CENTRAL BANK OF NIGERIA
PRESS BRIEFING ON MACROECONOMIC DEVELOPMENTS IN YEAR 2002 AND ASSESSMENT OF THE SMALL AND MEDIUM INDUSTRIES EQUITY INVESTMENT SCHEME (SMIEIS)

Deputy Governors, Central Bank of Nigeria,
Departmental Directors and Other Executive Staff of the Bank,
Gentlemen of the Press,
Ladies and Gentlemen,

This being the last of my quarterly press briefing in the out-going year, let me in addition to welcoming you here today, seize this opportunity to thank you all for your support during the year. I also consider it appropriate to give you an overview of major macroeconomic developments during the year and an assessment of the implementation of the Small and Medium Industries Equity Investment Scheme (SMIEIS), which was launched in 2000 and applauded as a positive change agent for Nigeria's economic transformation and development.

OVERVIEW OF MACROECONOMIC DEVELOPMENTS IN YEAR 2002

2.0 Distinguished Ladies and Gentlemen, macroeconomic performance should be assessed against the background of the main policy objectives enunciated in the 2002 budget, which were to stimulate non-inflationary economic growth and development, anchored on private sector participation, improved funding of economic infrastructure, and prudent fiscal and monetary policies.

3.0 A relatively stable macroeconomic environment was maintained in fiscal 2002, compared with 2001. Specifically, the inflation rate decelerated from 18.9 per cent in December 2001 to 13.6 per cent in October, 2002 and is projected to moderate further by year-end. The improved inflation performance reflected the impact of tight monetary policy and the moderating effect of good agricultural harvests on food prices. However, the target of single-digit inflation rate may not be met, due to the effect of expansionary fiscal operations of all tiers of government, as well as the constraints imposed by structural factors on output growth. Real GDP is estimated to grow by 3.2 per cent, as against the 4.0 per cent targeted for the year and the 3.9 per cent achieved in 2001. The lower overall growth performance was accounted for mainly by the contraction in the oil sector, which partly offset the improved performance of the non-oil sector.

4.0 The fiscal operations of the Federal Government also showed some improvement. Provisional data on federal government operations indicated that in the first ten months of this year, cumulative retained revenue of the Federal Government amounted to ₦665.7 billion, including proceeds of the draw down of external reserves, excess crude account and recovered looted funds (which the CBN classifies as financing items), representing a shortfall of 23.6 per cent below the proportionate budget estimate for the period. The shortfall was traced to lower receipts from oil and non-oil sources. On the other hand, the total expenditure amounted to ₦713.1 billion, which was 20.5 per cent lower than the budget estimate for the period. The bulk of the expenditure, ₦553.8 billion or 77.7 per cent, was in recurrent outlays. A deficit of ₦47.5 billion that emerged was financed largely by borrowing from the banking system.

5.0 Attributable largely to the expansionary fiscal operations of the three tiers of government and the attendant increase in bank's credit to the sector, growth in monetary aggregates was excessive relative to targets. Provisional data on money supply for the eleven months of the year indicated that broad money (M_2) rose by 33.2 per cent to ₦ 1,753.2 billion, as against the programme target of 15.3 per cent for fiscal 2002, while narrow money (M_1) grew by 28.2 per cent to ₦1,047.1 billion, as against the 12.4 per cent programme target for the year. The main expansionary factors of money supply were the increase in aggregate credit to the domestic economy, mainly to Government, and monetisation of oil export proceeds through government spending.

6.0 Influenced by liquidity surfeit in the system, available data indicated that banks' interest rates trended downward generally in 2002. Other moderating factors included, the downward reviews of the CBN minimum rediscount rate (MRR) and moral suasion aimed at encouraging banks to moderate their lending rates. Correspondingly, bank deposit rates declined generally. Also, the average inter-bank call rate declined from 24.6 per cent in December, 2001 to 17.79 per cent in November 2002. However, the spread between banks' weighted average deposit and maximum lending rates widened to 16.5 percentage points in November 2002 from 14.7 percentage points in December 2001, but that between the average savings deposit and maximum lending rates declined to 24.2 from 26.2 percentage points in December, 2001.

7.0 Distinguished Members of the Press, the performance of the external sector was mixed. The favourable price development in the crude oil market was dampened by the OPEC quota restriction, which reduced oil production and revenue below 2001 levels. Consequently, overall balance of payments position was estimated to be in substantial deficit, resulting in the depletion of the external reserves. Thus, the level of external reserves, which stood at $10.45 billion as at end December, 2001, fell by 26.7 per cent to $7.6 billion by November 22, 2002. This amount could still finance 7 months of imports, at current disbursement levels, compared with 8.4 months in December, 2001.

