THE ROLE OF DEVELOPMENT BANKS IN NIGERIA'S INDUSTRIALISATION: A CASE STUDY OF THE NIGERIAN INDUSTRIAL DEVELOPMENT BANK (NIDB)

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A THESIS SUBMITTED TO THE POSTGRADUATE SCHOOL OF AHMADU BELLO UNIVERSITY, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION (MBA).

1996

DECLARATION

I declare that this research work is done by me. As far as I know, this research work has not been presented to any post-graduate school for the award of a higher degree.

BASHIR MUAZU RUMA _____ _____
(Signature) (Date)

The declaration above is confirmed by:

MAL. IBRAHIM F. OKEJI_____ _____
(Supervisor) (Signature) (Date)

CERTIFICATION

This thesis entitled "The Role of Development Banks in Nigeria's Industrialization - A Study of the Nigerian Industrial Development Bank (NIDB)" as written by Bashir Muazu Ruma, meets the regulations governing the award of the Degree of Masters of Business Administration (MBA) of the Ahmadu Bello University, Zaria, for its contribution to knowledge and literary presentation.

SUPERVISOR — DATE 25/5/99

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DEAN, POST GRADUATE SCHOOL — DATE 28/05/99

DEDICATION

This work is dedicated to my loving and caring mother and all those who devoted their times and lives towards the upliftment of their societies.

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In the work of this nature it is difficult to express gratitude to all those who have contributed to the completion of this research.

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ABSTRACT

Development Banks are charged with the responsibility of increasing and accelerating the rate of industrialisation through financing medium and long-term industries in private sector.

The study reveals through a case study of Nigerian Industrial Development Bank (N.I.D.B.) - that Development Banks (DBs) could be effective agent of industrialisation in Nigeria if the funding is backed by effective promotional services.

In addition to these, efforts should be added to channelling financial and human resources to those projects which can be expected to have maximum impact on the acceleration of industrial growth.

If attention is given to this aspect, foreign exchange of the country will increase through procurement of raw materials, the number of jobs created, tax flow accruing to government from the operations of these ventures and the linkage effects, both forward and backward.

CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND INFORMATION

Industrialisation it is said, holds the key to the Economic Development and growth of any Economy. "The record of history clearly demonstrates that to eliminate a country's technological and economic backwardness, it is necessary first of all, to diversify the pattern of production by equipping the economy with the latest machinery and utilising modern technologies and techniques of production".(1)

With this contention, immediately after the second world war, and especially in the early 1960's when many countries in Africa, which were hitherto under colonial tutelage gained their political independence, concerted efforts were directed towards the sharpening of their political and economic destinies in order to promote the development and growth of their economies, thereby raising the living standard of their peoples and consequently maintaining stable and independent economies. These tasks, many of them believed, could only be achieved through rapid industrialisation of their economies.

"The rationale for the emphasis on rapid industrialisation in the emerging countries as an engine of growth is based on the theoretical and empirical convictions that manufacturers are not subject to severe demand limitations".(2) Furthermore, industrialisation offers opportunity for import substitutions development strategy. This helps conserve foreign exchange as what used to be imported can now be produced

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locally. Also industrialisation has higher linkage effects than the subsistence agricultural practices which were so dominant in most of the African Countries.

In this way therefore, industrialisation offered the opportunities for increased out-put and employment increase for the surplus labour which would in turn increase per capita income and enhance a higher standard of living.

However, this ambition of accelerated industrialisation of the economies, has been subjected to a great deal of limitations and frustrations in many of these countries and in Nigeria in particular. One of the greatest of these obstacles being inadequate funds and indigeneous entrepreneurial skills to be mobilised and channeled to proper industrial take off. The reasons for the existence of these problems are not far fetched. In the economies of the emerging African countries, Nigeria inclusive, the greater majority of the peoples are engaged in low income generating productive activities, mostly subsistence agriculture. The surplus of their earnings if any, are siphoned out as payments for the more expensive manufactures goods imported from abroad and on other essential goods, such that there exists little or no savings and hence their inability to mobilise funds for investments.

In view of the above problem, it was recognised by some governments that leaving the task of industrialisation to market forces would inevitably perpetuate the low income characteristics of these countries. It therefore became necessary for government to initiate and execute carefully worked out policies that would help their countries to break out of the "circle of poverty". It was on this premise, that successive

Nigerian governments have since independence embarked on the initiation and operations of policies directed at promoting industrial development. These policies were either indirect as in tariff and tax incentives or through direct government investment in industrial enterprise, such as the establishment of lending institutions like the various Development Banks (D.Bs) which gives loans on liberal terms to industrialists.

The establishment of DBs is one of the loudest industrial programmes of direct government intervention in the acceleration of industrial development in Nigeria: The Nigerian Industrial Development Bank (N.I.D.B), Nigerian Bank for Commerce and Industry (N.B.C.I) and the Nigerian Agricultural and Co-operative Bank (N.A.C.B) are notable apart from various states and sub-regional development finance institutions. These institutions are expected to mobilise available financial resources and ensure their maximum utilization for the rapid industrial development of the economy.

Some of these institutions have existed for well over two decades now, for example, the Nigerian Industrial Development Bank (NIDB), was established in 1964. Therefore, an assessment of its role in Nigeria's industrialisation at this juncture is necessary. In the ensuing discussion, attempts will be made to assess the performance of the NIDB since its inception, highlighting specifically its role in making funds available to indigenenous industrialists, promotional and managerial services and demonstrate also how it has helped in raising industrial out-put, promoting industrial activities and employment generation within the industrial sectors among others.

1.2 STATEMENT OF THE PROBLEM

The first two decades of Nigerian political independence were characterised by exuberance and high level of expectation, hence development efforts resulted in ambitious policies and prestigious projects which too often made little contribution to the goal of rapid industrialisation development policies of the Federal Government as enunciated in the various development plans beginning from the first (1962-1968) to the fourth national plan (1981-1985) have the following broad based objectives:

(a) Rapid increase in real per capita income

(b) More even distribution of income

(c) Reduction in the level of Unemployment

(d) Increase in the supply of skilled man-power (and)

(e) Diversification of the economy.

To accomplish these objectives, the government need not only be equipped with the necessary financial base but must necessarily have to embark on radical structural adjustment changes and reforms making sure that existing structural rigidities in the economy are minimised if they cannot be eliminated.

However, from all indications especially in the face of economic crisis of the 1980 and 1990's, it is evident that the various gigantic development programmes are failing to promote the necessary growth and development. The economy has not recorded a remarkable increase in the per capita real income level, the growth rate is far from being satisfactory and standards of living of majority of the people appeared to be deteriorating. This state of affairs calls for re-examination of the process of economic development in Nigeria.

One of the ambitious development programmes of the Federal Government is in the area of development finance soon after independence, it become absolutely necessary to channel adequate flow of financial resources and development within the sector. This role was assigned to development finance institutions, for instance the N.I.D.B. was established specifically to undertake the provision of medium and long term loans, give technical and managerial assistance to clients, carry out market survey for new areas of profitable industrial investments and making them known to investors. However, the country's present economic problems such as high price for basic local industrial or manufactured goods, high import of our basic and essential manufactures goods and the deteriorating level of employment generation in the industrial sector tend to point to the fact that the Banks performances and activities need to be re-examined, reviewed and re-assessed.

Consequently, it is hoped that this study will provide a basis for evaluating the N.I.D.B. so that in the areas it had performed unsatisfactorily, feasible alternative operational procedures may be sought in the efforts to attain the goal of rapid industrialisation.

1.3 OBJECTIVES OF THE STUDY

(1) The main objective of the study is to show empirically the performance and contribution of N.I.D.B to Nigeria's Industrialisation showing specifically it's contribution to financing of industrial projects, it's promotional activities industrial ventures and the managerial service it renders.

(2) To look at the various forms of industrial financing by N.I.D.B and their implication for Nigeria's industrial development.

(3) To critically assess the lending and operational policies of the bank within the theoretical frame work of a development bank.

(4) To examine some of the problems militating against the maximum effectiveness of the bank, and to suggest solutions to some of the problems.

1.4 SIGNIFICANCE OF THE STUDY

In most economically backward nations of the world, substantial amount of money is being expanded on the provision of infrastructural facilities such as the transport system, power industry, finance development houses and other productive services. These efforts indicate the commitment of these governments to restructure their economies and to specifically accelerate the rate of industrial growth and development. For example, as far back as 1962, when Nigeria embarked on her first genuine national development plan, a total of 22.240 pounds was allocated for the various programmes to enhance industrial growth in the economy[3]. Also during the second national development plan period, the N.I.D.B - an arm of government industrial programme had sanctioned loans and equities totaling 8.1 million pounds in different projects[4]. In the same way, the Third National Development Plan reserved more than N219.45 million for the establishment of new state banks and other financial institutions. While the sum of about N398 million was channeled to the N.I.D.B alone and N100.00 million for N.B.C.I.([5]). The government's aim was to make loans investment in industry and

commerce to indigenous enterprises so as to accelerate the pace of industrial development in the economy. The trend of the government enormous financial commitment continued through the fourth national development plan[6]. A total sum of N380 million was allocated to the N.B.C.I. for on-lending to medium and small scale industries.

The banks assets was estimated to stand at N135.5 million in 1980, out of which 135 million that is 99% were loans from Federal Government. By 1985 the assets of the bank had risen to 311.1 million of which N30 million was loan from the Central Bank of Nigeria. Similarly, the assets of the N.I.D.B. grew from N383 million in 1984 to N411 million in 1985 with the government having a substantial amount of financing commitment.

It is important to note that, the government's involvement in funding finance institutions is based on the notion that these institutions will serve as a media through which government industrial policies could be realised for accelerated industrialization. According to what is contained in the Fourth National Development Plan, the over-riding objectives of government policy was to: "encourage a maximum growth of investment and out-put within the industrial sector consistent with the country's economic potentials and national aspirations".

The establishment and roles of development banks in Nigeria are therefore defined within the broad government objectives. This is to say, in effect, that industrialisation of the economy is to be partially entrusted in the hands of D.Bs. However, a careful look at the performance shows a worsening balance of payment deficits, soaring inflation of more 200% between 1984-1995 and unbearable unemployment rate; while the

greater majority of Nigerian Workforce is still engaged in subsistence agriculture.

