FINANCIAL INTERMEDIATION IN NIGERIA:

EVALUATION OF SOME FINANCIAL INSTITUTIONS

BY

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DEDICATION

This work is dedicated to the memory of my late mother, Mrs. Mabel N. Amalaha, whose motherly love formed the architectural base for my academic endeavours. Her inspiration has also been the crux and rungs of my academic ladder till date.

DECLARATION

I hereby declare and certify that this project is my research effort in the Department of Business Administration of the Ahmadu Bello University Zaria.

I also certify that this thesis was not previously submitted for the award of degree or diploma here or elsewhere.

SIMON I. AMALAHA — MARCH 2000

STUDENT'S NAME/SIGNATURE — DATE

CERTIFICATION

This project report entitled: FINANCIAL INTERMEDIATION IN NIGERIA; EVALUATION OF SOME FINANCIAL INSTITUTIONS BY SIMOM IKECHI AMALAHA meets0 the regulations governing the award of the degree of MBA of Ahmadu Bello University, Zaria and approved for its contribution to knowledge and literary presentation.

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ABSTRACT

This study delves into the framework of Financial Intermediation in Nigeria with the broad intention of tracing the historical nucleus, the nature and modality of its present day operations and researching for a suggestive improvement to the historical system into a modernistic outlook.

An evaluation, is made of some financial institutions that can be considered as paradigms in this field with the primary objective of capturing their positive contribution(s) or otherwise to the financial sector's micro and Nigerian macro economy. Also to ascertain the relationship between Time Interest Earned Ratio and the Loans/Advances given by the banks.

The parameters of measurement have been unified in order to eliminate unnecessary distortions and to produce results that, can be relied upon, but this is neither an inter firm comparison nor an economic sector analysis, as such study will be wider than this academic exercise for an academic purpose. This is simply to provide an insight into what goes on in this segment of the monetary and fiscal economy and to inter-marry it with theory, concept and practice and to make suggestions for improvement.

It is concluded with the suggestive ideology that financial intermediation should be properly interwoven with other economic sectors to produce the required synergy for a proper economic base and a solid financial sector that will provide the much desired debt/equity on which modern economics revolve and thrive.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction:

Financial intermediation in Nigeria during the twentieth century has undergone significant changes and the intermediation perspective, amongst financial analysts and economists or managers has equally undergone tremendous overhaul. This field was previously dominated by economics fundamentalists and notably amongst them are Adam Smith the author of "The Wealth of Nations" and Keynes, the famous monetary economist..

However, the research of authors like Gurley, Shaw, Goldsmith, Patrick and Mckinnon etc. threw more light on the relationship between financial (Intermediation) and real economic development with such efficacy that no one nowadays doubts the significance.

But today, even governments have understood that the wheel of progress of any nation depends on the available capital base, including debt/equity that can be recycled back into the monetary, financial or economic system for the production of further wealth, otherwise, consumption will take its toll on previously acquired capital base, thereby depleting it to the visible chagrin of economic collapse of the nations.

This problem of consumption over-powering savings is the nucleus of financial intermediation which encourages thrift and by gathering what I may call the "monetary crusts" into formidable and huge finance or

debt/equity that can be recycled into the financial system of the macro economy for further growth and creation of more capital base.

Nigeria in particular being a third world country has a great need for a well organised financial system and financial intermediation will be such a vehicle that will convey thrifts, and surplus funds from their respective places of idleness to the respective places where they are in hot demand.

Already and luckily, financial intermediation is in existence but there is a cloud as to its size and effectiveness. It is therefore my candid desire to evaluate some of the financial institutions in Nigeria that are already practising intermediation and to highlight the adequacies or inadequacies of their operations, there from charting or paving new ideologies for expansion, growth and profitability.

1.1 Statement of the Problem

The spate of bank failure in Nigeria in recent times calls for a thorough and extensive evaluation of the traditional financial statements (Profit/Loss Account and Balance Sheets) of some of the assumed healthy banks. But underneath such traditional Financial Statements lies some hidden information that would otherwise be hard to discover except for further applications of some other financial and statistical tools like, Return on Assets (ROA), Return on Equity (ROE), Time Interest Earned Ratio (TIER), Correlation and Co-efficient Analysis. Therefore, the use of the

above mentioned tools or techniques are to be applied in the process of evaluating some randomly selected financial institutions viz United Bank for Africa Plc, First Bank of Nigeria Plc and a government founded bank, Nigerian Industrial Development Bank Limited to ascertain their profitability and their chances of continuity in the long run.

Again, using their respective financial statements as a bench mark efforts are to be made with the assistance of the above statistical tools to relate their respective loans/advances to the financial sector GDP in order to establish either positive or negative contribution to the economy.

1.2 Objectives of the Study

This research is carried out with the broad objective of using accounting and statistical tools to evaluate the financial operations of some Nigerian banks engaged in financial intermediation. It researches deeper than the surface of the traditional balance sheets and profit and loss accounts of the Banks to establish their healthiness. It equally goes on to establish the relationship between Assets and Profitability, Equity and Profitability and linearity of trends.

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1.3 Research Methodology

This research work will be basically expository and explanatory. the research methodology will include the collection of data both from primary

and secondary sources. The study will basically include the review of literature from textbooks, other reference materials, and lecture literatures.

i. The data so collected will be analysed using tables and percentages and based on the outcome of the analysis conclusions will be made and recommendations given.

1.4 Significance of the Study

The significance of the study lies in the provision of important information on financial intermediation in Nigeria and to create awareness and prospects of survival for some operators of financial institutions. Past trends are established and used for enhancement of knowledge, for managerial purposes, especially in consideration of the rampant bank failures in the country in recent times.

Secondly, information flow is the lifeblood of business, especially at planning and controlling process. Information relating to the financial health of the banks evaluated will enhance general knowledge and special knowledge on the banking sector and therefore help the policy formulators both in the enterprise and government.

1.5 Scope of the Study

The research project intends to look into the operations of some financial institution engaged in intermediation. The study will cover a nine year period - from 1989 to 1997.

Financial intermediation institutions in Nigeria are many and spread throughout the geographical areas of the country. Though relevant references will be made to other financial institution, the basic area of focus will be the three banks selected for this evaluation viz First Bank of Nigeria Plc, United Bank for Africa Plc and Nigerian Industrial Development Bank Ltd.

1.6 Limitation of the Study

A research work is a time consuming task and there are occasions when the research will encounter problems which are unavoidable. This research work is not an exemption. Considering the magnitude of time and finance involved in this study, and considering also the difficulties of data collection from the financial institutions, the study will be limited to the three banks - First Bank of Nigeria Plc, United Bank for Africa Plc and Nigerian Industrial Development Bank Limited which have been sampled to be true representation of the financial intermediation institutions.

Secondly, I must mention here that, there are other facts that would have been included in this research work but which will not be possible since this work is not a standard text book.

Thirdly, there is the intellectual limitation which hinges on the intellectual ability of the writer.

CHAPTER TWO

LITERATURE REVIEW

2.0 The Need For Financial Intermediation

Financial Intermediation organisations operate within the framework of the financial markets. John et al of "Basic Financial Management" defined Financial Markets as "institutions and procedures that facilitate transactions in all types of financial claims." This definition is quite broad and its aims are to encompass all capital market dealings, including real estate, or assets, like houses, equipment and inventories or financial assets like claims for future payment on other economic units – common and preferred stocks, bonds bills and notes. Values therefore must change hands for an effective exchange to take place. It therefore means that accumulated wealth or capital must be available in the lender's or seller's hand before a borrower or buyer makes an offer or promise of a present payment or future returns.

As we shall later see, the economy of a country will suffer if a developed financial market is not in place. It is obvious that the wealth and growth of the economy will more or less be stagnant if there are no financial markets and the capital formation rate will be very slow. This means that the net additions to real assets and financial assets will be minimal if economic activities are occurring at lowest ebb.

According to Martin et al, the hypothetical balance sheets below show how the need for financial markets and intermediations arise in an economy and how they tend to multiply the economic activities and assets and wealth of a nation; which as per their Book "Basic Financial Management" such process of metamorphosis goes through five stages as under:

STAGE 1 **BALANCE SHEET**

Networth	Real Assets

STAGE 2 **BALANCE SHEET**

Networth	Cash
	Real Assets

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STAGE 3 **BALANCE SHEET**

Financial Liab.	Cash
Net Worth	Other Financial Assets
	Real Assets.

STAGE 4. The addition of (1) Loan brokers (2) Security underwriters and (3) Secondary markets.

STAGE 5. The addition of financial intermediaries.

At stage I only real assets exist in the hypothetical economy. Real Assets are tangible assets, like houses, equipment and inventories: They are distinguished from financial assets which represent claims for future payments on other economic units. Common and preferred stock, bonds, bills and notes are all type of financial assets. If only real assets exist, then saving for a given economic unit such as a firm, must be accumulated on the form of real assets. If the firm has a great idea for a new product that can be developed, produced, and distributed only out of company savings (retained earnings).

Furthermore, all investments in the new product must occur simultaneously as the savings are generated. If you have the idea, and we have the savings there is no mechanism to transfer our savings to you. This is not a good situation.

Paper money is introduced in stage 2 which means personal or institutional savings can be stored in paper money. Equally individuals or institutions can carryout their business activities or investment by decreasing their store or wealth of cash which is a further development on stage one which was a stagnant state of real assets as networth. Note that at this stage every exchange is based on cash and goods of material or capital nature.

The idea of transferring savings from one economic unit to another is a great landmark in economic development and economic units with

excess savings will transfer them to other units where they are direly needed. The consideration is for the sake of interest in case of loan or dividends in the case of stock. Still this movement enhances economic development hence the borrower or stock issuer will make every effort to pay the interests and dividends below the expected return or profitability or leverage and again some physical economic assets or structures must have been caused to be in existence which had helped to yield the profit for dividend or for interest payable to the fund lenders. This is what stage 3 is actually portraying by the introduction of liabilities which simply means the receiving from and other entity or economic unit values you have not saved or owned yourself for the primary aim of boosting your business or status with the aim of paying back the owner an amount in excess of the sum borrowed.

But stage four recognizes that you may at times not be in a position to contact easily the lender of funds or the stock investing public by yourself and will therefore employ or sought the services of a specialist or professional who will bring the units that need funds and the units that have excess funds into a deal for consideration of a fee for the services rendered.

When economic system develops to this level in its macro nature, institutions will naturally evolve to take up the challenges of sourcing excess funds from some economic units and for onward transfer to where the funds are needed for economic activities. The two parties that are inter

playing the deal have virtually introduced or third party who is to be their intermediary hence the word "financial intermediation." The intermediary plays the role of a specialist and therefore possesses the expertise to bring the two parties together for mutual economic benefits while at the same time creating an economic environment that will enable him/it to earn income for his/its continuity and survival.

The synergy of these inter-plays bring about tremendous economic growth via, employment of citizens, good economic policies, Gross National Product Growth and National Macro Economic Freedom.

The financial sector is the grouping of all financial agents whose transaction determine quantitatively the financial flows in the economy. (Okigbo: 1981:23). The financial system which embraces the financial sector is the family of rules and regulations and congeries of financial arrangements, institution agents and the mechanism whereby they relate to each other within the financial sector and with the rest of the world. (Beckhart 1965: 79) No doubt, financial development defined as, the expansion and elaboration over time of the financial structure (institutions instruments and activities) is the hub of any economic system (C.C. Okeke: 1990 : 5) It is quite safe to deduce from the above literatures that the government of any nation as a policy maker and law giver has a lot at stake in devising policies and promulgation of laws that will serve as modalities under which the financial sector and financial system should operate.

A coherent laws and policies will oil the wheels of the national economy by enhancing the speed of industrialization through the harnessing of savings into investments and the creation of adequate employment. The resultant effect is the building of a virile economy that will be able to cater for the economic and social well-being of the citizenry for according to (Gurley and Shaw 1967; Goldsmith 1969; Ojo 1984; Agu 1984) The issue however, is not whether or not financial development is positively correlated with real growth, but the direction of causality. Can it be said that real growth responsed to financial development or that growth precipitates financial development or that it is a two-way interaction? The debate is as to the direction of causation.

The correlation between financial and real development has been noticed historically and argued theoretically and today, most economists would agree that the financial system is the hub of any economic system (C.G. Okeke 1990. 6) However, it was not until the research efforts of certain economists, notably Gurley, Shaw, Goldsmith, Patrick, Mckinnon, etc that attempts were made to explain the logic of the association between financial and real economic development. The first and very powerful explanation of the relationships runs in terms of the division of labour occasioned by the introduction of money and financial intermediation. process (of Gurley and Shaw 1967 : 258 – 60 Goldsmith 1969 ; 391 – 401)

Secondly, there is a potential, beneficial division of labour between savings and investment (Goldsmith, 1969 : 392 – 3; Patrick 1966: 182) The introduction of financial instrument provides a bridge between ultimate savers and investors, thus promising to raise the total level of investment and hence income. This argument is strongly reinforced by the observed indivisibility or "lumpiness of many potentially profitable but large investments, which are often beyond the financing capacity of any single economic unit but can be financed by pooling the savings of many."

