CREDIT FACILITIES IN THE FINANCIAL INSTITUTIONS FOR FINANCING CONSTRUCTION PROJECTS IN NIGERIA

By

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A thesis submitted to the postgraduate school, Ahmadu Bello University, Zaria, in partial fulfillment of the requirements for the award of the degree of Master of Science in Construction Management in the Department of Building, Faculty of Environmental Design, Ahmadu Bello University, Zaria Nigeria.

AUGUST, 2004

DECLARATION

I hereby declare that this thesis was prepared by me. That it is a record of my own research. It has not been presented in any previous application for a higher degree.

All quotations are indicated and the sources of information are specifically acknowledged by means of reference.

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ANOSIKE N. M

AUGUST, 2004

CERTIFICATION

This Thesis entitled " **Credit Facilities In The Financial Institutions For Financing Construction Projects In Nigeria"** by ANOSIKE Michael Nwabueze meets the regulations governing the award of the degree of Master of Science in Construction Management of Ahmadu Bello University, Zaria, and is approved for its contribution to knowledge and literary presentation.

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…………..…………………... Dean Postgraduate School	**Date:….……………………….**

DEDICATION

To all the poor and less privileged today

in

search of emancipation tomorrow

I dedicate this work.

ACKNOWLEDGMENT

"For every house is builded by some man; but he that built all things is God" Hebrews Chapter 3 verse 4.

I appreciate the contributions of my supervisors Prof. T. Mosaku and Mr. Kehinde Joseph who took time and patience to guide me throughout the period of this study. Also remembered is Dr. Mbamali I. who showed particular interest for my success throughout this period.

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Lastly, I will be a proud MASTER Builder only when others (students, firms, contractors, financial institutions, researchers agencies etc) find this work useful in their quest for education, knowledge and nation building.

ABSTRACT

Sometimes construction contractors had to seek external means of raising fund to progress work. Thus, the need for this study titled "**Credit Facilities In The Financial Institutions For Financing Construction Projects In Nigeria.**" The study aims at articulating existing credit facilities, their procurement, disbursement and utilization.

In the field study, two sets of questionnaires were administered to30 and 37 construction contractors and financial institutions respectively in some locations. 26 and 37 of these were answered correctly and returned. Their responses were collated. Descriptive analysis was used to analyze the data obtained and presented in bar charts, histograms, graphs and tables.

The result revealed that, credit facilities are provided by financial institutions for the construction industry. These credit facilities are:- Short-term (0-1 year) – LPO financing, factoring, treasury bills, which can be used to finance working capital; Medium-term credits (2-10 years) - Leases, hire purchases, are used to acquire plants & equipment, properties; Long-term credit facilities (above 10 years)-shares, stocks, bonds, are used for capitalization and as collaterals.

In conclusion, the study revealed that financial institutions brand the construction industry sector as 'high risk" as such strict conditions and high interest charges are used to discourage borrowers. Lack of accurate records of transactions and good management militate against contractors securing these facilities.

It is therefore recommended that, contractors should keep accurate records and ensure good management to enable them secure these facilities. The services of investment consultants will also assist

contractors know the types, when, where and how to source the best credit facilities from the array of options available.

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CHAPTER ONE

1.0. **INTRODUCTION**

Any large construction project involves huge capital flow (materials, machines, manpower, management, finance) from inception to completion and handover. A shortfall in capital within the construction process affects the overall timing and cost of the project, which, further affects the contractors' profit.

Resources for construction projects should be adequately planned and scheduled to avoid failure. Though the contractor is aware of the limited resources available to him to mobilize and carry on with the job, he most times relies entirely on the stage payments made by client to keep the work going. Ideally, the legality of a contract is that the clients' financial payments obligations to the contractor must be met soon as it is due to enable the contractor proceed with the works diligently and regularly. Often time clients' contract obligation of regular payments are not met at the right time, a practical example is the Federal Housing Authority housing project started in 1997 at Gwarimpa, Abuja, yet to be completed to date. This has adverse effect on the contract. Contractors thus need alternative means of sourcing capital for carrying out their construction works. Baker (1987) identified the means available to the contractor for sourcing finance as internal and external.

Internal sources are: Owners' capital, company equity capital and, retained earnings. External sources are usually debts (borrowed capital) from financial institutions or otherwise.

Since capital is a scarce resource, the question now is, are these alternative means of financing readily available to the contractors? If Yes, how and if NO, why? This research is therefore investigating the various credit facilities suitable for financing construction projects in Nigeria provided to the contractors by financial institutions. The alternative credit facilities are required to assist contractors in their asset acquisition drive, expansion purposes, and to progress work on site regularly, to purchase land, materials, hire or purchase plants and equipment, pay labour and still have enough for overheads, and cash at hand.

1.1 The need for the study

In economic terms and according to Degarmo et al (1973) capital is a scarce resource yet paramount in running all types of business. Construction projects are capital intensive and yield no return on investment until the product is finished and accessed Sepulveda et al (1984). Projects fail due to some of the following reasons on the part of the contractor:

i. Lack of Capital:- The contractor relies entirely on clients' payment to buy materials, hire or purchase plant and equipment etc and eventually the client delays in payment and or did not release enough to the contractor at the right time.

ii. Lack of financial analysis:- Contractor did not prepare a cash flow budget before accepting to commence work.

iii. Lack of project feasibility studies and planning before embarking on the job

iv. Poor financial management:- Because there is no financial analysis and cost planning, the contractor did not allocate funds adequately for each work operation along the critical path.

v. Fund diversion: Sometimes the contractor diverts the huge sum paid to him for the works to other private investment or engage in ostentatious living at the expense of the project

From inception to the project completion, capital is required on regular basis failure to provide it as and when due leads to delays and an increase in cost of capital. And if this is not properly addressed will eventually lead to dispute, abandonment and sometimes-outright termination of contract. Rather than making profit the contractor is frustrated and liquidated. Construction projects constitute major part of parameters used by the government to measure the country's Gross National Product and Development, Adeifeosemeikhian (1998). This is substantiated by the billions of Naira being invested in the construction of houses such as that located at Gwarimpa, Abuja; Legislative Quarters, Abuja; the Liquefied Natural Gas Projects (LNG) and various Refineries, Government Secretariats, Roads and Highways among others. These projects help towards the development of the country as well as offer mass employment to thousands of skilled and unskilled Nigerians.

The study will assist contractors know where and how to raise funds for their various purposes rather than relying solely on clients' mobilization/advance fee and stage payment.

1.2. **Aim and objectives of the study**

The study aims at articulating existing credit facilities, their method of procurement, disbursement and management for effective financing of construction projects. This shall be pursued through the following objectives:-

a. to appraise the financial opportunities provided by financial institutions to all the economic sectors in Nigeria.

b. to identify types of credit facilities in the financial institutions that are beneficial to the construction industry in Nigeria.

c. to investigate how contractors can procure these credit facilities.

d. to identify factors that affect accessibility of these credit facilities by contractors.

e. to use these results obtained to make suggestions and recommendations as appropriate.

1.3. Methodology

Data collection: Data was collected using the following two methods.

1. **Secondary data** - Literature review of texts, journals, magazines
2. **Primary data** - The use of questionnaire, oral interview,

personal interactions. Two types of questionnaire were drafted. One for the contractors, the other for the financial institutions. The contractors were categorized based on their area of operation viz:

1 Building contractors denoted as category (A)

2 Building and Civil Engineering Contractors as (B)

3 Maintenance contractors as (C)

4 Specialist subcontractors as (D)

5 Merchants (suppliers) as (E)

Various financial institutions were identified based on their services thus:

The Central Bank of Nigeria (CBN), the Commercial banks, the Merchant Banks, Capital Market (Stock Exchange), Insurance companies, Specialized banks (NIDB, NACB, NBCI, FSB, FMBN), Finance companies, Micro-credit institutions

(Peoples Bank, NERFUND, FEAP). Co-operative and Thrift Societies, International Financial Institutions (IBRD, ADB, UNDP).

Information collected from the contractors include among others -age of company, number of jobs handled, company staff profile, sources of funds and other credit facilities, contract sum, adequacy of grants, interest rate on grants etc.

There were a total of forty-six (46) general and specific questions in the contractors' questionnaire for all categories. Each category identified their questions and responded to them appropriately. Six contractors were selected for each category.

Information collected from the financial institutions include part of those from the contractors as well as their area of operation, hindrances, credit facilities available, interest on capital grants, disbursement of grants, monitor and control, period of grants, problems of the institutions etc.

A total of thirty, (30) contractors were selected and studied in three (3) states namely Lagos, Kaduna and Abuja. Two each of the contractors selected from each category are from each of these three states.

The second set of questionnaire was administered to the financial institutions named earlier. In all, a total of thirty-one (31) financial institutions were identified either with or without visible competitors. Thirty-seven (37) questions were raised in their questionnaire to cover all the identified financial institutions. The institutions responded to both general and specific questions. Two (2) each of these similar institutions were selected whereas those without competitors represented themselves. The questionnaire was distributed in the three states earlier named.

3. Utilization of field data: Of the total questionnaire distributed to contractors and financial institutions, 87% of the questionnaire was answered and returned. The data provided were collated and analyzed. The analytical tools used to measure central tendency are:- Graphs, averages, mean and percentages. Frequency distributions, ranges, were used to measure degree of dispersion. Arithmetic computations were also used. Observations and inferences were drawn based on raw data analyzed using these tools. Finally, conclusions and recommendations were drawn.

1.4. **Scope and Limitations:**

The research is restricted to major financial institutions with sound financial background and solid asset base as approved by the institution's regulatory body operating in Nigeria. Some international financial institutions with such facilities are included in the study. Construction projects are capital intensive thus financial institutions used in the study are regarded as being capable of providing the required facilities on short-term, medium-term and long-term basis without threat of liquidation. There are many of the financial institutions, few were selected as being representative. In this research, only two each of similar financial institutions identified are selected for the study. Furthermore, only credit facilities designed and granted to contractors in the construction industry are relevant to the study. Contractors referred to throughout the study include main-contractors and sub-contractors. The construction contracting business includes both civil engineering and building construction. However, more reference is made to building construction contractors and suppliers in this study.

CHAPTER TWO

2.0 THE CONSTRUCTION INDUSTRY IN PRACTICE

2.1 Characteristics of the construction industry

Arah (1998) identified the following as characteristic of the construction industry :

1 **Size of the industry**:- The construction industry of any economy represents a large portion of that economy in terms of the value that it adds to the economy compared to the other sectors. As a result, any change in the output of the construction industry directly or indirectly affects the size of the Gross National Product (GNP)

2 **Nature of its products (Investment Goods):-** The construction industry provides about half of a country's fixed investment. The products of the construction industry are physically identifiable finished goods. A fall therefore in the output of the construction industry products will result in a fall in the total investment in the economy.

3 **Government patronage of the industry:-** A large proportion of construction outputs are purchased by government. Jagboro (1995). As a result, government is usually able to adjust its level of expenditure thereby influencing the pace of the economy.

2.2 Importance of the construction industry

The construction industry is of strategic importance to national planning and development. It accounts for about 60% of the Nation's Gross National Products (GNP), Arah (1998). According to Jagboro (1995) as a result of the relationship between the construction industry and the economy the industry is responsive to *the economic situation in the country and the economic policies of the government. Therefore, credit related matters in the construction industry should be taken very seriously.*

2.3 Formation of a business

According to Tomi (1998) any worthy entrepreneur knows that law and legalities are essential in concretizing business formation. Business can be formed either through Business Name Registration or Registered Company. In business name registration, the liability of the business is the personal liability of the proprietor. A business name registration protects only the name of the business. For a registered company, the business itself is registered as a legal entity or personality different and distinct from its members or owners. Construction contractors wishing to do construction and related business must be duly registered before operation.

According to Edodo - Emore (1996), it may be difficult if not impossible for an enterprise to be granted loans facilities by banks if the articles of association or memorandum does not provide for borrowing powers.

2.4 Participants in the construction industry

The construction industry is full of activities. The construction team as explained by the Aqua Group (1982) involves different kind of people - literate, semi literate, and illiterate; skilled and unskilled workers, and then the construction professionals. All these participants collectively form a major construction resource as shown in Table 2.1.

Table 2.1 Participants in the construction industry

PARTICIPANTS	CHARACTERISTICS	RESPONSIBILITIES
Client	Individuals, Government, Corporate organisations, NGOs.	Project owner. Must finance the project from inception to handover
Consultants	Professional Builders, Engineers, Surveyors, Architects	Performs specific professional duties for the client. Ensures that client pay contractor as at when due.
Contractor	Main-contractor or Sub-contractor operating as: - Building contractor - Building & Civil Engineering -Civil Engineering Contractor - Maintenance Contractor - Specialist Contractor - Building Materials Merchant	Realises the dream of the client. Ensures that resources made available by the client are properly utilized to achieve his dreams using skilled and unskilled workers and labourers.

Source: The Aqua Group: Tenders and Contracts for Building

2.5. Job procurement procedure

1. **Pre-qualification of contractors:** Part of the 1991 National construction policy is to award contracts to contractors on competitive bids. In Nigeria, contractors are expected to fulfill certain conditions before they qualify to tender for any project. It is after the tender is won that the contractor can source for credit facility to execute the works. These conditions according to the Aqua Group (1982) and Ayeni (1987) include the followings: Certificate of business incorporation, registration of contractor in the Federal, State and or Local Government, parastatals, private and or corporate organizations, Value-Added-Tax (VAT) registration certificate, recent three-year tax clearance certificate, Tender bond, Performance bond, and list of jobs executed in recent year(s)

These requirements are necessary for assessment of contractor's ability to execute the works by the client, consultants and even the financial institution that the contractor may later approach for credit facilities.

2. Contract award: - The analysis of each tender item is carried out and tabulated by the Quantity Surveyor before recommending the successful contractor. The contract bills, drawings and documents are signed and exchanged under seal. The method of payment for works done by contractors is usually stated in the contract. This is either by periodic assessment or stage of work method or any other method that may be agreed by both parties. The contractor now not relying fully on this agreed method of payment commences work regularly on site through internally and or externally generated credit facilities.

2.6 **Problems of the construction industry**

According to Husseini (1991), the few indigenous construction firms available have no access to funds for financing construction projects.

The introduction of information technology to resolve complex construction designs and analysis has led to the growth of transnational businesses such that, operators in the industry must source for extra funds to equip their high-tech units.

Another problem of the construction industry is delayed payments especially by government clients. Payment certificates are deliberately not honoured when due thereby disregarding the contract payment arrangement in the contract *agreement. The effects of this delayed payments are numerous and include: increased cost of borrowed capital, staff redundancy, extended completion date, spoilage of materials, wastages and pilfering due to prolonged abandonment, inflation, litigations, etc. The case of the Federal Housing Authority housing projects started in 1994 and 1997 respectively and not completed in 2002 are typical examples of government flagrant disrespect to contract payment arrangements apart from other reasons affecting their completion. As a result of all these, contractors are forced to source for funds to progress work pending clients payment.*

Capital sourcing is difficult as contractors may or may not know where and how to source for these credit facilities. A good financial system in the country capable of satisfying the yawning of the construction sector of the economy cannot therefore be over-emphasized.

CHAPTER THREE

3.0 SYSTEMS OF FINANCING BUSINESSES

3.1 Background

With the march of civilization, society grew more complex and the need arose for a universal means of exchange. Money then emerged. Money is therefore that common denominator which links all transaction in an economy, Anyanwuocha et al (1999). It has to do with buying, selling, borrowing, lending, savings and investments all of which together affect the size of production and consumption and consequently the overall well being. The financial system is a complex network that includes payments mechanism and the borrowing as well as lending of funds. The composition of a financial system incorporates financial instruments, financial markets and the institutions and organs, which operate within the system. The most visible and readily identifiable by the public is the financial institutions. Financial institutions, being intermediaries accepting and lending funds from depositors to borrowers.

3.2 Evaluating the financial system

The financial system according to Olashore (1988) is the artery of any nation's economy. To achieve the objective of economic independence the system must be efficient. He said that, the efficiency is measured through the responsiveness to the needs for finance and funding of development projects.

The problems of the Nigerian financial system as observed by Olashore (1988) include - poor banking habit (for both the customers and staff), the level of development of the country, conflicting and sometimes inconsistent regulations, and lack of reconciliation between institutions objectives and government objectives. The alien nature of the stock exchange market to the majority of Nigerians is another major problem.

3.3 **Financial regulations**

Banking regulations in Nigeria commenced with the establishment of the Central Bank of Nigeria (CBN) in 1959 to remove bank failures and loss of depositor's funds. The regulatory power of the Central Bank over the banking system in Nigeria derive essentially from the Central Bank of Nigeria Act 1958, Banking Decree Amendment 1969, Monetary Policy Circulars, the Bankers Tariff and the Central Bank of Nigeria Act 1959.

The powers of the Central Bank of Nigeria among others are:-

The prescription of various minimum reserve requirements such as, cash reserves specified liquid assets, special deposits and stabilization securities. That loan request exceeding 33.3 per cent of total paid-up capital and reserves of banks must require a prior approval of the Central Bank of Nigeria before they can be considered for approval by the bank.

