The Implementation Of The 2004 Bank Reforms In Nigeria: A Post Facto Analysis

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Abstract

The praxis of bank reforms by governments of different countries of the world has constituted a common policy benchmark in public financial administration. Adopting a histo- descriptive- method, this paper reflects on the dynamics of the 2004 bank reforms in Nigeria, reviewing in the process, the brief history of the reform, the principles that underscored the reform, its actual implementation and challenges that circumscribed the policy. It explored the initiative during this era in Nigeria from the Nigerian government's policy of financial sector liberalization and deregulation. The paper argues that though the 2004 bank reform policy had good intentions and achieved minimally its objectives, the entire policy implementation lacked significant implementation outcomes.

Keywords: Bank Reforms, Recapitalization, Consolidation, Wholesale Dutch Auction System, Implementation

Introduction

The history of banking sector in Nigeria's economy has been problematic and imbued with instability of growth, failure and attendant corruption.. Shaw (2007) observed that, the situation looks the same in other African countries who had colonial experience. For him, this causes most national governments' heavy reliance on international banks and their banking services. The only exception in this decay was South Africa which had a thriving banking sector that was aided by the international section of the apartheid regime which forced out the British banks that had once dominated the sector. In the case of Nigeria, Hughes, et al (2006) have stated that the banking industry until the indigenization policy was heavily dominated by colonial interest. They also pointed out that the colonial powers who established the banks drew their line of operation to meet the need and interest of their home country and had no plans to use them to develop the economy of Nigeria. They established in the country a parasitic system of banking that was characterized by maximization of profit and benefits through short-term commercial lending for importation into the country and the exportation of the abundant mineral resources for their industrial use at prices dictated by the colonial powers. It has been established by Cameroon (1967) that one of the main areas of nationalist struggle against colonialism was over indigenous control of the banking industry in Nigeria.

A few years after independence, the battle was won. In most African states, the victory necessitated heavy government regulations of the sector. In Nigeria, the indigenization policy of the then military government finally gave Nigerians the commanding height in the management and ownership of commercial banking which placed strict limit to the colonial interest and foreign competition. The sector has above all, undergone remarkable changes since two decades as it concerns the ever-increasing number of banks coming into the country. Other prominent changes within this period are the ownership structure, the level of operation and the general reforms techniques. Stiroh (2005) observed that these changes have been necessitated by the challenges posed by the deregulations going on in the world economy, the globalization process, technological innovations and the adoption of the regulatory measures in the international business.

The challenges of the banking sector in Nigeria occasioned by the changing global economy have been pointed out as one of the factors that caused the Nigerian bank reforms of 2004. In his speech during his first meeting with the CEOs and stakeholders in the banking industry in July 2004, where the 13 point reform agenda was announced, the Nigerian CBN governor, Charles Soludo, had painted a real picture of what the Nigeria banking sector looked like, since independence which necessitated the recapitalization initiative (Nnanna, 2004:17). A sector with distress signal apparent at the door steps of many banks, dwindling confidence in the entire system, emphasis on short-term lending to the neglect of manufacturing, agriculture and other capital intensive projects with small capital base. He emphasized that the goals of the reform is to correct the situation and build strong banking industry that is diversified, strong and reliable, which will ensure the safety of depositors money and play active developmental roles in the Nigerian economy.

It is based on the above positive expected impact of the 2004 bank reform in Nigeria that this study undertakes a post facto analysis of its implementation in the country. Consequent on this background therefore, the paper's objectives are as follows:

- ✓ To x-ray the post SAP banking reforms in Nigeria.
- ✓ To analyze the guiding principles associated with the 2004 bank reforms in Nigeria.
- ✓ To demonstrate the extent of the implementation of the 2004 bank reforms in Nigeria;
- ✓ To describe the problems encountered in the implementation of the 2004 bank reforms in Nigeria; and
- ✓ To suggest measures that will ameliorate the associated challenges observed in the reforms implementation process.

An Overview of Post SAP Bank Reforms In Nigeria

Conceptually, banking reforms is that aspect of socio-economic reforms which focuses essentially on getting conditionalities right for the banking sector to take the lead role in empowering the private sector and to contribute more to economic growth. According to Balogun (2009) Nigeria has undergone four phases of bank sector reforms since the commencement of Structural Adjustment Programme (SAP).

