
6. YOBE ------- 83.3	6. RIVERS -------29.1
7. ZAMFARA ---80.9	7. ENUGU ------- 31.1
8. GOMBE -----77.0	8. OGUN --------- 31.7
[illegible]TO -- 76.8	9. OSUN ---------32.4
[illegible]	10. [illegible] ------- 33.1

Where Is Nigeria's Money?

- Lagos State accounts for 48% of deposit, and 69.96% of total loans.
- FCT accounts for 16.86% of deposits and 4.6% of total loans
- 3 Zones in North (excluding FCT) have less bank deposit than South-South Zone
- Excluding FCT, 3 Zones in North account for approx. 10.75% of deposits, and 8.5% of bank loans. If we net out Govt deposits, the picture could be more gloomy.
- The above statistics corroborate the Poverty profile of the States/Regions
- The Poverty status in turn is highly correlated with Adult literacy rates; size of average household; orientation to private sector-led wealth creation as opposed to dependence on Government or few people; Active intervention of states/LG Government towards empowerment of the people; etc.

Banking and Financial Sector soundest it has ever been….

- 25 strong and reliable banks: soundest the sector has ever been, with no unsound bank
- 25 banks now the size of first and second largest banks in South Africa combined (contrast to 89 banks in 2003 being the size of 4th largest bank in South Africa)
- Growth in Assets; Deposits; Credit; Profitability; etc since 2004 astounding; Performance on capital adequacy and liquidity ratios is good; size of non-performing loans as percentage of total loans declined significantly……
- 20 out of 25 Nigerian banks in top 100 banks in Africa, and indeed, 17 out of top 40; and 4 in top 10
- About 20 out of 25 Nigerian banks in top 1000 banks in the world by end of 2006 (there was none in 2003)
- Nigerian banking industry as fastest growing in Africa
- The Banking Sector is the dominant sector in the Nigerian Stock Exchange; and indeed the key driver of the recent phenomenal growth of the Exchange
- More commercial bank branches now than pre-consolidation
- Awaiting results of ongoing survey to know if employment in the sector has declined or increased since consolidation

And Confidence in the Economy is Growing….

- Sovereign rating expected to improve from BB- given performance indices
- Market capitalisation of US35 billion projected to double by 2007 and about $100 bn in 2008
- Capital inflows more than doubling every two years---- about $4 bn in 2006
- Low inflation, stable exchange rates and declining interest rates
- Rate of return on investment in dollar terms remains high and Stable
- Elimination of the external debt burden

III: Vision 20: 2020 and Growth Reserves

Vision 20: 2020--- Nigeria to become one of 20 largest economies in the world by year 2020.

See Various Studies and Projections by Goldman Sachs--- Nigeria to be the 12th largest economy by 2050 ahead of Italy, Canada, Korea, etc

(See my paper on Nigeria as China of Africa)

Economy has capacity to sustain over 10% in the medium term and achieve Vision 20: 2020, while also:

- Non-inflationary growth of non-oil sector.
- Inclusive (broad-based) growth for poverty reduction and employment creation
- Diversifying away from primary sector and mono-economy

Growth Reserves Abound…

- NIGERIA HAS ENOUGH GROWTH RESERVES TO SUSTAIN HIGH GROWTH
- Agriculture has huge untapped capacity: Over 60% of Nigeria's arable land not under cultivation
- Nigeria is a bed of gas (6th highest in the world). It is the world's fuel of choice
- The Gulf Of Guinea is now a major exploration zone and Nigeria is discovering huge deepwater oil reserves.
- 17 million Diaspora: remittances and potential supply of skills, global networks, etc

Growth Reserves abound…

- Nigeria's vast and largely youthful population has capacity to create huge demand through the emergence of a large middle class (population of 140 million)
- Improving telecommunications system and IT system for productivity
- Addressing the Business Environment ---

Matters Arising/Challenges

- Unemployment: Especially urban youth
- High rate of urbanisation (5.4%) associated with crime and pressure on urban infrastructure and housing
- Getting the States to be ‘developmental’ and stem the rural-urban drift and poverty reduction: Appropriate Local Government Administration that links with Town Unions/Communities
- Insecurity of lives and property
- Infrastructure deficiency
- Urban renewal challenges
- Addressing spatial inequality (North and South) and absolute poverty
- Institutional challenges ---- Constitutional Reforms ---other legislations by national assembly

IV: NEXT GENERATION OF REFORMS WILL GET US THERE

- Need a clear ***VISION***, and a ***PLAN***
- (**NEEDS II** as suggestion to next Government)
  - Vision of a prosperous country based on hard work and productivity of the citizens and sound value system. A vision that breaks away from a natural resource and rent- dependent society to one based on intangible wealth, entrepreneurship, and competition
  - Objectives remain: poverty reduction; employment generation, wealth creation and value re-orientation.

…Some of Next Reforms…

- Consolidating Macroeconomic stability--- stable (low) inflation; exchange and interest rates
- Security of lives and property and continuing to address infrastructure deficiency
- Financial System Strategy (FSS 2020)--- to drive the economic transformation
- Trade, Technology and Exploiting Networks and Partnerships: Nigeria may lose the future contribution of the Diaspora
- Agriculture: Conquering Nature and Exploiting Technology
- Deepening Reform in Education as bridge to the future---especially Science and Technology
- Addressing Spatial Inequality: New Thinking required on how to move the Northern Zones Forward: Old models have failed.
- Continuing to Strengthen Public institutions for transparency, accountability and Good Governance

… Some of Next Reforms…..

Urban Renewal Across the States--- especially Lagos (Lagos is the economic capital of Nigeria, if it does not work, the economy stagnates….)

- National payment system reforms for productivity
- Consumer Credit, Mortgage and Capital Market Reforms
- Africa Finance Corporation (in-formation).
- Micro finance and entrepreneurship
- Commercial courts
- Amendments to the Constitution: Imperative for Effective Governance and Economic Management
- How to compel the States and LGAs to deliver on Development?--- so far Nigeria has been clapping with only one hand--- States and LGAs control about 50% of the resources

- Etc, Etc: NEEDS II to articulate the Road Map: Your input needed)

Thank You For Listening

KEYNOTE ADDRESS DELIVERED BY
CHIEF (DR.) J. O. SANUSI, *CON*, GOVERNOR,
CENTRAL BANK OF NIGERIA AT THE 8TH
MONETARY POLICY FORUM ON THE THEME,
"DEVELOPING THE NON-OIL SECTOR IN NIGERIA"
HELD AT THE CBN CONFERENCE HALL, GARKI, ABUJA

Honourable Members of the National Assembly,
Honourable Ministers,
My Colleagues,
Distinguished Guests,
Ladies and Gentlemen

I most heartily welcome you all to this quarterly edition of the Central Bank of Nigeria Monetary Policy Forum. It is the eighth in the series. I especially welcome and congratulate the recently elected members of the National Assembly and the newly appointed ministers. Let me briefly recall, for the benefit of those who are new among us, that the primary objective of this CBN initiative is to create a platform where key government officials, financial market operators, academics, as well as other stakeholders in the private sector can meet periodically to rub minds on key economic policy issues, as a strategy for enhancing the relevance and transparency of monetary and financial policies in Nigeria. I therefore crave for your full participation in this Forum.

2. As you are already aware, the theme of today's Forum is, "Developing the Non-Oil Sector in Nigeria". The choice of this theme was informed by our deep concern about the risks of Nigeria's over-dependence on the oil sector and the urgent need for economic diversification. By the early 1970s, despite the growing importance of oil, the non-oil sector, mainly agriculture was the mainstay of the economy, accounting for over 42 per cent of commodity export earnings and about 74 per cent of total government revenue. By the end of the 1970s, however, the petroleum sector had taken over dominance of the economy, accounting for over 90 per cent of export earnings and more than 80 per cent of government revenue. Indeed, Nigeria was widely regarded as suffering from the "oil syndrome".

3. Distinguished Ladies and Gentlemen, you will recall that, the diversification of the economy away from oil and enhancing productivity growth in a stable macroeconomic environment were at the centre of

Nigeria's Structural Adjustment Programme (SAP) adopted in 1986. It is regrettable that more than 15 years after, there has not been any perceptible improvement in this economic malaise, as the oil sector still contributed 91.9 per cent to total export earnings and 76.5 per cent of total government revenue in 2001. Characterized by low output growth, high unemployment rate and rising inflation, the Nigerian economy has continued to perform below its potentials, especially in recent years. The economy remains extremely vulnerable to external shocks, particularly the vicissitude of world oil market prices.

4. Although various factors have been adduced to Nigeria's poor economic performance, I make bold to say that the major problem has been the economy's continued excessive reliance on the fortunes of the oil market and the failed attempts to achieve any meaningful economic diversification, reflecting the effect of the so called "Dutch disease". The need to correct the existing structural distortions and put the economy on the path of sustainable growth is therefore compelling. This raises the question of what else need to be done in order to diversify the economy and develop the non-oil sector in order to realize the potentials of the sector. This calls for new thoughts and initiatives, which I consider to be the essence of today's Forum.

5. The continued unimpressive performance of the non-oil sector and the vulnerability of the external sector thus dictate the urgent need for a reappraisal of the thrust and contents of our development policies and commitments to their implementation. Indeed, the need for a change in our policy focus and paradigm shift in our industrialization strategy is imperative, if we are to return the Nigerian economy to the path of sustainable growth and external viability.

6. The experiences of the South-East Asian countries, some of them with similar economic characteristics as Nigeria, are instructive in this regard. Faced with problems of economic stagnation, high unemployment rate, runaway inflation and persistent external sector imbalances, the thrust of development policies in those countries shifted in favour of the diversification of the productive base and broadening of the export base of the economy through massive investment in physical and human capital. The successful implementation of those policies resulted in enhanced productivity growth, increase in the share of manufacturing in total export earnings and drastic reduction in the vulnerability of those economies to external shocks.

