INDUSTRIAL FINANCING IN BAUCHI STATE BY NIGERIAN INDUSTRIAL DEVELOPMENT **BANK**

BY

UMAR ABDULLAHI IBRAHIM

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DEPARTMENT OF BUSINESS ADMINISTRATION
FACULTY OF ADMINISTRATION
AHMADU BELLO UNIVERSITY
Z A R I A

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DECLARATION

THIS IS TO DECLARE THAT THIS PROJECT IS MY ORIGINAL WORK MADE POSSIBLE THROUGH THE ASSISTANCE OF MY SUPERVISOR, MAL. ISHAYA ALI DANKANO. ALL SOURCES OF INFORMATION ARE ACKNOWLEDGED ACCORDINGLY.

UMAR ABDULLAHI IBRAHIM
NAME

_____
SIGNATURE

_____
DATE

CERTIFICATION

THIS PROJECT TITLED "INDUSTRIAL FINANCING IN BAUCHI STATE BY NIGERIAN INDUSTRIAL DEVELOPMENT BANK" BY UMAR IBRAHIM ABDULLAHI MEETS THE REGULATIONS GOVERNING THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) OF AHMADU BELLO UNIVERSITY, ZARIA AND IS APPROVED FOR ITS CONTRIBUTION TO KNOWLEDGE AND LITERARY PRESENTATION.

SUPERVISOR	DATE
EXTERNAL EXAMINER	DATE
HEAD OF DEPARTMENT	9/2/89 DATE
DEAN, POSTGRADUATE SCHOOL	2-8-89 DATE

DEDICATION

THIS WORK IS DEDICATED TO MY PARENTS.

A C K N O W L E D G E M E N T

While I consider my humble self fortunate in carrying out this project, it is certain that success comes through hardwork. The success of a man, however, is not entirely a function of his own efforts. Therefore, I will first of all thank God Almighty for his guidance over me throughout my one-year course at Ahmadu Bello University, Zarai.

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While the merits of this study may deserve are shared with the people, whose contributions have been acknowledged, may I state categorically that I singularly accept whatever deficiencies that it may contain.

UMAR ABDULLAHI IBRAHIM

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ABSTB&CT

Industrial Development has been a major corner stone of economic development of any nation. The success of such a programme can be attributed to the methods and modes of financing the policy. This study is therefore forcussed on industrial development financing in Bauchi State. Since NIDB is at the apex of industrial development financing, this study is essentially concerned with the appraisal of NIDB's operations in Bauchi State. Recommendations are also made for its improvement and further steps for the realisation or modification of its set objectives and policies for better performance and industrial development of the state.

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CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Developing countries in Africa, Asia and Latin America, since independence have been desirous for rapid economic development which emphasise industrialization. Being aware of the significant contributions which Development Finance Institutions have made in the industrialization of developed countries (USA, U.S.S.R, JAPAN, WEST GERMANY, BRITAIN, etc), the developing nations saw Development Finance Institutions as necessary instrument that must be incorporated in the financial system to accelerate the pace of agricultural and industrial development of their subregion.

Specifically, since Nigeria attained her independence in 1960, major steps were taken by the government in its efforts to tackle the multifurious economic problems through the establishment of some quasi-financial institutions. One of these institutions is the Nigerian Industrial Development Bank created mainly to help in financing industries especially the existing private enterprises and encourage the creation, expansion and modernization of new ventures so that all hand can be on deck in coping with the dynamic and rapidly economic environment at both micro and macro levels.

The bank hitherto known as the Investment Company of Nigeria was changed to Nigerian Industrial Development Bank by a special resolution and with the authority of the Registrar of Companies on 22nd of January, 1964 and was incorporated under the companies act as a Limited Company on the 17th October, 1959. According to the original Memorandum and Articles of Association, the objectives of NIDB among others is to carry on the business of assisting enterprises engaged in industry, commerce, agriculture and the exploration of natural resources in Nigeria.

The government therefore, without an iota of doubt demonstrated its seriousness by providing various channels through which important business activities can be undertaken so that the enormous task of industrialising Nigeria, can be shouldered by Nigerians.

The only wa y to ascertain whether these finance institutions are operating to accomplish their objectives is to evaluate their activites taking into consideration the environmental constraints affecting their operations. It is in light of the above, that the researcher has choosen to evaluate the operations of NIDB in Bauchi State. Although the bank carries out activities of divergent nature, this project concerns its mainly with the promotion and the provision of finances for the creation and development of small scale, medium and large-scale industries to indigenes and residents of Bauchi State.

1.2 SCOPE OF THE STUDY

The study will discuss the role and operations of NIDB with particular reference to Bauchi State since July, 1979 when the Board approved the setting up of two (2) additional Area Offices in Bauchi and Akure. Therefore, the period of analysis will be between 1979 to 1987. However, the study will also briefly look at the various roles of Development Banks generally and the appraisal techniques adopted by such banks. A cursory look will also be taken on NIDB's project appraisal techniques, history, objectives, guidelines and the dynamics of the relationships between NIDB and its clients.

1.3 RATIONALE OF THE STUDY

Invariably, all researchers have some reasons for undertaking to study one subject area or another. Some of the factors that motivated the author to undertake the study of the operations of NIDB in Bauchi State have been identified below.

i) The bank is one of the pioneer-quasi-financial institutions in the state and would need the services of independent research in order to guage their performance.

ii) The researcher, being a resident of the state for quite sometime, is aware that the state is one of the most rapidly developing states since it was

created in 1976 and would therefore, want to observe the operations of the bank in terms of its impact on the economy.

iii) As ignorance of modern business and lack of exposure to the services of financial institutions have been some of the factors militating against the economic performance in the state, the author would want to find out whether the bank really makes the difference.

iv) Finally, the study will also be of great significance at this juncture when both the Federal and State governments have been itching to find out ways and means to develop industrial projects with the help of local enterpreneurs and resources.

1.4 RESEARCH METHODOLOGY

In this research, both secondary and primary data will be used. The secondary data will include published literature and annual reports. The primary data will be derived essentially through questionnaires and personal interviews. The bulk of the data will be x called mainly from published materials which will be available from NIDB Annual Reports and Journals.

Based on the above information, the research methodology to be used will be as follows.

i) All the relevant information from the secondary sources which is relatively more reliable, will be sorted out, arranged and classified in such a way it would serve the purpose most appropriately. After the classification, all information will be thoroughly analysed based on industry wise comparisons, percentages evaluation performance.

ii) Due to the scanty nature of published materials especially at the state level, efforts will be made in search of primary data. Consequently, interviews and questionnaires will be employed in data collection and bank officials will be interviewed personally by the researcher. Some clients of NIDB (Bauchi state branch) are also going to be interviewed and it is hoped that the information gathered will be very useful for the research.

It is however very important to note that as a branch, the bank may not be able to provide their own separate audited reports and, therefore, most of the financial information will be derived from the records of applications recommended, approved or rejected and the actual amount of funds disbursed after processing approvals from Lagos.

1.5 SAMPLE

To assess the performance of NIDB, quantitatively and qualitatively, a sample of NIDB assisted companies will hopefully be selected on random basis.

Questionnaires designed will be administered on clients of NIDB in some major towns of the state lke Bauchi, Gombe, Azare and Misau. The questionnaire will be directed at client's opinion of NIDB's conditions for assistance, its popularity and significance in industrial project financing, promotion and development as well as the strengths and weaknesses of the bank.

1.6 PLAN OF THE STUDY

The whole study is arranged in five (5) chapters. The first chapter is the introduction. It deals with the general background, objectives, scope of the study and the research methodology. Chapters two and three discusses the review of related literature and the project appraisal techniques respectively. In chapter five, and assessment of the operations of NIDB in Bauchi State is evaluated and finally, is the summary of findings, conclusions and recommendations.

CHAPTER 2

LITERATURE REVIEW

2.1 A GENERAL OVERVIEW

The ravages of the second world war trigged off the thought for a search for a quick means of reconstructing the war-torn cities and countries of Western Europe and other parts of the world.

The outcome of the endeavour was the formation of the International Bank for Reconstruction and Development, the nucleus of the World Bank Group made up of IBRD, International De velopment Agency and International Finance Corporation. From these, the concept of development planning and financing emerged in the realms of economic development.

The less developed countries who lack the various ingredients for industrial development, saw the above development as an opportunity for acceleration of their pace of development and an energizer to their development efforts by the provision of assistance through the institutional financing or development banks. These banks became the channels through which the less developed countries attract funds from the highly developed economics that have advanced in specialised savings and investment institutions.

The less developed countries, spurved by the rapidity of their political advancement strive to achieve economic growth at a supersonic speed. Their inadequate resources are augmented by finance from the well established development finance corporations of the developed countries to meet part of their requirements to achieve their anticipated rate of growth satisfactorily. This situation is made more problematic by the absence of developed capital market which is an indication of the limited knowledge of investment financing techniques and lack of initiative on the part of the local industrialists in developing countries.

The development financing institutions were therefore devised to handle some of the problems in industrial development financing particularly in the less developed countries.

A number of these banks or development financing institutions, were established with the assistance of the world bank and they enjoy a lot of financial support from the world bank in terms of the provision of loanable funds.

