

SUSTAINING FINANCING: DEVELOPMENT FINANCE INSTITUTIONS' EXPERIENCE IN NIGERIA

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INTRODUCTION

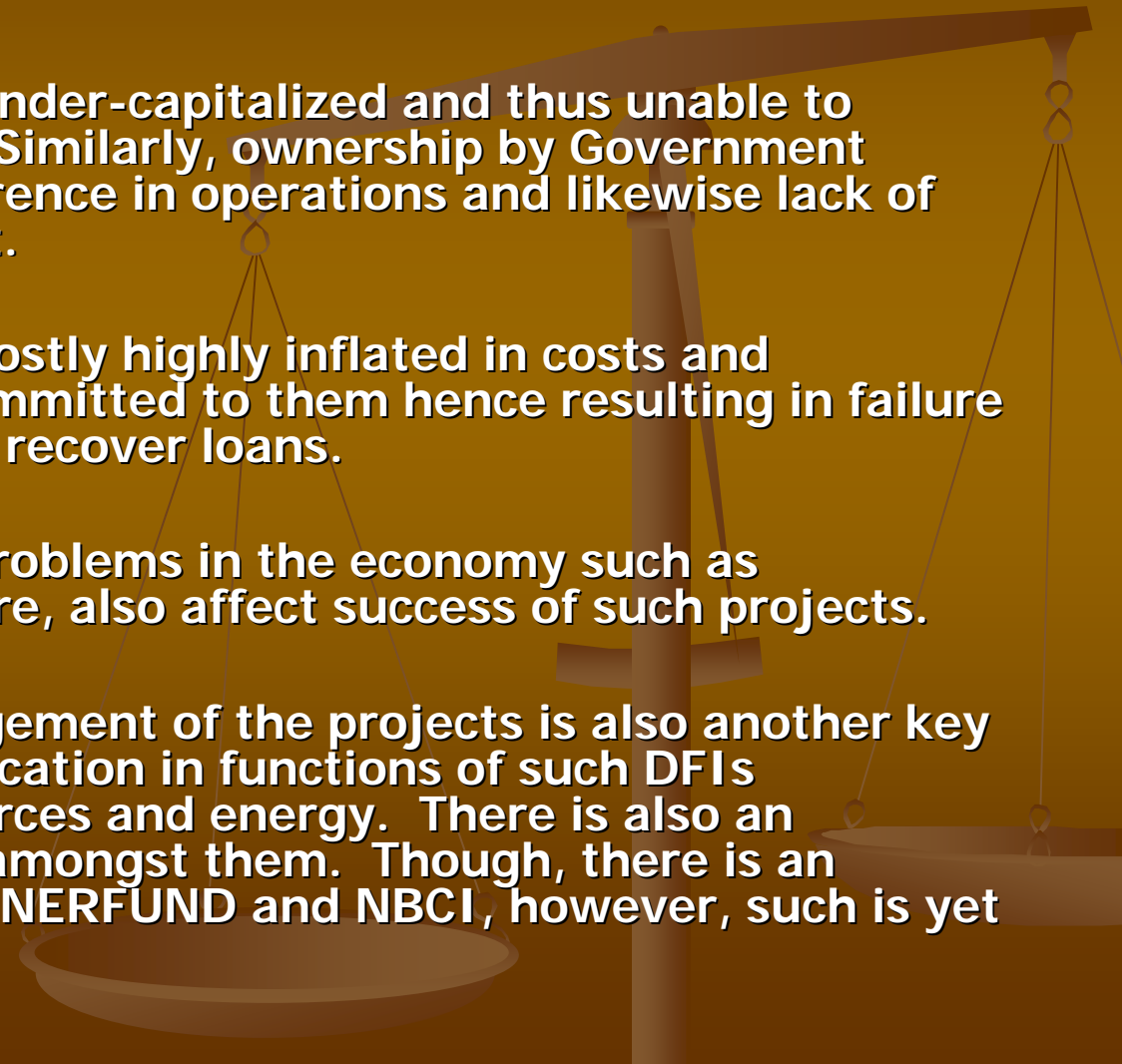
- a. Development Banks
- b. Apex Credit Delivery Scheme
- c. Finance Support Programmes for Micro Enterprises


1. Targeted Credit Schemes for Micro Enterprises

- 1) The National Directorate of Employment (NDE)
- 2) The Small Scale Industries Credit Scheme (SSICS)
- 3) The Nigerian Bank for Commerce and Industry (NBCI)
- 4) Small and Medium Enterprises Equity Investment Scheme (SMEEIS)

