Sanusi’s Banking Reforms: Setting The Records Straight

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The CBN reacts to criticisms trailing Sanusi Lamido Sanusi’s reform agenda in the banking industry in Nigeria and insists that all that were done were meant to ensure financial stability and economic development

Sanusi Lamido Sanusi’s mission was to help Nigeria achieve a regime of financial stability. The desire to achieve this goal led to the Central Bank of Nigeria’s, CBN, intervention in eight banks in 2009, a step which has remained a subject of controversy and intense debate since then. The issues thrown up then bounced back into the public domain recently with yet another CBN intervention which led to government’s acquisition of three of the rescued banks. The question that has always been asked is whether that initial intervention was desirable. Sanusi Lamido Sanusi, CBN governor, has always explained that it was not an arbitrary action but one that was a product of the need to stem a trend that would have ultimately led to the collapse of the banking sector. Sanusi took steps to ensure that the situation was handled with the utmost care possible. First a joint team of CBN and Nigeria Depost Insurance Corporation, NDIC, was set up and detailed to conduct special examination on all the 24 banks in the country. This was done in August 2009. The exercise showed that eight of the banks had problems of capital inadequacy and in meeting liquidity requirement. Major weaknesses in corporate governance and risk management practices were also identified. The CBN under Sanusi did not follow the familiar path that others before him opted for which was to transfer them to the NDIC for liquidation. Rather, Sanusi adopted a different approach which was aimed at stabilising the troubled banks instead of liquidating them. The new approach saw the CBN, the Federal Ministry of Finance, NDIC and Securities and Exchange Commission, SEC, working together to formulate a policy to stabilise the banks and to ensure that the effects of the intervention on the economy and the banking public were minimised. The efforts succeeded in assuring the public which include depositors and creditors that they would not lose money. Part of these efforts was the injection of N620 billion into the banks in 2009 to enhance their liquidity status. Their executive management teams were also removed and replaced with interim management. The new team were given specific mandate which was to take banks out of troubled waters to safe habour. The CBN further enhanced the quality of Nigerian banks by enforcing good corporate governance, installing macro- prudential guidelines, know your customers, KYC, and the limiting of the tenure of bank managing directors and bank external auditors. It also reversed the policy of universal banking to ensure that banks played within the areas of their strength and curtail their risk appetite. Other measures taken by the CBN to stabilise the banking system were the establishment of Assets Management Corporation of Nigeria, AMCON, and financial stability committee, curtailing bank lending to the capital market and the prohibition of banks from using depositors funds for proprietary trading and venture capital investment. The CBN established credit bureau and credit registrars to strengthen credit management system of the banks. Today, the reform is hailed as the only “banking sector intervention or bailout where depositors did not lose their deposits with banks.” The AMCON operation that made the balance sheet of banks free of non performing loans also helped to inject liquidity into the banking sector. Today, nine Nigerian banks are among the top 1000 banks in the world. Lending to the private sector has also increased with non-oil sector acting as the growth driver, so much so that the Nigerian economy has remained one of the fastest growing in the world with the overall GDP growth projected at 7.80 percent for 2011. One of the reform policies of the CBN, which has generated questions on its implementation, is the new cash withdrawal policy that placed the amount of money individuals and corporate bodies would withdraw from a bank without an extra charge at N150,000 and N1,000,000 respectively. It is aimed at addressing the currency management challenges in Nigeria, as well as enhancing the national payments system. The policy also reinforces the electronic payments directive of the Federal Government of January 2009. But public reaction to it made Tunde Lemo, CBN’s deputy governor for operations, to clarify the policy. He said it was to “ensure that the essence of the policy is properly understood and seen as beneficial to us as a nation that desires economic growth and development, particularly in view of our ambition to be amongst the top 20 economies of the world by the year 2020.” The policy was necessitated because cash management constitute a substantial part of the operational costs of banking operations that is passed on to customers. In 2009, the direct cost of cash management to the banking industry was N114.5 billion and it is estimated to be as high as N192 billion by 2012. “This spiralling cash management cost, most of which is passed on to the consumer in the form of bank charges and lending rates, is as a result of the cash dominant economy. For example, the value of Currency-In-Circulation, CIC, as at December 2009, amounted to N1.184 trillion, an increase of 20.36 percent over the level at the end of 2008. As at 31st December, 2010, the total CIC value stood at N1.378 