2.2 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

This bank can be regarded as the foundation stone for development financing. It emerged from Brettonn Wood Conference in July 1944 as an Anglo Saxon Creation, U.S.A., being the senior partner[1].

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1. Reports of the Bretton Woods Conference in Hampshire in 1944 on the establishment of IBRD.

At that conference, it was realised that after the world war, the task of reconstruction would be enormous. It became certain that the field of reconstruction from the consequences of war, will mainly occupy the bank as it did at the early days. As time went on however, more duties fell on the bank namely to develop the resources and productive capacities of the world, with special reference to the developed countries. Thus gradually, the emphasis shifted from Reconstruction and Rehabilitation to lending for sound productive projects.[2]

Consequently, many institutions and agencies sprang up within IBRD which is popularly known as the World Bank. The two oldest agencies are the International Finance Corporation (IFC) and International Development Agency (IDA).

2.2.1 INTERNATIONAL FINANCE CORPORATION (IFC)

The International Finance Corporation (IFC) is an affiliate of the World Bank. The members are the same as that of world bank.

The basic purpose of IFC is to assist in the economic development of less developed member countries. International Finance Corporation does this by promoting the growth of the private sector of their economies, as a supplement to the activities of the world bank. International Finance Corporation also helps in the mobilization of domestic and foreign capital.

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2. Diamond William 1957, Development Banks, Economic Development Institute (IBRD), (Press Baltimore)

Specifically, IFC engages in the following activities:-

a) Assist in financing the establishment, improvement and expansion of productive private enterprises which can contribute to the development of its member beneficiary. Such assistance is in the form of direct lending without guarantee from benefitting country's government.

b) It seeks to bring together investment opportunities, domestic and foreign, private capital and experienced management.

c) It seeks to stimulate and create conditions conducive to the flow of private domestic and foreign capital into investment in productive enterprises in member countries.

IFC invests in individual productive private enterprises and also identifies and promotes projects. It also helps to establish finance and improve privately owned development finance companies and other institutions promoting development of the private sector. IFC invests in various projects that meet its investment criteria. Its investments have been primarily in manufacturing, mining, tourism, utilities and agriculture. The corporation actually supports mixed enterprises and by so doing fulfils its objective of financing viable industries of member countries who seek its assistance.

IFC's investment criteria includes the assurance that the project has prospect of earning profit and that it must benefit the economy of the country. IFC usually never invests above; it expects to mobilize and supplement private capital not to replace it. It invests if the participation of local investors is assured and such investors have the majority share.[3]

There is no specific limit to IFC's size of investment if is prepared to review, and for which it will try to arrange financing. However, investments for its own account are normally between $U.S. 1 million and $U.S. 20 million.

IFC normally contributes well below 50% of the total amount invested in an enterprise. In equity investments, it does not usually provide more than 25% of the share capital of a venture; and only rarely is it willing to be the largest single shareholder in an enterprise.

Actually, the International Finance Corporation can rightly be said to be the industrial financing arm of the World Bank and the bulk of its investment is in industry.

As regards the terms of financing, IFC is flexible in its terms and invests in a form suited to a particular situation. Most investments consists of a particular situation. Most investments consists of a share subscription or a long-term loan, or both, or a long-term loan with an equity feature.

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3. Shirley Boskey 1959, "Problems and Practices of Development Banks." (IBRD), (John Hopkins Press Baltimore, 1959).

Loans are generally expressed in United States Dollars but may be made in other major convertible currencies. The type of investment, the investment mix and investment terms vary from case to case. They depend on the circumstances involved, the risk entailed and the prospect of return.

IFC does not require nor accept government guarantees of repayment on its investments. It invests only if appropriate arrangements exist for the repatriation of its investment and the subsequent earnings. However, any objection by a member country's government can deter IFC from investing.

Trade, fiscal and other policies have an important bearing on private investment and economic growth. IFC is prepared not only to finance specific enterprises but also to review the implications of government policy on private investment and on request to advice government on measures that will further development.

IFC has played a key role in creating or substantially re-organizing a member of privately owned companies that assist in financing development in the private sector. It hold shares in such companies and is represented on the Boards of many of them. It has also undertaken various activities designed to improve their management, staff, policies and operations. IFC believes that investment in local and regional enterprises if they are well managed contribute to the development of the countries in which they are doing business.

The mobilization of local savings, the liquidity of investments in private enterprises situated within their boarders and a wider base of local ownership are essential to developing countries if they are to make most of their investment opportunities.

Many types of institutions can make important contributions to the growth of capital markets, but relatively few of them are located in the developing world. To carry out its policy of helping to establish, support and strengthen such institutions, IFC has set up a capital markets department which is pivotal in the world bank groups's efforts to develop capital markets.

2.2.2. INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

This is also one of the members of the World Bank Group and was established in 1980. Its head office is in Washington DC., United States of America and it has three branch offices at London, Paris and Tokyo. It is owned by 121 member countries.

The purposes of the International Development Association are in the same line as those of the World Bank, but its assistance is given on terms that b bear less heavily on the balance of payments of the borrowing countries. The IDA is administered by the same staff who manage the World Bank. Its assistance is mainly to very poor countries in compliance with the directive of providing funds in terms that are more flexible and bear less heavily on balances of payments than those of conventional loans.

IDA provides financial assistance for capital infrastructure - transportation, electric power, telecommunications, irrigation and flood control and like the world bank, IDA has increased its assistance to the rural and urban areas through loans designed to improve living standards and productivity.

2.3 NIGERIAN AGRICULTURAL AND CO-OPERATIVE BANK (NACB)

As the Nigerian economy has been dominated by the oil industry which trigged off a number of industrial activities especially in the seventies, agriculture began to lag behind. Consequently, Nigeria which used to be a major producer and exporter of a number of agricultural cash products suddenly became a major importer of such products as well as foodstuffs. Thus, agriculture gradually drifted into oblivion.

As a major effort to wedge the drift, the idea of agriculture development bank was concieved and the Nigerian Agricultural Bank which was later renamed Nigerian Agricultural and Co-operative Bank in 1979 was established. The bank is to boost and salvage the declining agricultural industry. The Nigerian Agricultural and Co-operative Bank was incorporated in November 1972 and was subsequently inaugurated on 6th March, 1973. The main objectives as stated in the Memorandum and Articles of Association include the following:[4]

i) To promote agricultural production and rural development.

ii) To improve the incomes and the quality of life of Nigerian rural population.

iii) To grant loans for agricultural production including horticulture, poultry farming, pig breeding, fisheries, forestry and timber production, animal husbandry and other types of farming and for purposes of storage distribution and marketing connected with such production to any state or state institution for on-lending to any farmer, group of farmers or body corporate, subject to the state or state institution guaranteeing repayment of the loan.

iv) Granting direct loans to individual farmers, co-operative societies or other bodies (corporate or unincorporate) in appropriate cases, provided that the bank is satisfied that the schemes for which the loans are requested are viable and that there is adequate security to cover such loans.

v) To do all such other things as may be deemed incidental or conducive to the attainment of the above stated objectives.

The impact of this bank has not been adequately felt and the conditions of the loan - particularly to the peasant farmers appears to be inhibitive. However, a number of modifications have been initiated on the lending policies of the bank to enable them expand the number of the beneficiaries and to ensure more positive contributions in the revival of agriculture.

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4. NACB General Policies and Reports.

The lending policies are strictly on the basis of prudent management of funds within the framework of financial capabilities of both the clients and the bank. The interest rate is lower than that of other bankers. The critical point here is that this institution is charged with the responsibility of agricultural development and it is the Development Bank for the Nigerian agricultural sector.

2.4 NIGERIAN BANK FOR COMMERCE AND INDUSTRY (NBCI)

This is another important development bank established by the Federal Government on 5th May, 1973 with an initial capitalization of ₦50 million of which ₦10 million was fully paidup before it started operation on October 4, 1973.

Primarily, the bank was established to provide equity capital and long and medium term loans to Nigerians in order to facilitate their participation in business following the promulgation of Nigerian Enterprises Promotion Decree of 1972.[5] The decree made it mandatory for foreigners in certain sectors whose business activities fall in a particular schedule to either completely sell off their business or sell shares to Nigerians according to the provisions of the schedule.

Originally, NBCI was concieved as an institution to finance indigenisation. When the Decree was written, it was realised that indigenization will not provide enough work for the bank and consequently the objectives

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5. NBCI General Policies and Reports.

of the bank were expanded to include development financing. Thus the Decree provided as follows:

Without prejudice to the generality of the foregoing, the bank shall in particular have powers to

a) engage in all aspects of merchant banking particularly the confirmation of bills and financing obligation of third parties, acceptance and discounting of bills.

b) under-write such stocks, shares and debentures as are issued in furtherance of the policy of the government.

c) purchase and sell stocks and shares quoted on the Nigerian Stock Exchange.

d) provide guarantee, including guarantees in respect of export credit and letters of credit issued by licensed banks.

e) accept term deposits from the public, financial institutions, trust funds, the post office and such other bodies as the board may direct, and

f) provide cheque facilities for its customers.