7. There is, therefore, the urgent need to evolve policies to enhance productive growth in the non-oil sector in order to ensure that we produce enough to satisfy domestic demand and more for export to boost foreign exchange earnings. We are encouraged by the results of the various geological surveys and feasibility studies, which confirm that Nigeria has great potentials in the production of solid minerals and gas for export. Indeed, there are unexploited non-oil export potentials, including solid minerals and semi-manufactured agricultural products. The experiences of the Asian Tigers also demonstrated that the development of Small and Medium Scale Enterprises provides a veritable channel for taping these potentials. It is in recognition of this fact that the Federal Government is refocusing on the development of small and medium scale enterprises and the Small and Medium Industries Equity Investment Scheme (SMIEIS) has been initiated under the aegis of the Bankers' Committee.

8. Perhaps, there is a lot of merit in the observation that rapid and sustained growth is a function of technological and infrastructural improvement. Yet, it seems that not enough attention has been paid to the maintenance, acquisition, adaptation and utilization of existing technology and infrastructure. This cuts across the agricultural, industrial and service sectors. To enhance the competitiveness of the non-oil sector and the growth of SMEs, there is need for increased collaboration among all stakeholders, including the government, the operators in the sector, the universities and research institutes. This will not only stimulate innovation but also improve the quality of the products.

9. We are aware that there are several inventions lying at various university laboratories and research institutes awaiting potential investors to commercialize. This has been attributed to information asymmetry and limited availability of long-term finance in the form of venture capital. Again, this calls for visionary leadership from both our banks and entrepreneurs especially as a pool of long-term investible funds are available in the financial markets. The Central Bank, on its part, is determined more than ever to ensure the maintenance of price and of the exchange rate stability, which is sine qua non for investment and output growth.

10. The role of Government in raising the contribution of the non-oil sector cannot be overemphasized. Sustained effort must be made to substantially improve power and water supply, and the provision of other

infrastructure including the building of industrial estates, the positive externalities that would give incentives to prospective investors and enhance their competitiveness.

11. Distinguished Ladies and Gentlemen, this Policy Forum offers us another opportunity to discuss freely and incisively on ways to significantly improve the performance of the non-oil sector of the Nigerian economy. It must do more than serve as a talk-shop. It is my hope that at the end of this Forum we shall come up with concrete proposals that will enable us to improve on the current strategy and policies to diversify the productive base of the economy.

12. I have been informed that seasoned and experienced professionals are in our midst to lead the discussions. Also, going by the list of distinguished participants, I am confident that our objectives will be realized.

13. I thank you for your kind attention and wish you fruitful deliberations.

Chief (Dr.) J. O. Sanusi, *CON*
Governor
Central Bank of Nigeria
Abuja.

August 7, 2003

AN ASSESSMENT OF CURRENT DEVELOPMENT IN THE NIGERIAN ECONOMY AND THE CENTRAL BANK OF NIGERIA (CBN) POLICY ACTION

It is with great pleasure that I welcome you all to my maiden briefing on the activities of the CBN in addressing the challenges faced by the financial sector owing to the downturn in the global economy. I, therefore, take this opportunity to appraise the CBN monetary actions in the recent past and indicate the way forward in the immediate future.

As someone just coming from the other side of the aisle of the financial sector (the regulated), you will appreciate that my remarks today as a regulator must be viewed as one that is not bereft of the first-hand knowledge of what regulation means.

As you are well aware, the primary objective of the CBN is to promote sustainable output and employment while maintaining price stability over time. These goals are not unique to this country. Indeed, most central banks pursue the same objectives. The pursuit of these objectives is central to eliminating uncertainties and distortions of high and variable inflation, thereby, providing an economic environment that is conducive to growth.

The Central Bank of Nigeria has in recent times pursued these goals by influencing financial conditions, that is, the cost and availability of credit as well as asset prices.

The growth performance of the Nigerian economy, has until recently, been sustained at a relatively high level due largely to the sustenance of macro-economic stability – a product of effective conduct of monetary policy, financial sector reforms and relative improvement in fiscal prudence. The current global financial melt-down has weakened growth considerably in the first quarter of 2009 to 4.85 per cent from 5.75 per cent estimated for 2008 and projections for the future are not encouraging.

To ameliorate the situation, CBN took measures to encourage the flow of credit for productive investment. The MPR was reduced by 175 basic points in April 2009 while the liquidity and cash ratios declined from 30 per cent and 2 per cent to 25 per cent and 1 per cent respectively. As these actions did not seem to have yielded the desired economic outcomes in time, the Bank resorted to direct control measures involving interest rate caps and the re-introduction of exchange control measures.

The failure of the economy to respond favourably to the monetary easing measures reflected mainly the under-developed character of the financial

market and, concomitantly, the weakness of the transmission mechanism of monetary policy.

The major challenge facing the CBN, therefore, is the critical need to strengthen the implementation of the on-going financial sector reforms to achieve enhanced efficiency of the financial markets on which the effective conduct of monetary policy depends.

In this regard, the CBN policies will continue to support government endeavours to promote strong and sustainable growth without compromising its mandate to ensure the maintenance of price stability. The conduct of monetary policy will be driven by market-based mechanisms, thereby, building on the progress we have made since we abandoned the direct control measures in 1993. Consequently, interest rate policy, which is an essential component of monetary policy will be flexible and, as much as, practicable market-determined in order to ensure allocative efficiency in the financial markets.

We will address some of the failures leading to high lending rates, including operational efficiency in the financial system.

Finally, an efficient and effective transmission mechanism of monetary policy can only be assured in an environment of safe, sound and competitive banking system.

In this regard, the CBN surveillance activities will receive new impetus to ensure efficient management and good corporate governance that will complement the gains made under the banking consolidation.

Please, permit me to elaborate on the four points just outlined.

Deepening the Financial Market

The financial market has not as yet attained the depths that are necessary to have efficient transmittal of policy stance. As a result, the short term interest rates which should ordinarily affect the lending rates to the real sector have not played this role. Bank lending rates remained high and the spread between lending and deposit rates has been unacceptably wide.

The role of the financial system in economic development cannot be overstated. Apart from the critical role financial markets play in mobilizing savings and allocating them to productive investment, an efficient financial market would provide a more stable source of financing for both private and public sector. At present, there is a near total absence of debt

instruments in the capital market. As a result, banks are responsible for almost 100 per cent of the loan taken by the private sector.

The Central Bank will work with the Tax Authorities to have a tax free yield curve and encourage the development of a bond market. The Bank will also collaborate with Securities and Exchange Commission (SEC) and Nigerian Stock Exchange (NSE) to reduce the cost of bond issues so as to diversify funding sources away from banks.

Interest Rates

A major impediment to the realization of development through the intermediation role of the banking industry is the wide and persistent spread that exists between deposit and lending rates. The interest rate spread, which is the difference between the bank's earnings from loaned funds and its cost of funds is influenced by non-interest expense, prudential and reserve requirements, market structure, inflation, credit risk and profit expectation of banks, among others.

Available studies on interest rate margins and profitability determinants show that high non-financial costs are largely responsible for the wide intermediation spread in Nigeria. These costs often reflect inefficiencies in the operations of the banking system which very often are passed on to

consumers. The data also show a positive relationship between net interest margin and overhead costs.

The Central Bank will work with banks to improve efficiency in the banking system. We will encourage the banks to explore the idea of infrastructure sharing to improve efficiency and reduce cost of operations. Other areas of cost cutting are through innovations that will reduce the cost of delivery of banks products. It is expected that gains from banking efficiency and other financial system reforms will reduce intermediation spreads.

In addition to these measures, it is expected that banks will realize that excessive interest charges increase the risk of huge loan losses and financial instability in the medium term. It is, therefore, necessary for banks to moderate short-term profit expectations and curtail expenditure on compensation and bloated overheads. The CBN will work with the Bankers' Committee and, through moral suasion, encourage a consensus on what constitutes a reasonable margin. It is clear that in the present arrangement, all but the most powerful companies are at the mercy of banks as fund providers, and the regulator must play the role of consumer protection and ensure that banks charges are reasonable and consistent with both the profit motive of the individual banks and in the interest of the system. Real interest rates in double digits are much higher than the growth potential of GDP given structural constraints.

Reform of the Payments System

The payments system plays a crucial role in any economy as a channel of inter-sector, inter-industry and inter-company financial resource flows, thus, promoting economic growth. Understandably, the Central Bank of Nigeria (CBN) accorded the payments system due priority in its reform agenda of the financial system. Thus, the CBN in partnership with other stakeholders embarked on extensive reforms of the payments system to enhance its safety, efficiency and reliability. This effort culminated in the introduction of institutional arrangements, operational mechanisms, interrelated IT infrastructure and instruments that are gaining wide acceptability among service consumers in the banking industry.

The emerging payments landscape in Nigeria has generally been significantly influenced by financial liberalization and integration across the globe and, in particular, developments in payments framework including regulations, infrastructure and information and communications technology. The first major step towards reforming the National Payment Systems (NPS) by the CBN was the articulation of national payments system framework and guidelines for all payments system initiatives with the objectives of generally, ensuring availability without interruption, meeting as much of the users' needs as possible, and operating at minimum risk and reasonable cost.

In retrospect, the CBN's payments system reform agenda has produced salutary outcomes. The major developments so far have been in the areas of deployment of several requisite infrastructures since 2002 and the establishment of the institutional framework to drive the payments system reforms.