8.0 Against the background of the high growth in domestic liquidity, demand pressure in the foreign exchange market intensified during the first half of the year. Nevertheless, the naira exchange rate in the official segment of the market remained relatively stable during the second-half of the year, following the re-introduction of the Dutch Auction System (DAS) in July 2002. The average naira exchange rate, which was ₦113.01 per dollar in December 2001, depreciated by 12.2 per cent to ₦126.81 per dollar in November, 2002. Similarly, the naira exchange rate at the parallel market and the bureaux-de-change depreciated only marginally from ₦134.41 and ₦134.59 per US dollar in December 2001 to ₦138.50 and ₦139.00 per US dollar, respectively, in November, 2002, representing a depreciation of 3.0 and 3.3 per cent. A welcome development in the foreign exchange market since the introduction of DAS in July, 2002 was the substantial narrowing of the premium between the official and the parallel market exchange rates to 9.40 percentage points in November 2002, down from 18.9 percentage points in December, 2001.

9.0 On the health of the banking system, Ladies and Gentlemen, let me reaffirm that the Nigerian banking system has remained sound despite the CBN's regulatory action taken in the first half of the year to rid the system of unwholesome banking and unethical practices. The CBN will sustain its surveillance activities with due diligence to ensure that the financial sector remains sound, vibrant and credible in order to sustain public confidence in the system and ensure the efficiency and effectiveness of financial intermediation to promote economic growth and development.

10.0 In this regard, you will recall that early this year various actions were taken to sanitise the foreign exchange market and ensure its orderly operation. The CBN is pleased to note that we have clear evidence of the salutary effect of these measures on the foreign exchange market. Consequently, as a responsible and responsive regulator, the CBN has appraised individual bank's compliance with stipulated penalties and has decided to review and moderate the sanctions, on probational basis, before granting full pardon to banks that have fully complied. Henceforth, we expect banks to play the game according to the rules and show greater commitment to their primary role of financial intermediation. Let me reiterate that it is in the best interest of all stakeholders, operators, regulators and other economic agents that the integrity of the financial system should not be undermined.

UP-DATE ON SMALL AND MEDIUM INDUSTRIES EQUITY INVESTMENT SCHEME (SMIEIS)

11.0 Gentlemen of the Press, the decision by the Bankers' Committee to set up the SMIEIS in December, 2000 in support of Government's efforts to promote investment and employment growth, toward improving the welfare of the citizenry was a welcome initiative. You will recall that the Scheme took-off on 19th June 2001 and was formally launched by the President and Commander in-Chief of the Federal Republic of Nigeria, Chief Olusegun A. Obasanjo, on 21st August, 2001. After one and half years of its implementation, it is pertinent to assess the performance of the SMIEIS, following the initial commitment of the Bankers' Committee that the first funds set aside under the Scheme must be invested within 18 months in any of the specified sector ventures.

12.0 Let me, quickly highlight the progress made so far under the Scheme, the challenges facing the implementation, and underline the opportunities open to prospective investors.

13.0 From the inception of the SMIEIS through October, 2002, a total of ₦12.37 billion has been set aside by 79 banks for equity investments. Out of this amount, ₦1.73 billion has so far been invested in 36 projects by 36 banks. The amount utilized represents only 14.0 per cent of the total funds set aside.

14.0 Further analysis of the projects undertaken showed that the spread of investments, both in number and value, are skewed in favour of Lagos. So far only one investment project each has been implemented in Cross River, Anambra, Delta and Oyo States, respectively. In addition, it was also found that 75 per cent of the investments is in the services sector. The Sub-Committee on SMIEIS has, therefore, expressed concern over this development and drawn the attention of the Bankers' Committee to the worrisome trend.

15.0 In reaction, the Committee in its 262nd meeting held on 25th August, 2002, modified the operating guidelines to correct the anomaly by directing that all banks investing under the Scheme should ensure that:

- (i) a minimum of 60 per cent of the amount set aside should go to the core real sector;
- (ii) a maximum of 30 per cent to services; and
- (iii) maximum of 10 per cent to micro-enterprises, through non-governmental organisations (NGOs).

In addition, all banks were mandated to set up and strengthen their SMIEIS desks, while an appeal was made to CBN to undertake capacity building for all stakeholders.

