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THE IMPACT OF CENTRAL BANK OF NIGERIA'S DEVELOPMENT FINANCE ON ECONOMIC GROWTH AND DEVELOPMENT OF NIGERIA

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ABSTRACT

Without sufficient and effective development finance economic growth and development are 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 supplies capital in form of finance and credit to the productive sectors of the economy is important and in fact necessary for meaningful economic growth and development. The state of economic development in Nigeria is invariably associated with extent of the growth and development of the financial institutions. Development finance is any finance, donation or credit geared towards achieving economic growth and development in an economic system. This paper examines and assesses the relationship and effects of Central Bank of Nigeria's development finance policy on economic growth and development of Nigerian economy. Central bank of Nigeria development finance is the financial initiatives involved in the formation and implementation of policies, schemes, programmes and innovations for the provision and supply of credit, loans, finance, donations and funds to the productive sectors of the economy to deliver economic services in an effective, efficient and sustainable manner to achieve economic growth and development. Central Bank of Nigeria plays a development finance roles through its credit schemes like agriculture credit guarantee scheme. The major findings of the study were greater number of the productive sectors of Nigeria lack access to adequate finance and credit this reduces their total productive capacity and affects the economy negatively. However, Central Bank of Nigeria's development finance policies and schemes have increased the productivity, investment, savings, employment and output of the

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productive sectors of Nigeria. In this case the development finance has enhanced the progress of 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 policy and schemes necessary support, adequate attention and publicity. Sufficient and adequate fund and finance should be provided to development finance schemes. Effective monitoring mechanism and written rules and regulations should be implemented with (development goals) to guide the operation and performance of the development finance schemes. There is the necessary need to increase, improve and encourage development finance institutions in Nigeria in order to accelerate inflow of capital to the sectors of the economy to facilitate economic growth and development

Introduction

Development financing is one of the major and necessary requirements or instruments for rapid and sustainable economic growth and development in any nations which supply finance, fund, credit and donations to various sectors of the economy in order to achieve welfare improvement**,** greater productivity and facilitate economic growth. Development finance 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.

Furthermore, conceptually an 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 provisions 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 developments. Development finance role is the conglomeration of various markets instruments, operations and institution 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.

Development finance role can be internal or international financial institutions. Internal financial institutions comprised of Central Bank of Nigeria, commercial banks and other internal financial institutions that supply finance or credit to the sectors of Nigerian economy. International financial institutions that also supply finance or credit for the purpose of economic problems such as poverty, economic growth and development comprised of World Bank, IMF, Paris and London clubs, African Development Bank and other international financial donors and creditors.

In Nigeria, the apex of financial regulatory body the central bank, 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 and insufficient capital to productive sectors lead to low productivity, output, income, saving, investment, employment and backward economy. Central Bank of Nigeria is the sole designer, initiator, administrator and regulator of all forms of development finance policies and schemes in Nigeria. All the internal financial institutions, lending institutions development finance institutions and commercial banks are controlled, guided and operated under the central bank of Nigeria's directives. The Central Bank of Nigeria's development finance 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 conducted development finance roles 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 . Therefore, the perpetual decline and downfall in productivity, output exports, foreign trades, foreign direct investment , GDP, foreign exchange earnings in Nigeria economy should be attributed to inadequate finance and capital needed by the productive sectors. Obviously, those have 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 extreme vicious circle of poverty, unemployment, inequality, insecurity and general economic crises. Therefore, sufficient and effective supply of just and easy credit to the productive sectors like agriculture, industry and entrepreneur will helps Nigerian economy to achieve high productivity and facilitate economic growth. Otherwise, Nigerian economy would continue to be in crises.

The primary objectives of this paper are: to determine the nature and scope of the Central bank of Nigeria's development finance, to examine and assess the effects of Central Bank of Nigeria development finance role on economic growth and development of Nigeria economy. And finally, to identify challenges of the development finance and suggest measures for sustaining and improving the development finance in Nigeria.

Theoretical Framework

This paper adopts the classical theory of political economy and development in understanding 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 and sustains 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 play an 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 credit policies, programmes and 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 is the source of capital formation and capital formation is the source of high production. Sufficient 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, finance or credit 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 made and 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 aim 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 Impact of Central Bank of Nigeria's Development Finance on 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. The development finance department was created in 1977 to manage the central bank of Nigeria's development finance policies, schemes and programmes.