The first phase is the financial systems reforms of 1986 to 1993 which led to deregulation of the banking industry that hitherto was dominated by indigenized banks that had over 60 percent Federal and State governments' stakes, in addition to credit, interest rate and foreign exchange policy reforms. This culminated to rapid expansion of the banking sector from about 40 commercial and merchant banks with a combined branches network of about 1,655 in 1986 to 121 and about 2,385 branches in 1992 (CBN, 1993).

The second phase began in the late 1993-1998, with the re-introduction of regulations. During this period, the banking sector suffered deep financial distress which necessitated another round of reforms, designed to manage the distress.

The third phase began with the advent of civilian democracy in 1999 which saw the return to liberalization of the financial sectors, accompanied with the adoption of certain regulation programmes. While some of the bankrupt banks were liquidated, about 89 of them survived and had about 3,382 branches predominantly in the urban centres as at June 2004, (Soludo, 2007). This era also saw the introduction of universal banking which empowered the banks to operate in all aspect of retail banking and non-bank financial markets.

The fourth phase began in 2004, upon assumption of duty as CBN governor by Prof. Soludo. In his assessment of the banking industry in Nigeria on resumption of office, Soludo (2007) had asserted that the financial system was characterized by structural and operational weaknesses and that their catalytic role in promoting private sector led growth could be further enhanced through a more pragmatic reform. It is in the light of this background, that the central bank of Nigeria embarked on a new bank reform in the country in the 2004 bank reform exercise.

Adopted Guiding Principles of 2004 Bank Reforms

The Nigeria's 2004 bank reforms appeared to be guided by the provision in the Country's National Economic Empowerment and Development Strategy (NEEDS) programme of 2004. In the said document, it was postulated that the Nigerian financial sector is in dire need of massive reform that borders on the implementation of monetary and fiscal policies. The document further argued that there is a strong case for ensuring the efficiency of the financial system and for dealing with the contradiction, inherent in the fact that despite high profit levels, the sector does not appear to be playing a catalytic role in the real sector. In a detailed exegesis of this adopted monetary policy, NEEDS programme recommended several policy trusts for the efficient functioning of the Nigerian financial sector. Some of these, according to NEEDS document (2004:24), are as follows:

- ✓ Provide more credit to the private sector, especially long-term credit for real sector development
- ✓ Strive to meet the second West African monetary zone's convergences criteria
- ✓ Maintain low real lending interest rate
- ✓ Maintain a competitive but stable exchange rate regime.
- ✓ Restructure the composition of credit to the private sector to boost production
- ✓ Create effective regulatory and supervisory mechanism to ensure orderly development of the financial system; and
- ✓ Continue to use the retail Dutch auction system to determine the nominal exchange rate regime and adopt a wholesale Dutch auction in the medium to long term.

In this regard, Soludo (2007:15) had asserted that the problematic situation the reforms was intended to address include;

- The shadow depths of the capital market,
- Dependence of financial sector on public sector and foreign exchange trading as sources of funding;
- Relatively inaccurate returns submitted to the monetary authorities,
- Apparent lack of harmony between fiscal and monetary policies and above all,
- The poor loans repayments performance as well as bad debts.

The NEEDS (2004) document further identified additional areas of the financial sector reforms. Essentially, this is meant to build and foster a competitive and healthy financial system in order to support the economy and to avoid systemic distress. This is to be achieved by deepening the financial system in terms of asset volume and instrument diversity which also involves drastic reduction and ultimate elimination of financing of government deficits by the financial system. This is in order to free up resources for lending to the private sector and to review the capitalization of financial institutions. Such reform measures will also ensure the development of a structure of financial sector incentives that would support real sector financing.

In terms of strategies for ensuring successful implementation, Soludo (2007:17) also averred that among the strategies enunciated for achieving these include:

- Embarking on a comprehensive reform process aimed at substantially improving the financial infrastructure,
- Restructuring, strengthening and rationalizing the regulatory and supervisory framework in the financial sector;
- Addressing the issue of low capitalization in financial institutions,
- Developing a structure in financial sector for cheap credit to the real sector and above all,
- Strengthening financial deepening and accommodations for small and rural financial markets.