According to Nwankwo (1980 :153 "the single most important function of any financial system is to mop savings from the surplus sectors and lend to or make them available for borrowing by the deficit sectors..... and the efficiency of the financial system, particularly, in a developing economy like Nigeria, depends on the extent to which this function is effectively discharged.

In an early and perceptive article, Sir, John Hicks 1935 drew the outlines for extending marginal analysis of the demand for goods in general to the theory of the demand for money. However, it was not until Friedman formalised Hicks's suggestion that this approach came to be widely used, since most attention at that time was focused on the work of Keynes, the famous Monetary Economist.

Hicks begins by asking the question: Why should people hold money, if there are profitable alternatives such as interest bearing

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securities? The answer he gives is that there exist frictions, the most important of which is the cost of transferring asset from one form to another (or transaction costs). These costs are partly explicit, such as broker's fees for making investment and partly subjective; "it is not worth the bother" to constantly try to minimize holdings of money.

Hicks then examines the "net advantage" from investing in an asset, and finds that it is equal to the interest return plus the expected capital gain (for minus the capital loss), minus the cost of making the investment. He supposes that the cost of investment, or the transaction cost, increases with the size of the investment but at a diminishing rate; the expenses and nuisance of investing ₦10,000.00 is proportionately smaller than that of investing ₦10.00 This implies that the net advantages of investing in assets will be positive only when larger sum of money are involved, such as may be managed by the intermediating firms or institutions and only when the money is to be invested for a longer period of time, as the cumulated interest return becomes greater than the transactions cost and again this great role must be played by means of intermediation if the economy must be healthy.

2.1 Evolution Of Financial Intermediation In Nigeria

The history of financial intermediation in Nigeria cannot be treated in isolation of the entire hostory of the Monetary System in Nigeria and the works of Samuel Oyewole Asabia " Essays in Money and Banking –

Chapter One – Evolution of The System" provides a strong base for a good understanding of the picture and history of the monetary system in Nigeria:

2.1.1 Early History:

Towards the end of the 19th Century, monetisation of the Nigerian economy was beginning to develop side by side with barter trading. By 1890, the use of cash had grown sufficiently throughout West Africa to present a serious physical problem. The time was opportune to have some institution like a bank which would reduce the cost of importing and distributing cash and take it off the hands of traders in the slack period.

The initiative for the establishment of a bank was taken in the Lagos Office of Elder Dempster Company by people who were merchants without any special knowledge of banking, and with the support of the Colonial Government, the formation of Bank of British West Africa (BBWA) was announced in May, 1893 to reflect the new independence status of the West African Countries served by the bank. In 1969 following changes in ownership structure of the parent company in U.K, the Bank was again renamed Standard Bank of Nigeria Limited (SBNL). Basic changes in the equity structure of the bank leading to majority equity holding by Nigerian institutions and individuals during the period 1973-1979 necessitated another change of name. In 1979 the company was renamed First Bank of Nigeria Limited.

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During the last quarter of the 19th Century, the use of cheques was spreading rapidly for paying customers duties and other revenue, and for regular remittance of Government funds. Most of the trading firms took full advantage of the bank to open accounts to obtain cash when needed and to dispose of surplus coins.

BBWA enjoyed virtually exclusive monopoly of the banking industry in Nigeria for well over 30 years. The first challenge to BBWA came from the Anglo African Bank which was set up in 1899 by a strong group to traders in Nigeria with branches in Calabar, Burutu, Lokoja and Jebba. The new bank changed its name to Bank of Nigeria (**BN**) in 1905 and challenged the monopoly enjoyed by **BBWA** in the import of silver, and demanded that BBWA should not open new branches. It also attempted to lure away customers by offering better terms and offered lower rates to the Colonial Government in banking transactions. It is notable that notwithstanding the rivalries between the two banks, BBWA steadily expanded its network of branches, and by 1910 reserve funds, deposits and profit had increased appreciably. The Policy of the Board appeared to be geared towards helping the expansion of trade rather than making large profits. The rivalry between BBWA and BN came to end in 1911 when BN was taken over by BBWA.

When the First World War broke in 1914, BBWA was already well established, and was doing well. Paid up capital had increased to N292,000

and net profit stood at N44,000. More branches and agencies were being opened and the volume of business increased, but the war depleted the staff strength. To recruit additional men required special permit from the Government which was hard to get. It was during this period that a new bank came on the Nigerian financial scene. In 1916 the Colonial Bank which had been doing well in the West Indies was granted a charter to operate in Nigeria.

Having set up its first branch in Lagos, it expanded fast in the hinterland and the Colonial Government gave the Colonial Bank some of its financial business and ended the BBWA monopoly of the silver trade by ordering an equal division of silver coins between the two banks. In 1952 Barclays Bank concluded an agreement with the now well-established Colonial Bank with the new name of Barclay's Bank, (Dominion, Colonial and Overseas) and established a presence in Nigeria. The continued solid expansion of the twenties was severely reversed by the Great Depression; profits declined drastically and the price of shares in the stock market slumped.

Fortunately, however, BBWA had strong foundation of liquid reserves, as reflected in the Board's statement that "the Bank has at present more capital than it can profitably use in its customary business". The bank took some drastic actions to shore up its position including closing down some branches and reducing its staff strength by 222 in three years.

While BBWA was able to adapt itself, many of its customers ran into financial difficulties. The bank devoted much effort in these years to securing repayment of outstanding advances and avoiding losses. It did not always succeed but it emerged from the crisis with its liquid resources unimpaired and its organization in good health.

In a rather unusual bid to grapple with this business depression which showed little sign of lifting, BBWA proposed a merger with Barclays (DCO) to avoid "needless and wasteful competition in West Africa". It involved Barclays closing down its branches, acquiring shares in BBWA and nominating one or two directors to the BBWA Board. Barclays though differently.

There was however, unusual challenge this time, not by another bank, but buy UAC. The UAC had persuaded the West African Currency Board to allow it handle some of its outward transfer of funds to West Africa. They had made arrangements to supply all the cash requirements of three valued BBWA customers and had arranged to pay duties and rail freights in London to Crown Agents, thus avoiding the need for bank financing and reducing the amount of cable transfers which the Government made through banks. This challenge was eventually resolved with the Currency Board. The banks also reduced rates to UAC in return for an understanding that the Company would not compete with the banks

in future. It is notable that the joint stand in the two banks (BBWA and Barclays) helped them in this crisis with UAC.

The two banks also cooperated in the following areas:

(a) Not to open branches in certain places without giving an agreed period of notice to the other bank; and

(b) The habit of discussing point of potential dispute.

It is notable that until very recently, BBWA and Barclays had spheres of influence and that each was unchallenged by the other in certain parts of the country. BBWA, however, remained the dominant force by virtue of its share of Government business strongly aided by the fact that it served as the country's principal agents under the Currency Board System. In other words, BBWA was entrusted –with the performance of some of the functions customarily reserved for the Central Bank. This unique position remained in force until the Central Bank of Nigeria was established in 1959.

2.1.2 Growth Of Commerical Banking

Nigerians involved in trading activities complained that expatriate banks were unwilling to provide finance, charged too much for the loans and discriminated against them in favour of the European firms and later in favour of the Levantines. But their complaint was more fundamental than this. They were unhappy about two aspects of the financial system. First, Nigerian savings, private and public, were invested in London rather than

converted into lending in the country. Secondly, the bulk of lending was to European trading firms which naturally lent to produce buyers and distributors rather than to independent Nigerian competitors.

It was for these broader reasons that they found it difficult to finance their business, and their intense commercial zeal was frustrated as the volume of trade expanded. A demanded for African banks sprang up. The first attempt was the Industrial Commercial Bank set up in Lagos in 1929 only to be liquidated a year later. It was found that it lent large loans to the Managing Director. It was forced to close down in 1936 as it had greater difficulty in attracting deposits or capital from the public and made losses every year.

A far sounder enterprise was the National Bank of Nigeria, founded in 1933. It had a prudent African management, and its deposits and profits grew steadily. In 1949, an important competitor appeared on the scene - The Nigerian Farmer' and Commercial Bank. It grew rapidly, had 30 branches in Nigeria but went into liquidation in 1951. It was not only the National Bank which survived the confidence crisis of the mid-fifties. The African Continental Bank began operations in 1948 and was able to survive because of the support it received from the Government of Eastern Nigeria. The third substantial Nigerian Bank is Agbonmagbe Bank founded in 1945 and developed slowly until in 1959 when it received a deposit of *£200,000* from the Western Region Marketing Board.

In 1959, three 'mixed' banks (Nigerian and Foreign) came on the banking scene. They were Lebanese and Nigerian, the Bank of the North and the Bank of Lagos. They made an impression on particular areas or communities, but the Bank of Lagos soon went into liquidation.

In 1948, a new French-owned Bank, the Anglo-French Bank was established. At first, it secured mainly Lebanese and Syrian customers but worked harder than others to attract more customers. It changed its name to United Bank for Africa in 1961 and has since blossomed into one of the "Big Three" on the Nigerian Banking scene. Their importance is reflected in a recent rating of the first 500 banks in the world, when First Bank was ranked 354, UBA and Union Bank 420 and 425 respectively.

By 1970 there were 14 Commercial Banks with 297 branches in the country. In the period 1971-1973 the monetary authorities devoted much thought and large sums of money to the reconstruction of the older indigenous banks who were gravely affected by the civil war and the shortage of foreign exchange in the immediate post-war period. Following financial and management reconstruction, efforts were made to encourage these banks to acquire the skill and discipline needed to give effective competition to the major expatriate banks. It was partly or this reason that the authorities were not very keen on encouraging the establishment of new commercial banks in the country in the period 1971-1973. Thus only three more commercial banks were licensed during this period. But it was clear

to financial analysts that return on investment in the major banks in Nigeria was among the best in the world. As at December, 1983 the number grew rapidly to 25 with 1, 108 branches while the immediate period before SAP in 1986 recorded 29 Commercial Banks and 1313 branches nation-wide as indicated in Table 1.

The growth in the number of bank branches, can largely be attributed to the "Rural Banking Programme which was instituted in 1977 by the CBN following the Okigbo Report of 1976. The third phase of the programme came to a close in July 1989. From Table I, we notice an increase of 21.7 per cent in 1978 over that of the previous year, 1977, when the rural banking scheme took effect. Mere increases in the number of bank branches is not a conclusive measure of the success or otherwise of the rural banking scheme. It is useful to make a comparative analysis of rural and urban branches distribution and also to analyse the configuration to branches. The resultant information can be used as surrogates for performance appraisal (Table 2 & 3). The total number of bank branches which was 507 in 1977 increased to 1313 in 1986; of this, 389 were rural branches. This shows that about 30 per cent of bank branches in the country are located in the rural areas.

The growth of commercial bank branches which we have thus highlighted has some practical implications for the Nigerian economy:

- Greater mobilisation of savings for further economic growth and the promotion of banking habit with the advantages inherent in increased monctisation of the economy.

Table 3 shows that commercial banks constitute the most important entity in the Nigerian Financial System for mobilising funds; they also constitute the centre piece of the financial system. In order to meet the demand of their customers and the sophistication of services demanded by them, most banks have set up specialist departments like Business Advisory Services, Economic Research , Corporate Finance Services, etc. Several banks have in recent years embarked on computerisation of their data processing information system, having regard to the growth volume of book-keeping; and the need for improved service delivery.

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2.1.3 Development Of Merchant Banking

Nigerian Acceptances Limited (NAL Merchant Bank) remained for a period of 4 years (1969 –1973) the only merchant bank in Nigeria. Published accounting records show that NAL's main stream activity was in the area of acceptance credit supplemented by activities in financial and advisory service, export credit finance to Marketing Boards, accepting institutional deposits, fund raising on consortium basis and issue work by its Stock Broking affiliate.

Because of Government's refusal to grant new licences to commercial banks, prospective investors noted the absence of legislation in merchant banking operation. Licence to operate merchant banks were granted to four applicants during 1973 – 1975. The new merchant banks originally held out the promise of providing long-term funds for industrial undertakings, in contrast to the commercial banks' tendency to involve themselves exclusively in short-term, self-liquidating trade financing. In reality, the capital structure and the deposit base of merchant banks prelude them from providing long-term funds for financing fixed assets requirements of new enterprises. In consequence, they concentrated in the early days on commercial bank operations and made good profits. By 1976, the monetary authorities intervened prescribing guidelines and indicating composition and maturity of assets of merchant banks. At the end of 1978 there were 5 merchant banks in operation, the sixth licensed one, First National City Bank of New York having gone into voluntary liquidation due to its reluctance to comply with the provisions of the Indigenisation Decree of 1977 that all banks in the country should maintain a shareholding of 60/40 in favour of Nigerians.

