MANAGING FINANCIAL "CRISIS'.IN'FINANCE COMPANIES

CASE STUDY OF NIGERIA'AGRICULTURAL AND CO-OPERATIVE BANK CONSULTANCY"AND"FINANCE COMPANY LTD

AND

GURARA SECURITIES'AND-FINANCE COMPANY LIMITED

BY

BASHIR OYENIYI BADMUS

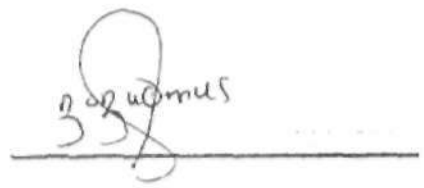
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BEING A PROJECT SUBMITTED TO THE POST-GRADUATE SCHOOL
AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILMENT
OF THE REQUIREMENTS FOR THE AWARD OF THE
DEGREE OF MASTER OF BUSINESS ADMINISTRATION
(M.B.A.) - DEPARTMENT OF BUSINESS ADMINISTRATION
AHMADU BELLO UNIVERSITY ZARIA

APRIL 1995

DECLARATION

I hereby declare that apart from the use of some published texts which has been fully acknowledged, this project report entitled "Managing Crisis in Finance Company Case Study of Nigeria Agricultural and Credit Bank Consultancy and Finance Company Ltd. Kaduna and Gurara SEcurities and Finance Company Ltd. Kaduna is my original work. To the best of my knowledge no part thereof has been submitted elsewhere for the award of degree or diploma.



BASHIR OYENIYI BADMUS

30-4-95

DATE

CERTIFICATION

This project report "Managing Crisis in FINANCE COMPANY case study of NACB Consultancy and Finance Company Ltd. Kaduna and GURARA SECURITIES AND FINANCE COMPANY LTD KADUNA" meets the regulations governing the award of the degree of Master of Business Administration of the Ahmadu Bello University and is approved for its contribution to knowledge and literary presentation.

PROJECT SUPERVISOR	DATE
DR. A. D. SHEIDU	20/5/95
EXTERNAL ~~SUPERVISOR~~ EXAMINER	DATE
HEAD OF DEPARTMENT	30/11/98
	DATE
DEAN OF POST GRADUATE SCHOOL	18/12/00
	DATE

DEDICATION

To God, for making everything possible and my deceased parents Mr. SALAWUDEEN AJALA BADAMOSI AND HAJIA SALAMAT ANERO BADAMOSI for setting the pace of my life.

ACKNOWLEDGEMENT

The ability to complete this work is the collective efforts of many individuals. I thank Messrs Mife Okeji, Agboola and Mouktar Abubakar who supervised this work for their helpful guidance and support for the putting up of this project report.
My special gratitude to Alhaji A.W.A. Ibraheem, a brother and friend for his invaluable assistance without whom the opportunity to expose and attend this course would have become a mirage.

Special thanks to Mr. K.O. Ojilere for offering to type this project work inspite of his ever tight schedule and lack of supporting staff in the department and to Mr. Sunday Oyegoke for proof reading the text, Tanko Madaki, Mr. Godwin Agada, staff of AHL that I could not individually mention and Audit Department staff of Institute of Health A.B.U. Zaria who were willing to support my course of interest.

Finally, to my wife, Musilimat Adefunke Badmus I remain very grateful to her for her understanding during the difficult time and for enduring the inconveniences of the little ones Ramat Bashir Badmus, Kafayat Bashir Badmus and Karimat Bashir Badmus for my sake during the period of this course.

BASHIR OYENIYI BADMUS

MARCH 1995

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KASHIM IBRAHIM LIBRARY

ABSTRACT

The project study is an empirical exercise taken cognisance of the impact of the Structural Adjusted Programme before and after the deregulation induced programme of 1986 in the finance sector of the economy and specifically Money Market as it affects finance intermediation.

The project informs how the SAP programme has altered the components of finance and money market, aggravated stiff competition and unprecedented surge by the finance companies, within the constrained economy characterised by dwindling domestic income, low production capacity socio political instability, economic dislocation, social menance and so on The Banks and other allied financial institutions spurously employed all strategies to survive and curtail the development through innovated marketing and financial strategies; financial products launching, free consultancy services, service delivery and stiff competition led to inter financing among the finance houses. This boosted only cash economy due to lack of aggregrated investment opportunities to correspond growing level of aggregrate deposits.

The overall result if that the average Nigerian has choice, and place risk premium on the investible fund among the alternative prompting fund mobilization at the expense of market indicators, leading to inability to renege on commitment - financial obligations.

The study is divided into five chapters. Chapter one introduces the study, setting out what it tends to achieve and the importance. Chapter two: visualise the study in retrospective to identify with relevant course and observations. Chapter three looked at the two finance companies operations in broad perspectives. Chapter four revolve round interpretation of data collected using financial indicators and analysis of data gathered on some of the contributories to the crisis while chapter five concludes the study.

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CHAPTER ONE

1.1 Preamble

The financial intermediaries vizualized as engine room for mobilization and intermediation of resources or financial instruments from the surplus economic units idle fund to the deficit economic units, who are in dire need of fund for investment purpose so as to turn round the economy for the citizenry.

The finance intermediaries taken critical look are Licensed Bank, Insurance Companies, Mortgage Institutions Bureau de Exchange, Finance Companies and of recent Community Bank, Discount Houses and etc. The Finance Companies operation circumscribe the neglected area of Bank intermediation in the Financial System of the economy due to stringe and strict rules on collateral securities, the act, short term acceptance of deposit or placement as investment fund and granting of credit facilities to small scale businessmen and sole enterprenurship, Investment advisory services, Fund acceptance paper, Management Consultancy, project appraisal and evaluation and outright Management of Fund, operation and assistance etc.

The Finance companies line of operation compated to Banking Institutions Trades on Fund mobilization and placement ranging from 30 days to 90 days maturity and rolled over at instance of the deposit, constitute significant proportion of the Finance intermediary asset portfolio. The liquidity compartment of the finance companies revolve round the ability to meet the depositor demand, matching investment and business opportunities with the depositor placement timing, political stability that enhances state of economical development, prudent management, living standard of the management.

It is also pertinent to note that lack of proper monitoring and censorship attendant upon SAP dismantline of administrative controls by enabling law regulating the finance companies:-

i) The Companies and Allied matter Act of 1990

ii) The Central Bank Decree No. 24 of 1991

iii) Banks and other Financial Institution Decree No. 25 of 1991.

Further agravated the outrageous development that manifested into serious crunch in the system; stiff competition, dwindling economy, lack of management perosnnel, high attractive interest rate, upfront payment of interest with compound cost and so on, to mention few in managing the kintty and gritty of the invested or placed fund by the management.

The so called casualities orchastrated by short term fund invested in long term project - fixed assets, supperlative living of the Chief Executive, wrong investments, political turbulence led to various face saving ploys by recruiting consultants, adopting relevant laws, formation of finance houses association for rescue mission and lastly approaching lender of last resort (CBN) to curb imminent and protracted financial crisis of leading to inability to renege on the commitment of finance companies to obligations payment of deposit and accrued interest.

1.2 STATEMENT OF THE PROBLEM

The major derivative of the Structural Adjustment Programme (SAP) propounded by the Babangida Administration is "its dismantling of complex administrative controls and reliance on market forces" in the money market of the economy prompting spring up or unprecedented surge of financial intermediaries; Finance companies, Bank, mortgage institutions, bureau de exchange etc. from 100 fiance companies pre 1986 to over 700 post SAP era, close to earlier Babangida exit in 1993.

It must be recognised and acknowledged that the further development as a result of deregulation of the money market in 1986 led also to spirited aggressiveness and innovation in the mobilizing deposit and outwitting competitors.

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The Nigeria economy suffered serious socia-economic distortions as a result of deregulation of the economy and compounded by inconsistency and inherent fiscal policies such as liberalization of industry, foreign exchange and interest rates for market forces, companies ownership structure, deregulation of Banking systems, rationalization and restructuring of tarrifs, adoption of appropriate pricing policies and so on to mention few.

Distortion in the frame work of domestic resource base which employs local technology and guarrantee continuity of both operations and management. Devastating blow on the private sector strategy, efficiency inovation and productivity which have been nurtured by the exploitation of the short comings and mismanagement in the public sector.

Today the Nigeria Economy is charaterized by lack of manpower to manage the knitty and gritty of fund (placement) management due to labour mobility, fund repartriation, di-investment, lack of domestic resource base, inability to sanitize and senzitize the capital and money market of the economy.

The Nigeria Economy as vizualized above in broader perspective when related to finance companies culminated in unprecedented crisis and nutshell liquidation. The finance companies that specialize in finance and advisory services of short and medium term nature such as; finance of local purchase order, Trade financing, Investment and money management, import/export financing, share and stock dealing, financial and management consultancy and so on, of the money market enjoys boom due to cash consiousness and goodwill perceived from noble aims and objective. It intends to serve and achieve in marrying the gap between short term demand and supply of fund.

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The crisis startling revelations emanated when the economic blue print propounded by (SAP) were short of realization become fiction illusion and ambigous dream, compounded by mismanagement; as earlier stated superlative living of the Chief Executive, inadequate planning and on credit policy and administration, poor response of investment from general economic depression, overstreching of money market, stiff competition, lack of management staff to mention few.

In view of aforementioned the consideration will be to identify causative factors for the finance companies crisis and focus the impact on money market that snowballing into the whole system of the economy's predicament.

1.5 SCOPE OF THE STUDY

Taken cognisance of the finance companies from broader perspective in term of location, area of interest, role in the economic development of the nation, capital base, management and organisational structure and the strength aggravated or upsurged over 700 as at early period of 1993 the research work will be inexhaustible and unattainable if not limited the scope to two finance companies in Kaduna.

