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The Impact of Central Bank of Nigeria's Development Finance Role on Economic Growth and Development of Nigeria

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This paper examines and assesses the effects of Central Bank of Nigeria's development finance role on economic growth and development of the Nigerian economy, with special reference to Central Bank of Nigeria's Credit Schemes. The findings from the study revealed that the state of economic development in Nigeria is invariably associated with extent of the growth and development of the Central Bank of Nigeria's Development finance. The Central Bank of Nigeria's Credit schemes have increased the level of credit inflow which increased the level of productivity, employment generation, agricultural output, domestic trade, rural development, exports, foreign earnings and import substitution in Nigeria. These improved the level of economic growth and development of the Nigerian economy. The conclusion derived from the findings as contained in the recommendations includes: the three tiers of Governments should give the Central Bank of Nigeria's development finance schemes necessary support, adequate attention and publicity. Government must established effective monitoring mechanism that will monitor and guide the operation and performance of the development finance schemes. There is the necessary need for Government to increase, improve and encourage private development finance institutions in Nigeria in order to accelerate inflow of credit to the productive sectors of the economy.

Keywords: Development Finance, Economic Growth, Development, Credit, Finance, Credit Schemes

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INTRODUCTION

Without sufficient and effective development finance, economic development is impossible. Healthy development finance in a country ensures capital formation, higher productivity, better standard of living for citizens and stable and growing economy. Policy measure of development finance intervention which provides capital in form credit to the productive sectors of the economy is important and in fact necessary for meaningful economic growth and development. Development finance is any form of finance, donation or credit geared towards achieving economic growth and development in an economic system. It is one of the major and necessary requirements or instruments for rapid and sustainable economic growth and development in any nations which supply finance to various sectors of the economy in order to achieve welfare improvement**,** greater productivity and facilitate economic growth. However, development finance in more elaboration is the financial initiatives involving the formulation and implementation of policies, innovations, schemes, programmes, appropriate financial supply/credit to deliver economic services in an effective, efficient and sustainable manner to achieve economic growth and development. Therefore conceptually and contextually development finance encompasses the ideology, philosophy, objectives goals, strategies, schemes, programmes, institutional policy and economic or financial agents or agencies that provide, facilitate and enhance the provision or supply of finance and credit for productive and economic activities to sectors such as agricultural, industrial , manufacturing and entrepreneurial activities that can assist in achieving accelerating , improving and facilitating economic growth and development.

It has to do with the conglomeration of various markets instruments, operations and institutions that interact with the economy to produce or supply financial services and financial resources mobilization and allocation to enhance sectors' productivity, output, income, saving, capital accumulation, employment generation, standard of living and economic development at large.

There are two categories of development finance institutions: internal or international financial institutions. Internal development financial institutions comprised of Central Bank of Nigeria, commercial banks and other internal financial institutions that supply finance or credit to the productive sectors of Nigerian economy. International development financial institutions which supply finance, loans or credits for the purpose of economic problems such as poverty eradication, economic growth and development such institutions comprised of World Bank, IMF, Paris and London clubs, African Development Bank and other international financial donors and creditors.

In Nigeria, the climax of financial regulatory body the Central Bank of Nigeria, without an iota of doubts has been playing this development finance role for supporting the sectors of the economy such as agriculture, industry and entrepreneurs with the supply of finance, credits and donations for growth and development of Nigeria economy.

It is basic that inadequate capital or finance to productive sectors lead to low productivity, output, income, saving, investment, employment, exports, foreign exchange and backward economy. However, Nigerian productive sectors such as agriculture, industry, manufacturing and other related economic sectors lack access to sufficient and just credit that would enable them to improve their inputs and output.

Therefore, Central Bank of Nigeria's credit schemes are created and designed to increase inflow of adequate and just credit, mainly on single and fixed interest rate to the Nigerian productive sectors. Central Bank of Nigeria's development role initiatives involve the participation of Central Bank Nigeria directly or indirectly in the economy in terms of the formulation and implementation of various policies, schemes, programmes innovations and directives for the provision of sufficient or adequate finance and credit to the productive sectors of Nigeria with primary objective of facilitating economic growth and development.