By the end of 1980, there were six merchant banks in operation in Nigeria; this number increased to 12 at the end of 1984 representing a 100 per cent increase. Because of the nature of their operations which require concentration on service to corporate entities, the merchant banks have very

few branches. The 12 merchant banks operating as at December, 1984 had a total of 30 branch offices including their Head Offices most of which are located in Lagos.

2.1.4 The Regulatory Environment

The unhappy development referred to earlier led to the Paton Inquiry of 1948 upon whose recommendation the Banking Ordinance was emplaced in 1957 to regulate banking practices and protect depositors by laying down minimum capital ratios. However, real and effective regulation of the banks commenced only when the Central Bank was set up in 1959.

The Central Bank of Nigeria (CBN) is the principal agency of government for the control and supervision of the banking industry. In discharging this responsibility, the CBN works in close consultation with the Federal Ministry of Finance. Tools of control range from moral suasion by the monetary authorities, through rules and directives given to the banks, to numerous legislative requirements. The Central Bank applies a set of measures involving the control of money supply and the maintenance of its exchange rate with other major currencies. Policies pursued by the monetary authorities in recent years were designed to achieve prices stability, economic development and favourable balance of payments. In addition to setting the necessary liquid asset ratio for the banks, the Central

Bank also has in its armoury the power to give certain qualitative guidelines to banks about the types of loans they should encourage or discourage. CBN regulations are designed to maintain the integrity of the banking system, promote monetary stability and protect the balance of payments. CBN also acts as lender of last resort having to rescue banks by injecting fresh loans. In the period 1976 – 1981, overall maximum net dividends was limited to 16% - 20% -- this had the overall effect of putting the banks in a position to encourage profit retention in the industry and keep shareholders' funds in line with rising liabilities. It is not generally realised that banking is one of the most closely regulated and price controlled industries in Nigeria. Capital structure, sectoral allocation of loans, liquidity ratio and a host of other regulations which relate to prudential and credit control requirements are imposed by the monetary authorities.

CBN uses the instrument of the credit guidelines for limiting bank credit to the private sector and directing permissible credit increases to productive sectors of the economy and determining interest rate regimes. Such was the case when in 1969 the credit guidelines stipulated that level of commercial bank credit to the private sector at the end of March 1970 was not to be more than 10%, in a bid to ensure that credit to the private sector did not aggravate inflationary pressures. The Special Deposit Scheme of 1971 had a salutary effect on the liquidity of the banking system. In 1973, banks were induced to hold long and short-dated

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government papers and also retain substantial part of profit in the business in order to improve leverage and enough protection for depositors. The overall effect of the interventions by CBN is to maintain relative stability.

2.1.5 The Money Market

The Central Bank exercises considerable influence on the money market through the use of various money market instruments.

- Treasury bills and Certificates, Call Money, Commercial Papers, Bankers' Unit Fund and Certificate of Deposit.

The major participants in the market are the Commercial Bankers, CBN, Merchant Banks and Insurance Companies. Between 1971/75 the Government relied heavily on short-term securities and thus provided avenues for commercial banks to invest excess funds. Thus, out of the outstanding treasury bills at the end of 1972; 36.8% was held by the Federal and State Governments. The situation changed from 1974-76 with the advent of oil revenue which increased from N1.152.6 million in 1972 to a height of N5,365.7 million in 1974 by which time the share of Government in Treasury Bills had dropped to 8.2%.

Monetary development during 1977 and 1978 has profoundly altered the structure of the domestic money market. With the pace of development, the size of public expenditure has once again come to depend on the money market for the volume of transactions in the money market accounting for

about 80% of transactions in treasury bills and certificates. They are also net givers of funds in the inter-bank money markets.

The other important money market instruments seldom known to the public are the Certificate of Deposits and the Banker's Unit Fund. In order to mop up excess liquidity in the banking system in 1974-1977 the CBN introduced these short term financial instruments. The CDs are divided into Negotiable Certificate of Deposits (NCDs) and Non-negotiable Certificate of Deposits (NNCDs) implying that the former is negotiable and discountable at the CBN discount window before maturity while the latter must, of course, be held to maturity. They have maturity period of 3 months to one and a half years. Issues with less than eighteen months maturity are regarded as liquid assets. The Banker's Unit Fund is mainly to encourage banks to invest part of their liquid funds in Federal Government Stocks but this counts as part of their specified liquid assets and repayable on demand. Thus, the banks earn long term rate of interest on what would be regarded as short term investment. In 1976, total money market assets outstanding stood at N1,470 million which showed an increase of 58.7 per cent on the 1975 level. Of this amount, 11.6 per cent was taken up by increases in the issue of Certificate of Deposits and Bankers Unit Fund. As at the end of June 1980 total money market assets outstanding stood at N5,588.8 million and total assets of Treasury Certificates to aggregate money market asset stood at 57.4 per cent.

Table 1

COMMERCIAL BANKS OFFICES AND BRANCHES, 1970-198

Year	Number of Banks	Number of Branches	Percentage
1970	14	297	-
1971	16	318	7.1
1972	16	358	12.6
1973	16	385	7.5
1974	17	403	4.7
1975	17	436	8.2
1976	18	464	6.4
1977	19	508	9.5
1978	19	618	21.7
1979	20	672	8.7
1980	20	740	10.1
1981	20	869	17.4
1982	22	991	14.0
1983	25	1108	11.8
1984	27	1211	9.30
1986	29	1313	8.42

Source: CENTRAL BANK OF NIGERIA: Banking Supervision Dept.

Table 2

ANALYSIS OF RURAL & URBAN BRANCHES AS AT 31ST DECEMBER, 1980

No.	**Commercial Banks**	**Total**	**Urban**	**Rural**	**(Rural)**
1.	African Continental Bank Limited	89	56	33	37
2.	Allied Bank (Nig.) Limied	23	10	13	56
3.	Bank of Credit & Commerce Int. (Nig) Ltd.	18	14	4	22
4.	Bank of the North Limited	60	46	14	23
5.	Co-operative Bank Limited	35	24	11	31
6.	Co-operative & Commerce Bank Ltd.	34	23	11	32
7.	Commercial Bank (Credit Lyonnals) Nig. Ltd.	1	1	-	-
8.	First Bank of Nigeria Limited	208	133	75	36
9.	Habib Nigeria Bank Limited	3	3	-	-
10.	International Bank for West Africa Ltd.	51	33	18	35
11.	Kaduna Co-operative Bank Limited	10	6	4	40
12.	Kano Co-operative Bank Limited	10	1	9	90
13.	Lobi Bank (Nig) Limited	2	2	-	-
14.	Mercantile Bank Nigeria Limited	21	14	7	33
15.	National Bank of Nigeria Limited	82	62	20	24
16.	New Nigeria Bank Limited	33	22	11	33
17.	Nigeria-Arab Bank Limited	9	9	-	-
18.	Owena Bank of Nig. Ltd.	26	19	7	27
19.	Progressive Bank of Nig. Ltd.	5	5	-	-
20.	Savannah Bank of Nig. Ltd.	27	9	18	67
21.	Societe Generale Bank (Nig) Ltd.	13	7	6	46
22.	Union Bank of (Nig) Ltd.	184	127	57	31
23.	United Bank for Africa Limited	115	64	51	44
24.	Wema Bank Limited	28	19	9	32
Total					

Source: CBN Bullion July 1, 1984, Page 18.

Table 3

ANALYSIS OF DEPOSIT AND LOANS & ADVANCES OF RURAL BRANCHES AS AT SEPTEMBER, 1983

Names of Banks	No. of Branches	Deposits	Loans and Advance	%
A.C.B. Limited	33	73,772,055	27,643,710	36
Bank of the North Limited	14	5,171,461	1,862,948	36
National Bank Limited	19	19,504,245	11,502,204	59
First Bank Limited	49	60,884,268	17,795,409	29
Union Bank Limited	51	35,944,827	15,716,321	44
U.B.A Limited	50	30,156,567	6,059,833	20
Savannah Bank Limited	13	69,476,299	62,059,833	89
New Nigeria Bank Limited	11	34,374,476	4,373,577	13
PAN African Bank Limited	7	17,009,412	6,274,479	37
Mercantile Bank Limited	5	9,470,301	1,772,436	19
Cooperative Bank Nig. Limited	6	10,817,852	581,223	5
Cooperative & Commercial Bank Ltd.	7	9,491,676	728,194	7
I.B.W.A Limited	17	27,415,197	9,028,686	17
Kaduna Cooperative Limited	4	2,926,160	850,144	4
Nigeria-Arab Bank.	10	5,949,840	2,754,272	10
TOTAL (RURAL)		**350,863,863**	**110,029,650**	**31**

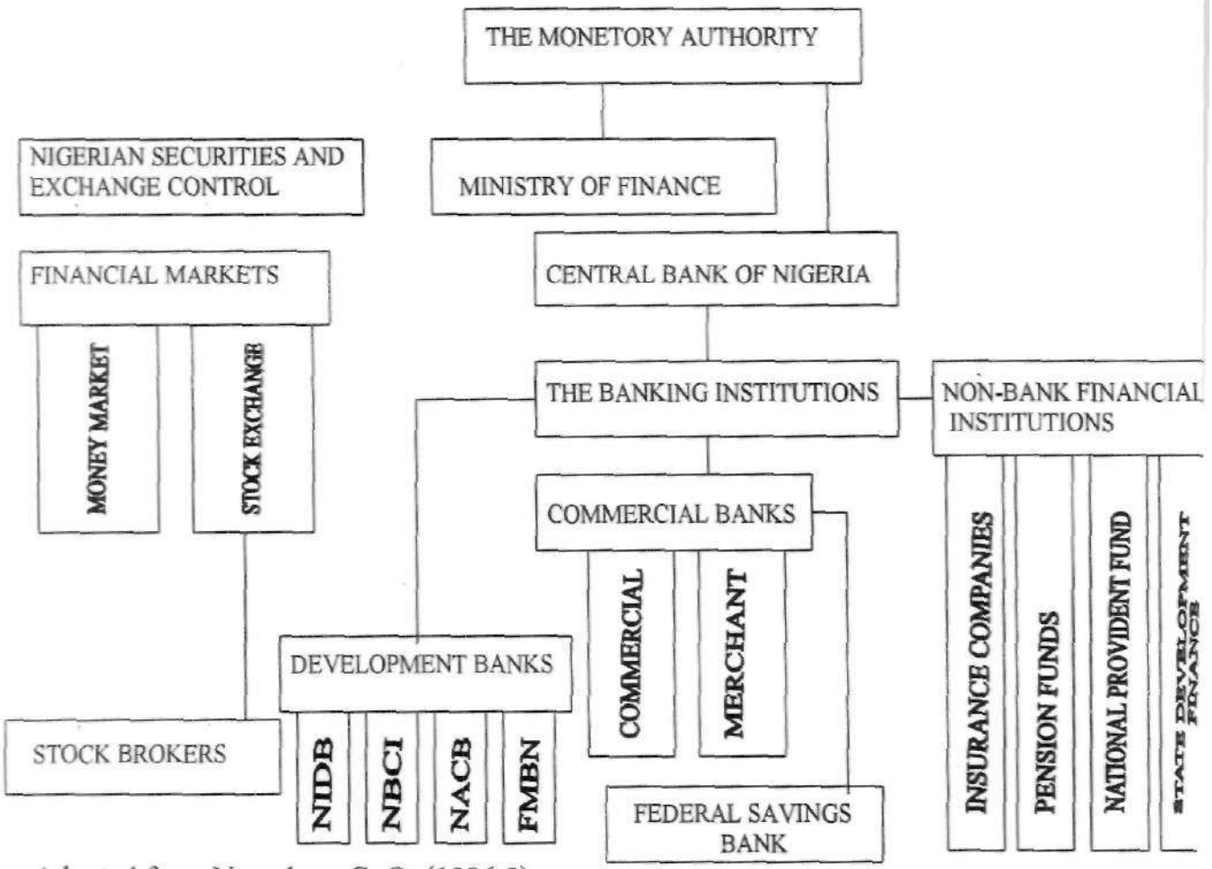
Source: CBN Bullion July, 1984 –Page 82.

2.2 Structure of Financial Institutions in Nigeria.

This is the grouping of all financial agents whose transaction determine quantitatively the financial flows in the economy (Okigbo: 1981:23). The financial system which enhance the financial sector, is the family of rules and regulations, and the congeries of financial arrangements institutions, agent and mechanisms whereby they relate to each other within the financial section and with the rest of the world (Beckhart 1965: 79) but, any study of the nature, structure and performance of any economy or sub-sector must of necessity look at the structure and performance of the financial system. Nigeria's financial system has had a chequered record (in term of structure, growth and performance) in its bid to stand up to the financial needs of a developing economy.

Figure I. Therefore highlights the hierarchical flow of financial institutions in Nigeria.