Apart from the above aspects which are geared towards the successful implementation of the indigenisation exercise, NBCI also engaged in investment banking functions as well as commercial business. The bank can participate in financing a project in either of the three ways.

i) Through direct subscription in equity participation;

ii) Granting of loans;

iii) A combination of equity and loans.

The bank invests in a variety of industries as well as in commerce and the service industries. NBCI is more concerned with medium and small scale industries. Occasionally, it investments spreads to big projects in which the bank is a co-investor with other institutions.

2.5 OTHER DEVELOPMENT FINANCE INSTITUTIONS

As the Federal Government makes conscious effort to encourage industrial development, state governments did not sit and watch. Most states in Nigeria have also set up Industrial Development Institutions such as Northern Nigerian Development Corporation (NNDC), owned by the eleven (11) Northern states. Odua Investment owned by the four (4) Western States, the Kaduna State Investment Company and the Bauchi State Investment and Property Development Company to mention just a few.

These development finance institutions offer practical solutions in financing small private industrial projects by undertaking detailed technical and credit worthiness appraisals of the project and the sponsors. Thus, they become vehicles for International Banks assistance to private industry. The success of these institutions in stimulating new investment in and by the private industrial sector and in making available new skills and enterprises as well as capital has proved their value as instruments of economic development in their own right.

Although they differ in terms of instruments for their policy of operation, they are universally committed to industrial development in their various area of operation.

2.6 ACTIVITIES OF DEVELOPMENT FINANCING INSTITUTIONS

Development Financing Corporations vary in scope and activities or functions. These depends on the environment and particular needs of the country, state or region they are serving. Most of them provide equity and/or loans, depending on the form of investment and structure of ownership. Apart from that, most of the institutions provide their clients with various kinds of technical assistance.- engineering, accounting or management advice - on projects they finance; some advice on the viability of a project even if they are not financing it. Other institutions offer technical assistance even to clients beyond that incident to effective administration of their investment.

Some institutions also engage in both project development and promotion as well as seeking out capable and willing investors who are given every assistance to realise the project. Some of the institutions help their governments in the realisation of their development objectives.

According to William Diamond, "Development Banks modify the environment in which they work as well as provide finance for it." This process is considered as "Promotion."

The general charters of development banks express the intention to encourage, stimulate or promote development in one sector or another; critics observed that Development Banks Promotional activities are usually inadequate or too specialised. Promotion and the activities related to it are involved not only as criticism, but also as inspiration and extortionate demand for development banks to pursue their development duties more vigorously.

PROMOTIONAL ACTIVITIES

Promotion covers a wide range of activities ranging from studies of industrial structure to financial packaging, from project formulation to influencing business to adopt new practices and governments to adopt new policies. In the conventional economic meaning, promotion involves the formulation, development of a proposal, the mobilization and organization of the various elements that are needed to give life to it and finally its execution.

Development banks are also involved in innovation and creativity. William Diamond asserted that the two essential functions of financial institutions are: the mobilization of savings and their allocation.[6] This exercise, he argues, gives room for dynamism on both sides of their balance sheet - dynamism in expanding the limits and improving the quality of both

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6. William D. 1957, Development Banks, Economic Development Institute (IBRD), (Press Baltimore, John Hopkins).

assets and liabilities. This implies a more aggressive search for additional business, which itself can be a creative process; the invention of new instruments and inducements to encourage and attract savings: the search for newer, better, more productive, more socially useful investments. The creation of such new structures to provide specialised services as the economic environment becomes more complicated, are supposed to be among the functions of development banks.

The development banks creative role does not stop with decision to provide funds for a project. It covers the appraisal and follow-up stages. In appraisal, the development banker ensures that a project has potential of success in other words the risk of failure is minimised.

With their wealth of experience, development banks have the ability of putting to test the technology and to advise their clients on such aspects when they seek their clients subtly to re-examine their plans, to spell them out of unacustomed and explicit detail and to understand more clearly their implications and the available options.

In their follow-up activities, development banks are able to safeguard their investment and build the confidence of their clients that they are partners in development.

From the foregoing, it is evident that development banks perform many functions, ranging from attracting foreign and local funds for development, to not only the allocation of available investible funds but to the promotion, innovation and creative activities to ensure the success of any project and eventual development

of their economies.

CHAPTER 3

PROJECT APPRAISAL TECHNIQUES

3.1 INTRODUCTION

In recent years, the field of development has witnessed an up surge for re-orientation in the pursuit of development policies. Most countries pursue policies aimed at increasing the level of investment and ensuring that the mix of investment projects reflects the nation's social and economic goals. An investment strategy may be implemented through public sector projects, joint public/private activities, the provision of incentives to private investors or some combination of these. A common element is that all these methods involve the expenditure of funds. Although the less-developed countries are undergoing rapid economic metamorphosis, problems of unemployment, debt servicing, poverty, political and social disaggregation has remained with them. Their emphasis is now "shifted from economic growth to income distribution, from production to the satisfaction of human needs, and from technology to the development of human resources."[1]

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1. Imboden N. A management Approach to Project Appraisal and Evaluation. P.II

The redefinition of priorities and the emphasis on social aspects of development brought to question the usefulness of traditional approach to project evaluation. It became necessary that new tools and approaches need be applied. The various methodologies seek to evaluate project while at the same time ensuring a rational allocation of limited resources among alternative investment opportunities with a view of achieving certain specific goals.

Project appraisal offers the analyst the opportunity to establish at least, tentatively, the inputs required in a project and the expected output. One is able to assess the resources available and ensure their effective allocation for maximum returns.

As N. Imboden puts it:

> "Project appraisal is the ex-ante analysis of a proposed project. It identifies and values the expected costs and benefits of a project. The expected results of a project are based on an analysis of the functioning of the project and of its inter-relationships with socio-economic environments. The determination of the effects of a project is always based on some more or less verified hypothesis: Meaningful project appraisal, depends on a minimum of knowledge about the production process and the environment in which the project is supposed to function."

3.2 TYPES OF TRADITIONAL PROJECT APPRAISAL TECHNIQUES

In his book "Financial Management, I.M. Pandey identified the following criteria in appraising the economic worth of an investment project.[2]

i) Payback Period

The Payback (or Payout) Period is one of the most popular and widely recognised traditional method of evaluating investment proposals. It can be defined as the number of years required to recover the original cash outlay in a project. If the project generates constant annual cash inflows, the payback period can be computed by dividing cash outlay by the annual cash inflow.

ii) Accounting Rate of Return

This method uses accounting information, as revealed by financial statements, to measure the profitabilities of the investment proposals. It is found out by dividing the average income after taxes by the average investment.

iii) The Net Present Value Method

This method is the classic economic method of evaluating project proposals. It is one of the discounted cash flow (DC) techniques explicitly recognising the time value of money. Thus if correctly postulates that cash flows arising at different time periods differ in value and are comparable only when their equivalents (present values) are found out.

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2. Pandey I.M. 1981, Financical Management, Second revised edition (Vikas Publishing house Ltd, New Delhi)

iv) Internal Rate of Return

This is another discounted cash flow technique which takes account of the magnitude and timing of cash flows. It is defined as that rate which equates the present value of cash outflows of an investment. In other words, it is the rate at which the net present value of the investment is zero.

3.3 APPRAISAL PROCESSES

Project Appraisal can be approached in a number of ways. The methods are the anlytical frameworks applied to ensure the optimum allocation of resources to achieve a definite objective. The central theme is that the methodology seeks to analyse the cost and benefits of a project. Where the net benefits exceed the cost, the project is considered good and worthy of investment. Where there are alternative projects, the analyst considers or ranks the project in terms of priority and net benefits. This approach is the general economic approach to project appraisal. Various weights are developed for the cost inputs as well as the outputs. This makes it possible for quantitative techniques to be used. However, sometime it becomes more realistic to apply qualitative techniques to be used in appraising some projects such as social welfare schemes.

For development finance institutions, their project appraisal techniques are quite vigorous and it calls for more detailed analysis of a project.

The industrial development bank for India observed that the United Nation's Guideline for project evaluation, lacked satisfactory method of evaluating the economic and social benefits and cost in developing countries.[3] They therefore, improved on the guidelines and developed the five stages approach, each of which leads towards a measure of the social benefit of the project namely:

1. Calculation of financial profitability at market prices;
2. Shadow pricing of resources to obtain the net benefit at economic efficiency prices;
3. Adjustment for the projects impacts on savings and investment;
4. Adjustment for the project's production or use of goods such as luxury consumer's goods and basic needs whose social values are less or greater than their economic values.

Each stage is analysed in such a way as to throw some light on the project's desirability from various perspective. This approach highlights the merits from different points of view of the impact of the project on the financial advantages that the investor will enjoy, the possibility of the utilization of the country's local resources, advantages in terms of savings, consumption pattern of the country, the distribution of income and benefits in terms of social and other economic values.

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3. Industrial Development Bank of India (Bombay), Guide to Practical Project, Social Benefit - Cost Analysis in Developing Countries.

In a situation in which a sense of priority is utmost to the decision maker,the project analyst evaluates the project by cost-benefit criteria. Hence the assertion that, "it is easy to become so involved in the theoretical niceties of project appraisal that it is carried to the point where it produces only superfulous information instead of better investment decisions. However, a simple uniform cut-off point for analytical detail cannot be established for all projects in all countries because needs vary widely.