The Central Bank of Nigeria administers development finance through its credit schemes such as:

1. Refinancing Facilities for Agricultural Export Commodities.
2. Rural Finance and Banking Support Scheme
3. Agricultural Credit Guarantee Scheme
4. Commercial Agricultural Credit Scheme
5. Small and Medium Scale Industry Credit Scheme. etc

However, the Central Bank of Nigeria role in promoting economic growth and generally a healthy economy goes beyond the conduct of monetary policy. Generally, lack of access to adequate finance and capital needed by Nigeria sectors of the economy have been the major problem that lead to their inability to source sufficient and effective inputs to expand output, productivity, income, saving, investment and employment . Hence, the perpetual decline in productivity, output, exports, foreign trade, foreign direct investment, GDP, foreign exchange earnings in Nigeria economy could be attributed to inadequate finance and capital needed by the productive sectors. Obviously, these had been the problem that hindered, undermined and impeded the growth and development of the productive sectors and rooted a perpetual crisis in Nigerian economy such as low productivity, low output, low income, extreme poverty, unemployment, inequality, insecurity and general economic crises. Therefore, sufficient supply of just and easy credit to the productive sectors like agriculture, industry, manufacturing and entrepreneur will help Nigerian economy to achieve high productivity and facilitate economic growth. Otherwise, Nigerian economy would continue to be in predicament.

This paper aimed at: Determine the nature and scope of the Central Bank of Nigeria's development finance, to also examine and assess the effects of Central Bank of Nigeria's credit schemes on economic growth and development of Nigerian economy. And finally, to identify the challenges and suggest measures for effective management of Central Bank of Nigeria's development finance schemes in Nigeria.

THEORETICAL FRAMEWORK

This paper adopts classical theory of political economy and development in evaluation the relationship between development finance and economic growth and development. The theory is concerned with economic growth, the factors socio-economic, political and financial, which impeded or facilitates these economic growth and development. However, it is the study of economy, production, distribution, exchange and consumption of goods and services within the context of specific politics and society. In relation to this topic the central argument of this theory is that sufficient access and inflow of finance and capital to productive sectors would enhance their capital formation, productivity and investment while insufficient finance and capital needed to them would mount a decline in their productivity.

The famous scholars in this theory comprised of Adam Smith, David Ricardo, Thomas Malthus and others. Smith believes that the banking sector plays important role in channeling finance, capital, credit and investment to productive agents like agriculture, industry, entrepreneur and processing agents within the economy and therefore act as a catalyst of economic growth and development. The main implication of this theory, therefore, is banking sector and credit schemes aims at enhancing productivity and investment which embrace openness, competition and simplicity, will promote economic growth and development. The theory agrees with sufficient capital in form of finance and credit enhances productivity and investment, in turn accelerates economic growth and development and the reverse is the case.

According to Smith credit which is the source of capital and capital formation is the source of high production. Capital accumulation is a key to economic progress and sufficient capital in form of finance to farmers, producers and businessmen is a key to economic growth and development. And farmers, producers and businessmen are the agents of economic progress. Sufficient finance and access to adequate credit enable the productive sectors of an economy to source adequate modern inputs, additional workers, modern technology and reinvestment these enhances productivity and boost economic activities in a nation.

Therefore, credit inflow plays a significant vital role in influencing capital formation, productivity and investment of the economy sectors and stimulates growth. According to Ricardo supply of finance affects economic growth and development, stagnation or even declining in any economic system.

LITERATURE REVIEW

Academically, various studies have shown that there is a strong and positive relationship between the development finance and economic growth and development. According to Porter (1996) the level of financial institution development is the best indicator of general economic development.

