Economic and Financial Review

Volume 53
Number 4 *Proceedings of the seminar on "Financing Government Programmes in Economic Downturn -The Role of Central Bank of Nigeria?", for CBN Executive Staff at Golden Tulip Hotel, Lagos, September 5th – 8th, 2016*

Article 3

12-1-2015

An overview of CBN intervention in the Nigerian economy (2009 - Date)

M..A. Olaitan
Central Bank of Nigeria

An Overview of CBN Interventions in the Nigerian Economy (2009 – Date)

Mudashiru A. Olaitan *

It is a pleasure to be with you at this 2016 Annual Central Bank of Nigeria (CBN) Executive Seminar. This year's Seminar and the topics to be discussed are of great importance to us all, because we share a common goal in ensuring quicker economic recovery and a return to strong growth.

In view of the limited fiscal space, the monetary authority has a definitive role in promoting sustainable economic development. Evans (2010) once noted that the United States Federal Reserve (Fed) had a dual mandate to promote maximum employment and price stability even in more normal times. This dual mandate of promoting sustainable economic development and price stability also applies to the CBN. There have been heightened interests in the Bank's interventions over the past few years from the stakeholders on whether the developmental objective of the CBN conflicts with the stability objective.

Epstein (2006) identified two schools of thought on central banking in this debate. The first is the historically dominant theory and practice of central banking which involves financing governments, managing exchange rates, and supporting economic sectors by using "direct methods" of intervention. These, according to him, are the most important tasks of central banking and, indeed the essence of their establishment. The other is the "neo-liberal approach. The main components are (i) Central Bank independence (ii) controlling inflation and (iii) the use of indirect methods of monetary policy i.e. short-term interest rates as opposed to direct methods. This is deemed 'best practices' and prescribed by the international financial institutions such as International Monetary Fund (IMF) and other prominent economists.

The 2007/2009 global financial crisis, however, seriously undermined the essence of the orthodox approach promoted by IMF and the multilateral agencies. The developments in the past decade renewed the need for central banks to look beyond price stability mandate and include the promotion of sustainable economic development as a major task to be accomplished. The apologists of this school opined that widening the mandates of the central banks will promote sustainable economic

* Dr. Mudashir A. Olaitan is the Director, Development Finance Department, Central Bank of Nigeria. The usual disclaimer applies.

development, inclusive growth and greening of the financial system, among others (German Development Institute GDI, 2015).

The growth of the economies of east Asia, particularly Japan, Korea and China also strengthened the view that central banks can facilitate the attainment of certain developmental goals, by directly supporting or subsidising lending to priority sectors. The Bank of Japan supported government's industrial policy through credit allocation policies. The central banks of France, Italy and Belgium have also devised different methods to support desired sectors such as manufacturing. Similarly, the Bank of England (BOE) and the Fed have also supported economic sectors using direct methods, particularly to enhance the international role of their financial service industries in the global financial system.

There is consensus that central banks, particularly in developing economies have to develop policies not only to address price stability, but also to have a major role in the political, institutional, and economic environment. It was on this premise that the Governor, CBN in his maiden speech, noted that the Bank would pursue both price and financial system stability as well as provide complementary developmental functions by creating an environment for Nigerians to live better and more fulfilled lives and these will include policies to enhance financial access and reduce borrower cost of credit. (Emefiele, 2014).

Historically, the Bank had been involved in development financing since 1962. The focus of policies were on improving access to credit by preferred sectors (agriculture, manufacturing, MSMEs, and infrastructure) and the establishment and strengthening of development finance institutions. These included: the Commercial Bill Financing Scheme (1962); Bank of Industry 1964 (formerly Nigeria Industrial Development Bank); regional commodity boards (later called national commodity boards, 1977); Rural Banking Programme (1977); Agricultural Credit Guarantee Scheme (1978); and Export Financing and Rediscount Facility (1987). Others were the Bank of Agriculture (formerly Nigeria Agricultural and Co-operative Bank Ltd) 1972; Export Guarantee Scheme (1987); People's Bank of Nigeria (1989); Community Banking (1990); Export Rediscounting and Refinancing Facility (1991); Sectoral Allocation of Credit and Concessional Interest (1996); Small and Medium Industry Equity Investment Scheme (2001); and Agricultural Credit Support Scheme (2006).

