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MOBILISING FINANCIAL RESOURCES FOR GROWTH: NIGERIA'S FINANCIAL POLICY PERSPECTIVE

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INTRODUCTION

Financial resources for growth are usually mobilised from several sources because no single source could provide the required funding. The major known sources of resources for growth are traced to both the informal sector and formal sector activities which include the fiscal operations of the Government, foreign sector transactions, capital market activities, and institutional savings mobilisation in the financial sector which is the focus of this paper. Savings mobilisation in any economy is a critical factor in economic growth since investment, the engine of growth, is usually stimulated by these savings. This may explain why economic planners seek to promote growth along with its determinants, of which savings mobilisation is crucial. Consequently, financial policy which usually complements economic policy, attempts to create a conducive environment for mobilising financial resources so as to enhance economic growth.

The objective of this paper is to examine the targets and modalities of financial mobilisation by the financial sector in Nigeria and the role of financial policy in this regard. Thus, the focus of this paper would be on the financial resources mobilised by the financial sector, its transformation into investment and the role of financial policy in this regard. To this end, the paper is organised in five sections. This introduction constitutes Section One which provides the background, the objective and the organisation of the paper. In section Two, the conceptual framework of financial resource mobilisation is reviewed. This is followed in Section Three by a review of Nigeria's experience in mobilising savings for growth. Section Four examines the processes of transforming savings into investment and growth as well as the constraints identified while Section Five provides a summary and conclusion with a pointer to future prospects.

CONCEPTUAL FRAMEWORK OF MOBILISING FINANCIAL RESOURCES

Although the focus of this paper is on identifying and appraising Nigeria's experience in financial resource mobilisation and policy in relation to investment and growth, it would be useful to have some background information on the conceptual issues in resource mobilisation and investment. Consequently, this section would examine the sources of financial resources, review the institutional and regulatory framework for savings mobilisation as well as identify the savings - investment linkage.

Sources of Savings

In national accounting framework, any portion of the gross national disposable income (GD1)[1] which is not consumed is saved. Hence national savings, S[2], is defined as GD1 not consumed. For any economy, these savings reflect contributions by the various economic units. These units constitute the primary sources of aggregate saving in the economy and could be any of the following: individuals, families, companies, etc. The rate of saving by the economic units would depend on many factors including current income, expected life income, expected return on saving, demographic influences, and the rate of growth of the economy. However, the mobilisation of such savings from the savers would be determined largely by the efficiency of the institutional and regulatory arrangements.

Institutional and Regulatory Framework

While the national accounting system emphasizes national or aggregate savings and their relationship with investment and output, the financial sector seeks to assist in promoting these variables through savings intermediation from surplus economic units to deficit ones. This intermediary role is embarked upon for several reasons. First, some economic units have surplus funds while others

1 $GD1 = GDP + YF + TR = C + I + (X-M+YF+TR)$
Where GDP = Gross Domestic Product
C = Consumption
I = Investment
X = Export
M = Import
YF = Net Factor Income from Abroad
TR = Net Transfer from Abroad

2 S = National Savings = GD1 - C

are in deficit. Second, those units which have surplus funds (i.e those which do not consume the whole of their total disposal income) are not always capable or interested in investment. Third, some of those economic units which do not have surplus funds may be interested in investment spending. Consequently, financial intermediation has become necessary in order to redirect savings by economic units to productive investment.

For financial intermediation to be effective, four elements are usually at work. These are financial institutions, financial resources, financial rules, and financial interactions. Thus, the first step in mobilising financial resources is to establish institutions that embark on savings mobilisation drives. The strategy used would depend on the type of institution. For example, while banks and other deposit accepting institutions engage in attracting deposits, insurance companies take measures to accumulate insurance funds while pension schemes collect pension funds.

Savings institutions alone would not be effective without regulatory support. The first step in providing regulatory support is to put in place enabling laws which would stipulate the obligations and functions of all parties involved; the prohibited activities; and the penalties for non-compliance with the law. In addition, regulators, in collaboration with the Government, takes measures to ensure that:

(i) the laws are observed;

(ii) additional rules are made to supplement the laws;

(iii) financial policy is adequate;

(iv) the institutions are properly supervised; and

(v) defaulting parties are penalised appropriately.