Central Bank of Nigeria influences economic activities and progress through the following Credit Schemes.

1. **The refinancing facilities for agricultural export commodities**. This is the intervention by CBN in rural finance markets with the provision of refinancing facilities for agricultural export oriented commodities. This scheme had made significant contributions to Nigerian economy. It has increased inflow of credits to the farmers producing export commodities in Nigeria. Therefore, sufficient and access to credit and financial donations to the farmers producing agricultural export oriented commodities will enhance agricultural export commodities, export promotion, foreign trades, foreign exchange earnings, balancing of trade and payment , foreign direct investment, employment and foreign reserve and of course these would facilitate economic growth and development in Nigerian economy.
2. **Rural banking and finance programme** is designed to increase access of the rural dwellers to financial and credit services aimed at promoting the financing of agriculture, small scale rural industrial activities. For many years Nigerian rural areas were economically backward and poor with high rate of poverty, unemployment, and inequality and rural to urban migration. Lack of access to adequate capital and finance to rural agriculture and industries have been the genesis of downfall of the rural economy in Nigeria. However, this credit scheme has improved the life, economy and development of the affected rural. Though not all the Nigerian local government benefited from the scheme. Therefore, if government can improve and spread the activities of this scheme to all Nigerian rural areas or local governments would go a long way in improving the rural economy and of course the Nigerian economy. However, sufficient and effective supply

of credit and finance to rural famers, small and medium scale industries and companies will enhance productivity, output, employment generation, location and localization of industries in rural areas, standard of living, agricultural and industrial development in rural areas and will reduce the rate of poverty, unemployment, income inequality, rural to urban migration and improve the rural life and economic well-being of the people living in rural areas. These would assist in achieving integrated rural development in rural areas and facilitate economic growth and development of the Nigeria economy.

3. **Agricultural credit guarantee scheme** is designed to revamp and boost agricultural sector through the provision of loans to small and medium farmers of Nigeria. One of the major challenges facing our rural farmers is lack of access to adequate and just credit. The study has discovered that this credit scheme has increased the inflow of credit to the Nigerian farmers. Increased the acquisition and adaptation of new improved quality seeds, fertilizer, pesticide and machines among the beneficiaries' farmers. This increased the farmers output, income, employment generation, potentialities, and standard of living. Government should sustain this kind of scheme and sufficient fund should be provided to the scheme, this will enable our small and medium scale farmers from remote rural areas to acquire adequate capital from the credit to source enough inputs and expand their output and income earnings. Expansion of farmers' output and income earnings goes with expansion of food production, food security, domestic trade, per capita output and income, standard of living and import substitution on food locally produced. These would expand the economy and stimulate growth in Nigeria. It has been discovered that this agricultural credit scheme has supplied credit to all states of the federation and has made positive impact to all of the beneficiaries' farmers and the local governments.
4. **Small and medium enterprises equity investment scheme**. The scheme is designed to provide finance and credit to small and medium enterprises in Nigeria to enhance ownership of business. Provision of sufficient finance and credit to the Nigeria enterprises will enhance investment, productivity, self-reliance, business ownership and employment opportunity. These would help the Nigerian economy to develop local technology, generate employment, encourage investment and productivity and of course stimulate economic growth. A scheme like this should be sustained and well-funded to

increase small and medium entrepreneurs' investment locally. Nigeria needs to look inward for the utilization of local available resources and possibilities. Because local or internal investment always determine foreign direct investment.