2.0 KEY ISSUES ON DFIs IN NIGERIA

2.1 CAPITALIZATION

- Almost all of them are under-capitalized and thus unable to attract foreign credits. Similarly, ownership by Government results in undue interference in operations and likewise lack of stability in Management.
 - Projects financed are mostly highly inflated in costs and promoters are never committed to them hence resulting in failure and therefore unable to recover loans.
 - At any rate, other key problems in the economy such as inadequate infrastructure, also affect success of such projects.
 - Incompetence in management of the projects is also another key problem. Besides, duplication in functions of such DFIs dissipates a lot of resources and energy. There is also an unhealthy competition amongst them. Though, there is an approval to merge BOI, NERFUND and NBCI, however, such is yet to materialize.
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- **Lack of adequate capacity building – though previously, World Bank through its agencies assisted in this regard.**
 - **Loans granted variously due to political patronage thus genuine entrepreneurs were denied.**
 - **Lack of serious concerted efforts in Entrepreneurship Development.**
 - **Most of the DFIs had been more involved in wholesale development financing than demand oriented.**
 - **Few of the DFIs that invested in the capital market did so in buying and holding than shuffling and trading – little maximization of returns.**
 - **They remain in projects assisted for too long such that the projects fail and unfortunately, the DFIs lack the capacity to rehabilitate them; more due to lack of funding and knowledge in re-structuring.**

3.0 CONTEMPORARY ISSUES

3.1 RESTRUCTURING OF DEVELOPMENT FINANCE INSTITUTIONS

3.2 RISK FUND

3.3 CLUSTERS



SUGGESTIONS

- Enhance productivity by way of effectively developing the vast natural and human resources of the country so that a more favorable foreign exchange management is achieved. Of course, good governance must be entrenched and sustained. If these are done, greater developmental efforts by the DFIs will be achieved and likewise more support from Development Partners.
- Ensure collaboration with foreign technical partners in development of appropriate development of local technology, particularly with regards to fabrication of local plant and machinery, so that costs for establishing projects are substantially reduced. The steel manufacturing sector must be given a more serious attention and so also the power sector reforms.
- The DFIs ought to be active players in the capital market and in not just buying and holding shares but also in buying and selling. By this, they will be able to mobilize more investible funds for their developmental role.
- Reduce utility tariffs for manufacturers, make investment in alternative sources of energy and water tax deductible, remove import duties on non-substitutable raw materials, devise import deletion plan, provide export incentives.

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- Focus on opening foreign markets via AGOA, Lome Convention, WTO.
 - Sustainable investment is a function of increasing national domestic savings and foreign capital inflow. Giving the limitations to foreign inflows, the promotion of higher domestic savings becomes imperative. The relevant parameters for enhancing domestic savings need be looked into. Thus, the current efforts at maintaining a stable economic and political environment must be sustained.
 - Adequately funding DFIs through amendments to the various instruments establishing them to enable them operate as universal or multi-purpose institutions capable of mobilizing deposits and offering banking services. As a matter of fact, DFIs need to be consolidated and their capitalization enhanced as done recently for commercial banks.
 - The huge amount of funds now available from the Pension Reforms, need to be channeled through the DFIs for greater prosperity and financing sustainability. Of course, the DFIs themselves need to have a more proactive and result-oriented management that can face the challenges of sustainable development in a globalised economy.

