

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



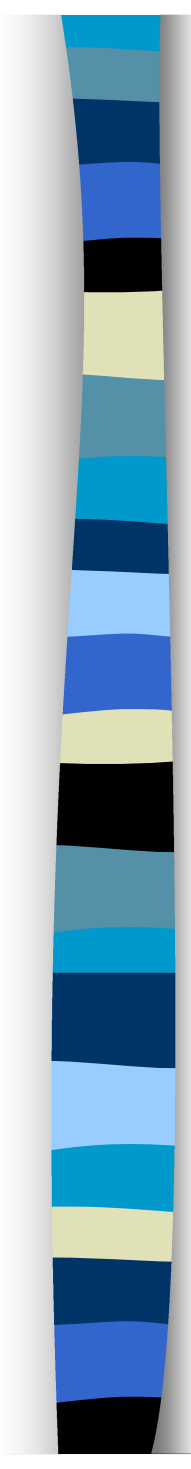
Questions

- 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

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- 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

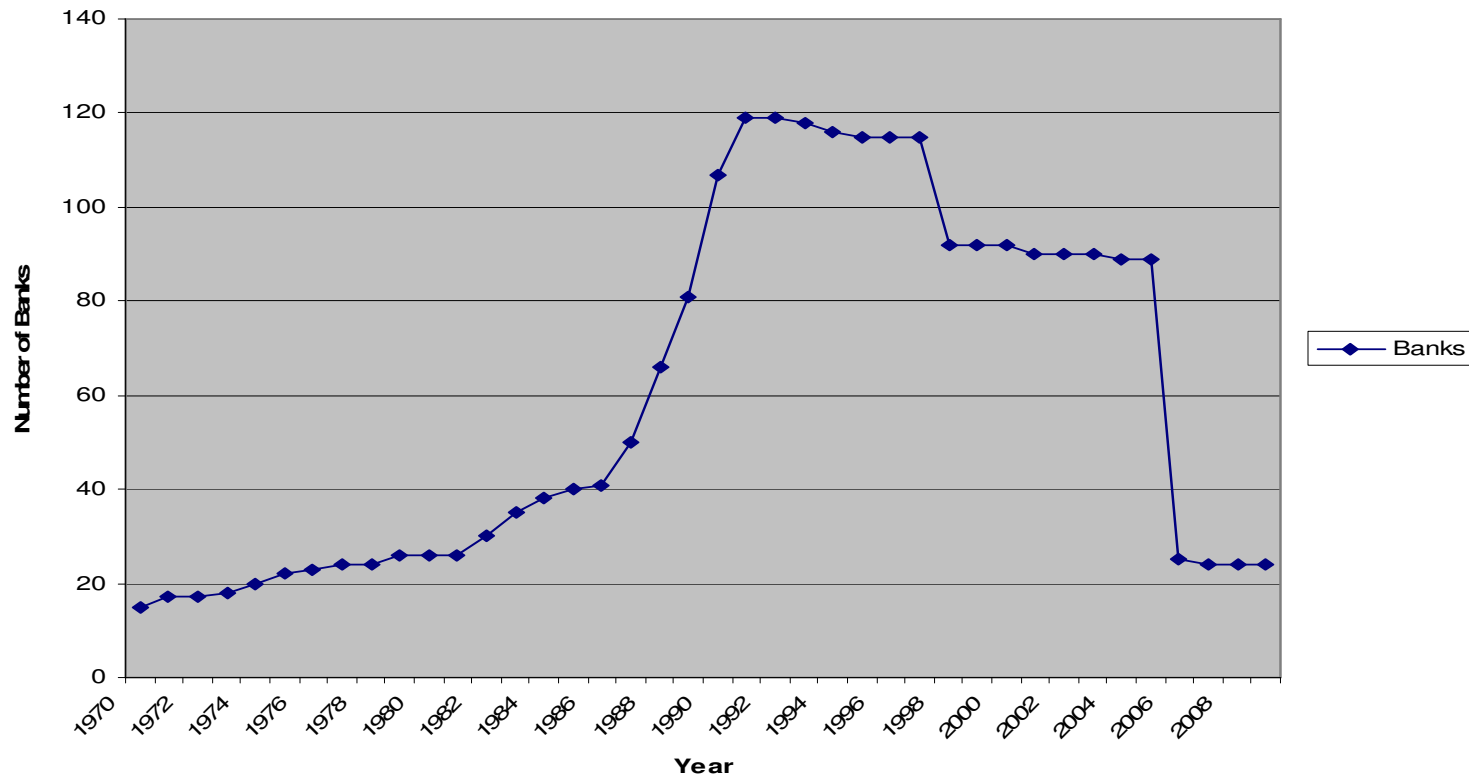


Data

- 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