Therefore, the NPS would be a major driver of changes in the financial markets, and would serve as a platform for supporting the integration of the Nigerian wholesale and retail payments system with that of the West African Monetary Zone (WAMZ). The Bank will continue to pursue the payments system reforms as outlined in the Financial System Strategy FSS 2020. Specifically, the implementation of the seven key initiatives that will drive the usage of electronic payments will be vigorously pursued. These initiatives include Government supplier payments, person-to-person trade, salary and bill payments, business and individual taxes and securities settlement.

Financial Stability Issues

The Bank has since March 2006 adopted a new code of corporate governance to engender confidence in the industry and, hence, attract foreign investors in the sector. Risk-based supervision and consolidated supervision have also been adopted in the industry to further boost confidence and ensure stability of the system. In addition, common

accounting year end for all banks and international financial reporting standards aimed at improving integrity and comparability of both financial reports and data is to be adopted in the industry by the end of 2009 and 2010, respectively. Also, greater emphasis has been placed on e-FASS as a tool for banks' returns analysis for speedy identification of early warning signals.

The Bank has also reviewed the Contingency Planning Framework for Systemic Distress in banks. Others include the introduction of Credit Bureau, deployment of resident examiners to banks since January 2009 as well as standby teams of target examiners being deployed to any bank at any given time to ensure timely regulatory action when necessary.

Despite the measures taken by the CBN, there have been concerns in recent times about the health of the Nigerian banking system occasioned largely by the system's exposure to the capital market and the effect of the global financial crisis as well as exposure to oil marketers and Ministries, Departments and Agencies (MDA). While there is no doubt that the banks were challenged in the face of these developments, there is no evidence, thus far, that our banking system is facing a crisis as has been reported in some newspapers recently. All reports purporting to suggest that some named banks are not sound or shaken are unfounded and we urge journalists to exercise caution and show more responsibilities in reporting

and quoting unofficial sources. Our view is that there are stress points in banks' balance sheets (margin loans, proprietary positions, oil marketing names, unsecured large exposures) and these are being dimensioned. An appropriate resolution framework will be developed in consultation with reputable independent advisers, and the market will have information on steps being taken at appropriate junctions in the process. We reiterate that, based on the totality of information available to the regulator, there is no basis for suggesting that the system is at risk. We also re-affirm our commitment to stand behind every financial institution and work with its board and management to ensure a smooth resolution of any issues that may arise as an outcome of the diagnostic process. No bank will be allowed to fail.

Going forward, the CBN will strengthen the regulatory and supervisory framework and enhance monitoring of the operations of the DMBs to ensure that they remain safe, sound and healthy to support the macroeconomic objectives of the government, in general, and monetary policy, in particular.

To this end, the CBN will continue to ensure the maintenance of public confidence through appropriate disclosure and would reinvigorate the policy of zero tolerance on all unprofessional and unethical conduct. Banks would also be required to further strengthen their risk management

process, while the present supervisory methodology of risk-based and consolidated supervision with special emphasis on macro-prudential regulation and sound stress testing practices would be pursued more vigorously.

More and rigorous emphasis would be placed on the implementation of the Code of Corporate Governance for banks in Nigeria. Banks that have not fully complied with the requirements of the code would be encouraged to do so. For the avoidance of doubts, enforcement of the code of conducts on the board and top management of banks, especially in the areas of display of professionalism and high ethical standard shall not be compromised. In addition, we will put in place a code of conduct for regulators to ensure that our own staff live up to the high expectation of the nation.

Meanwhile, the on-going assets' quality audit by the CBN and NDIC would ensure that appropriate policies are put in place to address identified lapses.

It should be emphasized that the determination of the health of banks is a continuous exercise. The CBN on its part will continue to monitor developments in the sector and proffer appropriate policies to ensure that the Nigerian banking system remains sound and stable. The decision of

the MPC this morning to guarantee inter-bank exposures and Pension Funds Administrators (PFA) placements in the banks is aimed at re-assuring the market and stabilizing the system while the reform process continues over the next 6-9 months. This should stop the current overheating in the system and exert a downward pressure on interest rates.

Conclusion

To conclude, let me reiterate that the conduct and implementation of monetary policy will continue to be dictated by the prevailing domestic economic conditions. Thus, the monetary policy framework will continue to be transparent and market-driven using standard monetary policy instruments, like cash reserve requirements, appropriate interest rate policy, open market operations, discount window operations, foreign exchange market intervention, amongst other market-related tools.

Furthermore, while achieving a low interest rate regime remains the principal target of monetary policy, the determination of interest rate will continue to be flexible and driven by market forces - demand and supply conditions, amongst other factors. Similarly, our exchange rate policy will be transparent and dictated by our economic fundamentals while remaining market-driven at all times, but with due cognizance of ensuring

that instability does not creep into the various segments of the foreign exchange market.

Overall, our ultimate goal is to establish a credible monetary policy regime that will facilitate the attainment of our two key mandates of ensuring price and monetary stability and promoting financial soundness and stability, to support government's macroeconomic objectives of high and sustainable economic growth and low unemployment, in the medium- to long-term.

50 YEARS
OF CENTRAL BANKING IN NIGERIA

The Journey So Far

and The Road Ahead

By Professor Chukwuma C. Soludo, CFR, Governor, Central Bank of Nigeria

Conference on the 50th Anniversary of the CBN, 4th May, 2009

Outline

The Journey So Far

Evolution of CBN & Its Mandate

The Road Ahead

Central Banking in the next 50 years

The Journey So Far

Introduction

- At 50, the Central Bank of Nigeria has come a very long way, and has evolved with the Nigerian economy and the financial system
- With the Central Bank Ordinance passed on 17th March, 1958; the first Governor of CBN (Mr. Fenton) assuming duty on July 24, 1958; first meeting of Board of Directors held on 30th July, of the same year, and the 1958 Act coming into full effect on September 15, 1958, the CBN was ready to commence operations, which it actually did on 1st July, 1959
- In 1959, the Nigerian economy was powered mainly by the three regional economies and dominated by groundnuts, palm produce, and cocoa

50 YEARS
OF CENTRAL BANKING IN NIGERIA

Our Operating Environment: Then and Now

Parameters	1960	2009
Population	50.4 million	149 million
GDP (current prices)	N2.2 billion	N24 trillion
External Reserves	US$602.8 million	US$47 billion
Banking Sophistication	99 PMIs; 1,407 Bureaux de Change; 866 Microfinance Banks; 8,138 ATMs	
Banking Infrastructure	12 Banks 160 Branches	24 Banks 5,134 Branches
Banking Density (number of persons to 1 Bank branch)	1:315,000	1:27,000
Currency Outside Bank (% of money supply)	54%	9.7%
Credit to Private Sector	5% of GDP	40% of GDP

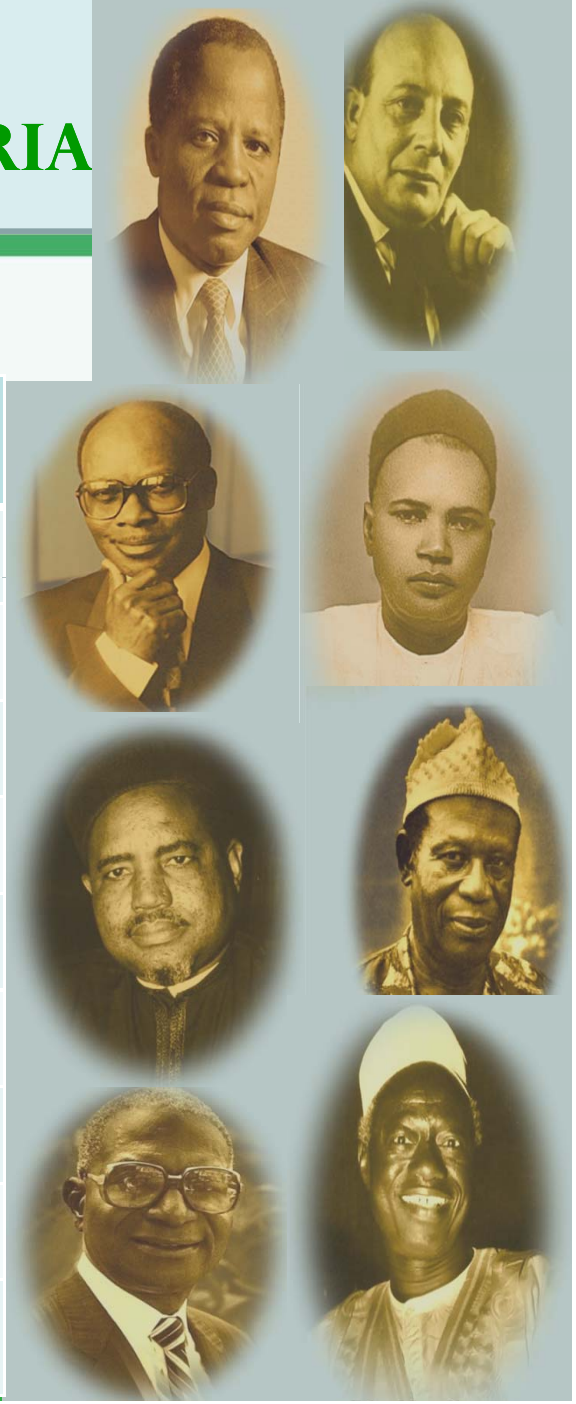
Acknowledgements

- The Executive and Legislative Arms of Government
- 14 Heads of State; 9 Governors of the Central Bank;
- 126 Directors; 19,563 Staff (5,028 staff serving)
- 5,356 Pensioners
- The Ministries and Agencies connected with economic and financial policies and regulation (Ministries of Finance, National Planning, and Justice; SEC, NDIC, DMO, OAGF)
- CEOs of banks and other financial institutions; money market operators
- Nigerian Stock Exchange; operators of the capital market
- Nigeria's Development partners– the IMF, World Bank, UNDP; UKDFID, USAID, EU, etc.