Due to proximity of Lagos where prominent, virile and significant proportion are to the researcher domicile, inept attitude of the promoters in divulging relevant information, cost of courcing primary information and other attendant constraints the two finance companies within the vicinity chosen sampled results will be universally generalized and be widened applicability.

1.6 SIGNIFICANCE OF THE STUDY

In appraising the role of finance companies in the context, Nigeria money market in particular and financial system in General, the researcher has given cursory or inquisitive look at Nigeria financial markets both capital and money market with more emphasis on money

virle Nigeria financial system.

The outcome of the findings will be relevant to:-

1) The Government in the area of fiscal policies and monetary policies formation and relevant rules, guidelines and supervision on the Finance companies.

2) The knitty and gritty of the fund management by the employees.

3) Data Bank on finance companies, operations approaches, and other usage.

4) The society whose interest are the utmost aim and abridged in term of short term fund sourcing as alternative to Banking Institutions.

OBJECTIVES OF THE STUDY

The researcher believe that finance companies play important role in sensitizing the money market by mobilizing the idle fund in economic surplus units and plunge it into deficit economic units to enhance virile and bouyant economy.

The aims and objectives of the study:-

1) To identify the causes of the crisis in finance companies.

2) Highlight the finance companies intermediation in the money market.

3) Determine the role of the economy management and socio-political factors and impact in the crisis of the finance companies.

4) To X-ray the contributory factors from opaque glasses within the confine of the conceptions and postulate strategies to address them.

HYPOTHESES OF THE STUDY

The following have been acknowledged as the statements of the hypotheses:-

a) That due to inconsistent and incoherent fiscal and monetary policies the finance companies have been plugged into financial crisis.

b) That due to lack of decisive delegation of supervisory role from enabling relevant laws dictates the finance companies culmination assisted by financial and management indiscipline to financial crisis.

c) Social, Economic and political instability contributed significantly on the financial crisis of the finance companies.

d) Lack of competent experience and discipline professional from high mobility of manpower aggravated the financial crisis of the finance companies.

e) That stable social, economic and political environment, sound supervisory role, consistent and dynamic fiscal and monetary policies are the best way out from the survival of the finance companies in the money market.

1.7 METHODS OF DATA COLLECTION

The methods used in gathering data for the work of the project were primary and secondary data. The two approaches were exhaustively used to enable detailed, comprehensive and current informations be used in the project work.

The Primary Data Include:- Personal interview conducted with the officials and receiving manager of the finance companies, limited telephone conversations were used to interview experts outside Kaduna environment. The interviews used were unstructured and not written even with the acknowledgement of the interviewers apathy to documented information. Experience and working knowledge were brought into fora for gathering sailent points.

The Secondary sources includes the following:-

1. Companies and allied matters decree 1990
2. C.B.N. licencing provision and decree No. 24 of 1991
3. NACB CFC Annual report and financial statements.
4. GURARA SECURITIES AND FINANCE COMPANY LTD
5. Text books, Journal, Seminar papers and documents.

PROBLEMS AND LIMITATIONS OF THE STUDY

In the course of taking up the project lot of constraints were encountered;

1. Concentration of over 95% of the finance companies in Lagos money market alone.
2. Limitation factor, and lack of data bank by the finance companies to determine the number of entry and exit of the companies.
3. The crisis in the financial system of the economy culminated on the concealment of vital informations and inability of the officer to divulge, release factual or relevant document for the project information.

DEFINITION OF SPECIAL TERMS

Deregulated Economy	-	Free market economy characterized by market forces. This devoid of administrative control and creation of hurdles line by the government.
Deposit	-	Money lodged with the Bank and some other financial institution by corporate bodies individual and government units which can be voluntarily recal without any constraint and attracted interest to the depositor.
Interest Rate	-	Charges accruing to lender, the lending institutions on principal, some borrowed or price paid on enjoyed loan facilities.

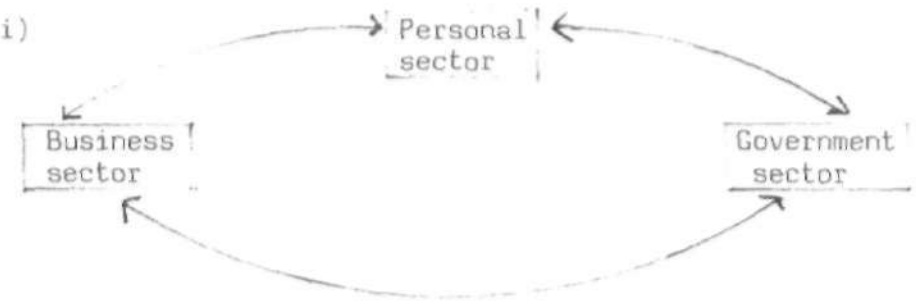
Financial Intermediaries	-	These are financial institutions that handle financial instrument and monetary affairs including Bank, Insurance Companies finance companies, mortgage banks and other instiutional investors.
Capital Market	-	This is where funds or money instrument are borrowed, sourced and lent for more than five years.
Money Market	-	Where funds are borrowed and lent for short periods.
Funds	-	Financial recources or sum sort of money saved or made available for a particular purpose.
Liquidity	-	A firm position in relation to cashable money instruments, marketable securities convertable within short term.
Maturity	-	The life span of a marketable security becomes due.
Portfolio	-	Outright combination of two or more securities.
Assets	-	Property owned as tangible and intangible which has its value, ownership and title to the company.
Investment	-	Money utilized to purchase financial instruments or marketable securities with sole aim of recovering the principal sum and interest.
Upfront Interest	-	Interest accruing to the depositor on the principal sum placed before the maturity date.
Financial Crisis	-	Inability of the corporate body to renege on earlier commitment or obligations to refund the sum principal and accrued interest on the fund placement .

Working Capital - A firm investment in short term assets or cashable money instrument - cash, stock, short time securities, Debtors and so on.

APPENDIX A

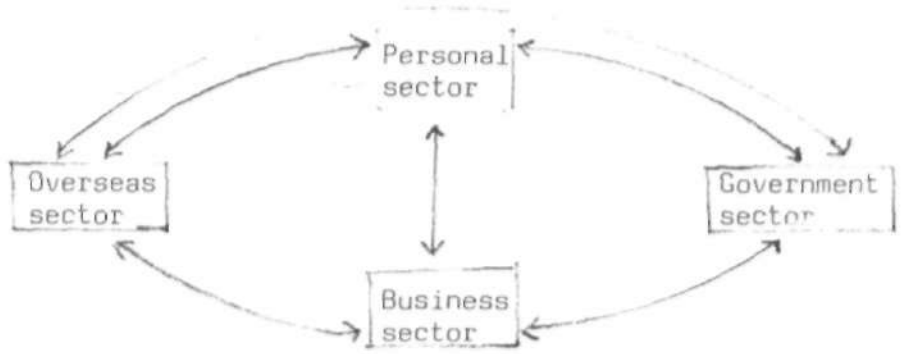
THE NIGERIA FINANCIAL SYSTEM - DIRECT AND INDIRECT

i)



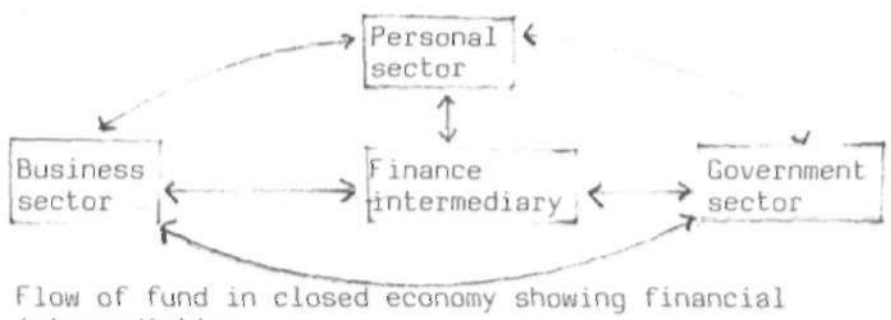
Flow of funds in **closed** economy ignoring financial intermediation.

ii)



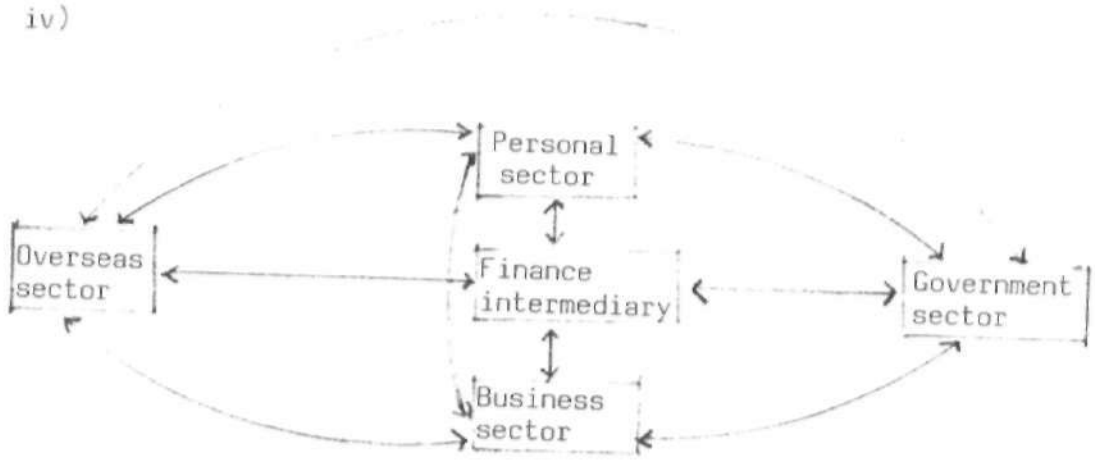
Flow of fund in an **open** economy but ignoring financial intermediaries.

iii)



Flow of fund in closed economy showing financial intermediation.

iv)



Flow of funds in an open economy showing the role of financial intermediation.