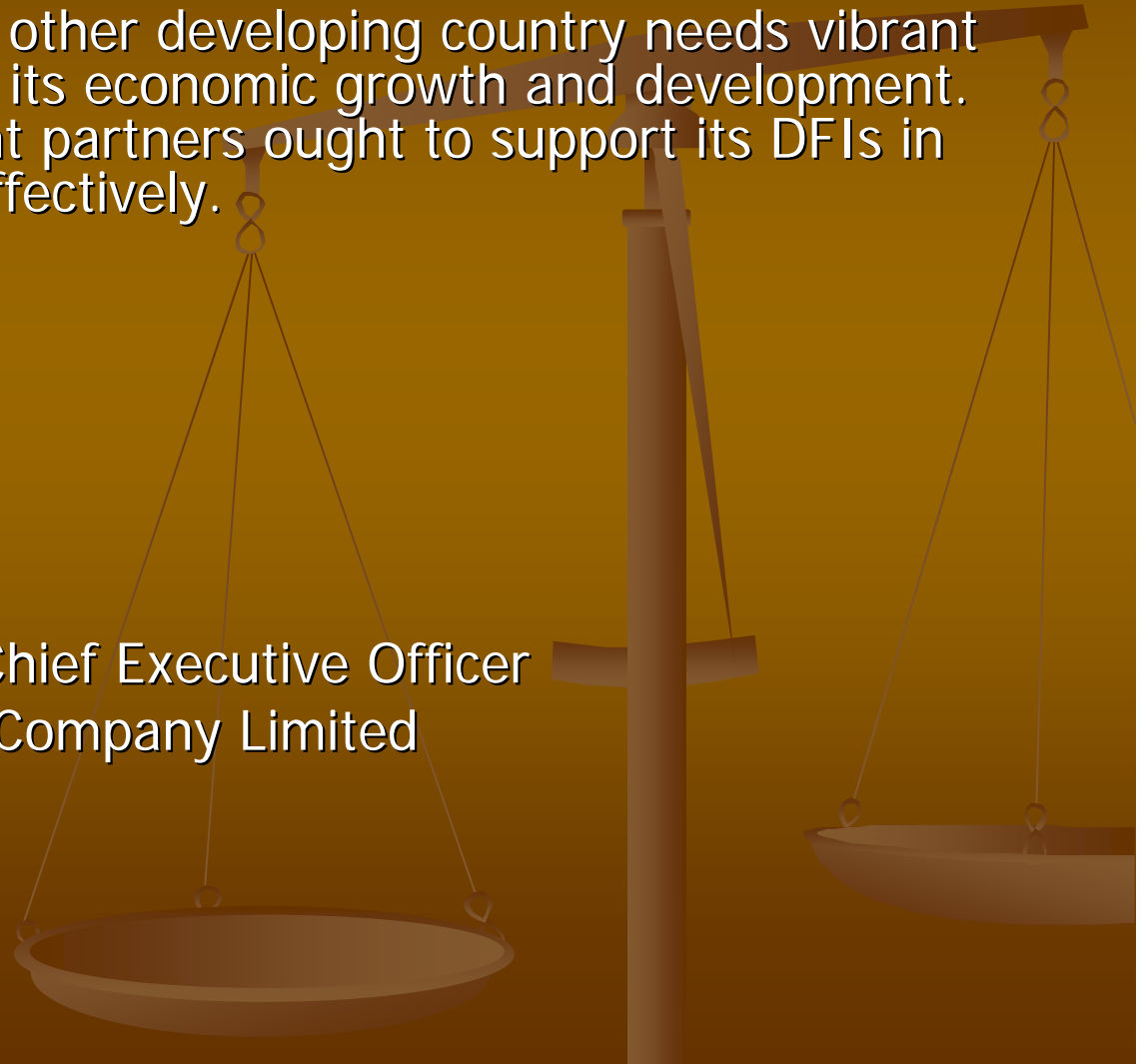
CONCLUSION

- The conclusion from the submission is that DFIs are still highly relevant in Nigeria even though their operating environment would have worsened. However, the recent reforms being made are indicative of change in their fortunes. Thus, in the context of the policy of deregulation, DFIs need to undergo a far-reaching restructuring programme – which appreciably, some of them have started. The elements of such a programme should include the transfer of the responsibility for the prudential and supervision to the Central Bank of Nigeria, the rationalization of the number of DFIs (already being done) to avoid duplication of functions, the liquidation of terminally distressed institutions and the recapitalization and restructuring to resolve the problem of bad loans.

- Instructively, to ensure future survival, management must reduce overhead costs, upgrade project appraisal and supervision skills and diversifying funding sources to include deposit taking and capital market operations.
- Indeed, Nigeria like any other developing country needs vibrant and responsive DFIs for its economic growth and development. Thus, all its development partners ought to support its DFIs in performing their roles effectively.

Thank you for listening.

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BRIEFS ON KEY DEVELOPMENT FINANCE INSTITUTIONS IN NIGERIA

1. BANK OF INDUSTRY (BOI) LIMITED

- Largest industrial financing institution
 - Reconstructed in 2001 out of the Nigerian Industrial Development Bank (NIDB) Limited which was incorporated in 1964
 - Authorised share capital is set at \$400 Million
 - Following a successful institutional, operational and financial restructuring programme embarked on since 2002, the bank has been transformed into an efficient, focused and profitable institution, well positioned to carry out effectively its primary mandate of providing long-term financing to the industrial sector of the Nigerian economy
 - Wholly owned by the Federal Government of Nigeria
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2. NEW NIGERIA DEVELOPMENT COMPANY (NNDC) LIMITED

- Established in 1949
 - Authorised share capital of about \$57 Million
 - Jointly owned by Governments of the 19 Northern States of Nigeria
 - Current investment focus:
 - Oil and Gas – acquired 4 oil blocks recently
 - Telecommunications – incorporated a company (Gamji Tel)
 - Solid Minerals
 - Agriculture
 - Real Estate
 - Active player in the Nigerian capital market with diverse investments in blue chip companies
 - Human capital development
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