For the apex banking institution in Nigeria, certain conditionalities are very necessary for the achievement of the 2004 reform process. These conditionalities according to CBN (2006:28) for which all Nigerian commercial banks are to comply with are as follows:

1. Requirement that the minimum capitalization for banks should be ₦25 billion and no more N2 billion, with full compliance before end-December 2005 (that is, 18 months notice rather than 12 months normally given in many countries).

- Only the banks that meet the requirement can hold public sector deposits, and participate in the DAS auction by end 2005.
- Publish the names of banks that qualify by 31 December, 2005.

2. Phase withdrawal of public sector funds from banks, starting in July 2004.
3. Consolidation of banking institutions through mergers and acquisitions.
4. Adoption of a risk focused, and ruled-based regulatory framework.
5. Adoption of zero tolerance in the regulatory framework; especially in the area of data/information rendition/reporting. All returns by banks must now be signed by the MDs of the banks. The so – called're-engineering' or manipulation of accounts especially in the hiding of information under 'other assets/liabilities' and off-balance, sheets will henceforth attract serious sanctions.
6. The automation process for rendition of returns by banks and other financial institutions through the electronic financial analysis and surveillance system (e-FASS) will be completed expeditiously.
7. Establishment of a hotline, confidential internet address (Governor@cenbank.or) for all Nigerians wishing to share any confidential information with the Governor of the Central Bank on the operations of any bank or the financial system. Only the governor has access to this address.
8. Strict enforcement of the contingency planning framework for systemic banking distress;
9. Work towards the establishment of an Assets Management Company as an important element of distress resolution.
10. Promotion of the enforcement of dorm-laws, especially those relating to the issuance of dud cheques, and the law relating to the vicarious liabilities of the Board members of bank in cases of failings by the bank.
11. Revision and updating of relevant laws, and drafting of new ones relating to the effective operations of the banking system.
12. Closer collaboration with the Economic Financial Crimes Commission (EFCC) in the establishment of the Financial Intelligence Unit (FIU) and the enforcement of the anti-money

laundering and other economic crime measures. Greater transparency and accountability will be the hallmark of the system.

13. Rehabilitation and effective management of the Mint to meet the security printing needs of Nigeria, including the banking system which constitutes over 90 percent of the Mint's business.

From the above conditionalities set out, for the effective implementation of the 2004 bank reforms in Nigeria, it is crucial to ask certain basic questions as: How effective was the implementation of the 2004 bank reforms in Nigeria? In order words, were the objectives set out for the reforms achieved? And if not, what were the factors that constituted stumbling blocks to their actualization? The answers to some of these raised questions are addressed in the subsequent sections of this paper.

Implementation of the 2004 Bank Reforms In Nigeria

The implementation of the 2004 Bank reforms by the Central Bank of Nigeria achieved certain basic targets that started from January 2, 2006. One major implementation platform on which the reform process was hinged is the recapitalization of the banks to the tune of ₦25 billion minimum base through the consolidation policy of acquisitions, mergers, outright takeovers, private placement or resorting to the stock market.

In implementing this policy, the central bank of Nigeria had by January 2, 2006 fully achieved one of its targets by announcing the emergence of 25 banks out of the 89 pre-consolidation banks existing in Nigeria before the policy. According to one official of the Central Bank of Nigeria then, Odoko (2006), Nigerians are enjoined to "henceforth transact banking business with only the 25 successful banks". Dike (2006:30) in further analysis of these successful and approved 25 banks, had demonstrated that many of these banks even exceeded, the required ₦25 billion benchmark.

The 25 banks that emerged from the reform programme according to Dike as stated above are shown in the table 1 below.

Table: List of Successful/Approved Banks in Nigeria Resulting from 2004 Central Bank Reform

	NEW BANKS/CEO	MERGED PARTNERS
1	First bank plc (Mr. Jacobs Ajekigbe)	First Bank PLC, FBN Merchant Bankers
2	United Bank for Africa PLC	Standard Trust Bank PLC, United Bank For Africa PLC,