In 2009, there was a paradigm shift in the focus of the Bank's intervention. It was now being used as an instrument of quantitative easing in 2010 to address the "persisting tight credit conditions and the continuing under-performance of key monetary aggregates". The twin focus of the interventions became stimulating growth through the development of identified weak private sector and strengthening of the financial system. Monetary policy now reflects the imperative to maintain the growth trajectory of the economy and ensure that lending rates are not placed under further upward pressure. The interventions now provide "direct support" to industries that have high job-creating capacity and other vital economic infrastructure such as power projects. For instance, the Commercial Agricultural Credit Scheme (2009) is dedicated to fast-tracking the development and access to credit facilities by large commercial agricultural enterprises to increase output and create jobs. The SME Restructuring and Refinancing Facility (SMERFF) and Power and Airline Intervention Facility (PAIF) were introduced to restructure/refinance DMBs' exposures to the manufacturing sector and SMEs, boost electricity production, especially within industrial clusters, ensure the smooth flow of credit to the real sector of the economy, promote private sector/foreign investment as well as energise reforms in the power and other economic infrastructure sectors, and bring about growth in employment-generation. In the same vein, the Nigeria Electricity Market Stabilisation Facility (NEMSF) is to promote investment in the power sector to achieve sustainable growth, while the MSME Development Fund and the Youth Entrepreneurship Development Programme (YEDP) are to facilitate access to affordable credit by micro and small businesses, particularly women and youth enterprises. The Anchor Borrowers' Programme (ABP) also provides resources for small-holder farmers who are the bedrock of Nigeria's agricultural sector.

The broad policy deliverables of the interventions can, therefore, be categorised as follows:

- improve access to affordable finance to promote long-term investment in the real sector;
- diversify the economy;
- create jobs; and
- promote inclusive growth.

The question is to what extent has these been achieved? Have the interventions delivered on the intended benefits? In developing and emerging economies like Nigeria, the achievement of a central bank's mandate of monetary and price stability is positively correlated with and driven largely, by the dynamics in the productive sectors of the economy. The effectiveness and ability of the financial sector to meet the needs of the productive sectors, to a large extent, determines the output levels and tempo of development. Increased production of goods and services enhances price and financial stability.

For the purposes of this discourse, the Bank's interventions will be evaluated on the results, achieved since the commencement of each of the intervention as shown in table 1. The interventions have been able to fund the industrial sector to a large extent with affordable long-term finance and created jobs. For instance, the Commercial Agricultural Credit Scheme (CACS) and SMEs Restructuring and Refinancing Facility (SMERRF) had financed 460 and 604 projects, respectively. Others have also improved access to credit by MSMEs resulting in over 6.2 million jobs created. There is also an increase in the level of credit to the agricultural sector to over 3.0 per cent from 1.3 per cent in 2010.

Table 1: Performance Evaluation of CBN Interventions in the Nigerian Economy (2009 – Date)

INTERVENTION	OBJECTIVES	MODALITIES	FUNDING SOURCE	EXIT DATE	IMPACT/ACHIEVEMENT as at July, 2016	CHALLENGES
₦200 Billion Commercial Agriculture Credit Scheme (CACS)	To fast-track the development of the agricultural sector of the Nigerian economy by providing credit facilities to commercial agricultural enterprises at a single digit interest rate, enhance national food security, increase output, generate employment as well as diversify the revenue base.	DMBs are granted facilities to be disbursed to clients (both private and state governments) at a maximum interest rate (all inclusive) of 9.0 per cent. CBN earns 2.0 per cent as interest from the 9.0 per cent	₦200 billion FGN Bond for 7 years tenor, floated by the Debt Management Office (DMO)	The scheme which was initially meant to terminate in September, 2016 was extended to September 2025	₦373.73 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 utilisation of agro-allied companies.	Underutilisation of installed capacity due to inadequate raw materials as a result of low agricultural productivity. Infrastructural constraints (transport and electricity) are increasing the cost of production of beneficiaries
₦200 Billion Small and Medium Enterprises Restructuring and Refinancing Facility (SMERRF)	To re-finance and restructure banks' existing loan portfolio to manufacturers to improve access to finance as well as improve the financial position of DMBs	Administered at 7.0 per cent per annum payable on quarterly basis. The Managing agent (BOI) is entitled to a 1.0 per cent management fee and the Banks, a spread of 6.0 per cent. Loans shall have a maximum tenor of15 years	₦200 billion debenture issued by Bank of Industry (BOI) to fund SMEs and manufacturing sector	Scheme has been discontinued while repayment is still ongoing.	₦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. ₦6.9 billion estimated as interest savings to beneficiaries.	Quest for cheap imported goods. Cost of power supply is significantly increasing beneficiaries cost of production.