trillion, showing an increase of 16 percent,” Lemo said. Further analysis indicated that 90 percent of bank customers’ daily withdrawals are of amounts below N150,000 whereas 10 percent of bank customers who withdraw over N150,000, are responsible for the heavy cost of cash management being borne by all bank customers. He said that the present high levels of cost and inefficiencies in providing banking services and the poor quality of services experienced by the majority of the banking public would be addressed by the new cash withdrawal policy in concert with other efficiency initiatives by the CBN in collaboration with the Bankers Committee. “There is need to remove the burden of cost of managing cash from the low savers and improve services to them.” The progress made by the Federal Government in the electronic payments of salaries and contractors/suppliers, the growing acceptance among the citizens of innovations such as the ATM and mobile telephony and the commitment by the banking community to improve the supporting infrastructure for seamless electronic payments were encouraging factors which propelled the new retail cash policy. The new cash policy, which commences from June 1, 2012, stipulates that over the counter cash transactions above N150,000 and N1,000,000 for individual and corporate organisation respectively, would attract a charge. Notwithstanding, the policy recognises that

merchants have to continue to receive payments, therefore, it allows merchants and traders alike to choose either cash option for receiving payments or adopt cheaper and convenient alternative electronic payments channels to facilitate business transactions. The implementation of the policy will commence in Lagos, and would gradually be extended to cover Port Harcourt, Kano, Aba and F.C.T. Lemo said that the CBN, while acting within the limits of its statutory responsibilities in respect of the development of the payments system, “did not place a limit on cash transactions in the banks. Rather, the CBN is formally encouraging banks to shift cost burden of heavy cash management to customers conducting high volumes of cash transactions in the banking halls. Individuals and corporate organisations desirous of such cash usage should be willing to pay for the cash services being offered by the banks. Since the majority of Nigerians do not carry out cash transactions of up to N150,000 a day on their respective accounts, the threshold for charging was set taking into consideration the need to protect the low income earners and savers.” The point needs to be emphasised that the policy does not prohibit the withdrawal of more than N150,000. Those who still wish to conduct heavy cash transactions with their banks are free to do so within the provisions of the directives. The CBN is mindful of the need for careful implementation. The policy becomes effective on June 1, 2012 (not 2011) in selected areas of the country. “In fact, we have obtained the understanding of the president and the executive Governor of Lagos State to carry out a pilot study commencing January 2012, to demonstrate the feasibility of the policy. We have a clear plan of action over the next six months to continue efforts to ensure that alternative payment modes are effective and efficient for conducting business transactions.” The CBN assured Nigeria that this programme is for their benefit and for the benefit of the country as whole. It will reduce cost of accessing financial services and enhance the quality of banking services while also helping to stem cash-related crimes such as burglary and arm robbery. Over the next 12 months, the CBN will carry out adequate public awareness and enlightenment as we engage all stakeholders in a two-way conversation to understand the concerns and explain how the new policy will address all those concerns and issues involved. It wants Nigerians to co-operate with it on this initiative and assured that the economic and financial stability and the protection of funds of the banking public remain key priorities for the CBN. Part of the policies pursued by Sanusi is the developmental objective of the CBN as specified in the CBN Act of 2007. In furtherance to this, Sanusi came out with several policies that would ensure access to long-term finance at single digit interest rate for operators in the real sector of the Nigerian economy. To this end, the CBN launched a number of intervention funds, which include the Small and Medium Enterprises Credit Guarantee Scheme, SMECGS, the Commercial Agricultural Credit Scheme, CACS, the Refinancing and Restructuring Facility, RRF, and the Power and Airline Intervention Fund, PAIF, The guiding philosophy behind the intervention is anchored on Sanusi’s conviction that a central bank of an underdeveloped economy could not afford the luxury of focusing on monetary policies alone. “Central Bank of Nigeria, like other central banks in a developing economy, cannot restrict itself to monetary policy alone. The development and sustenance of a vibrant real sector is germane to the efficacy or otherwise of monetary policy tools; hence the quest by the CBN to develop the real sector,” Sanusi said. In view of this, the CBN is involved in many developmental roles geared towards revamping and growing the economy. These include the establishment of N200 billion Small and Medium Scale Enterprises Guarantee Scheme, SMECGS, to provide credit to SMEs; the establishment of Commercial Agricultural Credit Scheme, CACS, by the CBN in collaboration with the Federal Ministry of Finance and