

GOVERNMENT FINANCIAL LIBERALISATION POLICY AND THE DEVELOPMENT OF PRIVATE SECTOR IN NIGERIA: ISSUES AND CHALLENGES

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Background

- Nigeria is one of the richest countries in Africa with a population of 144.7 million
- 8th largest oil producer and 6th largest deposit of gas in the world
- 20% of the population account for up to 80% of the nation wealth
- Prior to 1986, the economy was largely dominated by the public sector
- In 1986, the Structural Adjustment Programme (SAP) was introduced, which radically shifted emphasis to the private sector, as the catalyst for economic development
- SAP led to the policy of financial liberalisation in the areas of banking credit to the economy, licensing of banks, interest rate administration etc.

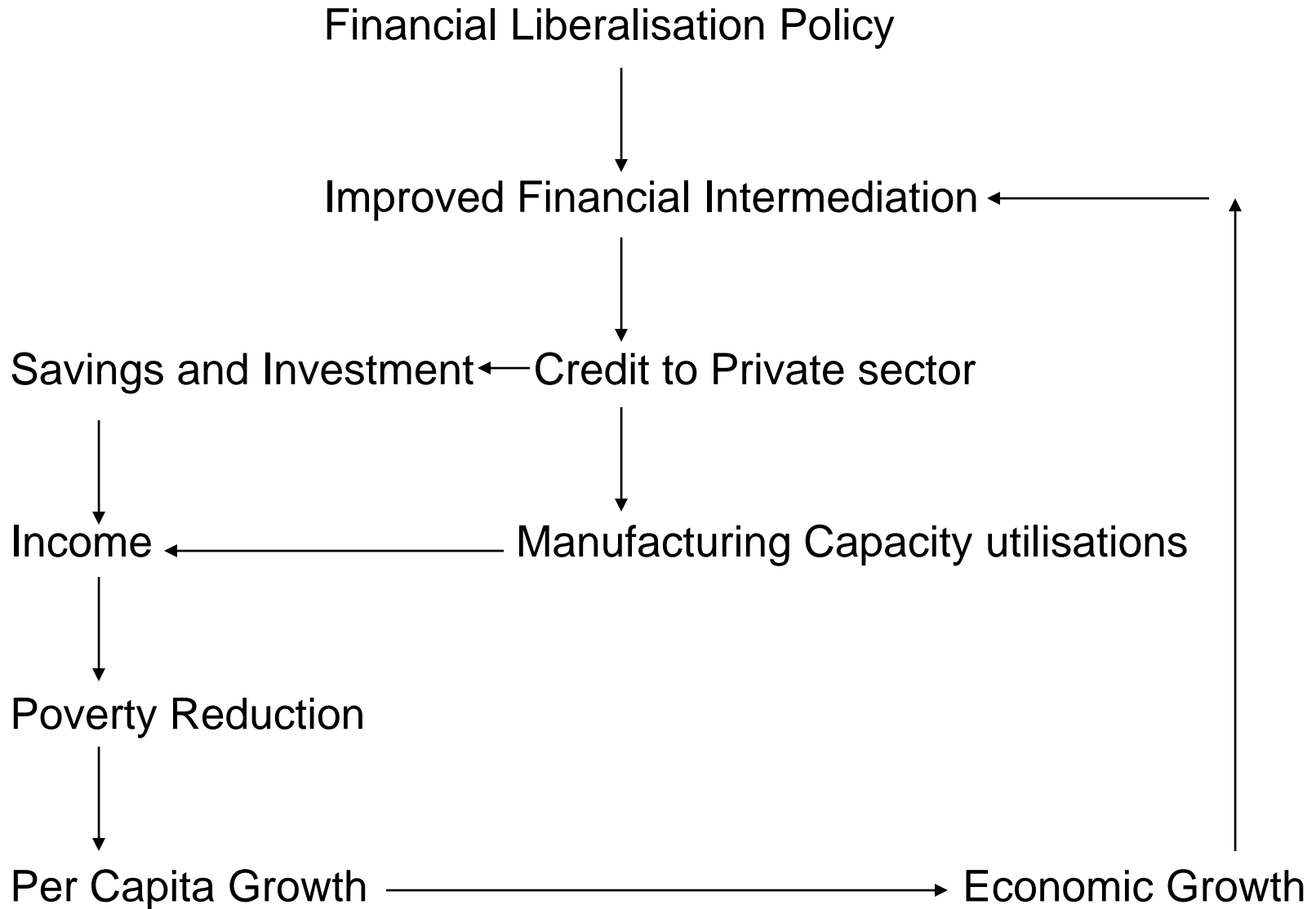
Objectives of the Study

- investigate the impact of financial liberalisation policy on private sector development
- identify the constraints to increasing development of the private sector in Nigeria