	(Mr. Tony Elumelu)	Continental Trust Bank
3	Union Bank PLC (Dr. Godwin Oboh)	Union Bank PLC, Universal Trust Bank Plc, Union Merchant Bank, Broad Bank Nigeria Limited
4	Afribank Bank PLC (Mr. Francis Akinkuotu)	Afribank Bank PLC, Afribank (Merchant Bankers)
5	Skye Bank (Mr. Akinsola Akinfemiwa)	Prudent Bank PLC, EIB International Bank, Bond Bank, Reliance Bank Ltd, & Co-operative Bank
6	Wema Bank PLC (Mr. Adebisi Owoyemi)	Wema Bank PLC, National Bank PLC, Lead Bank PLC
7	Sterling Bank (Mr Babatunde Dabiri)	NBM Bank Nigeria Ltd, Magnum Trust Bank, Trust Bank of Africa, NAL Bank PLC, Indo Nigeria Bank.
8	Oceanic Bank Int. PLC (Dr. Mrs. Cecilia Ibru)	Oceanic Bank International PLC, International Trust Bank
9	Fidelity Bank PLC (Mr. Reginald Ihejiahi)	Fidelity Bank PLC, Manny Bank PLC, FSB International PLC.
10	Intercontinental Bank PLC (Dr. Erastus Akingbola)	Intercontinental Bank PLC, Gateway Bank PLC, Global Bank PLC, Equity Bank Nig. Limited
11	IBTC-Chartered Bank (Mr. Atedo Peterside)	Investment Bank and Trust Company (IBTC), Chartered Bank PLC and Regent Bank Limited
12	Standard Chartered Bank Ltd (Mr. Simeon Millet)	Standard Chartered Bank Limited
13	Platinum/Habib Bank (Mr. Francis Atuche)	Platinum Bank Nigeria Ltd, Habib Bank International
14	Unity Bank PLC (Alhaji Faldu Bello)	NNB International Bank PLC, Centre Point Bank PLC, Societe Bencier, Tropical Commercial Bank, Bank of the North, First Interstate Bank, New African Bank, Pacific Bank & Intercity Bank PLC
15	Diamond Bank PLC (Mr. Emeka Onwuka)	Diamond Bank, Lion Bank & AIB International Bank
16	NIB/Citi Bank (Mr. Emeka Enenwa)	Citibank
17	Spring Bank PLC (Mr. Mike Chukwu)	Citizens International Bank, ACB Bank PLC, Guardian Express Bank, Omega Bank PLC, Tran International Bank PLC, Fountain Trust Bank
18	Zenith Bank PLC (Mr. Jim Ovia)	Zenith Bank PLC
19	First City Monument Bank PLC (Mr. Ladi Balogun)	FCMB, Co-operative Development Bank PLC, Nigeria-American Bank
20	GT Bank PLC (Mr. Tayo Aderinokun)	GT Bank PLC
21	First Inland Bank PLC (Mr. Okey Nwosu)	First Altantic Bank PLC, Inland Bank PLC
22	Ecobank Nigeria PLC (Mrs. Funke Osibodu)	Ecobank PLC
23	Access Bank PLC (Mr.Aigboyekhuede)	Access Bank PLC, Marina Bank, Capital Bank Nigeria Limited
24	Devcom/ETB (Mr. Ike Oraekwuotu)	Devcom Bank and Equatorial Trust Bank Limited
25	Stanbic Bank	Stanbic Bank Ltd

Source: Dike O. (2006:31-32) Newswatch Magazine January 16

However, apart from the above demonstrated successful consolidated banks, the 2004 bank reforms also enunciated that there were as many as 13 banks in Nigeria that failed to consolidate or did not scale through the recapitalization programme. These banks as reported by Dike (2006:22) are shown in table 2 below:

Table 2: Unconsolidated Banks In Nigeria From The 2004 Bank Reform Programme

1. All States Trust Bank	**6.** Fortune Bank	**11.** City Express Bank
2. Hallmark Bank	**7.** Liberty Bank	**12.** Gulf Bank
3. Trade Bank	**8.** Triumph Bank	13. Assurance Bank
4. African International Bank	**9.** Eagle Bank	
5. Societe General Bank	**10.** Metropolitan Bank	

Source: Dike O. (2006:31-32) Newswatch Magazine January 16

From the above stated unconsolidated banks, it may be necessary to ask crucial questions like; what became their fate? What happened to the funds of Nigerian depositors in their care? In an apt answer to these questions, Soludo's (2006:30-32) had averred that the unconsolidated banks has three possible options as follows: outright liquidation; forge alliance and merger with any one of the consolidated banks and finally be acquired by any of the banks that achieved the required minimum capital base. For the deposited funds in these banks that may be liquidated, Soludo (2006:32) has insisted that Nigerians need not fear about that. This is due to the fact that the central bank of Nigeria had made plans to repay all such depositors within 90 days from the date of liquidating, these banks, while use will be made of Failed Bank Decree process to get these funds back from these banks that have mismanaged these deposits.