FIGURE 1: THE NIGERIAN FINANCIAL SYSTEM



Adapted from Nwankwo G. O. (1986:9)

According to him, supply leading finance has two functions: to transfer resources from traditional sectors to modern sectors and to promote and stimulate an entrepreneurial response in these modern sectors. However, while supply leading finance may not be a pre-condition for economic growth, it certainly presents an opportunity to induce real growth by financial means. Consequently, it is likely to be more important in the early stages of development than later. But as the economy grows, the importance of supply leading finance decreases while the demand

following type becomes dominant. Patrick also admits of the possibility of the interaction supply leading and demand following phenomena.

2.2.1 Legal and Institutional Structure of Nigeria's Financial System

As illustrated in figure 1 above, the Nigerian financial system is comprised of a number of diverse institutions which can be classified either by reference to how they are financed or by the nature of their liabilities. Generally, these institutions readily come into six groups (Okigbo 1981:24)

a. Banking System – Central Bank, Commercial, and Merchant Bank, and in Nigerian situation, Cooperative Banks.

b. Savings Institutions – Federal Savings Bank.

c. Specialized or Development Banking Institutions – Nigerian Industrial Development Bank, (NIDB), Nigerian Agricultural and Cooperative Bank, (NACB), Nigerian Bank for Commerce and Industry (NBCI).

d. Insurance and Provident Funds – Insurance Companies, the National Provident Fund.

e. Security Market – Nigeria Stock Exchange.

f. Public Sector – Federal and State Governments and Parastatal Institutions.

These institutions could be classified by reference to how they are financed, thus:

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i. **Institutions Financed by Deposits**

a. Monetary institutions like the commercial banking sector that collect demand and time deposits;

b. Non-monetary institutions like the Federal Savings Bank, Federal Mortgage Bank. They collect savings of depositors and lend to particular groups of customers for specific purposes. They do not however create money as the commercial banks do.

ii. **Institutions financed other than by deposits:**

These are specialised institutions which can raise funds by subscription by the public either on a contractual basis or on the issue of securities – stocks or bonds, or directly through the Exchequer. The examples of such institutions in Nigeria include the insurance companies, the government and the specialized banks, and several state investment companies and corporations. These institutions operate as executors of public investment policies because of the source of their funds.

One thing however is common to all these financial assets: they all deal almost exclusively in financial assets and liabilities. The assets may vary in their term, nature or risk. They are in reality debt instruments of final borrowers (users of funds) or of other intermediaries.

2.2.2 Legal Framework

As figure 1 also shows, the Monetary Authority is the top most in the hierarchy of the financial system. This may be the Supreme Military Council, the Armed Forces Ruling Council or the Federal Executive Council, depending on whether a military or civilian government is in power. It is the final authority that approves the budget and the final arbiter in any dispute between the Ministry of Finance and the Central Bank. However, for all practical purposes, the monetary authorities are made up of the Ministry of Finance and the Central Bank which is at the apex of the banking system, Before January 1988, the Central Bank used to be under the Ministry of Finance, and thus reports to the Minister. Since 1988, the Central Bank has been granted autonomy and it now reports directly to the president. Next to the Central Bank are the Bank and non-bank financial institutions and the institutional relationships, i.e, the reporting and supervisory relationships are as follows:

Institution	Supervisory Institution
Central Bank	Before 1988: Ministry of Finance But reports directly to the President as from 1988.
NIDB	Ministry of Commerce
NBCI	Ministry of Commerce
FMBN	Ministry of Works
Federal Savings Bank	Ministry of Finance
Commercial, and Merchant Banks	Central Bank
Insurance Companies	Ministry of Trade
Nigerian Stock Exchange	Council of the Exchange
National Provident Fund	Ministry of Labour.

Indeed the legal framework for the financial system, and particularly the banking system is provided in the Central Bank Act 1958, building on the foundations of the 1952 Banking Ordinance, Decree 1968, and the Banking Act 1969. Partly as a result of the Indigenous Enterprises Promotion Decree 1972 and 1977, and partly in an endeavour on the part of the authorities "to get intimately involved in commercial banking activities so as to guide them to operate to the maximum benefit of the economy", the Federal Government acquired 40% and 60% equity interest in the hitherto foreign banks in 1975 and 1977 respectively. Since the Central Bank of

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Nigeria (CBN) Act, 1958, a number of amendments have been passed which profoundly affect the banking operations in Nigeria. These include: CBN Amendment Act 1962, 1967; CBN Amendment Decree No. 21968, Finance Decree 32. Decrees Nos. 40 and 59 of 1970; Decrees No.46 of 1972, and 38 of 1976... In addition to these, a number of decisions of the Federal Executive Council affecting the CBN Act 1958 have been made:

a. The White Paper on the Okigbo Financial System Review Committee.

b. The decisions of the Federal Executive Council on the Mckenze Report 1977; and

c. The White Paper on the Onosode Commission on Parastatals 1981.

Prior to the commencement of operations by the CBN in July 1, 1959, the West African Currency Board System was in existence in the country. The activities of the Board extended to all then British West African Colonies. At that time, Nigeria's currency was backed one hundred percent by sterling reserve, and "the monetary system was neutral, that is, it did not exercise discretionary control over the economy or on the availability of foreign exchange" (Adedeji, 1969:209). Apart from its discretionary monetary control power, the CBN is also entrusted with some other traditional Central Banking functions including that of the issue of the national currency and the maintenance of external reserves in order to safeguard the international value of that currency. The bank is also charged

with the role of banker and financial adviser to the Federal Government. Moreover, the Banking Acts equipped the CBN with powers of control, supervision and direction over the licensed banks whose cooperation it must seek, wherever necessary, and with which it must statutorily cooperate to promote and maintain adequate banking services for the public and ensure high standard of conduct and management throughout the banking system.

All the other financial institutions operate under their respective enabling legislation. For instance, the insurance companies operate under the Insurance Companies Act, 1961, the insurance (Miscellaneous Provisions) Act, 1964, the Insurance Companies Regulations (1968), and the National Insurance Corporation of Nigeria Decree 1969.

Table 1: Financial Institutions in Nigeria and their Branches

Type of Institution	Number	Branches
Central Bank of Nigeria	1	14
Commercial Banks	33	1,483
Merchant Banks	16	33
Development Bank	4	65
Federal Savings Bank	1	20
Insurance Companies	87	Not available
Nigerian Stock Exchange	1	33 Brokerage Firms
National Provident Fund	1	

Sources: (1) Research and Data Services Limited, 1985/86 Nigerian Banking Almanac

(2) CBN, Annual Report and Statement of Accounts, 1987.

An examination of figure 1 and table 1 above shows a general outlook of sophistication both in terms of the number of financial institutions available and their branch network. As at December 1987, there were 33 commercial banks operating in Nigeria with 1,483 branches. This represents a ratio of one commercial bank office to about 67,431 Nigerians. In 1960, there were 8 banks with 190 branches. So, the 1987 ratio, though it still leaves the impression that Nigeria is underbanked, marks a considerable improvement over the 1960 status. For the merchant banks which until 1973, was monopolised by only one bank (NAL Merchant Bank) with only one office, the growth has been impressive. As at the end of December 1987, 16 merchant banks with 33 branches were operating in Nigeria. As at this date, the overall number of rural bank branches opened in the three phases of the Rural Banking Scheme stood at 529 or 35.7 percent of the total bank branches in the country. The trend in the growth of number and branches of Commercial and Merchant Banks shows tremendous physical expansion of banking facilities, due largely to the relative attractiveness of returns to investment in the banking industry (CBN, Annual Reports 1987:47). According to the Report, for example,

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during 1987 a total of 36 applications for banking licences were received compared with 18 in 1986.

The development banks (four of them) maintained a total of 65 branches as at the end of December 1987, while those of the Federal Savings Bank stood at 20. As for other institutions, their number and branches reflect their peculiar nature. As at end of December 1987, 87 insurance companies with numerous branch offices served the economy, while the Nigerian Stock Exchange operated with 33 brokerage firms.

The Nigerian financial system has also undergone considerable changes in its ownership structure. Prior to 1977, a major segment of the financial institutions was owned by foreigners. But since 1977, it has become mandatory for all financial institutions in Nigeria to have majority Nigerian equity participation. This regulation which is enforced under the Nigerian Enterprises Promotion Act is designed to promote the Nigerianization of the economy. the Development Banks (NIDB, NACB, NBCI), the Federal Mortgage Bank, and the Federal Savings Bank which were owned 100 percent by the Federal Government are now to be partly privatized, with the Federal Government retaining no more than 70 percent equity participation in each of them. This new development is contained in the privatization and commercialization of government Enterprises Decree No. 25 of 1988. The general picture that emerges is that the Nigerians are properly in control of the financial institutions operating in Nigeria.

One very important feature of the structure of Nigeria's financial system is the predominance of the banking system, particularly the commercial banks. This is a peculiar feature of most developing financial systems. At the early stages of development, the commercial banks, widely defined, constitutes the financial system. But as the economy develops the demand for other financial services increases and thus the relative decline in importance of the commercial banks.

Table 2: Trends In the Structure Of The Financial System By Type Of Institution, 1970 – 1978

Institution	Total Assets (%)					
	1970	1972	1974	1975	1977	1978
1. Commercial Bank	86.2	82.5	86.2	86.6	85.2	82.9
2. Merchant Banks	1.0	1.1	1.8	3.8	3.2	3.9
3. Savings Banks	0.4	0.3	0.1	0.1	0.08	0.07
4. Development Banks	4.1	3.6	2.9	3.2	5.9	6.8
5. Insurance Companies	-	2.9	1.5	2.0	2.4	2.3
6. Provident Fund	6.6	7.3	5.2	3.6	2.3	3.1
7. Mortgage banks	0.8	0.9	1.0	0.8	0.8	1.0
8. Other	0.4	1.8	0.9	-	0.1	-
Total	100.0	100	100	100	100	100

Source: Okigbo, P.N.C. 1981. P.31.

Tables 2 and 3 demonstrate the dominant but declining position of the commercial banks. From table 2, the percentage of commercial banks' assets to total assets of the system declined from 86.2 in 1970 to 82.5 in 1972, then rose to 86.2 and 86.6 in 1974 and 1975 respectively.

However, due to the growing importance of other financial institutions, notably, the merchant banks, the commercial banks' share declined to 82.9% in 1978.

Table 3 shows the dominant status of the commercial banks in the savings mobilization. Even though the percentage share has declined from 85.9, 88.9 and 88.8 in 1963, 1979 and 1981, respectively, to 80.88 in 1987, the commercial banks still constitute the most important set of institutions in the system. In his analysis of the deposit liabilities of the main institutions in the financial system, 1970 – 78, Okigbo (1981:3) observes that about 98% of all deposits come from the commercial banks. According to him "it follows therefore that if deposits dominate the sources of funds of the system to the extent of over 80% and if

Status of Commercial Banks in Savings Mobilization

Yeat	Savings and Time Deposits with Commercial Banks (1)	Time Deposits with Merchant Banks (2)	National Provident Fund (3)	Federal Savings Bank (4)	Nigerian Building Society (Federal Mortgage Bank) (5)	Premium Bonds, Savings Certificates, etc. (6)	Total (7)	(1) as % of (7)
1963	94.3			5.9	0.5	0.1	109.7	85.9
1965	141.0	-	8.9	5.5	0.9	0.3	175.1	80.5
1967	131.2	-	27.3	4.8	1.4	0.4	181.4	72.4
1969	215.4	-	43.5	5.1	2.0	0.2	281.3	76.5
1971	366.5	3.9	58.6	4.8	4.1	0.1	451.9	81.1
1973	582.3	17.1	72.4	4.5	5.5	1.0	720.2	80.8
1975	1,572.4	63.4	169.7	8.1	11.8	0.9	1,816.1	86.6
1977	2,255.1	82.4	159.9	8.0	20.0	0.9	2,595.9	86.7
1979	3,702.1	117.3	230.4	7.7	27.9	0.1	4,161.8	88.9
1981	6,023.5	328.0	306.7	5.3	57.2	0.1	6,784.2	88.8
1983	8,082.9	793.7	370.1	5.0	89.9	0.1	9,443.9	85.6
1985	10.550.9	1,318.2	472.3	8.1	118.2	0.1	12,539.0	84.1
1987	15,050.4	2,871.1	543.5	16.9	133.8	0.4	18,616.1	80.8

Source: CBN, Annual Report and Statement of Accounts (Various issues).

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Commercial banks account for practically all the deposits, then commercial banks constitute the most important set of entities in the system for mobilizing funds.

However, the gradual but steady changes in the structure of the system have to be acknowledged. The relative decline in the system have to be acknowledged. The relative decline in the commercial banks share of

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the institutional savings, for instance, was accompanied by the relatives growth in the share of other institutions, particularly the merchant banks, the Federal Mortgage Bank and the National Provident Fund. For example, the merchant banks' share of savings rose from about 2% in 1973 to about 15% in 1987. Other institutions experienced minimal but steady growth pattern.

Thus it could be concluded that the trends in the structure of the financial system appear promising. The commercial banks are getting more sophisticated as evidenced by the size and structure of their assets, deposits, loans and advances, and branch network. The other financial institutions are also growing at a satisfactory pace.