Goldsmith (1969) contends that financial development is of prime importance for real development because the financial superstructure in the form of both primary and secondary securities accelerates economic growth and improves economic performance to the extent that it facilitates the migration of funds to the best user. In his empirical study, however, Goldsmith calculated the value of the development interrelation ratio, the ratio of all financial instruments at a given time, to the value of the national wealth and development. He found that the ratio for developing countries was far lower than those of developed countries and concluded that because the development of financial institutions affects development in developed countries and financial development is lowest even lower in developing countries which led to backwardness. The low level development of financial superstructure affects development negatively.

Ake (1981) development strategy aimed at expansion and diversification of agricultural export commodities, a unified financial and economic approach to development (i.e. development finance), import substitution, export promotion, integrated rural development and basic needs approach. Any process of financing those activities could be regarded to as development finance role.

World Bank (1982) further contends that development finance encompasses the increase in the stock assets or the ability of financial institutions to effectively mobilize financial resources for economic growth and development. This view accepts the fact that financial systems contribution to the economy depends on the quality and quantity of its services and the efficiency with which it performs them.

Nzotta (2009) classify development finance into two sectors. The informal sector which characterized by: it has no formalized institutional framework, no formal structures no guided written rules and regulations and they are more of traditional comprises of local money lenders thrift cooperative society and associations while the formal sector on the other hand could be clearly distinguished into money and capital markets institutions such as central banks, commercial banks, world bank, IMF, African development bank etc.

Schumpeter (1911) sees development finance as the role of financial intermediation through the banking system or financial institutions that plays a private role in economic development by affecting the allocation of saving, investment and fund, thereby improving productivity, technical change and the rate of economic growth.

The Central Bank of Nigeria's Development Finance Role and Economic Growth and Development of Nigeria

The apex bank, the Central Bank of Nigeria in propelling the nation's economy and facilitating economic growth is implementing various reforms like credit schemes and financial programmes which have direct impact on the economy of the country. The development finance department of the Central Bank of Nigeria is the driver of these major reforms in order to achieve microeconomic goals at attaining rapid and balanced growth of the economy and the alleviation of poverty, unemployment and inequality.

1. **The Refinancing Facilities for Agricultural Export Commodities**.

This is the intervention by Central Bank of Nigeria in rural finance markets with the provision of refinancing facilities for agricultural export oriented commodities. The scheme had made significant contributions to Nigerian economy. It has increased inflow of credits to the farmers producing export oriented commodities in Nigeria. The farmers producing agricultural oriented export commodities in some selected rural areas obtained credits from this scheme. However, the credit assisted the farmers to sourced adequate inputs and generates greater output and productivity. This contributes significantly to the increase in the level of production of agricultural export commodities, export promotion, foreign trade on agricultural products, GDP, foreign exchange earnings. Eventually, these improved the level of economic growth and development of the Nigerian economy.

2. **Rural Banking and Finance Scheme**

The scheme is designed to increase access of the rural dwellers to financial and credit services aimed at promoting the financing of agriculture and small scale rural industrial activities. For many years back rural areas in Nigeria were economically backward and poor with high rate of poverty, unemployment, and income inequality and rural to urban migration.

Lack of access to adequate capital and finance to rural agriculture and industries had contributed greatly to the decline of the Nigerian rural economy which absolutely agrarian. This credit scheme has improved the life, economy and development of the affected rural in Nigeria. The study has discovered that the credit scheme had increased the inflow of credits the to rural famers, small and medium scale industries and rural companies which enhanced the level of their productivity, output, investment, income earnings, employment generation, location of small scale industries, agricultural and industrial development in the affected rural areas and subsequently reduced the rate of poverty, unemployment, income inequality, rural to urban migration. It also improves the rural life and economic well-being of the people living in the affected rural areas. These enhanced the level of integrated rural development of the affected areas, and increased the level of economic growth and development of the Nigerian economy.