50 YEARS
OF CENTRAL BANKING IN NIGERIA

CBN Governors (1958 – 2008)

S/N	NAME	TENURE
1	Mr. Roy Pentelow Fenton	1958 - 1963
2	Alh. Aliyu Mai-Bornu	1963 – 1967
3	Dr. Clement Nyong Isong	1967 – 1975
4	Mallam Adamu Ciroma	1975 – 1977
5	Mr. Ola O. Vincent, OFR	1977 – 1982
6	Alh. Abdulkadir Ahmed	1982 – 1993
7	Dr. Paul A. Ogwuma, OFR	1993 – 1999
8	Chief (Dr.) Joseph Sanusi, CON	1999 – 2004
9	Prof. Chukwuma C. Soludo, CFR	2004 – Date



50 YEARS
OF CENTRAL BANKING IN NIGERIA

Evolution of the CBN & Its Mandate

Evolution of the CBN

- In 50 years, the CBN has had three major Acts (1958, 1991, and 2007) with some amendments. There have been periodic interruptions of the Bank's operational independence, but the 1991 Act (as amended) clearly spelt out the Bank's operational independence
- However, it has remained relatively stable in relation to its governance and mandate
- With 9 Governors in 50 years, the CBN has been spared the volatility in Nigeria's political history and remained one of the most stable Central Banks in the world
- The CBN has evolved in terms of its organizational structure, complexity, skill pool, efficiency and effectiveness

Evolution of the CBN

- Since the 1958 Act, the mandates of the CBN (with modifications) have included:
  - Ensure monetary and price stability (2007 Act)
  - 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
  - Act as a banker and provide economic and financial advice to the Federal Government
  - In essence, the CBN is:
    - The Monetary Authority of Nigeria
    - A Regulatory Institution for Banks and Others
    - The Banker and Adviser to the Federal Government of Nigeria

The CBN Mandate

- Monetary & Price Stability
- Issuance of Legal Tender
- Management of External Reserves & Exchange Rate
- Sound Financial System
- Banker and Adviser to Government
- Developmental Responsibilities

Evolution of Monetary Policy in Nigeria

1959 – 1973: Exchange Rate Targeting

1974 – 1992: Direct Monetary Control

Fixed Interest Rate, Sectoral Credit Targets; Moral Suasion; Issuance of Stabilisation Securities

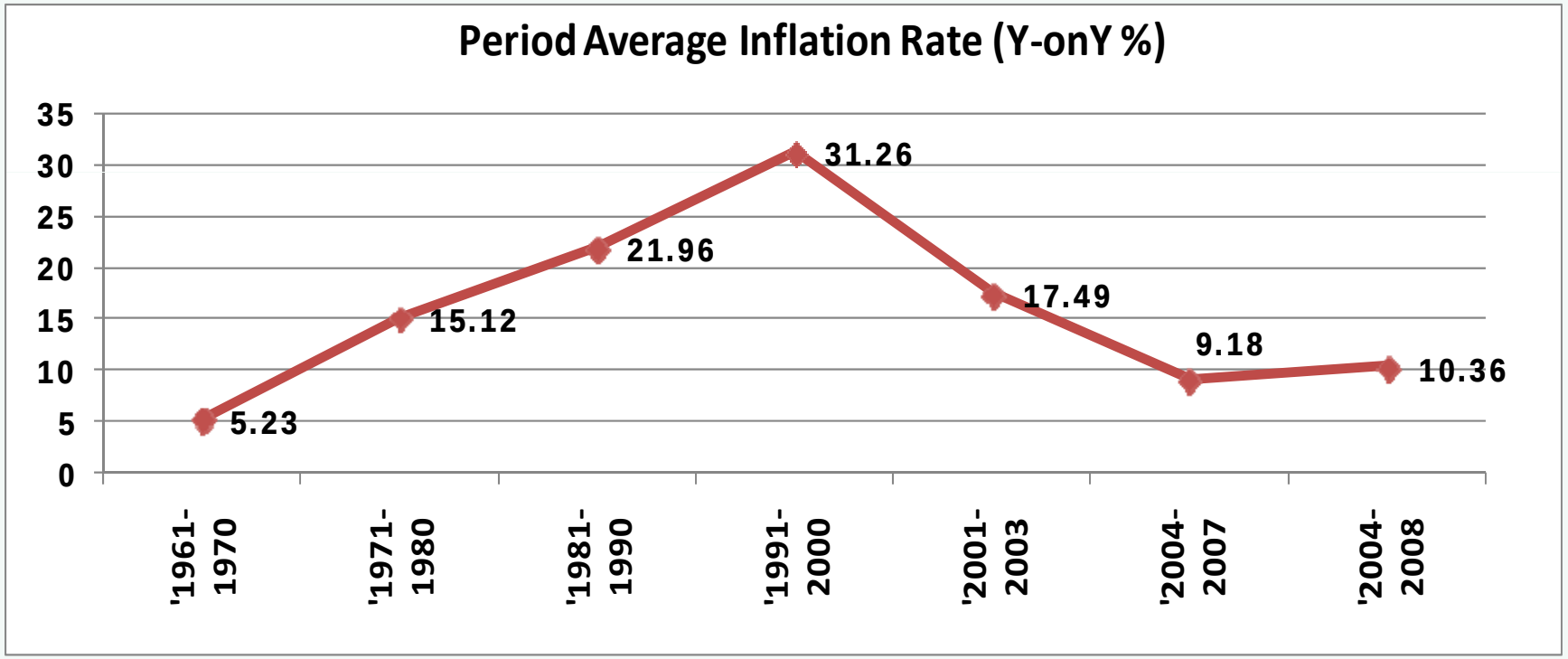
1993 to present day: Indirect Monetary Control

Moral Suasion, Forex Swap, Special Sales and Standing Facilities

Open Market Operations, Reserve Requirements, Discount Window Operations, Minimum Rediscount

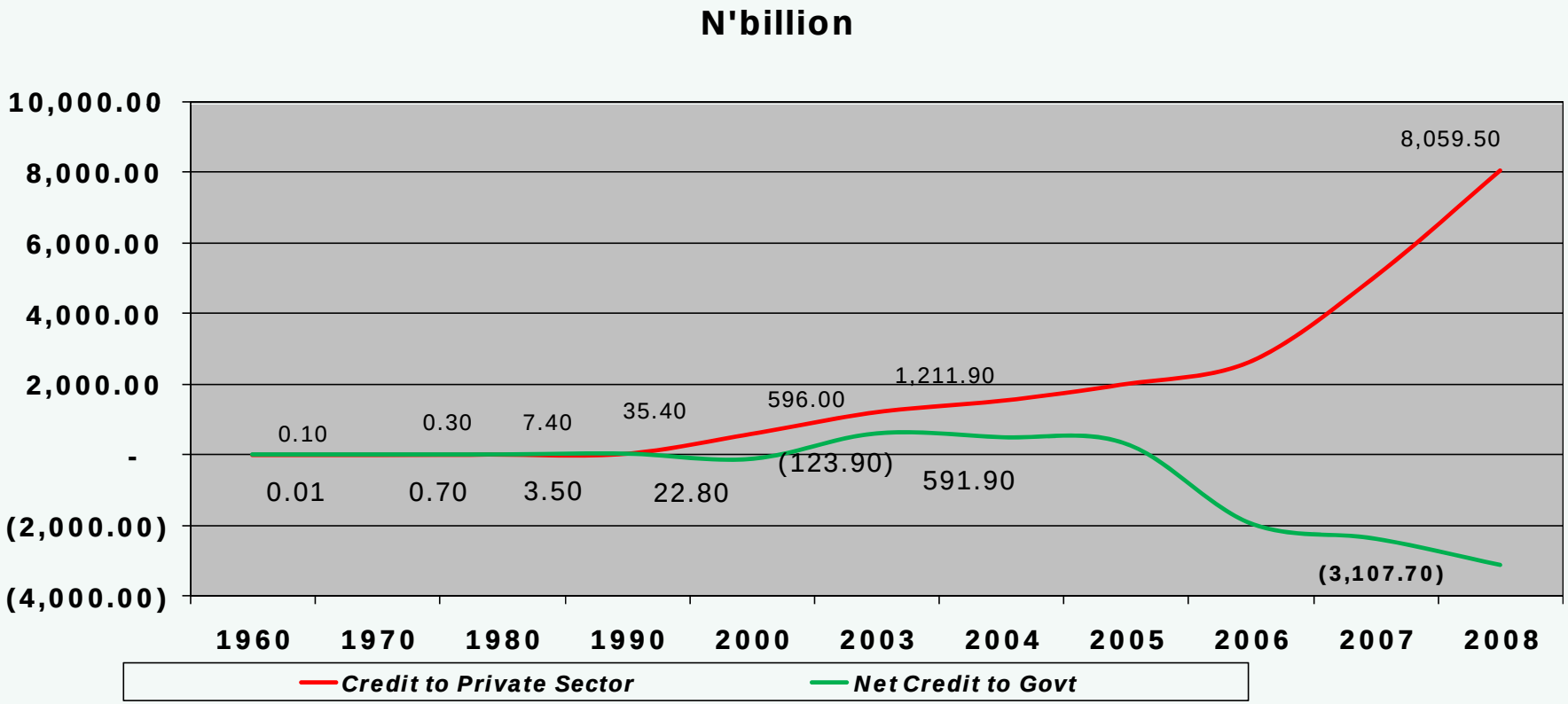
Plans to adapt a form of Inflation Targeting framework

Outcome: Monetary & Price Stability



- *1970s, 80s: Improved monetary management*
- *90s: Higher Inflation (fiscal dominance)*
- *2004-2007: Single digit inflation, effective monetary and fiscal coordination*