CHAPTER II - LITERATURE REVIEW

2.1 FINANCE COMPANIES CRISIS RETROSPECTIVE

Finance companies are one of the financial intermediaries in the nation's financial system that had fund placement of aggregate total of ₦15.7 billions 1992 to 25.3 billions 1993 consistute institutions and markets that serve individual. Corporate bodies and government Units in mobilizing fund for savings and subsequent lending to deficit units; Financing Financial Instruments, investing in capital and transfering of securities ownership, comprise of; Banking Institution, finance companies, Mortgage Institutions, Pension Fund, Unit trust, venture capital and to mention few.

The act here is financial intermediation. While the other complement of financial system is direct transfer from othermate borrower and lenders without intermediation. This is financial disintermediation i.e. corporate money called commercial paper, stock exchange sales of securities.

The consideration here is financial intermediation with inherent advantages such as Pool of Funds. Port folio investment and expertize; the financial intermediaries centred on two markets - Money and Capital markets. As these markets opportunities availed due to deregulation financial markets become free, keen competition emerged to out with the monopoly of flow of fund enjoyed for over a period of time by bank because illusion and distinction Institution cannot be drawn between the Bank and other financial Institutions "To survive, banks must compete in the market place as ever before not just with each other but with all sorts of financial Institutions (Erihiri P.O. 1992 P 8).

Finance companies once frenzy and thrilling romantic affair suddenly turned sour if any to go by but Banking financial Institutions having realized the impact unleasing "Bashing" on the finance companies to regain back traditional savings, deposit expurged from their operational portfolios.

Belated enabling Acts governing the operation, scope and span till after this much publicized Umanah Umanah saga in Port Harcourt. Lack of proper regulatory body (NDIC Monetary Banks) to sensitize and evolving strategies to subsist market information. Political logjum or imbroglio with feelings of social insecurity culminating in economic dislocation further exacerbated the problems.

CBN attitude to withdrawing certificate of distressed Institution aggravates the crisis of confidence rather than bailing them out of quagmire. The enacting Acts as discussed in the next sub-chapter involved possible basic reguirement to forestall imminent collapse in all its ramitifications and try to protect investors, but misfortune of the finance companies were characterized by the followings:-

INADEQUATE CAPITAL BASE

The CBN made it mandatory for the finance companies to deposit minimum of ₦5 million or 10% of adjusted capital which ever is higher. The companies did not only subvent the rule through clandestine moves but the volume of operation to the extent of mobilizing up to ₦300 million and above without comparative investments networth or opportunities made the ₦5 million deposit grossly inadequate to the classified non-performing assets.

INVESTORS "ATTITUDE TO HIGH INTEREST RATE"

Deregulation of the economy attendant is the determination of the Interest rate by the market forces - supply and demand while Banks conventionally stood at most 30% percent for ranges of placement finance companies went as far as 150 percent, even pay up front. The greedy attitude of the potential investors shifted when the Bank cannot cope with their demands to finance companies. The situation created boom unexplainable in recent economic terms which led to high risk encumbrances investments with attendant failure. The truth surface with lack of investment opportunities to generate profit to complement the principal deposit with obligators interest.

FUND MANAGER AND MANAGEMENT:

The proficiency and degree of fund managers have been bedevilled with professional thinnings but due to high mobility of the manpower need to manage the knitty and gritty of the management due to unprecendented surge in expansion.

While fund management of mobilizing and investing funds to ensure returns cause liquidity problems due to investment outfit or return on avail opportunities CONO hot commsenistrate within lightening speed of meeting the depositor obligation. In other cases, depositor fund sometimes used for purchase of company assets, intermediaries will be unable to renege on commitment with depositor disappointment.

The manager sometimes invested the short term fund deposited on^ long term assets/portfolio with attendant risk of in ability convert to cash as at when needed.

TRUST AND INTEGRITY

Internal act living a supertative life using deposit fund in acquiring assets for private use such as mobile telephone, driving posh cars and extravagant life of all sorts identified by depositors lead to crisis of confidence resulting to inability to pay back principal and interest. This boils down to loss of in probity and accountability of the system.

EMPLOYMENT OF FUND

Fund mobilized are usually placed with other finance houses or ranging from 1 million and above. This usually distort market strategy of the company of laudable project also joint financing with high attendant brokerages, commission and benefit in kinds to the executive.

The finance company will rely on satisfied information. Placement maturity to replenish the short fall if any and be possessed with cursory things and illusion of the centory influence wrong decision towards supertative life, travelling, staff advancies and posh accommodation.

TRADE FINANCIAL

This is an outright finance of local purchasing order LPO. The soft loan will be given to client to finance LPO obtained from reputable company or identified business opportunity which can be executed within the maximum of 90 days. Rehier be cursory or inquisitive on the

i) The nature of the bueiness and market
ii) The thorough appraisal of the company issuing LPO in term of financial capability and reputation.
iii) Too much confidence on the creditors promises
iv) Too much reliance and misleading from profit or interest to be earned.
v) Improper perfections of the loan colleteral securities.
vi) Inability to have ascess and in other the loan.

Emphasis are on documentation that imply payment for the clients goods or services made directly to the finance company who will deduct principal sum lend and the accrued interest with residual value to the client. Projects sometimes are raised to be taken over from the clients by financing and executing them, in the event the final analysis is to build in the principal sum with cost of fund and agreed percentage of profit share ratio and so on.

The multiple impact of the approach cropped in when the loan given could not be collected and retrieved as at when due, the company will fail in the dutiful obligation to pay the depositor the principal and interest.

ASSETS AND LIABILITIES MISPLACEMENT

Finance companies usually invest short term depositor placement on long term investment; purchases of landed property, importation of motor vehicles and chemicals and so on. Taken cognisance of the transportation time constraint, cost of importation and handling imperfect market economy. The company may find it difficult or impossible to transact and convert the investment into liquid assets to commensurate depositor commitments.

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MISAPPROPRIATION AND MISAPPLICATION OF ASSETS

Company assets range from fixed to current assets can be indefinitely diverted into private uses by the company Chief Executive. The fraudlent act and dishonesty circumscribe the act of procurement of expenses and driving of posh cars, living supertative life, living in luxurious homes and all these are financed by depositor money invested in short term period. When ever the depositor call for the deposit the company find it difficult to renege on the commitment.

CONCENTRATION OF INVESTMENTS ON CASH ECONOMY

Business areas such as fund management loan syndication, project finance, equipment financing, export/import financing, project proposal and appraisal underwriting issues, corporate amalgamation, merging services and capital market activities were also identified and lucrative with high yielding results along side of fund placement in finance Institutions, further to exploit these, the finance companies concentrated on more fluid ones with relative high returns revolving one industry the principle of diversifying was totally negated. The imminent collapse of one of the finance companies will automatically have effect on others through spilling of liquidity problem.

POLITICAL IMBROGLIO

The political stability in socio-economic development of a nation cannot be overemphasized. It ensure security of the operators and business environment, minimize social upheavel and distrust among citizenry. The event of 1993 in which the adorned free and fair election was annuled by the Government of Babangida created discomfort. Breeds eithnicity and tribal sentiments and uncalminets among the citizenry.

The attendant effect is the people migration to and fro within Nigeria by people of different tribe moving to their area of domicile in anticipation of breakdown of law and order, or anarchy and possible civil war.

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This distorted domestic economy base, and massive withdrawal of fund in money market led to liquidity problem, inability of the finance companies to renege on their commitment.

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2.2 FINANCE COMPANIES LEGAL FRAMEWORK

The conduct and operation of Finance Companies have always been guided and controlled by the Company Act of 1968 classified as limited liability company and whose operation under ambit Financial System has been on moral intension and prudent management. They did not come into limelight due to liquidity position of the Banking Institutions with easy and little control on Security for collateral in obtaining loan.

The revised guidelines and subsequent enactments came as a result proliferation deregulation surge and percieved imminent competition and problems the money market would have been suspected to. These revised guidelines are enthrenched by the Central Bank of Nigeria as exercised through the power conferred by provision section 28 Decree (No. 24) of 1991 and in pursuance of the provisions of section 56 - 61 of the Banks and other Financial Institutions (BOFI) Decree (No. 25) of 1991.

These formally regulate the establishment operations and conducts of Finance Company with immediate effect and retrospectively.

Finance Company licensed on Finance Company business means juristic person or company that provides financial services for customers and corporate organisations which include the following:

: Mobilizing short terms fund
: Lending of money
: Hire - purchase business
: Funds management
: Equipment or finance leasing
: Debt factoring
: Project Finance or Consultancy
: Trade Management and Finance
: Import and Export Finance
: etc

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APPLICATION FOR LICENSE

Any person or corporate body applying for license shall apply in writing to the Government of Central Bank and accompanied with the following:

i) A non-refundable application fee of ₦500 payable to Central Bank of Nigeria.

ii) Minimum of two copies of Comprehensive feasibility report with the following information:

- The objectives and aims of the proposed Finance Company
- The special area of interest of the Finance Company
- The branch location and proposal written the next five years
- The manpower development programme
- The strategic plan for the next five years (Financial projection)
- The composition of Board of directors and the relevant curriculum vitae credentials and so on.
- The function of the Top Management staff and relevant assumptions.
- The overall perceived conclusions as assured above.

iii) Letter of intent to subscribe to the finance company attented to by the subscribers.

iv) Tabular Form F list of proposed shareholders with their nature of business and residential address.

v) Two copies of draft memorandum and Article of Associations

vi) Before the approval the Central Bank of Nigeria shall be convinced and satisfied on the quality of the management, the adequacy of the capital and earning prospect of the company and the relevant objects enshrined in the statute books.

vii) If aforementioned are satisfied the Central Bank of Nigeria will call on promoters to: deposit the minimum capital with the Central Bank of Nigeria

: attach to the deposit the evidence of payment by subscriber

viii) Based on these the Governor may give the approval in principle to enable further registration with corporate affair commission and the Central Bank of Nigeria has the perogrative to revoke the licence at will if the conditions are faulted.