2.2.3 Measurement of Financial Intermediation

In the literature attempts have been made to gauge the extent of financial intermediation in the Nigerian economy, and this measures the relationship between the financial sector and the rest of the economy. That is, a relationship between the financial superstructure (the set of financial institutions, intermediaries and instruments) and the financial infrastructure (National Income and wealth). This pervasiveness of financing activities in economic life may be indicated by various ratios. Shaw (1973) introduced the concept of "financial deepening", defined as the ration of financial assets of financial institutions to Gross National Product (GNP). This ratio

corroborates what Goldsmith termed the financial inter-relations ratio (FIR). This ratio which measures the financial structure relates the superstructure, measured by a number of indices, to the national wealth or income. The higher the ratio of financial assets to real assets, the more the importance of financial institutions and instruments in the economy.

As the economy grows and develops, financial intermediation tends to increase. In the process of economic development, financial assets get diversified through transformation of maturities from short to long term by financial institutions. The diversification provides opportunities for the development of secondary markets in which long term securities may be traded. The resultant broadening of the financial assets enhances the growth of financial deepening and/or intermediation (Omoruyi 1984: 19-20).

Financial development, at least in the quantitative sense, is a very modern phenomenon (Drake 1980:28), from his expansive study of the financial development in several countries around the world, Goldsmith (1969:44-48) observes some striking historical regularities and these can be summarised thus:

(a) The financial inter-relations ratio (financial assets: national financial structure grows faster than national wealth (than national product).

(b) Eventually the FIR levels off, at a value about 1, perhaps up to 1½ .

(c) The FIR is lower in less developed than in advanced countries.

(d) The share of financial institutions in the ownership of financial assets increases as economic development proceeds.

(e) Financial development starts with the banking system and depends especially on the diffusion of scriptural money, which the banking system provides. As a corollary, the ratio of money to national wealth first increases with growth but eventually levels off or declines.

(f) As countries become highly developed, the share of the banking system in the assets of the financial sector declines, while that of newer and more specialized institutions- such as building societies, insurance companies, retirement fund and finance companies increases. Thus in advanced economics, the financial assets of the banking system are of lesser value than the financial assets held by all other institutions, whereas the reverse id true in economically under-developed countries.

(g) Foreign financial links- either providing sources of funds or serving as avenues for overseas investment of surpluses – have been of substantial importance at some stage in the development of most countries.

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(h) Over long periods. There has been in most countries a rough but unmistakable parallel between economic growth and financial development. But the direction of cause and effect in this obvious association is not clear established.

Needless to say that most of the observed regularities apply to Nigeria. One major problem arising in the set of the financial interrelations ratio (at least from the point of view of a developing economy) is the dearth of reliable data particularly on national wealth, and total financial assets/liabilities. In estimating the FIR for Nigeria, the Gross Domestic Product at current prices is used as a proxy for national wealth, while the assets of major financial institutions (that is, the Central Bank, Commercial and Merchant banks) represent the assets of the financial system. The FIR as computed is presented in Table 4 below.

Table 4: Ratio of Assets of Major Financial Institutions to GDP (Percentages).

Year	**Ratio (%)**
1970	33
1971	55
1980	54
1981	59
1982	66
1983	82

1984	86
1985	71
1986	97
1987	111

Source: CBN Annual Report and Statement of Accounts (Various Issues)

Table 4 above shows the steady rise of the ratio over the years. By 1986, it had leveled up to 100% and rose to 111% in 1987. This confirms that Nigeria's financial structure grows faster than the Gross Domestic Product. This trend is indicative of the maturing structure of the financial system. It must be noted however that the growth in the importance of the financial structure in the economy is influenced by the degree of monetization, the extent to which the business units depend on external sources for their finance and how much on internal financing, and the diversification of financial instruments.

The Table below shows the growth trend in the total domestic credit granted by the financial system to the domestic economy over the years.

Table 5:

Total Credit to Domestic Economy, 1960 – 1987.

Year	Amount (N million)	Percentage Change
1960	49.9	-
1965	352.2	605.8
1970	1,169.7	232.1
1975	1,156.5	-1.1
1980	10,689.0	242.5
1981	15,746.0	47.3
1982	21,410.0	35.9
1983	27,600.0	28.9
1984	30,423.0	10.2
1985	32,680.3	7.4
1986	36,820.3	12.6
1987	42,082.0	14.3
		Average Annual Change: 44.2

Sources: (1) IMF. International Financial Statistics (various issues).

(2) CBN. Annual Report and Statement of Accounts (various issues).

Total domestic credit grew from a paltry sum of N49.9 million in 1960 to about ₦420.82 million in 1987, representing some 84,232 percent increase, and an annual average percentage change of 44.2 over the twenty-eight year period (1960-1987). The magnitudinal changes in the size of domestic credit shows the extent to which the financial system is increasingly meeting the demands of financing the national development process.

However, one contentious issue in the field of finance and development relates to the direction of cause and effect. Ojo (1984) reports of his findings that the growth of financial assets which he estimated to be 12.5% consistently led the growth of the GDP which was 8.2%. This implies, according to him "that the growth of financial institutions significantly mapped out the growth pattern of the economy". A similar study of the period 1980 – 87 shows that the average annual rate of growth of financial assets which was 2.85% consistently led that of the GDP which was 8.36%, these results, though suggestive of a supply leading financial development, does not produce any conclusive evidence on the direction of causation.

To test for causality between finance and economic growth, the methods employed were those developed by Granger (1969), Sims (1972) and Haugh (1976). The Sims test for unidirectional causality between Y and X is "to regress Y to past and future values of X..., then if causality

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runs from X to Y only, future values of X in the regression should have coefficients statistically insignificant as a group". An alternative method which was developed by Haugh (1976), is simply, regressing changes in the dependent variables on its own past values and then adding on the past values of changes in the independent variable. The two variables tested for causality are: The changes in the total domestic credit (a measure of the activities of the financial system), and changes in the GDP. The annual data for the period 1966 to 1983 are used. The results from the various alternative estimates show a bidirectional causation. That is, the financial system and the general economic activities are connected by a web of inter-relationships, with each causing and in turn being influenced by, the activities of the other.

The conclusion one draws from the discussions so far is that Nigeria's financial system has experienced overwhelming structural changes over the years. It has also played very crucial roles in financing natural economic development.

It is the recognition of these growth inducing capability of financial intermediaries that led the CBN to take several measures to develop a sound financial sector. A healthy financial sector is sine qua non for efficacy in the conduct of monetary policies of the government. In Nigeria as in other countries, the financial intermediaries especially the banking system constitute the purveyors of the government's monetary policies.

And these monetary policies, by and large, determine the path and pattern of financial development. Therefore, a brief discussion of the content and direction of Nigeria's monetary policies might illuminate the character of the financial system further.

2.2.4 Review of Financial Institutions - Samples

Historical Backgrounds:

There are myriad's of Financial Institutions engaged in Financial inter-mediation activities in Nigeria. Some are new while some dates back to pre-independence of Nigeria. The new ones are Financial Institutions that are still struggling to find their feet on solid ground or base and are therefore not the focus of this evaluation. Attention is rather being focused on some of the old generation Financial Institutions that have weathered through the storm over the years, to be reckoned with either as one of the major public quoted Financial Institutions or as Development Banks funded by the government but private limited in nature. The financial institutions under evaluation in this project are:

(i) First Bank Nigeria Plc. (FBN)

(ii) United Bank for Africa Plc. (UBA)

(iii) Nigeria Industrial and Development Bank Ltd. (NIDB)

They are all over thirty years old and can be considered as paragons in their own right; which has to a great measure informed the choice of their respective selection amongst their contemporaries in this field.

Some are pre-independence Financial Institutions while others are as old as Nigeria's nation hood. Their geographical spread are outstanding and the Capital base dynamic.

b. **Roles, Objectives and Functions**

As stated in 3.0 above, the institutions selected for evaluation are drawn from two major segments of the financial sector, viz. Public quoted Financial Institutions: United Bank for Africa Plc. (UBA) and First Bank of Nigeria Plc, (FBN) and non Public quoted Financial Institution (Government Funded Development Banks,: Nigeria Industrial Development Bank (NIDB.

The public quoted banks are established amongst other things, as Profit making organisations while the government funded banks, are for development of some economic sectors. It will suffice here to give their respective roles, objectives and functions:

c. **First Bank of Nigeria PLC (FBN)**

In the course of my search for reliable and authentic information regarding the corporate background of the FBN, I had the singular privilege of interviewing and discussing with the Public Relations Officer of the First Bank of Nigeria Plc at the Corporate Zonal Office at Kaduna, Mr. C. C. Onuoha, who officially averred as under:

Year of Establishment: The First Bank of Nigeria Plc was established in the year 1894 and was then known as

Branch Network: The Bank has a branch Network of four hundred branches all over the country including rural areas.

Staff Strength: The Bank has in its employment over 7500 staffers.

Major Activities: The Bank is engaged in all spheres of commercial banking activities and great potential to carry out all banking activities, especially now that the Federal Government of Nigeria has liberalise the activities of banks be it Commercial or Merchant Banking.

Major Strengths: The banks profitability ranks high amongst its contemporaries and makes adequate use of professionals in its strife of high performance. The Assets base on the bank is equally on of the highest is the sector, which has equally enable it to organise the highest network of branches.

Major Contribution to the Nigerian Economy: The Bank has a blazing trail on rural banking network of which not all the branches are established just for profitability but for the education of the rural people on banking concepts especially peasant farmers who equally benefit from the bank's loan facilities.

Profitability: The Bank posted a whooping sum of N4.2 billion profit before tax for the year ended March 1999.

d. **United Bank for Africa PLC (UBA)**

The United Bank for Africa Plc has its antecedents in the British and French Bank Limited. The British and French Bank itself, metamorphosed from BNCI Paris, Banque Nationale Pour Le Commerce et L'Industrie established in 1932.

UBA Plc was incorporated on February 23, 1961 and was the first of the international Banks operating in Nigeria at the time to be registered under Nigerian Law.

The bank has 211 branches and cash offices in Nigeria's major commercial centres, state capitals and Federal Capital Territory with two offshore branches in New York and Grand Cayman Island. UBA Plc retains the unique status of being the only Nigerian bank with presence in the United States of America. The New York branch acts as one of the overseas correspondent banks. Other major correspondent banks are Bankers Trust (USA) and Banque Nationale de Paris (UK and France).

The bank undertook a voluntary public issue in 1970, the first such public issue to be undertaken by a bank in Nigeria. This voluntary issue came years before the requirement by the Authorities for 45% Nigerian Equity participation in local banks.

UBA Plc became a private entity in 1994 with the full divestment of the government's 60% shareholding under its Privatisation and Commercialisation of Public Enterprise thrust.

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With an authorised share capital of N1.0bn of which N500m is fully paid and shareholders funds in excess of N5.5bn, UBA Plc is one of the most highly capitalised banks in Nigeria.

Strategy

The bank's strategy is to combine its traditional strengths of a large funding base, access to cheap and steady deposit with the flexibility, responsiveness and quality service delivery of new generation banks.

Consistent with the need to evolve a coherent business strategy and respond to environmental changes, UBA Plc embarked on a comprehensive, realistic and practical restructuring exercise in 1995 which involved changes in structure, staffing, systems, skills profile and shared values.

Some of the changes effected are Branch refurbishment, investment in new technology to ensure on-line connectivity of branches, recruitment of experienced hands with modern banking skills, right-sizing the organisation and phased process re-engineering.

This exercise has been substantially completed and the bank is optimistic about the translation of this achievement into profitability, growth and stability in the immediate future.

Strengths

Customer Service

Recognising customer service as the essence of their being, every component of our strategy is tailored to fulfill their mission to deliver first class service to customers supported by technology, people and processes.

Overall, UBA Plc is totally committed to customer service, adding value to their client's business as well as building an enduring partnership.

People

The Bank has over 4,300 people throughout the country. Their focus is on managing relationships with their valued customers. In addition, they have a strong executive management team, a highly committed board and shareholders with a long term outlook. This enables them to forge relationships with their customers that stand the test of time.

Processes

As part of their restructuring program, they have dramatically improved their processes and services in a number of customer sensitive areas. These include, Cash and Cheque Lodgment, Withdrawal, Draft Issuance, Letter of Credit and Form 'M' processing.

On average, counter payments and Withdrawals are concluded within 5 minutes, Draft issuance within 15 minutes, Form 'M' registration within an hour and Letters of Credit within 24 hours.

Technology

They comprehensive technology programme includes the use of proprietary software which enables fast counter services and other electronic banking services at the branches. Key branches in their network are linked via satellite. Effectively this facilitates access to customers account irrespective of where it is domiciled and improved funds and resource management.

This computerisation programme being implemented in their major branches complements offshore banking facilities through their New York Branch, foreign correspondent banks and membership of SWIFT.