5. **Commercial agricultural credit scheme**. Central bank of Nigeria designed this scheme in order to fast track the development of the agricultural value sector of the economy through provision of credit facility at single interest rate to large scale commercial farmers. The scheme has also improved the commercial and large scale agricultural production in Nigeria. And the scheme enhances the Nigeria export commodities and foreign exchange earnings, foreign trades and investment. Nigerian government should endeavor to sustain a credit scheme like this. Because sustained and sufficient finance and credit to commercial and large scale farmers in Nigerian will enhance commercialization and large scale agricultural production, agricultural export commodities, foreign exchange earnings, commercial agricultural oriented sector, source of revenue to the government, balance of trade and payment and international trade. These would facilitate economic growth and development in Nigerian economy.
6. **Small and medium scale industry credit scheme**. The significant important 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 and industrialization. This scheme is designed to accelerate the provision and supply of finance and credit to Nigerian industries and manufacturing sectors. Sustained and sufficient provision of finance and credit to these sectors will help the Nigerian economy to accelerate and achieve industrialization, advance manufacturing sector, advance technology, machines, mass production and export. Industrialization is a key to any meaningful economic development. Our small and medium scale industry needs sufficient capital formation to compete with multinational companies and foreign industries. This will accelerate and stimulate the production of manufacturing products and facilitate economic growth and development in Nigeria.

These are the positive relationship between central bank of Nigeria's development finance role and the economic growth and development of the Nigerian economy. Central bank of Nigeria has been playing development role through its development finance.

However, CBN has been playing development finance role through its financial and credit schemes. The entire financial and credit schemes are designed to affect all the economic sectors of Nigeria. Parts of the major challenges of Nigeria's productive sectors were inadequate capital, insufficient finance and of course lack of access to sustainable and favorable credit.

Categorically, these are the epidemic problems that undermined and impeded the progress of our economy. Sustained, sufficient and effective development finance in this country is expected to enhance and accelerate productivity, exports, foreign earnings, balance of trade and payment and reduces poverty and breaks extreme vicious circle of poverty, reduces destitution, narrow economic inequality and control unemployment in the Nigerian economy. Central Bank of Nigeria's development finance intervention is to facilitate smooth, easy just, cheap and adequate inflow of capital in form of finance and credit to the productive sector of the economy to enable the sectors adopt new technologies and adequate inputs which would 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 of finance and credit contribute to the stagnation and declining in Nigerian economy. Therefore, for Nigerian economy to achieve economic growth and facilitate economic development sustained sufficient and effective finance and credit should be supply to our productive sectors of the economy. These would definitely accelerate and stimulate capital formation among the sectors.

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 Income, per capita and rate of economic growth and development.

Challenges

Unfortunately, approach to development finance over years in Nigeria had tendered to be segment, uncoordinated, insufficient, ineffective, insufficient support and attention, politicized and largely unsustainable. However, most of the credit loans and finance 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 are 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 achieve the objectives of development finance and enhance Nigerian economy. 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, it is very difficult to recover funds. There was high incidence of loans diversion among the beneficiaries, high interest rate charge by some banks against Central Bank of Nigeria directives and the small size of the loans to some beneficiaries. Most of the credit schemes lack affective mechanism for monitoring the operation and the performance of the schemes, lack of clear written rules and regulations that will guide the activities of the credit schemes, lack of adequate information and publicity to creditors.

Recommendations

Categorically, 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. Nigerian 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 and policies to prevent future down fall or failure. Government should create a development finance department or unit in all the productive sectors 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 in Governmental structures. Government should also provide strong and sustainable incentives and adequate funds to specialized development finance institutions in order to encourage the supply of adequate, just, easy and favorable credit to the productive sectors of Nigerian economy.

A specialized 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 along the way in institutionalizing development finance practice and revive the economy towards achieving economic growth and development in Nigeria.

Conclusion

This paper examines and assesses the relationships and effects of central bank of Nigeria's development finance role on economic growth and development of Nigerian economy. It has discovered that the Central Bank Nigeria's development finance role has made significant contributions to the Nigerian economy by improving the productive sectors and facilitating economic growth and development. It also identified some of the challenges facing the policy which needed to be urgently addressed to allow it make meaningful contribution to the orderly growth and development in the Nigerian economy. These include sufficient funds or financial resources, adequate attention, necessary support, publicity and effective monitoring mechanism. The Central Bank of Nigeria's development finance role has made positive contributions to Nigerian economy. Therefore, the important of development finance policies and schemes cannot be overemphasized as the key source to the capital needed by the productive sectors of the economy which invariably enhance productivity and output, income, investment, saving wealth creation. These stimulate and encourage 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 in Nigerian economy.

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