Available statistics revealed that, manufacturing and crafts contribution to G.D.P. remain insignificant, for example, the contribution to G.D.P. at current factor cost by tradable and non-tradable activities was more than 6.3% in 1965/66 fiscal year, it increased slightly to 7.3% in 1970/71 by 1973/74 it was only 5.0%. 5.4% in 1977/78 and only 6.7% in 1979/80. Agriculture continued to be the dominant sector in the economy employing over 50% of the labour force. Recent statistics have also indicated that 93.7% and 98.8% of Nigeria's demands for machinery and equipment are still imported while 89.2% and 83.8% demand for industrial chemicals and drugs respectively are supplied by the external sector. Between 15% to 17% of Nigeria's demand for vegetable oil milling, beer, brewery, soaps, perfumes and other cleansing materials are supplied by the rest of the world. Furthermore, the soaring and unabated inflationary trend in the economy is an undisputed indication of the insufficiency in the level of our industrial out-put.

These disturbing economic problems continue to exist despite the huge financial resources channeled to industrial institutions. It is therefore pertinent at this period to assess the performance of these banks especially N.I.D.B. which seems to have invested so much. For example, within Kaduna area administration alone, N.I.D.B. has about 600 projects being assisted, in various ways and about 400 in Bauchi area. It is therefore intended in this study to actually evaluate whether or not Development Banks could effectively be retained as agents of industrial development, and also, to find explanation as to why some of the economic problems which the institutions are meant to arrest still exist.

This is necessary because the desirability and need for the allocation of financial resources for industrial development purposes is not an end in itself but what constitute a feasible path to attain the desired.

This study is therefore significant in order to assist the policy makers and top government functionaries to assess whether or not development banks could effectively be retained, and to know the necessary steps to take if they are to be retained to improve their efficiency.

The study will also be helpful to emerging medium and low level industrialists who may seek loans in these development banks.

1.5 RESEARCH METHODOLOGY

For the purpose of meeting the desired goals, the study relied on analytical, theoretical and descriptive approaches which are complemented by simple descriptive statistical techniques like percentages, averages and ratios.

1.6 SOURCE OF DATA

1.6.1 PRIMARY SOURCE

Casual interviews were held with different bank officials and some clients of the bank the two area offices.

1.6.2 SECONDARY SOURCE

The second source of data consist of documents including the annual reports of various development banks, reports and statement of accounts of the C.B.N., reports of the federal office of statistics as well as text by organisation individuals.

1.7 SCOPE AND LIMITATION OF THE STUDY

The scope of the study is restricted to the North-East and North-West areas of N.I.D.B. it covers the period between which the two areas were established and 1992.

The focus of the study narrows to the assessment of the performances of an industrial development bank viz. N.I.D.B. on Nigerian Industrialisation. Furthermore, measuring the impact of a micro-unit amidst many other development banks on economic aggregates like industrial out-put, employment generation etc are difficult to make.

Also, as in most empirical studies given the statistical data available and the techniques used, it is difficult to quantify the exact impact of N.I.D.B. on Nigerian industrialisation. The findings in this study are also affected by finance which incapacitated the researcher to cover a larger population.

Inaccessibility to vital information from the bank is also another limitation experienced. Much of the information on the bank is considered classified, it is therefore not made available to public, even researchers.

1.8 **DEFINATION OF TERMS**

C.B.N.	-	CENTRAL BANK OF NIGERIA
D.B.	-	DEVELOPMENT BANK
D.C.	-	DEVELOPED COUNTRIES
D.L.F.	-	DEVELOPMENT LOAN FUND
F.E.M.	-	FOREIGN EXCHANGE MARKET
F.L.B.	-	FEDERAL LOAN BOARD
F.O.S.	-	FEDERAL OFFICE OF STATISTICS
G.D.P.	-	GROSS DOMESTIC PRODUCT
I.B.R.D.	-	INTERNATION BANK FOR RECONSTRUCTION AND DEVELOPMENT
I.C.O.N.	-	INVESTMENT COMPANY OF NIGERIA
I.D.B.	-	INDUSTRIAL DEVELOPMENT BANK
I.D.C.	-	INDUSTRIAL DEVELOPMENT CORPORATION
I.F.C.	-	INTERNATIONAL FINANCE COMPANY
L.D.C.	-	LOW DEVELOPMENT COUNTRIES
M.C.S.	-	MANAGEMENT CONSULTANCY SERVICE
N.A.C.B.	-	NIGERIAN AGRICULTURAL AND COOPERATIVE BANK

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N.B.C.I. - NIGERIAN BANK FOR COMMERCE AND INDUSTRIES

S.A.P. - STRUCTURAL ADJUSTMENT PROGRAMME

S.F.E.M. - SECOND TIER FOREIGN EXCHANGE MARKET.

Development Bank is defined here as "Financial Intermediary, supplying medium and long term funds for bankable economic development services".

1.9 ORGANISATION OF STUDY

Chapter One is the introduction, research methodology and preview to the whole of the study. The second chapter is the review of various literature on the need for and the role of development finance particularly on the activities of development banks in accelerating industrial growth and the overview of the performance of Nigerian industries as the evolution of Development Banks with particular emphasis on N.I.D.B. Chapter three dealt with the data obtained during the course of the study. Chapter four, analyse the data obtained and state the major findings. While chapter five conclude and make policy recommendations.

FOOT NOTES

1. Kane, J.A. - Development Banking: An Economic Appraisal. Lexington Books, London, 1977, P.10.

2. Ekuerhare, B. - The Economic Appraisal of Import Substitution Industrialisation with reference to the Nigerian Textile Industry. Ph.D. Thesis, Manchester University, P.10.

3. Fed. Republic of Nigeria. - 1st National Development Plan 1962, P.50

4. Fed. Republic - 2nd National Development Plan 1969, P.52 of Nigeria.

5. Fed. Republic - 3rd National Development Plan 1975, P.78 of Nigeria.

6. Fed. Republic of Nigeria. - 4th National Development Plan 1981, P.68

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION:

Development Finance Institutions have become very useful in the acceleration of industrial growth and development; at least as conceived by most developed and developing countries of the World today, and especially in the capitalist oriented economies. The experiences of some developed countries like U.S.A. and Japan have helped to contribute strongly to the inclination that development finance could be an effective engine of industrial growth and development. Hence many L.D.C want to catch up using the same instruments.

In this Chapter, attempt is made to review the related literature on how development finance and D.Bs particularly have aided industrialisation elsewhere, how they are supposed to do it in L.D.C and some of the likely problems they may encounter.

2.1 PREAMBLE:

According to Kane (1947),[1] Industrial under-development entails either lack of economic resources, or the in-ability of that country to tap and harness the available resources for industrial development. Therefore, the role of D.Bs in development in such places is to stimulate growth by giving the necessary impetus for industrialisation via the development of indigenous enterpreneurship, technological and

managerial capabilities, promotional activities, capital market activity and through making available the necessary foreign exchange. A development Finance Institutions, Development Bank or Development Corporation, capable of carrying out these functions effectively will surely accelerate the pace of industrialisation.

In Mountjoy's (1975)[2] opinion for any advancement to be made in range of manufacturers, by means of successful new promotion or the expansion of the previously existing ones, will depend very much on a parallel expansion of utilities, such include the expansion of railways, power stations, harbour installations, school and developments finance institutions, these infrastructures help in stimulating local industries especially in the building and construction sector.

To this end, it is stressed that socio-economic, technical and strategic factors finance inclusive must be evaluated and government must decide upon the tempo of development, by means of their power of controls and emphasis upon long-term measures. To mobilise and employ all the forces available in the struggle for industrial development require that each government of developing countries prepares and put in to effect a general economic plan. And that the heart of such a plan is to procure the necessary capital through development finance institutions in order to raise the amount of investment and consequently increase productivity in the industrial sector of the economy.

2.2 DEVELOPMENT FINANCE: A COMPARATIVE STUDY OF PERFORMANCE IN DCs

Neal (1963)[3] on the experience of developed countries in the supply of capital for investments, insisted that capital in liquid form is essentially a present purchasing power, which is exchanged for a promise of future payment out of the proceeds of productive investment. Hence developed countries evolved institutions, particularly Development Banks and other methods of mobilising large amount of such capital, and channeling it into industrial investment. To this extent, he recognises three types of liquid capital for investment in industrial ventures.

(a) Short-term loans for financing current operations inventories and account receivables.

(b) Intermediate and Long-term loans generally over (10 years) for financing plants and equipment.

(c) Equity capital, the permanent capital supporting the whole enterprises which also provides a margin of security for all types of loans.

It is also recognised within the analysis that there is another category of capital not included in the above. This is the capital which will support industrialisation like the roads and other means of transport, public storage facilities, communications etc. These require financing of a permanent type often by the government.

According to Neal therefore, in both DCs and LDC, the Short-term capital (under 6 months) financing is generally and readily available, and

for established enterprises there is little or no difficulty in securing financing up to one year, when it is needed as an integral part of an operation. This is mostly the traditional functions of commercial banks. However, the short term finance still has its gap. The most important gap being in short term financing for poor credit risks, and these are to be assisted by specialised institutions, including government finance institutions, like the small business administration in the United States.

On the other hand, intermediate and long-term financing for industries in DCs is available, through a variety of channels. For well established enterprises one of the sources is through retained profit of the enterprise itself. This increases the proportion of the equity capital in venture and forms a major substitute to loans. To augment this source, there are capital markets for (bonds), insurance companies, pension and trust funds and banks with term and savings deposits. In Europe, particularly there are in addition, banks specialising in industrial financing to make these funds available.

In LDC however, these sources of long term credit are not well established. And according to Neal, this is partly due to low income. Where they are established, their investment policies may be or are heavily conditioned; instabilities in government and in monetary conditions in such a way that it discourages the financing of industries.