In assessing the positive contributions of this aspect of the 2004 banking reform on the Nigerian economy, Atojoko (2007:10) has stated that:

> Thanks to the consolidation exercise, Nigerian banks are now financing multi billion naira mega projects in the manufacturing and telecommunication sectors. One of such projects is the $150 million (N19 billion) provided by a consortium of 13 local banks to partly finance the Obajama cement company in Kogi State, a company owned by the Dangote Group of Companies.

In further support of the benefits of the recapitalized banks to the socio-economic development of the country, are also social commentators and professionals like Soludo (2006), and Dike (2006) For Dike (2006:33):

> One clear benefit of the consolidation exercise is increased confidence in Nigerian banks by foreign financial organization that have begun to extend credit lines to them. Among the banks that recently benefited from this credit extension are UBA, Intercontinental Bank and Diamond Bank

Another crucial aspect of the 2004 bank reform implementation in Nigeria is the actualization of the Wholesale Dutch Auction System (WDAS) designed for the convergence of the official and parallel foreign exchange rates in the sale of foreign exchange in Nigeria. The implementation of this element of the 2004 reform took the form of liberalization of the foreign exchange transactions in Nigeria for purposes of avoiding distortion and checkmating inflationary trends in the economy, which encompasses interest rate and the general price level. In elaborating on the implementation dynamics of this part of the reform process, Soludo (2006:42) had mused that the Central Bank of Nigeria as part of the overall reform, decided to make the entire market consistent. To do this the CBN:

> had to go full throttle on the liberalization of the market and allow it function the way other currency markets operate in the world. The economics of it is, a reversal of the decades old scarcity mentality…by applying the twin principle of reforming the demand side and supply side.

The practicality of the implementation of solving this decades old scarcity of foreign exchange was the legitimization of the black market through granting several bureau de-change licenses to all that qualifies to enter into the formal foreign exchange transactions system. To do this effectively, both banks, mallams and all that desired, got their licenses to established bureau de-change windows and source their foreign exchange from central bank of Nigeria and other banks where necessary.

In summarizing on the implementation dynamics of the 2004 bank reforms in Nigeria, it is relevant to state that other minor aspect of the reforms were also implemented. Some of these are the introduction by the CBN of the Policy Monetary Rate (PMR) in place of the Minimum Rediscount Rate (MRR). This angle of the reform tackled the excessiveness of the ever-raising bank interest rates to borrowers of funds from banks in Nigeria. It is aimed at enhancing responsiveness of interest rates to the required monetary policy measures. In commenting on this area, Ogugua (2006:33) has explained that:

> After bank consolidation and reforms in Nigeria, commercial banks would have to go out to look for customers to borrow their money just as manufactures goes out looking for customers to purchase products….. competition would be more fierce between banks and this would practically bring down the interest rates… if interest rate goes down, cost of production will go down, and the price of finished goods will go down. So reform and consolidation will not cause inflation.

The last minor subset of the implementation of the 2004 bank reform of the central bank of Nigeria was the introduction of licensing of specialized micro-finance banks that will enhance easy credits to small and medium scale enterprises. In the execution of this level of the reform, the CBN initially licensed eight micro-finance banks in 2006 with the objectives of attending to small and medium scale credit needs. In attesting to the relevance of this implemented bank reform process, Adaju (2007:10) has asserted that:

> For any economy to grow and develop, the small-scale industries must make the highest contribution to the gross domestic product, GDP…. The contribution of the informal sector to the growth of the national economy was quite significant in terms of out put and employment and the government must encourage and empower the small and medium enterprises through provision of loans by the banks.

Inspite of the few landmark achievement of the 2004 bank reforms, it also had some challenges in its implementation. It is to these problems that this study turns its focus on.