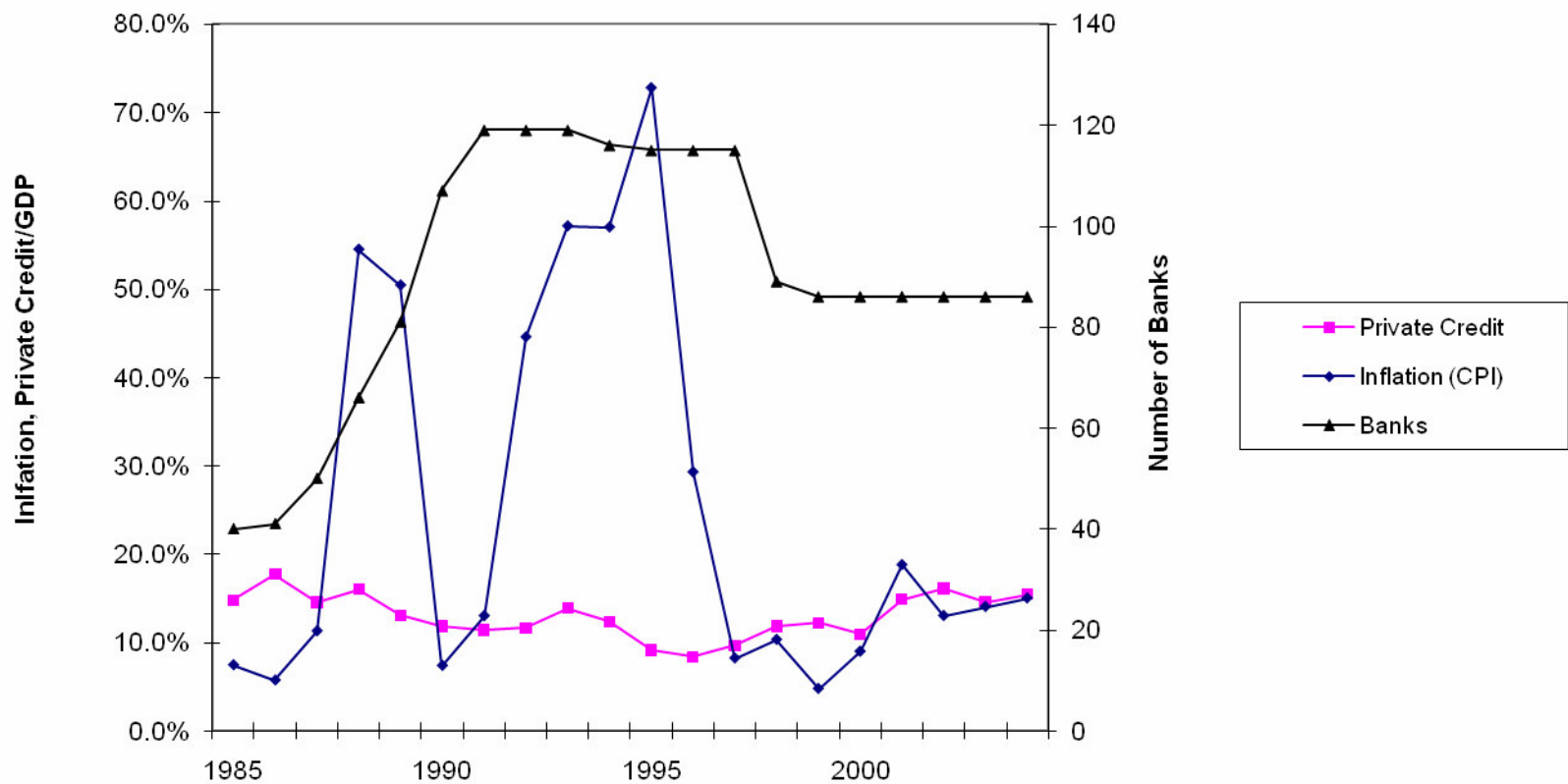
Nigerian Banks

Nigerian Banks, 1970-2009



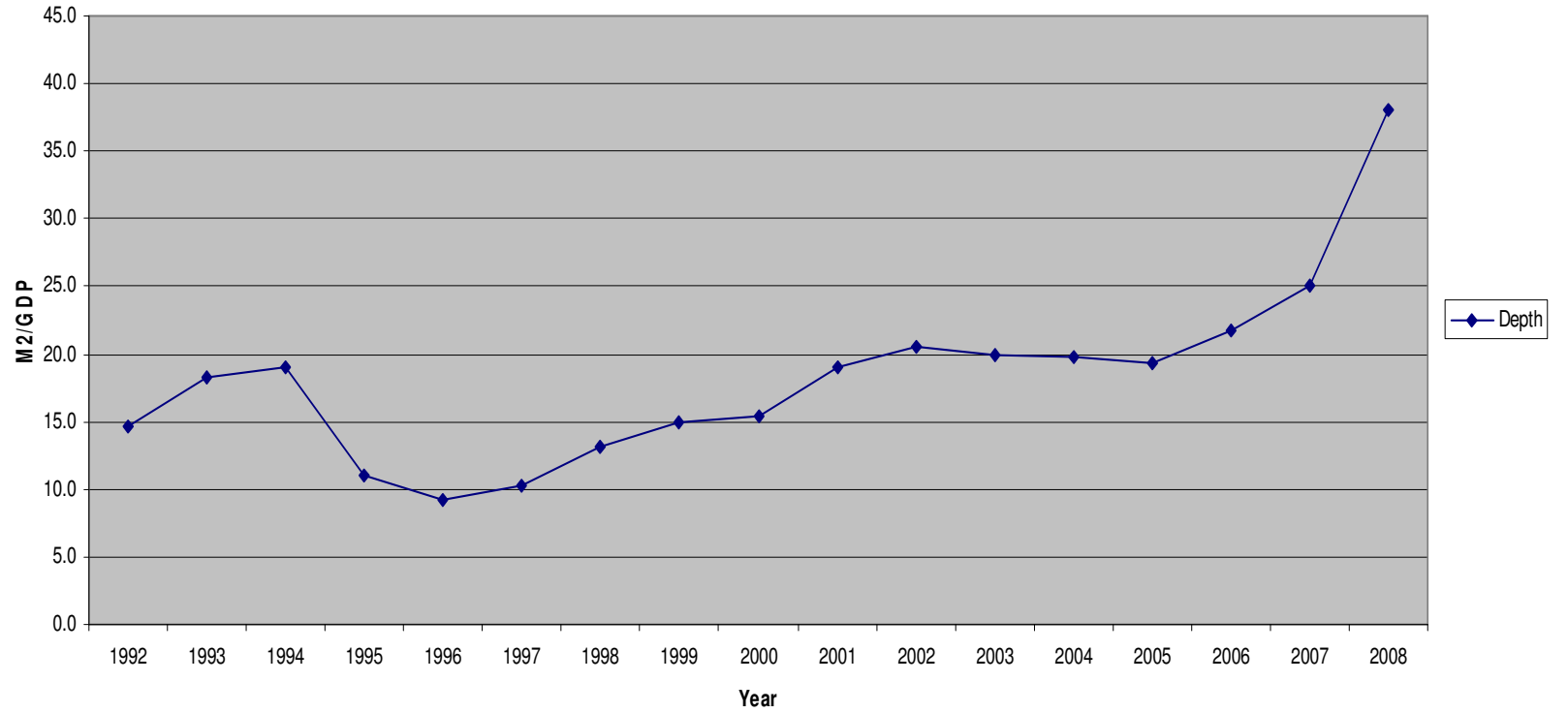
Source: Central Bank of Nigeria