The various sources of financing industrial ventures as highlighted above, are so enumerated to indicate types of financing required for industrial firms. In DCs, capital needs of industrial firms have been so well supplied, (Neal) it will only need a very careful studies ad experiment to ascertain where gap exists and finding means of filling them. In the

case of U.S.A., it has been found that gap exists in financing for terms of more than Five years and for amount of about $300.00 "the gap is usually found among new and rapidly growing enterprises, which have difficulty in securing enough equity capital and in securing loans for purchase of equipment and expansion of plants".[4] Alfred inferred from his study that the observation will be particularly relevant for LDC where new and quite smaller and rapidly growing industrial enterprises are likely to be numerous in the early stages of their industrialisation.([5])

Different countries, in an attempt to bridge the gap evolved different strategies. The commonest in DCs like in the U.S.A., Canada and England is the establishment of national institutions, with government or official financing. In the U.S., additional efforts were made for the existence of institutions which could jointly be financed by both states and individuals. In the same manner, hundreds of local areas set up privately financed corporations to supply industrial plants or long-term loans for new plants to stimulate growth in the local areas which they serve.

For LDC, the solution of the problem may not be as easy and neatly tackled for several reasons. First, LDC are characterised by both inadequate supply of savings and inadequate channels for financing industry with the little savings available. And because industrialisation can raise income levels upon which an increased supply of savings depend, special attention must first and foremost be given to the problems of improving channels for savings into industry. This can be achieved by developing a sound specialised financial institutions. Secondly, LDC lack adequate institutions for providing either equity capital or long term loans to industry. Because smaller and growing industries are expected to

encounter the most serious capital shortages, special attention is therefore drawn to this type of financing (long-term).

Alfred therefore recommended a substitute for capital market and institutions which may not meet the capital requirement of these industries. He recommended a substitute that performs the same economic functions of linking the capital markets of developed countries and the capital supply of international agencies to the capital needs of LDCs. Practically today, most LDCs will not opt for this alternative because of strings attached to such facilities.(6)

Instead most of the LDC are opting for the type of financing done by the specialised institutions like in the U.S.A.. Indeed, it is development banks that carry out these functions, for there to be effective industrial take off in any economy, especially those of the LDC. There must exist an industrial development corporation or industrial development centre, having high professional competence and political power.

The role of this body is primarily to give leadership in mobilising resources of the country for industrial development. It also means making full use of resources available from outside the country from international agencies, foreign governments etc. This is the point of view stressed by Williams Krebs (1963) on the strategies for industrial development. He maintained that for the above body to function, there must be "key" ancillary institutions, one of which and the most important is DB. He ponders that if such an institutions does not exist in a developing economy then it becomes the first major task of the Central Industrial Development to create them or to bring about their creation.(7)

In this framework, DBs are charged with the responsibility of mobilising capital for industrial development and other development programmes. Historical studies have shown that in Europe and America where the banks have actually performed this role, a clear distinctions is made between DBs and commercial banks. While commercial banks engaged in financing trade and commerce, through loans limited to one year. DBs provide medium and long term "soft" loans and more importantly invest in equity securities of new enterprises"[8].

This type of financing is normally the least easily available capital in most LDC. The gap is therefore to be filled by DBs. Equally important of the functions of DBs is its ability to make more careful technical and financial analysis of new ventures, as well as rendering consultancy services at the early stages of their operations. This is quite crucial because, a project without solid feasibility studies will only amount to waste and misallocation of resources. The enormous resource accessible to DBs, through foreign assistance of the industrialised countries, and from the governments of the developing countries themselves, place the banks in the best position to carry out these functions.

Furthermore, a well managed DB, can equally contribute immensely toward a sound development of the capital market. It can stimulate the creation of a capital market for securities of industrial enterprises thereby channeling local capital away from less productive into the main stream of industrial development so a better way of catalyzing the growth and development of industries as suggested by Krebs is for the LDCs to maintain close ties with the central industrial development organisation in order to jointly search out and analyse the merits of each investible industrial projects. He concludes that, in

economies where such institutions (DBs) and industrial development centers), are not existent, or where they are not effective, early attention to strengthening them becomes inevitable and crucial element in industrial development strategy.

Ronde Cameron (1975) observes the reasons why some nations are able to modernize and become wealthy, while others, even with similar opportunities and resources remained "wedded" to traditional methods of production and ways of life, attributes the discrepancy to the ability of the former, to undertake institutional innovations, one of such innovations according to him in the history of industrialisation was the invention of modern banking system.[9]

Economists hold diversified view on the effectiveness of the banking system in promoting and facilitating industrialisation. Schumpeter, being the first modern economist to study the relationship regarded the banking system as one of the two key agents.[10] The other being entrepreneurship in the whole process of industrialisation.

In a comparative study of the role of banks (commercial, DB and other banks) Cameron (et-al) observed that in five European countries namely; England, Scotland, France, Belgium and West Germany, the effectiveness of the banking to affect the level of industrial growth and development is a function of the banking structure. By banking structure he means the ensemble of ratios, and relationships, quantitative and others, that characterise the components of the systems and tie it into the economy of which it is a part. The question is whether there is an optimum banking structure that would produce the "best" results in the acceleration of modern industrialisation and from the experiences of the

industrialised countries and often encompasses the activities of well articulated and functional development finance institutions.

One of the most widely discussed thesis on the role of DBs in the historical process of industrialisation especially the industrialisation of once backward countries is that presented by Alexander Gerschankron.[11] Although there are other variables in his explanations on the distinctive pattern of industrialisation in those countries which he studied, he conceded that the DBs play a key role at certain stages of the industrial process. Taking England as his point of departure, he stressed that, the roles played by special financial institutions, depend on the industrial backwardness of that country, stating that "the more backward the economy is, the greater is the part played by special institutional factors designed to increase supply of capital to the nascent industries and in addition to provide them with the less decentralised and better informed entrepreneurial guidance."[12]

In the early stages of England's industrialisation, the capital was supplied from the entrepreneur's own savings or those of his relatives, friends, customers, by means of re-investment of profits. No external agency was required for the supply of capital enterprises were capable of doing this. But in the case of Germany which is moderately backward and which the process of industrialisation with a more complete technology and market situations, and what large optimum plant scale and which required larger blocks of investments, and since the country was endowed with fewer potential entrepreneurs and less liquid capital. The banking system, especially DBs inevitably became the prime source of both capital and entrepreneurship. In Germany during its industrial take-off stage, the various incompetences of their entrepreneurs were off-set by the desire of

splitting the entrepreneurial functions, a substitute for the insufficiency of the previously created work willingly placed at the disposal of the entrepreneurs. They are also substitutes for entrepreneurial difficulties. The banks effectively participated in shaping the major and sometime even not so serious decisions for individual enterprises. They often mapped out a firm path of growth, conceived for sighted plans, decided on major technological and locational innovations and arranged for mergers and capital increases. In this regard, the role played by DBs exceeded just that of industrial development. As Gershankron puts it. German Banks accompanied their clients from the cradle to the grave, from establishment to liquidation.

Russia experienced her first great industrial spurt at the end of the 19th century. Cameron contended that even though it can be generally accepted that government played an important role in stimulating that spurt, one cannot loose sight of the means government employed to encourage it. A Russian financial expert wrote that "The Russia economic evolution was due to its banking system".[13] This no doubt must be an exaggeration, but, he can not be fully wrong. To support this therefore Crisp (1962) wrote, if industrialisation is to take place in Russia, the policies must be realistically formulated and effectively executed. In this respect both the states bank and imperial government acted with wisdom and restraint.[14]

Therefore, there exist in the literature general consensus on the links between banks, particularly DBs and country industrialisation that, these facilitated the process and pace of industrial development.

Even though Kozo (1973)[15] attempted to dispute this consensus, that industrialisation in Japan was not induced by DBs and banking generally, his findings were inconclusive, because empirical and actual indicated that the banks were more than 50% responsible.

2.3 OPERATION OF DBs IN LDC

The growth of development finance and development banks in particular in LDC is a recent phenomenon. Equally, efforts by Economists from these countries to subject the field to rigorous academic and policy analysis has been so scanty. However, some studies noteworthy, have been done. Todaro (1977), commends the efforts of some LDC in establishing DBs. His commendation tends from the fact that the DBs can actually facilitate a systematic finance for sustaining planned industrial expansion. This is because DBs are unlike commercial and savings banks which usually set loans conditions which are inappropriate for establishing new enterprises or for financing large-scale projects. According to him, their funds more often are allocated to "safe" borrowers -(established industries) many of which are foreign owned, or run by well known local families[16]. Hence true venture for new industries rarely finds approval.

Todaro, however, argues that to facilitate growth in economies characterised by a scarcity of financial capital, DBs must shift emphasis from excessive concentrations on large scale loans to the financing of small scale ventures. This is because, DBs and some privately owned finance companies will not finance projects that are less than $20,000.00 to $50,000.00. These development finance institutions base their action on the argument that lesser loans do not justify the time and efforts involved in their appraisal. As a result, development finance companies

almost totally isolate their activities from the field of aid to small enterprises, even though in most countries, such aid is of major importance to the achievement of broadly based social and economic development. As a consequence small scale entrepreneurs which often lack the technical, purchasing, marketing, organisational and accounting skills as well as access to bank credit are therefore forced to seek funds in the exploitative unorganised money markets, making the cost of production to be higher. He summarised that unless the interests of these small scale enterprises i.e. financial and technical interests are taken care of, the long run impacts of DBs, public as well as private, will be mainly confined to assisting a few "private individuals and those who run state enterprises to concentrate their combined economic power even further" ([17]).

Todaro therefore suggests establishment of new types of savings institutions and financial intermediaries for the acceleration of industrial growth and development. Such institutions according to him should not only mobilise domestic savings from small as well as large savers, but they should be able to channel these financial resources to small scale industrial ventures, who until now have been at most totally excluded from access to needed credit at reasonable rate of interest.

Ewing (1968) on industrial promotion to Africa termed the establishment of public DBs as a device for state intervention in the industrial development. This he agrees is a positive and progressive step taken by these countries[(18)].

According to him, three things are obvious at this stage of Africa's development. One is that, there is a case for various forms of industrial

enterprises, either public or private, domestic or foreign, whatever it is, so long as it can contribute to the industrial growth and development. Secondly, there is a clear lack of capital and skills capable of conceiving and preparing projects and managing and running industrial enterprises. Such resources have to be created. Thirdly, it is unlikely that serious strategy of industrial development can be devised and applied without extensive government intervention. Ewing uses these arguments to justify the establishment of DBs, and stressed that progress on industrial establishment will depend on how well these banks carry out their functions.

These functions are classified into two stages. The first stage carrying out of feasibility and engineering studies designed to translate the potential industrial opportunities revealed by the many preliminary studies carried out in specific industrial projects, while the second stage is financing.