Outcome: Increased Credit to Private Sector (N'b)



Issuance of Legal Tender and Transformation of the Payment System

- CBN moved from issuance of Nigerian Pounds (July 1959) to issuance of Nigerian Naira since 1973
  - Denominations issued in response to changing economy
  - Promoted the transformation of the payment system from a predominantly cash to an increasingly sophisticated electronic system

50 YEARS OF CENTRAL BANKING IN NIGERIA

Year Issued	Denomination (s)	Remarks
1946 – 1959		Currency notes & coins issued by the West African Currency Board
1st July 1959	£1, 10/- and 5/-	First Nigerian Currency issued
1st July, 1965	£5, 10/- , 5/-	Re-issued to commemorate the country's Republican status
1968	£5, £1, 10/-, 5/-	Re-issued currency to forestall the usage of illegally withdrawn notes from CBN Enugu, Port Harcourt and Benin Branches during the civil war
1973	₦10, ₦5, ₦1, 50k Notes & 25k, 10k, 5k, 1/2k Coins	Decimalization of currency. Pounds & Shillings replaced with Naira and Kobo
1977	₦20	Banknote with portrait of late Head of State
1979	₦10, ₦5, ₦1	Banknote with portrait of other eminent Nigerians
1984	Currency Exchange by Colour Swap	Currency exchange by colour-swap to render hoarded banknotes useless

50 YEARS
OF CENTRAL BANKING IN NIGERIA

Year Issued	Denomination (s)	Remarks
1991	₦50 Notes & ₦1, 50k Coined	Coin series became 1k, 10k, 25k, 50k, ₦1, while 5k &1/2k were demonetized
December, 1999	₦100 Note	Banknote with portrait of other eminent Nigerians
November, 2000	₦200	Banknote with portrait of other eminent Nigerians
April, 2001	₦500 Note	Banknote with portrait of other eminent Nigerians
October 2005	₦1,000 Note	Banknote with portrait of first two indigenous CBN Governors
February , 2007	₦5, ₦10, ₦20 (polymer) & ₦50 notes redesigned. ₦1 & 50k coins redesigned, ₦2 coin introduced	₦5, ₦10, ₦20(polymer & ₦50 notes redesigned. ₦1 & 50k coins redesigned, ₦2 coin introduced

50 YEARS OF CENTRAL BANKING IN NIGERIA

Year	Activities
1959	■ Issuance of Nigeria pound note by CBN
1961	■ Established a clearing house in Lagos
1973	■ Issuance of decimal currency in Naira and kobo
1993	■ Implementation of MICR
1994	■ Establishment of NIBSS
1996 - 1997	■ Setting up of Technical Committee and appointment of consultants for NACS
2002	■ Live operation of NACS in Lagos Clearing Zone ■ Reduction of the clearing cycle to T+3 and T+5 for local and upcountry instruments respectively
2003	■ Guidelines on e - banking
2004	■ Establishment of switching companies and interoperability of /shared ATM/POS

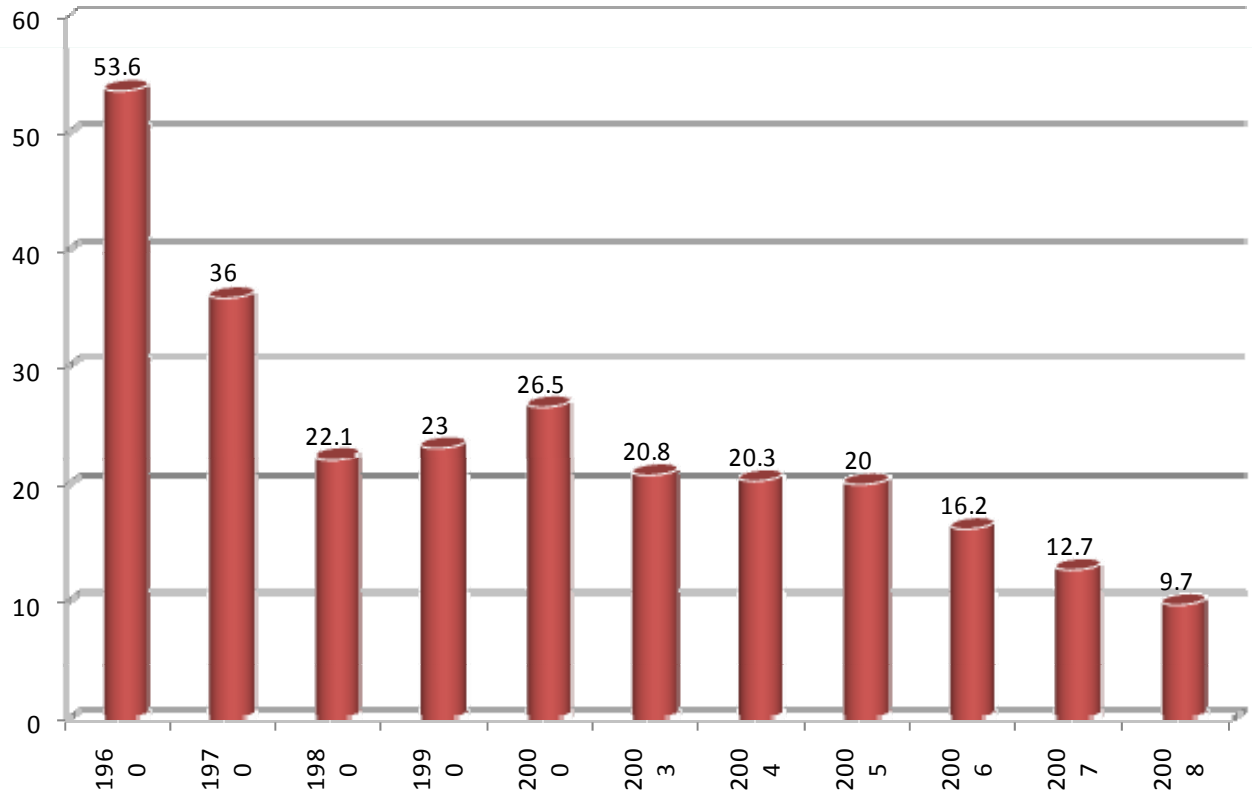
50 YEARS OF CENTRAL BANKING IN NIGERIA

Year	Activities
2005	■ Reconstituted National Payments System Committee and the set up of the technical sub – committee ■ Deployment of NACS to Abuja Clearing Zone
2006	■ Cheque Standard and Cheque Printer Accreditation Scheme ■ Live run of CBN Inter – Bank Funds Transfer System (CIFTS) and T24 system
2007	■ MICR upgrade and testing its interface withT24 ■ Further reduction of the clearing cycle to T+3 for upcountry instruments while that of local instruments remain at T+2 ■ Development of Payments System Vision 2020 ■ Inauguration of Payments System Work Group for the implementation the Payments System Vision 2020 ■ Payments Infrastructure and Strategy Committee (PISC) for coordinating the activities of the work group
2008	■ Harmonization of clearing cycles (upcountry and local) at T+2 (Three working days) ■ Development of NACS to Port Harcourt Clearing Zone

50 YEARS
OF CENTRAL BANKING IN NIGERIA

Issue Legal Tender Currency & Payment System

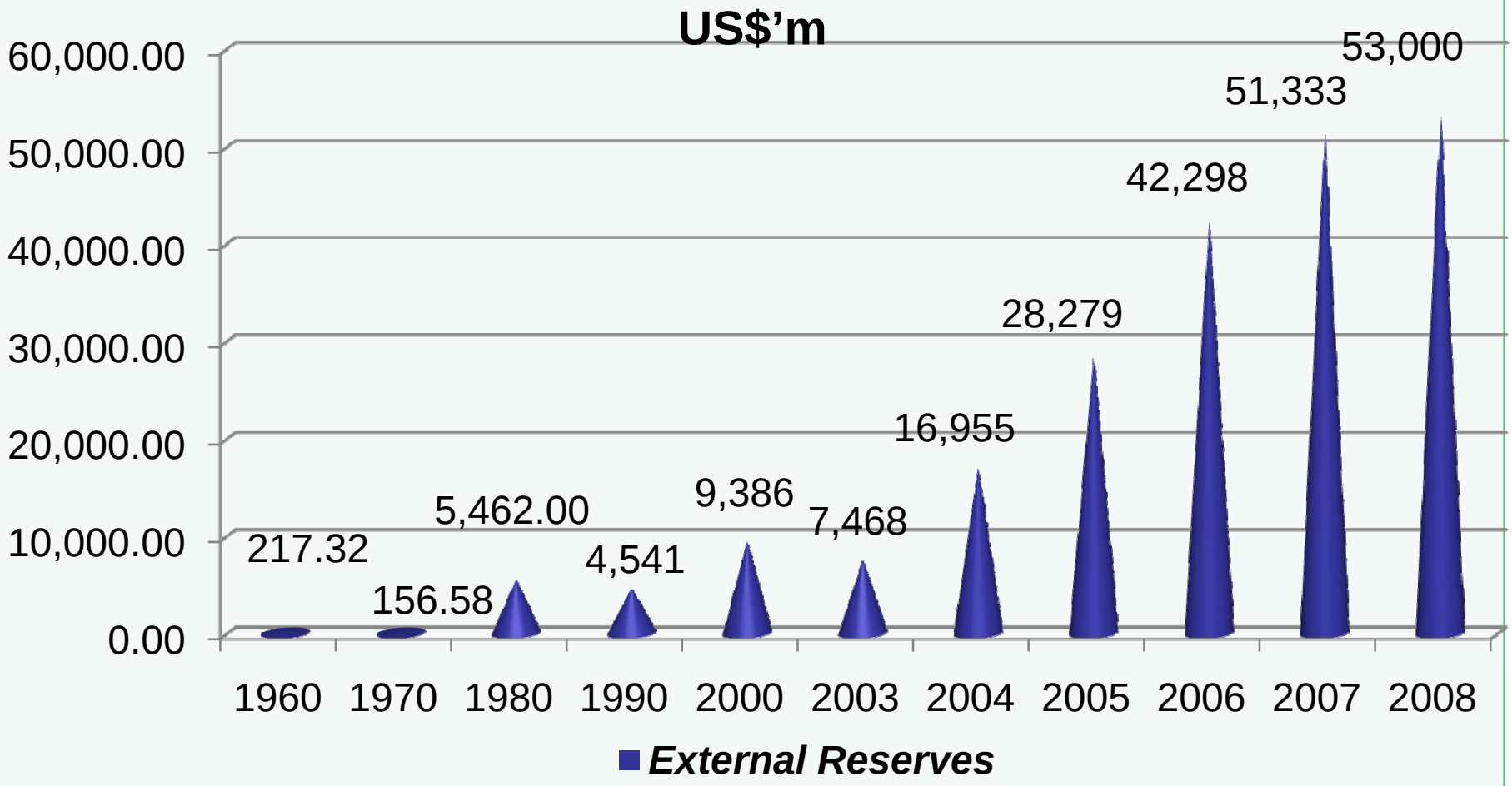
Declining Ratio of Currency Outside Banks to M2



