

Time to support the CBN

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The hullabaloo in the banking industry subsector will subsist for a while because CBN's actions actually have many loose ends that will continue to elicit more reactions in months to come. But much more than the questions arising from the 'loose ends' of CBN's actions is a very important fact of Sanusi's out-of-hell bravery: an unusual temerity displayed by disquieting the world of Nigerian untouchable 'human establishments' who had hitherto had their way in virtually everything – right or wrong - without questioning. And as in a biblical 'bull-of-Bashan' scenario they reacted in turns as they woke up from the nightmares with one poser after another. At a time it appeared that the multiplicity of posers were achieving the expected effect of weakening CBN's campaign. However, with even stronger backing from the presidency and the EFCC, various attempts to dwarf or silence the central bank's effort in recreating a Nigerian banking system in which people can actually make deposits and still have a sound sleep trudged on. The counter strategy of many of the affected is equally more defeatist and is best described with these admonitions by Jimoh Ibrahim: 'pay and complain later'. In any case, one should expect that these counter-reactions would have been anticipated even by the central bank prior to its decision to roll out its war machines.

Now these fate-acceptance dispositions do not extricate the central bank from blame in terms of some of the widely condemned approaches so far adopted in this warfare. Many of these blames have come in terms of (a) the supposed infringement of the CBN on customer confidentiality by taking it upon itself to name-and-shame the debtors of a select number of banks – an exclusive right of the banks themselves - while leaving out the debtors with similar status in other banks; (b) the supposed criminalization of indebtedness when in reality it is not a crime to owe and moreso if inability to repay borrowed money is due to business failure. In addition to that, both the banks as creditors and the debtors who patronize these banks and indeed the economy as a whole grow on the wings of these debts which provide the needed capital for investment activities. And so on and so forth. These arguments do hold water in many respects particularly when situated against the background of the well established truth that the central bank of Nigeria is indeed the primary cause of all the woes faced by the banks.

Many banks are prone to fail in an atmosphere of ineffective monitoring and supervision, reactive as against early detection of problems within the system as well as inadequate sanctions to discourage unacceptable banking behavior. The current problem has a long history but its immediate roots cannot be dissociated from the recent recapitalization/consolidation engineered by the central bank. It is open secret how that exercise created nigh empty-shell banks that overly met recapitalization requirements in paper only. And even after the recapitalization exercise, the requisite suspension and monitoring were obviously lacking. Banks were unilaterally adjudged as healthy. Even after the CBN injected over N1 trillion into the system and still had to further set-up the expanded discount window facility, it still declared all banks healthy. Yet we know that the expanded discount window is naturally a red flag as it is meant to be accessed by banks on a last-resort basis by banks that can no longer access alternative market sources for funds. In other-words banks that need life-support. Same central bank has been privy to daily transactions reports submitted by banks and which equally unveils the levels of non-performing facility, but choose to ignore it; not take any action.

But the weakness of the central bank to act is understandable. First, allowing the banks

to manifest signs of failure in the eyes of the general public would be an acceptance that its signature project boasted to be the solve-it-all for the Nigerian banking industry is indeed not exactly what Nigerians were made to believe. Secondly, the opportunity of the recapitalization/consolidation equally created monetary and non-monetary bases of pseudo-matrimonies between the regulator and the regulated. More than the first reason, this second basis did more harm as it weakened the moral authority of the central bank to deal decisively with erring banks. But this was not the first time we have known that the weakness of the central bank in the face of bank's excesses destroys the entire industry. Bank failures of the 1990's were caused by the same problems: mounting debts by those who would not pay (not out of genuine business difficulties or failures) as well as a central bank that lacked the structures for early detection and correction of the anomaly as they come. It is from this positive perspective that we should evaluate the recent actions of the central bank: an attempt to decisively address the root of bank failures. At least it has been established that size taken alone cannot guarantee the standing of banks. Since the consolidation to date, seven out of the twenty four banks, have been adjudged to be in bad health by the central bank itself.

Government is equally to blame. Because it is also one of the key defaulters directly and indirectly owe those who default thus complicating the situation. What do we then make out of this? The battle being waged by the CBN is much more complex than it looks. It has deep roots in corruption at all levels; in human establishments who define themselves as untouchables; even by the banks that they owe who set aside corporate governance standards and good risk management practices to give out loans; the regulator who shields culprit-banks; the general public who do not blow whistle enough to bring these ills to the open; the law enforcement agencies and the entire judicial system who treat issues like these with kid gloves.

Banks play a special kind of role which is distinct from other kinds of businesses. Their failure touches on the current and future economic states of the entire economy and particularly those that are caught up in the process of liquidation. But in as much as nobody cherishes the death of banks, however, it is good to consider the impacts on interest rates and attendant wider macroeconomic consequences on productivity, of the CBN's continuous sustenance of dying banks on life-support at (a) the expense of the resources that should be available to other sectors of the economy (b) the expense of inflation and its distortionary consequences (in some instances), (c) the expense of avoidable pressure on inter-bank rates and borrowing rates and consequently obfuscating monetary policy effectiveness?

Sanusi's actions are clearly in the right direction albeit that he may reconsider certain aspects of the approaches he has so far adopted in order to give full sense of objectivity and impartiality as well as consistency with law. But then, this opportunity is golden as it initiates the process of correcting some of the ills that are fast taking over our financial system: complex collusion by many stakeholders for self-enriching criminality. And because it is a complex and well built over time by those who are bent on taking advantage of an equally weak institutional structure, they will do everything possible to either reverse the initiated process or divert it along a different trajectory that would not interfere with their conspiracy. The CBN should know that it has a duty to save the Nigerian financial industry now as Nigerians will turn around and blame it if it fails. Banks are not saved through endless life-support of the EDW; not even the recapitalization.

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