Louis (1963)[19] believes in the potential of an active development finance institutions in promoting industrial development. However, he identifies two of such institutions, which are the industrial development corporations and DBs. These institutions seem to overlap in functions, but they are not in any way alternative to each other.

An Industrial Development Corporation (IDC) with greater capital and borrowing power may be organised by a government and given the responsibility of stimulating and assisting industrial investments by the private sector with loans, technical help and other means. It will also serve as agent for government in situation where government is determined to carry out certain manufacturing or related industrial projects

on its own. The DBs on the other hand would confine themselves to loans and perhaps to equity participation in private industrial enterprises. It might also provide economic, engineering and other technical assistance and services. While DBs may seek to promote new enterprises, it would not itself assume the entrepreneurial functions or responsibility. Thus a government which plans not to have an industrial investment of its own might therefore choose to rely on an industrial bank only.

Louis, however, maintained that an over ambitious government activity in industrial promotion will gainfully run the two development institutions because of insufficiencies that may arise in a situation of a single one of them in existence. In as much as DB is required as an engine of growth, certain problems may retard its impact, for example, the problem of financial participation and management control of the institutions. It is difficult for many governments to voluntary relinquish major equity ownership and management control in such an important institutions to private partners, especially if such partners are known to be looking in sympathy with government's social objective. Yet government ownership and government dominated management will almost surely result in gross inefficiency and political manipulations inimical to the purpose for which the banks are initially established.

To avert this particular problem Louis suggests an arrangement whereby government financial participation in such an institutions may be major without being dominant in participation, for example, it may take the form of a loan to the bank rather than equity ownership, or it may be both equity and loans with the majority equity interest in private hands. Furthermore, the government can guard against control of the bank by

undesirable elements by providing for broad equity participation by institutions such as private banks, insurance companies, cooperatives, reputable individuals, firms and by responsible foreign capital interests and of course by insisting on appropriate management and operating rules and criteria.

Private interests will not loose under this arrangement because the opportunity granted to them to invest in such a bank can be made quite attractive by the virtues of the leverage granted to equity capital. The operation's profits could even be attractive if the bank took equity participation in ventures which turn out to be profitable, or if it obtained loan capital more cheaply or if the bank reserves the right to convert its loans into equities in the borrowing companies at it's own option at some future time.

Richard (1967) narrates the circumstances in which DBs are created, their potentials as instruments for accelerating industrialisation and the factors affecting success in utilizing their potentials. He pointed out that DBs with sufficient independence, broad enough powers, and with enough imaginative management could serve as a powerful finance force for encouraging industrial growth and positive changes in attitude towards business. As an additional or sometimes the sole source of medium and long term credit for industrial enterprises, DBs can be a powerful stimulant for new jobs. In fact the very process of creating such an institutions stimulates new projects and creates a favourable climate for risk taking.[20]

Richard postulates that DBs are essentially device to fill a gap in the existing financial structure of a country. However, most often, they

have made few loans in order to bridge this gap. This ill, according to him is not because of inadequate funds, but because of shortcomings in management etc. The problem of need therefore is usually broader than the problem of adequate credit availability.

Thus, in most countries, especially African countries, even in some DCs, there tend to be a shortage of projects, in part as a result of lack of skills needed in preparing projects for financing. The shortage of projects is worse in African countries anyway where there are shortages of entrepreneurs of individuals and groups, willing to spend their time, efforts and money to identify and develop projects. In such places he opined there is the need to make loans where the effective demand for credit does not exist.

Another aspect which he concerns himself with regard to the effectiveness of DBs is with relation with other important agencies such as the international agencies like the World Bank. These agencies will expect the DBs to be aggressive in utilizing the funds committed to it; but at the same time will expect the bank to follow sound financing practices to protect the funds with which it has been entrusted. Domestically too, the banks will be expected to have worked closely with the country's planning groups, the local technical assistance agency, local business organisations, local banks and other local business and financial community.

Caincross (1965)[21] looks at the DBs from their peculiar merits of channeling foreign capital into industry. He urges that with appropriate government guarantees from the World Bank or from other sources at rates of interest that compare favourably with the rates paid by industrial

borrowers even in advanced countries; they will be able to make capital available for industrial development in amounts and at the rates that individual enterprises in African countries or in any other LDC could not have anticipated to get on their own credit worthiness.

Furthermore, DBs can build up a staff familiar with the problems in finance, organisation and engineering of large industrial ventures and put this staff at the disposal of each new projects which they agree to support. Even if they loose some of these staff to the enterprises which they finance, they can comfort themselves with the realisation that they have added to the sum total of experience on which industrialisation of that area is based.

Because of these advantages, Caincross called on the Central Banks, DBs and the banking sector in general especially in African countries to shoulder the task of training good caliber of bankers in the interest of industrial take off. He attributes specifically the rapid industrialisation of Mexico and Puerto Rico to the activities of men in finance and technology, and their ability to form general policies and prepare industrial project.

Murray (1958)[22] recognises the fact that finance poses one of the greatest problems to industrial development. Projects found to be technically and commercially sound and of high national economic profitability often fail for lack of suitable financing. This is because, though many sources and types of financing are available each is suitable for all the sources. This source constitutes an advantage to the project in the sense that it ensures a sounder financial structure with more margin of safety if difficulties arise. To the economy in general, it is of importance

that DBs which regard projects from the view point of the economy should devote special efforts to assist sponsors in raising as much money as possible in the form of equity. If more share capital in the aggregate is raised in a given period, it is likely to mean more industrialisation than would otherwise take place, for the amount of equity which can be secured is usually a major limiting factor on the amount of industrial development which also give the investors increased incentives to work for the success of the projects they help to finance.

Bhatt (1980), wholly recommends DBs in emerging nations. But however, he identifies one major problem which such institutions run into. This is the problem of choice criteria for an industrial project. He stressed that it is difficult to make any choice criteria if DBs must indeed have a direct relationship with the development objectives of a country. Even though he realises the difficulties in ascertaining the accurate objectives on a country. Based on the above notions, Bhatt strongly endorses the need to periodically review the performances of DBs on their catalytic role or capital integration. He conducted such exercise in some LDC and made the following observations:[23]

(a) They (DBs) have by and large, provided finance to well established and well entrenched houses.

(b) they have failed to play the expected catalytic role of promoting new entrepreneurial and new enterprises.

(c) they do not have much impact on the promotion of small-medium enterprises.

(d) they have failed to mobilise domestic resources on their own by establishing the necessary links with the banks, the social security institutions and other financial institutions.

(e) their profit performances on the whole was good till 1973, however since then, it has not been so good.

2.4 DEVELOPMENT FINANCE AND INDUSTRIALISATION IN NIGERIA

Although an empirical assessment of the performances of a development bank e.g. NIDB on Nigeria industrialisation as intended in this study has not been found in the literature reviewed, various attempts have been made by different scholars to show the need for such an institutions in accelerating Nigerian industrialisation.

Chidozie (1980), stated that DBs contribution to Nigerian industrialisation, and hence to the general economic development is obvious. That the projects sponsored by DBs offer ample job opportunities to many Nigerians, thereby helping to alleviate the un-employment problems. Furthermore, these projects he stressed could increase out-put especially that of manufactured goods, this will go a long way in conserving foreign exchange and provide a base for acquiring technological know-how.[24]

Nwankwo (1980), in his thesis contends that, inadequate access to finance is the major impediment to the establishment and growth of independent manufacturing and industrial enterprises. As a result, he pointed out, the need for either wholly or partially owned DBs as exist in other countries, which shall be given the responsibilities of making

medium and long-term funds available for industrial ventures, and the development of capital market which is still at it's rudimentary stage. He observed that, the existence of a 'financial gap" in Nigeria and therefore expects DBs to bridge this gap, by supplying funds for medium and long-term loans.[25]

Rosaline Abashiya (1980), noted that, even though other financial institutions like Commercial Banks, Merchant Banks, Investment Companies etc did provide some financial assistance to Limited Liability Companies registered in Nigeria. It is still "recognised" that N.I.D.B is the "big brother" and therefore takes lead in assisting the growth of Nigerian industrialisation.[26]

According to Akhigbe (1986), the services of specialised banks, such as the N.I.D.B constitute an essential component of the economy and provide an important support for industrial development. Therefore, he urged the bank to see itself as one of the agencies in the forefront of promoting industrial development in the country. Akhigbe pointed out that, it is necessary to emphasize the need for NIDB and the banking organisations to extend to many areas of the country so as to stimulate economic growth throughout the country, at this trying period of the nation's economic depression. Since the decline in the oil revenue, it then becomes a challenge to Nigerians to see the nation's salvation internally. In this regard therefore, the bank, N.I.D.B, remains one of the last hopes of reviving the nation's ailing economy. He concluded by calling on the bank to intensify it's role on educating the business communities so as to stimulate the sense of entrepreneurship in Nigeria.([27])

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2.5 STRATEGY FOR FINANCING INDUSTRIAL VENTURES IN A DEVELOPING ECONOMY

According to Meir (1977), the setting of financial institutions and the growth in their financial assets and liabilities could take one or two of the following forms:[28]

DEMAND FOLLOWING:

Demand following means a situation where the creation of financial institutions, their financial assets and related financial services are in response to the demand for their services by the investors in the economy. In this regard, the expansion of the financial system is in response to the process of economic development.

Hence, the nature of the demand for financial services depends upon the growth of the real out-put and upon the commercialisation and mobilisation of all the subsistence sectors including agriculture and industry. The more rapid growth rate of real national income, the greater will be the demand for enterprises for external funds (the savings of others) and therefore financial intermediation to transfer saving to fast growing industries from slow growing industries and from industries and individuals. The financial system can thus support and sustain the leading sectors in the process of growth.

In general however, the demand following approach entails that finance is essentially passive and permissive in the growth process. But this response, that is increased supply of financial services in response to demand is not given or automatic, flexible or in-expensive in under-

developed countries[29] because of some structural, social and cultural factors. Restrictive banking legislation as was the case in early Nineteenth Century France, religious barriers which stand against loans and interest charges. In under-developed countries today, similar obstacles together with imperfections in the operations of the market mechanism, dictate an inadequate demand following response by the system. Consequently, the dearth of financial services in these countries directly or indirectly retard effective industrial growth.