Banks, Private Credit, Inflation Rate, 1985-2005



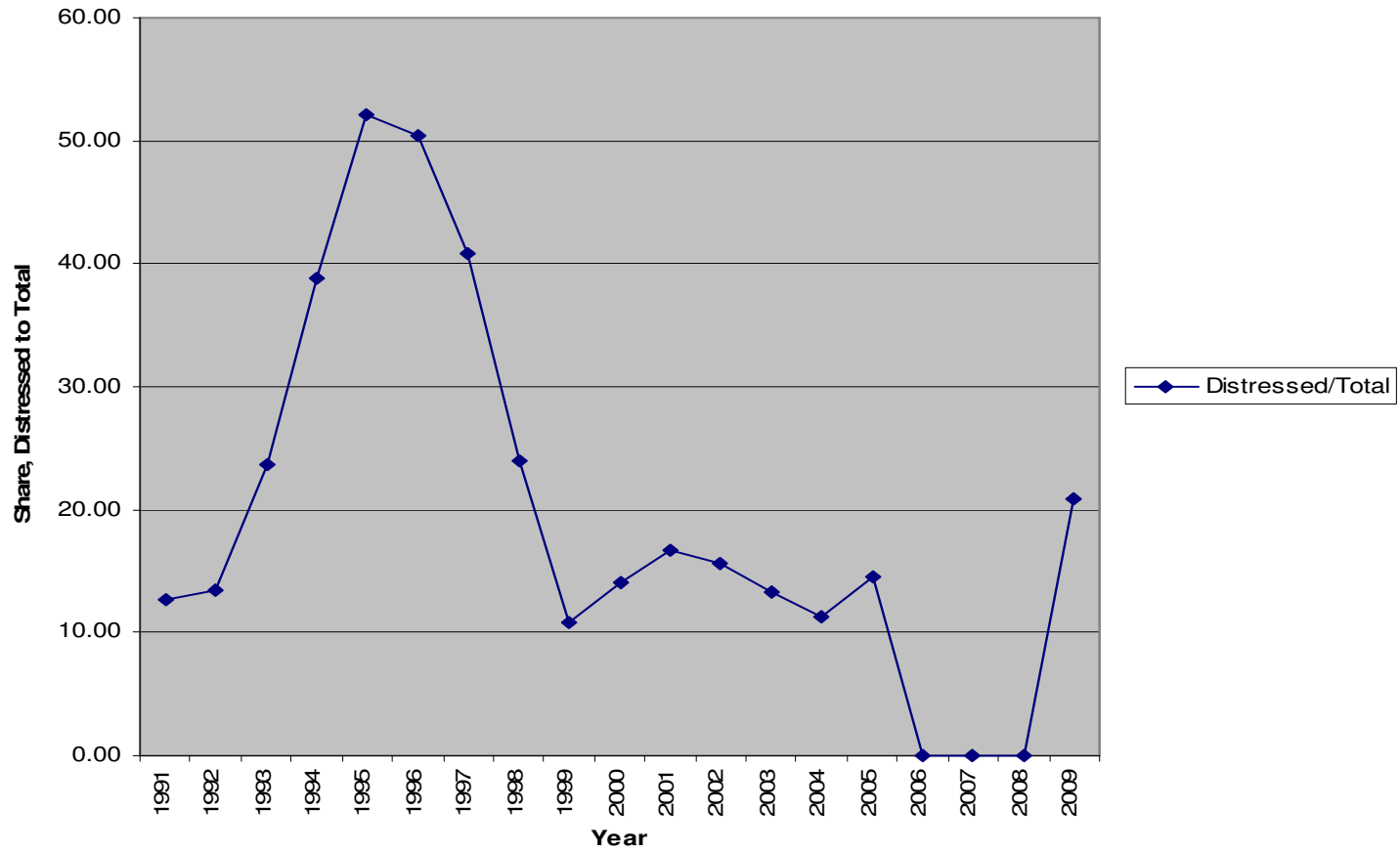
Data

Nigeria, Financial Depth



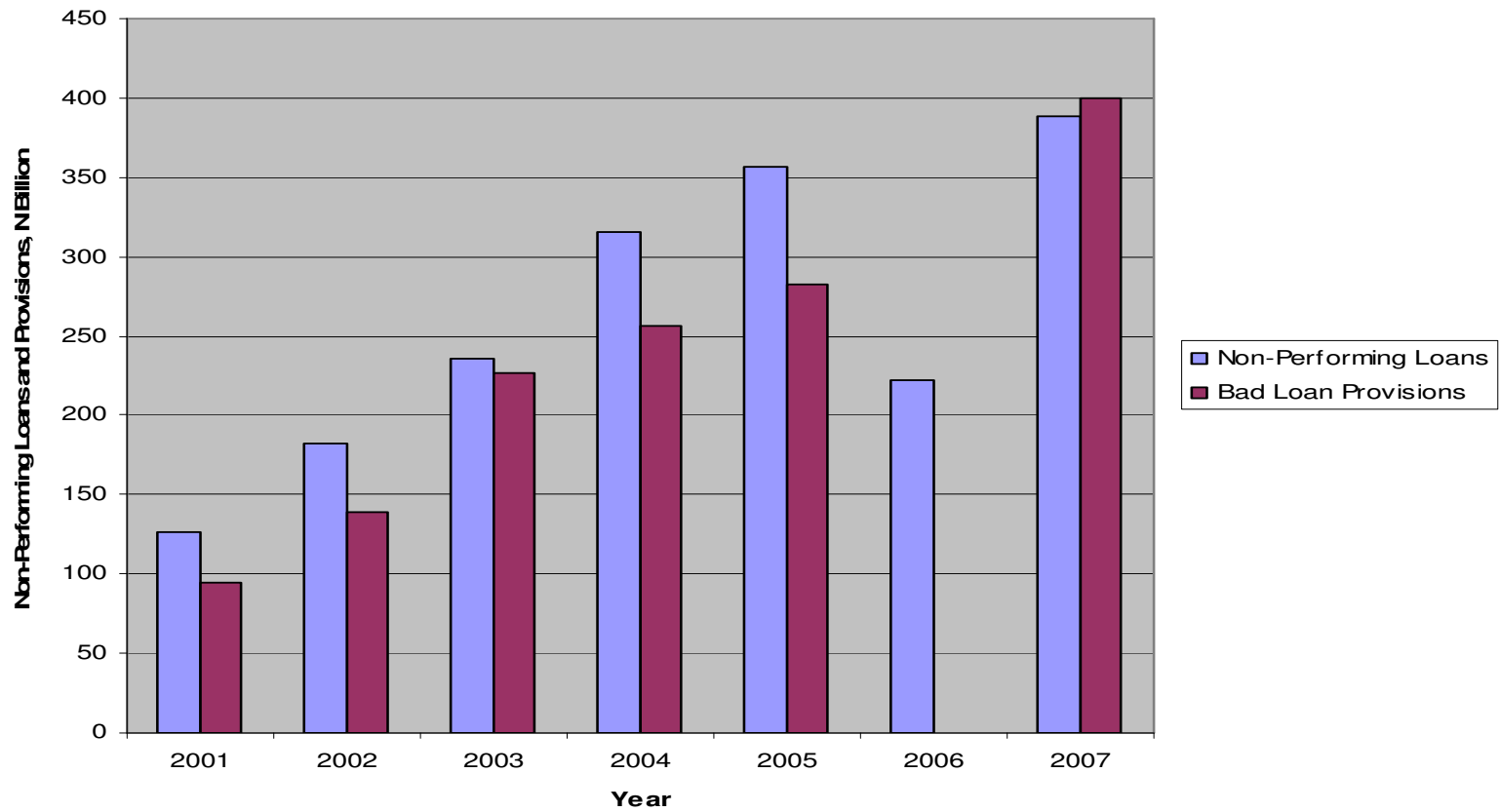
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Distressed Banks in Nigeria, 1991-2009



Data

Nigerian Banking System, Non-Performing Loans and Provisions, 2001-2009





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!