Also the powers specify the minimum ratio of total advances, discounts, etc that must be granted to indigenous persons by each bank, and empowers the Central Bank to manipulate bank credit to the economy generally. It also stipulates capital-deposit and capital-loan ratios.

The monetary circular stipulates numerical targets of permissible credit to the various sectors/sub-sectors of the economy with penalties prescribed for infringement of the provisions.

Securities markets are regulated by both the Federal and State Government as well as by self-regulation. Regulations according to Ibru (1998) provide investors with reliable informations. The Securities and Exchange Commission is a federal agency that regulates both the primary and secondary market to publicly trade corporate securities through the securities Acts 1933, and the Securities Exchange Acts, 1934. The states regulate the sale of securities within their boundaries (Blue Sky Laws).

The Nigerian Stock Exchange (NSE) is the National Exchange where capital stocks bonds and shares are traded. All these are meant control the financial institutions and markets.

3.4 **Parties involved in the credit facilities**

According to Olashore (1988), parties involved in the lending activities of financial institutions are : -The Savers, The Borrowers, The Government, The Lending Officers and The Financial Institution itself. A combination of their various interests helps to design or establish a good financial system.

The saver is interested in the security of his saving and the rate of return there from; the borrower is interested in the amount available to him at the lowest possible cost (interest charge); the Government is interested in the financial stability of the state. The lending institutions has regulations and procedures to be observed, all aimed at maximizing the profit objective of the institution, without flouting the law. The lending officer is interested in minimizing the risk involved.

3.5 Lending considerations by financial institutions

Olashore (1988) identified certain factors as the reasons for the inability of financial institutions to satisfy all the credit needs of borrowers. These factors include:

a. **Personal limitation of the lender/bank** - A good lender / bank must be able to interpret the financial data of borrowing customers in determining the solvency and ability of such customer to service any facilities granted. He must be reasonably up-to-date about the political and economic developments that are likely to affect the business of the borrower. He must also develop a high level of interest in the business affairs of the borrowing customers. A lender/bank must be upright, fearless & dynamic. His personal/social relationships must not becloud his judgment. Olashore (1988), pointed out that, the lender/bank's judgment must be based on well-examined premises which are established from facts about the borrower's business, the personalities behind it and the current and projected economic and political environment.

b. Limitations imposed by the institution - Efficiently managed banks do prescribe priority sectors for their officers, Olashore (1988). These are necessary for the achievement of the bank's overall objective and complaints with banking regulations and established practices. The financial capacity of the bank could also limit the bank's lending ability. The mere existence of unlimited profitable and viable borrowing proposals should not tempt the lender /bank to ignore the general laid down lending procedure and control system.

c **Limitations created by borrowers** - Lending proposals not backed with financial data. Sometimes, borrowers submit deliberately falsified financial data to satisfy the lending officer to grant loan. According to Olashore (1988), defective proposals from highly placed persons in the society are sent and approved by lending officers because of other non-banking considerations called "Policy Advances'. Also, he said that, sudden changes in taste or fashion or a political situation could turn a good proposal to "bad risk".

Thus in making a good selection of credit risk, a lender/bank must exhibit competence in appraising the proposal and the records of the business that may likely affect the future prosperity of the business.

d **Limitations of law** - Banks rely essentially on other people's funds in financing their credit portfolio. To safeguard the interest of the third party who keeps money with the bank, and regulate the economy, government prescribes specific laws, and regulations intended to control the lending activities of the banks. Such laws include among others; the limit of what he can lend to one person within the context of section 13(A) of the Banking Decree, Olashore further remarked.

3.6 *Securing bank grants/loans*

Providing loan or overdraft is one of the primary duties of banks. However, banks are under regulatory authorities that determine the nature and amount of loan to be given to the public. If your application does not fall under the ambit of *the regulation, you may not likely be granted. Whenever you submit an application for loan, the bank analyses your request to ensure that they do not offer credit to a potential bad debtors. The analysis may prove a business you thought is viable to be unviable. They are not turning it down because they don't want to do business with you but because it may not be successful after all. And if it is unsuccessful both parties looses and that is what banks try to avoid, Abeng (1997) informed. A loan is necessary if you want to buy a fixed asset. As a term loan, it will be easy to administer and the repayment period can either be monthly or installmentally arranged depending on the bank.*

Factors to consider when applying for bank loans according to Olashore are further listed and explained below thus:-

Borrower and lenders wants – The borrower wants to know the specific characteristics of the loan (compensating balances, protection covenants, flexibility in withdrawing funds, repayment schedules and the effective interest rate). The lender (banks) is concerned with the borrowers' ability to repay interest plus the amount, purpose and timing of the loan.

The type of information to submit – the borrower should submit a loan application package. According to Madu (1997), a well-packaged financing request has more than 50% chance of getting approval if you had provided even more than the required information needed. The type of facility being sort will determine the kind of information to be provided. Most common information required by the lender are summarized by Abeng, Madu, and Olashore to include among others:-

i) Evidence of business registration with the relevant bodies/Authorities

ii) A write up on the company's line of business, the amount required and the purpose for the advanced/loan.

iii) Historical information about the borrower

iv) Profile on board of directors and management of the company

v) Recent audited financial statement of the company

vi) Information on the issuing bank with name and address

vii) A covering letter describing the purpose, amount and timing (for banks evaluation) e.g. recent financial statement, past records of the firms borrowings

viii) Collateral security for proposed lending

ix) Banking relationship

x) Capacity to execute the project within stipulated delivery period

xi) Whether the project is covered by appropriate clauses and indemnity to avoid revocation

xii) The financial viability of the contract (profitability)

xiii) Whether adequate insurance cover had been provided

xiv) Whether appropriate control regulations and statute laws and legislation are not violated or not being violated in the cause of the execution of the contract among others.

Madu (1997) stated that collateral is the least requirement because the bank is not a property agent and not interested in auctioning peoples property. Your ability to pay back is the most important factor, Ejike (1999) concluded.

3.7 The Financial Institutions

According to Olashore (1988), financial institutions are those created to pool the savings of millions of economic units whose desire for individual investment outlets are many and varied but rarely coincidental with the demand for funds in amounts of risk. An important facet of any financial system is traceable directly to the existence of some economic units in the society that have an excess of funds over their need for them. At the same time, there are economic units that have need for more funds than they possess. Financial institutions channel these funds to those requiring more funds than they have [business firms, contractors] whose needs are likewise varied but also rarely coincidental or identical in amount with the supply of funds. The institutions are conduit through which scattered savings of the masses of the society are first aggregated and then disaggregated among many business firms, individuals and government units. They bridge the gaps of saving and investing. The financial institutions include the Central Bank of any country, financial markets, financial intermediaries, discount houses, investment bankers.

3.7.1 **The financial market**

According to Baker (1987), a financial market is the medium through which financial assets are bought, sold or exchanged.

Maness (1988) defines "financial market" as mechanism by which savings in one sector of the economy flows to another sector of the economy. He further said that financial markets exist to aid corporations in raising money for the acquisition of productive assets by tapping into the savings of the household sector. Most companies are unable to meet all their funding needs internally by *retained earnings. Consequently these firms seek outside financing by selling securities (bonds, common stocks) and obtaining loans from banks. Baker (1987) pointed out that, financial assets are money, debt securities and equity securities.*

The issuers of debt securities agrees to pay the lender a specified amount of money at a future date, whereas the issuer of equity securities is selling ownership in the corporation. Debt and equity securities are financial assets from the investor's viewpoint, but are claims on assets from the issuing firms perspective as illustrated in figure 3.1

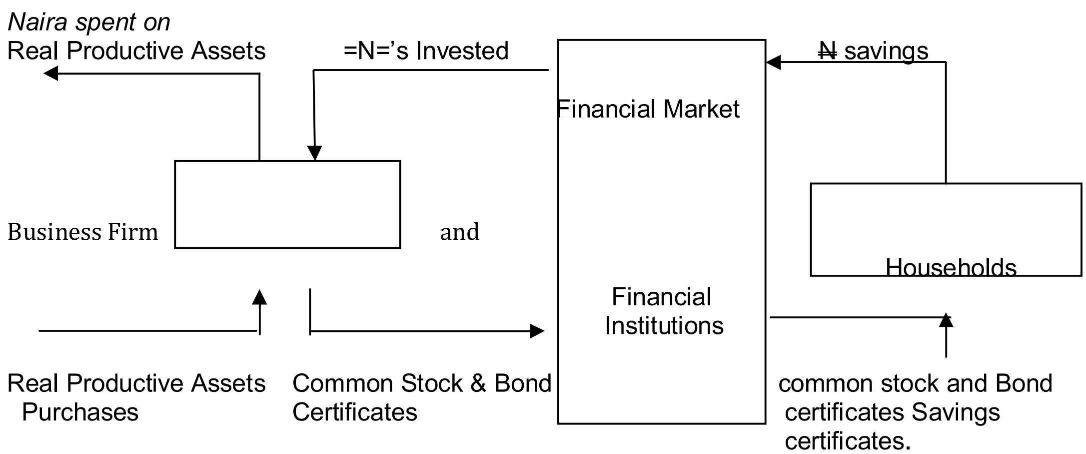


Figure 3.1 The Flow of Funds Through a Financial Market

Source: Maness S.T. (1988) introduction to corporate financing

1 Functions of financial markets

According to Simons (1986) the functions of the financial markets

Include;-

a. To finance asset growth - plant and equipment are purchased, Securities are exchanged for money to buy more capital assets.

b. To provide a resale market - Financial markets enable purchasers of financial assets to sell or exchange these assets at will.

c. To test the value of financial assets - Enables firms desiring to sell securities to set prices by examining the market pricing of similar securities.

3.7.2 **Discount House:** This is an institution that purchases securities, for example, promissory notes and resells them or hold them until maturity. They can form a discount market with common goal of buying and selling securities from the government and private sector with borrowed money supplemented by their own capital Oni (1999).

An example of discounting can be seen where the pledging of accounts receivable i.e. sums owned by debtors are used as collateral security against a loan. For example If total debts owned contractor (A) is N1m, he takes it to a discount house (B) as a collateral security against a loan of N1m. After assessment. (B) may grant (A) a loan of 1 million Naira less No. 30m i .e No. 70m. No.30m is the discounted amount which is (B's) profit or return on investment. Construction contractors with good record of accounts receivable can utilize this means to source for credit facilities from discount houses.

3.7.3 **Investment Bankers**

These are banks or issuing houses (financial intermediaries) which purchased new issues (shares, securities, etc) and place them in smaller units for sell among investors Olashore (1988). For example, a bank (A) buys all the new issues declared by an investor wishing to expand, then, he breaks them into units to sell to other investors.

Construction contractors wishing to expand their business can approach investment banks for such service. It is also a means of sourcing credit facilities.

3.9 Interest rates on loans

Interest rates on loans represent the price paid by 'borrowers' to compensate 'lenders' of funds, Olashore (1988). Borrowers and lenders come together in the financial market place, and the subsequent demand and supply of funds determine the general level of interest rates. According to Jagboro (1995), investments are encouraged where the prospective net return is higher than the interest on the money being borrowed, and that high rate of interest tends to restrict development and low rate of interest tends to encourage development. Jabgoro further highlighted that most construction projects take relatively long time to execute, an unpredictable inflation rate also makes any venture extremely risky to conceptualize, plan, execute and complete. This follows that to encourage National development , interest rate charged on borrowed fund should be reduced from the present high rate of almost 30%.

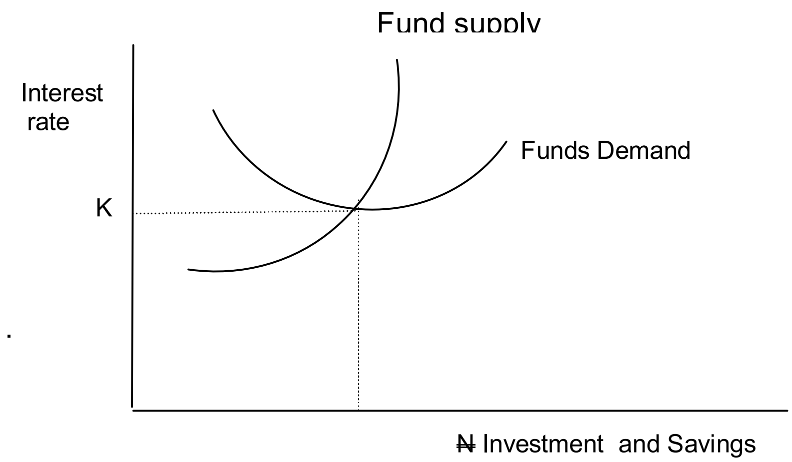


Figure 3.2 **Interest Rate Structure on Supply & Demand**

Source: Maness T.S-Introduction to corporate finance

According to Maness (1988), the level of interest (k) is determined by the interactions between demand and supply, (see fig 3.2.) The demand for funds is related to the level of real investment in the economy. The supply of funds is *related to the level of savings in the economy. The higher the interest rate, the higher the savings and the lower the level of investment funds demanded by firms for investment in real assets. The lower the interest rate, the less people are willing to save and the greater the level of investment funds demanded. The real rate of interest is that which balance the supply and the demand for funds in the absence of expected inflation. This has never been observed in any economy because there has always been some expectation of inflation. However, Maness incorporated the expectation for inflation in the formulae given below as:-*

$$\text{Nominal rate of interest} = \text{Real rate of interest} + \text{expected rate of inflation} + \text{default risk of maturity premiums} \quad \ldots\ldots\ldots\ldots 3.\ 1$$

According to him, if investors expect the rate of inflation to increase in the future, they will demand a higher interest rate to compensate for the expected loss of purchasing power. Investors will likewise demand a higher interest rate for riskier investment. This follows that for any lender to remain in business they must abide by this interactive forces of demand and supply to determine interest rate charges on every investment.

1. **Structure of interest rates:** The structure of interest rates as pointed out by Maness is that, it is the relationship between interest rates of securities with the same risk but with different maturities. Fig. 3.3 shows the structure of short-term interest rates relative to long-term interest rates

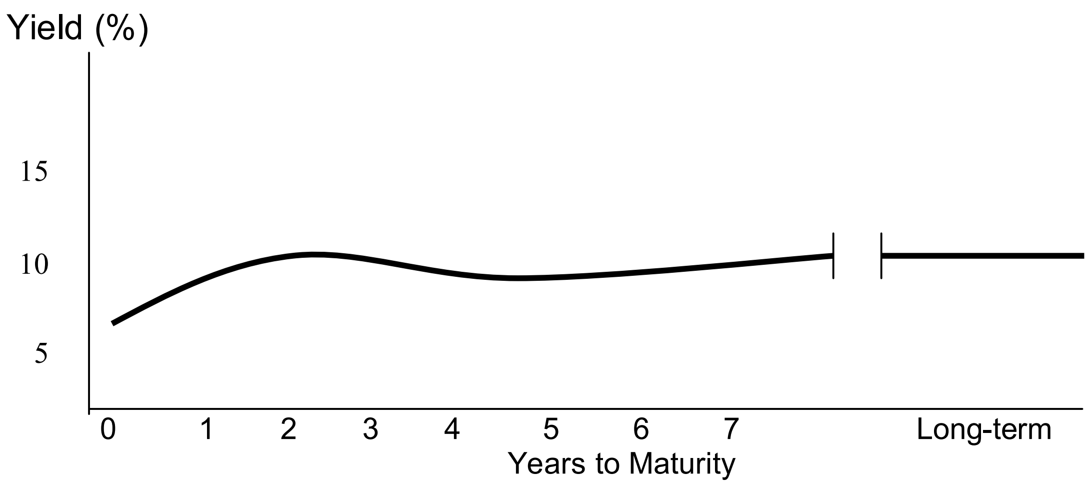


Figure 3.3 Term Structure Graph (Yield and Curve)

Source: Maness FS Introduction to corporate finance

Table 3.1 YIELD OF SECURITIES

SECURITY	YIELD (%)
3 Month Treasury Bill (T-Bill)	7.14
6 Month T-Bill	7.30
1 year T-Bill	7.49
5 year Security	9.76
Long – Term Treasury Security	10.68

Sources:- Maness T.S. Introduction to Corporate Finance

A yield curve is constructed by plotting the relationship of yield to maturity for several debt instruments of the same risk class but for varying maturities. e.g. A yield curve (Fig 3.3) for the government treasury bill. Explaining further, Maness (1988) said that the interest rate risk is the risk that a security price will charge as interest rates change. The longer the

time to maturity, the larger the maturity premium demanded to compensate investors for interest rate risk. Therefore it is normal for the yield curve to be upward sloping. This economic principle is known and adopted by financial institutions when assessing and approving loan application

2 The risk structure of interest rates

According to Baker (1987), the risk structure of interest rates is the relationship between interest rates of different risk classes of securities of the same general maturity. He pointed out that, the riskier the debt instrument, the higher the interest rate. Investors are willing to invest in risky securities only if they are rewarded with a higher expected return.

The implication is that, if operators perceive bond instrument as riskier than shares, they will place higher interest rate on them than on shares although all have the same maturity period. The investor earns higher interest on bonds as way of motivation.