3.4 STAGES OF PROJECT APPRAISAL

The guide to Practical Project Appraisal by industrial developmebt bank of India, suggests the following points for consideration in practical approach.

i) A good technical and financial analysis must be done before a meaningful economic evaluation can be made.

This is to emphasise that financial profitability analysis is a pre-requisite in all cases of project appraisal. This is particularly so if backed by a good engineering analysis that presents well-considered alternatives rather than economic appraisal.

ii) They also observe that Commercial Profitability analysis would suffice only if the projects were to operate in a reasonably "Perfect" market. This is a situation in which prices reflect the relative scarcity values of various goods.

iii) They pointed out that the adjustment for the investment/consumption impact will be especially important for projects that generate benefits to groups who save very little out of additional income, especially in countries short of capital because of a gap between actual and needed savings.

iv) On income distribution the guidelines suggest that the analysis should depend on the priority the government gives to increasing the income of the poor and the degree to which the project generates above average benefits to either the very poor or the very rich.

v) The final is needed only in unusual instances where the project will produce or use a good whose social value is substantially greater or lesser than its economic value.

It was also clearly stated that some stages could be shipped in practice, more so , if the adjustments required at a stage is insignificant.

The five stages of analysis, combined with the technical and managerial analysis that must be part of the financial analysis, complete the conventional project appraisal. Due to the increasing awareness of the need to consider the "Social Soundness" of projects, questions like who will benefit from the project, where are they resident, who will be hurt by the project, what are the educational and training requirements, is there reliable leadership to ensure success and other inumerable querries need to be answered. Social soundness analysis is outside the formal technical steps and their negligence has caused the collapse or failure of some projects.

In the case of incremental analysis, that is analysis for expansion, the additional investment proposal is seen as a new activity. It is assumed that the existing investment would continue to yield profitable returns. The analysis should therefore give details of expected returns if there is no expansion and also after the expansion. Thus the analysis should establish whether the project has enough additional benefits to justify the additional cost or investment.

The analysis of accuracy versus impact involves economic appraisal to determine a project acceptability whether it is the best alternative. This induces the application of refined shadow prices on selected resources and outputs to assess the costs and benefits.

It may not be pertinent to go through the various stages of project appraisal as enumerated. It however may not be out of place to briefly mention the key areas of the various stages taking cognisance of a project analytical team, made up of an engineer, economicst and financial analyst.

vi) Financial/Profitability Analysis

Based on projected output and market price/current prices or constant price of the product, the financial analysis must have the following projections, income statement, cash flow statement and balance sheet projections. These projects are tested through various adjustments and calculations of the financial internal rate of return (IRR) Net Present Value (NPV) Payback Period (PB) and other

related parameters. It is important to mention that the above analysis is based on, cost estimates and the market potentialities of the project.

3.5 PROJECT APPRAISAL BY NIDB

Like most development finance institutions, Nigerian Industrial Development Bank treats project appraisal from these perspectives - namely: Government, the investor and finance institution. Their appraisal exercise is primarily undertaken to establish that the project will lead to satisfactory social economic returns to the nation as a whole and that in the ensuring operation the project will as much as possible be financially self-sustaining. By implication, the project should be technically feasible, financially viable and socially desirable.

Bearing in mind the general cost/benefit motive of project appraisal, NIDB's appraisal endeavours to minimise cost, ensure project implementation with minimum delay, minimising operational cost or conversely aiming at high production efficiency and ensuring that the products can be sold at fair market prices.

To achieve these objectives, NIDB's Practical Appraisal critically examines the following aspects of the project (these are done by a project team, made up of an engineer, a financial analyst and an economist).

a) The Market Situation - Is there market?, who are the consumers?, are there competitors?, what market share is available?, how can the product get to the consumers?, and at what price? Favourable answering of the questions establishes the availability and viability of market.

These can be done through the traditional methods like the calculation of the internal rate of returns, net present value, break-even analysis as well as other rates of returns.

e) Socio-Economic Dimension - The major aim here is to determine a quantified socio-economic benefits of the project especially in terms of the number of people employed, capital/labour ratio, value added and economic rate of return.

THE BANK'S GENERAL POLICIES

The general policy specifies the role of NIDB and the method of applying for NIDB's financial assistance thus:[4]

i) That NIDB is a Development Finance Company

ii) That 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 fund for companies which are wholly owned by Nigerians or with substantial equity investment by Nigerians.

iii) That it can provide 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 more industrialised centres.

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4. NIDB General Policies Lagos (Academy Press)

The scope of investment is presently limited to manufacturing, non-petrolleum, mining and tourism which includes hotels of international standards. Proposals could be for the establishment of new ventures or for the expansion of existing projects.

The general policies also specifies other standard conditions which must be met before for the bank's loan investment. They include:-

a) The Size of Investment

NIDB's minimum loan investment in any project is ₦50,000.00.[5] On the other hand, the bank's total maximum exposure in loan and equity in any single enterprise will not be more than 75% of the project's total capital cost or 15% of NIDB's paid up share capital and free reserves, whichever is lower. Both the minimum and 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.[6] In some cases, however, the bank may make some exceptions to the general rule.

b) Rate of Interest

In the year 1987, monetary authorities clearly indicated the direction in which they wanted interest rates to move by raising the central bank's rediscount

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5. First National Development Plan 1962, Federal Government Publication.

6. NIDB Op. Cit PP.2.

rate from 11% to 15%. The response by the banks was instant. Prime lending rates went up to $17\frac{1}{2}$ - $18\frac{1}{2}$% and effective lending rates to 20 - 21%. In response to the adverse consequences of a high regime of interest rates on borrowing and investment, the Central Bank reduced its rediscount rate to 12.75% in late December, 1987. The banking system followed with prime lending rate of $15\frac{1}{4}$% and effective lending rates of $17\frac{1}{2}$ - $18\frac{1}{2}$%. However, considering its crucial role in the industrialisation of the country, the bank raised its interest rate to $16\frac{1}{2}$%. Its interest rates on foreign currency loans is even lower at $12\frac{1}{2}$%. However, an additional 2% penalty for any default in overdue repayment of principal and interest is charged.[7]

c) Commitment charges

NIDB's loan attract commitment charges at $\frac{3}{4}$ of 1% on the undisbursed part of the loan and the same shall be repayable six months after the date of acceptance of the offer, or from the date of signing the loan agreement, whichever is earlier.

d) Repayment Period and Moratorium

In general, a moratorium or repayment of twelve contact is advocated to make it possible for promoters to benefit from NIDB's Promotion and Development before spending money in studying projects that may not be viable. The Promotion and Development

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7. NIDB Annual Reports and Accounts 1987.

From that point the necessary files are opened and necessary information and details on the project are sought and gathered for appraisal purposes.

If a Promoter is enlightened he or she can apply by submitting his feasibility study, Memorandum and Articles of Association of the company, notes on the composition of its Board of Directors, short biographies of the Directors and Senior Management Team and other technical details like building sketch, quotations for plants and equipments etc.

NIDB's appraisal processes are quite rigorous for it takes care of the minutes details of the project. In technical appraisal, physical examination of machinery are carried out, project sites are visited and in some cases soil test or laboratory test of local raw materials are carried out. The building drawings are examined and all the details are professionally checked out during the appraisal. In most cases NIDB frowns at any modification of plans or proposal unless the change is properly brought to her notice and appropriate approval given. This erudite approach is displayed in all aspects of the appraisal.

Generally one can assert that NIDB is conventionally carrying out appraisal of projects within the known provisions of such other experts like the 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 the total term of between five to fifteen years.

e) 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. 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 loan) should be at least be one and half times the proposed NIDB loan investment.

f) Debt Equity Ratio

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

g) Pre-Payment Option

A client has an option to retire any outstanding principal subject to a graduated pre-payment premium.

h) Promoters Contribution to Project Cost

The Promoters Contribution to any project should not be less than 25% of the total capital cost of the project.[8] In no circumstance will assistance be given except NIDB is satisfied that the promoter has the means to contribute his counterpart funds.

METHOD OF APPLICATION

Promoters are required to contact NIDB in writing or by Personal visit to the office.

In summary, this chapter dealt extensively with the theoretical project appraisal techniques in general and NIDB's methodology for appraising projects in particular

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8. Field Research August, 1988.

requiring financial assistance from the bank.

Armed with this discussion, the examination of operations of NIDB in Bauchi State is the concern of the next chapter.

CHAPTER 4

AN ASSESSMENT OF THE OPERATIONS OF NIDB IN BAUCHI STATE

4.1 HISTORICAL BACKGROUND

The establishment of the Nigerian Industrial Development Bank (NIDB) in January, 1964 was foreshadowed by the incorporation in 1959 of a private investment company, the investment company of Nigeria (ICON) as an industrial finance company with the aim of providing long and medium term finance for industry.[1] ICON had operated as a lone star unitl the initiative was taken towards finding the NIDB following negotiations between ICON and representatives of the Federal Government working through a steering committee. It was agreed to establish the Nigerian Industrial Development Bank)NIDB) with an authorised capital of ₦10 million to be subsrcibed by both public and private interests, the Central Bank)on behalf of the Government), commercial banks, Nigerian Private business, and international houses from USA, Japan, Britain, Italy, Belgium and France. ₦4.50 million was paid up.