Thus, through the efforts of financial institutions which mobilise savings and regulators which provide the enabling environment, the financial sector can increase the efficiency of mobilising savings for investment.

Savings - Investment Linkage:

Financial resources are not mobilised for their own sake. Their usefulness depends on what they could be used to achieve. Usually, the financial resources mobilised by the financial institution are applied to increase investment which enhance growth. Although the immediate objective of individual financial institutions which mobilise savings is to make profit from their operations, they end up promoting investment and growth. When financial resources are saved by economic units or are mobilised by institutions, two options are readily available to the savers or the mobilising institutions, namely, either to invest them directly on some economic activities or to lend them to those who would apply them to investment. In both options but more importantly in the latter, the regulatory institutions in collaboration with the Government would step in to provide a conducive environment to protect the various interest groups. Among these groups are:

(i) the primary economic units or savers who respond to savings mobilisation drives which would depend on the incentives offered, such as the rate of interest;

(ii) the institutions which mobilise such savings with the objective of making profit from their lending activities; and

(iii) borrowers who are prepared to pay the cost of borrowing (i. e. the lending rate) in order to have investible fund.

When the efforts of these groups are harnessed to turn savings into capital stock through investment spending, the economy's productive capacity is enhanced, thus making it possible to produce more goods and services. Some critical conditions for this task of transforming savings into investment include low or moderate real interest rates which encourage investors to borrow; sufficient credit flow to the private sector which is noted for efficiency in resource utilisation; and macroeconomic stability which increases confidence in the system. Nigeria's effort in mobilising savings is examined next.

NIGERIA'S EXPERIENCE IN SAVINGS MOBILIZATION

This section would concentrate on savings mobilised by the financial sector, otherwise called institutional savings and would focus particularly on the institutional setting, mobilisation techniques, financial and institutional policy reforms; and saving incentives.

Institutional Setting

In Nigeria, commercial and merchant banks provide more than 90.0 per cent of institutional savings. Consequently, much importance is attached to such banks in promoting financial intermediation. The initial official step to tap surplus financial resources from primary savers was the establishment of commercial banks. Although many of them were established between 1894 when the first surviving commercial bank was opened in Nigeria and 1958 when the Central Bank of Nigeria was established, only few survived. Thus, by 1958 there were only 7 commercial banks. The number rose to 28 in 1985 and thereafter more than doubled to 66 in 1992 following the structural reforms since 1986 and the easing of the licensing banks. By 1995, the number fell to 64 after the liquidation of two commercial banks between 1994 and 1995. Merchant banks rose gradually from one in 1960 to 12 in 1985 and for the same reasons as the commercial banks, rose subsequently more than four-fold to 54 in 1992 before dropping to 51 in 1994 when three of them went into liquidation.

Apart from the growth in number, the banks' branch net-work also increased, thereby expanding the scope of savings mobilisation. Thus, reflecting the branch system of banking in Nigeria, the branches of commercial banks rose rapidly from 192 in 1960 to 1,297 in 1985 and subsequently to 2,541 in 1994 before falling to 2,351 in 1995 following the liquidation of some banks and rationalisation of the branches of some others. Merchant banks' branches rose steadily, though more slowly, from one in 1960 to 149 in 1995. The rapid growth in the number of branches of commercial banks is attributed largely to the introduction of Rural Banking Programme under which commercial banks were required to open branches in rural areas. The geographical spread of commercial and merchant banks has been reinforced substantially by the newly introduced community banks (a variant of commercial banks of unit banking variety) which rose from only one in 1990 to 1,355 in 1995. Other major contributors to institutional savings as at the end of 1995 included:

(i) The People's Bank of Nigeria (Branches: 275);

(ii) Primary Mortgage Institutions (Number 280);

(iii) Insurance Companies (Number: 187); and

(iv) Nigeria Social Insurance Trust Fund (Reconstituted from the National Provident Fund).