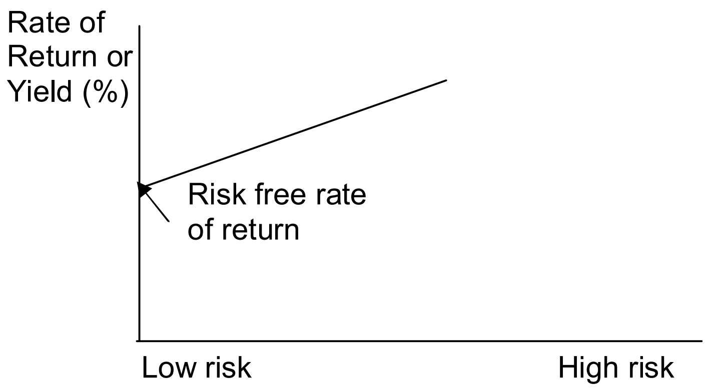


Figure 3.4 The general relationship between risk and return

Sources: **Maness T.S introduction to corporate finance**

3. **Calculation of interest charges on bank loans-** According to Maness, these are calculated thus –

a. **A simple interest loan** - interest is calculated on the principal amount or unpaid balance of the loan and is paid only with the principal at maturity. i.e

$$\text{Interest Expense} = \frac{\text{Interest rate x loan amount x loan maturity}}{\text{360 days}} \qquad \ldots\ldots\ldots\ldots 3.2$$

$$\text{Effective annual Interest rate on bank loans} = \frac{\text{Interest expense + Fees}}{\text{Usable funds}} \times \frac{\text{360 days}}{\text{loan maturity}} \times 100 \qquad \ldots\ldots\ldots\ldots 3.3$$

b. **A discounted loan** - The bank deducts the interest in advance and distributes the remaining amount of the loan to the borrower i.e N10million approved loan may have a face value of N9.5million released to the borrower and N 500.000 as interest deducted upfront from approved sum by the lender as rate of interest to a capital sum.

c **An Installment Loan** - The borrower makes equal payments at regular interval over the life of the loan. Each payment consists of both interest and principal. i.e.

$$\text{effective annual interest rate on an installment loan} = \frac{2mi}{(p)(n+i)} \times 100 \qquad \text{..........3.4}$$

where, m = no. of payments period per year
i = total interest expense on the loan
p = original principal of the loan
n = total no. of loan payment

CHAPTER FOUR

4.0 TYPES AND SOURCES OF CREDIT FACILITIES IN THE FINANCIAL INSTITUTIONS

Baker (1987) stated that financial markets can be differentiated by the characteristics of the type of financial security being traded. These are explained to include: -

4.1 Money Market and instruments- this is a market on which debt securities with an original maturity of one year or less are traded. It is a decentralized market. Participants in the money markets are financial institutions, governmental units and business firms, who wish to lend out money or borrow on a short term. It is a market for short-term loans and investment (Anyanwuocha (1999) .

Marketable securities according to Baker (1987) are of three segments viz:- Securities that can be converted into cash immediately say daily for unexpected cash needs (A1), Securities that are to be converted into cash on a particular day to match a predetermined disbursement for example, tax payments, payrolls, dividends payments, scheduled debt payments, etc. (A2) and Free marketable securities held primarily for speculative purposes and acting as a source of temporary excess funds (A3). Therefore, the total balance of marketable securities for a particular firm (A) can be expressed with the following equation: $A=A1+A2+A3$ ……………………4.1

Money market instruments are characterized by a high degree of safety and maturities.

Key money market instruments include, Treasury bills (T-Bills), certificates of deposit (CD), commercial paper (CP), Repurchase agreements (REPOs), etc.

Types Of Money Market Instruments

a Treasury Bills (T-Bills) :- These are short-term Federal Government debt securities that do not pay interest and are issued at a discount from their face value Oni (1999).

According to Ede (1999), the maturity periods of T-bills are 91 days, 182 days, 270 days and 360 days . Every week the government auctions billions of Naira worth of new T-bills. Once auctioned, T-bills can then be traded in a secondary market e.g. a firm purchasing a 91 day T-bill has the option of selling it at anytime or holding it till maturity. T-Bill does not pay interest.

Ede (1999) stated that the Central Bank survey on the open market operation (OMO) shows that private investors are being discouraged by banks and discount houses from putting their funds in TB's. Small holders are denied value for their deposits by banks and so the CBN now reduced its minimum investment to N1,000.00 (One thousand Naira only) to attract them. The T-Bills can be purchased through the banks, any designated discount houses and stock brokerage firms. T-Bills now attract as much as 19% of their investment instead of low rate 4% being paid by some banks on their savings.

However, Ede highlighted the advantages of investing in the CBN's T-Bills as that:-

i. The yield on NTB is competitive and market driven.
ii. You can invest in NTB for the duration of 91 days, 180 days and 360 days thereby giving you a range of choice.

iii. It is for both big and small investors.

.vi NTB can be discounted anytime before the maturity date and money returned when needed.

This follows that contractors who invest in T- bill can at anytime dispose it (in part or whole) in order to realize funds to finance her project.

b. Repurchase Agreements (Repo):- This is an investment in marketable securities with a simultaneous agreement by the seller of the securities to repurchase the securities at a later date. According to Baker (1987), a normal repo transaction is between a corporation and a bank - the corporation having excess funds available for a few days, while the bank need short term funds. The bank agrees to 'sell' T-bills to the corporation for a stipulated number of days, agreeing to repurchase the securities to yield the corporate firm an agreed upon yield. The normal market securities involved in a repurchase agreement transaction are T-bills. Most repo's represent one-day or overnight investments. Since T-bills mature weekly, a firm with cash can trade a repo overnight.

This may suggest that construction firms with excess funds can invest on repos only to dispose them in future for cash to fund her project.

c. **Negotiable certificate of deposit (CDs)** - These are debt securities issued by large commercial banks backed by deposits of funds, Sepulveda et al (1988). According to them, it is a marketable receipt for deposited balances in a bank for a specified period at a predetermined yield. Once the receipt is issued to the original depositor it can be traded in an active secondary market. At maturity, the bearer of the receipt (such as investing contractor) receives the deposit and accumulated interest. Maness (1988) pointed out that, interests on CDs accrue on a daily basis. It is secured by the funds deposited in the issuing bank to cover the maturity values of the receipt. He further remarked that the security is not very risky and that the only risk the investor bears is bank liquidity risk.

d **Commercial paper (CP)** - According to Sepulveda et al (1988), a CP is a short-term unsecured promissory note (debt securities) backed by the promise of the issuing corporation to redeem the note at maturity. It is sold on a discount basis. However, Baker (1987) remarked that, it is common practice for a corporation issuing commercial paper to have it secured by a bank line-of-credit. Sepulveda et al (1988) further informed that, commercial paper investment offers a slightly higher return than T-bills and bank certificate of deposit because the issuing corporations are viewed as somewhat riskier than larger banks offering CPs and also because the secondary market for CP is weak.

CPs can serve as a source of credit facility to a contractor as she can dispose it at any time for cash just like other instruments mentioned earlier.

e. **Bank Acceptance:-** Is a time draft drawn against a deposit in a commercial bank, but with payment at maturity guaranteed by the bank. The original time draft usually is a result of international transactions between importers and exporters. A “letter of credit” is a letter written by a commercial bank on behalf of the importer who guarantees payment of funds to an exporter. If the bank finds the importers credit standing satisfactory, it will issue the letter, authorizing the foreign exporter to draw a time draft upon it in payment for the goods. Equipped with this authorization, the exporter on shipping the goods can discount the time draft with the bank, thereby receiving payment immediately. The foreign bank then forwards the time draft along with the shipping documents, to its local correspondent bank (in Nigeria). The local correspondent bank will present the time draft for acceptance at the importers bank, which forwards the shipping documents to the importer, who now may claim the shipment. Once accepted by the importers bank, the time draft becomes a negotiable money market security until the maturity date of the time draft. Construction firms wishing to import materials and or equipment is not precluded from taking advantage of this arrangement (product).

Generally, this implies that, construction contractors can invest in money market instruments with their excess funds only to dispose them later when the need arises to finance their projects. Within the period of investment, the instruments yield dividends, which is also an additional source of funds to the contractor's investment.

4.2 **Capital markets and instruments** – Anyanwuocha (1999) defined the capital markets as, the market on which debt securities with an original maturity greater than one year are traded. Simons (1986) informed that capital markets are centralized and includes debt securities and equity securities. He identified debt security instruments used in the capital market for transactions as shares, development stocks, company bonds and government bonds.

Common stock and preferred stock according to him are common equity securities. Sepulveda et al (1988) pointed out that, these securities can be traded in three different market places - the National Exchanges, the Regional

Exchanges and over-the-counter markets. The Lagos stock exchange is an example of a National exchange. Regional stock exchanges such as Port-Harcourt stock exchange trade common stock issued by regional firms. These exchanges are physical locations where buyers and sellers meet to trade.

Okereke-Onyiuke (1999) pointed out that, the stock exchange market is used to raise long term funds used for development projects. According to her, given the level of technological advancement that has been attained, the Nigerian capital market is the right place to source for long-term investible funds.
Ibru (1998) called on the federal, state and local governments and corporate organizations, private Investors and businesses to utilize the numerous financial opportunities in the capital market and source for funds while also investing in it. Adeifeosemeikhian (1998) made similar call to construction contractors and property developers to source for long-term funds in the capital market. According to the CBN, the objectives for establishing the Nigeria capital market are among others: firstly, to provide long-term finance and promote a healthy stock market culture, using financial instruments such as equity, government stocks and company's bond and debentures. The capital market functions through the primary and secondary markets.

a. **Primary Markets** - These are markets, according to Baker (1987) where newly issued securities are bought and sold for the first time. Oni (1999) observed that investors in these new issues supply money (funds) to the firms, which issue the certificates. He said the investors receive the financial instrument certificates in exchange for Naira and the business firms issue the certificates and receive the money invested. The business sector then invests these funds in new assets enabling them to produce new products. In the primary markets, most new securities are sold in either a 'public offering' or 'private placement'.

b. **Secondary Markets** – Baker (1987) defined the secondary market as a market through which existing financial securities are traded. Olashore (1988) observe that corporations receive no money from the sale of securities to other investors, rather that the main purpose of the secondary market is to provide liquidity. That is, it provides an efficient mechanism for the trading of financial instruments. Simons (1986) disclosed that when investors desire to sell a security in their portfolio because they need cash or simply because they want to buy a different security, they can complete the transaction in matter of minutes by simply calling their broker. This disclosure is believed to be a reassurance to construction contractors who invest in securities. They can sell any or all their securities to realize cash at any time.

Secondary markets for corporate securities are either organized exchanges or over-the-counter (OTC) market, Ofiavwe (1999) disclosed. He also pointed out that, a firm must be listed on the exchange before its securities can be traded on the floor of the exchange, but they could be traded elsewhere if the company is not listed. Okereke-Onyike (1991) enumerated the requirements for listing on any of the stock exchange floors in Nigeria to include the firm's size, the number of shares outstanding, the diversity of ownership and financial performance of the prospective business firm irrespective of line of business. Securities are traded on the floor of the exchange by floor “brokers”.

According to Ofiavwe (1999), over-the-counter (OTC) markets are markets where securities that are not listed and traded on the organized exchanges are traded. He said they have no centralized trading facilities and do not operate auction markets. As part of reform measures, Olashore said the second-tier securities market (OMO) was established in April, 1985, to encourage small and medium-scale enterprises to avail themselves of the resources of the stock market by making listing requirements and conditions less stringent for this category of enterprises with a view to increasing the volume of securities in the market.

According to newspaper report of the Guardian August 16, 1999, the Securities and Exchange Commission (SEC) is the capital markets apex body charged with the responsibilities of effectively monitoring and controlling market operators in line with globally acceptable standards.

In conclusion Alile (1999) pointed out that, using the capital market to raise long-term funds can assist the government in complementing the internally generated revenue fund plus statutory allocations, which are generally inadequate.

From the foregoing, it is observed that the construction sector can benefit immensely from the capital market both as a means of investment and for raising capital for projects execution without necessarily relying solely on banks for credit facilities.

4.3 Joint- Venture Financing

This is a financing arrangement whereby contractors come together with common understanding to pull resources together to execute unique projects. One contractor would have lacked the capacity to execute the project.

There may be two or more contractors involved. Each contractor has an advantage over the other on one resource or the other. The understanding may be for them to come together to execute that particular project or for any project involving the utilization of huge resources such as: large and complex projects requiring high technical expertise, heavy equipment utilization, international partnership, huge financial involvement etc.

The pulling together of these resources by the contractors to execute a project which one contractor lacks the capacity to undertake is the joint-venture partnership financing method. This is the most recent means of financing construction projects that contractors can adopt to carry on with their business.

4.4 OTHER TYPES AND SOURCES OF CREDIT CLASSIFIED ACCORDING TO MATURITY PERIOD

1. Short-Term Credit Facilities

According to Degarmo et al (1973), short-term credit facilities refer to debts originally scheduled for repayment within one year. Used to finance a part or all of a firm's working capital requirements. Three sources of short-term financing *are identified by Degarmo et al (1973) and Simons (1986) and are discussed below :-*

Spontaneous Financing Sources

(a)Trade credit [Accounts payable] - According to Degarmo et al (1973), *trade credit is a source of financing generated by a company purchasing raw materials or supplies on a normal day-to-day operations from dealers and paying for them at a later date. A credit extended by business firms to other business firms.*

Through the sale of the product, the firm gains a resource that will eventually generate a cash inflow, enabling the spontaneously generated liability to be paid. Simons (1986) noted that the suppliers are not paid immediately on supply but at a later date. Manufacturers, retailers and wholesalers make more extensive use of trade credit than do service firms. He further remarked that trade credit is very beneficial to small firms because they often do not qualify for financing from other sources. Also that it, has the advantage of being available, convenient and extreme low cost. This transaction thrives between contraction contractors and materials suppliers/merchants.

Contractors can utilize this method to procure materials from suppliers who may be willing to be paid at later agreed date. Simon advised business firms to arrange their trade credits thus:

Open Account [Accounts payable] - In this arrangement, once a customer had been approved, the customer could make repeated purchases without applying for credit each time. When a purchaser (say a construction firm) orders the goods from the suppliers, the materials are sent with payment due at specified time (say 1 month or 6 months as the case may be) after receipt of invoice.

Cash Discount - Cash discount is an incentive defined by Simons to mean, the percentage that a purchaser is willing to deduct from the invoice amount if payment is made within a certain time period e.g. a 2/10, Net 45, Earliest other in the Month (EOM). This means that, "a 2% cash discount can be obtained if the payment is made in full within the first 10 days [cash discount period] from the end of the current month [starting date] otherwise, the net or full amount is due 45 days [the credit period] from the end of the month". Cost of foregoing a cash discount is calculated thus,

$$\text{Cost of foregoing a Cash Discount} = \frac{\text{Discount (\%)}}{100\% - \text{discount (\%)}} \times \frac{360 \text{ days}}{\text{Credit period-Discount period}} \quad \text{...... .... 4.1}$$

The equation above assumes that payments are made on the last day of the credit period, and a 360-day-year. The cost of the trade credit decreases as the net credit period increases.

Cash discount is a source of credit to a contractor who may purchase materials with cash. The cash discounted on early payment can be used to further finance the project. However, Maness (1988) warned that stretching accounts payable may involve severe consequences and so should be avoided, remarking that if the buying firm stretches its accounts payable too often or for too long, suppliers may refuse to extend credit and may require the buyer to pay cash before delivery (CBD) or cash on Delivery (COD).

Trade Acceptances - The delivery of goods is not completed until the buyer accepts a draft drawn by the seller, Simons (1986) informed. He said the shipment of the goods is delayed until the buyer accepts the draft. Where the draft is accepted, it becomes a trade acceptance. If the firm's bank rather than the firm itself guarantees payment, the acceptance is a banker's acceptance. Maness (1988) defined positive float of the transaction as, the time period between receipt of the goods/services and the date on which cash payment is made. The longer the delay in payment, the better off the firm as long as payment is not delayed past the credit period.

He noted that if payment is not made within the prescribed credit period, suppliers often impose a penalty of 1 - 1½% per month until payment is made. In addition, when additional order is placed, by a delinquent purchaser the, order will not be honoured until balances are paid.