the Ministry of Water Resources to finance agricultural value chain; the provision of N200 billion Refinancing and Restructuring Facility, RRF, to create credit and support for the development of the real sector; and the establishment of N500 billion Power and Airline Intervention Fund, PAIF, a facility for investments in a debenture issued by the Bank of Industry, BOI. All over the world, the SME’s are acknowledged as the bedrock of the economy. It is the highest employer of work force in the labour market. But in Nigeria, the SMEs have not been able to play this role effectively due to lack of access to favourable bank credits. The corollary is that unemployment rate escalates even as the country witness economic growth year after year. To reverse this trend, the CBN, in 2010, established N200 billion SMEGS with the aim of promoting access to credit to the SMEs in Nigeria. This intervention fund of N200 billion is being managed by Bank of Industry, BOI, for the purpose of fast-tracking the resuscitation and development of the manufacturing sector of the Nigerian economy. The scheme does not only provides improved access, it also provides guarantee, for credit from banks to the SMEs. In addition, the scheme would complement other special initiatives of the CBN in providing concessionary funding for agriculture such as the ACGS which is mostly for small scale farmers, interest draw-back scheme and Agricultural Support Scheme. The efforts of the apex bank in this area have started yielding the desired results as more banks have started participating. As at June ending, 2011, 24 applications valued at N1, 356, 500 billion were received from eight banks, out of which, six projects valued at N307, 500,000.00 have so far been guaranteed, while 18 projects valued at N1,049,000 are at various stages of processing for approval. This is an improvement over the level achieved in May 2011. The impact of the scheme on the economy is resulting to improved bank lending to the real sector: The entrepreneurs are enjoying cheap sources of finance at seven percent and easy access to credit under the scheme. Moreover, the scheme has enabled SMEs to continue in business and preserve jobs that would have been lost. Apart from this, the scheme is widening the scope of employment opportunities by enabling more small scale industries to come up. As a result, more jobs, which would have a favourable multiplier effect on the economy, are being created. The scheme is also helping to ensure food security as a substantial part of these funds is going into agricultural production, which will ensure food and social security. A flourishing agricultural sector would promote youth entrepreneurship and reduce the number of school leavers that would have been roaming the streets in search of white-collar jobs. The SMECGS is not the only scheme the CBN is using to promote agriculture. Another scheme, which is wholly dedicated to commercial agriculture, is the Commercial Agriculture Credit Scheme CACS. It was established in 2009, in collaboration with the Federal Ministry of Agriculture and Water Resources, to finance agricultural value chain from input supply to marketing. The scheme commenced operations on April 23, 2009, with the approval of the Presidency and the active buy-in of the Ministry of Finance and Ministry of Water Resources and signing of an

agreement between the CBN and two selected participating banks – the United Bank for Africa PLC and First Bank PLC. Later in 2009, five additional banks, namely Fidelity Bank PLC, GT Bank, Union Bank, Unity Bank and Zenith International Bank were authorised to participate in the programme. The number of banks participating in the scheme was further enlarged in January 2010, to accommodate all the 24 banks that scaled through the CBN’s banking reform exercise. The objectives of the CACS is to fast-track the development of the agricultural value sector of the economy through the provision of credit facilities at a single digit interest rate to large-scale commercial farmers. It is also meant to enhance national food security by increasing food supply, lowering of cost of agricultural products and effect the reduction of the rate of food inflation. The scheme is also expected to reduce the pressure on the country’s foreign exchange expended on food import. Furthermore, the CACS would reduce the cost of credit for agricultural production and empower farmers to exploit more of the untapped potentials of the nation’s agricultural resources. It would also boost output, generate employment, diversify the country’s revenue base, shore up the rate of foreign exchange earnings and make available inputs to the manufacturing sector of the economy and processors nationwide. As at Dec 31, 2010, the undisbursed balance of CACS funds was N103.189 billion. The CACS has already started impacting on the economy positively. For instance, 11.5 percent of the beneficiaries used the funds for the acquisition of agricultural land. Some of them have also reported increased output of 3.5 metric tonnes per hectare of maize. The production of yoghurt and fruit juice also increased to 3,000 litres per hectare and 1,200 tonnes respectively. Fish and animal production are also having a feel of the positive impact of the CACS. The output of fingerlings have increased to 260,000 per day, poultry to 1,800,000 birds, the hatching of layers raised to 963,100. Piggery output also increased to 20,500. The increase in output has also led to job creation in the sector. A total of 20,826 new jobs were created. The