The international spread of the shareholding represented the hayday of romanticism towards Nigeria in international finance circles in the 1960's prodded, no doubt by the world bank. Indeed, the international finance corporation not only took up equity (through the Central Bank, a rather strange channel for holding equity in such

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1. Okigbo P.N.C. 1981, Nigeria's Financial System, Structure and Growth (Longman London).

a mixed company), it also offered interest free loans of ₦4 million, an amount considered at that time, as large and important because if at once made available to NIDB in equity and loans the sum of ₦8.50 million for its use.

However, since then, a number of changes had undergone in the ownership structure of the bank. It rose from 51% Nigerians, and 49% overseas in 1976 to 95% Nigerians and 5% foreigners in 1977. In 1978, the Federal Government purchased more shares from the overseas partners and the distinction between class 'A' and class 'B' shares disappeared.

As at now, the NIDB can better be described as solely Federal Government owned with about 99% shares.

4.2 THE OBJECTIVES OF NIDB

According to the Original Memorandum and Articles of Association, the objects of NIDB among others are:

> "To carry on the business of assisting enterprises engaged in industry, commerce, agriculture and the exploration of natural resources in Nigeria in general."

i) Assisting in the creation, expansion and modernization of such enterprises;

ii) Assisting in the creation, expansion and modernization of services ancilliary to industry, commerce, agriculture or the exploration of natural resources.

iii) Encouraging, sponsoring and facilitating participation of capital, internal as well as external in such enterprises;

iv) Creating, expanding and stimulating investment shares and security markets.

4.3 GENERAL FUNCTIONS OF NIDB

The functions of NIDB include the following:

a) Providing finance in the form of long or medium term loans or shares participations;

b) Sponsoring and underwriting any issue or conversion of shares and securities;

c) Guaranteeing and counter-guaranteeing loans and obligations;

d) Making funds available for re-investment by causing the transfer of shares and securities and by resolving investments as rapidly as prudent;

e) Furnishing managerial, technical and administrative advice and assisting in obtaining managerial, technical and administrative services to Nigerian Industry, commerce and agriculture;

f) To lend or advance money or give credit upon the security of real or personal property of every description or upon personal security or without security and general subject to such terms and conditions as to interest repayment or otherwise as the company may think proper;

g) To purchase, subscribe for absolutely or conditionally underwrite, acquire, hold, sell exchange issued or turn to account, deal in and dispose of shares, stocks, bonds, debentures, debenture stocks and other securities whether fully or partly paid, and whether registered or inscribed

or payable to bearer of any company or corporation or the stocks loans securities or obligations of any government or authority (supreme, municipal, local or otherwise) or any international organisation or any participation in syndicates or other interest wherever situated.

4.4 NIDB'S RESOURCES AND SOURCES OF FINANCE

NIDB's total resources decreased from ₦576.40 million at the end of 1986 to ₦562.34 million by the end of 1987. This decline was due to the exchange rate adjustments of foreign assets.

The bank's reserves increaed from ₦26.34 million to ₦91.59 million following the transfer of ₦60.09 million exchange difference and ₦5.16 million profit and loss appropriation to reserves. The resources of the bank as at the end of 1987 consisted of ₦198.50 million in equity, ₦91.59 million in both capital and other reserves and ₦270.66 million in borrowed funds.

Shareholders' funds rose from ₦224.84 million in 1986 to ₦290.09 million in 1987, an increase of ₦65.25 million. This increase in shareholders' funds consists of an exchange difference of ₦60.09 million and profit and loss appropriation to reserve of ₦5.16 million. Long term loans decreased from ₦351.56 million in 1986 to ₦270.66 million in 1987 while the total assets of the bank grew from ₦658.42 million in 1986 to ₦668.72 million in 1987. The decrease in long-term loans and total investment were due to the exchange rate adjustments.

Finally, the two major shareholders (Federal Government and the Central Bank of Nigeria) have approved the increase of the share capital of the bank from the present ₦200 million to ₦400 million. This increase is required to give the bank a broader equity base to facilitate its borrowings from both international and national capital markets in order to finance the industrial restructuring projects urgently needed under the Structural Adjustment Programme of the Federal Government.[2]

4.5 NIDB'S ADMINISTRATIVE SET-UP

The headquarter of NIDB has been at Lagos. In an effort to bring its services nearer to the -people and also to make the people aware of its existence and services two area offices were established in October, 1972 in Kaduna to serve the Northern states and in Aba in 1973, to serve the Eastern states.

Appraisal department is responsible for determining the viability of a project while the financial institutions handles NIDB's relationship with other financial institutions. In 1980, more vigorous efforts were made on industrialization. The Board of NIDB agreed on some degree of decentralization and the opening of more offices. Consequently, the idea of area offices were abolished and five Area Headquarters were opened. The country was broken into zones with each Area Administration covering specific zone. Each Area Administration is headed by an

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2. NIDB Annual Reports and Accounts 1987.

Assistant General Manager and the Area Administration can appraise projects in which NIDB's total financial exposure is not more than ₦1 million. The five Area Administration are:

1) The North-West Area Administration with headquarters in Kaduna and covers Kaduna, Nigeri, Kano, Sokoto states and the Federal Capital Territory;
2) North-East Area Administration with headquarters in Bauchi and covers Bauchi, Borno, Gongola and Plateau states.
3) South-Western Area Administration with headquarters in Akure and caters for Ondo, Oyo, Bendel and Kwara states.
4) South-Eastern Area Administration with headquarters in Aba and the zone caters for Anambra, Benue, Cross River, Imo and Rivers.
5) The Lagos Area Administration for Lagos and Ogun states.

The concept of Area Administration was approved by the Board in August, 1980 in its move to decentralize the operational activities of the bank, by upgrading the existing Area Offices into Area Administrations and the enlargement of their powers in such a way that investors throughout the country will in most cases, need not to travel to Lagos for the appraisal of their projects. However, the headquarter handles projects in which NIDB involvement is above ₦1 million.

4.6 ORGANISATION STRUCTURE

The Deputy General Managers are the next to the Managing Director and Chief Executive. They deputise for the Chief Executive in his absence and are responsible for the Area Administration and Divisions.

The Area Administration are treated as a division and they report to one Deputy General Manager Area Administration. The division at the headquarters report to other Deputy General Managers while divisions that have not got a Deputy General Manager report to the Managing Director.

The divisions are Investment Management, Finance and Administration, Projects, Research and Development and Corporate Affairs. These are headed by Assistant General Managers. The divisions are broken to departments headed by Controllers.

The Investment Management is made up of Investment Supervision and Management Consultancy Departments. Investment Supervision is in-charge of already sanctioned projects, monitors their performance and recovers the investment made by NIDB in the projects. The Management Consultancy engages in rendering consultancy services to NIDB client at a minimum fee.

The Project division is made up of appraisal department and financial institutions in the country.

Finance and Administration perform the usual functions of the management of the bank's funds and administrative matters.

Manpower Development Department however reports directly to the Managing Director.

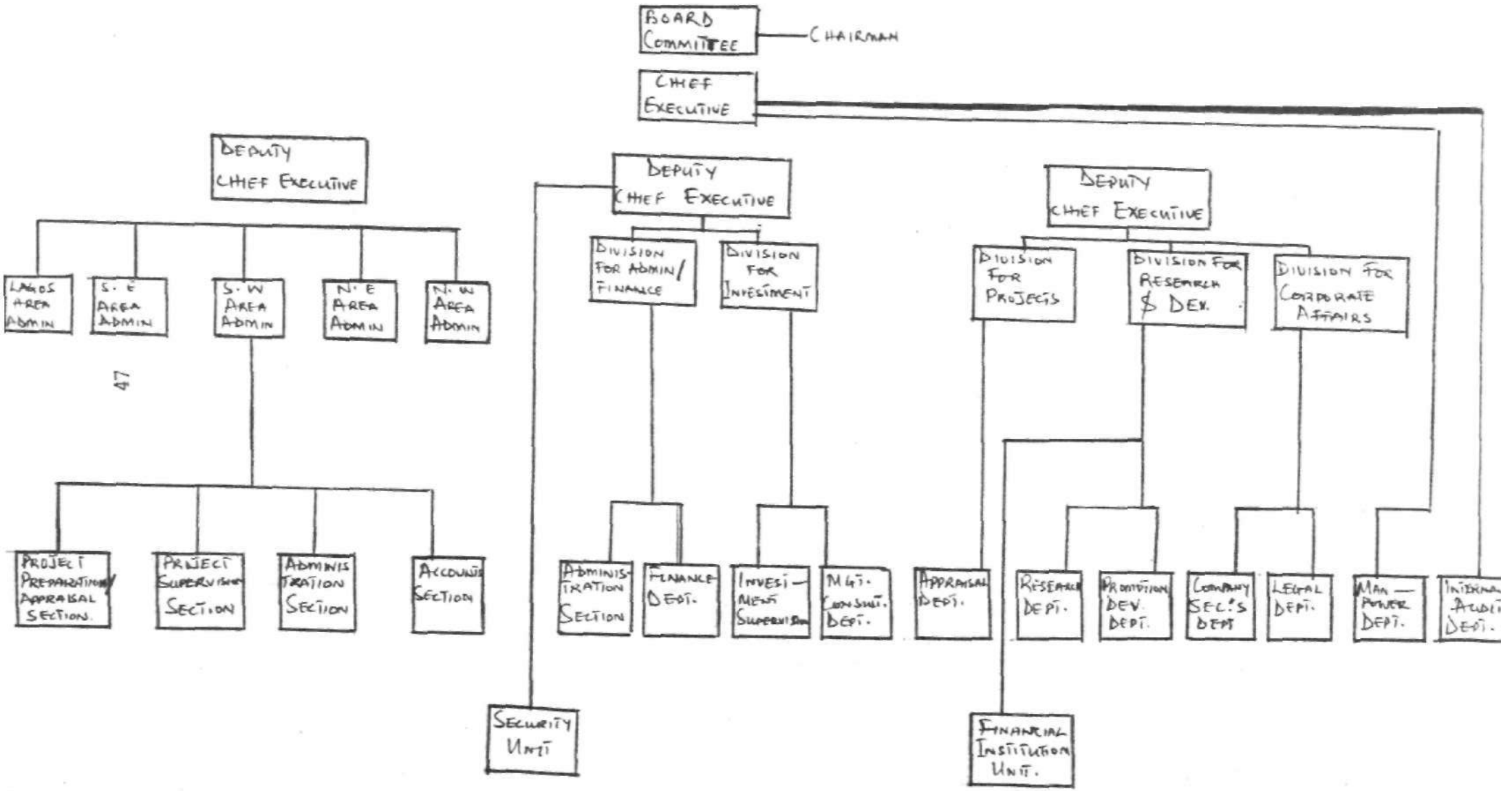
Research and Development Division conducts research into the various sectors, handles market investigation of any proposed projects products and also engages in project development and promotion.