In general, according to Maness (1988) it is good to delay payment as long as possible but still satisfy the credit agreement. For example, suppose a firm purchased cement on open account with terms of net 30 days. Payment can be delayed until the thirtieth day. By so doing the firm has maximized the use of the credit granted by the supplier. According to Degarmo et al (1973) utilizing the resources provided by the credit arrangement, the firm [by keeping the funds invested in the corporation] can earn an opportunity value (i.e maximum benefit on investment). The disadvantages of delayed payment beyond the original credit terms among others include that:

The supplier is dissatisfied and rates the firm poorly. The delayed payment may incur penalty charges. If cash discount is offered and it is rejected, the firm has incurred an implicit penalty even if payment is made within the maximum credit period allowed. From the above, it is true that not taking a cash discount reduces the opportunity value of delayed payment. In delaying payments, the firm should also consider all implicit costs such as incurring a reputation for late payments. If a firm is consistently late paying its accounts, it may not find a supplier willing to sell to it.

b. **Accruals**

An accrual according to Maness (1988) is, an expense [current liabilities] for services received but for which complete payment or any payment had not been made. Examples are wages, taxes, rent and interest payable. This means that accruals are interest-free sources of financing. However, Degarmo et all remarked that firms can alter the amount of accrued wages by changing the frequency of wage payments e.g. to weekly instead of daily or monthly instead of bi-weekly, but they have less control over other accruals Maness (1988) identified two forms of accruals as:

(i) Accrued wages and salaries - This is a service performed by the firm's employees without an immediate payment for the services rendered. In delaying workers payments, a firm must recognize the reaction of its employees if it decides to change the frequency of wage/salary payments. The effects of changes in payment of accruals is determined thus -

a. Change in average accrued wages = Net average accrued wages - current average accrued wages …………………4.2

b. Savings by changing
the payroll period = opportunity cost x change in accrued wages 4.3

(ii) Accrued Taxes - According to Maness government provides financing to business firms because it requires payment for taxes quarterly. The fact that a firm is able to use these tax funds for a full three months constitutes a source of financing.

2. **Unsecured short-term sources**

An unsecured financing agreement according to Degarmo et al (1973) means that the financing obtained has no specific asset backing it up. They pointed out that if the borrowing firm declares bankruptcy, the lender becomes a general creditor of the borrower with no specific claim on an asset. This is why the stronger the firm's overall credit rating, the more likely it will borrow on an unsecured basis.

Lenders and borrowers prefer to do business on an unsecured basis. Though unsecured loans are more risky to lenders, Olashore (1988) remarked that it provides maximum flexibility to borrowers. He also informed that unsecured loans are less costly to administer than secured loans. The lender depends on the cash-generating ability of the firm to repay the debt, he further highlighted.

Forms of unsecured short-term sources

Line-of-credit - This is a borrowing arrangement for a specific time period, usually one year in which a bank places a ceiling on the total amount of credit that a bank stands ready to lend to a corporate client upon demand at anytime during a given year, Maness (1988). Stated that most banks require customers who use line-of-credit to “clean-up” any accounts for a period of a few weeks each year to demonstrate that the line is used for short-term purposes only. But that this does not legally commit a bank to make loan.

Interest charges, is based on outstanding average loan of the borrower to the bank. Sepulveda et al (1984) remarked that, banks usually require a compensating balance on the line-of-credit so that the firm does not have full use of the line. For example, if a bank required a compensating balance of 20%, then the firm (borrower) could only avail itself of 80% of the line-of-credit. That is, a cash balance, which a firm is required to leave at a bank as compensation for services rendered by the bank.

Most commercial banks provide this credit facility to borrowers who are usually their healthy customers.

A single loan [commercial paper] - This according to Degarmo et al (1973) is an unsecured promissory note sold by large corporations generally to other business firms and financial institutions. It is secured only by the promise of the corporation to satisfy its financial obligations. The borrower signs a promissory note, which specifies the terms and conditions of the loans; such as amount borrowed, the interest rate charges and the time of repayment. These promissory notes have maturities between 30 to 270 days and are repaid in a single payment. These loans may have a fixed-rate note until maturity or a floating rate note i.e. varying rate of interest.

Revolving credit agreement - This agreement, according to Degarmo et al

(1973) commits a bank to grant loans to applicants. It is a line-of-credit that a bank can extend for two or three years. That it is a guaranteed form of loan and requires a 0.5 - 1% commitment fee [fee charged by a bank on any funds not borrowed during the commitment period] and compensating balance.

Simons (1986) informed that revolving credit agreement reduces the riskiness of the credit agreement and increases the cost of the credit. He noted that the credit is revolving, in that, the firm can borrow the agreed upon amount, repay a portion, borrow again and repay, etc for the life of the agreement.

Financial intermediaries provide this type of credits to only selected borrowers who must have been keeping good records of transactions with them.

Bank overdraft: This according to Abeng (1997) is a facility allowing one to overdraw (go into the red) up to an agreed limit during a certain period at the end of which the limit will be renegotiated.

By illustration, he said, with a facility of say, N10, 000.00(Ten Thousand Naira Only) one can draw cheques until the balance falls to minus (-) N10,000.00 and the cheques will still be honoured. No interest is paid on an overdraft facility. Only the principal overdraft attracts interest charges. And this is calculated on a day-to-day basis and charged to the account each half year in arrears. The rate of overdraft interest is always genuine and is a few percent above base rate depending on the status of the borrower.

According to Madu (1997), the bank decides on issues of collateral or security on an overdraft. He said that the rate of interest on overdraft is higher for an unsecured loan. And that for a firm, a floating charge over its assets may be *required by the bank. For an individual, Madu said marketable securities, life policies, etc are acceptable collaterals. While a guarantee from someone to indemnify the bank may be used.*

An overdraft is a gentleman's agreement and even if a facility is granted for a year, the bank has the right to reduce it or cancel the overdraft, Abeng (1997) concluded. Overdrafts are used by the bank, to help finance a company's seasonal trade peak with high stock level the running down of the stocks to normal level will liquidate the overdraft he pointed out.

Construction contractors can secure this credit facility to enable them raise working capital pending payment of interim certificate.

3. **Secured short-term sources**

According to Maness (1988), secured short-term source of financing are the various types of negotiated loans available to investors based on specific types of collateral. Accounts receivable inventories are the most common source of collateral for this arrangement. Olashore (1988) stated that in these sources, the lender expects the loan to be repaid from the cash generating ability of the borrower. However, that, if the borrower defaults, the lender has the legal right to seize the collateral and sell it to pay off the loan.

Forms of secured short-term sources

a. Accounts receivables - Baker (1987) identified pledging receivables and factoring as common account receivables because of their liquidity.

Pledging Receivables - This is a loan secured by the use of accounts receivables as collaterals for short-term financing extended by the financial institutions, Baker (1987). A lender (commercial banks) makes a loan protected by a lien placed on a certain portion of the firm's receivables. There is no transfer of ownership with pledging. Pledging is costly and requires the firm to perform all credit and collection functions and to bear all credit risks. The process of pledging is identified by Maness as follows:-

- The selection of acceptable accounts
- The adjustment of the accepted accounts.
- Determining the advance
- Collecting the account

Factoring:- This is the business activity in which a company takes over the responsibility for the debts of another Abeng (1997). According to Maness (1988), factoring is the sale of account receivables to a financial institution (factor), which manages and collects the account so that funds can be received earlier than the normal credit period (Abeng 1997). He said that, there is a change of ownership of receivables with factoring. The "factor" he pointed out, is a firm, which participates as an original party to the sale of a product on credit, making the decision involving approval of the buyers credit worthiness. The seller of the product never becomes the creditor and is not held responsible for any bad debts. The factor in this capacity acts as a substitute for an internal credit department of the seller. The seller will then receive its money in a stated number of days after the ending of the credit period.

Although, Maness (1988), pointed out that factoring is the process in which a company sells on credit without establishing a credit department. And that it is not really a financial arrangement. The factor performs three functions - credit checking, lending and risk bearing. However, it may be possible that factoring can assist contractors to settle their immediate cash needs. The seller receives orders from buyers and sends them to the factoring company for a credit check. The seller informs the buyer to make payment directly to the factor who is responsible for the risk of collecting the accounts receivables. When payments are received, the factor deposits money into the firm's account either on specified payment dates or when payments are received. The factor may also make advances to the seller on uncollected accounts receivables. The maximum amount of the advance is the amount of the factored receivables less factoring commissions, interest expense and a reserve that the factor maintains to cover any returns or allowances by customers. The factor normally holds a reserve of 5% to 10% of the factored receivables. The full reserve is ultimately returned to the firm, provided its customers make no returns or adjustments.

If the seller needs its money earlier than the end of the credit period, the several receivables from many different customers can be pledged as a collateral for a short-term loan from the seller's commercial bank. Banks find it easier to evaluate the credit worthiness of a large factoring company than several individual customers. Some factors 'buy' receivables from companies for cash - in which the customers are notified to send payment to the factor instead of the selling company. Two major factoring costs are factoring commissions and interest on advances. Interest rate on factoring can be calculated using the formula:

$$\text{Effective annual interest rate on factoring receivables} = \frac{\text{Net annual cost}}{\text{Average Amount received}} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots 4.4$$

b. Inventory financing

According to Simons (1986), inventory represents a significant portion of a firm's total working capital. It represents a resource management, which has yet to release cash and will not until the item is sold and cash collected. All inventories are not desirable as collateral for loans. The desirability according to Maness (1988) depends:

a. on production stage of inventory e.g. raw materials or finished goods.

b. physical properties e.g. perishable or non-perishable, durable, etc

c. is it easily marketed/liquidated

d identifiability e.g. products like steel rods are considered as appropriate collateral.

Secured forms of credit financing are available from finance companies, merchant banks, and few commercial banks. Contractors may find them beneficial.

4.5 **Intermediate (Medium) term credit facilities**

According to Baker (1987) and Simon (1986) medium term credit facilities are financial obligations lasting from 2 -10 years. They pointed out that, business firms, to finance permanent working capital and to procure fixed assets.

Baker (1987) classified medium term facilities into three types viz: term loans, equipment finance loans and lease. This follows that construction firms can utilize medium term credit opportunities to finance their projects.

1. **Term- Loan Facilities**

This is a financial contract/business loan, which require the borrower to make periodic payments of interest, (the price paid by borrowers to compensate lenders of funds) and principal (actual amount borrowed) to the lender over a specified period of time, Baker (1987). And that it is a negotiation between the borrower and the lender. According to him, term lenders include commercial banks, insurance companies, commercial finance companies, pension funds, equipment suppliers, government agencies and ventures.

Managing term - loan credit facilities

The actual term of a term loan according to Simons (1986), depend upon the lender's assessment of the financial health and vitality of the potential borrower. The actual period to maturity he said is arrived at by negotiation and it is a function of:

- The financial characteristics of the borrower
- Purpose of the funds borrowed
- The type of lending institution making the loan.

Term-loan agreement according to Simons and Baker is managed using the following techniques;

(i) **Collateral**- This means some form of asset backing a loan, usually but not necessarily required by the lender. Whether the collateral is required depends on the lender's evaluation of the borrowers financial conditions. Collaterals include, current and fixed assets like mortgages on real estate.

(ii) **Covenants**- This is the process of making provisions in the loan agreement to ensure that the repayments of the loans are incorporated. Baker identified common covenants as affirmative, negative, restrictive and default provisions.

(iii) **Costs** - The installment payments remain level over the loans duration in a fixed interest rate. With a floating rate, a change in the interest rate alters the size of the installment payments or the length of the loan and hence the loan's amortization schedules. Interest rate on term loan according to Simons (1986) is generally higher than a short-term loan because it is riskier and less liquid.

(iii) **Repayment schedule**- According to Baker (1987) repayment schedule on term loans are usually amortized or paid off in equal installment over the life of the loan. He said each installment includes both interest and principal. And that balloon payments can also result whereby the loan is partially amortized, followed by a large lump sum payments at maturity. For example, the required annual payments of a term loan, given a 20% fixed rate term loan agreement of ₦100, 000.00 for 7 years can be determined as below :-

Solution:

Using the formula, $A = \frac{\text{amount of the loan}}{\text{PVIFA (in)}}$ ……………………….……..4.5

₦ 100, 000.00 (amount of the loan	=	annual payments x PVIFA (in) [20%, 7 years]
where PVIFA	=	present value, interest factor of an annuity at interest rate (i) and time period (n)
A	=	Annual payment
₦ 100, 000.00	=	annual payments x 3.6046 [value of

20% in 7 years]

= annual payments = ₦ 27, 742.33

Table 4.1 Term Loan Amortization Schedule

Time Period (t)	(1) Principal Outstanding (1) $_{t-1}$ - (4) $_t$	(2) Annual Payment	(3) Annual Interest 20% x (1) $_{t-1}$	(4) Annual Principal Payments (2) $_t$ - (3) $_t$
0	100,000.00	-	-	-
1	92,257.67	27,742.33	20,000.00	7,742.33
2	82,966.87	27,742.33	18,451.53	9,290.80
3	71,817.91	27,742.33	16,593.37	11,148.96
4	58,439.16	27,742.33	14,363.58	13,378.75
5	42,384.66	27,742.33	11,687.83	16,054.50
6	23,119.26	27,742.33	8,476.93	19,265.40
7	0.00	27,742.33	4.623.85	23,118.48

Source: Maness (1988) Introduction to Corporate Finance

Table 4.1 shows how the constant annual payment of ₦ 27,742.33 is composed of varying proportions of interest and principal payments over the life of the contract. The ₦100, 000.00 in column (1) at time (0) is the amount borrowed. The interest amount in column (3) is calculated by multiplying the annual interest rate of 20% by the previous periods outstanding principal. The annual principal payment in column (4) is then calculated by subtracting the annual interest expense payment from the annual loan payment, resulting in a reduction of principal of ₦ 7,742.33 or 27,742.33 – 20,000.00.

Methods used by lenders to control borrowers term-loan grants

For the purpose of protecting their loans, Baker (1986) stated that lenders place several restrictions on the borrower. Degarmo and Maness confirmed this assertion. According to them, the degree of severity of these restrictions depends upon the financial condition of the borrower. Such restrictions adopted by lenders upon borrowers include;

i) **Asset Control:** The lender they pointed out ensures that borrower maintains its asset base through the life of the loan. However, in case of default, when the collateral is insufficient to cover the loan, the lender becomes a general creditor of the borrower. Maness remarked that assets restrictions are aimed at ensuring that firms maintain at least certain minimum level. The control he said also enables a lender to restrict the borrower's purchases of additional fixed assets as well as its sale of existing fixed assets.

ii) **Liability Control:** Through liability control, financial institutions limit the amount of new debt the borrower can assume. Liability control, Baker said, restricts the amount of leasing agreement the borrower can enter into. Simons (1986), Baker(1987), Degarmo et al (1973) noted that the lender must approve any new debt before acquisition or entering into a new leasing agreement with the same borrower.

iii) **Cash Flow Control:** To ensure timely loan payments, various cash can be restricted by the term loan contract, Degarmo et al (1973). Such restrictions they said may be on dividend payments, salaries and bonuses to officers and the acquisition of new fixed assets.

iv) **Management Control:** Degarrmo et al (1973) further opined that, to ensure good management control, the lender ensures that the same management style and philosophy must be maintained by the borrower throughout the life of the loan agreement. Other measures include, that life assurance on key executives are required by lender from borrower. And also that, certain key executives may not leave the firm voluntarily. If at any time the provisions of the loan covenants are violated the lender has the right to call in the loan even though it has not reached its maturity date.

From the above measures, we can infer that financial institutions have a 'water-tight' means of monitoring the utilization of all funds /credits disbursed to borrowers. Consequent upon this, borrowers applications [if properly packaged] should always be granted since these above measures are adopted to control utilization.

2 Equipment financing loans

This is a medium term loan used to finance the purchase of new equipment in which the equipment is used as collateral for the loan, Sepulveda et al (1984). According to them, the loans are usually made for less than the full market value of the pledged equipment in order to provide a margin of safety to the lender. This loan contains less restrictive covenants.

Equipment financing loans are obtainable from commercial banks, equipment manufacturing companies, finance companies, insurance companies and pension funds. The conditional sales contract agreement and the chattel mortgage are two instruments used in financing equipment loans identified by Sepulveda et al. Contractors can use this facility to procure utility vehicles, plant and equipment. In Nigeria the Equipment Leasing Association of Nigeria (ELEAN) is their parent regulatory body.

3 Leases as a source of financing

A lease is defined by Baker (1987) as a contractual agreement in which the assets owner (lessor) agrees to let another party (Lessee) use that asset in accordance with the terms of a contract. Obalade (1999) defines it as a commercial arrangement whereby an equipment owner (Lessor) conveys to the equipment user (Lessee) the right to use the equipment in return for the payment of specified rentals over an agreed period of time.

Maness (1988) however describes it in this way - "leasing is similar to borrowing funds to purchase an asset." There is the lessee (the firm that acquires the use of, but not, the ownership of the asset), and the lessor (the firm that actually owns and is contracting out the services of the assets, retains title to and consequently ownership of that asset).

The lessee and lessor negotiates the terms of the lease contract. Obalade (1999) identified lessors to include manufacturers and distributors, independent leasing companies, commercial banks, life insurance companies, pension funds. Practically any item can be leased e.g. vehicles, plants, equipment, land, property etc. More information can be obtained from the Leasing Association of Nigeria located all over the states of the federation. Where cost of procurement of these items is prohibitive, contractors can resort to leasing. This will channel contractors' scarce funds to servicing working capital.

Types Of Leases

According to Obalade[1999], in 1976, the Financial Accounting Standard Board (FASB) issued statement (B) defining two categories of leases, viz :- operating leases and financial (capital) leases. He however, categorized it into operating lease; finance lease & sale- and- lease back.