MANAGEMENT AND FINANCIAL'REQUIREMENTS

The key Management positions in the Finance company have been regulated thus:

- Managing Director $Chief Executive) University degree or equivalent or professional qualification acceptable within the concept of Central Bank of Nigeria with not less than five years post qualification experience.
- Head of Department - a University degree or professional qualification acceptable to the Central Bank of Nigeria with post qualification experience.
- Other staff - shall be of integrity and proamability
- Person with other qualification not within the aforementioned may be considered by the Central Bank of Nigeria can hold any positions (i) (ii) (iii) within the organisation.

While in term of Financial consideration the Central Bank of Nigeria may vary when necessary the requirements stipulated below:

- Minimum paid up capital H5,000,000:00
- Application Fee 5,000:00
- License Fee 50,000:00
- Annual General Fee 5,000:00
- Dividend not paid till all preliminary expenses were dealt with.
- Provision made for business and contigent losses
- Capital adequacy enhanced
- Mature obligation paid

.../

CAPITAL FUNDS

I - Equity - paid up capital and revenue reserved

II - Borrowing - Transfer to reserves from Net profits tax shall be at the rate of a minimum of 12.5% until it equals the paid-up capital and minimum of 5% thereafter.

FINAL APPRAISAL TO THE COMMENCEMENT OF OPERATIONS

The Company sponsorship shall be made available to the undermentioned prior to the commencement of business:

a) A copy of share certificate issued to the shareholders
b) Three certified true copies of Form Co2 for the respond to Allotments earlier filed with the corporate affair Commission.
c) Three certified true copies of particular of Director by Form C07 and acknowledgement that the Board of Directors approved by the Central Bank of Nigeria has been inaugurated.
d) Three certified copies of the memorandum and article of associations earlier filed with the Corporate affair Commission's office.
e) Three certified true copies of the certificates of incorporation of the company.
f) Two copies of letters of offers of employment and subsequent acceptance letter of employment by the Management of staff concerned.
g) The opening statement of affairs by an approved firm of accountants practising in Nigeria.
h) The Principal office location shall be communicated to the Central Bank of Nigeria
i) The commencement period of operation shall be communicated to the Central Bank of Nigeria
j) The Finance company based on aforementioned prerequisite shall be informed in writing by Central Bank of Nigeria to commence business accordingly.

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ADVERTISEMENT OF AUDITED ACCOUNTS

Annual audited Accounts comprises Balance-sheet profit and loss account and yearly adjusted accounts to the Director of Banking Supervision for appraisal and approval before publication in the minimum of two Nigeria National dailies not later than four months to the end of the financial year. Penalty so paid in contrast to the provision BOFID and policy guidelines must be expressly stated along with auditors report.

RETURNS AND PENALTIES FOR LATE OR FALSE RETURNS

Section 58 (2b) of BOFID, emphasised quarterly return to every finance company thus:

- Statement of assets and liabilities
- Total credit given
- Investment and money market deals
- Slow moving credit and relevant report
- Interest rate structure
- Others as may be demanded time to time and reach the Director of Banking Supervision not later than 28th of month ended to the end of the quarter and copied Director of Research Central Bank of Nigeria Lagos. Bi-annual report to the Director. Bank Examination Department on 28th of the month following the month of rendition.

The inability to render and forward the returns shall attract

i) Fine of ₦450.00 for each day to the maximum of 60 days other than that it will be followed by the revocation of license.

ii) In the alternative, the Accountant may be appointed to examine the Book of Account and made return accordingly with all the cost deposited into the account

iii) If proper books of account are not strictly kept by designed principal officers, fine of ₦9,500.00 may be imposed on the company. If the act is intentional the charges may be ₦45,000 and the officer concerned removed.

OPENING AND CLOSING OF BRANCHES OF FINANCE COMPANIES

To open and close already open branches of finance companies the written approval of CBN must be obtained. Any act contrary to that shall attract a fine of ₦1,950.00 per day to the necessary quidelines and followed.

DISPLAY, RENEWAL AND REVOCATION OF LICENSE

The finance company license shall be bold displayed in the principal head office and the branches (if any) if not the penalties is as aforementioned. The license so given shall lapse on 31st December of every year and renewals at a cost of ₦5,000 within 30 days thereafter to the closure period.

Revocation of license granted my materialise on the following grounds:

i) Perpetrating illegal activities outside the concept of the licensed business
ii) Failure to remit and comply with request for earlier statutory information mentioned to the CBN.
iii) Engaging in refssions activities conflict with the nation interest.
iv) In ability to renege on the commitment to the customers
v) Outright submission of wrong information or data fater license has been given.
vi) Lack of compliance to CBN directive and regulations
vii) Act of misconduct or default.

REPLACEMENT OF MANAGEMENT STAFF

The appointments and replacement of Management staff should outrightly be cleared with CBN where the officer act relate to fraud or act of illegality, the Bank shall cause the investigation to be conducted into the issue in particular and affairs in general. The outcome will dictate the penalties to be imposed on the finance company.

.../

DISCLOSURE OF INTEREST BY DIRECTORS

The law made it mandatory on the part of Director (s) who might have either directly or indirectly advance, loan, credit facility from the finance company on the Board of which he is serving. The interest should belong: Further more Director possessing property or interest duties whose interest might contact his position as Director of the finance company shall declare same at a meeting of the Board of Directors of finance company, the true picture and nature of the interest. The contravention of the stipulation will be liable to price of ₦100.00 or removal from office.

PUBLICITY AND ADVERTISEMENT

Every form of publicity through any form of advertisement should have prior approval of the Banking supervision Department of Central Bank of Nigeria. The contravention shall constitute misconduct except on circumstancial instance of the Bank and attract the sum of ₦5000 for the outright publication and another fine of ₦950. for every day during which advertisement continues and time limit of 14 days before anyother stringent action.

INTERNAL AUDIT

Finance company should have an internal audit unit to control and appraise the operations of the company to ensure conformity with the relevant law. Every identified misdemeanour should be promptly reported to Banking supervision department including any form of default that might affect the company in meeting the obligations. Nil report should be sent to same monitoring division where same is observed.

PRUDENTIAL GUIDELINES

i. CAPITAL/RISK WEIGHTED ASSETS RATIO

The minimum capital or risk weighted Assets Ratio of each finance company shall be 0% for 1993, while in 1994 to 10% and little but higher in 1995 to 12.5%. Any thing short of these shall be visualised distress and all effort geared toward restoring them:

.../

- Stop granting credits and making investments
- Borrowing from investing public
- Mobilize deposit from investing public
- Capitalise profit or scrip issue of shares
- Within (30-90 days) reasonable period submit capital reconstitation plan acceptable to CBN.

Any contravention shall attract ₦100,000 or suspension from the financial system.

ii. LIMIT OF LENDING AND BORROWING

The maximum loan that can be given to individual or maximum investment in any venture should not exceed 50% of the finance company shareholders funds unimpaired by losses, contravention attract several penalties.

While the minimum of a finance company can solicit from any pension or corporate is ₦100,000 subject to limit of all outstanding borrowing at a time or ten times the finance company unimpaired paid up capital and services. Contravention attract ₦1,000. for each day to the period of rectification.

RELATIONSHIP WITH OTHER FINANCIAL INSTITUTIONS

The finance company is bound to show explicitly in the quarterly returns to the Bank the details of its transactions with other financial Institutions (Mortgage companies, Finance Company), Insurance Companies, stock brokerage and so on).

LIMITATION

Finance company shall not:-

i) Deem it expediency to advertise solicit or accept money on deposit
ii) Deal in foreign currency without express permission
iii) Approve credit facility and transaction related on the company security or the shares of stakeholding company.
iv) Engage in business other than the one stipulated in the licensed certificate.
v) Pay any dividend in her shares without the bank approval.

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2.3 THE STRUCTURAL ADJUSTMENT PROGRAMME FACTOR ON FINANCIAL CRISIS

The Structural Adjustment Programme as instroduced in 1986 brought an unprecedented surge in proliferation and emancipation of finance intermediaries. Prior to 1986 the number of finance companies in Nigeria financial system was less than 100 in number under the Miscroscope of Nigeria Company Act of 1968.

The 1986 Structural Adjustment Programme brought about eh the increase in number of finance companies close to 800 in late 1993 of Babangida regime with antecedent of astronomical increase in total value deposit of ₦15.72 Billion Naira in 1992 to 25.3 Billion Naira in 1993. The deregulation as a result of perceived market economy or forces as enunciated in General Ibrahim Babangida speech to "altering and realigning aggregate domestic expenditure and productions patterns so as to minimise dependence on imports, enhance non-oil export base and bring the economy on the part of steady balanced growth". To bring about same, policy parameters of accomplyshing SAP were formulated thus:

i) - Internal Control meahanism to enhance realistic exchange rate ranging from the establishment of Second Tier Foreign Exchange Market (FEM) to Inter Bank foreign exchange market after many diagnosis.

ii) Removal administrative control on domestic production although scrapping of various commodity boards and provision of condusive environment and incentive.

iii) Trade liberalisation and outright re-adjustment in larig structive. Adoption of supporting monetary and fiscal policies including the liberalization of interest rate.

iv) Rationalization of public organisation or sector to degree of market response through privatization and commercialization .

v) Debt appraisal both Internal and External through re-scheduling and purchasing.