SUPPLY LEADING

On the other hand, the creation of financial institutions, and the supply of their financial assets and liabilities and related financial services in advance of demand for them, especially the demand of entrepreneurs in the modern growth-inducing sectors is termed as "supply-leading".

According to Meir, this phenomenon has two major functions to perform:

(a) To transfer resources from traditional (non-growth, sectors to the modern (growth) sectors.

(b) To promote and stimulate an entrepreneurial response in these modern sectors.

The first function is what is referred to as Schumpetercan concept of innovation financing. That is a financing inter-mediation whereby resources are transferred by collecting wealth and saving from these sectors in exchange for it's deposits and other financial liabilities, or by

credit creation and forced saving. Such access to funds may itself have substantial, favourable expectational and psychological effects on the entrepreneurs[30]. It opens new horizons as to possible alternatives and making the entrepreneurs to think in a big way. This will be a significant effect, particularly in a country where entrepreneurs is a major constraint on industrial development and growth.

Supply leading financial system may, initially not operate profitably by lending to the young industries in the modern sectors, but new financial institutions are made available, using government capital and probably receive government subsidies.

Also private financial institutions may receive direct or indirect government subsidies usually the latter, indirect subsidies can be provided in a number of ways. For example, Commercial banks may have the right to issue bank notes under favourable collateral securities or private financial institutions may be allowed to create deposit money with low, even negative reserve requirement and central bank rediscount of commercial bank loans at interest rates effectively below those on the loans. Thirdly, new modern financial institutions may initially lend a large proportion of their funds to traditional (agricultural and commercial) sectors profitably it can then gradually shift their loan port-folio to modern industries as they begin to emerge.

However, neither demand following approach nor supply leading approach guarantees a self sustained industrial growth and development. Rather each presents an opportunity to induce real industrial growth by financial means. In practice, there is the tendency for an interaction of both. Meir contends that, before any of the means can lead to a

sustained modern industrial growth the following sequence must exist. A supply leading system may first be able to induce real innovation - type dominant. This sequential process may also be intra-sectoral. One industry may first be encouraged financially on a supply-leading phase and as it develops have it's financing shifted to demand following, while another industry remains in the supply-leading phase.

SUMMARY

In general view, DBs actually enhance accelerated industrialisation. But like Torlella (1941) will say development banking which is "titled" by unwise legislation and policy, can distort or even thwart the growth in industry. It is thus a matter of importance for policy makers to know what structural characteristics are especially favourable for an effective development finance institutions, and that of DBs in particular.

2.6 AN OVERVIEW OF THE PERFORMANCE OF NIGERIAN INDUSTRIALISATION SINCE 1960

According to economic history, before the contact with the outside worlds, Nigerians were involved, though at a very rudimentary level in some industrial productive activities, such as clothing, utensils, soap etc. The story was however, no longer the same after her contact with the industrialised countries of Europe and America. This contact according to Ekuhare, brought an entirely different orientation to Nigerians, a new production structure. With this contact there came a shift in the production process, because Nigerians were made to realise that it pays them better to channel productive resources towards maximum agricultural and mineral export production for the metropolitan

economy[31]. This realisation implied that the production of export agricultural and mineral commodities was achieved by constraining the re-allocation of resources from primary producing sectors in to manufacturing sector. This is what he referred to as a process of decline of the pre-colonial indigenous manufacturing without a replacement of modern manufacturing[32].

In the same way concerted efforts were made to promote maximum importation of manufactures from the metropolitan economy. Whose products were superior and cheaper to those produced locally. This way, the colonial power discouraged the development of the existing infant industries in the colonial economy. This background is very important, because the current industrial structure of the Nigerian economy today is a function of what has been historically pre-determined by the British colonial lords.

However, with the attainment of self government in 1960, Nigeria like other emerging African countries, took the determination of changing the production pattern handed over by colonial powers. Hence the manufacturing industrial sector, started to gain prominence in government's policies and planning in order to accelerate the level of contribution of this sector to economic activities of the country. With a shift in emphasis to the promotion of the growth of industrial sector, some remarkable level of achievements were recorded in terms of the sectors contribution to economic activities. For instance, the sector grew at an average annual growth rate of 12% during 1962/63 - 1972/73 decade. Using the 1962/63 fiscal year as the base. This level was attained with a temporary disruption by the civil war of 1967/70 period.

2.7 INDUSTRY AND GROSS DOMESTIC PRODUCT

It is worthy to note at this juncture that even though there is quite an impressive growth rate in the sector, its contribution to G.D.P. was very minimal. It contributed N472.7 million in 1973/74 to the country's G.D.P which represented 8%. The reason for this could be traced to age of the sector; during this sector, the contribution of the manufacturing sector alone to the G.D.P. was more awful. This was due to the fact that most of the paid up capital in industrial establishment were foreign owned, this leads to the fact that though politically the country was independent, the country's industrial sector was still being dominated by foreign interest. In 1969, 70%, of the equity capital was foreign owned and in 1972 it was 61%.

Furthermore, by 1984, the contribution of the manufacturing sector to GDP was, N2,968,000.00 out of the N25,855,000.00 which formed 11.5% of GDP. The figure stood at N2,279,000.00 in 1985 out of the total of N26,159,000.00 which is 9.3% of the total GDP (for detail in performance to GDP, see Table 1.1 in Appendix Section).

2.8 INDUSTRIAL MANUFACTURE AND FOREIGN EXCHANGE

The destination of most of the industrial manufactured goods is based towards the domestic market. With the exception of the Mining industry, which has been showing a remarkable level of significance in the country's export. For example, in 1972, chemical, machinery, transport, equipment and other manufactured goods constituted just less than 3% of the total exports, it was 0.2% between January-January 1986-87. While

Crude petroleum materials accounted for 97%. This implies that the greater proportion of Nigerian industrial products are for home consumption with the exception of petroleum and therefore cannot constitute a source of Nigerian exports. More than 89% of the export came from mineral resources and agricultural products. For example, the contribution of this sector to the export earning of the country stood at 2.5% in 1972, and increased to 2.8% in 1973 while it fell to 1.1% in 1974, it maintained the same level in 1975. This situation even deteriorated in 1979 when the contribution of the manufactured goods to export dropped to 0.4%, 0.3% in 1980 and 0.4% in 1981. The reverse is the case with imports, while the industrial sector contribution to export earning was persistently falling, there was a dramatic increase in the imports of manufactures. Increasing from N267.9 million in 1972 to N323.9 million in 1973 or by 43.2%, it rose from N523.4 million in 1974 to N.658 million in 1975. The upward trend of the figures continued uptill 1979, when import bills on manufactured goods alone amounted to N1.5241 million. Out of the total of N7.472.5 million forming about 129.2% of the total the figure increased from N2.410.8 million in 1981 and fell to N1,928.00. This was due to squeeze on foreign exchange policy measures undertaken by the government. It stood at N1,241.7 out of the total bill of N7.178.3 million, N1,670.4 million in 1984 and 1985 respectively.

What can be gathered from this is that much of the country's demand for manufactures are met by the rest of the World and the boom enjoyed in the foreign exchange earnings in 1970's to early 1980's made possible for the government to foot the bill.

2.9 INDUSTRIAL MANUFACTURE AND EMPLOYMENT GENERATION

In Nigeria, the manufacturing sector is usually on a small scale. The smallness takes the form of number of persons employed, the call up capital and the strength of the balance sheet of the company. According to Shatzl (1979)[33]. The total number of employees in the modern manufacturing sector in Nigeria by 1969 was just a little above that of a single company, the Rolls Royce of Britain. The industries are also characterised by a few number of companies existing within an industry.

Table 1-5, show the characteristic person employed by an average industrial set up in Nigeria. While the number employing over 1000 person in Nigeria was 21, the figure has decreased to less than. DBs are ordinarily classified by their type of ownership. Three classifications are always made.

1. **PRIVATE DEVELOPMENT BANKS:** These are DBs in which all of the capital stock is owned within the private sector, and the operating policy is under private sector control, they are profit oriented. These types of DBs tend to support projects which yield a high marginal monetary returns whether or not they have marginal social benefits. Examples of such banks are bound in Turkey, India, Ceylon, Lebanon and Israel. Apologist of private DBs maintain that in appropriate circumstances a private DB properly organised and staffed can be a particular effective mechanism for promoting industrial growth. This is because a private institution is not part of the machinery of government, and that it's management is selected by and responsible to private share holders. The implication being that it will in many cases be better able than public

institutions to make investment decision objectively without being subject to political pressures. Moreover, as compared with a public bank, a private institution is likely to have a considerable freedom to engage and dismiss staff and to establish an administrative or fiscal procedures appropriate to it's purpose and needs. The ability to function on business like and efficient basis will in turn increase the bank's effectiveness in stimulating investment activity in the industrial sector.

Private DBs are however criticised on ground that where the environment is inflationary and the demand is for long term credit to small scale business, owners of capital will be hesitant to loan out money in the face of declining value of money and may equally not be willing to do so indirectly, by investing in the equity of an institutions whose principal activities will be providing long term loan capital (1000 in 1980). This figure may not be remarkably different from that of 1985 and 1986. A cursory inspection of the table will reveal that the greater number of manufacturing concerns in Nigeria employ less than 100 person compared with an average of 1000 in the industrial countries.

The oil boom of the 1970's however can be said to be responsible to the increase in the establishment of firms that employ 150 persons and above. This boom recorded boom in the Food, Beverages and Construction industries. This figure however, declined from 1980 during oil glut and the general depression of the economy. The government recent encouragement for self employment will probably increase the number of the groups in the table.

The majority of the employees within the industrial sector in the 1980's were employed in manufacture of textiles, Food and Rubber and

Plastic products. This is indicated in Table 1.3. Majority of them employ less than 200. The Third quantile of the distribution of establishment is 201, only a few employ more than 1000 workers.

2.10 STRUCTURES OF NIGERIAN INDUSTRIAL SECTOR

The structure of industrial sector is heavily biased in favour of the development of low technology, non durable consumer goods manufacturing industry. The industrialisation efforts is heavily concentrated on the development of light consumer good industries, such as Tobacco, Textile, Food and Drinks. The sector is still dependant on foreign source for her basic inputs in form of processed primary products machinery, skilled manpower etc. and their location is in urban areas. (For details of their location see Table 1-6).