(i) **Operating Lease (service or maintenance lease)** - According to (FASB), operating lease is a cancelable agreement that provides the lessee with the use of an asset on a period-by-period basis. The life of the contract is significantly shorter than the life of the asset. Either party can cancel the operating lease before the expiration of the lease. Obalade (1999) said the lessor is responsible for maintenance, insurance and property taxes on the asset.

The lessor relies on the residual value of the equipment to recover the balance of the net investment and to earn a profit. According to Obalade, a lessor maintains the assets. Operating leases are used to gain the use of different types of assets such as office equipment, computers, automobiles.

(ii) **Financial (Capital) Lease** -The FASB defines it as an agreement that obligates the lessor to make payments for a predetermined time period. And that it is non-cancelable and fully amortized over its life.

However Obalade (1999), said a finance lease is any leasing arrangement whose principal purpose is to finance the use of equipment for the major part of its useful life. And that under a finance lease, the lessee chooses the type of equipment, the supplier, the make, mode and any special features required. He then negotiates with the supplier the terms of warranty, etc The lessor then provides the finance to meet the purchase price. Obaladed (1998) noted that at the expiration of the lease tenor, the lessee is given the first option to purchase the equipment at the nominal price.

(iii) **Sale-and-Lease-Back:-** Obalade (1999) identified this as a special finance - lease transaction. According to him, an equipment user sells to a leasing company then leases the equipment back to the user, who then becomes the lessee. He highlighted the reasons why a business firm may wish to arrange a sale-and-lease-back transaction for equipment already on its books as working capital for the firm's operations.

4.6 **Long -Term Financing**

Long-term financial credit facilities usually have maturity period of above 10 years, Maness (1988). According to Simons (1986) and Baker (1987) the means of financing could be internal or external.

Adeifeosemeikhian (1998) however remarked that, long-term financing is used for financing "capital projects". Since construction projects are capital projects, it infers that long-term instruments should be of value to the contractors.

Long-Term Financing Instruments

a. ***Company Shares***

Edemodu (1987) described shares as, investible instruments used for buying and selling funds in the stock (capital) market. It is one of a number of equal portions in the nominal capital of a company entitling the owner to a portion of distributed profits. It is of residual value if the company goes into liquidation. It is a form of security.

Shares may be full paid-up or partly paid. There are ordinary and preference shares. Shares are traded in the stock exchange market. It can also be obtained through stockbrokers; jobbers, investment banks, financial intermediaries. Ofiavwe (1999), identified the benefits of investing in shares among others as:

- *i. Capital improvement for the companies' e.g. Acquisition of relevant office equipment, and working capital, branch net work expansion etc.*
- *ii. Expansion of income base – income (dividend) due from stock investment acts to improve the investor's finances*
- *iii. It is an insurance against future uncertainties*
- *iv. The relative disposal difficulty is less compared to other equivalent.*
- *v. It provides wider assets assortment – shares provide the holder with periodic income easily realized etc.*
- *vi. Shares are used as collateral for bank lending.*

Construction industry contractors can benefit a lot by investing in shares as a means of future expansion.

b. ***Bonds***

According to Olashore (1988), a bond is a long-term debt instrument in which the issuer promises to pay the bondholder specified amount of interest and principal on predetermined dates. He averred that, bondholders are creditors to the issuing corporation and have prior claims to the firm's earnings and to its assets in the event of liquidation.

In the Nigerian stock exchange market, federal and state government bonds are traded.

According to Baker (1987), most conditions that qualify firms to issue bonds to the investors among others include, when:-

i. Sales and earnings are relatively stable

ii. Coverage ratios and profit margin are adequate

iii. The firm's liquidity position is adequate

iv. The existing debt ratio is low

v. Interest rates are low

vi. The proposed debt issues are not too burdensome.

vii. The firm's credit rating is satisfactory

Through the stock market, construction contractors can invest in bonds as a means of raising funds in future to finance their projects.

c. ***Preferred Stock***

This is a class of capital stock that pays dividends at a specified rate and that has preference over common stock in the payment of dividends and the liquidation of assets, Ofiavwe (1999). And according to Simons (1986) preferred stock has characteristic of both debt and equity. It is not widely used except for merger and bankruptcy reorganization situations and with specific industries and *when a company undertakes to add a permanent source of funds to their capital structure.*

This issue is available in the stock exchange market at both the National and Regional levels. Discount houses and investment banks trade on this security. Simons (1986) identified factors that favour the use of preferred stocks as:-

(i). When equity financing is needed.

(ii). The firm has a high debt/equity ratio

(iii) Debt poses substantial risk

(iv) Interest rates are low, lowering the cost of preferred stock

(v) Control problems exist with the issuance of common stock.

The construction industry is characterized by some of these factors, thus if they invest in this security it will go a long way to assisting them procure equipment or to capitalize. The security can also be a form of collateral for short-term loans.

d. Money market preferred stock

This is another type of preferred stock. It is an issue according to Simons (1986] which carries adjustable dividend rate tied to the conditions in the financial markets. It pegs the dividend rates to short term interest rates. This means that if market condition is good, interest rate on it is high and vice versa.

As market interest rate change, the dividend rate is changed allowing the market price of the issue to remain near its par value, Baker summarized. Financial intermediaries, stock brokerage firms, jobbers are all sources of this security in Nigeria. Contractors with excess fund can invest on the issue for future.

f. Common Stock

Edemodu (1997) defined this instrument as, a form of long-term equity that *represent ownership of a public corporation. He further stated that common stockholders are called residual owners because their claim to earnings and asset is what remains after satisfying the prior claims of various creditors and preferred stockholders. Common stockholders are the true owners of the corporation and consequently bear the ultimate risks and reward of ownership.*

f. **Convertible securities**

Degarmo et al (1973) defined convertible security as, a bond or preferred stock that may be converted into common stock at the option of the holder at a specified price over a specified period of time. According to them, the reasons why a business firm can seek this type of financial instrument include:-

a. To sweeten a security offering i.e. to make the security attractive to investors

ii. To provide deferred common stock financing-which is sold at higher price when required. Convertibles facilitate the raising of equity capital.

iii. To raise temporarily cheap funds.

g **Warrants**

A warrant is another form of long-term financial instrument identified by Oni (1999). Adeifeosemeikhian (1998) said that a warrant is an option to purchase a stated number of shares of common stock at a specified price over a given period of time. Holders of warrants do not have the rights of common stock holders until they exercise their warrants. A warrant can be sold on the stock exchange market quite independent of the loan stock. When the warrant holder exercises his rights to purchase the ordinary share, he surrenders his warrants.

Warrants are available in the Nigeria stock exchange market. Investors may choose to use warrants as an investible financial instrument in order to:

(i) enhance their fixed income,

(ii) increase their security offerings

(iii) avoid restrictive indenture provisions

(iv) widen the market for the firms debt.

(v) provide additional equity funds in the future.

h. **Debenture stock/Debentures**

This is a fixed-interest security issued by limited companies in return for long-term loans Ofiavwe (1999). There are two main types (a) Mortgage debenture which are secured by a Mortgage on specific assets of the company (b) Floating – change debenture, where its assets are not suitable for a fixed charge. Interest is charged on a debenture whether the company makes a profit or not. Debenture shares are most appropriate for financing companies whose profits are stable and which have substantial fixed assets, such as property companies. Debentures are usually dated for redemption.

Investing in this security, qualities the investor to purchase equity shares cheaply in the future. For this reason, some debentures are issued at times when it is difficult to raise capital either by equity or fixed-interest securities. Construction companies, properties development companies with fixed assets can benefit immensely from debenture stocks.

CHAPTER FIVE

5.0 RESEARCH PROCEDURE

5.1. Data Collection

5.1.1 Preamble

In accordance with the spelt out objectives of and methodology for this research as stated in chapter 1, section 1.2 and 1.3, questionnaire were prepared (see Appendix A & B). This method was considered a veritable means of obtaining information from both contractors and the financial institutions.

About 90% of the construction contractors studied have a well established offices and construction practice spanning over five (5) years. We ensured that the calibers of respondents are from the operations department of the construction firms. And it is upon this information provided that our analysis in this study is based.

Two sets of questionnaires were drafted. The first set of questionnaire was administered to the ‘contractors’ and ‘suppliers’ categorized on the basis of nature and scope of their works, namely:-

(1) Building contractors denoted as category (A)

(2) Building & Civil Engineering contractors as (B)

(3) Maintenance/Renovation contractors as (C)

(4) Sub-contractors (specialist) contractors as (D)

(5) Materials merchants (suppliers) as (E)

The questionnaire contains a total of forty-six (46) questions. The contractors responded to them accordingly. The questionnaires were distributed in Lagos, Kaduna and Abuja. A total of six contractors, that is, two contractors from each of the three locations were selected. A major reason for the locations selected, was that most construction firm's head offices are located in these big cities.

We assumed that all data generated from these contractors is not influenced by location of respondents. And so the information received is expected to cover other states and contractors not selected.

The second set of questionnaire was drafted and administered to relevant operations or technical departments in the financial institutions namely: the Central Bank of Nigeria, Commercial Banks, Mortgage Banks, Merchant Banks, Financial Houses (Saving & Loans), Development Banks, Stock Exchange Market, Insurance Companies, Cooperative Societies, Federal Government credit Agencies (NERFUND, FEAP, Peoples' Bank, Community Banks) International Credit Organisations (ADB, UNDP, IFC/World Bank) In all, a total of thirty-one (31) Financial Institutions were identified.

Thirty-seven (37) questions were raised in the questionnaire to cover all the identified financial institutions. The questionnaires were distributed in three locations namely Lagos, Kaduna and Abuja. These locations were chosen because most headquarters of the financial institutions are situated there. For each category, at least two of the similar financial institutions were selected as representative.

Factors considered in the categorization and final selection of financial institutions studied are, years of establishment and branch network. This suggests that information gathered and analyzed is fully representative and reliable.

5.2 DISCUSSIONS OF FINDINGS

TABLE 5.1 DISTRIBUTION OF QUESTIONNAIRE TO CONTRACTORS

CATEGORY OF CONTRACTORS	NUMBER ADMINISTERED	RESPONSE (NO)	PERCENTAGE %
A	6	6	100
B	6	4	67
C	6	4	67
D	6	6	100
E	6	6	100
TOTAL	26	26	87%

A total of 30 sets of questionnaires was distributed to all contractors. Each category of contractors received six. However 26 representing 87% of the questionnaires were completely filled and returned . Their response formed the basis for the analysis contained in this study.

Table 5.2 YEARS OF INCORPORATION OF CONSTRUCTION FIRMS STUDIED

YEARS OF INCORPORATION	NUMBER OF CONTRACTORS	PERCENTAGE
3	2	7.7
5	9	34.6
8	7	26.9
10	4	15.4
15	4	15.4
TOTAL	**26**	**100%**

Sources: Field Survey

From Table 5.2 above, 34.6% of respondents representing the highest number of respondents fall into the 5-year incorporation period. The lowest is 7.7% representing respondents whose years of incorporation fall within 3-year period. The period between 5 years to 15 years of practical construction by the contractors suggest adequate experience.

TABLE 5.3 PROFESSIONAL STAFF STRENGTH OF CONTRACTORS STUDIED

NOS	CLASSIFICATION OF PROFESSIONAL STAFF	TOTAL NUMBER	PERCENTAGE (%)
1	Project Manager or Site Agent or Site Manager	28	20.3
2	Account Manager	17	12.3
3	Architects	12	8.7
4	Builders or Site Engineers	50	36.2
5	Land Surveyors	3	2.2
6	Quantity Surveyors	20	14.5
7	Services Engineers	8	5.8
TOTAL		138	100%

Source: Field Survey

From Table 5.3, it is observed that contractors engage Builders (Site Engineers) (36.2%) most in their firms for executing new projects. The least professional staff engaged is the Land Surveyor (2.2%). Professional staff strength of contractors was assumed to be part of the parameters financial institutions use to evaluate contractors ability to execute project before approving credit facilities. We can conclude here that the contractors examined have the capacity to execute their projects.

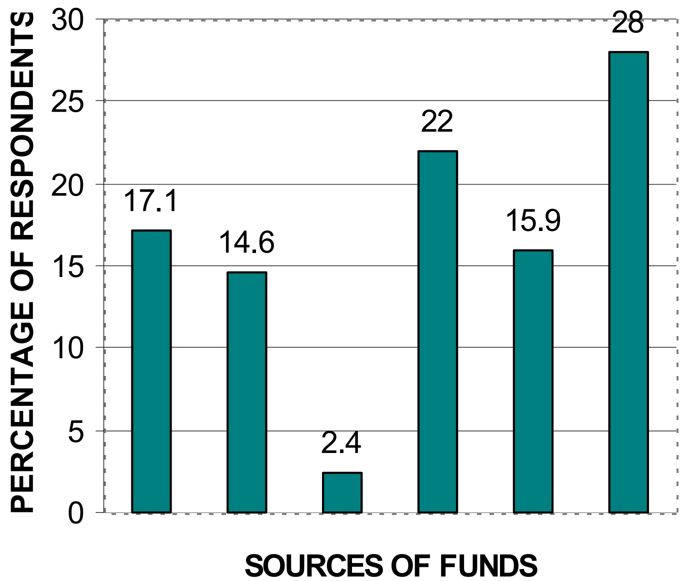
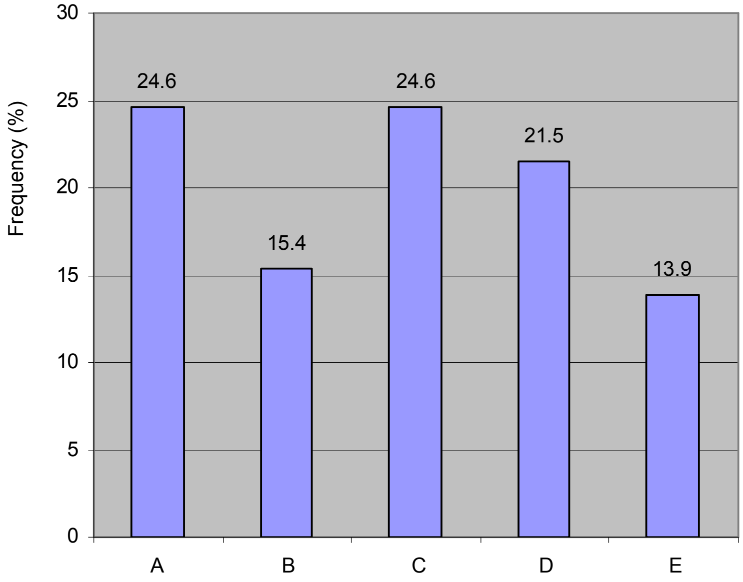


FIGURE 5.1 CONTRACTORS SOURCES OF CREDIT FACILITIES

Source: Field Survey

Figure 5.1n revealed that, Funds from other businesses account for the highest source of funds for contractors, representing 28%. This suggests that the contractors examined engage in other businesses apart from consultation contracting. The source rarely recur to by contractors is the capital market. 2.4% of respondents indicate their use of funds from such source.

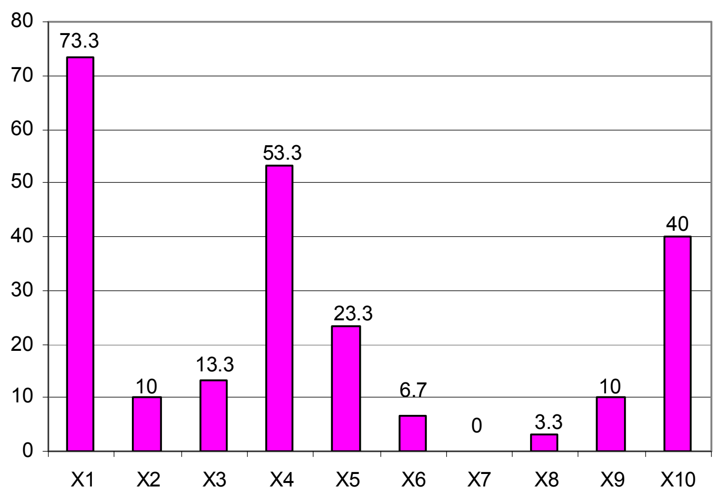


LEGEND
Cat. A = Building Contractor
Cat. B = Bldg & Civil "
Cat. C = Maintenance "

FIGURE 5.2 FREQUENCY AT WHICH CONTRACTORS APPLIED FOR CREDIT FACILITIES

Sources: Field Survey

Fig. 5.2 indicated that contractors in categories A (Building Contractors) and C (Maintenance Contractors) are the highest seekers of credit facilities, representing 24.6% respectively. Category E (merchants/suppliers) is the least seekers of credit facilities with 13.9% respondents.