		and or working capital facility of one year with provision for roll over				
Small and Medium Enterprises Credit Guarantee Scheme (SMECGS)	To fast-track the development of the manufacturing SME sub-sector of the Nigerian Economy	Provide guarantee cover of 80.0 per cent of principal and interest on term loans for SMEs	Contingent liability		87 projects valued at ₦4.21 billion in favour of 9 financial institutions	Apathy of banks to fund SME projects from their balance sheet. 80.0 per cent guarantee not considered as adequate incentive by financial institutions to lend to SMEs
Power and Airline Intervention Fund (PAIF)	To stimulate and sustain private sector investment in the power and airline sectors as well as fast track development in both sectors of the economy	Administered at a rate of not more than 7.0 per cent per annum. The Managing agent (BOI) is entitled to a 1.0 per cent management fee and the banks, a spread of 6.0 per cent. Effective May 2016, new projects charged at 9.0 per cent (BOI at 1.0 per cent, CBN at 3.0	₦300 billion debenture issued by Bank of Industry (BOI)	2025	40 power projects valued at ₦140.442 billion; and 16 airline projects valued at ₦120.762 billion were financed. 840 MW of power generated and 120 km of gas pipeline constructed. Resuscitation of a number of aircrafts, captive and embedded power projects to complement the national grid	Pricing of electricity. Wanton destruction of pipelines and increasing cost of aviation fuel has hindered repayment by beneficiaries.

		per cent, DMB at 5.0 per cent).				
Nigerian Incentive Based Risk Sharing System for Agricultural Lending (NIRSAL)	Creates access to finance by integrating end-to-end agriculture value chains with financing value chains. It seeks to de-risk agricultural finance value chain, build long-term capacity and institutionalise incentives for agricultural lending	Guarantee banks' exposure to agricultural sector and provide cascaded interest rebates to farmers.	NIRSAL created as a Special Purpose Vehicle (SPV) and fully funded by CBN			NIRSAL has token off fully as a SPV and reports to its Governing board.
₦220 Micro Small and Medium Enterprises Development Fund (MSMEDF)	The Fund seeks to enhance access by MSMEs to financial services, increase productivity and output of microenterprises; increase employment and create wealth, and to engender inclusive growth	Administered at 2.0 per cent per annum to PFIs for on-lending to beneficiaries at 9.0 per cent. Maximum loan tenor of 1 and 5 years for micro and SMEs, respectively.	Funded by CBN		478 projects funded by PFIs valued at N74.797 billion	Low uptake by PFIs due to low lending margins that is considered not commensurate with the risk of lending to MSMEs and startups. Poor capacity of PFIs to monitor micro entrepreneurs.
Nigeria Electricity Market Stabilisation Fund (NEMSF):	The NEMSF is aimed at putting the Nigerian Electricity Supply Industry (NESI) on a route to economic viability and sustainability by	Funds to be disbursed at 10.0 per cent per annum with a ten-year tenor. 6.0 per cent CBN; 2.0 per	Funded by CBN		₦106.64 billion disbursed to 23 market participants. ₦8.67 billion earned by beneficiaries as interest savings on funds	Court judgment against the take-off of Transitional Electricity Market (TEM). Wanton destruction of gas

	facilitating the settlement of Legacy Gas Debts and payment of outstanding obligations due to market participants, service providers and gas suppliers that accrued during the Interim Rules Period (IRP Debts)	cent NESI SS Ltd; 2.0 per cent Participating Mandate Banks			received.	pipelines.
₦300 Billion Real Sector Support Fund (RSSF)	Established to stimulate output growth, enhance value addition and engender productivity in the economy. The Facility will concentrate on increasing credit to priority sectors of the economy with sufficient employment capabilities, high growth potentials, increase accretion to foreign reserves, expand the industrial base and consequently, enhance the diversification of the economy	Interest at 9.0 per cent (all-inclusive) and CBN to earn 1 per cent.	Special Intervention Reserve (SIR) of DMBs		4 projects valued at ₦4.6 billion approved. Contributed to the creation of 17,000 direct and indirect jobs.	Apathy of DMBs to fund real sector projects from their SIR
Anchor Borrowers' Programme (ABP)	Designed to create an ecosystem that links small holder farmers to local processors; improve productivity in identified commodities with high domestic production	Administered at 2.0 per cent per annum to PFIs for on-lending to beneficiaries at 9.0 per cent	CBN MSMEDF		₦15.77 billion disbursed to 76,251 small holder farmers through 5 private anchors in 3 states. 26 states have expressed interest in participation under the	Fragmentation of farm holdings by small holder farmers have limited the use of mechanisation and hence