2.11 CLASSIFICATION OF DEVELOPMENT BANKS

PUBLIC DEVELOPMENT BANK

These are banks in which all of the capital stock is owned within the public sector, and the operating policy is under public sector control. They are not interested in profit and they attach a small significance to the interest criteria and place greater stress on development criteria. Thus, they support projects with a high development impact whether or not they have low monetary returns.

Public DBs are highly recommendable in circumstances where the primary objectives is to provide finance for an enterprise which are pioneering and promotional in nature. Ventures of this type may be

expected to prove profitable in the long run, but are not likely to show returns soon enough or large enough to be considered satisfactorily by private share holders. A private DB will be reluctant to assist experimental ventures because of the risks involved. However, public DB can more readily await delayed returns from such ventures and can even keep such enterprise going for other than investment consideration.

Public DBs are more willing to cater for the long term capital needs of small enterprises, which normally have little experience and frequently are one-man ventures. This type of financing is inherently risky, and is difficult for a private development bank to arrange to invest on terms which could compensate it for the risk, without marginalising the business venture.

However, public banks have been subjected to severe criticism because of their susceptibility to political influence and in-efficiency. Government being the dominant capital stock owner, expects some loyalty and sympathy from the official of the banks. This may hinder the bank from making objective and economically viable investment decisions.

MIXED BANKS

These are banks in which some capital stock is owned within the private sector and some by public sector. Mixed development banks, in which case, the banks majority capital stock is owned within the private sector and the operating principles is dominated by the private sector weighting of project selection criteria. On the other hand, a public leaning

mixed banks are those with the majority of the ownership held in public sectors in selection of projects, the interest of the public gain prominence.

The idea of mixed banks is to soften the negative effects of two extremes in the public banks and private banks. Most capitalist economies tend to embrace the mixed banks more than either of the two extremes.

PURPOSE OF DEVELOPMENT BANK

The purpose for which DBs exist is to increase the speed and facilitate the process of industrialisation. Kane (1975) stressed that, economic backwardness implies that some of the factors necessary for development are not available in a form conducive for industrialisation[34]. DBs are therefore created to stimulate the emergence of the missing ingredients necessary for development. These factors include varying mixes as capital, entrepreneurship, technological and managerial capabilities, promotional activities, capital market activities and availability of foreign exchange. These factors cannot of course be created in sufficient quantities by the bank itself no matter how sizeable quantities its resources may be, but the bank can promote economic activity by supplying catalytic increments of the missing factors, such increments should stimulate the emergence of larger quantities of development resources from other sources. In this way, the banks can have an impact on tangible factors such as investment and production, and on intangibles such as proper management practices, capital market development and appropriate level of technology. It can influence development in different but inter-related ways.

FUNCTIONS OF DEVELOPMENT BANKS

The functions being considered here are formulated in terms of a model bank. Individual bank performance may deviate to some degree from these norms and vary from one bank to another.

(a) THE FINANCING FUNCTION:

An industrial development bank is responsible for furthering economic development through the establishment of industrial enterprise. While there are number of services the bank can provide' the hard core of development banks activities is financing those enterprise[35] by providing medium term and long term capital investment. This is the focal point around which the bank's other activities revolve. Such capital is a necessary pre-condition for economic development. The provision of capital is a necessary condition for economic development. The provision of capital require that the bank has loanable fund available and that there is an effective demand by entrepreneurs for these funds. The supply and demand of the banks funds are schedule for capital. It is important to note that such schedules are influenced by market imperfections even in the very best of markets. In developing countries, discontinuities, inelasticities, non-price determinants and other imperfections render the market highly imperfect.

In the course of supply of funds for industrial development by DBs as the country moves through various phases of her industrialisation, the mix of financial services provided by DBs changes.[36] During or at the initial phase of a country's industrialisation efforts, the aggregate supply of capital available to the private sector tends to exceed the aggregate

demand for it with productive investment to finance. As a consequence DBs effort will tend more towards stimulating entrepreneurs to make effective use of the capital it already has. Because, at this stage, given the rate of inflation, fiscal and political instability and the legal institutional framework. In some countries real estates and precious metal are not irrational ways to hold saving, but these are unproductive uses of funds, this then affects the efforts of DBs.

FORMS OF FINANCING

The particular way in which DBs finance industrial ventures depends very much upon the status, bye laws etc, that through debt or equity instruments or a combination of the two. Observations on the operations of DBs showed that it is difficult to generalise about the forms of financing. In any case, the following two statements often tend to be true.

(I) Most projects that seek assistance of the banks involve debt financing. The reason for this is the desire by the entrepreneurs to dominate management and control of the project and then to have higher share of the profit. This is not possible with high rate of equity participation by the bank.

(II) Equity financing has greater risks and less level of liquidity. Also, a sound judgement about equity investment, especially when associated with promotion require a foundation of sound experiences.

For this reason, banks initially tend to concentrate in debt financing which is less risky, and move gradually towards equity as they are better able to bear the risks and to evaluate projects from experience. Whatever the form of financing. It has impulse both on the clients and the banks.

IMPLICATION FOR THE FORMS OF FINANCING

To the banks, debt financing has the implication of immediate and fixed sources of income, especially in a private DB. Equity on the other hand, yields larger returns, but only on the long run through dividend declaration or capital gains. However, if the bank goes too heavily into equity it tends to immobilise its funds too long, where as debts permits a more rapid turn over, since it's always amortized **ceteris perabus**, and thus permit the bank's facilities to be accessible to a larger number of productive units.

Another implication for the form of financing is the inflationary factor. Inflation reduces the real value of debt and income stream from it. Thus, high inflationary tendencies may eliminate red value over a period of time. In view of this, firms prefer debt financing. If inflation is common place the bank may take steps to protect their interests. For instance, some of them lend with a monetary clause in the contract which helps to preserve the real value of the loan while others tie the value of the loan to a price index or use medium term loans. The effectiveness of these practices depend very much on the growth rate of inflation.

By and Large, DBs usually want to provide funds for existing firms for improvement and expansion.

This is considered less risky from the bank's point of view. This stance however, does not usually contribute much to industrial development. While established firms stand better chances of commercial banks credit. New ones have less opportunity. Therefore, for DBs to actually act as catalyst to industrial growth and development the task of financing new and young industries is paramount.[37]

(b) PROMOTIONAL FUNCTION

In a situation where potential investment opportunities are not recognised and/or acted upon by the private sector, promotional activities by the DBs may be essential to the investment of private sector resources in industrial enterprises. Promotion becomes necessary to create the conditions which will shift the demand for capital which are then supplied by the banks.

The promotional options open to DB are numerous and vary over a wide range of activities. It varies from bank to bank and within each bank it varies with level of it's experience and with the evolving economic environment. Furthermore, the promotional activities of DBs like the financing charges over time. The form and pattern is therefore a reflection of the phase of industrial development. For example, during the initial phase, promotional activities will be comparatively more important in order to create demand for the bank's resources than during accelerated industrialisation when investment opportunities are now better perceived and developed by the entrepreneurs themselves. This therefore, implies that promotional activities of DBs are more essential in developing than those of the industrialised countries.

Promotional activities of DBs can be grouped into two categories. The most obvious are those in which the banks deal directly with a client and are designed mainly to make and/or maintain viable productive projects in which resources of the bank may be invested. Among such activities are preliminary survey and feasibility studies, project appraisal and aspects of more integrated promotion. In the second group, the DBs strive to broaden other institutional base for a better economic environment for the activities of the banks. This takes the forms of fostering and development of the capital market and enabling the inflow of foreign markets.

(c) FOSTERING THE CAPITAL MARKET

One of the challenging promotional functions of the DBs is to foster the development of the capital market. In some countries, the capital markets are far from being developed, with few financial instruments and few people in the patronage. The function of DBs here is to strengthen and broaden the market. This is necessary because, it is the financial market through which savings are transformed into investment and hence into financing of industrialisation. DBs place themselves between saver and investors, acquiring primary securities from the latter and issuing various classes of secondary securities to the former. Acting as financial intermediaries in this way, DBs are expected to raise the level of saving and investment as well as providing a more efficient allocation of capital at any given level. This patronage according to Kane (1977) will eventually help to achieve efficiencies and hence aid the capital market to bring about an improvement with allocation of resources among the economic units within the market as well as between the capital market and other markets.[38]

METHOD OF FOSTERING CAPITAL MARKET

Unlike other intermediaries, DBs do not take the capital market as given as their sole interest in the market is not limited to profit maximisation but also include influencing development within the market, for example, for there to be a sound capital market, basic legislation regarding corporation is essential, in some countries, such legislation is difficult or inadequate. DBs can therefore press for and aid in formulating improvements in such laws. DBs can operate a "clearing house" where individuals wishing to buy or sell can register their interest or intent and the price at which they were consummated[39]. The necessary task here for the bank is to establish the practice of sales of securities under condition of trust and confidence among those involved.

Furthermore, the bank may attempt to foster the capital market by widening it through increasing the number of companies and shares coming into the market. It can do this in several ways:

(a) The bank can issue its own secondary securities. This can attract investors if the banks reputation is established.

(b) Banks may obtain primary equities for their portfolios with the expectation of selling them on the market as quickly as possible. Sales from portfolio are desirable not only to promote wider security ownership, but for generating additional sources of funds for further investment.

(c) Participation in the equity of a new company or in the expansion of an older one serves many ends, the implication of this regardless of the magnitude of share holdings of the bank is that, it is inviting other investors to join in the financing of the company.

(d) DBs can widen the market by inducing existing companies to offer a portion of their shares on the public market.

The essence of the efforts of the banks in promoting development in the capital market are directed at increasing the demand for securities by, and the supply of capital from investors other than the bank.

THE BANK'S SOURCES OF FINANCE

Magnitude of Resources: There is no categorical amount; no formula to determine the proper magnitude of a given bank's capital[40]. However, the bank ought to have sufficient capital to enable it to make an impact on industrial development, and to earn more than enough for expenses, the accumulation of adequate reserves and enough dividends in the case of a private D.B.

Despite the diversity found among DBs, the general characteristics of their resources are similar, though the proportion differ from bank to bank. Broadly speaking therefore, they obtain their funds from three sources. These are:

(a) Government: This comprise of budgetary appropriations, loans guaranteed by government, government supplied debt capital,

which are in most cases obtained on a more favourable terms than the bank could obtain.