LEGEND
X1 = Commercial Bank
X2 = Merchant Bank
X3 = Mortgage Bank
X4 = Finance Company
X5 = Thrift/Co-operative
X6 = Insurance Company
X7 = Pension Fund

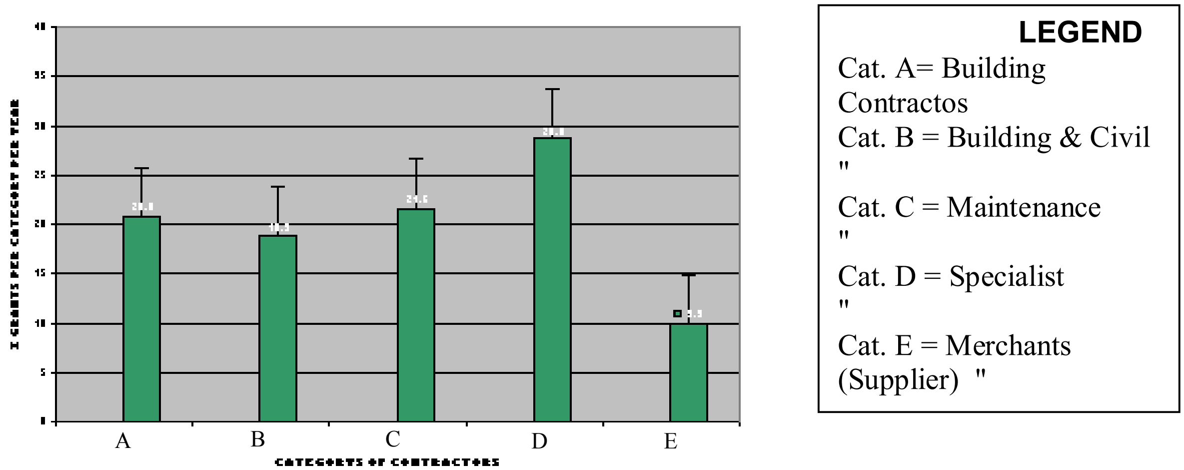
From fig. 5. 3, contractors from all categories seek financial credit most from commercial banks representing 73.3%. Contractors response showed that they do not seek for finance from the pension funds. Probably due to lack of awareness of credit facilities for construction projects from such sources. Surprisingly, Contractors seek from international financial institutions who actually deal directly with Government at all level and not with contractors.

Table 5.4 BREAKDOWN OF HOW CONTRACTORS SEEK CREDIT FACILITIES FROM FINANCIAL INSTITUTIONS.

NOS	CATEGORY OF CONTRACTORS	RESPONSE PER CATEGORY	RESPONSE (%)
1	A	20	28.2
2	B	16	22.5
3	C	14	19.7
4	D	12	16.9
5	E	9	12.7
	TOTAL	71	100%

Sources: Field Survey

Table 5.4 revealed that, all category of contractors sort for credit facilities at one time of the other. Category (A) - Building contractors sort for credit facilities most with 20 representing 28.2% response. The least seeker is category (E) - materials merchants (suppliers) representing 12.7%. This infers that, Building contractors have a better awareness and desire for credit facilities than other categories. The reason why materials suppliers is the least seeker is because according to an investigation, they adopt the 'Cash on Delivery' method to execute their contracts. This follows that except for obvious reasons they may not need to seek for financial assistance to execute their contracts.



Source: Field Survey

Figure 5.4 indicate that category D (Specialist Contractors) received the highest grant approved (28.8%). Category E (Merchants) received the least (9.9%) of the total credit s approved by the financial institutions to contractors under the period investigated. However, table 5.4 reveals that category A (Building Contractor) sought for credit facilities most .

Table 5.5 CONTRACTS AS AWARDED TO CONTRACTORS (IN 1 YEAR)

NO	CONTRACTORS	NOS OF AWARDS	% NO OF AWARDS
1	A	378	27.8
2	B	399	29.3
3	C	175	12.9
4	D	195	14.3
5	E	213	15.7
	TOTAL	1360	100%

Category B. (Building and Civil contractors) had the highest number of contracts award of 399 representing 29.3%. The least was category C (Maintenance Contractors) with 175 representing 12.9%.

Table 5.6 RESULT OF ANALYSIS OF CONTRACTORS SUCCESS ON APPLICATION FOR CREDIT FACILITIES

CONTRACTORS CATEGORY	NO. OF REQUESTS RECEIVED (A)	NO OF REQUESTS GRANTED (B)	APPROXIMATE RATIO (A: B)
A	23	7.7	3:1
B	20.3	7.0	3:1
C	12.0	8.0	2:1
D	18.0	10.7	2:1
E	9.3	3.7	3:1

Source: Field Survey

Table 5.6 is aimed at predicting the probability of contractors request for credit facilities being granted by financial institutions. The table revealed that, for every 3 (three) applications submitted by contractors, one (1) is granted to contractors in category A (Building contractors), category B (Building & civil engineering contractors) and category E (materials merchants) representing ratios (3:1). But for category C (maintenance contractors) and D (specialist contractors) investigation revealed that, for every 2 (two) applications submitted for credit facilities, one (1) was granted to them, representing ratio (2:1). This infers that categories C & D stood at better chance than categories A,B & E of being granted credit facilities. This may be as a result of the following reasons-short-term nature of contracts in these categories as well as proper packaging of their request and a high viability rating of the contracts by financial institutions

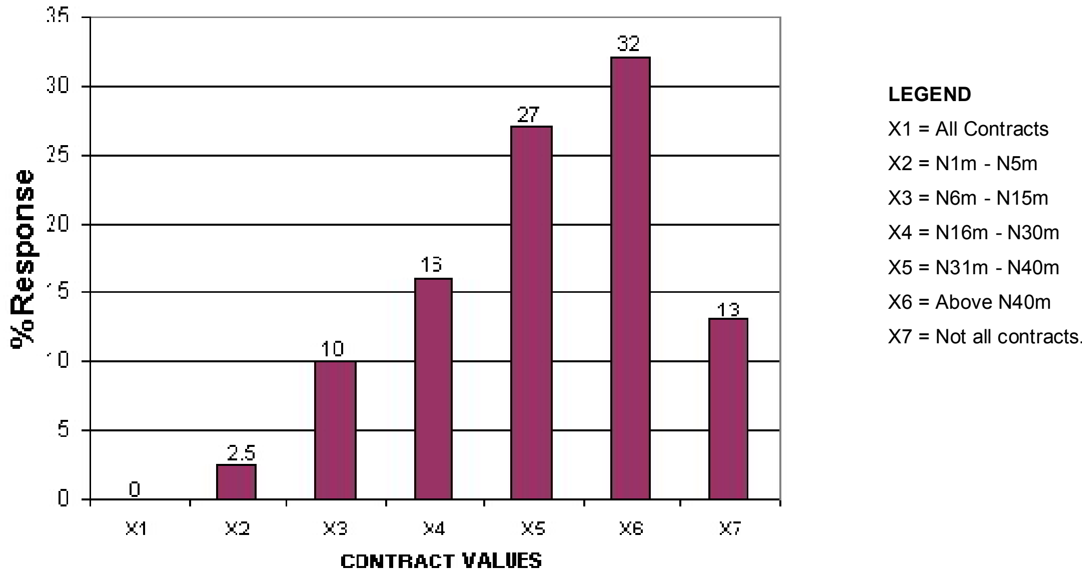
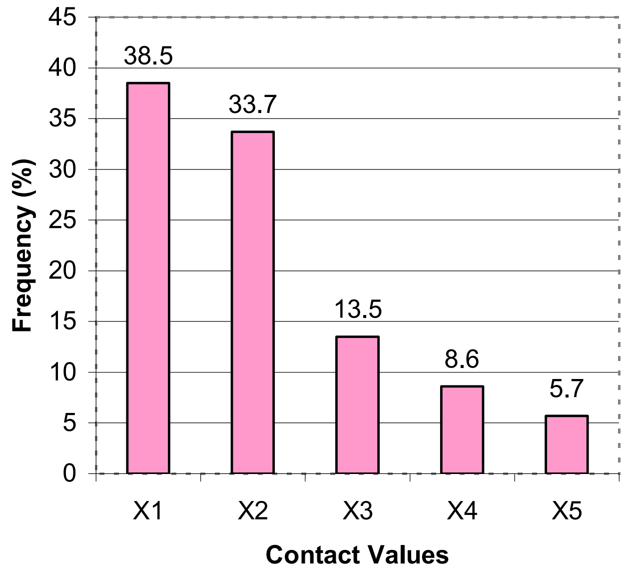


FIGURE 5.5 VALUES OF CONTRACTORS CONTRACT FOR WHICH CREDIT FACILITY WAS SORT FROM FINANCIAL INSTITUTIONS

Source Field Survey

Figure 5.5 Determine the values of contracts four which contractors seek for credit facilities. The above graph revealed that, contractors seek credit facilities most for their projects above N40m (Forty million Naira only) representing 32%. Contractors do not seek for credit facilities for all contracts (X1). For lower contract values X2 to X3 valued at between (N1m - N15m) there is less desire to seek for credit facilities. These result infer that they utilize the fund from other businesses to execute these projects. Also that, because of the huge sums involved X4 - X6 (N15m - Above N40m) and the duration of such contracts they desire external assistance. However, investigation revealed that financial institutions rate the construction industry poorly, and so they may not be disposed to granting the seekers their credit request accordingly.



LEDGERD

X1 = N1m – N5m
X2 = N6m – N15m
X3 = N16m – N30m
X5 = N31m – N40m
X6 = N above N40m

FIGURE 5.6 VALUES OF CONTRCTS AWARDED TO CONTRACTORS (IN ONE YEAR)

More contracts are awarded and executed within N1m - N5m contract values representing 38.5%. The higher the contract value, the lower the number of contracts awarded in that category. This may be attributed to the state of the Nations economy at any given year. This infers that an increase in the number of contracts over N16m (Sixteen million Naira only) awarded and executed, indicates a buoyant economy.

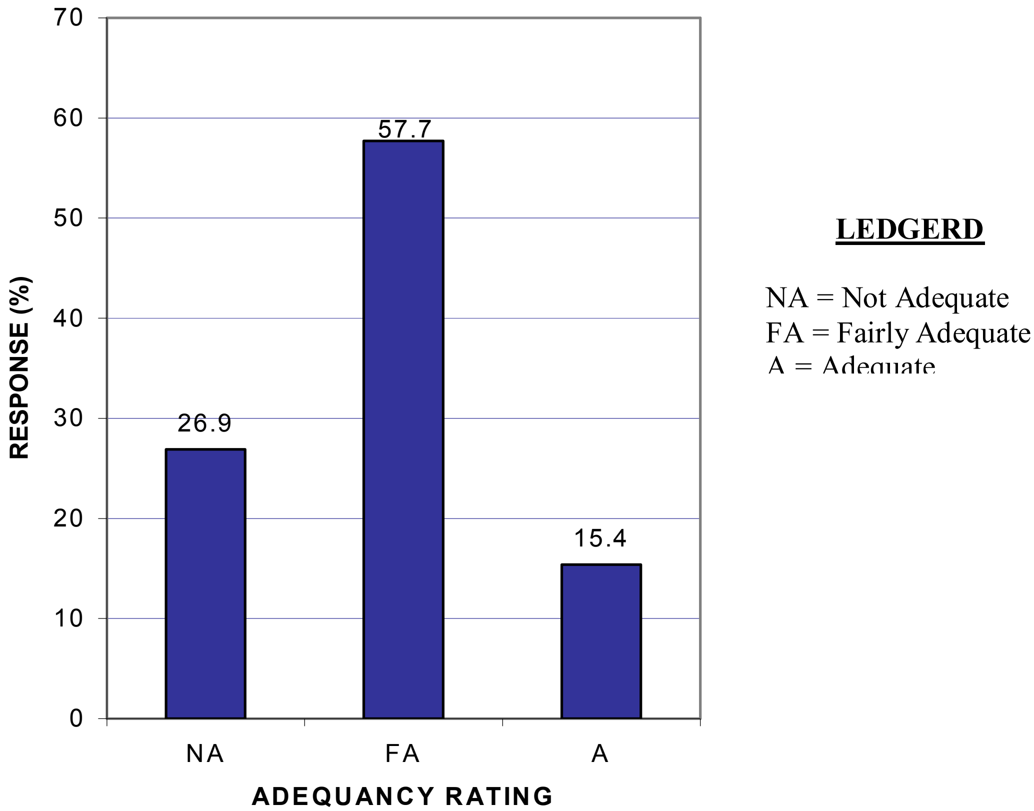


FIGURE 5.7 CONTRUCTIONS RATING OF CREDIT FACILITIES GRANTED BY FINANCIAL INSTITUTIONS

Source: Field Survey

From Figure 5.7, contractors were required to rate the adequacy or otherwise of the credit facilities that the financial institutions granted. It was revealed that 57.7% of the contractors rated the credit facilities “fairly adequate”. Only 15.4% of the contractors examined rated the credit facilities “adequate”. This suggests that, the financial institutions do not full meet the credit requirements of the contractors. It may be difficult for financial institutions to meet all the credit requirements of the contractors following the reasons they highlighted as to the causes of high interest rate charges.

The fact that there are other favourable industries competing with the construction industry is another. It is thus suggested that contractors should consider seeking other means of meeting their financial needs. On the other hand, it may be possible to achieve the "Adequacy" rating level if contractors exploit other financial institutions' available credit facilities yet unexplored.

Table 5.9 DISTRIBUTION OF QUESTIONNAIRE TO FINANCIAL INSTITUTIONS

NOS	**INSTITUTIONS**	**DISTRIBUTION**	**RESPONSE**
1	Stock Exchange Market	2	2
2	Financial Go-in-Between	24	18
3	Development Banks	5	5
4	Insurance Companies	3	3
5	International Financial Institutions	3	3
	Total	37	31

Source: Field Survey

From Table 5.9 Thirty Seven (37) questionnaire were distributed and a total of thirty one (31) representing 84% were completed and returned. This responses was the basis for the analysis/discussion presented here.

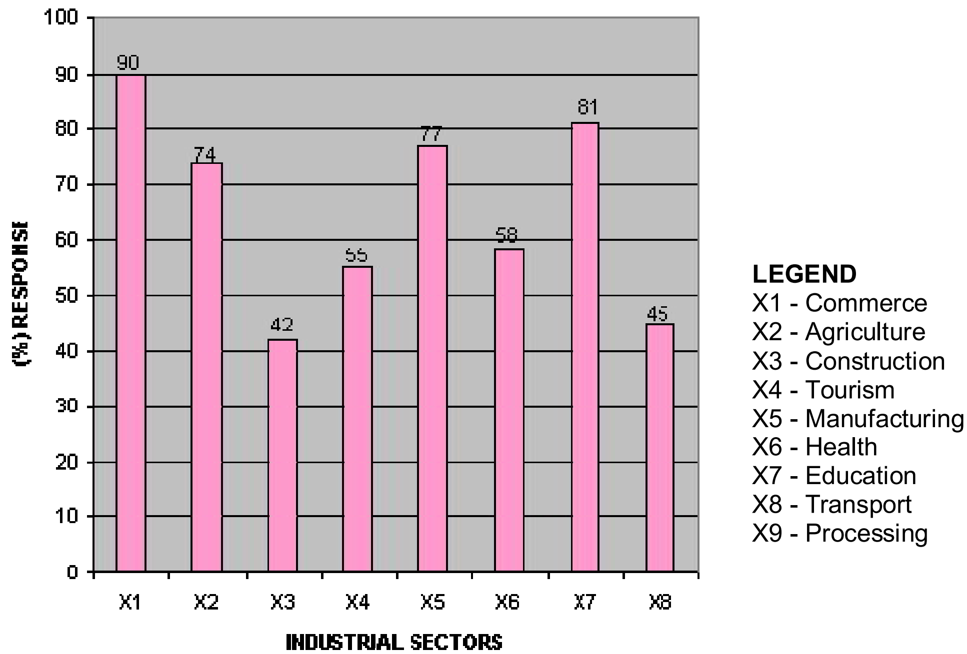
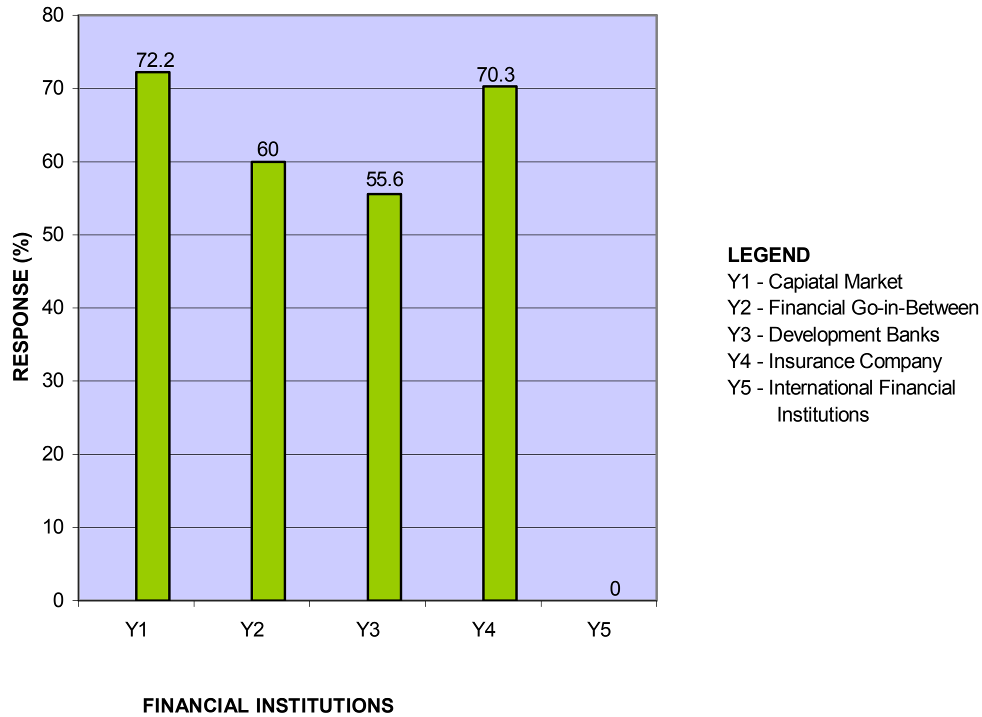


FIGURE 5.8 INDUSTRIAL BENEFICIARIES OF THE CREDIT FACILITIES IN THE FINANCIAL

Source: Field Survey

As part of the objectives of this study, we set out to determine from the financial institutions whether other sectors of the industry benefit from their credit facilities. If yes, to what extent as compared to that for the construction industry sector. For the purpose of better understanding, the sectors were identified and classified as in fig. 5.8. Our investigation revealed that, the financial institutions have credit facilities for all the identified industries examined. And that, the highest beneficiary of the credit facilities from the financial institution is the commerce industry, representing 90%. This is closely followed by education 81%. The least in the ranking is the construction industry with 42%.