The Corporate Affairs Division is in-charge of Company Secretarial Duties and the Legal Department. This department deals with such matters as shareholding by NIDB dividend payments on equity, debentures and debenture stocks. The Legal Department scruitnizes clients or potential clients company's Memorandum and Articles of Association to ascertain the legality of their business such that NIDB's involvement is not prejudiced. They also carry out necessary exercise and ensure the perfection of the legal documentation of NIDB loans and debentures and also ensures that all agreements entered into by such company will not -put either the company or NIDB's investment in such companies are not put into jeopardy.

Other departments report directly to the Managing Director in matters relating to internal auditing and initial contact of clients with NIDB.

This chapter has focussed on NIDB'S brief history, objectives and functions. It also discusses NIDB's financial resources and administrative set-up. It leads us to the examination of the bank's performance which is discussed in the next chapter.

ORGANISATIONAL STRUCTURE OF THE NIGERIAN INDUSTRIAL DEVELOPMENT BANK LIMITED.



4.7 OPERATIONS OF NIDB IN BAUCHI STATE (QUANTITATIVELY)

The NIDB branch office has been in existence since July 1979 before it was upgraded to an Area Administrative Headquarter on 5th of September, 1980. NIDB has granted financial assistance to most medium and large scale industries in the state, some of which however may not have been able to take-off without such assistance. As at the close of 1986 (no loan was sanction in 1987), there were fourteen companies out of those who applied that were granted assistance by the bank.

Specifically, the companies which have benefitted from NIDB's financial assistance in the state are as follows.

a) Steyr Daimler Puch (Nigeria) Limited
b) Nigeria Asbestos
c) Salama Steel Structures
d) Bauchi Furniture Factory
e) Yarwa Consolidated Industries Limited
f) Arabi Bakeries
g) Gombe Oil Mills
h) Ashaka Cement Factory
i) Zaranda Hotel
j) Awala Hotel
k) Kuda Nails Manufacturing Company Limited Bauchi
l) Bauchi Sweets Factory
m) Bauchi State Investment Company
n) Bauchi Terrazo Company Limited

The breakdown of the bank's total sanctions and disbursement is as follows:-

TABLE 1

NIDB'S TOTAL SANCTIONS AND DISBURSEMENTS IN BAUCHI STATE

Name of Company	Type of Ownership	Location (Towns)	Type of Product(s)/ Service	SANCTIONS		DISBURSEMENT		Employment Generated (Number of Persons)
				Equity ₦	Loans & Disbursement ₦	Equity ₦	Loans & Disbursement ₦	
1. Steyr Nig Ltd	Nigeria/Foreign	Bauchi	Commercial Vehicles, tractors, farm implements & Electricity generating sets.	521,850	-	521,850	-	540
2. Nigerian Asbestos	Nigeria/Foreign	"	Roofing sheets, ceilings, pipes etc.	979,924	-	979,924	-	325
3. Salama Steel Structures	Nigerian Controlled	"	Nailed, barbed wire, rods, tanks etc.	3,450,000	3,421,600	-	1,210,000	34
4. Bauchi Furniture factory	" "	"	Various types of furnitures.	700,000	471,732	-	230,000	27
5. Yarwa Consolidated	" "	Gombe	-	1,111,780	-	1,111,780	-	54
6. Arabi Bakeries	" "	"	Bread and cakes.	1,500,000	-	-	736,452	40
7. Gombe Oil Mills	" "	"	Groundnut & Vegetable Oil	-	11,000,000	-	9,091,099	200
8. Ashaka Cement factory	Nigeria/Foreign	"	Cement.	-	16,230,000	-	12,301,774	1,145
9. Zaranda Hotel	Nigerian owned	Bauchi	Hotel Services.	-	300,000	-	210,000	35
10. Awalah Hotel	"	"	Hotel Services.	-	250,000	-	200,000	37
11. Bauchi State Investment Co.	"	"	Investment/Consultancy	-	700,000	-	500,000	26
12. Kuda Nails Co. Ltd.	"	"	Assorted Nials.	-	1,443,332	-	1,350,000	-
13. Bauchi Sweets Factory	"	"	Bacaroni Biscuits, Sweets, candles etc.	-	800,000	-	520,000	-
14. Bauchi Terrazo Co. Ltd.	"	"	Terrazo	-	600,000	-	436,452	42
TOTAL				8,263,554	36,716,664	2,613,554	26,785,777	2,505

SOURCE: NIDB BAUCHI.

As can be seen from the above table Total Loans sanctioned for these companies was ₦39,330,209 (2,613,554 in equity and ₦36,716,664 in loans), and the total disbursements was ₦29,399,331 ₦(2,613,554 in equity and ₦26,785,777 in loans). It can be seen that there are differences between the gross amount sanctioned and the actual amount disbursed. This may be due to deffered sanctions or problems such as promoters abandonment of the project, or his inability to contribute his counterpart fund, difficulties in documentation etc.

However, one significant observation made by the researcher is that the distribution of the banks's investment is limited only to two local governments of the state. See below.

TABLE 2

DISTRIBUTION OF INVESTMENT IN BAUCHI STATE

Local Govt.	No. of Coys.	TOTAL SANCTIONS				TOTAL DISBURSEMENT			
		Equity ₦	%	Loans & Disbursement ₦	%	Equity ₦	%	Loans & Disbursement ₦	%
Bauchi	10	5651774	68	7986664	22	1501774	57	4656452	17
Gombe	4	2611788	32	28730000	78	1111788	43	22129325	83
TOTAL	14	8263554	100	26716664	100	2613584	100	26785777	100

Source: Compiled from data supplied by NIDB (Bauchi)

The table above is the distribution of the bank's assistance with Gombe Local Government having about 83% of the total amount sanctioned while the 17% goes to Bauchi Local Government. A contributory factor to the concentration of the bank's activities in these two major towns of the state may be due to the insufficient infra-structural facilities in other local government head-quarters that will attract investors. However, the state government realising this fact, is determined to shift the pattern of distribution to other local government areas especially through the activities of Bauchi State Integrated Rural Development Authority (BASIRDA). Already, the Azare Flour Mills was commissioned last year and a cerramics factory will be established in Alkaleri.

SUB-SECTORAL DISTRIBUTION OF SANCTIONS

TABLE 3

		No. of Sanctions	Values of Sanctions ₦	Percentage Distribution
i)	Food	3	10,347,551	35.2
ii)	Wood & Furniture products	1	230,000	0.8
iii)	Metal Fabrication	3	3,081,850	10.5
iv)	Non-Metalic Mineral Products	2	13,281,698	45.2
v)	Glass, clay and stone	1	436,452	1.5
vi)	Hotel & Tourism	2	410,000	1.3
vii)	Others	2	1,611,786	5.4
	TOTAL	14	29,399,331	100.00

Source: Compiled from data supplied by NIDB (Bauchi)

Table 3 shows the sub-sectoral distribution of sanction by NIDB in the state. The investments are unevenly spread in all the sectors with the non-metalic mineral sector having the lion share of 45% with a total value of ₦10,347,551. Negligible sanctions were recorded in hotel and tourism, wood and furniture as well as the glass, clay and stone sector.