Reach

UBA Plc is one of the three biggest banks in Nigeria by balance sheet size, liquidity and branch network throughout the country which enable it access cheap, low cost and stable retail deposit. The Bank is also ranked among the top 1,000 most capitalised banks in the world by Institutional Investors magazine.

Outlook

Despite the challenging economic environment the Bank is poised to reap the gains of restructuring and is well positioned to maintain its leadership position in the banking industry by leveraging on its size, client base, market goodwill and customer confidence. In concern with the increasing interest in Africa, recent deregulation, liberalisation, privatisation and macro-economy stability have made the business environment in Nigeria more attractive. UBA Plc as a modern and forward looking Bank is a business partner for investment and trade.

Legal Activities

On the 23rd of February, 1961, the Bank was incorporated to take over the assets and liabilities of the British and French Bank Limited which had carried on banking business in Nigeria since 1949. The Bank's shares are currently quoted on the Nigerian Stock Exchange.

Major Activities

The Company is engaged in the business of commercial banking and provides international banking, share registration, corporate finance and computer services through specialised divisions, and trusteeship through a subsidiary company, UBA Trustees Limited.

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e. **Nigerian Industrial Development Bank Ltd. (NIDB).**

Introduction

The Nigeria Industrial Development Bank Limited (NIDB) was established on January 22, 1964, through the reconstruction of the Investment Company of Nigeria Limited which was incorporated in 1959 as an industrial development finance company. Established then with initial resources of N8.50 million, the share capital of NIDB as at 31st December, 1980 was N100 million of 50 million ordinary shares of N2.00 each out of which about N99.3 million had been fully paid up. Also, as at 31st December, 1980, the Bank's resources stood at N275.4 million comprising equity, capital reserves and borrowed funds. Also, as at 31st December, 1980, NIDB had sanctioned more than 451 investments amounting to over N360.5 million out of which about 94 investments had been fully amortised and 96 sanctions cancelled.

Role of NIDB

NIDB is a development finance company which provides medium and long-term finance and, sometimes, makes equity investments. Financial assistance is available only to limited liability companies registered in Nigeria and complying with the Nigerian Enterprises Promotion Decree; thus, NIDB prefers to provide funds for companies which are either wholly-owned by Nigerians or with substantial equity

investments by Nigerians. Furthermore, NIDB provides financial assistance to small, medium, and large-scale enterprises which by their size can make significant contribution to the Nigerian economy. The Bank finances projects located in any part of the country and encourages dispersal of industries away from the more industrialised centres.

The scope of investment is presently limited to manufacturing, non-petroleum mining and tourism which includes hotels of international standards. Services industries are generally excluded except where there is the prospect of manufacturing in the short term. Project proposals could be for the establishment of new ones or for the expansion of existing projects.

The project should be economically desirable, that is show promise of raising living standards, providing employment, or conserving foreign exchange. It should be technically feasible, i.e. the technical processes involved should be capable of being carried out under existing conditions of availability of raw materials, modern machinery and equipment, essential services, technical and managerial personnel and labour. The project should be commercially viable, i.e. capable of making a satisfactory profit, taking into account the cost of production and sales proceeds, the surplus being sufficient to repay loans, to build up reserves, and to pay reasonable dividends.

Standard Conditions of NIDB Loan Investments

Size of Investment

NIDB's minimum loan investment in any project is N50,000.00. On the other hand, NIDB's maximum exposure in loan and equity in any single enterprise will not be more than 75% of the project's total capital cost of 15% of NIDB's paid-up share capital and free reserves, whichever is lower. Both the minimum and the maximum investment exposure depend on a number of criteria including total project cost and debt/equity ratio. Whenever NIDB makes an equity investment, the minimum is 11% while the maximum is 26% of the client company's paid-up share capital. In some cases, however, NIDB may make some exceptions to the general rule.

Rate of Interest

NIDB's interest rate is at present 10½%. All interest charges are payable half-yearly. In case of default, NIDB charges extra 2% on overdue principal and interest.

Commitment Charges

NIBD's loans attract commitment charges of ¾ of 1% on the undisbursed part of the loan and the same shall be payable six months after the date of the acceptance of the offer, or from the date of signing the Loan Agreement, whichever is earlier.

Repayment Period

In general, a moratorium on repayment of twelve months is granted beginning from the date of commissioning of the project. The minimum amortisation term is five years while the maximum period of amortisation is fifteen years which gives total term of between five and fifteen years.

Security of Loan

This is normally a first legal mortgage on the fixed assets of the project and a second charge on the floating assets. In order to obtain overdrafts from commercial banks for working capital, NIDB allows a second charge on the fixed assets and a first charge on the floating assets to be created by them. Other collateral securities such as personal, parent company or reputable bank guarantee, government securities and stocks quoted on the Nigerian Stock Exchange and personal real property can be accepted. The value of security offered (made up of present assets plus the assets to be created by NIDB loan) should be at least one and half (1.5) times the proposed NIDB loan investment. The coverage should not be less than 1:1.5 as the minimum cover with the additional collateral security.

Debt/Equity Ratio

NIDB prefers a debt/equity ratio of about 2:1 in most cases.

Pre-payment Option

The client has option to repay outstanding principal installments subject to a graduated pre-payment premium.

Promoter's Contribution to Project Costs

The Promoter's contribution to any one project should not be less than 25% of the total capital cost of the project. In no circumstance will assistance be given except NIDB is satisfied that the promoter has the means to contribute his counterpart funds.

Loan and Mortgage Agreement

This contains the detailed but general conditions of NIDB investments. This agreement would normally be expected to be signed prior to the disbursement of NIDB loan. Before a mortgage can be created, the title deed to the property should have been deposited with NIDB. Where it is not available other temporary collateral security must be deposited before disbursement can be made. The client is liable for the legal and other professional fees that may be incurred by NIDB. These usually form part of NIDB disbursements.

Method of Application

Promoters of projects should contact NIDB directly either in writing or by personal visits to the Head Office, Area Headquarters, or Liaison

Offices. Initial contact with preliminary data is preferred at an early stage of project development when NIDB can offer useful advice through its Promotion and Development Department. Promoters can save substantial funds and time which could have been spent on studying non-viable projects.

A detailed project feasibility study should be undertaken by the promoter and a report submitted to enable NIDB commence the appraisal processes. In limited cases, NIDB's promotion and Development Department can undertake the project feasibility study on behalf of promoters for a nominal fee.

A satisfactory feasibility report should contain the following minimum details:-

A market report establishing the demand for the proposed products and the competitive prices. The market report should also contain the strategy to be used for distributing the products.

A description of the production process, the items of assets and detailed estimate of total cost including provision for working capitals, interest during construction period, preliminary expenses and start-up costs.

A detailed analysis of the annual cost of production and cash-flow and balance sheet projections for at least the first five years. Explanatory notes should be attached showing the assumptions made in the projections.

The proposed financing plan with realistic assessment and evidence of the availability of funds each source.

Brief notes on the history of the client company, the composition of its Board of Directors and short biographies of the Directors and Senior Management team. Copies of the Certificate of Incorporation, Memorandum and Articles of Association and important agreements should be attached.

It is essential that the promoter, while applying for assistance, should secure suitable land for the project in the name of his company and submit along with other documents mentioned in sub-section (v), a Registered Title Deed or Certificate of Occupancy or both.

Project Promotion and Development

The promotion and Development Department provides assistance to promoters for the development of projects which, though seemingly attractive, are insufficiently prepared for meaningful appraisal or implementation. It also provides opportunity for NIDB to increase the volume of its lending activities by stimulating new projects through active promotion of projects that fall in line with the investment policy of the Bank.

In some cases, the Department prepares project feasibility reports and identifies suitable financial, technical and management partners for prospective clients.

The Appraisal Process

The appraisal process is undertaken by the Appraisal Department and starts after the submission of the above detailed information and involves visits to sites and verification of the information submitted. The time interval between the submission of detailed data and the approval of the investment by NIDB Board can be up to two months.

An NIDB appraisal team comprises an industrial engineer, an investment executive and an economist. The team studies all aspects of the project and takes into account various established internal guidelines before reaching a conclusion. The Investment Committee reviews the proposal and if considered satisfactory, a recommendation is presented to the Board of Directors which normally meets bi-monthly. When sanctioned by the Board, a letter of offer is sent to the promoter. No commitment can be made prior to sanction by the Board. NIDB does not support procurement of secondhand or reconditioned machinery and equipment.

Investment Supervision Process

After accepting the letter of offer, the promoter enters into discussion with the Legal Department on the preparation of the Loan and

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Mortgage Agreement, the Finance Department on the procedure for disbursing NIDB funds and the Investment Supervision Department on the fulfillment of the terms and conditions of the offer. In smaller projects, though, the relevant Area Administrations should be contacted for these discussions. NIDB loan is usually disbursed directly to the suppliers of goods and services according to an agreed disbursement schedule. NIDB does not disburse directly to a client company's account except in the case of refinancing of an earlier approved investment or reimbursement of costs incurred by the promoter on approved items of fixed assets that fall within NIDB's financial commitment in the project.

The investment Supervision Department maintains contact with clients until loans are fully repaid or the equity investment sold. Certain information must be submitted regularly to the Department to enable it assess the risk of NIDB investment. NIDB's Manual of Disbursement and Supervision gives details of the type of information required.

NIDB usually reserves the right to have a minimum of one seat on the Board of Directors as a means of fostering the efficient management of the client company.

Management Services

Management Services Department (MSD) was established by NIDB Board to provide management consultancy services to NIDB customers and

to the general public. The range of MSD services include production planning and control, inventory control, preventive maintenance, market research, marketing and sales organisation. MSD also undertakes financial control and accounting services, business appraisals, executive selection, management secondments, management development training and personnel and industrial relations. A brochure on MSD operations is available on request.

Merchant Banking Services

NIDB holds 45% of the share capital of ICON Limited (Merchant Bankers), which is one of Nigeria's leading merchant banks. Other shareholders in ICON are Baring Brothers & Co. Limited of London, J.P. Morgan Overseas Capital Corporation of New York and National Insurance Corporation of Nigeria. ICON offers a wide range of merchant banking services, including corporate finance, letter of credit transactions, equipment leasing and advice on investment finance.

Stockbroking Business

ICON Stockbrokers Ltd. is a wholly-owned subsidiary of NIDB which offers stockbroking services.

Commonwealth Development Corporation (Nigeria) Limited

Commonwealth Development Corporation (Nigeria) Limited [CDC(N] is a wholly-owned subsidiary of NIDB. Discussions are now

underway to find a new role for CDC(N) in a manner that will make its operations complementary to NIDB's.

Area Administrations and Liaison Offices

An Area Office was established in Kaduna in October 1972 to serve the Northern States and another one in Aba in May 1973 to serve the Eastern States.

In July 1979 NIDB Board approved the setting up of two additional Area Offices in Bauchi and Akure and the establishment of five liaison offices, one each in Sokoto, Yola, Makurdi, Benin-City and Enugu.

However, in August 1980, the Bank, in its move to decentralise the operational activities of NIDB, approved the upgrading of the existing Area Offices into Area Administrations and the enlargement of the powers of the new Area Administration in such a way that investors throughout the country will, in most cases, need not travel to Lagos for the appraisal of their projects. This also applies to the supervision of established projects. The Bank also established an Area Administration in Lagos to cater for Ogun and Lagos States. Also approved was the increase in the number of Liaison Offices from five to fourteen to help existing and prospective clients link up with NIDB's Head Office and Area Administrations.

On 5th and 12th September, 1980 respectively, two Area Administrations with Headquarters in Bauchi and Akure were officially opened.

2.5 Industry Growth Rate/Indices

As it has been mentioned elsewhere in this work, the Nigerian Financial sector has enjoyed tremendous growth over the years and this in return had prompted immense growth to the intermediation process. Historically, the oil boom of the 1970's accelerated the monetary, flow within the country and equally triggered a mild inflation that boosted economic activities.

The Financial Sector GDP has been on the increase of the years and the table below shows clearly a positive pattern of growth trend:

YEAR	FINANCIAL INSTITUTIONS' GDP ₦'000
1989	6,938.96
1990	11,260.00
1991	12,553.44
1992	14,635.06
1993	15753.67
1994	12,153.17
1995	19,755.30
1996	26,562.95
1997	32,023.99

YEAR	% GROWTH
1989	NILL (BASE YEAR)
1990	16%
1991	11%
1992	16%
1993	7%
1994	-23%
1995	63%
1996	34%
1997	21%

The growth in this sector is quite outstanding and the sharp drop in 1994 in attributable to the global economic glut in that year. Significantly the sector has blossomed after the glut but spiral inflationary consequences are factors that are not noticeable at first sight of examination of the percentages after the glut.

It can therefore be generally deduced that the industry growth rate of this sector is amazingly encouraging. Even as this is the case, it does not mean that all the intermediation organisation are performing at their optimum level. This is why some evaluation is necessary to ascertain their respective status and recommend areas for improvement. Though the use of statistical and financial tools further revelations will come to light. For this

purpose I will make use of some tools of financial analysis which according to Stephen A. Ross et al of "Fundamentals of Corporate Finance" are paramount in the analysis of the performance of corporate bodies that are established for profit making purposes.

