

9-2017

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Recommended Citation

Olaitan, M. A. (2017). CBN real sector financing for inclusive growth and economic development. *CBN Bullion*, 41(3), 14-19.

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CBN REAL SECTOR FINANCING FOR INCLUSIVE GROWTH AND ECONOMIC DEVELOPMENT



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1.0 Introduction

The fall in crude oil price serve as good news for oil importing nations like Western Europe, China, India and Japan. However, it was bad news for oil exporters such as Venezuela, Kuwait, Iraq and our dear country Nigeria. The development exposed Nigeria's vulnerability to external shocks and over-dependence on a mono-product economy. The fall in the price of crude oil in the international market presents a painful but indispensable opportunity for Nigeria to diversify its economy away from oil into agriculture, manufacturing, services and other non-oil sectors. It also showed that Nigeria needs to astutely use government resources and be cautious at financing of government plans, efficiently manage exchange rates, support critical economic sectors through "direct methods" of intervention. It is without any gainsaying that the oil price crisis imposes on the CBN the need to support key sectors that are drivers of growth and to also upscale its developmental finance initiatives targeted at economic growth, deepening of credit delivery to the real sector.

2.0 Real Sector of the Nigerian Economy

The real sector of any economy is that part of the economy concerned with the production of goods and services. It is the driver of economic growth, the engine of value-added productivity, and the creator of jobs and wealth. The real sector of Nigeria's economy comprises of the primary, secondary and tertiary sub-sectors. The primary sub-sector is made up of agriculture, forestry and mining. The secondary sub-sector includes manufacturing/industry and building/construction (including quarrying), while the tertiary sub-sector comprises of services, commerce, information technology, telecom, and tourism. The real sector of Nigeria's economy, which contributed 83.67 per cent to the nation's Gross Domestic Products (GDP) in 2000, decline to 76.21 per cent in 2010, and further to 70.71 per cent in 2013.

The sector is not without its challenges. These include difficulties with starting new businesses, issues of properly registering businesses, getting easy access to affordable credit, ensuring protection for investors, high cost of doing business resulting from poor infrastructure (power, roads, etc.), and heavy dependence on government to provide the enabling environment. It is important to note that no economy can grow and improve the living standard of its population without a vibrant real sector. Consequently, the Central Bank of Nigeria intervenes in the real sector to stimulate flow of finance and boost productivity and employment generation.

3.0 CBN Development Finance Interventions

The CBN had been involved in development financing since 1962. The Bank's policies on real sector support were focused on improving access to credit by preferred sectors such as agriculture, manufacturing, MSMEs, and infrastructure to strengthen development finance institutions. Since the 1970s, the Bank adopted a mixed approach of policy initiatives, targeted programmes, schemes and interventions either in form of direct financing e. g. commodity boards for export produce, offer of rebates and guarantees for farmers, financing of infrastructure projects, stabilization of the electricity market and institutional building through ownership and reform of development finance institutions.

3.1 Focal Areas of CBN Interventions

The emphases of the Bank's interventions are on critical sectors of the economy with high potential for jobs and wealth creation and capacity to diversify the economy. These includes:

3.1.1 The Agriculture Sector

This sector contributes 22 per cent of GDP and 65 per cent of Nigeria's labour force. Nigeria's agriculture potential is huge with 72.4 per cent of its 98.3 million hectares of land being suitable for cultivation. Agriculture with huge potential for job creation, impacts positively on National Food Security and serves as a major source for industrial raw material. However, low financial investment of 3.23 per cent of the total loans and advances calls for the need to intervene in the sector.

3.1.2 Infrastructure

Nigeria has huge energy deficit of 20,000 MW, and it has been established that Nigerians are ready to pay more for electricity considering the amount they pay on generators annually. According to ICRC, Nigerians spend an aggregate \$13 billion on fuelling power generators annually. The problem of energy deficit has led to high cost of doing business reaching up to 16 per cent of sales (Investment Climate Assessment, World Bank, 2013). The infrastructure sector has the potentials for high impact multiplier effects on the economy, and can boost industrialization and reduce the cost of doing business by up to 25 per cent. This informed the effort of the Bank at intervening in the sector.

3.1.3 The Manufacturing Sector

Despite its strategic importance, the manufacturing sector contributes a paltry 6.81 per cent to GDP. The total credit to the manufacturing sector stood at only 12.9 per cent of total banking credit in 2014 (CBN 2014 Statistical Bulletin). The sector has huge potentials to stimulate innovation and scientific development, improve balance of payment position and foreign exchange accretion. However, the high cost of bank loan, parallel and cheap imports has constrained the sector's ability to

reach it optimal potential. Thus the CBN has taking strategic steps to catalyze the flow of affordable finance to the sector so as to assist in resuscitating it.