breakdown showed that 185 skilled, 231 semi-skilled and 20,142 unskilled workers are in the agro sector. The scheme is also impacting favourably on infrastructural development in the agricultural sector. About 17.65 percent of the CACS funds were utilised for business expansion, 19.61 of the fund was channelled into meeting infrastructural challenges like water, power and access road to farm locations, while 9.8 percent was invested in human capital and manpower development. Also 5.88 percent was used in the construction of additional factory complexes, poultry houses and warehouses while 13.7 percent was spent on the acquisition of additional farmland. “The CACS has fast-tracked development of the agric sector, enhanced national food security, increased output and employment opportunity.” Furthermore, it also revived 13 grounded large scale agricultural projects and increased the flow of funds for agricultural value chain in Nigeria.” One of the creative master stroke used to extend credit to the agricultural sector is the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending, NIRSAL. It is a ground breaking approach to boost agricultural lending in a country that banks have learnt not to trust farmers with their depositors’ money, in spite of the fact that agriculture contributes about 42 percent to the Gross Domestic Product, GDP. In term of employment, agriculture employ has 70 percent of the rural dwellers, and the potential to employ about that number in the entire country if properly harnessed through backward and forward integration. The CBN, in discharging one of its important mandate to the economy, came up with the initiative to float the Nigeria Incentive-based Risk Sharing System for Agricultural Lending, NIRSAL. It is aimed at de-risking the sector by re-packaging agriculture to become a real business that could guarantee food security, create employment, supply needed raw material to the industrial sector as well as serving as a veritable vehicle for wealth creation and conservation of foreign exchange. Focus on agriculture is borne out of the CBN’s conviction that fixing the financing value chain without addressing the agricultural value chains is futile. It will simply perpetuate the vicious circle. Previous efforts aimed at stimulating lending to agriculture were limited to resolving individual challenges in each value chain. They failed to tackle the problem as a whole. The agricultural value chain and financial value chain are interdependent to such an extent that if any part of either breaks down, the cash flow is affected and consequently affect the loan repayment potential of the other parts. According to Sanusi, the key message of NIRSAL is “we must de-risk the financial value chain and the agricultural value chain to ensure quality lending to agriculture. NIRSAL will do just that and transform mindsets on lending to agriculture by banks.” One of the main reasons why the agricultural sector has not performed in Nigeria is because it has not received enough credit. The sector has not received enough credit because banks associate agriculture with high credit risk. It also lack the skills to properly do agric credit. Banks also see too many risks in agriculture because they do not trust the farmer to make profit and pay back the loan. On the other hand, the farmer is unable to pay back the loan on account of huge challenges because the seeds he uses are of poor quality leading to poor yield; because his farming is also rain fed, or without relevant agricultural insurance or irrigational facilities; because there are no good roads and storage facilities, he cannot move his products away quickly. So, he suffers enormous post-harvest losses even out of his poor yield, a harbinger of low income from which he cannot pay back his loans. Hence, NIRSAL is geared at leveraging on $3 billion fund within the next 10 years to increase banks’ total lending to agricultural from the current 1.4 percent to 7.0 percent. It would also increase lending to the small scale farmers by 50 percent of its current total. Typically, banks do not reach producers individually but through ‘pools’ using aggregating mediators such as Microfinance Finance Institutions, MFIs, and co-operatives. NIRSAL would expand the reach to agricultural producers by 3.8 million in 2020 through pooling mechanism using value chains, MFIs, and co-operatives and reduce banks’ breakeven interest rate to borrowers from 14 percent to between 7.5 and 10.5 percent. NIRSAL’s primary goal is to increase agricultural lending by US $3.0 billion within 10 years. This will increase total lending to agriculture from 1.4 percent to 7.0 percent of Nigeria’s total bank lending. This would be achieved through NIRSAL five solution components that are designed to ‘de-risk’ agricultural financing value chain, build long-term capabilities and institutionalise lending. The first of this component is the Risk Sharing Facility, RSF. This will support the deployment of different risk sharing instruments to reduce the risk of lending to agriculture by commercial banks. It will include first loss and shared loss arrangements, depending on the volume of lending, the part of the value chain that the bank wants to lend to, the term of lending and the bank’s