.../

THE AIM AND OBJECTIVE OF SAP

In the larger spectrum SAP was conceived to acoomplish the following forcast:

- To reduce the degree of subsidiaing an unproductive public sector organisation to more efficient competitive private sector, through growth in the sectors.
- To enable achieve fiscal and balance of payments capacity over the medium term through altering and restructing the local production and consumption patterns of the economy and eliminate price distortions.
- To enhance the portfolio management of the domestic economy so as to reduce dependence on importation.
- To streamline the nation economy on bearable inflationary trend.
- To attain the aformentioned objectives the Roles of finance intermediaries role through transformation and translation of policies, moblising deposit and recommercialisation. Management of the fund mobilized co-ordination and stimulation of finance market and system to stimulate economic growth.

THE SIGNIFICANT ROLE OF SAP ON THE FINANCIAL SYSTEM

The SAP that came in 1986 with its antecedent resulting from various policies on the financial system and economy of the nation, with opportunities and challengies are:

- The outright promulgation of Banks and Financial Institutions.
- Introduction of prudent guidelines for finance Institutions
- Establishment of Nigeria Deposit Insurance Corporation (NDIC)
- Deregulation of the foreign exchange market
- Deregulation of fund interest rate.
- Commercialization and privatisation of Public Organisation.
- Establishment of Domicillary accounts
- Introduction of Debt conversion programme.

.../

- Granting of autonomy to Central Bank of Nigeria
- Liberalization of Banking procedure
- Opportunities given to Bank in participating in Industrial enterprises.
- Reduction of sectors for granting credit allocation from eight to two.

BENEFITS OF THE SAP

The benefits derived as a result of expanded cash economy are:

- The upsurge in the number of finance companies
- The improved capacity utilization in the Banking and financial services.
- Non-oil product for export with degree reasonable increase in area of manufacturing.
- Reduction in the Import level
- Astronomical increase in Agricultural output
- Increase in backward integration of sourcing local raw material.

LIMITATIONS OF SAP

The SAP introduced created lot of threats and challenges culminating from volatile market competition:

- High cost of sourcing fund for identified project
- Downward trend of the Naira exchange rate
- Increase in capital fund repartration as a result of unrealistic exchange rate.
- Reduction in the level of investments.

Finance companies as exhaustively explained in the earlier chapter source funds through equity capital reserves, fund and placement, borrowing from both individual and institutional bodies and revenue income on services rendered before the promulgation of the Banks and other financial institutions (Both) Decree No. 25 of 1991 and Central Bank of Nigeria Decree No. 24 1991 operated under the Nigeria company Act. of 1968 at wills at specified interest rates and extensively engaged in several other cladestine activities including conventional function reserved for Banking Institutions.

.../

Deposit taken similar to that of conventional Bank attracted very sky rocket interest rate, and trading on LPO finance foreign exchange with make up sparringly applied leading to erratic profits. This prompted Banks having finance companies affiliate as subsidiary companies with fund allocation from the deposit substantial enough to distort regulated interest policy.

The real objective is the service quickly rendered and not the relevant contribution in economy growth due to services rendered sparingly, unregulated and led to Banks to felt aggrieved of free operation leading to surge of the finance companies. In the financial system and market, the resultant effect is the check through the ʀ enactment of various decrees as earlier ennuciated empowered Central Bank of Nigeria to regulate the activities and deform their scope of operation (CBN Annual Report 1991, pp 15-17).

Although decree has succeded in restructing their operations, finance companies still stand as threat to other financial intermediaries in the finance system or economy of the country due to unwhole-some behaviour.

According to Business Times of Monday April 21st 1994, over 400 finance houses have been licensed while the uncountable are still operating under provisional licences taken cognisance of over 800 applications for licenses received by the end of 1996 .

CHAPTER 3

3.1 NIGERI AGRICULTURAL CO-OPERATIVE BANK CONSULTANCY AND FINANCE COMPANY LIMITED

NACB Consultancy and Finance Company Limited came into being in 1981 as consultancy services division of NACB Limited 100% FGN fully owned company with sole aim of developing agricultural sector to meet the needs of loan application, by preparing, analysing and appraising the feasibility studies as a means of or to increase the flow of funds into the field of agriculture and to ensure its peoductivity in the nation economy providing financial services and support. The head office is at No. 2 Dendo Road off Ahmadu Bello Way in Nothern part of Kaduna, with branches all over Nigeria.

The upsurge in demand for the service in form of fund sourcing by the potential creditor, culminated into agricultural farmers awareness in the immense role of the firm and availing. In project preparation, projecting large capital outlay, agricultural management loan syndication and consultancy services manifested the department to be upgraded to full fledge incorporated firm as subsidiary of NACB Limited. The NACB consultancy and finance company limited (NACB - CFR LTD) came into formal enlistment in 1991.

With serving members on the Board of Directors drawn from the NACB LTD. with some community representatives and management team made up of tested professionals seconded from parent company and diluted from the labour market, the market is structured into ten major departments as follows:

a) Office of the Chief EXecutive: Headed by seasoned banker known as General Manager who steer the company as overall boss that supervises the day to day running of the company.

,../

b) Administration: Headed by a Chartered Administrator, to formulate and supervise implementation of manpower policy and development.

c) Accounts: Headed by a tested Accountant and assisted by professionals in running the accounts of the company.

d) Project Management: The project identification, formulation, costing and revenue optimation, analysis and evaluation and project presentation are the main area of this department overseen by tested Banker and assisted by Agricultural Economist. Where need be procurement of staff and on site staff taining in the field of agriculture are also taken into consideration.

e) Legal Division: Headed by female lawyer and assisted by legal assistants over-sees the company legal division in term of rendering legal advice, appraisal of the company potential client security document perfection, act as receiver or manages farms and Agro Industries in liquidation on behalf of the company.

In obtaining necessary data and informations for this asignment, only the NACB CFC LTD brochure, and financial reports for 1991 and 1992 financial years as up to date were being collected and the financial report for 1993 has not been concluded and audited as at the time of putting up the project.

.../

3.2 GURARA SECURITIES AND FINANCE CO. LIMITED

The Gurara Securities and Finance Company was incorporated as a private Limited Liability Company on 3rd October 1991. They commenced business on that day with the Head Office at Gurara Suite, 2nd floor Reinsurance Plaza GA Ahmadu Bello Way P.O. Box 5216 Kaduna Nigeria with branches in Lagos and Kano.

The ownership structure has seven eminent and tested administrators in both civil service and military services as Nigeria investors with 85% contribution to shareholding while employees of the company own 15%.

The Finance Company was effectively backed with solid assets and highly motivated staff whose corporate goal centres around quality personalized services taken cognizance of being the first Finance Company whose headquarter was located in Kaduna with virtually all others with branches .

Within the short time of inception the Gurara Securities and Finance Company Co. Ltd. caught niche for her self without compromising the leadership position within the Northern part of Nigeria in the finance industry before the curtain was drawn in 1994 fiscal year with slogan "Your Financial Power House".

The finance company was the only one with full licanse from CBN to mobilize fund and investment of cash instruments, to also trade in securities of capital fund at Nigeria Stock Exchange for fund sourcing broker and so on.

Its corporate operation and activities revolve round departments exclusive of office of Managing Direcror and Chief Executive and in all it embraces sourcing of investment and fund management, corporate finance, loan syndication, portfolio management, feasibility report, consultancy, trade finance, finance advisory, foreign exchange trading, agricultural produce marketing, importation leasing, capital market trading and so on. The company to shoulder the aformentioned responsibilities structured the department into five headed by tested professionals and administrators as management staff as follows:

Office of the Managing Director/Chief Executive:

The overall head supervises day to day operation of the company, liase with the Board of Directors for policy formulation, appraisal and monitoring. He also head and belongs to the Management team for day to day policy appraisal and implementation and controlling of the knitty gritty of the fund management.

Finance and Treasury:

Headed by a qualified Accountant with well acknowledged years of experience assisted by officers in sourcing of funds, mobilizing of fund currency trading and so on.

Investment and Credit:

Headed by an experienced Banker and qualified Accountant assisted with three able officers of marketing and accounting disciplines. Manages the operation to identify investment opportunities sourcing and financing of LPO. Marking of imported and othe rproducts. Appraisal of investment proposal, purchase and marketing the exportation and trading of agricultural produce and so on.

Corporate Service

The department deals in loan packaging and syndication, commercial paper trading, packaging unit trust, Gurara Securities, Stock Exchange activities in Capital Market, insolvency and other services.

The department has the services of tested professionals in field of Accounts and Legal Services.

Legal Division

Headed by disciplined professional and assisted legal assistants to oversee the repponsibility of rendering legal advise, appraisal and documentation of potential client security for perfection. Act as Receiver or Manages insolvency or liquidating companies on behalf of the Finance Company.

.../

To obtain necessary data and relevant informations for this thesis, only the Gurara Securities and Finance Co. Limited brochure, financial reports and interview for 1991 and 1992 fiscal years of operation to date were collected. 1993 financial year that aught to be appraised and audited in 1994 the subsequent year, could nto be done due to shortcomings and crisis that engulfed the company as at the time of putting up this project.

CHAPTER IV

4.0 DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter shall exhaustively investigate the detailed operations of the two companies chosen and give thorough appraisal and outlook of data collected and collated from both primary and secondary sources. The rational is to obtain and identify with the performances and position of the companies in the money market, risks and imminent shortcomings leading to inability to renege commitment to statutory obligations.

4.2 Data Analysis

This portion of the research work shall deal indept in appraising financial information relevant using financial indicators (ratio analysis) to identify the impediments or militating factors against going concern of the chosen finance companies and other attributables feasible within the micro and macro perspectives. NACB (CFC) LTD, and GURARA SECURITIES AND FINANCE COMPANY LIMITED from yearly audited reports, statement of affairs is to compare the observations for the research thesis by various indices used agzinst the standard to adjudicate the extent financial peril or predicament the identified factors might have contributed.