Management of External Reserves

- Changes in practice have reflected changes in the CBN Act and improvements in the capacity of CBN Staff
  - Framework has moved from passive to active reserve management
  - Collaborated with the World Bank on Reserves Advisory and Management Program (RAMP) in 2003
  - Established a modern Dealing Room
  - Appointed External Asset Managers to manage a portion of the external reserves
  - Diversified assets portfolio of external reserves in 2007

Management of External Reserves (US$'m)



Reforms in Exchange Rate Management

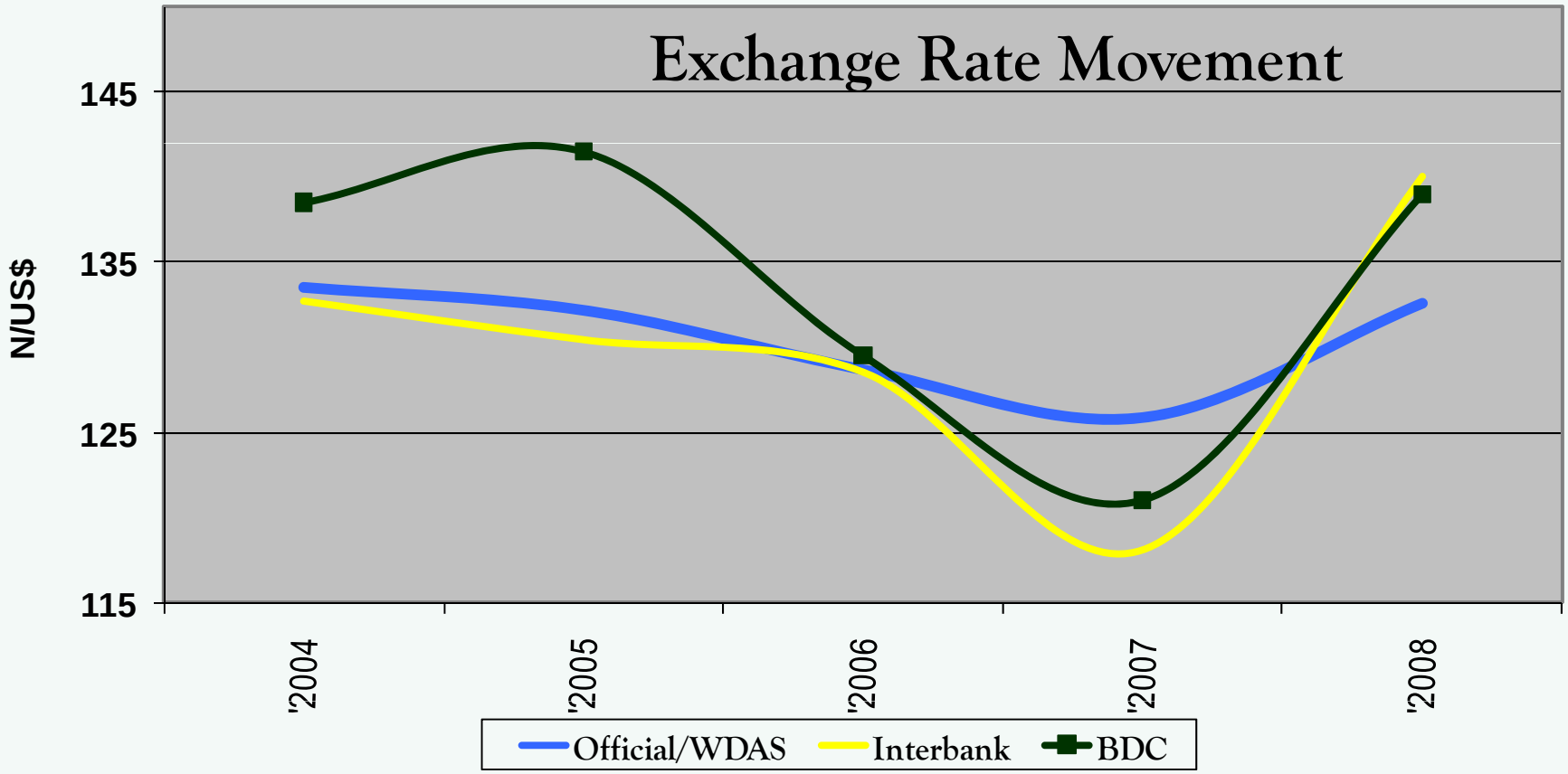
- Moved from fixed regime to flexible (market-determined) in 1986
- From Retail Dutch Auction System (RDAS) to Wholesale Dutch Auction System (WDAS) in 2006
- Deepened Interbank Forex transactions
- Liberalised the Forex market

Reforms in Exchange Rate Management (Contd)

Outcomes:

- More Efficient Forex market
- Higher accumulation of Reserves
- Convergence of Rates (2006-2008)
- The deliberate maintenance of undervalued real effective exchange rate (REER) regime helped to avoid the 'Dutch Disease' phenomenon of the 1970s and hence ensuring accumulation of higher levels of reserves and promoting higher growth

Outcome: Exchange Rate Convergence



50 YEARS OF CENTRAL BANKING IN NIGERIA

Evolution of Banking Supervision

- **No Formal Supervision** — 1892 – 1951
- **Shared Banking Supervision with Min. of Finance** — 1960 – 1965
- **Full Banking Supervision** — 1966 to date
- **Financial Sector Liberalisation** — 1986 – 2003
- **Banking Sector Consolidation** — 2004-2005
- **2006 to date: Post-Consolidation**

Nigeria setting pace for the world

Nigeria following the World

Sound Financial System

End Dec. '03: Pre-Consolidation (Where We Were)

- 89 banks with 3,282 branches characterised by structural and operational weaknesses such as:
  - Low capital base & poor asset quality
  - Oligopolistic structure; insolvency and illiquidity
  - Weak corporate governance; poor rating of a number of banks
  - Overdependence on public sector funds and income from foreign exchange trading
  - Lack of capacity to support the real sector of the economy

New Regulatory Landscape

Tightening of Regulation and Supervision

- Greater emphasis on enforcement of Code of Corporate Governance
- Resident Examiners have been deployed to banks since January 2009
- Standby teams of target examiners being deployed to any bank at any time to ensure timely regulatory actions if necessary
- Review of Contingency Planning Framework for Systemic Distress in Banks
- Introduction of Credit Bureau
- Strengthening of institutional coordination through the Financial Sector Regulatory Coordinating Committee (FSRCC)
- Adoption of common accounting year end for all banks with effect from end-Dec. 2009, aimed at improving data integrity and comparability
- Adoption of the International Financial Reporting Standards (IFRS)

Sound Financial System: Post- Consolidation

- Initially 25 (now 24) well capitalized banks ***owned by the Private Sector***
- Asset Base grew by 439.4% between 2003 and March 2009
- Capital adequacy ratio was 22% by end December 2008
- Ratio of non-performing loans to total loans down from 22% in 2003 to 6% in 2008
- About 10 Nigerian banks in top 1,000 banks in the world, and 3 in top 2,000 companies in the world (none in 2003)
- Nigerian banks as Nigeria's leading multinationals
  - Branch Expansion outside Nigeria - 37 in Africa and 9 outside Africa
- More effective supervision (24 rather than 89)
- Microfinance Banks - 866 licensed (104 under AIP)

The Nigerian Banking Sector Pre and Post Consolidation

Parameters	Pre-Consolidation (As at Dec. 2003)	Post-Consolidation (Latest Figures)	% Increase
Banks' Total Assets (Naira Billion)	2,767.78	14,932.00	439
Number of Bank Branches	3247	5,407	67
Number of Bank Shareholders	5,901,565	10,033,625	70
Number of Bank Depositors ('000)	13,649	34,553	153
Total Bank Deposits (Naira Billions)	1,409	8,693	517
Employment in the Banking Sector	60,227	85,591	42
Credit to the Industrial Sector (₦billions)	619.52	3,760.84	507
Credit to the Agric Sector (₦ billions)	62.10	114.30	84
Credit to the Telecoms Sector (₦billions)	293.70	1,107.38	277