experience and capacity for agricultural lending. The second is the insurance component, IC, that will identify existing insurable risks, existing solutions for coverage in the development of such solutions and link such products to the loan provided by the banks to beneficiaries. The third component is the Technical Assistance Facility, TAF, to support banks that have clearly demonstrated interest and verifiable commitment to enter into agricultural lending, especially small holder agricultural lending. The risk sharing fund and the technical assistance facility will be blended for banks to share risks and build the bank’s capacity to lend and build delivery platforms in support of agricultural lending. The fourth component is the Bank Incentive Mechanism, BIM. Under NIRSAL, all deposit money banks, DMBs, that show strong commitment to lending to agriculture will be further incentivised. This will be achieved through the use of lower guarantee fees, the RSF, and up scaled access to capital for agricultural lending at a lower rate from the CBN. The final component is theAgricultural Bank Rating System, ABRS. This system will be handled by reputable, independent parties that will rate banks based on their performance in agricultural lending and impact of their lending efforts on food security, rural employment and incomes. The ABRS – as an independently developed rating scheme, will be used to differentiate banks. As such, banks with higher ratings will be further incentivised through the Bank-Incentive Mechanism to do more lending to the agricultural sector. The system will have a dedicated monitoring and evaluation system that will track the impacts and effectiveness of banks in agricultural financing. Another policy of the CBN that cushioned the impact of the credit squeeze that plagued the economy due to the global financial crisis was the N200 billion Restructuring and Refinancing Facility, RRF. The sum was set aside by the CBN as quantitative easing measures aimed at creating liquidity and support for the development of the real sector of the Nigerian economy. The CBN reviewed the disbursement of this facility by 19 banks on March 28 and April 1, 2011 to evaluate the level of compliance with the guidelines by the participating banks. The review committee visited 199 projects. Their finding showed that N199.6 billion, representing 92 percent of the N200 billion set aside for the RRF has been disbursed under the first and second tranches of the intervention by the BoI. N190,686 billion of the disbursed amount went to 539 eligible obligors. Benefits of the RRF include a remarkable reduction in the cost of funds to the beneficiaries, significant improvement in the average capacity utilisation from 25 percent to 28 percent and an increased economic activities in and around the communities where the refinanced facilities were sited. Other benefits of the RRF are improvements in the banks’ liquidity position and the reopening of few companies that were previously closed down. The apex bank’s bid to breath life into the real sector of the country’ has led it to dedicate N500 billion for the power and airline sectors under the Power and Airline Intervention Fund, PAIF. The PAIF was a component of the quantitative easing policy of the CBN to set aside N500 billion facilities for investments in power projects. The facility was also extended to aviation industry to ameliorate the heavy indebtedness of the sector to the banking sector. The sum of N330 billion was earmarked for the power and airline projects. The facilities under the scheme were granted at an “all-inclusive” interest rate of seven percent per annum for tenure of 15 years. The objective was to fast-track the development of electric power projects and the aviation sector of the Nigerian economy by improving the terms of credit to the sectors. It would also serve as credit enhancement instrument to improve the financial position of the deposit money banks previously lent to the sectors. Moreover, the fund would improve power supply, generate employment and enhance the living standard of the citizens through consistent power supply as well as enhancing private sector’s investments in the power and aviation sectors. So far, a total sum of N120,389,200,000 has been released to BOI for 23 projects. Out of this the BOI has disbursed the sum of N105,943,000,000 for 13 projects that have met all the pre-disbursement requirements. The disbursement shows that the sum of N82,363,500,000 was for 10 airlines while the sum of N23,580,000,000 was for three power projects as follows. The first batch released to the BOI was N86,847,200,000 in April 2011. The second batch of N33,542,000,000 was released in July 2011. The result is that some airlines that would have been out of business are now flourishing. Likewise, their staff who would have lost their jobs if the CBN had not intervened are still in employment while new workers are being employed. The intervention has improved power supply and encouraged more private sector initiatives in the power and airline sectors. It should be noted that even though the CBN is only a regulator in the financial system, it is still performing its new mandate in economic development, as stipulated in the new CBN Act. The CBN’s efforts in putting these initiatives together are geared towards the attainment of micro economic goals such as increased in income per capita, improve standard of living, the creation of employment opportunities and the reduction of inflationary pressure on the economy. Other goals include poverty reduction, revamping of other sectors of the economy and increased productivity. “These will have multiplier effects on the Nigerian economy which will in the final event have positive impact on the economy as these are the indices for growth in GDP and economy at large.”