The reasons adduced from the ranking (although may be a subject for further investigation) may include that, the financial institutions prefer short-term transactions as earlier revealed. This may be synonymous with the commerce industry. While for the education industry the process of recovery of loan facility is easy as payment of tuition and or other fees are administered by the lender. The lender thus has no difficulty in recovering their grants. Also in recent time, the government had advised the private sector to assist in encouraging education in the country. The construction industry from their assessment may not possess all these advantages and therefore are less favoured.



FIGURES 5.9 FINANCIAL INSTITUTIONS WHERE THE INDUSTRIES SEEK CREDIT FACILITIES

Source: Field Survey

Figure 5.9 shows the financial institutions these industries regularly approach for credit facilities and the frequency of or the application to these institutions. The financial institutions were grouped into five as above. The following was revealed – that all the industrial sectors approach all the five groups in search of credit facilities. However, the international financial institutions (IBRD, IFC, UNDP etc) do not have any credit package for the industries, the rest four groups of financial industries has credit facilities for all the industrial sectors examined. On further enquiry on why the international financial institutions does not have credit package for the industries, it was discovered that, their policy is to deal directly with host countries at the federal and state levels respectively and most recently at the local government level as well. Although they receive so much request from industries and individuals, they however cannot do otherwise.

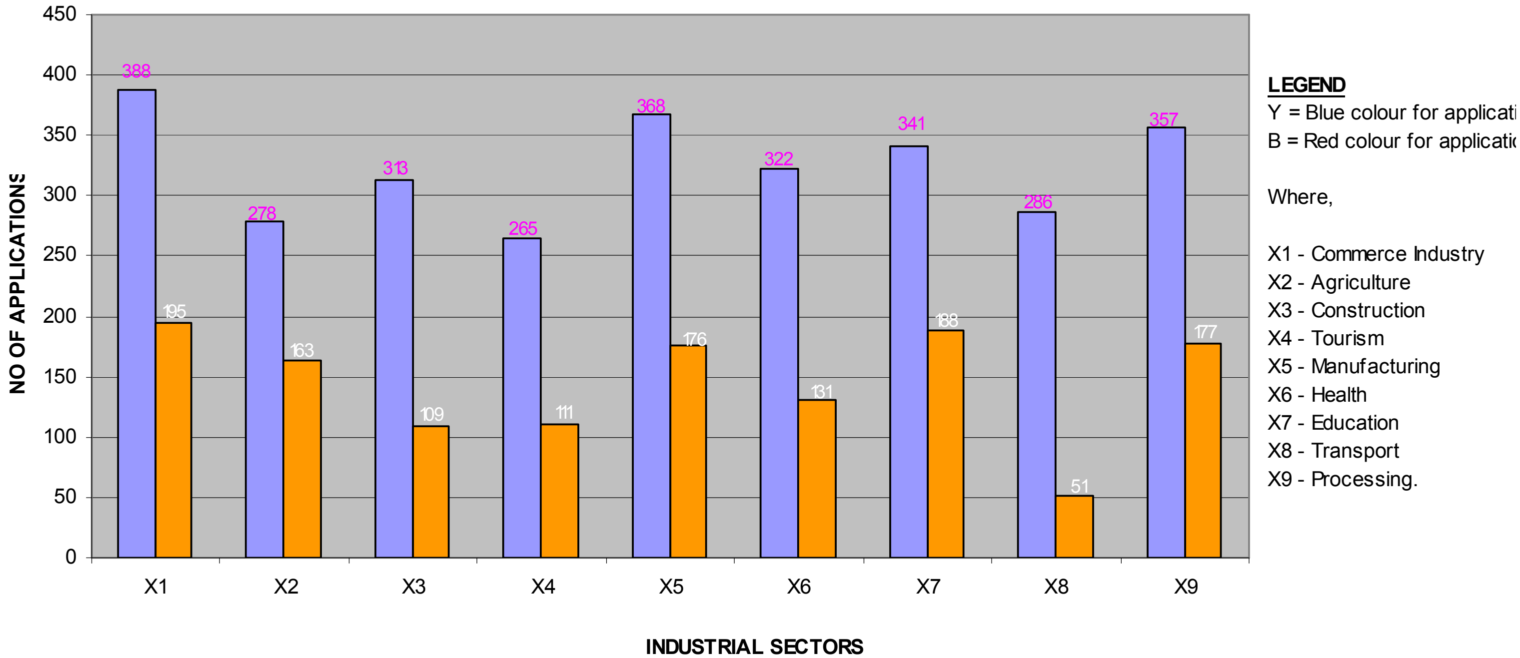


FIGURE 5.10 BREAKDOWN OF HOW THE INDUSTRIES APPLIED FOR AND RECIEVED CREDIT FACILIITIES FROM THE FINANCIAL INSTITUTIONS (IN 3 YEARS)

From fig. 5.10, whereas a total of 2918 applications was received by the financial institutions from various industries seeking for credit facilities, it was revealed that 45% of the entire request was granted. Of the total number of application received, the Commerce industry made the highest request representing 13.3%. The least in the ranking is Tourism with 9.10%. The Construction industry is ranked sixth representing 10.7%. On the number of request granted to these industries, it was further` revealed that the commerce industry is favoured most with a total of 195 request granted representing 15% of the total 1,301 approvals made, the least being the transport industry representing 3.9%. The construction industry was eight position representing 8.4% of the total request granted. Reasons for this pattern of allocation has been highlighted in Fig. 5.8.

Table 5.10 COMPARISM OF SPECIFIC PROFESSIONAL STAFF DISTRIBUTION IN THE FINANCIAL INSTITUTIONS

PROFESSIONALS ENGAGED	NO. OF PROF. STAFF	% PROFESSIONAL STAFF
Architect	1	0.7
Builder	1	0.7
Estate Surveyor	5	3.3
Engineers	1	0.7
Quantity Surveyor	5	3.3
Land Surveyor	0	0
Lawyer	28	18.7
Accountant	28	18.7
Administrator	28	18.7
Finance & Banking	25	16.7
Others	28	18.7
Total	**150**	**100%**

Source: Field Survey

Table 5.10 was used to determine the effect of the presence or absence of construction industry professional staff in key positions in these financial institutions with exclusive professional assignment such as assessing and making vital recommendations from the credit request package of the construction industry applicants. The investigation revealed that of the total 150 professional staff available, no Land Surveyor is employed in the financial institutions studied; The highest categories of construction related professionals employed by the financial institutions, are estate surveyors and quantity surveyors as indicated in the table.

The figures are very low when compared to that of other professionals (Lawyers, Accountants etc). On further investigation, it was revealed that the reasons for engaging any professional staff may be coincidental as staffs engaged in the financial institutions are subject to being trained and or retrained for the job as a matter of policy. However, we are of the opinion that, if the financial institutions assign specific duties to the professional staff especially those in the construction industry, even after being trained and retrained, they may be in a better position to assess credit request packages from the industry than other professionals in other disciplines. And by so doing, the construction industry, may benefit more and even establish a good working relationship with the financial institutions.

5.3 **Further discussion of findings**

Criteria For Approval Of Credit Facilities

The result of the study showed that, there is no preference in considering any credit request so long as the request is viable, properly packaged and less risky. All financial institutions operate within the limits of existing laws, statutes, Acts, Byelaws, institutional laws, self-laws and Government legislations. These form part of their consideration in the design and operation of credit facilities. Such laws and restrictions include among others………………

Limitations of law as in the Banking Decree Section 13 (A), that specifies highest amount of credit that can be granted to an applicant at a time.

Institutional limitations in which, a lender company may specify particular priority sectors for lending.

Acts of parliament or government legislations, which in 1992 mandated financial institutions to invest at least 10% of their declared profit to grant loans to small-scale enterprises in the country is another. However, whether the financial institutions obey these limitations and laws is questionable.

Disbursement and repayment of approved facility

Our investigation revealed that depending on the requirement of the loan as well as the outcome of the assessment carried out by the financial institutions and the amount of credit requested for and amount approved.

The approved facility can be released in bulk (short-term credits) or in installments (medium and long term facilities) to the beneficiary. Amortization schedule is aimed at controlling and monitoring the effective utilization of the disbursements. It is usually drawn and agreed upon by the two parties before implementation. Amortization schedule technique can also be adopted for short-term loans repayments if arranged monthly over a period not exceeding one year.

On the method of repayment of approved short-terms, 65% of the contractors insisted that it was not satisfactory as the financial institutions collect their principal and interest fully in one or at most two installments. Only few adopt the amortization schedule procedure, which the contractors preferred. The financial institutions on their part reasoned that, from past experience, if they amortize the repayments for short term loans, they may run the risk of loosing their funds due to problems associated with construction projects such as mismanagement, fund diversification, abandonment or delayed payment or contract over run, among others.

Financial institutions can 'call-in' the loan prematurely as soon as a default is noticed or is to be noticed. The assets and collaterals of the defaulting contractor are either mortgaged or auctioned immediately to recover the facility granted. The findings concluded that, court action is usually the last option.

Monitoring And Control Of Grants

To ensure proper utilization of funds, the investigation revealed that financial institutions carry out thorough investigation to establish the truth in the applicants' request package.

Other measures used by the financial institutions are: the close monitoring of the projects progress, participating in the procurement of major materials, plants and equipment required, control of borrowers spending, ensuring that the applicants adhere strictly to conditions and articles of agreement for which credit was sort. And such other measures they may deem necessary, which may not be a general measure but peculiar to a particular project and firm.

Table 5.11 Classification of credit facilities

	INSTRUMENTS	SOURCES	PURPOSE
1	Money market instruments - Treasury Bill, Repurchase Agreements (Repos) Certificate of deposit (CD) Bankers Acceptance	CBN, commercial banks, stock brokerage firms, jobbers, investment companies, merchant banks, discount houses	As collateral. To finance working capital. For raising capital or increasing asset base. To acquire office equipment
2	Capital market instruments - stocks, bonds, shares, warrants	Stock exchange markets, stock brokerage firm, investment companies, discount houses, commercial banks.	As collaterals, for capitalization. For expansion. To acquire fixed assets. To procure Hi-tech equipment

3	Trade credit, factoring, Accruals credit facilities	Building materials merchants, merchant banks, finance companies, saving & loans, mortgage banks, investment companies, community banks	To finance working capital. As collateral. To procure small tools. To hire heavy equipment. Equip office.
4	Inventory financing credit facilities	Merchant banks, primary mortgage institutions, commercial banks, insurance companies, micro-credit institutions, co-operatives and thrift societies, community banks.	Debit servicing. As collateral. To service working capital. To hire or lease equipment and plants

5	Lease	Plant and equipment dealers, insurance companies, vehicle dealers, investment companies, finance companies, commercial banks, primary mortgage institutions.	To hire heavy equipment, plant or automobiles which cost of acquisition cannot be accommodated in the contract. To secure land or property
6	Short-term loans - Bank overdrafts, line-of-credit, revolving credit agreement loan, a single loan credit facility	Co-operative & thrift societies, commercial banks, community banks, saving & loans firms.	For servicing working capital e.g salaries & wages, overheads to service debts
7	Long-term financing loans-fidelity bonds, guarantee bonds, performance and tender bonds	Development banks e.g. NIDB, FMBN, urban development bank, insurance companies.	For insurance and indemnity. As collateral

Source: Field Survey

Highly sort credit facilities

Financial Institution prefers the short-term unsecured; negotiable types of credit facilities e.g bank overdraft, and bank loans. There reasons being that they are afraid of inflation, political and economic situations and prolonged credit terms noting that the cost of borrowed capital increases over time.

Finance companies, investment companies, merchant banks request for accounts receivables, they also finance LPO especially for supplies of materials.

Development banks e.g. NIDB, UDB, NACB etc grant long-term credits to contractors undertaking long-term projects like estate development. For example, the Nigeria Industrial Development Bank (NIDB) grant long-term credit to contractors undertaking industrial development projects. Insurance companies provide credit facilities such as guarantee bond, tender bond, fidelity bond and performance bond to contractors to enable them secure/indemnity their projects.

Formulators of credit facilities

The categories of staff responsible for formulating and assessing construction contractor's applications for credit facilities vary from trained non-professional staff to retrained professional staff designated as credit managers or risk management officers or lending officers in their respective firms (reference table 5.10). The construction industry management professionals are rarely found working in the financial institutions. Although few of the financial institutions are willing to engage their services, however, majority believed that the specific *professional background is not very important because in most cases they are retrained for the job*

Requirement for a successful application

The study revealed the major requirements demanded by financial institutions from contractors for a successful grant. These are listed in order of priority as:-

i An application letter stating amount and reasons for the request.

ii The nature of the contract and its duration.

iii Company profile, (Board of Directors, management and technical staff)

iv List of Plants and equipment (owned or to be hired) to be utilized

v. Evidence of a good banking relationship with lender

vi Prove of the projects viability and ability to repay

vii List of previous jobs executed and record of borrowings

viii Recent audited financial statement and balance sheet

ix Cash flow analysis and method statement (for carrying out the works)

x Prove of adequate insurance cover.

xi List of fixed assets owned by the firm

xii Collateral security and evidence of no binding loan or bond on the collateral it is of note here that, these requirements does not apply to short-term unsecured loans such as overdraft or line-of-credit or revolving credit agreement loans etc because they are smaller in value and shorter in duration unlike medium - and long-term credit facilities. It applies only to medium term and long term types of business transactions. The basic requirements for short-term facilities mentioned earlier is that, the applicant must have a satisfactory business relationship with the lending institution. In a matter of a day, the contractor's request for short term facilities can be approved and processed for disbursement, the investigation revealed.

The study showed that, the contractor can apply as many times in a given year as possible, on the condition that, the most recent grant to her by the lender institution had been properly executed. Most contractors' applications fail because according to the financial institutions, the contractors satisfy only few of these requirements. The few requirements the contractors usually satisfy are:

(i) An application letter stating amount of credit required and the purpose

(ii) The nature and duration of the contract

(iii) List of previous jobs done

(iv) Insurance cover

(v) List of equipment, management and technical staff

(vi) Collateral security.

The other information required is not supplied, moreover when they are advised to present these additional data/information, the contractors either do not come back or they came back with falsified data.

Also, the contractors believe that collateral security is enough to earn them their request and so additional request is an attempt by the financial institutions to deny them the request. They claimed that, it will amount to waste of time and money to satisfy all the requirements highlighted earlier.

Further, it is observed that, even after supplying these requirements to the financial institutions, it is not a guarantee of success. However, the contractor stand a better chance of being successful.

CHAPTER SIX

6.0 Conclusions and Recommendations

6.1 Conclusions

Brands of credit facilities packaged for various purposes and durations are available for all sectors of the economy in the financial institutions.

Contractors source credit facilities from financial institutions for project financing just as other industrial sectors do. Credit facilities are available in the financial institutions for transactions on short-term, medium-term and long-term durations. Short term credits are suitable for servicing running cost or working capital, medium and long term facilities are available for businesses wishing to expand its capital base, acquire fixed assets etc.

Contractors in all categories studied are aware that they can source for credit facilities from financial institutions. But many are not only fully aware of the various types existing, but are reluctant to approach financial institutions for credit facilities. Their reasons being due to perceived bureaucracies, high interest charges, stringent conditions and restrictions upon such credit facilities. They rather resort to unsecured short-term facilities like loans and overdraft, which is well known by them. They claimed that it is faster and more convenient to transact. Collaterals are not demanded.

Most categories of contractors studied are family originated, they hardly plough back their profits to expand and acquire equipment and plant. They prefer to hire or lease virtually anything they require to execute any particular project. According to them, the cost of acquiring and maintaining such plant and equipment is too high in an unstable and unpredictable economy.