50 YEARS OF CENTRAL BANKING IN NIGERIA

Outcome

- In spite of the Global Crises and the banks' exposure to the capital market:
  - Banks total exposure to the Capital market as at end January 2009 was N784 billion or about 10% of total loans
  - Amount banks are prepared to turn over to an Asset Management Company (AMCON) if such were set up by end of the year is between ₦350 and ₦400 billion or approx 4 – 5% of loans as at Feb. 2009
  - About 15 banks would have no need for AMCON
  - Total Non-performing loans as percentage of total as at Feb. 28, 2009 = 6.2% (Estimated non-performing loans as at end of December 2009 = about 7.4%)
  - CAMELS rating of the banks as at end-December 2008, showed an average composite score of 62 per cent and average industry rating is satisfactory
  - Average capital adequacy ratio of 22 per cent, among the highest in the world

Banker and Adviser to Government

- CBN is always a key partner in the development of Government Economic Policies and the National Development Plans since inception
- The Bank provides periodic Economic and Financial advice to Government
- As Banker to the Federal Government – deployed first rate IT infrastructure to ensure e-payment

Developmental Activities

- Targeted Funding Facilities
  - CBN funding contributions for the establishment of DFIs: NEXIM; BOI; FMBN; NACRDB; AFC
  - Agricultural Credit Guaranteed Scheme Fund (ACGSF)
  - Microcredit Fund (N50 billion)
  - Small and Medium Enterprises Loans Scheme (1&11)
  - Small and Medium Enterprises Equity Investment Scheme (SMEEIS)
  - Recent N200 billion Fund for Large Scale Commercial Agriculture
- Entrepreneurship Development Centres (EDCs) in 3 Zones since 2008 (trained 9,000 people so far, and expected to create about 525,000 jobs in 3-5 years)
- Active foundation role in establishment of NDIC and SEC

Corporate Social Responsibility

- Support to tertiary institutions
- Provides technical and financial support to the National Bureau of Statistics
- Support for Government and professional institutions in capacity development and strengthening

The Road Ahead

Effect of the Current Global Economic Crises

- The current economic crises will reshape the global competitive landscape but CBN will continue to do her best to ensure that our monetary policies are in line with global best practices and reflective of our peculiarities, and that our regulations support the Nigerian economy to achieve her full potential

The Road Ahead

- **Context: Key Drivers of the Environment for Central Banking in the next 50 Years?**
  - Financial globalization will deepen, with intensified cross-border regulation and supervision
  - Globalization with weak governance structures and hence increased uncertainties and vulnerabilities to more devastating future financial crises
  - Regionalism: common currencies and regional central banks (Nigeria just signed an MOU with AUC granting Nigeria hosting right to African Central Bank (ACB). If monetary unions succeed in Africa, there may be no Central Bank of Nigeria in the next 50 years
  - Central Banks increasingly being required to make "financial system stability" an explicit goal, and potentially increasing role in financial system regulation and supervision
  - Increasing integration of financial markets and difficulty of measuring and controlling domestic monetary aggregates

The Road Ahead

- Continue to maintain macro stability – price stability consistent with long term economic development
- Amend BOFIA to strengthen regulation/supervision
- Other Legal Reforms – to fast-track markets/institutions for efficient credit system
- Increasing investment in production & processing of timely & robust data for economic management
- Mortgage and Consumer Credit reforms
- Deepen and mainstream microfinance system
- Continued strengthening of Corporate Governance
- Capacity Building for Financial System staff professionalism (Knowledge, skills)

50 YEARS
OF CENTRAL BANKING IN NIGERIA

The Financial Systems Strategy (FSS 2020) as Medium Term Strategy

- To make Nigeria Africa's Financial Centre of choice by 2020 through:
  - Developing Nigeria's financial sector & engineering Nigeria's evolution into the International Financial Community
  - Strengthening domestic financial markets
  - Enhancing integration with external financial markets
  - Building an International Financial Centre
  - Providing enabling environment & infrastructure
  - Establishing the financial system as a growth catalyst

Conclusion

- The Past is behind us, and the Future ahead is full of uncertainties and challenges.
- 50 years is only a beginning, not an end for the Central Bank
- As Nigeria aspires to claim the 21st Century, the CBN in the next 50 years must be proactive in leapfrogging the financial system to ensure success
- Your contributions during this Conference could put us on this sure path!

Thank you so much

as you join us in ...

May 4, 2006

Press Briefing on the Conclusion of the Acquisition of Assets and Assumption of Liabilities of AllStates Trust Bank, Plc (in-liquidation)

By

Prof. Charles C. Soludo; Governor, Central Bank of Nigeria

This is to update the Nigerian public on the recent developments in respect of the winding up of the banks whose licenses were revoked on January 16, 2006. As you may be aware, NDIC has obtained court order to liquidate four banks (AllStates; Lead; Assuarnce; and Trade banks) with provisional orders for Afex and Fortune Banks. A group of eight banks (which call themselves the Alliance Bank group) has gone to court to challenge the revocation of their license (although one of them--- Afex Bank ---- has dissociated itself from the lawsuit. NDIC/CBN Liquidation Task Force has completed actions and negations on the AllStates Trust Bank.

Under the Purchase and Assumption model of liquidation (intended to fast track the process) bids were invited for Allstates Trust Bank after the preliminary verification of the state of affairs of the bank. Five banks submitted bids and upon analysis, Ecobank's bid emerged as the best (with Afribank as second and reserve bidder).

Consequently, we wish to announce that Ecobank Plc has won the bid, and will assume the private sector deposit liabilities of AllStates Trust Bank, plc (in-liquidation).

The following lines of actions have been approved:

1. Ecobank to start immediately to reconcile the deposit register prepared by NDIC with mandate documents; commence depositor verification, and conversion of AllStates Trust Bank depositors into Ecobank depositors by issuing new cheque books and Passbooks as necessary so that the depositors can resume their normal banking activities.

2. Ecobank has undertaken that it has the manpower, branch network, relevant payment resources, knowledge of local market and commercial bank experience to serve the depositors in all the 65 branches.

3. Ecobank has assured us that depositors can go to the various branches of AllStates Trust Bank where they had accounts for verification and issuance of new cheque banks/passbooks as from May 11, 2006.

Conclusion:
Despite the observed three weeks 'delay' beyond the 90 days (from January 16, 2006), the current exercise is definitely the fastest depositors' resolution in any failed bank anywhere that we know. With the progress in the case of AllStates Trust Bank, the others that are not involved in litigation will follow very soon. The depositors should please bear with us.

The CBN will soon begin to advertise/publicise the real facts as well as names of all the Directors and Management Staff of each of the failed banks that are now in court. Nigerians have recently been inundated with media campaigns and frivolous litigations designed to delay the payment of depositors and use blackmail to hide the facts. We will soon begin to publish the facts so that Nigerians will know how these banks were run and who the Directors and Management Staff that ran the banks down were.

Financial Sector Reforms and the Real Economy

Central Bank of Nigeria

Speech to the Council of Fellows of the Pharmaceutical Society of Nigeria

By

Prof. Charles C. Soludo
Governor
Central Bank of Nigeria

August 03, 2006

Central Bank of Nigeria

Outline

I: Introduction

II: Financial System as Hub of the Economy

III: Three Reforms as Pillars for New Economy

- Banking sector revolution?
- Exchange rate reforms?
- Macroeconomic Stabilization: unholy trinity?

IV: Other Complementary Reforms?

V: Conclusions

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Introduction

- Thanks for the Invitation
- Presentation, not a written paper
- Focus more narrowly on some CBN Reforms-- not all Financial system
- Context: Popular questions include:
  - Effects of reforms on common man?
  - Are the reforms sustainable?
- Will try to provoke than provide answers

Financial System as Hub of the Economy

Central Bank of Nigeria

Nigeria's economic potentials to be among 20 largest economies

- $112b GDP; 140 m people; natural resources; $38b resv

Success Factors? (World Bank survey of OPS in Nigeria)

- Security; Infrastructure; Finance; institutions for market economy—rule of law/contracts, etc

Why Financial system matters?

- Credit/capital as basis for modern economy
- Efficient payments system
- Macroeconomic stabilization
- Insure and mitigate risks and uncertainty
- System as lubricant of the economy….
- Financial system as 'supply-leading' or 'dd-following'?

Three Reforms: Banking Sector

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Goal?: Nigeria as Africa's financial hub; and Nigerian bank in top 50- 100 in 10 yrs

A transparent, competitive system that depositors can trust and investors can rely upon

A banking system that intermediate rather than as rent-seekers;

Earlier system with 89 banks too fragile for the economy with credit at 24% of GDP compared to SSA average 57%

All 89 banks were the size of 4th largest in South Africa.

Today, 25 strong and reliable banks

9 Nigerian banks in top 1000 (none in 2003)

De-listing by FATF: Sovereign credit risk rating

Banking sector strongest it has ever been in our history

Increased credit lines to Nigerian banks

Partnership with foreign banks in reserve management

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Banking Sector

BANKS: Key indicators	Dec 2003 N'b	March 2006 N'b
Shareholders' Fund	292	811
Total Assets	2,768	4,974
Total Gross Credits	1,162	2,056
Total Deposits	1,409	2,835
Unsound banks	11	0
Net Profit	9	41

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Banking Sector

Assets growth rate = 79.7%

Capital growth rate = 177.74%

Deposit growth rate = 101.21%

Credit growth rate = 76.94%

Earnings growth rate = 355.56%

Liquidity growth rate = 75.78%

Higher Single obligor limit and capacity to fund larger projects

New products (BDCs; e-payments

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Banking Sector

- CBN had carried out a post consolidation due diligence on banks to ensure the absence of bubble capital
- Post consolidation integration, people, processes, system etc being monitored by the CBN
- New code of corporate governance had been issued on march 1, 2006
- Moving to Risk-based supervision and re-training/re-orientation of banking supervision Department
- Microfinance policy and SME financing

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Banking Sector

Challenges

Concluding liquidation of the 14 failed banks

- NDIC has obtained final court order to wind up 7 banks- Allstates, Lead bank, Assurance bank; Hallmark; and Trade bank
- Provisional order had been obtained for - Afex bank; and Fortune bank
- Two other banks for which orders were granted have appealed judgement
- Total deposits of private sector in these banks = 78%
- FIRST TIME Depositors are guaranteed !!!