Mobilisation Techniques

Savings mobilisation techniques in Nigeria vary among the institutions. For commercial and merchant banks, savings are mobilised largely through the accumulation of deposits. Of the three deposit types - current account, savings accounts and fixed deposit account, the last two - savings and term deposits - are usually classified as institutional savings. The other deposit type - current account is not usually regarded as savings because of the ease of withdrawing or transferring it. However, the hard-core of the current account which is hardly withdrawn is as good as savings. Similarly, community banks, the People's Bank of Nigeria , and mortgage institutions make efforts to attract savings and term deposits from their customers. In the case of mortgage institutions the mobilised financial resources are tied to activities in the mortgage sub-sector. For insurance and pension schemes, the focus is on accumulating insurance and pension funds. Although the primary aim of such funds is to settle claims arising from insurance policies and pension entitlements, the funds provide a reservoir of financial resources for investment. Available data indicate that total savings mobilised by these institutions as a proportion of GDP increased from 17.3 per cent in 1985 to 19.0 per cent in 1986 and subsequently fluctuated downwards to 9.5 per cent in 1995. Among other factors, institutional savers performed better when interest rates were positive than when they were negative in real terms, thus pointing to the need to have appropriate interest rates in order to stimulate savings

Recent Financial, Regulatory and Institutional Policy Measures:

Some reforms were introduced between 1986 and 1995 in order to enhance activities in the financial sector, including the stimulation of savings mobilisation. With the deregulation of economic activities under the reforms, more deposit accepting institutions were licensed than at any period in the nation's financial history. This encouraged competition. To protect banks from the liberal policy in the licensing of new banks and to adjust to inflationary pressures, the minima paid-up capital for commercial and merchant banks were increased from N12.0 and N10.0 million in 1985 to N50.0 and N40.0 million in 1992 where they remain currently. Similar adjustments were made for other financial institutions.

Since the health of the saving institutions is critical to their performance in savings mobilisation, a number of measures were adopted to strengthen the supervision of these institutions. In the banking sub-sector, the following reforms were introduced:

(i) capital adequacy requirements specifying the minimum ratio of capital to total risk-weighed assets;

(ii) prudential guidelines, requiring all banks to make adequate provisions for losses based on portfolio classification so as to reflect their true financial positions; and

(iii) accounting standards to promote accuracy, reliability and comparability of financial statements of financial institutions.

To further enhance the health of the financial institutions, some institutional and legal changes were made. First, the Nigeria Deposit Insurance Corporation (NDIC) was established to insure bank deposits against bank failures and to ensure safe and sound banking practices through effective monitoring in collaboration with the CBN. Second, there have been a series of actions taken jointly by the various regulators to assist distressed institutions overcome the problems of illiqudity, poor asset quality, capital erosion, poor management and technical insolvency. Third, a number of laws and reforms were introduced or amended in order to strengthen the regulation of saving institution so as to enhance savings among other objectives. These include:

(i) the CBN Decree, No. 24 of 1991 which replaced the repealed CBN Act of 1958 (as amended) which enlarges the powers of the CBN with regard to the maintenance of monetary stability and sound financial structure and to facilitate market based instrument of monetary control;

(ii) the Banks and other Financial Institutions Decree (BOFID) of 1991 which centralises the functions of bank licensing and regulation in the CBN and strengthens the Bank's supervisory power;

(iii) the Failed Banks (Debt Recovery) and Financial Malpractices in Bank's Decree whose objectives are to bring to book those who contribute to the failure of banks and to recover debts owed to the banks;

(iv) the transformation of the National Provident Fund to Nigeria Social Insurance Trust Fund; and

(v) the establishment of the Financial Services Regulation Coordinating Committee (FSRCC) to reconcile and streamline the activities of the regulators in the financial system.

Incentives for Savings

Apart from the measures taken, and facilities provided by the Government and regulators to encourage savings and savings mobilisation, institutions which intermediate funds in Nigeria use varying incentives to attract savers depending on the prevailing environment provided largely by financial policy. Prior to the commencement of structural reforms in the mid-1980's, incentives were limited by the intervention of the regulators which fixed not only the savings and lending rates but also the permissible credit to be granted. Since the structural reforms, especially since 1987, the deregulation of the financial sector opened the way for numerous incentives. Unlike in the era pre-dating the reforms, interest rate became largely market determined (though with occasional reverses), thus making institutional savers rely on interest payments and other benefits to attract savings from primary savers. These benefits included allowing savers to bargain for the interest rate to be paid; branding products or deposit instruments which could be used as collateral for borrowing; and offering access to special services. In the process, competition to pay higher rates to customers in order to capture a large share of the market commenced. For the period up to 1993, this competition was carried a bit too far when interest payments for savings mobilisation were very high and in many cases were settled up front. This abuse and its contribution to the distress in the system notwithstanding, the incentives offered by operators in the financial sectors to their customers, along with regulatory policy measures, enhanced savings mobilisation. However, these incentives were not sustained following the reversal of interest rate policy in 1994.