(b) Foreign Source: This constitute loans from international and regional agencies of developed countries, private foreign capital in flow and

(c) Private Domestic Source: This comprise, sales of bank's debts and equity, debt amortisation, interest and dividend payments and bonds attracted by the bank promotional activities.

Since loans and equity capital constitute a dominant source of funds for DBs an exposition of various sources of these capital is necessary.

Sources of Equity Capital: The public bank whether wholly owned by the government or mixed with government holding a majority interest., funds may come as annual appropriations or treasury advances or a lump sum allocation which may or may not take the form of subscription to share capital. In some place in Central Europe publicly owned enterprises are required to contribute to public DBs lendable resources annually, an equivalent of fixed percentage of their assets. Also in some other countries, for example, Mexico financial and investment companies, insurance companies and stock exchanges are required to subscribe to shares of the national development bank. Equally development bank's equity capital also come principally or wholly from share subscription by private individuals, or institutions, foreign as well as domestics.

In the case of private DBs, they may look on to two sources for equity capital. Institutional and individuals. For example, commercial banks and insurance companies, industrial credit and investment corporations among other. These institutions are mostly motivated by patriotism and the hope that these will grow to perform a useful functions for the economy in general and may consequently be of more or less direct benefit to the particular business interest. On the other hand, individual investors may be attracted to equity subscription, especially where investors are not aware of other business opportunities, or where the known alternatives are considered less safe to invest in bank's shares.

Sources of Loan Capital: Development banks both public and private borrow from government on conventional fixed interest loan basis. Some also borrow from the public by issuing their own obligations. Raising capital through bond issues has often been difficult particularly in inflationary economies. A Development Bank can also look beyond its territorial waters for loan capital. The international banks, the U.S Department of Loan Fund (DLF) and the U.S. International Cooperation Administration have been the principal foreign loan to development banks. The DLF in supplying funds is not required to insist on government guarantee, and moreover, has the authority to permit repayment in local currency. Where repayment in local currency is permitted, the loan is denominated to Dollars, thereby providing for maintenance of value, repayment must be made by borrower at the rate of exchange prevailing at the time of repayment. Thus DLF loans involve an exchange risks. As a general rule, this risk has been passed onto the ultimate borrower.

DEVELOPMENT BANK AS DISTINCT FINANCIAL INSTITUTIONS

In most of the developing countries, a number of financial intermediaries including commercial banks, saving institutions, insurance companies etc make a variety of investments which are likely to have a strong supportive effect on economic developments either directly or indirectly. If these development functions can therefore be performed by these other agents what justification(s) are there for the existence of DBs? Do they have a unique and identifiable role to play in the process of economic development?

According to Boskey (1959) the answer to the above question should be in positive[41]. He pointed out that, development projects could be partitioned into bankable and non bankable. A bankable project is defined as one for which the principal and interest can be expected with an acceptable probability distribution to be repaid according to a pre-determine schedule. Bankable projects for DBs are not necessarily restricted to those which are self liquidating. Any project with a significant impact on development should potentially fall within the scope of development bank financing, subject only to the constraint that it can reasonably be expected that, the borrower will be able to repay the loan. The bank may not, in fact, obtain fully the repayment of the principal and interest on each individual project, but should attempt to do so, over a range of projects. Thus, taking all its investment as a group, the bank must be able to recoup all its outlays over an acceptable period of time, allowing that bad debt losses on some projects will be off set by higher returns from others. Hence, to distinguish the development banks from other institutions on the spectrum of finance and development institutions,

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a basic principle of development banking can be formulated thus. DBs restrict their financing to "bankable development projects" as defined above.

Any institution basing its operation on this principle could then be identified as a development bank. Restricting its activities to "bankable projects" distinguishes DBs from other general development agencies, and dealing only in development projects distinguishes DBs from other banking and financial institutions.

PROBLEMS OF DEVELOPMENT BANKING

In the day to day operations of DBs, they are faced with a number of problems. Some of these problems are so crucial that when they are not tackled fundamentally, could retard the achievement of particular bank.

I. Problem of Choice of bankable project:

DBs find it difficult to decide which project to finance. It must have to decide whether the project is a development project as broadly defined by the bank's Charter or by laws, policy statement etc. Furthermore, if the number of acceptable application exceed its ability to finance during a given period of time, the bank must decide which project(s) to reject or postpone. Hence the bank may run into trouble as to how to appropriately determine which project would have a higher impact on economic development.

II. Conflict of Purpose:

Unlike other related economic organisations, the DBs must seek to achieve its purpose as a development institutions simultaneously with achieving its purpose of functioning as a banking institutions. As a development institutions, it should finance those projects with the highest ranking on the interest scale. Thus, in most cases, the goal of maximising marginal social benefit through financing development projects comes into direct conflict with the goal of maintaining sound banking operation.

Project Exclusion Criterion:

The basic principle of development bank is that, the bank evolves its funds through bankable development projects without impairment. If the bank adheres to this, then it restricts itself to financing only bankable development projects. All non bankable projects are therefore excluded from consideration of DBs even though many of these may be very crucial for economic development. Thus, if non bankable projects are not financed by other agencies, then the DBs choice of projects could lead to mis-allocation of development resources, and a slowing down of the pace of economic development.

Profit Maximisation Criticism:

The profit maximisation motive may make DBs to end up financing more projects which have high ranking on interest rate but with low development impact ranking. The discrepancy range over which the DBs can set its interest charges may be quite broad in countries when interest

rate are generally market oriented, given the relative scarcity of medium and long term capital funds, and related conditions of under-development the market rate may be quite compared to the minimum rate.

Problem of Purpose:

The first group of issue confronting the sponsors of a new DB has to do with the purpose for which the bank is to serve. Is it to be just and operate purely as financial institutions? Is it on the other hand to exist as a consultancy institutions which only gives extensive technical assistance services or engage in promotional activities or is it to provide long term loans capital to prospective entrepreneurs? The answer to these and many other related questions are very serious in determining not only the design of the bank, but also whether it must be government institutions or can be established with private capital. However, the problem are peculiar to DBs anywhere in the world. But each individual DB existing at a particular place may have their own peculiar problems which may be political, economic or even ideological.

RATIONALE FOR DEVELOPMENT BANKING IN NIGERIA

In the economic history of some industralised countries of the world such as U.K., Japan, Australia etc a number of reasons were given for the establishment of DBs especially at the initial levels of their industrial development. Those reasons are not different from the ones of Nigeria. Nwankwo (1980)[42], summarises these reasons as follows:

I) The Gap Thesis: This reason holds that an economy at its initial stage of development needs some specialised financial institutions that will be responsible for the funding of medium and long term basis for industrial ventures. This is necessary because according to this thesis, there exists a financial gap in the financial system of such an economy. This gap arises out of two reasons. The failure of commercial banks to finance medium, and long term industrialists but concentrate on commerce and trade. Secondly, the C.B.N of Nigeria (C.B.N) has the tradition of directing investors to invest in certain sectors, but does not invest directly in any venture. This function of the CBN doesn't make enough funds available for investment. Therefore, the need for an agency that harness funds for this purpose became inevitable.

Nigeria having existed under colonial economy for many decades and suffered structural dislocation in her economy whereby she was a supplier of primary agricultural products realised with the approach of self government the need for industrial promotion via development finance institutions i.e. Nigerian Local Development Board (N.L.D.B) "was to make funds available to Nigerians on soft terms for the promotion and development of village crafts and industries"[43]. This was supposed to bridge the gap between the demand for funds and the supply of funds for industrial investment in the emerging nations.

II) The Exigency Thesis:

Another reason for the establishment of DBs in other places including Nigeria is what Nwankwo (1980) calls the exigency thesis. With the establishment of I.B.R.D., it was realised that the bank which was an

arm of United Nations could not function effectively under existing financial dispensation of the various domestic finances. Therefore, to make the banks workable at the international level, these two institutions encouraged the establishment of it's national counterpart, through which they largely operate at the grass root level. The N.I.D.B and N.A.C.B. were the outcome of this development.

III) The Catalyst:

The catalyst thesis, this is one of the strongest reasons for the establishment of development banks in Nigeria. Like in any other places, DBs are seen as catalyst for development, by supply capital for investment and through their promotional activities able to stimulate development and accelerate industrial expansion. One of the regular reasons given for the economic backwardness of Nigeria is inadequate access to capital and entrepreneurial skills. These vital ingredients of development are expected to be supplied by DBs. Thus, among the objectives set for the investment company of Nigeria Limited (1959) was to assist in the creation, expansion and modernisation of industrial, agricultural and commercial enterprises and particularly in providing finance in the form of long term or medium term loans or share participation and sponsoring and underwriting the issue or conversion of shares and securities.(44)

These are all facts of economic activities that can aid accelerated development.

2.12 EVOLUTION OF DEVELOPMENT BANK IN NIGERIA

THE EARLY DEVELOPMENT BANK:

Early development banks here refers to those banks established before 1959. This distinction is crucial because, even though the reasons that called for the establishment of the early DBs and those after them remain virtually the same, the former were characterised by certain features different from those after them.

Development Banking in Nigeria is as old as development planning in Nigeria[45]. The first DB in Nigeria, the Nigeria Local Development Board (NLDB) was established in 1946. This scheme was the most important aspect of the development plan. The bank was established with the capital grant of N2,950,000. This bank was expected to make loans and grants to government and government owned agencies for the purpose of development. The bank was also expected to make funds available to indigenous craftsmen and industrialists.

As regionalisation of the country approached, it became necessary to give recognition to the economic development and growth of the various regions that were to emerge. This also entailed making the impact of the financial institutions to be felt at the various regions. Therefore, in 1949, the NLDB was fractionalised among the three regions of the North, East, West and Colony of Lagos. After the split, the Lagos colony established what was called the Colony Development Board (CDB) which was to be a substitute to what was existing in the other regions as Regional Development Banks established from their various shares of the

assets of (NLDB). The Colony Development Board was to operate within a ten mile radius of Lagos.

In 1956, the Federal Loan Board was established with an initial grant of N60,000 to take over the commitments, assets and liabilities of the C.D.B.

The FLB was also expected to operate in conjunction with the various regional development corporations, to finance some projects that were either too big for the regional corporation or that are deemed to have a high development impact.