3. **Agricultural Credit Guarantee Scheme Fund**

This credit scheme is designed to revamp and boost agricultural sector as a whole through the provision of loans to small and medium rural farmers of Nigeria. This credit scheme is mainly established to enhance food production and food security. And one of the major challenges facing our rural farmers producing food crops is lack of access to adequate and just credit. The study discovered that this credit scheme has increased the inflow of credit to the Nigerian farmers. Virtually all Geo-political zones of Nigeria had benefited from this scheme. It has increased the acquisition and adaptation of new improved quality seeds, fertilizer, pesticide and machines among the beneficiary farmers. This increases the farmers' hectare utilization, farm expansion, output, income earnings, employment generation, farmers' potentialities, and standard of living. The Expansion of farmers' output and income earnings improved the level of food production, food supply, domestic trade among the affected rural areas and states, per capita output and income of the states, and import substitution on food locally produced like Rice, wheat and others. These improved the level of per capita income, GDP, food security, agricultural exports, foreign exchange earnings and foreign trade of the Nigerian economy. These increased the level of economic growth and development of Nigeria.

4. **Small and Medium Enterprises Equity Investment Scheme**

This scheme is designed to provide finance and credit to small and medium enterprises in Nigeria to enhance business ownership. The scheme has also increased inflow of credits to the Nigeria enterprises which enhances their investment, sole proprietorship, productivity, self-reliance, and job opportunities in the entrepreneurship sector. This helps the Nigerian economy to developed local technology, generated employment, encouraged entrepreneurship investment and productivity and of course stimulated economic growth. A credit scheme like this should be sustained and well-funded in order to increase small and medium entrepreneurship investment locally and create more jobs. Nigeria needs to look inward for the utilization of available resources and possibilities. Because the level of domestic investment always determine the level of domestic production, per capita income and output, GDP and economic growth and development.

5. **Commercial Agricultural Credit Scheme**

This scheme is designed to fast track the development of the agricultural value sector of the economy through provision of credit facility at single digit interest rate to large scale commercial farmers. The scheme has also increased the level of commercial and large scale agricultural production, agricultural export commodities, foreign exchange earnings, foreign trade and investment. It increases the level of agricultural commercialization, modernization, mechanization, large scale agricultural production, agricultural export commodities, foreign exchange earnings, commercial agricultural oriented sector in Nigeria. This improves international trade, balance of trade and economic growth and development in Nigeria.

6. **Small and Medium Scale Industry Credit Scheme**

The imperative of the industrial and manufacturing development in an economy cannot be over emphasized. These are the twin sectors that determine the nation's level of technology, technical know-how, manufacturing products, modern machines, modernization and industrialization.

This scheme is designed to accelerate the provision and supply of finance and credit to Nigerian industries and manufacturing sectors.

The scheme also increased the inflow of credits to small and medium scale industries in Nigeria. These improved the level of industrialization, manufacturing activities, advance technology and machines, greater production and export. These also improved the level of economic growth and development of Nigeria. Industrialization is a key to any meaningful economic growth and development. However, our small and medium scale industries need sufficient capital to compete with multinational companies and foreign industries.

Progressively and successfully, we have seen how these credit schemes made positive contributions to the economic growth and development of the Nigerian economy.

Therefore, growth and development of development finance in this country is expected to enhance and accelerate productivity, exports, foreign exchange earnings, balance of trade and payment and reduces poverty, destitution, and narrow economic inequality and control unemployment. Central Bank of Nigeria's development finance intervention is to facilitate smooth, easy, just, and adequate inflow of capital in form credit to the productive sector of the economy to enable the sectors adopt new technologies and adequate inputs, to raise their productivity, output, income, saving, investment, and general activities. Undoubtedly, development finance affects Nigeria's economic growth and development, stagnation or even declining. Lack of access to adequate capital in form credit contributes to the economic stagnation and declining in Nigerian economy. Therefore, sufficient and effective finance and credit should be provided to our productive sectors of the economy to boost economic growth and facilitate economic development in Nigeria.

In nutshell, the role of financial intermediation at the center and heartbeat of Nigerian economy cannot be quantified or even emphasized because financial institutions played a pivotal role in economic growth and development by affecting the allocation of adequate financial resources, investment, capital formation and saving thereby improving productivity, output, technological change, Gross domestic product, Gross National Product, National Income, per capita income and rate of economic growth and development. Third world nations, Nigeria included should take development finance very serious and made it to be an avenue of facilitating economic growth and development.