Training for Commercial banks staff and Directors of Banks--- compulsory!

New Banking system for the 21st century emerging and on course to achieve the goals of the Reforms!

b. Reserves and Exchange Rate Management

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Why accumulate external reserves?

- To defend international value of Naira– stable regime
- Measure of confidence in economy
- Credit worthiness and for imports

Level of Reserves? (About $38b after debt payment)

- Federal Govt (over $10b
- CBN (over $27b)

New framework for reserve magt involving partnership with Nigerian banks

Full liberalization of forex market and tight monetary policy led to:

- Convergence of rates in all markets
- Parallel market appreciated (20% premium removed--- first in 20 yrs)
- Efficiency as distortions/rents gone
- Easier access to forex by end users
- Helped to keep price inflation in check and reduced cost for producers and consumers
- Naira as the 'store of value' again!
- Pressure on export, tourism, and FDI
- Policy as proof that economic theory works well in Nigeria if implementation is effective
- Is this sustainable? YES

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c. Macroeconomic stabilization---the unholy trinity?

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Context: Nigeria used to be among top 10 most volatile macro environs

Why Fight Inflation?

- Preserves purchasing power esp for the poor who have little assets
- Spiral of high inflation, pressure on exch rate, and also high interest rate as agents demand real returns on assets
- No long term savings under high inflation (70% of deposits as short term) and investment in speculation, trading--- thus low growth.
- Without long-term savings, no long-term lending by banks
- Currency substitution into foreign currency as hedge
- Summary: Inflation impoverishes citizens; creates uncertainty; low savings and investment and hence low growth; diverts investment into short-term speculative activities; government deficit and uncompleted capital projects due to fluctuations in prices

Price Stability as Primary Job of Central Banks

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- Low Inflation and stable exchange rate as objectives of policy
- Interest rate/monetary policy and fiscal policy as instruments
- Unholy trinity: you can't control the three prices at a time. Interest rate is an instrument, not an objective under a market framework.
- If you want to control interest rate and exch rate as we did in 1970s-80s, inflation should then fall where it may
- Everywhere in the world, interest rate is varied to fight inflation; and positive real interest rate is the norm
- For interest rate to fall on a sustained basis, inflation must fall and inflationary expectations must be low.

- CBN now refocused on its core mandate--- price stability
- New Monetary policy Dept, and effective policy in place

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What Do We want?

The 4 things you can't have at the same time in Nigeria or elsewhere

- Increased Govt spending
- Stable Exchange Rate
- Low price inflation
- Low interest rate

If lucky, we may have any Three at a time, and something has to give as the Fourth.

Now we have chosen the first three, and the Fourth is what gives

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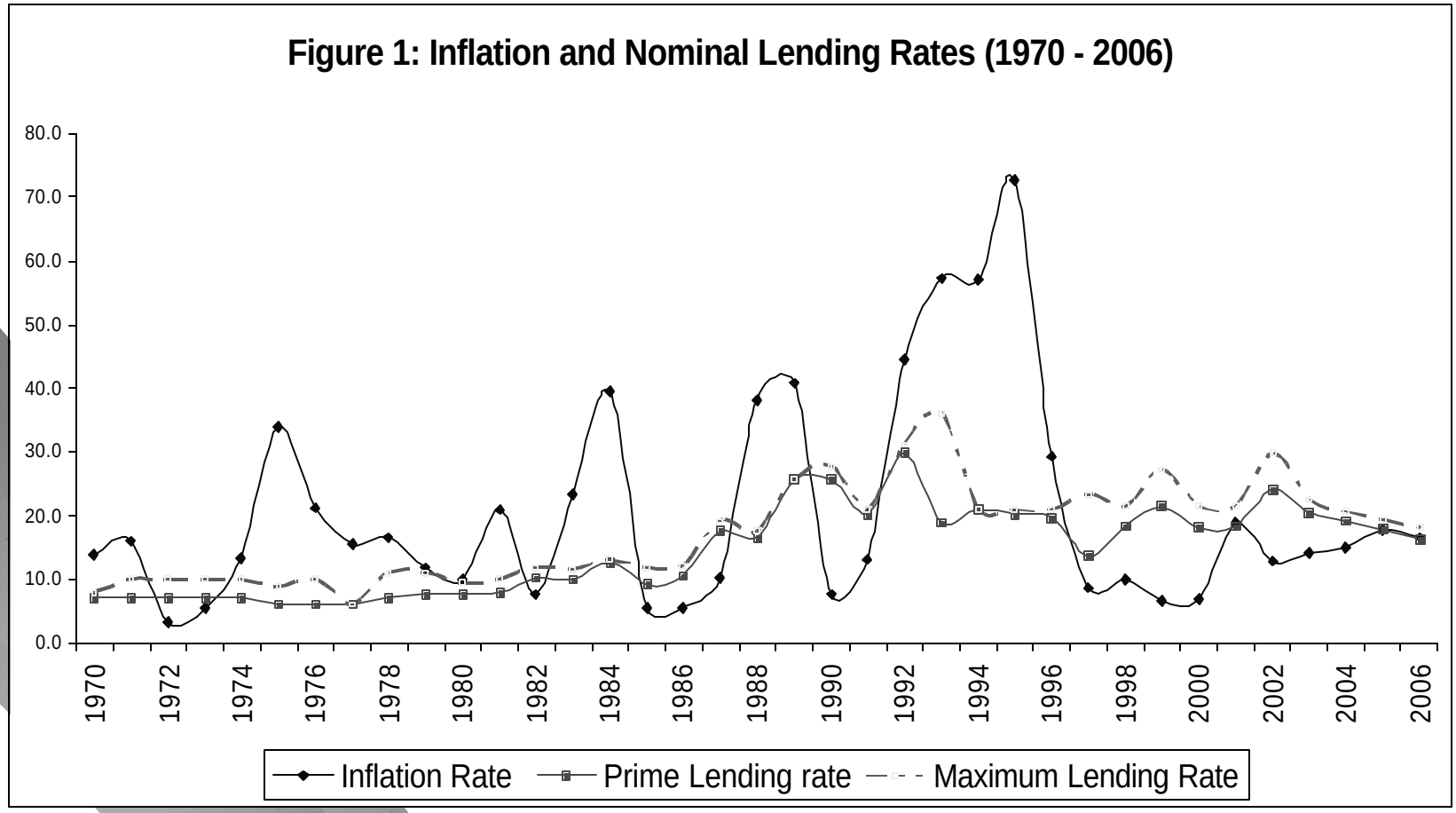
Is Interest Rate in Nigeria too 'high'?



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Interest Rate?

For Depositors?

- Deposit rates are generally low, except for the period between 1986-1989 immediately following liberalization and 1990-1995 period of banking sector distress.

For Lenders/Borrowers?

- Relative to the periods 1986-1998, lending rates in the last three years have been low largely because inflation has declined on a sustained basis.
- This is the first time in 20 years that lending rates have recorded such a feat.

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Is Interest rate too high?

Table 1: Comparative Average Lending Rates (%) as at May 2006

Country	Average Lending rate	Inflation rate	Real Lending rate
Ghana	26	10	16
Kenya	13.5	8.0	5.5
South Africa	10.5	4.3	6.2
USA	8.25	3.7	4.55
Nigeria	16.97	10.5	6.47

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Messages on Interest rate

- The last two years witnessed sustained decline in nominal/real lending rates
- Relative to some selected countries, Nigeria's real and nominal lending rates are not outliers.
- The wide gap between lending and deposit rates in Nigeria is dominantly explained by: the depth of financial markets, level of inflation, risks and uncertainty; cost of doing business of banks
- Hardly any two customers are charged the same interest rate:
  - Assessment of riskiness of customers
  - Information available to the customer
  - Prime customers attract lower lending rate than others

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Messages on Interest rate?

- What drives interest rates? Essentially, interest rate level is affected by movement in price level or inflation rate, fiscal policy stance, and intermediation cost (cost of funds), how deep and developed are financial markets, level of risks and uncertainty, among other factors.
- The higher the Govt spends, the lower must the private sector spend to keep stable prices. Thus, increased spending (whether by borrowing from mkt or increased benchmark oil price) will drive interest rate up--- as CBN must mop up or sterilize the inflows.
- If riskless Govt instruments attract 13%, why would banks lend to risky private sector at lower?

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Summary on Macro stability

- CBN has kept stability despite the difficult environment: Inflation could have escalated to over 30%; but about 10%---
- Exchange rate stability is a win-win
- It has cost CBN N72b Jan-July to conduct monetary policy and ensure stable prices
- CBN committed to price stability, and will work with Govt to ensure that the trend continues, and exchange rate stability endures!
- Nigerian producers and consumers are the winners under stable macro environment

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Other Complementary Reforms?

- Currency and payments system reforms; NSPM, plc?
- Mortgage and Capital market reforms
- Africa Finance Corporation (in-formation)
- Micro finance and entrepreneurship development
- Facilitating the establishment of commercial courts
- CBN and Financial System 2020 Strategy Document
- Project EAGLES at CBN---- Institutionalizing the reforms and mainstreaming the ‘Can Do’ Spirit.

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Conclusion

- It is the Economy, full stop.
- Macro stability and sound financial system constitute the foundation and lubricant for the new economy
- CBN has refocused to its core function
- The real sector and Nigerian consumers are the prime beneficiaries of the reforms.