16.0 To sensitize the organised private sector and other stakeholders, the CBN has, since the launching of the Scheme, organised public enlightenment workshops at Kano, Enugu, Lagos, Ibadan, Calabar, Benin, Aba, Kaduna, Maiduguri, Jos, Bauchi, Lafia and Lokoja. The second phase of the training programme has been scheduled for business packaging and enhancement at Damaturu, Sokoto, Awka, Lagos, Ilorin and Abeokuta between December, 2002 and January, 2003. These will be complemented with advertisements and publicity. In order to ensure effective implementation and monitoring, the CBN hosts the Secretariat of the Scheme and monitors stakeholders' compliance with the SMIEIS guidelines.

17.0 On its part, the Bankers= Committee has set up a Sub-Committee on SMIEIS as its technical and advisory arm to address all problems arising from the implementation of the Scheme. The Sub-Committee has so far, addressed the problem of skewed investments. It is also developing a scheme to link small scale industries developed under the programme, to conglomerates to ensure ready markets for their products. Furthermore, consideration is being given to enlist the services of consultants as capacity builders and facilitators in the SMIEIS packaging and training programmes. Similarly, it monitors the operations of venture capital companies and fund managers to ensure that nothing in their operations is inimical to the success of the Scheme.

18.0 The Federal Government on its part has graciously supported the Scheme by granting the necessary tax concessions. The Government=s commitment to upgrade economic and social infrastructures will further help to boost productive activities under the Scheme. Moreover, an Advisory Committee on SMIEIS has been set up to advise the Presidential Consultative Committee (PCC) on SMIEIS. The Committee is made up of representatives of the Federal Government, organised private sector (OPS), banks, Nigerian Investment Promotion Commission (NIPC) and the Central Bank of Nigeria. It has been monitoring new investments under the Scheme and holds quarterly meetings to review operations.

19.0 Ladies and Gentlemen, recognising that the initiative of SMIEIS is novel, we should, at this initial stage, expect challenges, both technical, social and structural that would tend to constrain the full implementation of the Scheme. These challenges include:

(i) Equity investment is new to the banks and require special technical skills.
(ii) Small and Medium Scale ventures are mainly family businesses and most Nigerians are averse to losing control of such businesses by admitting outside participation as partners.
(iii) The small scale and micro-enterprises operate at such a low scale that makes them unattractive to banks, because of cost implications.
(iv) The small businesses lack basic management skills and have no reliable records upon which reasonable planning and business packaging can be based.
(v) The SMIEIS are unable to pay for the services of consultants that would enhance their capacity and competence on the business.

20.0 The challenges highlighted above do not in anyway dampen the enthusiasm and prospects for improved performance under the Scheme. It should be recognised that some of the current teething problems are inevitable, particularly at the initial stage of implementation. There is, therefore, a need for understanding and patience on the part of all stakeholders because, for the Scheme to succeed, certain success factors have to be imbibed and put in place. Furthermore, bankers and enterpreneurs have to change their attitude and embrace equity investment financing options. The entrepreneurs must accept the discipline and comfort that come with admitting institutional investors like banks that can impose financial prudence - the lack of which often results in the failure of such enterprises. More importantly, business owners should realise that it is better to own a part of a viable enterprise than a whole of nothing.

21.0 Nevertheless, the reassuring fact is that uninvested funds would be placed in the custody of the Central Bank of Nigeria until suitable investment outlets are found. The SMIEIS is not a loan scheme and the expectation by some stakeholders that available resources will be disbursed at concessionary interest rates is misplaced. Bank loans will continue to be available as an option, but SMIEIS is a different scheme based on equity participation. We want banks' equity involvement with all the attendant leverage that will be created by such participation.

22.0 The right investment climate and conditions (as obtainable in other lands) have to be put in place to increase the utilization of the funds mobilised under the Scheme. Some of such necessary requirements include:

- (i) Good business packaging.
- (ii) Improvement of entrepreneurial competence
- (iii) Development of industrial parks, industrial layouts, core centers and villages with shared facilities, security and services.
- (iv) Financial intermediation on behalf of very small enterprises. This could be achieved through the establishment of venture capital companies that can intermediate on behalf of such enterprise.

23.0 Finally, state/local governments should speed up the establishment of functional industrial parks to reduce costs borne by SME operators. It is only in this way that the Scheme can be said to be on the right path to success that will give birth to future conglomerates.

24.0 I thank you for your attention.

Chief (Dr.) J.O. Sanusi, *CON*
Office of the Governor
Central Bank of Nigeria,
Abuja.

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