One very significant observation is that the bank has not initiated any project in the state. All the projects were originated and financed by the promoters. The operations of the bank also include the development of some companies especially at their planning stage. These activities ranges from accounting, managerial as well as technical services especially to companies like the Salama Steel Structures, Bauchi Furniture Company and the Nigerian Asbestos. In addition, market research and some key staff recruitment were at different stages conducted for Gombe oil mills, and Arabi Bakeries, Gombe. This according to an interview conducted with an official of the bank and the companies involved has led to an increase in sales and high efficiency especially the Arabi Bakeries which is now regarded as a pace setter in Bakery business in the state.

Finally, NIDB through ICON stockbrokers, had negotiated five deals in securities for three companies in 1986, totalling about ₦142,374. The breakdown of the deals is shown below.

TABLE 4

Name of Company	Type of Transaction Done	Amount ₦
1. Steyr (Nig) Ltd	Purchase of Treasury Cert.	37,400
2. Awala Hotel	Purchase of Treasury Bills	12,200
3. Alind (Nig) Ltd	Sale of shares	50,340
4. Steyr (Nig) Ltd	Sale of shares	27,134
5. Awala Hotel	Purchase of Treasury Bills	15,300
		₦142,374

Source: NIDB Bauchi.

4.8 THE QUALITATIVE DIMENSION

The attempt here is to examine NIDB's performance from field investigation by appraising the responses of some key hypothesis in the questionnaire. For a fair analysis, both the management and the public's view about the activities of the bank was considered. The objective here is to enable the researcher determine the problems and prospects involved in financing businesses by the bank.

PATTERN OF OWNERSHIP OF NIDB ASSISTED PROJECTS

The investigation looked at the ownership of the NIDB assisted projects. The table below indicates the structure and pattern of ownership.

TABLE 5

Ownership	Number	%
Wholly Nigerian owned	11	79
Joint venture	3	21
	14	100

Source: Field Investigation September, 1988.

The above table indicates that the bank assisted mostly Nigerian owned enterprises in pursuance or in compliance with the enterprises promotion decree of 1977. The relatively few joint ventures financed by the bank are highly capital intensive and which the government has shares.

AWARENESS OF NIDB

In terms of awareness, this research sought to find out whether enterpreneurs and other investors are actually aware of the activities of NIDB and how it can assist them. The table below (6) shows the response and the medium through which some of the respondents knew about the bank.

TABLE 6

AWARENESS OF NIDB'S EXISTENCE

Medium	Number	%
through advertisement and the bank's publications	7	30
through friends	4	17
through the bank's officials	12	53
	23	100

Source: Field Investigation September, 1988.

The above table indicates that NIDB officials are the main medium through which the respondents knew about NIDB's existence. There is no doubt that the upgrading of the Bauchi branch into an Area Administrative Headquarter has helped to creat the much needed awareness. However, the promotional activities of the bank also can be said to be effective in terms of making people aware of NIDB especially through personal contacts.

PROCESSING OF LOAN APPLICATIONS

Table 7 below shows the response on NIDB procedures for Loan Processing and the length of time spent before a loan application is disposed off.

TABLE 7

PROCEDURES OF PROCESSING LOAN APPLICATION

Comments	Number	%
Satisfactory	3	14
Unsatisfactory	8	34
Very Difficult	11	47
No Comments	1	5
	24	100

Source: Field Investigation September, 1988

The responses indicate a majority opinion that NIDB's procedure for Processing Loan Applications is very cumbersome. Only three out of the twenty-four respondents found the procedure to be satisfactory while nineteen expressed the view that the procedure is unsatisfactory and very difficult. There is therefore, the fact that the bank has to re-examine the procedure and find ways of improvement. Though one cannot discuss totally the arguement by the bank concerning the attitude of most Nigerianpromoters that they either refuse outright to repay loans obtained and consequently compelling the bank to provision collosal amounts for bad debts makes the bank to be strict. This the researcher feel is not necessarily the answer.

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KASHIM IBRAHIM LIBRARY

TABLE 8

DISPOSAL OF LOAN APPLICATION BY NIDB

Length of time taken to dispose of loan application	number of respondents	%
0-6 months after application	1	6
6-12 months after application	3	19
Over one year after application	10	63
No comments	2	12
TOTAL	16	100

Source: Field Investigation September, 1988.

The impression given in this table is that NIDB is too bureaucratic in processing application. Consequently, most applications are hardly processed within a year. This situation is far from being commendable in investment decision making. Whatever may be the cause, however, the bank needs to improve on this and loan applications should be treated with adequate urgency.

ATTITUDES OF NIDB OFFICIALS TOWARDS CLIENTS

This research also proved into the opinion of NIDB clients about the bank's officials. The table (9) below indicates the opinion of the respondents on the attitudes of NIDB officials.

TABLE 9

ATTITUDES OF NIDB OFFICIALS TOWARDS CLIENTS

Opinion Ratings	No of Respondents	%
Very professional	7	29
Very Bureaucratic	6	25
Co-operative	8	33
Unco-operative	3	13
TOTAL	24	100

Source: Field Investigation September, 1988.

The rating of NIDB officials is quite encouraging. This is because most of them are seen in the eyes of clients to be very professional and co-operative in their dealings. However, the view that some are bureaucratic and unco-operative is not quite unexpected as the bank is not operating on a fully commercial basis. It is how hoped that full professionalism in the bank's activities will reign when the proposed commercilisation of the bank is effected.

From the management side, the response from the questionnaire made some startling revelations. For example, one serious factor that has affected business financing is the current downward trend in the economy coupled with the embracement of the Structural Adjustment Programme (SAP). This has seriously altered its policies especially on lending matters. It has also been observed that the response of promoters in the state has not been good as regards seeking for assistance from the bank.

Moresor, businessmen are reluctant to invest in industry which has long gestation period and high project cost. This probably may be the reason why no loan was sanctioned in 1987. Finally, is the inability or unwillingness of the bank to initiate or create any industrial venture in the state. This, the researcher believes is a serious drawback in their activities.

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY AND CONCLUSIONS

This research scruitnized the various aspects of development banking with particular reference to Bauchi State. It all started with the introduction which covered the background of the study, scope and Rationale of the study and the Research Methodology. In chapter two the various roles of development banks were discussed both within and outside Nigeria. Project appraisal techniques in general and NIDB's methods of project appraisal in particular were critically examined in chapter three.

In chapter five, a general assessment of the operations of NIDB in Bauchi state was analysed. For proper analysis, both the qualitative as well as the quantitative performance of the bank was assessed. The qualitative analysis is based on the response recieved from the questionnaires. In the course of this research, criticism seems to be much on the appraisal process adopted by the bank.

Economic organisation is as fundamental to human life as it is to institutions and is linked with the social structure, the system of government or administration, level of technology and the cultural institutions.

This general idea of ordinary economic analysis have been considered applicable even in the investigation of NIDB and industrial project financing. The consideration boils down to a look at the application of the techniques developed against a background of Western institutions to developing society's institutions like the NIDB. The concept of fiscal policy, prices, capital, wages, savings and rents are still at the developing stage in our economy.

To NIDB, the adaptation of these modern techniques and processes to the native setting no doubt is faced with numerous problems and constraints.

The issue that should be realised here is that the bank should set out to industrially develop Nigeria, as the premier financial institution with a galaxy of experts. To attain this; the goals of NIDB should be specific and precised and tailored towards the needs of potential entrepreneurs and clients if any meaningful objectives are to be achieved.

In Nigeria, capital formation is still very low and foreign investors are pessimistic in investing in Nigeria. This is mainly due to political and financial instability. The economic recession in the country has affected the bank's policy on promotion and financing of businesses in the state. With the depreciation of the naira in the international money market which lead to the rise in project cost, has made it impossible for promoters to contribute their counterpart funds.

In addition, borrowing at any level is seen by many Nigerian societies as a sign of personally mortgaging an

individual's total self. Therefore, care must be exercised in selling the idea of capital formation, corporate borrowing, and lending, as well as industrialisation to capable enterpreneurs and also create obvious opportunities for the development of enterpreneurs and industries generally.

NIDB's insistence on project financing be determined by the economic viability of the project and its sound management including other criteria is highly commendable. This seems to strongly indicate that NIDB is highly motivated by profit objectives. So far, there have been the experience of many projects otherwise viable failing to provide expected benefits simply because of lack of efficient management. In addition, businessmen in the state want to invest where they will get quick returns. Therefore, they prefer distributive businesses to manufacturing and other long term business. This definitely is one of the hinderances the bank is facing and should examine such circumstances with a view to improving the situation.

To facilitate the performance of its vital functions NIDB unlike other financial institutions, needs to review its policies and guidelines to diffuse the rigidities and complexities which evolved from the pioneer management as highlighted before.

Having been empowered to finance all types of viable industrial concerns and ensure development, NIDB needs to

modify its conditions particularly in terms of entrepreneured development and encourage rural investments. There is need for NIDB to categorise its clients into those who have the skill and project but have no financial ability, those who have the financial ability and no skill but have projects; and those who have all the prerequisites as entrepreneurs.