3.1.4 MSMEs & Entrepreneurship Development

A study of 200 SMEs in 5 LGAs of Ogun State in 2012 published in American Journal of Business Management, Vo. 1, No. 1 and the SMEDAN 2013 Survey on SMEs revealed that SMEs alone contributed 48.47 per cent to Nigeria's GDP in 2013. Nigeria has a large population that is mainly youthful and with creative energies, a huge local market, as well as international trade opportunities within the ECOWAS sub-region. This informed the efforts of the Bank at intervening through programmes, schemes and entrepreneurship development to harness the potentials of youths in Nigeria.

4.0 Broad Policy Deliverables of CBN Interventions
CBN Development Finance Intervention Deliverables

4.1 Improve Access to Finance

There exists a growth nexus between access to finance and economic growth. It is a policy direction for the CBN to improve the purveyance of sustainable and affordable finance to the real sector to boost its productive

capacity. Credit to the oil and gas sector accounted for the highest share of total credit of 28.78% while manufacturing sector accounted for 12.95% of the total credit, and agriculture, forestry and fishery accounted for 3.08% of the total in the first half of 2016.

4.2 Catalyze the Diversification of the Economy

The more diversified an economy, the better positioned it is to absorb commodity price shocks. Nigeria has over relied on a mono-product whose falling prices have significantly affected the economic stability of the country.

4.3 Stimulate the Creation of Jobs

There are a lot unemployed youths with potentials that can be harnessed to boost productivity and aggregate demand. The intention of the CBN is to work with other stakeholders towards creating the suitable environment that will engender job creation and efficient utilization of human resource.

4.4 Support Inclusive Growth

An economic growth that is not inclusive cannot be sustained. The CBN ensures that it intervenes in specific areas of the economy to ensure financial inclusion and literacy.

5.0 Summary of CBN Development Finance Interventions

5.1 Agriculture

Intervention	Modalities	Funding Source	Impact
N200 Billion Commercial Agriculture Credit Scheme (CACS)	DMBs are granted facilities to be disbursed to clients (both private and State Government) at a maximum interest rate (all inclusive) of 9%. CBN earns 2% as interest from the 9%	N200 billion FGN Bond for 7 years tenor, floated by the Debt Management Office (DMO)	N373.73 billion disbursed in favour of 460 projects. Contributed to the creation of 1,132,260 jobs created along the various agricultural value chains. Increased capacity utilization of agricultural allied companies.

Nigerian Incentive Based Risk Sharing System for Agricultural Lending (NIRSAL)	Guarantee banks' exposure to agricultural sector and provide cascaded interest rebates to farmers.	NIRSAL created as a Special Purpose Vehicle (SPV). It is fully funded by CBN.	
Anchor Borrowers' Programme (ABP)	Administered at 2% per annum to PFIs for onlending to beneficiaries at 9%	CBN MSMEDF	N16.48bn disbursed to 100,000 small holder farmers through 22 private anchors in 6 states. 26 States have expressed participation under the wet season farming. Leading to creation of more than 500,000 jobs

5.2 Manufacturing

Intervention	Modalities	Funding Sources	Impact
N300 Billion Real Sector Support Fund (RSSF)	Interest at 9% (all-inclusive) and CBN to earn 1%.	Special Intervention Reserve (SIR) of DMBs	4 projects valued at N 4.6 billion approved. Contributed to the creation of 17,000 direct and indirect jobs.
N50 Billion Textile Intervention Facility:	Long term loans for acquisition of plant and machinery. All-Inclusive rate of 4.5%; 3.5% to CBN and 1.0% to BOI Fund Management by BOI	CBN. To be funded by repayments from other Interventions.	
N500 Billion Export Stimulation Facility (ESF)	All-inclusive interest of 7.5% for facilities= 3 years and 9% for facilities > 3 years: (PFI- 4.5%-6%; NEXIM - 1%; CBN - 2%). Managed by NEXIM	To be funded by CBN	Stakeholders' engagement ongoing.
N50 Billion Export Rediscounting and Refinancing Facility (RRF)	All-inclusive rate of a maximum of 6% per annum with the pricing structure as follows; CBN/NEXIM would provide the RRF at a rate of 3% per annum Participating Banks shall have a maximum spread of 3% per annum NEXIM as the Managing Agent	Funded by CBN	Disbursement yet to commence.

5.3 MSME Sub -Sector

Intervention	Modalities	Funding Source	Impact
N200 Billion Small and Medium Enterprises Restructuring and Refinancing Facility (SMERRF)	Administered at 7% per annum payable on quarterly basis. The Managing agent (BOI) is entitled to a 1% management fee and the banks, a spread of 6%. Loans shall have a maximum tenor of 15 years and or working capital facility of one year with provision for roll over	N200 billion debenture issued by Bank of Industry (BOI) to fund SMEs and manufacturing sector	N 381.99 billion disbursed to 604 projects. Contributed to the creation of 89,860 direct jobs. Increased productivity and turnover of firms. Restoration of 905 MW of electricity to the National grid. N6.9 billion estimated as interest savings to beneficiaries.