THE PROCESSES OF TRANSFORMING INSTITUTIONAL SAVINGS INTO INVESTMENT IN NIGERIA

Although the immediate objective of institutional savers in Nigeria, as elsewhere, is to make profit on their transactions or at least to cover the costs of their operations, the Government which permits these operations seeks to use them to promote investment and growth. This section would examine the process of transforming institutional savings into investment and growth in Nigeria and the constraints observed in the process.

Transformation of Savings into Investment

As indicated earlier in Nigeria, the mobilisation of savings by financial institutions is only one of the ways of accumulating the stock of aggregate savings for investment. However, this section would focus only on the processes of transforming institutional savings into investment and growth. Institutional savings are transformed into investment through the expansion of credit, comprising loans and investment in borrowing instruments. For this transformation to be effective, the borrowers, the lending institutions, and the regulators have important roles to perform. The primary responsibility for turning borrowed fund into investment lies with the investor who must have planned the following ahead of the borrowing:

(i) what project to invest the loan on;
(ii) how to use the loan;
(iii) when to repay the loan;
(iv) how to repay the loan; and
(v) what to achieve through the loans.

However, an efficient lending institution, motivated by the need to recover its loans, takes additional measures to safeguard its interest. Efficient lending institutions in Nigeria, as elsewhere usually adhere to the following steps: First, the lender evaluates the project for which the loan is sought to ensure that it is viable. Second; it assesses the credit worthiness of the borrower and the borrower's ability

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Table 1:
TYPES AND GROWTH OF INSTITUTIONS WHICH MOBILISE SAVINGS

End-Year	Commercial Banks Number	Commercial Banks Branches	Merchant Banks Number	Merchant Banks Branches	Number of Community Banks	Branches of Peoples Bank of Nigeria	Number of Pry. Mortgage Institutions	Number of Insurance Companies	NPF/NSITF*
1985	28	1297	12	26	-	-	-	84	1
1986	29	1367	12	27	-	-	-	87	1
1987	33	1483	16	33	-	-	-	87	1
1988	41	1665	24	46	-	-	-	87	1
1989	47	1856	34	56	-	20	-	87	1
1990	58	1939	48	74	1	169	-	105	1
1991	65	2023	54	84	66	172	23	114	1
1992	66	2269	54	116	401	228	145	132	1
1993	66	2353	54	126	879	271	232	132	1
1994	65	2397	51	144	970	275	279	187	1
1995/1	64	2351	51	149	1355	275	280	187	1

SOURCE: C.B.N. Annual Report (various years)
1/ Provisional
*NPF - National Provident Fund/NSITF - Nigerian Social Insurance Trust Fund

Table 2:
SELECTED FINANCIAL AND ECONOMIC INDICATORS

Year	Institutional Savings as % GDP 1/	Savings Deposit Rates (%) End of Period	Commercial Bank's Maximum Lending Rate (%) End of Period	Merchant Banks Maximum Lending Rate (%) End of Period	Growth of Real GDP	Inflation Rate 2/
1985	17.3	9.5	13.0	n.a.	2.4	5.5
1986	19.0	9.5	12.0	n.a.	2.2	5.4
1987	17.2	14.0	19.2	n.a.	-0.3	10.2
1988	16.0	12.4	18.4	17.6	4.1	38.3
1989	9.0	16.5	25.7	29.8	5.2	40.9
1990	11.4	17.8	26.5	29.0	8.3	7.5
1991	11.6	14.0	21.0	21.0	4.7	13.0
1992	9.8	16.1	31.2	48.1	3.0	44.6
1993	12.7	16.7	39.1	61.5	2.3	57.2
1994	11.8	12.3	21.0	21.0	1.3	57.0
1995	9.5	12.6	21.0	21.0	2.1	72.8

Sources: 1/ Computed from National Planning Commission/Saving Institutions Data
2/ Federal Office of Statistics (FOS) n.a. = not available