



# Financial System Strategy 2020



FSS 2020 International Conference

“Putting FSS 2020 into action”



# Financial Sector Growth: What is possible?

- **Many countries with private credit less than 20% GDP achieved considerable financial sector growth within a period of 13 years (until 2020):**
  - **Asia: Malaysia, South Korea, Thailand (80s) and Indonesia, Philippines (early 90s) grew by 25-40% points**
  - **Latin America: Chile, Brazil, Uruguay (early 80s) grew by 31-49% points**
  - **Eastern Europe: Poland grew by 22% points (late 90s)**
  - **Middle East: Kuwait, Saudi Arabia, UAE (mid 80s) grew by 33-49% points**
- **However, Sustainability and Stability are the key challenge**



# Kick-starting the virtuous cycle: cross-cutting themes

- Macroeconomic Stability
- Institutional Environment
  - **Legal and Judicial Environment, Regulation, Codes**
  - **Risk-Based and Consolidated Supervision, Appropriate Regulatory Structure and Enforcement**
  - **Consumer Awareness and Consumer Protection**
- Transparency & Governance, State influence on financial institutions
- Consolidation, Minimum Capital Requirements
- Financial Sector Infrastructure (credit information), Payment Systems, Use of Technology
- Access to Finance
- Capital Markets & Non-Bank Financial Sector - Long-Term Intermediation
- Skills, Capacity and Human Capital



## Implementation experiences: Unleashing the virtuous cycle

- Identify and support champions
- Creating and maintaining broad stakeholder ownership is crucial
- Identification of binding constraints and sequencing
- Define 'quick wins' carefully and focus on implementation
- Monitoring & Evaluation; Result Frameworks
- Consistency and predictability in institutional development – 'glitches' will be remembered



# Financial Sector Development: What role for Government?

- Governments have a role as conveners, facilitators, enablers and providers of public goods.
- Promote competition, ensure robust regulation and overcome coordination failures. For example:
  - Shared payment system technology reduces cost of using payments services to end-users. However, banks have incentives to exploit the quasi-monopoly of proprietary systems. Public policy needs to encourage open access.
  - Large banks often have strong disincentive in participating in credit reference bureaus and sharing positive credit information. Authorities should promote and incentivize information sharing.
- “Knocking heads together” to ensure that market innovators and private sector activities succeed.



# Facilitating and supporting market innovation

- Policy makers need to develop capacity to work with private sector (or NGO) innovators: create environment for innovation, understand market dynamic, support through public/private partnership
- Risk of blocking innovation through regulation or undercutting them with unsustainable and costly subsidies that chill market development.
  - Success of cell phone banking is driven by new business models that look very different from today's banks. Anxious regulators could block innovation by hindering the evolution of such new business models and innovations.
- Risk of simply transplanting "best practice" from more developed economies:
  - Over-onerous application stock exchange rules, Basel 2, AML/CFT etc.



# Activism not interventionism

- 'Active' and facilitating role for the Government needs to be distinguished from an overly prescriptive and interventionist approach:
  - Financial development is institution-intensive, contract-intensive, complex and path dependent.
  - Trying to engineer ex-ante the complex interactions behind this process is prone to failure.
- Challenges of direct Government involvement
  - Use of incentives such as subsidies or tax breaks has mostly been counterproductive: Financial service providers that aim to capture subsidies and tax breaks will pay less attention to market development.
  - Experience with DFIs internationally has been disappointing (financially and in terms of achieving their development objectives), often due to governance challenges .



## FSS 2020: Strength

- Broad-based vision – includes all segments of financial sector
- Focused effort – driven by dedicated team
- Brings all stakeholders to the table
- Recognizes and endorses need for systemic rather than incremental change – “engineered approach”



# FSS 2020: Challenges

- Assumes change of mind-set, not just technocratic implementation
  - e.g. not just “fixing” the legal framework, but actually implementing/ enforcing laws and regulation
- Engineering vs organic:
  - Ensure facilitating role for Govt. that does not undermine market development
  - “Doing as much as we can” – approach may back fire: Financial sector development is complex and path dependent
  - Identify binding constraints and define (sequenced) road map
- Move from vision and strategic objectives to implementation:
  - Define “baseline”: Status-quo and quick wins
  - Establish an M&E and implementation assessment framework
- Institutional cooperation: Alignment of objectives / modus operandi among key players such as CBN, MoF, SEC, Pencom, NSE etc. reflected in business plans
- Championing a highly complex, interactive process – How will it happen?
  - Involvement of stakeholders and civil society, public / private cooperation, overcoming vested interests

# Which growth path for Nigeria?