	potential; and also build capacity of small holder farmers				wet season farming	hindered the optimisation of potentials
Secured Transaction and National Collateral Registry (ST and NCR)	A collaborative effort between the Central Bank of Nigeria (CBN) and the International Finance Corporation (IFC) as a financial infrastructure to deepen credit delivery to the micro, small and medium enterprises (MSMEs). The Secured Transaction and National Collateral Registry (ST and NCR) seeks to specifically, address the constraints posed by lack of collaterals as a hindrance to credit by MSMEs	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	Delayed passage of the ST and CR Bill. Poor capacity of financial institutions on asset based lending
₦50 Billion Textile Intervention Facility:	A one-off special intervention with a seed fund of ₦50 billion to resuscitate the textiles industry in Nigeria. The Facility will be used to restructure existing loans and provision of additional credit to cotton, textile and garment (CTG) companies in Nigeria as	Long-term loans for acquisition of plant and machinery. All-Inclusive rate of 4.5 per cent; 3.5 per cent to CBN and 1.0 per cent to BOI Fund Management by BOI	CBN. To be funded by repayments from other Interventions.	31st December, 2025		

	part of its efforts to promote the development of the textile and garment sector					
₦500 Billion Export Stimulation Facility (ESF)	Established to Broaden the scope of export financing instruments. It seeks to improve access of exporters to concessionary finance to expand and diversify the non-oil export baskets; attract new investments and encourage re-investments in value-added non-oil exports production and non-traditional exports; shore up productivity and create more jobs within the non-oil exports value-chain of Nigeria etc. among other deliverables	All-inclusive interest of 7.5 per cent for facilities ≤ 3 years and 9.0 per cent for facilities > 3 years: (PFI – 4.5 per cent - 6.0 per cent; NEXIM – 1.0 per cent; CBN – 2.0 per cent). Managed by NEXIM	To be funded by CBN	28th February, 2026	Stakeholders' engagement ongoing.	
₦50 Billion Export Rediscounting and Refinancing Facility (RRF)	To encourage and support DMBs to provide short-term pre- and post-shipment finance in support of exports by providing a discount window to exports financing banks and,	All-inclusive rate of a maximum of 6.0 per cent per annum with the pricing structure as follows; CBN/NEXIM would provide the RRF at	Funded by CBN		Disbursement yet to commence.	

	therefore, improving their liquidity and exporters' access to export credit. To also provide moderation and indirect influence on the cost of export credits to the non-oil sector in order to enhance competitiveness of Nigeria's exports and thereby assist in export production and marketing	a rate of 3.0 per cent per annum Participating banks shall have a maximum spread of 3.0 per cent per annum NEXIM as the Managing Agent				
Youth Empowerment Development Programme (YEDP)	Established to improve access to finance by youths to develop their entrepreneurial skills using a well-structured business model; stimulate job creation through the development of small and medium enterprises among Nigerian youths; harness the entrepreneurial capacity of Nigerian youths; and increase the contribution of the non-oil sector to the nation's GDP	NYSC Certificate, Tertiary Institution Certificate, 3rd Party Guarantors as collaterals. Registration of Collaterals (movables) and financed equipment with the National Collateral Registry. Loan at max 9.0 per cent interest rate (all-inclusive)	Funded from CBN MSMEDF		11,000 applications received and about 3,000 processed by lending bank. 1,211 prospective entrepreneurs trained nationwide in the 1st training.	Unwillingness of DMBs to fund startups and their lack of readiness to accept movable assets as collaterals for loans.

The Bank has a major role to play in the socio- economic development of the country. To avoid conflict between price stability objectives and policies that promote sustainable development, interventions should be initiated under the larger framework of enhancing growth and development. More intensive study should be done in future as to when, how and the quantum of resources to be dedicated to such interventions. It is also imperative that continual performance tracking and intensive periodic impact assessment be undertaken to institute a clear exit strategy when an intervention has attained its policy objectives.

References

Charles L. Evans, President and Chief Executive Officer, Federal Reserve Bank of Chicago. A Speech delivered on March 9, 2010 in Washington, D.C.

Emefiele (2014). Entrenching Macroeconomic Stability and Engendering Economic Development in Nigeria, a Maiden Press briefing by the Governor, Central Bank of Nigeria, June.

Epstein, G. A. (2006). Central Banks as Agents of Economic Development. Helsinki: UNU World Institute for Development Economics Research.

Evans, C. (2010). Labour Markets and Monetary Policy. *Business Economics*. July 2010, Volume 45, Issue 3, pp. 152–157.

GDI (2015). German Development Institute, Deutsches Institut für Entwicklungspolitik (DIE) Annual Report 2015 – 2016

Monetary Policy Communique – (various Issues)

Sabine, G. and J. Holland (2009). Quantitative and Qualitative Methods in Impact Evaluation and Measuring Results.