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NACB CFC LIMITED

LIQUIDITY RATIO

a) Current Ratio or Working Capital:

This implies proportion of current assets to financing of current liabilities.

- Current Asset	1993	1992
Current Liabilities		
	152,624,580	135,743,830
	148,426,555	137,833,452
=	1.02:1	.98:1

The implication is that in 1992 the company had only 98k to pay for every (one Naira) ₦1.00 owed, whilst in the year 1993 this position only adjusted a little bit up to ₦1.02 to every ₦1.00 the company borrowed or owed. While the market indicator though very relative to circumstances and nature of the company but most ideal ratio 2:1 to enable the company to renege commitment in sum owed.

b) Quick Asset Ratio:

This means current assets less stocks in relation with current liabilities.

- Current Asset (less stock)	1993	1992
Current liabilities		
	152,015,630	134,940,660
	148,426,555	137,833,452
	1.02:1	0.97:1

The financial position as expressed by the financial indicator look alike both in 1993 and 1992 with the working capital aformentioned

Though the company commenced full fledged business in 1991 which presuppose that the company ought to have been very fluid. The liquidity ratio measure the risk of insolvency in term of renege commitment on short term liabilities. If any of the obligations matured, the company may be cash trapped as a result of inability to turn the cash instrument into cash.

PROFITABILITY RATIO

The financial indicators have measured the effectiveness and efficiency of the business ventures in term of knitty gritty of fund management as bestowed on the management.

1) RETURN ON CAPITAL EMPLOYED

It is ;unreasonable to assess profits or its growth without recognising the total amount of funds employed in making the profits.

ROGE: Profit On ordinary Activities Before Interest and Taxation

Capital employed:	1993	1992
Negative Ratios	(9,921,524)	(2,826,822)
	12,661,211	2,977,945

The ratios 1993 and 1992 were ₦9,921,524 and ₦2,826,822 losses respectively. The situation is not only alarming but aggravating from close to ₦3 million in 1992 to ₦10 million in 1993 within 12 calendar month.

2) RETURN ON EQUITY

Another measure of profitability and return is the return on shareholders' capital.

PBT (Profit Before Tax

Shareholder Capital and Reserves

1993	1992
(9,921,524	(2,826,822)
25,241,430	5,000,000

This intends to focus on returns being made by the company for the benefit of its contributories, unfortunately, the figure shows collasal losses for the financial years ₦9,921,524 and ₦2,826,822 respectively.

In broad perspective since the oompany made losses in the financial years measuring the performance by profitability indices of financial indicators is meaningless and un called for.

ACTIVITY RATIOS

This measures how effective the resources at the company disposal were judiciously utilised to enhance the company fortunes.

i) SALES/WORKING CAPITAL	1993	1992
Gross Earning	40,276,402	32,662,165
Working Capital	4,198,026	(1,941,360)
	9.5:1	Nil

The ratio measured the good management of working capital in term of investment in relation to the volume of sales. The ratio in 1992 could not monitor over capitalization through excessive use of working capital.

ii) FIXED ASSETS TURNOVER	1993	1992
Sales (or Turnover)	40,276,402	32,662,165
Fixed Assets	8,461,183	4,919,313
	4.8: times	6.6: times

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The result in 1993 shows decline from 6.6 times in 1992 above the acceptable but normal market index of 5 times to 4.8 times in 1993.

iii) TOTAL ASSETS TURNOVER

	1993	1992
Turnover	40,276,402	32,662,165
Total Assets	152,624,583	135,743,831
	.26 times	.24 times

The industrial average acceptable in the industry is 2 times while the finance company postulated .26 times and .24 times in 1993 and 1992 respectively.

GURARA SECURITIES AND FINANCE COMPANY LTD

LIQUIDITY RATIO

(i) WORKING CAPITAL RATIO

	1993	1992
Current Assets	35,707,698	1,197,340
Current Liabilities	42,899,667	1,279,545
	.83:1	.93:1

The industrial average is 2:1 to enable the company meet whenever necessary, the commitment on obligations. The resultant effect is that the 1993 .83:1 and .93:1 shows that the company owed to finance the business.

ii) QUICK ASSET RATIO

	1993	1992
Current Assets (less stock)	35,707,698	1,177,340
Current Liabilities	42,899,667	1,279,545
	.83:1	.93:1

PROFITABILITY RATIO

This measure the judicious employment of the funds in turning round the whole business in entirety.

i) RETURN ON CAPITAL EMPLOYED

		1993	1992
ROCE -	PBIT	108,750	(24,083)
	Capital Employed	47,970,058	
		.0022	

In 1992 the company made a loss of ₦24,083 while in 1993 it made a paltry turn around of .02% of the capital employed.

ii) RETURN ON EQUITY

Another measure of profitability and return is the return on shareholders capital.

	1993	1992
PBIT	108,750	(24,083)
Shareholders Fund	5,070,391	4,750,000
	.02%	Nil

The return made to the shareholders in 1992 was loss while in 1993 it was 2% of the sum invested in the business venture.

.../

ACTIVITY RATIOS

This measures how the business has been managed taken cognisance of environmental factors both controllable and uncontrollable to enhance maximum proficiency.

i) SALES TO WORKING CAPITAL	1993	1992
Gross earning	9,925,255	402,168
Working capital	(7,191,969)	4,436,795
		0.09:1

1992 financial year shows that 9% of the total value of fund inflow while in 1993 owed or credit fund were employed at the expense of the contributories to go a long way in generating profit.

ii) FIXED ASSET TURNOVER	1993	1992
Sales (or Turnover)	9,925,255	402,168
Fixed Assets	12,262,360	280,026
	.8 times	1.4 times

The two financial indicators shown fell below industrial average of 5 times.

iii) TOTAL ASSET TURNOVER	1993	1992
Sales (Gross Earnings)	9,925,255	402,168
Total Assets	47,970,058	6,029,545

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TABLE I

SUMMARY OF FINANCIAL INDICATORS

RATIO	NACB CFC CO. LTD		GURARA SECURITIES AND FINANCE CO LTD		INDUSTRY AVERAGE
	1993	1992	1993	1992	
LIQUIDITY					
1. Working Capital	1.02:1	.98:1	.83:1	.93:1	2.1
2. Quick Asset Ratio	1.02:1	.97:1	.83:1	.93:1	1.5.1
PROFITABILITY RATIO					
1. Return on Capital Employed	(-)	(-)	.002%	(-)	10%
2. Return on Equity	(-)	(-)	.02%	(-)	15%
ACTIVITY RATIO					
1. Sales/Working Capital	9.5 Times	Nil	Nil	.09 Times	
2. Fixed Assets Turnover	4.8 Times	6.6 Times	.8 Times	1.4 Times	5 Times
Total Asset Turnover	.26 Times	.24 Times	.21	.07	2 Times

4.1 INTERPRETATION OF DATA

The data mainly used for this project study are explored from the books of accounts and personal interview garthered and conducted from the two companies studies.

These data as documented in Appendix A, B, C, D, E, F are

1. The profit and loss accounts and balance sheet of NACB CFC LTD.
2. The profit and loss accounts and balance sheet of Gurara Securities and Finance Company Ltd.
3. Article and Memorandum of Association of both finance companies.
4. Yearly Managgment Information and Reports.

When trying to appraise the financial informations through the use of financial indicators or ration and small explanatory note on the performance index, the table as summarised shows glaringly the shoddy performances of the two finance companies.

Taking liquidity ratio into consideration, even when visualised from the importance and nature of the business that usually lead at short term time and mobilization of investible fund, the companies fell below the industrial average of 2:1 to enable the company renege on commitment as at when due.

Looking critically at the two companies the NACB CFC Ltd. made loss in 1992 and 1993, while the Gurara Securities and finance company made loss in 1993 and slight edge in 1992. Taking cognisance of the going concern of limited liabilities, the losses may be acknowledged from Socio-Economic factors - merket penetration, preliminary expenses, formation stages, production factors, product launching and etc but the present dictates as obtained.

.../

The working capital ratio for the NACB CFC Ltd shows 1992 current asset proportion to current liability. The major component of liability account placement of 90 days maturity date with interest at maturity, cannot be paid to the investors, what in turn invested are hardly realised for possible rolling over.

The gross earnings and earning power in relation to total assets and fixed assets to former, the NACB CFC Ltd. recorded negligible turnover rate of .26 and .24 times in 1993 and 1992 respectively while Gurara Securities and Finance Company Ltd. made .21 and .07 times when compared to industrial average of 2 times. The fixed assets turnover to NACB CFC Ltd the market indicators shows that it met the industrial average rate of 5 times while Gurara Securities and Finance Company of .8 times and 1.4 times is out of range to accepted indicators.

The operating cycle could not be judiciously determined due to the nature of current assets and liabilities revolving round cash instrument devoid of stock of goods receivables and long term debts.

During the appraisal/information gathering, it showed the future market very bleak.

4.2. DATA ANALYSIS

The once Frenzy and thrilling romantic affair of the finance companies in the finance market aggravated by the deregulation of economy characteised by the Structural Adjustment Programme which led to protracted cash economy without resource base suddenly turned sour.