Challenges

Unfortunately, approach to development finance over years in Nigeria had tendered to be segment, uncoordinated, ineffective, neglected, politicized and largely unsustainable. However, most of the credits and loans were unaffordable, inaccessible, unjust, unavailable, unreliable and unfavorable to the productive sectors, more especially agricultural sector which received only 1% out of the 100% total commercial banks loans, and the sector was primary dominated by poor, small and medium rural farmers who have nothing than hoe.

Furthermore, most of the credit schemes are bourgeoisie/elite oriented schemes, because most of the beneficiaries were politicians, elites, senior civil servants and technocrats who have influence and connection in government and who have mainly diverted the fund to their personal and private life and to unproductive use. In this regard, it is very difficult to realize the objectives of development finance and boost Nigerian economy. And most of the development finance schemes faced with inadequate funds from government.

The Central Bank of Nigeria's credit schemes however, faced with the following challenges. High incidence of loans default among the beneficiaries, in this situation, it is very difficult to recover funds. There was also high incidence of loans diversion among the beneficiaries, high interest rate charge by some commercial banks against Central Bank of Nigeria directives.

The size of the loans is too small to some beneficiaries who are ready to embark on large investment and productivity. And most of the credit schemes lack affective mechanism for monitoring their operation and performance. There was also lack of clear written rules and regulations that will guide the activities, operation and performance of the credit schemes. However, there was adequate information and publicity on the credit schemes to the borrowers.

RECOMMENDATIONS

We have seen the important vital roles and contributions of Central Bank of Nigeria's development finance schemes on economic growth and development of Nigeria. Therefore the three tiers of government in Nigeria should give the credit schemes the necessary support, adequate attention and publicity in order to sustain development finance practice in Nigeria. The productive sectors (Borrowers), lending institutions and government however, must show greater commitment and dedication to any development finance policy for the credit schemes to achieve its target. There is the necessary need for effective monitoring mechanism and clear written rules and regulations that will guide and monitor the operation and performance of the credit schemes to prevent future downfall or failure. Government should create a development finance department or unit in ministries like federal ministry of agriculture, industries and commerce like Central Bank of Nigeria's development finance department; this will help in coordinating and implementing government policies and programmes on development goals and development finance initiatives. Government should also provide strong and sustainable incentives and adequate funds to specialized development finance institutions like Agricultural Development Bank or Industrial Development Bank in order to facilitate supply of adequate, just, easy and favorable credits to the productive sectors of the Nigerian economy.

A specialized National Development Finance Agency like in developed countries should be created in Nigeria to shoulder the development finance roles, responsibilities, directions and activities. This will really help a long way in institutionalizing development finance practice and reviving the economy towards achieving economic growth and development in Nigeria.

CONCLUSION

This paper examines and assesses the effects of Central Bank of Nigeria's development finance role on economic growth and development of Nigerian, with special reference to its six credit schemes. It has been discovered that the Central Bank Nigeria's development finance role through the credit schemes had made significant contributions to the Nigerian economy by improving the performance of the productive sectors and increasing the level of economic growth and development. The study also identified some challenges facing the credit schemes in Nigeria which needs to be addressed urgently to enable credit schemes to make meaningful contribution to the growth and development of the Nigerian economy. These include insufficient funds or financial resources, inadequate attention and support, lack of awareness and effective monitoring mechanism. In spite of these challenges the credit schemes had made positive contributions to Nigerian economy. Therefore, the important of development finance policy and schemes cannot be overemphasized. It provides capital needed by the productive sectors of the economy which invariably will enhance their productivity and output, income, investment, saving and wealth creation. These stimulate economic growth and development.

In nutshell, any government development finance policy at any point of time should be to ensure that financial system operate sufficiently and effectively such that the real sectors will receive the necessary financial support to achieve economic growth and development. Nigerian government should take development finance and the credit schemes more serious.

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