2.6 Performance Indicators

For the purpose of this section I will make use of some tools of Financial Analysis basically the following, which according to Stephen A. Ross et al of "Fundamentals of Corporate Finance" are paramount in the analysis of the performance of corporate bodies that are established for profit making purposes.

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CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter highlights the method and manner in which this research work is carried out.

3.1 Research Design

This research work is basically expository and explanatory. the research methodology includes the collection of data both from primary and secondary sources. The study basically include the review of literature from text books, other reference materials, and lecture literatures.

The data so collected are analysed using tables and percentages in the form of statistical and financial tables and based on the outcome of the analysis, conclusions were made and recommendations given.

3.2 Sources of Data

a. Primary Sources:

i. Personal Interviews: The executive officers of some financial intermediation oragnisations were personally interviewed for the purpose of data collection and fact finding purposes.

ii. Scholarly discussion were equally held with business colleaques, professionals and others interested in the project topic and these provided useful data for the purpose of this study.

b. Secondary Sources.

i. The Nigerian Stock Exchange area office in Kaduna provided useful data on the published financial data of the respective financial data of the respective financial institutions that are evaluated. Also the information office at Kaduna of the Nigerian Development Bank Ltd provided useful data on the NIDB.

ii. Documentary data were cleared from public works, texts journals, periodicals and related professional magazines; Newspaper, seminar papers were consulted. Conferences and workshop attended informed reliable sources of data to bring this work to light.

iii. The National Office of Statistics was equally helpful in the sourcing industry and trend data.

3.3 The Research Population

The study focused on the evaluation of some financial institutions in intermediation business. The population of the study embraces a

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representation of the financial institution in Nigeria that are into financial intermediation business, which embraces the commercial banks, merchant banks, provident funds, building societies, premium bonds, saving certificates, etc.

3.4 The Sampling

Considering the largeness of the population involved in this study, the researcher had selected a sample from the population upon which the study was conducted and generalizations made based on the assumption that the sample is the representative of the whole population.

Since a good sample must be as nearly representative of the entire population as possible, care was taken in this research to make sample size relatively reflective in order to convey a measure of credibility to the outcome of the study. Care was also taken to choose members of the sample randomly because when the choice of the subject is left to chance, the possibility of bias entering the selection of sample is reduced. In the first place these banks were randomly selected amongst the myriad of banks in operation in Nigeria; two of them public quoted and the other a private bank but government funded. The first two public quoted banks represent the various banks quoted at the Stock Exchange and the third represents those established by government for economic policy purposes.

3.5 Financial / Statistical Analysis Used

The simple variable analysis was used in analysing the data collected from the primary sources. This method of data analysis was used to allow for a descriptive explanation of data collected in relation to the study.

Also, to analyse the data, percentage method was adopted through the circulation of frequency distribution of subjects' opinions on the issues raised. These were presented in contingency tables, under the following financial and statistical evaluation methods:

(a) Return On Assets: This is to highlight the ratio of profitability. It is a measure of profit per Naira of assets or how effectively the assets of the company were employed for the purpose of profitability and can be denoted in many ways but the most common is the one used latter in next Chapter of presentation and Analysis of Data.

(b) Return on Equity (ROE) measures the performance of the stock-holders equity during the year under review. The enhancement of the stock-holders equity is the ultimate of a business performance, this goes a long way to show how the management of an organisation has been able to post adequate return or otherwise in comparison with the stock-holders equity.

(c) Times Interest Earned Ratio: This is a measure of long term solvency. It highlights the ratio of profitability to interest obligation

of the organisation. The more the interest obligations are covered the more likelihood of the organisation's continuity in business.

(d) Correlation Analysis: This is to establish the relationship between the respective financial institution as to the aggregate performance of all the financial institutions in the sector as derived from the Federal Office of Statistics and the Central Bank of Nigeria Annual Report.

(e) Correlation Co-efficient: A good attempt is made here to establish the linearity of the trend or otherwise of the respective financial institution in comparison with the aggregate GDP of Financial Institutions sector. On the other hand, this is a measure of sensitivity of the micro trend (particular Financial Institution) to the sub-macro (Financial Institutions sub-sector). This is to establish whether both are going on the same direction over the trend years or otherwise.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Data Presentation and Analysis: it is my intention in this Chapter to present the respective data pertaining to the three banks under evaluation in this work.

In the first place the financial data of the institutions have been sourced from the Nigerian Stock Exchange where applicable (UBA Plc and First Bank Plc) and from the NIDB Area Office, Kaduna, in the case of INDB Ltd.

The relevant information contained in those financial data have been presented in tableau for the respective institution from whence the financial tools of analysis are applied and statistical correlation and co-efficient are drawn.

Systematically all the data, their analysis and results are presented sequentially viz; First Bank Plc, United Bank for Africa Plc and Nigerian Agricultural Bank Ltd in the following manner:

1. A nine year Financial Data for each Bank
2. Calculation of Times Interest Earned Ratio (TIER) for the relevant years.
3. Computation of Return on Equity (ROE) for the relevant years
4. Computation of Return on Assets (ROA) for the relevant years
5. Computation of Correlation Analysis for the relevant years.
6. Computation of Correlation co-efficient for the relevant years.

FINANCIAL DATA OF FIRST BANK PLC FROM 1989 – 1997

YEAR	Profit after Tax	Annual Turnover	Depreciation	Total Assets	Interest Expense	EBIT	Total Equity
1989	105,946	1,151,494		8,492,320	371,997		534,230
1990	1,205,428	1,433,440		8,481,579	590,282		300,337
1991	36,062	208,993	7,896	1,795,377	62,183	100,749	842,719
1992	64,198	432,685	11,278	4,312,555	160,252	228,456	1,469,224
1993	931,832	4,308,535		23,552,278	813,756	1745,588	1,045,559
1994	873,527	5,354,996		33,554,560	1,206,768	2,080,295	1,382,233
1995	830,123	6,407,417		59,820,955	1,863,871	2,870,530	3,595,074
1996	996,866	7,410,754		72,818,807	2,618,071	3,773,926	4,014,589
1997	1,619,057	11,782,939		95,220,965	2,025,519	4348,395	6855,456

Tools of Financial Analysis

Here under are the tools of financial analysis employed in the evaluation:

1. Return on Assets

$$\frac{\text{Net Income}}{\text{Total Assets}}$$

Total Assets = Fixed Assets + Current Assets

Net Income = Profit after Tax

2. Return on Equity

$$\frac{\text{Net Income}}{\text{Total Equity}}$$

Times Interest Earned Ratio

3. Cash Coverage ratio

$$\frac{\text{EBIT}}{\text{Interest Expense}}$$

TIMES INTEREST EARNED RATIO OF FIRST BANK PLC 1991-1998

YEAR	EBIT	INTEREST EXPENSE	TIER
	₦'000	₦'000	
1991	100,749	62,183	1.6202
1992	228,456	160,252	1.4256
1993	1,745,588	813,756	2.1451
1994	2,080,295	1,206,768	1.7239
1995	2,870,530	1,863,871	1.5401
1996	3,773,926	2,618,071	1.4415
1997	4,348,395	2,025,519	2.1468
1998	5,949,207	2,238,634	2.6575

RETURN ON EQUITY OF FIRST BANK PLC 1991-1998

YEAR	**NET INCOME**	**TOTAL EQUITY**	**ROE**
	₦'000	**₦'000**	
1991	36,062	842,719	0.042792
1992	64,198	1,469,224	0.043695
1993	931,832	1,045,559	0.0891229
1994	873,527	1,382,233	0.631968
1995	830,123	3,595,074	0.230906
1996	996,866	4,014,589	0.248311
1997	1,649,057	6,855,456	0.240547
1998	2,942,850	8,927,818	0.329627

RETURN ON ASSETS OF FIRST BANK NIG. PLC 1991-1998

YEAR	NET INCOME ₦'000	TOTAL ASSETS ₦'000	ROA
1991	36,062	1,795,377	0.0201
1992	64,198	4,312,555	0.0149
1993	931,832	23,552,248	0.0396
1994	873,527	33,954,560	0.0257
1995	830,123	59,820,955	0.0139
1996	996,866	72,818,807	0.0137
1997	1,649,057	95,220,965	0.0173
1998	2,942,850	129,503,310	0.0227

FIRST BANK OF NIIG. PLC LOAN AND ADVANCES/FINANCIAL INSTITUTIONS GDP 1989-1997

YEAR	LOANS & ADVANCES	FINANCIAL INSTITUTION'S GDP
	₦ MILLION	₦ MILLION
1989	2,402,943,000	6938.96
1990	1,651,481,000	11,260.00
1991	952,488,000	12,553.44
1992	2,505,902,000	14,635.06
1993	3,072,636,000	15,753.67
1994	5,940,626,000	12,153.17
1995	11,741,454,000	19,755.30
1996	16,444,259,000	26,562.95
1997	26,047,540,000	32,023.99

FIRST BANK PLC LOANS/ADVANCES AND FINANCIAL INSTITUTIONS GDP 1989-1997 CORRELATION COEFFICIENTS

	LOANS	FINSGDP
LOANS	1.0000	.9394
FINSGDP	.9394	1.0000

FINANCIAL DATA OF UNITED BANK FOR AFRICA PLC

FROM 1989 – 1997

YEAR	Profit after Tax	Turnover	Depreciation	Total Assets	Interest Expense	EBIT	Total Equity
1989	64,764	819,637	24,729	9,205,430	350,211	451,445	416,755
1990	74,142	1,145,831	29,382	11,350,873	467,578	584,023	472,097
1991	10,000	1,457,673	50,654	12,684,196	579,108	595,775	484,475
1992	12,865	2,084,646		18,649,831			509,742
1993	254,082	2,908,394	61,352	22,949,595	789,533	1139,518	722,580
1994	132,777	3,629,066	76,254	24,244,657	813,456	1,025,963	1,563,371
1995	352,941	4,640,439	2,377,901	44,132,344	1,248,884	1,737,064	3,595,609
1996	943,847	6,972,978	167,400	47,945,205	1,580,899	2,827,084	4,287,393
1997	837,018	7,275,837	228,723	54,399,422	1,458,838	2,361,856	5,289,812

TIMES INTEREST EARNED RATIO OF UNITED BANK FOR AFRICA PLC 1991-1998

YEAR	EBIT ₦'000	INTEREST EXPENSE ₦'000	TIER
1991	595,775	579,108	1.0288
1992	NA	NA	NA
1993	1,139,518	789,533	1.4433
1994	1,025,963	813,456	1.2612
1995	1,737,064	1,248,884	1.3909
1996	2,827,084	1,580,899	1.7883
1997	2,361,856	1,458,838	1.6190
1998	1,581,000	1,356,000	1.1659

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RETURN ON EQUITY FOR UNITED BANK OF AFRICA PLC 1991-1998

YEAR	NET INCOME ₦'000	TOTAL EQUITY ₦'000	ROE
1991	10,000	484,475	0.020641
1992	12,865	509,742	0.025238
1993	254,082	722,580	0.351632
1994	132,777	1,563,371	0.08493
1995	352,941	3,595,609	0.098159
1996	943,847	4,287,393	0.220145
1997	837,018	5,289,812	0.158232
1998	134,000	5,036,000	0.026608

RETURN ON ASSET OF UBA PLC 1991-1998

YEAR	NET INCOME ₦'000	TOTAL ASSETS ₦'000	ROE
1991	10,000	12,684,196	0.0008
1992	12,865	18,649,831	0.0007
1993	254,082	22,949,595	0.0111
1994	132,777	24,244,657	0.0055
1995	352,941	44,132,344	0.0080
1996	943,847	47,945,205	0.0197
1997	837,018	54,399,422	0.0154
1998	134,000	73,751,000	0.0018

UBA PLC LOANS/ADVANCES AND FINANCIAL INSTITUTIONS GDP 1989-1997

YEAR	LOANS & ADVANCES	FINANCIAL INSTITUTION'S GDP ₦ MILLION
1989	3,044,131,000	6938.96
1990	2,505,400,000	11260.00
1991	2,435,482,000	12553.44
1992	3,650,186,000	14635.06
1993	5,428,590,000	15753.67
1994	4,317,846,000	12153.17
1995	6,220,112,000	19755.30
1996	8,986,917,000	26562.95
1997	10,760,815,000	32032.99

UBA PLC - LOANS/ADVANCES AND FINANCIAL INSTITUTIONS GDP 1989-1997 CORRELATION COEFFICIENTS

	FINSGDP	LOAN
FINSGDP	1	.8775
LOAN	.8775	1

FINANCIAL DATA OF NIGERIA INDUSTRIAL DEVELOPMENT BANK (NIDB)