Findings revealed that the unprecendented crisis by the finance intermediaries - Martgage Institutions. Community Bank and so on with special thesis on finance companies was aided and characteised by:

2.1 Lack of Strict Supervision of CBN Guidelines

2.1.1 Regulatory Body

The relevant enabling acts governing the licencing operations, supervision and monitoring of the finance companies did not set up independent body to oversee on behalf of CBN and Federal Ministry of Finance.

i) Companies and Allied Matter Decree 1990
ii) Central Bank Decree No. 24 1991
iii) Banks and Other Financial Institutions Decree 25 of 1991

Like all other financial intermediaries are controlled and monitored by special and distinct regulatory bodies (NDIC Banks, NISB - Insurance companies, FMBN - Mortgage Institutions) for close monitoring and continous appraisal of operations and trading activities prompting the open door policy empowering a free entry and exit situation in the finance market.

2.1.2 Financial Reports

Literature Review in Chapter Two of the project emphasised certain criteria regarding the level of liquidity to be maintained to enable it renege on commitment.

.../

The interpretation of data Chapter 4.1 for the two companies examined how the two companies had religiously adhered to the statutory requirement.

Section 10 (ii) of the revised guideline on Capital Funds states that no dividends at all except after all preliminary expenses are paid. Adequate provision made for loan loss, capital adequacy addressed and all matured obligation met, then transfer to reserve from net profits after tax shall be at 12.5% till the reserve funds equals the paid-up capital, then minimum of 5% thereafter.

The irony of it is that the finance companies maintained account with Commercial Banks so not possible for statutory monitoring even the period of sending the audited financial reports 18 months after the inception or almost 6 months after the end of the financial year end creates time lag and beat the strictness of the Central Bank.

2.1.3 Capital Base

While the Act recognises the capital base of minimum amount of ₦5 million as shareholder fund or capital base, same financial institutions mobilises over ₦150 million worth of investible fund without comparative investments networth and capital base grossly inadequate to support the fund services in case of default of management of liquidity.

Cash Economy

The deregulation of the economy through the introduction of the Structural Adjustment Programme (SAP) in 1986 by Babangida administration led to the proliferation and unprecedented surge of the finance companies as well as other financial intermediaries as ennuciated in the introductory part of this project.

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This prompted smartness on the part of the finance companies to the gullible potential investors at cut throat interest to invest the investible fund. This bares direct relationship to high risk encumbrances investments with only option applicable taken cognisance of timing of the invested fund rate of interest, the investment opportunities to inter financing (placement) termed non performing assets at nominal value with attendant failure probability from chain of reaction.

Management Team

The surge in the financial institutions in the post SAP era thinned out the manpower need and demand, thereby prompting the appointment of shop flow officers as chief executives. Relations or fresh graduates of no cognate experience are being appointed as managers, beautiful and immobile ladies are used as hot materials for treasury activities. The short coming is the lack of knitty gritty of fund management, which are sourced at exhorbitant rate and strained conditions with lack of commensurate investment opportunities.

Indiscipline on the part of management team (executives) of ostentatious leaving (cellular phone, luxuty cars, global travelling) and financing of long term project.

Fiscal Policies

The finance companies operation predates structural adjustment programme (SAP) 1986. The economy and discal policy for virile finance intermediaries have started to manifest itself from Gowon era and the inconsistency and incoherent fiscal policies further aggravated by Babangida Administration which later sounded death knell of the Nigeria drea.

The SAP projection of 2 years programme remain todate and result remains illusory and speculative. Some of the inconsistencies are:

.../

i) Deregulation, guided regulation and regulation of exchange rate.

ii) Deregulation and regulation of borrowing rate

iii) Fluid and inconsistent fiscal policies on importation and exportation.

iv) Fiscal indiscipline from budget resulting into deficit spending with excess cash on the money market.

v) Regulation and deregulation of manufacturing sector (Nigeria Indigenisation Decree of 1971)

Political and Social Environment

The inability of the Nation to democratize the executive arm of the state and Military Government persistent distortion of political programme as ennuciated earlier, which led to protracted strike, civil strife and social dislocation prompted crisis of confidence and trust and integrity among the citizenry.

The feelings of social insecurity by movement of the people on tribal perspective also contributed to distressed economic location with atendant withdrawal of deposits before the mature dates.

Economic Environment

The finance companiss role to stimulate economic development through resourceful use of idle fund mobilized to deficit area within time limit, cushion the shortfall demand in manufacturing organisation working capital with huge investment in capital outlay or equipment. In any economy sector the finance intermediaries have role to play in finance intermediation.

The intermediation process of saturated fund kept in savings should be mobilized and allowed to flow with minimal constraint to deficit or scarce area. As the environment is dynamic, the finance intermediary should also continue to explore the dismantled administrative beurecracy to market oriented to religiously mobilize, allocate and utilize resources which hitherto had been idle.

The free market will not only ensure virle competition but those with knitty gritty of fund management will automatically become relevant and forge ahead in the face of crisis that has characterised the industry.

As compliment and component of other finance intermediaries in working capital management of organisational set up of nation economy taken cognisance of other criteria in fund sourcing and crediting within reasonable time limit.

Finance companies have evolved new dimension in finance industries from passive approach to active and aggressive finance services posing threat and challenges to orthodox approach.

As the Nation Finance sector grows, the finance companies services will not only be acknowledged but more challenging and opportunities will be reckoned with.

CHAPTER V

FINDING, CONCLUSION AND RECOMMENDATION

The finance companies whose intermediation portends providing short term financial services in all force to purported clients, in small scale economic units, working capital requirements of manufacturing industries and other relative financial services in a broad financial systems have been bedevilled with predicament.

The companies that have been inexistence or operating for decades was alterted by the introduction of SAP in 1986 beound in both positive and negative ways in effect it posed problems and challenges for the various financial sector of the economy and enhances practise of cash economy.

a) The SAP induced deregulation in . . financial products and services brought more competition outwittingly variable interest rates were employed which did not align with nations economic interest and reality.

b) The finance companies as a result of unprecedented surge created manpower mobility with professional thinned out prompting the appointment of shop floor officers as Chief Executive and management staff.

c) The fund mobilized could not be matched with investible opportunities in term of returns, timing, inter-placement profit and interest commitment taken cognisance of viscious turning point of the economy in which they are operating and in-consistency on fiscal policies; deregulation and regulation of interest rate and exchange rate. The prescribed ₦5 million contributor funds inconsequential to the sum usually mobilized, lack of proper control and monitoring of depositor fund in boosting operational input or needs, flambouyant livings, globe trotting of management in short lack of management dexturity.

d) The pesistent unstable political environment characterised by the distortion of Nigeria domestic economy base, aggravated insecurity, lack of policies continuity, government taste and so on has been also bane for the survival of finance companies.

e) The huge credit or soft loan facilities given to customer without proper perfections and classified as non-performance and assets portfolio to shareholder's fund or ₦5 million security has contirbuted to the economy in term of financial services as a wholesome security in term of depositors placement.

f) Poor management of knitty grithy of fund management by the fund manager that lack basic ethics of the profession, required rules and regulations of fund deposited and placement of investible fund, for adequate return on portfolio size viz a viz . . interest commitment, contributed to the finance companies inability to sustain money viscious cycle with final liquidity problem.

5.2 CONCLUSION

The Nigeria financial system has undergone tremendous change and transformation as an integral part of Nigeria Economy. As a result of later continous diagnosis and surgical operation in the last decade the once frenzy and thrilling romantic affair of the finance companies turned sour, along with illusory outcome of deregulated economy as created in the economic environment by 1986 STructural Adjustment Programme.

The finance companies being part of the Nation economy, financial system have their own share in the final analysis of the embattled economy characterized by aged economy, government inept-attitude towards various enactment, inconsistent fiscal policies, lack of check and balances (as entrenched in the banking sector through introduction of NDIC) political logjam resulting on insecurity and economic dislocation, open door policy of the finance companies for a free entry and exit, professional incompetence, crisis of

confidence aided by CBN withdrawal of registration certificate leading to massive depositor's withdrawal of fund and trust and integrity as a result of principal operators bolting away once perceived imminent problem.

In the deregulated economy of free market enterprise as enhanced by the 1986 SAP which attendant need of the finance intermediation of mobilizing idle fund for profitable venture in deficit unit, the finance companies have not really off the ground to contribute their quota before bedevilled with financial crisis leading to imminent liquidation. Without proper appraisal and diagnosis by the concerned the finance companies in the nation economy desire need will die and unable to whether the storm with stunch vacum in that there are still more room for improvements and recoveries.

Since these discoveries were made in this research work, to eliminate and avoid imminent death , the researcher has postulated through recommendations solutions due to precarious situation they are in managing cash investment and marketable securities of short term basis.

The recommendations though still open for debate and explaration by student financial gurus and operators of the Nigeria economy in the field of financial management are taken contribution to the development financial market, knowledge and toward enhancing nations development.

5.3 RECOMMENDATIONS

Going by identified constraints, predicament and crisis bedridden finance companies it can be vizualized in three perspectives; finance companies and their team of management, finance companies and fund management and the third identified the Central Bank of Nigeria and monitoring capacity.

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5.3.1 FINANCE COMPANIES AND TEAM OF MANAGEMENT

a) On the issue of misdemeanour or misconduct on the management of the finance intermediary resulting in misappropriation and misapplication of public fund special legislation should be entrenched to serve as deterant forclose and forbid other future opportunity to the culprit in managing public or holding office.

b) The remunerations and emoluments of the management team should be subjected to Central Bank of Nigeria regulations to ensure that payment of sort is not encumbered on working capital or shareholder fund.

c) Team management should be continously appraised in relation to the overall fund deposit and ensure the calibre of the degree of exposure and knowledge in relation to the magnitude fund management asset portfolio and the finance services market.

5.3:2 FINANCE COMPANIES AND FUND MANAGEMENT

2.1 Credit financing should be thoroughly appraised and credit facilities extend to ventures other than slow moving ventures in term of cash flows and convertible market securities taken as collateral. The credit guarantee by guarantor in modern conception trascends beyond traditional documentation and perfection of security to confirmation and ascertainment of financial credibility so as to enhance confidence of recompensation of debt.