Small and Medium Enterprises Credit Guarantee Scheme (SMECGS)	Provide guarantee cover of 80% of principal and interest on term loans for SMEs	Contingent liability	87 projects valued at ₦4.21 billion in favour of 9 financial institutions
N220 Micro Small and Medium Enterprises Development Fund (MSMEDF)	Administered at 2% per annum to PFIs for on-lending to beneficiaries at 9%. Maximum loan tenor of 1 and 5 years for micro and SMEs respectively.	Funded by CBN	478 projects funded by PFIs valued at ₦74.797 billion
Secured Transaction and National Collateral Registry (ST&NCR)	The NCR is a public data base of ownership of assets, allowing borrowers to prove their creditworthiness and potential lenders to assess their ranking priority in potential claims against particular collateral.	Counterpart funding for the provision Registry on-line platform	27 Financial Institutions have registered their administrators on the NCR platform
Youth Empowerment Development Programme (YEDP)	NYSC Certificate, Tertiary Institution Certificate, 3rd Party Guarantor. Registration of collaterals (movables) and financed equipment with the National Collateral Registry. Loan at max 9% interest rate all-inclusive	Funded from CBN MSMEDF	

5.4 Infrastructure

Interventions	Modalities	Funding Source	Impact
Power and Airline Intervention Fund (PAIF)	Administered at a rate of not more than 7% per annum. The Managing agent (BOI) is entitled to a 1% management fee and the banks, a spread of 6%. Effective May 2016, new projects charged at 9% (BOI at 1%, CBN at 3%, DMB at 5%).	₦300 billion debenture issued by Bank of Industry (BOI)	40 power projects valued at ₦140.442 billion; 16 airline projects valued at ₦120.762 billion. 840 MW of power generation and 120 km of gas pipeline constructed. Resuscitation of fleet of aircrafts, captive and embedded power projects to complement the national grid
Nigeria Electricity Market Stabilization Fund (NEMSF)	Funds to be disbursed at 10% per annum with a ten-year tenor. 6% CBN; 2% NESI SS Ltd; 2% Participating Mandate Banks	Funded by the CBN	₦106.64 bn disbursed to 23 market participants. ₦8.67 billion earned by beneficiaries as interest savings on funds received.

6.0 Conclusion

Real sector is key to revamping of the Nigerian economy. The sector's problems of susceptibility to crude oil price shocks (mono-product economy), weak socio-economic infrastructures and institutions, high cost of operations and inadequate finance/access to affordable credit facilities must be tackled head long. Though there could be conflict between price

stability objectives and policies that promote sustainable development, the CBN still has a major role to play in the socio-economic development of the country by cautiously committing resources to interventions. Nigerian financial institutions are expected to promote capital formation, develop the real sector by promoting agriculture, trade and industry, finance, infrastructure, and influence

economic activities through the provision of affordable lending costs. The CBN will continue to evaluate the effectiveness of its existing development finance initiatives such as those in agriculture, micro, small and medium enterprises, and export-import

Appendix 1 Summary of Strategic Impact

Intervention	Amt Disbursed	No. of Beneficiaries	Direct Jobs Created	Other Remarks
CACS (2009)	N373.73Bn	460 projects	1,132,260	Increase in operating capacity to 980,424 metric tons of rice
SMERRF (2010)	N381.99bn	604 projects	Direct employment increased from a pre intervention average of 73,015 to 89,860 jobs post-intervention (23% increase)	<ul style="list-style-type: none"> • Increase turnover from N504.832billion to N661.867billion • Restoration of 905 MW of power to National grid • N6.9bn interest saving
MSMEDF (2013)	N74.797bn	478 projects under PFIs	139,156	Financial Cooperative N29.7m; MFBs - N4.16b; NGOMFIs - N111m; State Governments- N42.652 b and DMBs- N3.693b
RSSF (2010)	N4.6bn	4 projects	17,000 jobs Direct & indirect jobs	-
PAIF (2010)	N261.2bn (56 projects)	40 power projects N140.442bn 16 airline projects N120.762bn	- -	840MW generated & 120km of gas pipeline constructed. N42.54bn in interest saving
NEMSF (2014)	N106.64bn	23 market participants	To be determined	N8.67bn interest saving N2.151bn have been fully repaid

Appendix II: Summary of CBN Intervention

Intervention	Amt Disbursed	No. of Beneficiaries	Direct Jobs Created	Other Remarks
NIRSAL (2010)	N/A	255 credit guarantees	To be determined	Settled 11 interest drawbacks valued N332.52m
ACGSF (1978)	N100.10bn	1,029,884	5,045,900 jobs created	N70.38 has been fully repaid since inception
SMECGS (2010)	N4.219bn	87 projects	Do	-
ABP (2015)	16.48bn	100,000 small holder farms via 22 private anchors in 6 States	More than 500,000 indirect jobs created	26 State Governments (72%) have expressed interest
NON-OIL EXPORT STIMULATION FACILITY (2016)	New	New	To be determined	-
YEDP (2016)	New	11,000 applications were received and about 3,000 of them were processed	Do	To create 1 million jobs from 10,000 youths of 18-35 yrs.
TOTAL JOBS CREATED			6,851,133.00 direct and indirect jobs	