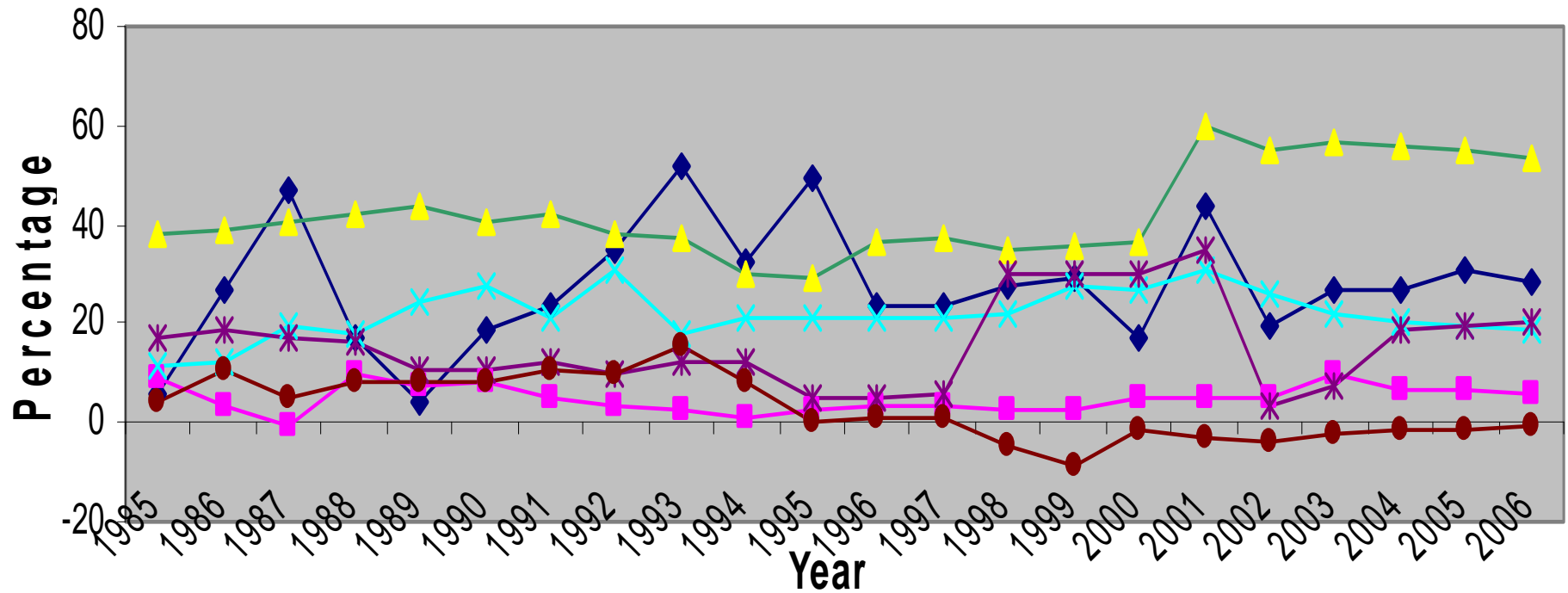
Approach

- Primary and secondary data
- The analyses were descriptive and quantitative in perspective