FROM 1989 – 1997

YEAR	Profit after tax	Annual turnover	Depreciation	Total Assets	Interest Expense	EBIT	Total Equity
1989							
1990							
1991	31,295	1,574,711		11,319,096	560,993	529,698	456,513
1992	334,690	2,689,324	11,278	16,986,309	692,234	1058,197	955,602
1993	84,755	687,243	17,979	5,327,617	259,160	343,931	1,616,837
1994	22,753	615,390	22,110	5,846,165	291,898	315,893	1,580,678
1995	24,247	747,763	24,039	6,532,179	307,485	334,732	1,230,447
1996	28,784	721,002	23,916	6,589,731	306,307	346,013	1,259,231
1997	41,270	630,037	22,578	5,175,492	204,411	245,681	1,292,733

TIMES INTEREST EARNED RATIO OF NIDB 1991-1998

YEAR	EBIT ₦'000	INTEREST EXPENSE ₦'000	TIER
1991	529,698	560,993	0.944215
1992	1,058,197	692,234	1.528669
1993	343,931	259,160	1.327099
1994	315,893	291,898	1.082203
1995	334,732	307,485	1.088612
1996	346,013	306,307	1.129628
1997	245,681	204,411	1.201897
1998	221251	200,882	1.101398

RETURN ON EQUITY OF NIDB 1991-1998

YEAR	NET INCOME ₦'000	TOTAL EQUITY ₦'000	ROE
1991	-31,295	456,513	-0.068552
1992	64,198	1,469,224	0.043695
1993	84,755	1,616,837	0.05242
1994	22,753	1,206,200	0.018863
1995	24,247	1,230,447	0.019706
1996	28,784	1,259,231	0.022858
1997	33,502	1,292,733	0.025916
1998	14,228	1,306,961	0.010886

RETURN ON ASSETS OF NIDB 1991-1998

YEAR	NET INCOME	TOTAL ASSETS	ROA
	₦'000	₦'000	
1991	-31,295	11,319,096	-0.0028
1992	64,198	4,240,204	0.0151
1993	84,755	5,327,617	0.0159
1994	22,753	5,846,165	0.0039
1995	24,247	6,532,179	0.0037
1996	28,784	6,589,731	0.0044
1997	33,502	5,175,492	0.0065
1998	14,228	4,990,451	0.0029

KASHIM IBRAHIM LIBRARY

NIDB LOANS/ADVANCES AND MANUFACTURING SECTOR GDP 1989-1997

YEAR	LOANS & ADVANCES	MANUFACTURING GDP ₦-million
1989	NA	NA
1990	NA	NA
1991	1,634,900,000	18892.08
1992	2,378,992,000	26348.53
1993	3,312,193,000	38430.82
1994	3,559,403,000	62969.52
1995	3,699,756,000	105153.50
1996	4,111,699,000	132,554.26
1997	2,422,728	149,247.89

NIDB LTD - LOANS/MANUFACTURING SECTOR GDP

1989-1997 CORRELATION COEFFICIENTS

	LOAN	MANGDP
LOAN	1.0000	-.1001
MANGDP	-.1001	1.0000

4.1 Interpretation of Results:

4.1.1 First Bank of Nigeria Plc Results:

a. Times Interest Earned Ratio (TIER)

The results for the years are quite impressive and the eight years ratios produced an average of 1.8 cover. This is quite significant as this means that the Earning before Interest and Tax is almost twice of the Interest Expense over the years. In other words the Earnings Before Interest and Tax is almost capable of recouping twice the Interest Expense for each year.

b. **Return on Equity (ROE):** This is significantly how for the first to third year of the analysis judging by these ratios one can conveniently state that the stock holders equity did not yield an impressive return. The result is different from the fourth to the eight year from whence there was at least an average of 0.23% for each year over the five years running, signifying that the return on equity is averagely impressive or on other hand, that the stock holders equity, was put into better business operations that yielded better returns than the earlier three years of the evaluation.

c. **Return of Assets:** This undoubtedly low over the eight years. The assets employed are glaringly under utilised. The assets base of the bank is very high while the return on the assets produced a woeful average of .....% over the eight years under review. On the other hand this can be supposed to mean that much available capital is employed in the purchase of fixed assets while a lower percentage is available for working capital purpose and this is not a healthy position which can warrant the stock holders to

into other investment directions that are capable of yielding higher returns on the total assets employed.

d. **Correlation Analysis:** There is significant and progressive relationship between the loans and advances of the First Bank Plc and the Financial Institution GSP over the years. The results are linear in nature and can be used for future prediction of the direction or the result that will occur.

e. **Correlation Co-efficient:** Loans and Advances of First Bank Plc versus Financial Institutions GDP. The correlation coefficient is 0.9394 which tested highly significant at both L = 0.01 and 0.05 levels. Loans and advances of First Bank of Nigeria Plc increase (decrease) proportionately with increasing (decreasing) Financial Institutions GDP.

4.1.2 **United Bank for Africa Plc Results:**

a. **Times Interest Earned Ratio (TIER):** The result is fairly coverage and averages ..... over the eight years under review. This means that the Earnings Before Interest and Tax of the United Bank for Africa over the years are approximately 1½ times of the Interest Expenses for each of the years. The Interest Expense for each year is covered but an average of 2 times would have been more adequate.

b. **Return on Equity (ROE):** The result follows no significant pattern. Some years are fair while some are poor. The stockholders equity is poorly utilized in the pursuit of profitability. The reasons for this sort of result are varied, ranging from poor decision making, high overhead expenses, poor economic environment and or high competition and satinated market.

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c. **Return on Assets:** Again this is a very poor result. The assets are poorly employed in the earning of profits. The funds that are meant for working capital must have been wrongly employed in the acquisition of fixed assets. No stock holder will be happy

4.1.3 **Nigerian Industrial Development Bank Results:**

a. **Times Interest Earned Ratio (TIER):** This is a typical case that distinguishes the public enterprises from public funded enterprises from government funded enterprises. The ratio of the TIER for NIDB is low and averages 1.2:1. This is a poor ratio for TIER but it goes ahead to show that Development Banks are not basically established for profitability but to carry out governments decision that are fundamental for macro economic growth rather than micro. Again they can source funds at almost the same rate of interest as to the one changed for borrowers of the banks loanable funds.

b. **Return on Equity (ROE):** This ratio over the years under review is too poor if evaluated from profitability angle but as stated under TIER ratio above, government funded Development Banks are more or less government economic policy implementers rather than profit oriented Financial Institutions. But their operations have spiral effect in increasing the growth rate of the national macro economy. On average this ratio is slightly less than 3%.

c. **Return on Assets (ROA):** This shows a dismal average of less than 1% and if it were an institution established solely for profit making would have winded up over the years. Another hidden factor as to this poor ratio

is that the bank participates in equity stock of some of the manufacturing organisations that it grants loan. This sort of arrangement increases its investment port folio and its assets base thereby giving rise to the value of the total assets employed, which is the base for this poor ratio.

d. **Correlation Analysis:** NIDB Loans and Advances versus manufacturing sector GDP. The relationship neither significant nor linear in nature. The reason is not far fetched; the percentage of organisation receiving NIDB loan is quite insignificant compared to the myriad of organisation engaged in the manufacturing sector but this does not it any way mean that the NIDB has no impact on the national macro economy. As stated earlier on, the operation of the NIDB has a spiral effect on the economy. Another factor responsible for this insignificant relationship is that the loans and advances of the NIDB do not go only to the manufacturing sector but to any other viable industrial sector that meets the loans and advances requirements of the NIDB.

e. **Correlation Coefficient:** NIDB Loans and Advances versus manufacturing sectors GDP. The correlation coefficient is –0.1001 which tested insignificant at both L = 0.01 and 0.5 levels i.e. the data does not signify any appreciable linear association between loans and advances of NIDB and Manufacturing Sector GDP. The value of –0.1001 indicates that Loans and Advances of NIDB increase (decrease) disproportionately with decreasing (increasing) manufacturing sector's GDP.

CHAPTER FIVE

SUMMARY

5.0 Summary/Conclusion:

Financial Intermediation may originate or develop either on the liability or assets side of a business. The conventional history of banks, for example places their origin mainly in their role as deposit liability takers, and similarly with liabilities of insurance companies. However, leasing companies for example have equally developed on the assets side. Whatever the case the development of all financial intermediaries is tied up with two main factors, the sourcing of idle savings, money or assets and its application to loanable funds to individuals partnerships or corporate bodies that may need funds or assets for the creation of further goods, services or wealth.

Financial Intermediation definitely has a multiplier effect on the macro economy of a nation. It increases employment of labour and production output, thereby increasing the national GDP.

It also serves as a monitor of economic sectors with surplus funds and the economic sectors lacking funds. It therefore neutralises the lopsidedness of economic sectors under the economic maxim of "all things being equal".

Again financial intermediation is an ample evidence of a growing, developing and developed economies as it breeds high level of division of

labour and professionalism, which in turn is the bedrock of progressive economies or economic melting pot.

It is evidently clear that the operations of the financial institutions are legally regulated. This at times determines the extent to which they can apply their technical know-how in the pursuit of their objectives. And no matter how smart they may be, must be made to conform to the legal framework under which they operate. In this essence, the Central Bank of Nigeria is their ombudsman, armed with adequate measures of the stick and carrot for the deviating and complying banks to the rules respectively.

The history of financial intermediation in Nigeria is a chequred one, which predates the nation's independence and the nation's corporate indegenisation. The foundation of the Nigerian financial sector was laid by the British and French and the earliest financial institutions under this tutelage are presently the First Bank of Nigeria Plc and United Bank for Africa Plc. On the other hand, the government in recognition of the need for industrial take off of the Nigerian nationhood, established the Nigerian Industrial Development Bank. These three financial institutions formed the crux of this work.

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It has been evidently clear that the financial tools employed in the evaluation of the First Bank of Nigeria Plc, United Bank for Africa Plc and Nigerian Industrial Development Bank Ltd viz: Times Interest Earned

Ratio (TIER), Return on Equity (ROE) and Return on Assets (ROA) revealed surprising information as follows:

a. That high assets base does not always post a high Earnings Before Interest and Tax (EBIT)
b. Therefore that lead to the high growth of assets base of an organisation may bring about decline in profitability and inefficiency.
c. That the above notwithstanding, continuity of organisations can be established so far they break-even and earn marginal returns on the Assets employed.
d. That longevity in business brings about increase in assets base.

Return on Equity

a. That the equity of the First Bank and the United Bank for Africa Plc are unnecessarily high compared to the returns they bring forth.
b. The ROE of the Nigerian Industrial Bank Ltd, highlights that there is great difference between the publicly quoted financial institutions and the government funded Bank. The former strive to survive on earnings, while the latter survives on the goodwill of government which assigns to it the duty of economic policy implementation.
c. Again, that government set-up survives, even on a very low return on equity.
d. That it may be better to diversify a business with excess equity than to over saddle individual organisation with large and idle equity.

Times Interest Earned Ratio:

1. The First Bank of Nigeria Plc and the United Bank for Africa are doing well in this front. They are covered conveniently by what they charged over what they were charged.
2. On the other hand, NIDB is almost at par on its TIER, which is not an ideal situation.
3. Except for government support, NIDB would have been out of business
4. At the same time this does not imply that they are not doing well hence their main objective is not profit making.

Correlation Analysis:

1. There is ample or recognisable relationship between the loan and advances of First Bank of Nigeria Plc or United Bank for Africa Plc and the Financial Institutions GDP.
2. The correlation data is capable of producing a forecast or extrapolation that can be relied upon.
3. The NIDB does not show any relationship to the GDP of the manufacturing sector that patronises it.
4. The reason is that the NIDB is only one of the numerous major players in the financing of the manufacturing sector, as this sector equally sources funds from the numerous Commercial and Merchant Banks and from their Stockholders funds.

Correlation Co-efficient

1. The relationship between the loan and advances of First Bank of Nigeria Plc or United Bank for Africa Plc compared to the financial institutions GDP is quite significant and can be relied upon. It is linear in nature and can be useful for predictions.
2. There is little or no significant relationship between the loans and advances of Nigerian Industrial Bank Plc and the manufacturing sector's GDP. It can not be used for any meaningful deductions.

5.1 Recommendation:

a. Investigation should be carried out to establish the make up of the costs strata and administrative procedures and cost control systems established, in order to enhance the return on Equity (ROE) and Return on Assets (ROA) at both the First Bank of Nigeria Plc and United Bank for Africa Plc.

b. The assets and equity base of the First Bank and United Bank for Africa should be investigated and pruned for more effective results.

c. The Nigerian Industrial Development Bank should make sound efforts to increase the Times Interest Earned Ratio (TIER) to enhance its chances of continuity.

d. The government and the financial sector should create a Data Bank that will provide information to researchers, investors and the public,

in order to create awareness and substantive and current literature in this field, to keep tag with the present time information technology.

e. The First Bank and United Bank for Africa Plc should work harder to maintain their leadership position as shown by the correlation data and correlation co-efficient.

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