2.2 Trade financing need to be critically assessed and reassessed for possible direct and joint participation in the trading properly domiciled in finance company's name: Relevant law should be reviewed to empower the finance companies to exploit profit minimisation and fund security.

2.3 Finance companies should exploit other services: Consultancy services, management services and so on. Research work to narrow the area of finance companies activity to two out of numerous ones approved and stated in their corporate profiles span over 1 or 2 products as means of sourcing revenue and enhance viscious circle of fund. There are rooms for diversification in terms of playing major role in bank acceptance, commercial paper and so on.

2.4 Fund placement is of short term basis principle of finance inhibit investing fund of 3 months period in long term project or asset such hard speculation equipment purchases, building of freehold premises, financing of furniture and fittings for office use, due to the fluidity and timing of fund placement.

Veering into stockbroking and the unit trust scheme as mode of expanding corporate finance base and mobilizing short term fund is preferred to long term investments.

2.5 Debt factoring in the process of collecting debts should also be weighed and given thought by the finance companies. Though of a reasonable cost but most prefrential to bad debt or non performing assets.

2.6 Cash flow information or budget should be thoroughly followed to enable forcasting demands in term of renege of commitment to the depositor at the maturity which is the major obligation of the finance houses to avoid crisis of confidence.

5.3: 3.0 THE CENTRAL BANK OF NIGERIA REGULATION AND MONITORING POLICY

3.1 Like pearls, CBN needs to be upright to its responsibilities as Nigeria Deposit Insurance Corporation and discount houses over banking financial intermediaries to articulate policies and strategies to minimise outrageous misdemeanour bederilling finance houses; Proper control of "Free Entry and Free Exit" of the industry in money market, cautious

approach to withdrawal of distressed finance houses license as a result of inability to renege commitment on finance obligations and creation of facilities to enable them meet their short term liquidity need to enhance public confidence.

3.2 The Central Bank of Nigeria should as an issue of priority review and appraise the authorised capital of finance companies from present ₦5 million in relation to degree of total fund placement or total company liabilities to enable the companies enough buffer stock of fund in case of eventuality.

3.3 The Central Bank of Nigeria should look beyond passive approach in the issue of check and balance of the Book of Accounts of the finance companies, by setting up inspection unit to examine, verify, monitor and control the Accounts.

3.4 The Central Bank of Nigeria should set up finance companies examination department that shall continously scrutinise and analyse all the quarterly and annual returns and reports submitted by finance companies, any abnormality metted with stiff punishment.

3.5 The finance companies ownership should be issue of great concern to ensure bankrupt, criminals and people of questionable character are not garthered with pretext to exploit and syphon public money. The contributories should not be allowed to be part of management the later should constitute people of enviable proficiency professional and qualified financial guru and tested experience managers.

3.6 Government enactment, fiscal policies rule and regulation should be religiously adhered to, not only in principle and practice such as quidelines of finance companies issued by Central Bank of Nigeria and deviation and disobedience visualized in term for reaching consequences.

3.7 In view of identified free fund mobilized due to fluid cash economy from 1986 deregulation through SAP effort should be enhanced to secure public fund through stabilization account specially created similar to the commercial bank by Central Bank in which the aggregrate sum of amount will be held.

3.8 Interest rate charge by the finance companies should take into consideration the developing economy of the nation to support and not to distort domestic economy base enhanced through productive credit facility to small scale industries at reasonable rate perceived to average of return at given period.

3.9 Central Bank of Nigeria should critically set up machinery for transfering the high risk through Insurance Scheme which is designed as part of control mechanism to minimize loss of public fund.

3.10 Central Bank of Nigeria should visualise the problem of the finance companies from external and internal variables as ennuciated above and ensure the continuity from statement; mobilise more fund through calls of shareholding to either beef up on inject new capital, supportive loan to tentatively bail out the distressed ones, appraisal of the management team to flush out wanting officers, review the aggregrate emoluments or overbead expenses in aligning with economic realities and continous rationalisation of the department for viable economic units.

3.11 Information indicated that the formation finance companies of a body known as FINANCE HOUSE ASSOCIATION (FHAN) with sole aim of catering for their interest and the body advocated for separate body to monitor and regulate the finance houses other than Central Bank of Nigeria. This came as a result of CBN incapability in doing delegated responsibility effectively. Effort should be made to decentralise and put issues as generated now in action plan rather than rhetoric to ensure and repose people confidence.

The FHAN should as part of internal control mechanism bring into condusive encironment to stimulate restructuring of distressed financial institutions through recapitalisation, merger, acquisition and stress for government support, review of internal structure of organisation operational policies and to curb managerial malpractices and establishment of pool of fund and sourcing of fund from capital market through NSE.

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APPENDIX A TABLE 4.1

NACB CONSULTANCY AND FINANCE COMPANIES LTD

BALANCE SHEET FOR 1991 & 1992

	1992	1991
	₦	₦
Fixed Assets Investments Quoted	4,869,313	3,179,004
Current Assets	50,000	-
Loan	66,564,673	13,027,828
Placements	14,300,000	3,150,000
Other Assets	3,742,210	1,320,779
Stock	803,175	236,991
Cash & Bank Balance	50,333,773	91,922
Total Assets	140,663,144	21,006,524
Share Capital	5,000,000	5,000,000
Revenue A/c (P & L)	2,022,055	804,767
Currenj Liabilities		
Bank Overdrafts		236,253
Client Creditors	137,685,199	12,670,219
Other Liabilities Taxation	148,253	236,253
	144,855,507	18,947,492

Source: NACB CFC Ltd. Audited Report and Account for Period ended 31st December, 1992.

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APPENDIX B TABLE 4.2

NACB CFC LTD FOR 1991 & 1992

	1992	1991
	₦	₦
Investment Income	20,959,499	2,805,896
Other INcome	11,702,666	5,580,329
Gross INcome	32,662,165	
less: Interest Expenses	8,519,218	764,931
less: Provision for Loan Loses	8,985,890	
Operating Income		
less Admin/Operation Expenses	(26,969,769)	( )
Taxation	-	
Earning b/f	563,337	
Retained Earning/loss	2,263,485	

Source: NACB CFC LTD Audited Reports and Accounts for Period ended 31st December, 1992.

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APPENDIX C

TABLE 4.3

NACB CFC LTD FOR 1992 & 1993

BALANCE SHEET FOR 1993 & 1992

	1993	1992
	₦	₦
Fixed Assets	8,363,183	4,869,313
Long Term (Investment Unquoted)	100,000	50,000
Current Assets		
Loan	93,475,077	66,564,673
Placements	17,459,519	14,300,000
Other Assets (Debtors/ Pre-payment)	5,675,799	3,742,210
Stocks	608,954	803,175
Cash and Bank Bal.	35,405,294	50,333,773
Total Assets	161,087,766	140,663,144.
Share Capital	25,000,000	5,000,000
Revenue A/c PTL	(12,338,789)	(2,022,055)
Current Liabilities		
Bank Overdraft	-	-
Client Creditors	148,031,345	137,536,946
Other Liabilities (Taxation)	395,210	148,253
	161,087,766.	140,663,144.

Source: NACB CFC Ltd audited report and account for period ended 31st December 1993.

APPENDIX D

TABLE 4.4

NACB CFC LTD 1992 & 1993

	1993	1992
Investment Income	6,675,277	20,959,499
Other Income	33,601,125	11,702,666
	40,276,402	32,662,165
Less Interest Exp	20,566,930	8,519,218
	19,709,472	24,142,947
Less Administration and operating expenses	(29,630,996)	(26,969,769)
Retained profit (loss) for the year before taxation	(9,921,524)	(2,826,822)
Taxation	(-)	(-)
Retained profit (loss) brought forward	(2,263,485)	56,333
Add prior year adjustment (tax)	(395,210)	
Retained Profit (loss) carried forward	(12,580,219)	(2,263,485)

Source: NACB CFC Ltd Audited Report and Accounts for period ended 31st December, 1993

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APPENDIX E

TABLE 4.5

GURARA SECURITIES & FINANCE CO. LTD

BALANCE SHEETS FOR 1993 & 1992

	1993	1992
Fixed Assets (Less Depn)	12,262,360	280,026
Investments		
Called up Shares Capital not Paid		4,519,000
Current Assets		
Loan & Advances	24,135,140	532,900
Other Assets	526,649	-
Interest REceivables	1,302,213	-
Interest Prepaid	1,539,717	-
Rent Prepaid	1,614,920	-
Staff Advances	836,886	-
Bank Balances	5,750,938	543,083
Cash Balances	1,235	1,031
TOTAL ASSETS	47,970,058	6,029,545
Share Capital	5,000,000	4,750,000
Pre-operational expenses	-	9,096
Revenue A/c P & L	70,391	(24,083)
Current Liabilities		
Creditors (Investment)	41,322,450	286,416
Bank Overdraft		
Others	1,577,217	993,129
	47,970,058	6,029,545

APPENDIX F

TABLE 4.5

GURARA SECURITIES & FINANCE CO. LTD.

PROFIT & LOSS ACCOUNT FOR THE YEAR 1993 & 1992

	1993 ₦	1992 ₦
Investment Income	7,497,470	16,433
Other Income	2,427,785	385,735
Gross Incmme	9,925,255	402,168
Less Interest Expenses	5,828,888	-
Less Provision for Loan losses	4,096,367	
Losses	-	-
Operating Income		
Less Admin/Operating Expenses	3,987,617	354,546
Taxation	(14,276)	-
Earning	94,474	
Earning b/f	(24,083)	(24,083)
Retained Earning (loss)	70,391	(24,083)

Source: Gurara Securities & Finance Co. Ltd Audited Reports and Accounts for the period ended 31st December 1993.