5.2 RECOMMENDATIONS

NIDB is very crucial especially to the rapid social and economic development of the country in general and the industrial sector in particular. Therefore appropriate steps should be taken to meet the expectations of the government and people of nigeria. As financial institution, NIDB should coordinate the diverse government industrial development strategies and policies that will subserve the larger national objectives of rapid industrial growth, balanced state development, self-reliance, employment generation, equitable distribution of income and means of production. Therefore, in ligth of our findings as well as for the need to compare favourably with development banks in other developing countries that have made conspicous progress in industrial development financing, the following specific recommendations are put forward or made to the banks, promoters and government.

i) NIDB should ensure that only projects within priority industrial sectors are given adequate financial assistance. The bank should evolve a programme squarely on local-resource-based industries tapping the state's immense agricultural and mineral potential, intermediate goods industries in the chemical and engineering sub-sectors as well as simple capital goods.

This will surely enhance the input-output linkages within the sector and the alleviation of import-dependence.

ii) So far, the bank has confined its financial assistance in the form of loans, and investment in debentures and equity. But it is my belief that it can perform better through diversification of some of its activities like underwriting of equity and debentures, guaranteeing of deffered payments in respect of machinery imported from abroad or purchased in Nigeria and guaranteeing of loans raised in foreign currency from foreign financial institutions. Also, the bank should place more emphasis in granting short-term loans as working capital. This is based on the fact that substantial amount of the financial needs of most companies now is for working capital.

iii) One great discovery also in this research is the concentration of assisted industries to only Bauchi and Gombe towns. Therefore, to ensure dispersal of industrial development to rural areas, the bank should pursue and encourage the flow of its assistance to entrepreneurs in rural areas by offering or operating a scheme which offers concessional interest rates, liberal financing terms, such as lower promoters contributions or higher debt/equity ratio, longer moratarium and amortization periods. Also, the two major shareholders of the bank (i.e. the Federal Government and the Central Bank) can direct the institution to set aside a certain percentage of not less than 10% of their budget for the stimulation of rural investment under the supervision of the central bank.

In order to make this workable, NIDB should note that the development of rural areas, although complex, is very essential. It can however be realised by engaging in considerable preparatory and promotional work to instil the relevant industrial culture in the people. The promotion effort should include project idea identification, preparation of feasibility studies, searching for suitable managerial and technical assistance, continuous follow-up and monitoring of all activities geared towards the main objective of setting viable projects in the rural areas.

iv) The bank should also positively pursue the policy of the development of indigenous entrepreneurs. This calls for the identification and training of potential entrepreneurs in the state. The bank should consider small investors rather than neglect them. This is because they form the majority of businesses in the state. Assistance should be given to technicians and professional entrepreneurs or promoters who have the necessary ability to run and manage projects within their field but lack the necessary financial resources.

v) NIDB can also sponsor managerial training programmes for the local promoters with the objective of providing training in modern management techniques in specific functional areas like finance or accounting, marketing, personnel, materials management or inventory management and office management. Coupled with this, NIDB should also articulate the policy of sending out experienced staff to manage projects where such service is considered necessary

and beneficial to the firm and the economy in general. This will surely facilitate the process of progressive professionalization of corporate management in some industries. This is based on the belief that the availability of adequate management may avoid circumstances, in which projects otherwise viable fail because of lack of efficient management.

vi) Finally, is the need to review the memorandum and articles of association of NIDB to remove the statutory inhibitions and rigidities that have or may hamper its performance. This is based on the fact that the memorandum was formulated by the foreign-dominated institutions and they impose very strick limitations on the range and mode of operations of the bank. This is highly possible especially with the government intention to partially privatize the bank. If that is done, NIDB may have to engage in direct investment and/or hold controlling shares in projects where capable promoters are not readily available and the project is left worthwhile.

Although NIDB is accussed of not doing enough work in terms of project promotion and development, their powers to promote suitable projects is not effectively backed with adequate authority. This authority could be made useful if NIDB is empowered not only to develop suitable and viable projects but to invest directly and await interested shareholders who can fished out locally or at the stock exchange. The Nigerian Entrepreneur is very reluctant about investing and waiting as in the case in industry

NIDB may be empowered to take the initial risk of bridging the waiting time or gesticulation period of the factory and the time dividend are expected by providing the vital take-off capital for projects lacking entrepreneurs.

In the words of Prof. G.O. Nwankwo, the industrial enterprises panel focussed as 'Patently Unrealistic the NIDB investment policy which emphasised risk aversion by concentrating its investments mainly in loans and very little in equity.[1]

It is hoped that these recommendations will be given some thought as part of the justification of this study and serve as a pointer to the need for more rigorous examination of NIDB, its objectives, prospects and problems. It is the belief of the researcher that the above recommendations may be of use in improving the situation despite the need for additional and continuous work expected on NIDB's operations and its impact on the state.

5.3 LIMITATIONS OF THE STUDY

There are numerous problems encountered by the researcher in the course of this study, some of which may not be mentioned. Notable among them is the time constraint. The time as a limited resource narrowed down the scope and depth of the investigation. As a result, sufficient visits to interview and administer questionnaires to some clients were not possible.

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1. Nwankwo, G.O. 1980, The Nigerian Financial System (Macmillan Press London).

Furthermore, is the issue of unavailable published data especially on information covering individual states. This limitation has obviously affected the quality of information in particular and the study as a whole. Other alternatives resorted by the researcher as mentioned in my research methodology, have their own shortcomings also especially as most people interviewed look at the researcher as a fault finding person and spy. Thus they make the researcher visit their organisation more often than necessary.

Finally, the issue of cost cannot be left without discussing the availability of or the lack of funds. The importance of cash for information gathering vis-a-vis the quality of information cannot be over-emphasised. The study was therefore constrained by limited funds to meet all the relevant cost adequately.

Though the researcher had these problems he carried out his research to the best of his ability.

DEPARTMENT OF BUSINESS ADMINISTRATION

AHMADU BELLO UNIVERSITY, ZARIA

Q U E S T I O N N A I R E

TOPIC: INDUSTRIAL DEVELOPMENT FINANCING - A CASE STUDY OF NIDB OPERATIONS IN BAUCHI STATE

1. Please tick in the box provided for any chosen response or answer.

2. You can write on extra sheet if the space provided is not sufficient.

PART A

1. Name of company .....
2. Registered Office .....
3. Is the company incorporated ☐ Yes ☐
4. If "Yes" state year of Incorporation 19.....
5. What is the Nature of the company's Business now.....
6. When did the company start commercial operation?.....
7. What is/are the company's main product? .....
8. How many workers are employed in the company? Please state as follows skilled ..... Unskilled .....
   Expatriates ..... Nigerians .....
9. Where is the company sited? .....

PART B

10. What is the Authorised share capital of the xxxxx company...
11. Who are the shareholders? ☐ wholly Nigerian ☐ Nigerian and Foreigners.
12. If it is a joint venture, what percentage of the share are held by Nigerians? .....
13. Are the shares fully paud-up? ☐ Yes ☐ No
14. What is your networth as at now, please indicate as follows:

    Paid up Capital .....
    Retained reserves .....
15. Who are your Bankers other than NIDB? .....
16. How long have you been banking with them?
    ☐ One year ☐ Two years ☐ More than two years.
17. Have you enjoyed any loans from these other bank?
    ☐ Yes ☐ No

..../2

18. If yes, what type of loan? ☐ overdraft ☐ short term loan ☐ Long-term loan

19. What is the rate of interest? .....

20. Have there been changes in the rate of interest charges on the loan? ..... ☐ yes ☐ No.

21. Is the charge an increase or Decrease? ☐ increase ☐ Decrease ☐

PART C

22. How did you know of NIDB?
- ☐ Through friends
- ☐ Through Advertisement
- ☐ Through the officials of NIDB

23. If ever applied for NIDB loan, for what purpose did you apply for the assistance?
- ☐ Manufacturing ☐ mining/Quarrying
- ☐ Commerce ☐ Tourism

24. Did you get the loan? ☐ Yes ☐ No

25. If yes how much was the loan? .....

26. If no, why was the loan not given to you? .....

27. How much time did it take NIDB to process your application?

☐ 6 month ☐ 1 year ☐ over 1 year

28. What is your opinion about the rate of Interest? .....

29. What is your view about NIDB Loan Procedure?

☐ Satisfactory ☐ Unsatisfactory ☐ Very difficult.

30. If the procedure is not satisfactory what aspects of the procedure do you feel disatisfied with? Please comment .....

31. Can you make suggestions for improving NIDB Procedures .....

32. What are your view about the officials of NIDB?
- ☐ very professional ☐ Unce-operative
- ☐ very Bureaucratic ☐ cooperative

33. Comment on your choice in question 32 above XXXXXXXX .....

.....

.../3

PART D (NIDB Management Questionnaire)

34. How many projects are initiated by the bank from 1979 to 1987 .....

35. How many companies have applied for loans? .....

36. How many were successful .....

37. Has the bank sufficient funds to meet current by promoters.

Yes .....

No .....

38. Do you think the present economic recession is having any effect on the bank as regards financing businesses?

Yes .....

No .....

39. What is the attitude of beneficiaries as regard payments?

Good _____

Fair _____

Poor _____

40. What future prospect do you forsee for business in this state? .....

41. What are the problems (if any) is your bank facing in financing business ventures.

42. Are there failures in the businesses you 've financed?

Yes .....

No .....

43. If yes, what do you think are the reasons for the failures Managerial .....

Finance .....

Politics .....

44. In your opinion what is the solution to these failures.

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