Contractors do not usually retain the services of their professional staff (technical/management) for a long duration. This affects their rating by financial institutions when they apply for credit facilities. Most board members of these companies are not diversified. They are rather constituted by family members (wives, children, relations).

Apart from the business of construction contracting, all the contractors engage in other businesses such as land & property agency, supplies, etc (fig.5.1). Separate account for the other business is not kept and so funds are expended indiscriminately. Accurate records of transactions are not kept. Balance sheet or financial statements of previous accounting year are not kept. When it is demanded, records are falsified in most cases.

According to the contractors, interest charges on borrowed funds are high – (22-29%). They suggested 15% maximum charges while also accusing credit managers of these institutions as biased in their assessments. According to them the cost of the borrowed funds no doubt reduces their expected profit on the project, which the client is not ready to offset.

Also, clients deliberately delay or suspend due certificates or payment. Contractors are not willing to engage the client in litigations just to keep their job and avoid being blacklisted. They prefer to seek payments quietly while sourcing for funds to continue work.

Although further investigation revealed that unless urgent steps are taken, contractors will continue to source for external credit facilities to execute their projects because clients make inadequate financial arrangement for their projects before embarking on it.

This joint-venture financing method is another means contractors could use to finance and execute their projects.

Credit facilities are usually approved and controlled through the guidelines of Central Bank of Nigeria, the financial institutions regulatory bodies within and outside the country as well as Acts of parliament, statutory laws and other laws existing in the country before or during implementation. Various financial institutions have their mission statement or policy guidelines that also guide their operations from time to time.

The financial institutions regard the construction industry as a 'high risk' investment sector and so less attractive for investment as compared to other industries like Agriculture or Education sector. Thus the reason for the 'so called' high interest charged and the strict conditions imposed on the sectors' credit facilities. The major reasons for these poor rating are because of contractor's poor business management skills as well as the unstable nature of the industry.

However, for contractors loan request to be successful, all information required must be truthfully furnished. Such information had been highlighted under the title 'requirements for a successful application'.

Although, collateral is a major requirement that discourage contractors from applying for loans. It is however the least requirement demanded by the lending institutions if the information and data required from borrowers are truthfully supplied, the study revealed.

Also for contractors loan requests to be successful, they are advised by the financial institutions to engage the services of experts (stock brokers, jobbers, financial analysts) who will prepare the package for them and advise them on where, how and when to source for credit facilities. Professional technical staff should be employed and retained in their business to remove doubts of the contractors' seriousness.

When a credit facility is granted to the contractor on medium or long-term, an amortization schedule is drawn and agreed upon for repayment. Non-adherence to this schedule by contractors attracts an agreed penalty. Defaulting contractors are also blacklisted and sanctioned.

The CBN and other international financial institutions such as ADB, IMF, World Bank, UNDP etc do not grant credit facilities directly to the construction contractors, but to their home governments at Federal, State or Local Government level aimed at poverty alleviation at grassroots level. They also provide to developing countries with very low per capita income on much favourable financial terms, the study revealed.

Micro-credit institutions provide credit facilities to the peasant farmers, traders & small-scale enterprises at the grassroots level. The amount and types of credits granted are small-scale. These do not really meet the needs of the construction contractors whose requests sometimes runs into millions of Naira with long term repayments.

6.2 Recommendations

Contractors should keep separate account for their various businesses to enhance prudent spending, allocation of funds, accountability and transparency as required by financial institutions' regulations and by the law of good practice. Accurate and reliable periodic up-to-date records (Book-keeping) of daily transactions as well as annual edited financial statements and balance sheet of the previous accounting year must be kept. Financial institutions require these records before granting credit facilities.

Short-term credit facilities help construction companies to fund their working capital. However, construction industry operators must seek ways of capitalization like other sectors. Medium and long-term credit facilities will enable them acquire fixed assets and increase their capital market, discount and investment houses apart from banks. They can also be listed and quoted in the floor of the stock exchange (regional or national) like other sectors thus making their business market-driven.

Contractors must be focused and live beyond family business. Board members must be diversified, frequent hiring and firing or technical and management staff must be discouraged, opportunities for staff training and retraining must be provided, all these will encourage financial institutions to grant credit facilities to them when a request is made.

Financial institutions regulatory bodies should devise a more means of enforcing approved interest rate charged on borrowed funds. What is operational now is similar to interest rate liberalization, whereby some financial institutions are at liberty to charge as high as 25% - 30% as against the official 21% maximum charge. If the offial rate is maintained there will be more patronage and the volume of business in the construction industry will increase. An alternative is for Government to deregulate the financial institutions sector to allow market forces (demand and supply) prevail.

As a result of the stiff competition between the construction industry borrowers and other economic sectors, the construction industry sector is lowly rated and therefore are marginalized by the financial institutions. In order to alleviate this problem, Government should establish a separate and specialized bank to cater for the peculiar credit needs of construction contractors. Otherwise the activities of the Federal Mortgage Bank of Nigeria and Urban Development Bank be revisited and streamlined to achieve the above purpose.

The joint venture financing method can be adopted by contractors as a viable alternative to execute their projects rather than seeking external credit facilities.

Professional institutes like the Nigerian Institute of Building (NIOB), Council of Registered Builders of Nigeria (CORBON) in collaboration with financial institutions must organize regular enlightenment workshops and seminars for the contractors in particular on the peculiar and general products. The seminars and or workshops must be adequately advertised through all the available mass media to cover all parts of the states and local government in the country.

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POSTGRADUATE SCHOOL

DEPARTMENT OF BUILDING
AHMADU BELLO UNIVERSITY, ZARIA

QUESTIONNAIRE - CONTRACTORS

RESEARCH TOPIC - Credit facilities in the financial institutions for financing construction projects in Nigeria.

A research work is proposed on the above topic in pursuit of a postgraduate degree-master of science-m.sc (construction management). This questionnaire is designed to assist the study gather relevant information and data. Therefore, your brief and concise response will enhance the research findings. All information obtained would be treated with strict confidence and used only for the purpose of the research.

Tick, fill YES/NO or respond in the spaces as appropriate.

1. Name of Company:
   ....
2. Head Office Address:
   ....
3. Branch Office Address:
   ....
4. Foreign Office Address:
   ....
5. Age of Company:
   ....
6. State status of Company: Partnership - Enterprise - Limited Liability Company - Public Limited Liability Company:
   ....
7. State area of operation - Building Contractor only - Civil Engineering Contractor only - Building & Civil Engineering Contractor - Subcontractors - Maintenance Contractor - General Contractors - Building Materials Merchants (supplied).
8. State how owned:--- Indigenous --- Foreign --- Combination of both ---
9. What is your staff strength:--- Management staff --- Senior staff --- Junior staff ---
10. List the number of construction industry professionals in your employ:- Architects - Building Engineers --- Civil Engineers --- Quantity surveyors --- Services Engineers ---

11. List the number of major jobs handled since inception and their contract sums - Housing - Schools - Shops - Hospitals - Office Complexes - Multi-story Buildings -Warehouses - Estates Development Bridges - Boreholes - Dams- Maintenance of Buildings - Maintenance of Building Services - Hotels - Subcontracting (Specialist) works - Roads - Materials Supplies - Churches - Mosques - others: ....

12. Apart from the item (11) above, do you engage in other types of Business(es) - ....

13. If YES in (11) above, do you maintain separate account for these businesses:...................

14. Are you aware of the existence of credit facilities in the financial institutions for construction projects financing: ....

15. Who are your major construction clients: ---- Individuals ---- Government ---- Non-Governmental Organizations ---- Government Parastatals ---- Foreign Companies ---- Private Companies ---- Corporate Organisations ---- Multi-National Companies ----.

16. How do you finance your projects: ---- Clients Payments only ---- Personal Savings ---- Profits from previous jobs ---- Loan from Bank ---- Bank Overdrafts ---- Capital Market (Shares and Bonds) ---- Equipment Leasing ---- LPO financing ---- Factoring ---- Trade Credit ---- others: ....

17. Name your sources of external financial borrowing:- Commercial Banks ---- Mortgage Banks ---- Merchant Banks ---- Finance Company ---- Trust Funds ---- Housing/Mutual Funds ---- Thrift Society (Esusu) ---- Capital Markets ---- Money Markets ---- Investment Bankers ---- Government Agencies ---- African Development Banks ---- Development Banks ---- World Bank ---- United Nations Development Programme (UNDP) ---- Non-Governmental Organizations ---- others (please specify)...

18. Are you quoted in the Nigerian Capital Market: .... Do you intend to be quoted - If No why ....

19. Do you at any time apply for any form of credit facility in the financial institutions to carry out your construction projects: If NO why: .... if YES what type of facility and from what institution: ....

20. Are you aware you can raise credit facilities from the Capital Market: ....

21. From (20) above how long does it take to receive approval for the application for credit facilities from the institution: Few days ---- 1 week ---- 2 weeks ---- 1 Month ---- above 1 Month: ....

22. Name the requirements demanded by financial institutions before considering your application for credit facility: ....………………
....
....
………………………………………………………………………………

23. Do you consider these requirements necessary ---- If NO why? ……………………………………………..
....

24. Are you always considered for every request made for credit facilities: ....………………………………………………………………….

25. When your grant is approved, how are they released:- Wholly .... Installmentally .... Do you prefer the method used ....

26. List the value of funds granted and their interest charges: ....……………………………………………………….........
....

27. How do you consider this interest rate charges:- High ---- Low ---- Adequate ---- What percentage charges do yo recommend ---- less than 10% ------ 10 - 15% maximum----

28. When do you normally ;apply for credit facilities from financial institutions:- On securing new projects ---- During construction ---- When you want to acquire assets ---- Establish new office/branch office ---- for expansion purposes: ....

29. How is your application approved: - Totally .... Partially ....

30. Any reason for partial approval ---- State the reason(s) ....………………………………………………………………..........
....

31. Do your clients honour your valuation certificate for payment soon as it is submitted ---- If NO why: ……………..

32. Do you agree with your client on mode and time of payment when signing the contract documents: .... Sometimes: .... All the time: ....…………………..

33. How long does the client delay payments: - 1 week ……….. 2 weeks …...1 month.…… Above 1 month ………..... How often does this happen: All the time.……... Sometimes………… At no time ....……...

34. Does he pay any percentage/amount for default/delayed payments ---- If NO why: ....

35. When payment is delayed, do you continue with the job or do you suspend the job until payment is made:……………………………......

……………………………………………………………………………………….

36. As a supplier, which materials do you supply. Cement .... Sand ..... Hardcore..........Aggregates .... Steel Reinforcement...... .... Laterite .... Paints .... Timber .... Tiles .... Electrical .... Plumbing Materials .... Blocks........

37. What method do you adopt for payment. Drop and pay method .... Drop and pay part and the balance at agreed time .... drop and be paid full at agreed time ....

38. What is your usual longest period of agreed full payment (in months) .... Does Contractor abide by this period ....

39. Do you also agree to supply and be paid from contractors valuation payment............. If not why? Afraid Contractor my abscond .... Afraid of the time the valuation will be honoured ....

40. Should contractor fail to honour his payment as at when due without genuine reason. How can you recover your material or debt:-. We enter into fresh negotiation .... He pays the interest charges on the money until the date he pays full .... we sanction/blacklist the contractor .... we take the contractor to court ....

41. As a sub-contractor, list your area of specialization:- Roofing .... Painting .... Aluminum Doors and windows .... Plumbing services .... Electrical services .... Tiling services — Carpentry and joinery .... Steel fixing .... etc please specify ------

42. In order to continue work when client defaults in payment, how do you mobilize funds:-From loan .... Personal funds .... From other businesses .... From the Financial Market .... Others (please specify) ....

43. What types of plants and equipment, instruments and Vehicle for Construction do you use:- Crane ..... Hoist ...... Winch .... Tipper ...... Dumper .... Grader..... Concrete Mixers ...... Vibrating Machines ...... Theodolite ...... Dumpy level ...... Bulldozer ...... Scrapper ...... Pick Up Van ...... others please specify: ....

44. How do you acquire them:- Hire purchase .... By Lease .... By Total Purchase .... By Hiring Services:

45. What is the average number of major jobs you handle annually ....

46 There are Short-Term (0-1 year), Medium-Term (1-10 years) and Long-Term (over 10 years) Credit facilities from financial institutions. Which term do you normally apply for and why?………………………
…………………………………………………………………

POSTGRADUATE SCHOOL

DEPARTMENT OF BUILDING
AHMADU BELLO UNIVERSITY, ZARIA

QUESTIONNAIRE - **FINANCIAL INSTITUTIONS**

RESEARCH TOPIC - Credit facilities in the financial institutions for financing construction projects in Nigeria.

A research work is proposed on the above topic in pursuit of a post graduate degree-master of science-m. sc (construction management). This questionnaire is designed to assist the study gather relevant information and data. Therefore, your brief and concise response will enhance the research findings. All information obtained would be treated with strict confidence and used only for the purpose of the research.

Tick, fill YES/NO or respond in the spaces as appropriate.

1. Name of Company: ……………………………………………………………

2. Head Office Address:………………………………………………………….

3. Branch Office(s) Address:……………………………………………………..

4 Foreign Office Address: ....……...........

5 How old is your institution/organisation:..................…..........…..........

6 To what category of financial institution do you belong:- Financial Intermediaries ...... Money Market .... Investment Bankers .... Primary Markets .... Secondary Market .... Others: ....

7 What is your role as a financial institution: …..………………………..……

....

....

8 What is the value of your paid-up Capital: ...... what is the minimum paid-up Capital approved by the Federal Government through the Central Bank of Nigeria: ....

9 Name the credit facilities available in your institution: ....

....

..............……………………………………………………………

10 Are construction contractors and the construction industry part of your beneficiaries: …...

11 Name other industries that benefit from your credit facilities:- Manufacturing .... Textile .... Plastics .... Agriculture .... Education .... Medical .... Tourism .... Commerce .... Transport .... Others : ....

12 Which industry including the construction industry has the highest application of credit facilities in order of magnitude from (item 11) above:

...............................…………………………………………….

....

....…………………………………………………………………...........

13 Which industry do you favour most for the grant (in order of magnitude):
................………………………………………………
....
…………………………………………………………….................

14 State specific reasons for your preference: ....
....

15 Compare the ratio of application received from the construction industry to that of other listed industries: ....…..............
....………..
....

16 Compare the percentage rate of grant to the construction industry in relation to other industries:...
....
...............…………………………………………………………………

17 Are you listed and quoted in the Capital (Stock Exchange) Market: ....……………………………………………………….....

18 Can the construction industry contractors be listed in the capital market: .....…………... Can they benefit from credit facilities in the capital market if not listed: ....

19 Apart from Head Office, can any of your branch or foreign office grant credit facilities:---------------If yes, is there any limit of approval: ....……………………………………………....

20 List the requirements from applicants for a successful grant and how long it takes to give approval: …..
....

21 Is Bank Overdraft facility part of your credit facilities ---------------------

22 What is the rate of interest charged on the loan/credit facility granted: ....

23 Do contractors abide by the repayment terms ---- If No why?

....
..............................…………………………………………….................

24 How do you disburse the facilities:- Wholly .... Installmentally ....…………………………………………………………........

25 Why do you use the method in (24) above ....….............
....

26 Do contractors actually utilize the facility for the purpose:- None does .... Some do .... some do not .... All does .... If NO how do they utilize it ....

27 How do you ensure proper utilization? …...
....

28 How do you recover your grants (principal and interest) should contractor default. ....
……………………………………………………………………………………
………………………………………………………………………….

29 What category of construction contractors usually apply for the credit facilities:- Civil Engineering .... Building Contractors .... Building & Civil Engineering .... Subcontractors .... Maintenance Contractors .... Private Developers .... Builders Merchants (materials Suppliers) ....

30 Which categories do you prefer for the grants (in order of preference):...
....
....………………………………………………………….................

31 Are you guided by any Statute Law, Bye-Law or Regulatory Body, or Government Legislation in designing and granting credit facilities to applicants and their industries .... if YES name them briefly:...…………..
....
.......………………………………………………………........…………….

32 To what extent does item (31 above) affect your services to the various industries and to contractors in the construction industry in particular……………………………..
....
........…………………………………………………………………........

33 What is your average credit duration period:- 0-5 years --- 5-10 years --- above 10 years ---

34 What category of staff are responsible for designing and assessing construction contractors applications for grants:- Risk Management professionals .... Non-professional staff .... Business management professionals .... Construction industry management professionals .... others (please specify) ....……………………………………………........

35 Will it be necessary to engage the services of construction industry management professionals (Architects, Builders, Estate Surveyors, Quantity Surveyors, Project/Construction Managers) to assist in the design, assessment, monitoring and control of grants meant for the construction industry contractors .... if NO why? ....
....
........……………………………………………………………….........

36 Which of the credit facilities is most preferred and sort after by construction contractors ....
…………………………………………………………………………………
…………………………………………………………………………………

37 Do you think it is necessary for the construction industry to have a separate and specialized institution for granting credit facilities to construction contractors: -If YES /NO State reasons…………………
....…………………
….. …..……………………...