An African Success: Banking in Nigeria and the Poor

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Two-Fold Motive for Studying This Relation

- Financial crises of the late 1990’s (and now) and their effect on the poor
- Recent literature on effects of macroeconomic reforms of the late 1980’s and 1990’s on growth
Two-Fold Motive for Studying This Relation

- HIID and the Indonesian crisis
  - Started my postdoc at Harvard when Asian financial crisis began unfolding
  - Particular focus on Indonesia, since HIID had been active there
  - Astonished to witness swift erosion of a generation’s saving and welfare gains

- Link between finance and development just being established in the literature
Two-Fold Motive for Studying This Relation

- Late 1990’s banking crisis in Nigeria
  - Indonesia led me to analyze other experiments
Two-Fold Motive for Studying This Relation

- Community bank crisis in Nigeria
  - ~40 years of experiments attempting to address poor and underserved
    - Overspecialization in servicing oil sector
  - But CB’s put poor and rural savers and potential borrowers at risk because of insider lending and endemic and growing distress in the late 1990’s
Two-Fold Motive for Studying This Relation

- Recent work on explaining Africa’s recent growth spurt
  - Beny and Cook, *AER* *P* and *P*, May 2009
    - Builds on the work of Ndulu and O’Connell (2007)
    - We find evidence of macroeconomic management tools are beginning to work in Africa
    - Recent successes might provide needed confidence to undertake toughest reforms, e.g., in the banking sector
Questions

- What has happened in the recent wave of reforms in the banking system in Nigeria?
  - Bank consolidation
  - Specialization of microfinance
Questions

- What changed as a result?
- In particular, what has changed for the poor?
Questions

- Were the objectives of reform achieved?
Questions

- What happened to precipitate the recent bailout?
- Should we consider this Part II of a relative success or more of a failure?
  - Enforcement?
  - The global financial crisis?
  - Insider lending?
    - Large factor in the community banking crisis of the 1990’s
Questions

- What lessons are there from Nigeria?
Questions

- Are these lessons transitive?
  - Across Africa?
  - Rest of the world?
  - Preview: Yes
    - U.S. and other governments needed to undertake such a consolidation to improve stability
    - Very politically difficult to do
    - Experiment is ongoing
• Brief history of the banking system
  – Commercial banks
  – Merchant banks
Remainder of Talk

- Background on the Nigerian economy
- Brief history of the banking system and recent reforms
- Progress on responding to these questions
The Nigerian Economy

- **Real GDP**
  - Size: $165.5 billion (2007)
  - Per capita: $920 (2007, Atlas method)
  - Size, growth:
    - 1987-1997: 4.0%
    - 1997-2007: 5.4%
  - Per capita, growth
    - 1987-1997: 1.0%
    - 1997-2007: 2.8%
The Nigerian Economy

- Real GDP – Composition, % GDP (2006)
  - Agriculture: 32.0%
  - Industry: 41.9%
    - Manufacturing: 2.6%
  - Services: 26.1%
The Nigerian Economy

Real GDP – Composition

- Oil dominates exports, orientation of economy
  - Produces 2.1 million barrels/day; 10.8 for Saudi Arabia
  - % Exports: 85%-90%, 2000-2005
  - Oil and gas in government revenue: 43% of non-oil GDP
The Nigerian Economy

- Comparison to oil-rich nations
  - Oil dependence high
  - Manufacturing share low
The Nigerian Economy

Inflation rate and credit
The Nigerian Economy

- Oil richness at odds with poverty/demographic data
  - Life expectancy at birth: 47; 51 (SSA); 57 (LI)
  - Child malnutrition (%<5yrs): 27; 27 (SSA); 29 (LI)
  - 89% of population lives below $2/day
Brief History of the Banking System

- Traditional bifurcation
  - Commercial banks
  - Merchant banks
  - Financial institutions for the poor
Brief History of the Banking System

- 2005 Reform
  - Merger of commercial and merchant banking activity
  - Merger of weaker banks with stronger banks
Brief History of the Banking System

- 2005 Reform

  - Financial institutions for the poor still separated
    - Community banks forced to raise capital base and become microfinance banks
Data

● Two types of data for this study
  – Published, aggregate
    • Central Bank of Nigeria
    • Nigerian Deposit Insurance Corporation
    • Commercial bank annual reports
  – Survey, individual
    • EFinA/Finscope
    • Acquiring
Nigerian Banks

Nigerian Banks, 1970-2009

Number of Banks

Year

Source: Central Bank of Nigeria
Banks, Private Credit, Inflation Rate, 1985-2005
Nigeria, Financial Depth

Data

Nigeria, Financial Depth

M2/GDP

Year

Distressed Banks in Nigeria, 1991-2009

Data

The graph shows the share of distressed banks to total banks in Nigeria from 1991 to 2009. There is a significant increase in the distressed banks' share in 1994, reaching a peak in 1998, followed by a sharp decline in the following years. The share stabilizes around 2006, indicating a period of relative stability in the banking sector.
Data


[Graph showing Non-Performing Loans and Provisions from 2001 to 2007]
Conclude So Far

- **Successes**
  - Raising capital base
  - Stabilizing banking system, initially
  - Raising degree to which bank finance is used (financial depth)
Conclude So Far

- But
  - Several banks bailed out this summer
  - Chiefs fired
  - Debtors sought
    - Name and shame a first
  - CBN head is asking for regional oversight
  - Not clear poor were aided in consolidation
  - An experiment we need to watch!