Problems Associated With 2004 Bank Reforms in Nigeria

The review of the implementation dynamics of the 2004 bank reforms so far shows that the outcome fell short of expectations, because of some pitfalls which militated against it. Among these are as follows:

a) Faulty premise for reforms,

b) Wrong sequencing of reforms,

c) Conflicts emanating from adopted theoretical models for reforms,

d) Frequent reversals/non-sustainability of reforms,

e) Conflict emanating from foreign exchange market segmentation,

f) Conflicts or trade-offs in fostering internal and external balance via the monetary approach,

g) Ambivalent theoretical underpinning of reforms e.t.c.

Some of these itemized challenges to the 2004 Bank Reform in Nigeria can be explained further as follows;

Faulty Premise for Reforms: This is one of the problems associated with the 2004 bank reforms in Nigeria. The faulty premises indicate that the review of the reforms in Nigeria shows that the premise was to get price incentives right for the banking sector through the abolition of foreign exchange and credit rationing in favour of liberalized domestic market and foreign exchange markets. The concern was more with reducing government intervention with the hope that there exists a virile private sector to fill the gap effectively. Unfortunately, the Nigerian financial markets was far from being virile, as it was characterized by dualistic financial markets, whereby the commercial banks operated side by side with urban black and parallel markets. While the government succeeded, albeit after a long period, of divesting her interests in the banking sector, market segmentation persisted and perhaps remains at the root of policy compromises which tended to thwart the reforms efforts till date.

Poor/Wrong Sequencing Of Reforms: There are poor sequencing and coordination between policy reforms initiatives, the timing of implementations and its sustainability. This was particularly problematic in the 2004 bank reform implementation era when the monetary authorities have had to subject the banking sector to liquidity shocks via discretionary monetary policy in order to tame the foreign exchange market.

Nnanna (2005) is of the view that such shocks were detrimental to the performance of the banking sector and further exposed them to increased risks in the face of macro-economic instability, arising from the weakening oil market, exchange rate and financial sector crises.

Conflicts Emanating From Foreign Exchange Market Segmentation: The major dilemma or conflict arising from the segmentation of the market during the 2004 reform period is the tendency of participating financial institutions in the Dutch Auction System

(DAS) to convert purchases from the wholesale market to speculative operations at the inter bank markets, as well as in their retailing activities to individuals and corporations for arbitrage gains. Although the monetary authority has often thought that what is needed to rectify this anomaly is increased funding of the wholesale market through very frequent interventions, the problem had persisted, with the result that rent-seeking behaviour assumed a more complex dimension, thereby dimming possibilities of exchange rates convergence.

Recommendations

The Nigerian financial system of which the banking sector is a major player has performed below expectations due to scandalous past, ranging from unethical and unprofessional practice, fraud, mal-administration, liquidation insolvency and war over foreign exchange etc. All these observed problems resulted to a reform policy as initiated by the federal government.

The findings of this research revealed that, though the bank re-capitalization meant good for the economy in the long-run, but the policy formulation and execution did not consider the immediate economic implication on the general public. The study therefore recommends the following.

a) That policies that impact directly on the macro-economic life of the nation as it concerns the daily life of the people should be gradually implemented with certain palliative measures to ease the unforeseen consequences.
b) Consideration should be given to short-run implications of policies whose full gains have a long-run effect.
c) Though Merger and acquisition are economic tools for stabilizing the economy, they should not be forced on corporate businesses as was the case in the banking sector reforms in Nigeria, where banks that could not meet deadline for re-capitalization were forced to merge. This is because each bank posses some corporate services rendered to the economy as the later licensed micro-finance banks demonstrated.

d) The idea of bank reform policy reversals should be checkmated. This reversals have shown its ugly head in some of the policies adopted by the Sanusi era in the present central bank administration

Conclusion

The banking sector no doubts is a very critical part of the total economy because it serves as a central link to the other sectors of the economy. Therefore the re-capitalization and other reform programme in the sector is a step in the right direction because capital is required to support any business for such to achieve the required goals. It is an essential element which enhances confidence and allows a bank to serve the economy. A very important function of capital in the banking industry is to serve as a means of absorbing losses. The more capital a bank has the more losses it can sustain without going bankrupt (Nnanna, 2005).

Due to the banking sector's central role in the overall development of the economy, the 2004 reform in the banking industry resulted in far-reaching economic, social and political consequences in the entire economic system. However, certain socio-economic anomalies that resulted from the reform process could be handled, if the panaceas suggested in this study are adopted in further reforms in Nigeria.

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