Financial Liberalisation Policy, Private Sector Development and Economic Growth

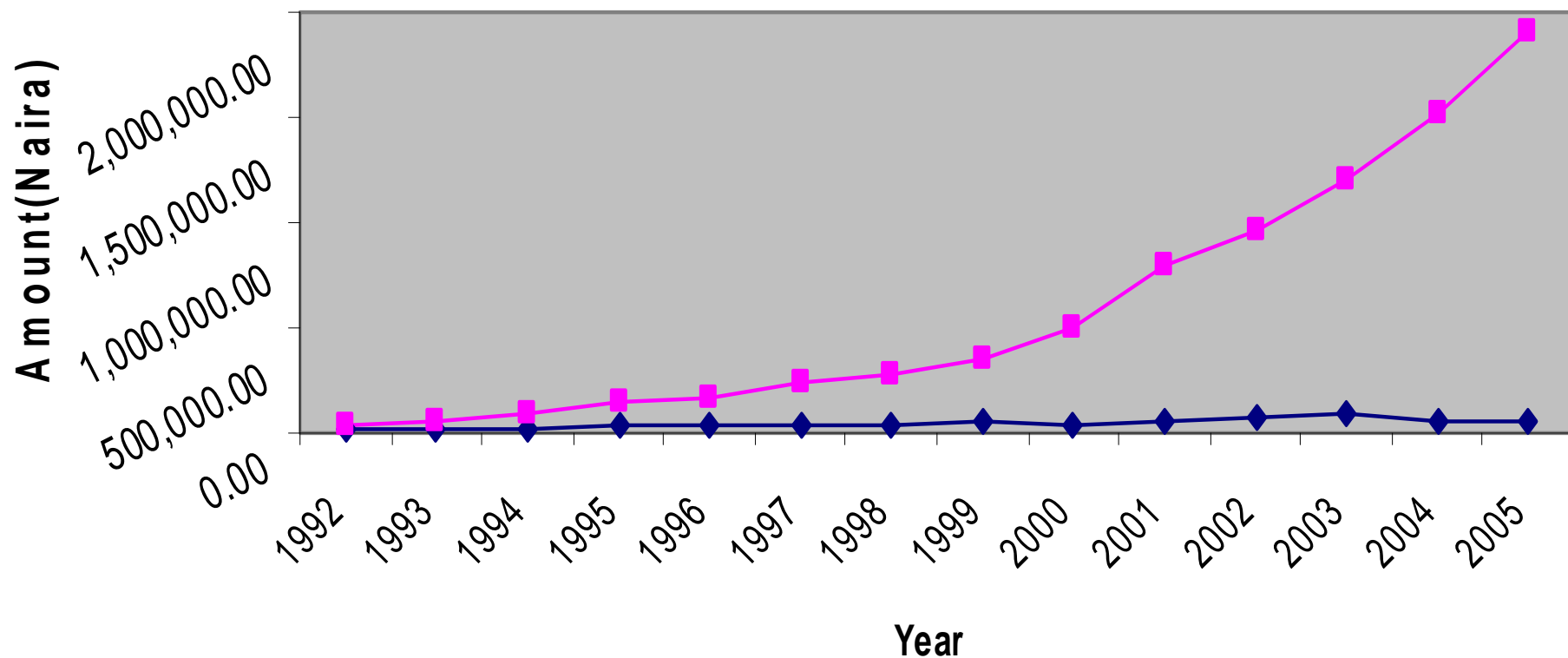


Performance of the Economy, 1985- 2006



- ◆ Credit to private sector
- ▲ Capacity Utilisation
- ✱ Saving/GDP Ratio
- Gross Domestic Product
- ✱ Lending Rate
- Deficit/GDP Ratio

Amount of Loans to Small Scale Enterprises by Commercial Banks 1992 - 2005

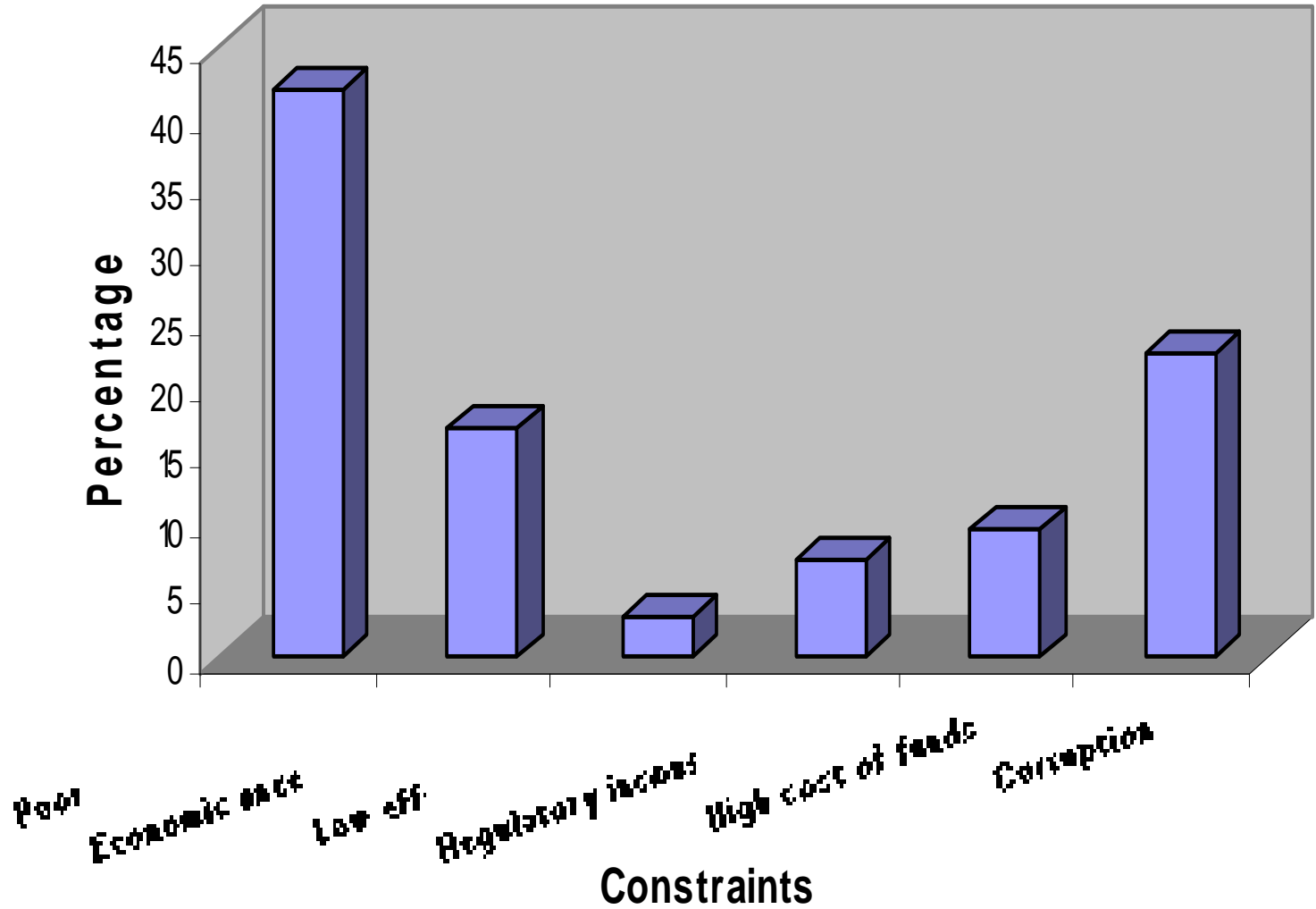


◆ Commercial Banks Loans to Small Scale Enterprises ■ Commercial Banks Total Credit

Performance of the Economy

- Most factors affecting private sector investment have not shown a significant improvement over the years
- Financial liberalisation did not improve the level of savings, a possible source of increased investment
- The contribution of the financial liberalisation policy to real GDP growth could only be marginal
- The share of private sector credits in the total credits still remained very low, averaging 27.6% between 1985-2006
- Thus, the private sector, especially SMEs, did not feel the impact of financial liberalisation policy

Constraints to Private Sector Development in Nigeria



Recent Experiences

- Financial policy of recapitalisation – Soludo Solution
 - Minimum paid up capital increased to N25 billion (about \$208 million)
- Small and Medium Industries Equity Investment Scheme (SMIEIS)
 - Banks contributed 10% of profit after tax
 - 80% of beneficiaries came from the same State for a programme designed to cover 36 States and the Federal Capital Territory, Abuja
 - 14 states never had any SMIEIS project
 - Less than 50% of the fund could be accessed
- Micro credit fund
 - Replaces SMIEIS
 - Banks and each state government to contribute 5% each
 - Micro Finance Banks were set up to manage the fund
 - Problem of politicalisation in fund allocation
- Vision 20-2020

The policy was introduced in 2008, aimed at making Nigeria the 20th largest economy by the year 2020. This is in accordance with the Goldman Sachs report that Nigeria will be the 20th and 12th largest economy in the world by 2025 and 2050 respectively.

What Alternative Financial Model to Implement?

- Sound policies to promote financial and market inclusive growth
- Judicious mix of monetary and fiscal policies to re-allocate financial resources from the rich to the poor, as active economic agents (entrepreneurs, employees, consumers)
- Developmental venture capital model – designed to foster both social and financial returns
- A successful model of financing inclusive business must clearly identify the following concepts, with regards to the roles of the parties involved in financial decisions:
 - Fund satiation
 - Fund mobilisation
 - Fund Transmutation
 - Fund channelisation
 - Fund utilisation
 - Fund Regulation

Implications of the model

- ✓ Surplus units must be adequately compensated for parting with liquidity
- ✓ Financial institutions must earn reasonable returns while efficiently performing their role of financial intermediation
- ✓ Deficit units must cultivate good borrowing culture
- ✓ Government (at all levels) must provide enabling environment for the other key players in the financial industry.

Conclusion

- The paper has contributed to the growing discourse on the importance of finance for the private sector as a catalyst for economic development.
- It provides insights into the impacts of government policies towards enhancing private sector development in Nigeria.

THANK YOU