However, with independence in 1960, and particularly after the creation of more states in the federation, development finance institutions became rampant, to the extent that each state in the federation can now boast of at least one such institution under different names as the Niger State Development Company, Benue State Investment Company, Bauchi State Investment Company etc.

Unfortunately, these DBs did not perform as expected. Nwankwo (1980), highlighted a number of obstacles that hinder these institutions from executing their programmes as expected.

Key among them were wide and ill-defined responsibilities, for example, the N.L.D.B. was charged with the responsibility of lending to agricultural, industrial and general commerce. This is outside her role as encouraging and developing new entrepreneurial skills. This amounted to over burdening the bank turning it into a "jack of all trade" and could not master any adequately.

Another serious obstacles faced by these early financial institutions, was their inability to make funds available to clients, when and where necessary on grounds of trying to restrict their areas of coverage. The FLB was particularly noted for this defect. It refused for example, to give loan grants to new and in-experienced clients, even when they have viable and promising ventures on the ground that they were in-experienced.

The obstacles of political interferences and poor management characterised the operations of these institutions. They became instruments and institutional for political opportunism, favouritism and corruption in the allocation of financing particularly from politically influential individuals and groups.(46) The management of these institutions were equally poor. There was no adequate administrative and technical staff that could effectively supervise and monitor the various projects that the institutions were financing. Hence loan diversion and mis-management of funds was a common phenomenon. Furthermore, proper and adequate appraisal of most of the projects entered into, were not done. Thereby risking the hard earned monies into ventures that were not worth it.

However, various committees of experts were set up to look into the operation of some government corporations, like the Cooker Committee and that of Sp. Schatz. Each on different occasions condemned the activities of the development of finance institutions. Consequently, more caution was exercised in the establishment of subsequent ones.

MODERN DEVELOPMENT BANKS IN NIGERIA

By modern DBs we mean those banks established after 1960. There are many of them operating at the national and state level. Among which was N.I.D.B.

2.13 ESTABLISHMENT OF NIGERIAN INDUSTRIAL DEVELOPMENT BANK (NIDB)

One cannot actually talk of N.I.D.B. without making reference to the Investment Company of Nigeria (ICON) which is the root of what is today known as N.I.D.B. ICON was established in 1959, following the initial proposal made in 1953 by the federal government then to the World Bank Mission to establish a Central Industrial Corporation for the entire country. This proposal was however turned down on the basis of the fact that the country was under going some political arrangement. However, by 1958, it was becoming evident that the country was heading towards a stable independent position. Therefore, the need for a national industrial finance development institutions could no longer be over looked. Therefore, the initial proposal made in 1953 was resuscitated and by 1959 ICON was established.

This company was performing the functions which N.I.D.B. was to take over later. It started with an initial authorised capital of N10 million. This corporation incidentally operated for only five years and was restructured into what is today known as N.I.D.B. This action was meant to give the institutions more national out-look, raising, it's international status and dis-entangling all forms of unnecessary government influence.

In 1964, NIDB was officially established with an initial authorised capital of N10 million of which N4 million was issued and fully paid at once as ordinary shares, N500,000.00 in non-voting preference, 51% of the company's voting capital was designated "An ordinary shares" and reserved for Nigerians and international organisations such as the I.F.C. In addition the federal government gave N.I.D.B. an interest free long-term loan of N4 million repayable in equal annual installment during the 1980-84.[47]

In terms of funding the bank can raise funds locally or internationally. As far as the local sources are concerned, the bank may receive grants and/or soft loans from federal government. It is common for the bank to raise funds through sales of shares to individuals and corporate bodies like commercial banks and finance development institutions. Returns on its investment and promotional activities constitute another important source of funds.

While the bank has the privilege of raising funds from these sources, it can equally look beyond. Thus, N.I.D.B. has enjoyed loan facilities from international bodies like International Development Bank (IDB) and (IFC). At the initial stage of the Bank activities, foreign currency was dominant in the bank reserves. Thus, the bank has no problem with foreign currency borrowing, during the first five years.

According to the first national development plan, under which the N.I.D.B. was established, four main objectives were spelt out for the bank among other incidental functions:

(a) The bank is to join foreign skills and private capital with Nigeria skills and capital in the development of new industries and expansion of the existing ones through medium-term and long-term loan facilities.

(b) The bank is to evaluate proposal on commercial principle, but should stand ready to finance enterprises which cannot get funds through commercial channels, either because such channels do not exist or because the risks are deemed unattractive for private financing.

(c) To create attractive opportunities for investment in Nigerian industries and provide outlets for productive investment of Nigeria's savings.

(d) To work closely with the various regional governments and regional development corporations.

The scope of activities of N.I.D.B. is restricted to projects in manufacturing, non-petroleum mining and tourism which includes hotels of international standards. With these restrictions, NIDB cannot sponsor or operate in projects in agriculture, social services like schools, hospital and roads. In the same manner, it operates as an investment institutions, therefore, it does not undertake ordinary commercial banking services, financing or small scale enterprises and cottage industries fall outside the scope of the bank. The guiding principle of the bank is to finance projects that are economically viable which can contribute significantly to the economic development of the country. As such the bank's activities in the following industries have been particularly laudable, viz.: Food, Beverages, Textiles, Foot wear and Furniture, Iron and Steel, Hotel and Tourism etc.

In its leading and investment decision making process the NIDB is guided by a number of criteria.

(a) Size of Investment: The bank's minimum loan investment in any project is N50,000.00 on the other hand NIDB's exposure loan and equity in any single project cannot be more than 75% of the projects total capital cost or 15% of the NIDB's paid up share capital and free reserves, which ever is lower whenever NIDB makes an equity investment, the minimum is 11%, and the maximum is 26% of the client company's paid-up share capital.[48]

(b) N.I.D.Bs interest rate is at present 13%. All interest charges are payable half yearly. In case of default, N.I.D.B charges extra 2% on over due principal and interest.

(c) Commitment Charges: The banks commitment charges attract 3/4 or 1% on the disbursed part of the loan and the same shall be applied six months after the acceptance of the offer, or from the date of signing the loan agreement which ever is earlier.

(d) Repayment Period: A moratorium of repayment of one year is granted. Commencing from the day of commissioning of the project. The minimum amortization term is five years while the maximum period of amortisation is 15 years which make a total term of between five and fifteen years.

(e) Security of the Loan: NIDB accepts collateral securities in form of personal parent company's or reputable bank guarantee, government securities and stocks quoted on the Nigerian Stock Exchange and personal real property. The bank also takes mortgages on fixed assets and floating assets of projects in question.

(f) Debt/Equity Ratio: A debt/equity ratio of about 2:1 in most cases though the bank may not rigidly stick to this.

(g) Pre-payment of Option: The client has option to repay outstanding principal at installment, subject to a graduated pre-payment premium.

(h) Promoters Contribution to project cost should not be less than 25% of the total capital cost of the project. Before N.I.D.B. assist any project it must have satisfactorily assessed the counterpart's financial sufficiency for the project.

Method of Application for NIDB Assistance

Promoters of projects contact NIDB directly either in writing, or by personal visits to the head office, area headquarters, or liaison offices. Initial contact with preliminary data is preferred at an early stage of project development departments. A detailed project feasibility study should be undertaken by the promoters and report submitted to enable NIDB commence the appraisal process. In limited cases, NIDB's promotion and development department can undertake the project feasibility study on behalf of promoters for some nominal fee.

Project promotion and development:

The promotion and development department provides assistance to clients for development of ventures which though attractive are not adequately meaningful for appraisal or implementation. It also provides opportunity for NIDB to increase the volume of its leading activities by stimulating new projects through active promotion of projects that fall in line with the investment policy of the banks.

INVESTMENT SUPERVISION PROCESS

After accepting the job offer, the promoter enters into discussion with the legal department on the preparation of the loan and mortgage agreement, the finance department on the procedures for disbursing NIDB funds and the investment supervision department on the fulfillment of the loans and conditions of the offer. The investment supervision department maintain contact with the client until loans are fully repaid or the equity investment sold.

NIDB usually reserves the right to have a minimum of one seat on the board of directors as a means of fostering good management of the client company.

MANAGEMENT AND CONSULTANCY SERVICES

The bank has consultancy division which is partially autonomous and is responsible for providing consultancy services either to the bank's clients or to general public. The MCS include production planning, research, inventory control, marketing, financial control, business appraisal, management secondment and host of others.

MERCHANT BANKING SERVICES

NIDB holds 45% of the share capital of ICON Ltd., which is one of the leading banks in the country. ICON offers a large range of services such as Corporate finance, letter of credit transactions, equipment leasing and advice on investment finance.

AREA ADMINISTRATION AND LIAISON OFFICES

With the bank's headquarters in Lagos, an area office was opened in Kaduna in 1972 to serve Northern States, while another one was opened in Aba in 1973 to take care of Eastern States. In July, 1979, NIDB board gave approval to the setting up of two other area offices in Bauchi and Akure and the establishment of liaison offices, one each in Sokoto, Makurdi, Yola, Benin City and Enugu. In 1980, area offices were upgraded to area administration. In 1980 Lagos administrative office was opened to cater for Ogun and Lagos. The number of liaison offices increased from five to fifteen. On 5th August 1980, Bauchi and Akure offices were established.

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CHAPTER THREE

3.0 PRESENTATION OF DATA

During the course of this study, data were obtained from various sources which include: Central Bank, NIDB, Federal Office of Statistics, Nwankwo's work, F.O.S and "Nigeria, the State of the Nation".

Data from the Central Bank pertaining to Domestic Output as at 1984 per various economic sectors, Exports of Agricultural, Manufactured and Semi-manufactured products from 1979 - 1986, NIDB Loans and Investment Sanctions 1975 - 1986, NIDB Assets and Liabilities 1979 - 1987 and NIDB Sectorial Allocation of Loans 1982 - 1986 could be seen at tables 1 to 5.

Data from NIDB on its Current Sanctions 1965 - 1986, Equity/Loans Participation 1980 - 1988, Number of Applications received, Processed and Conceived at the Kaduna and Bauchi Area Administrations, Number of Projects and Employees at the Kaduna and Bauchi Area Administration and the Client's Reports at the Kaduna and Bauchi Area Administration are at tables 6 to 11.

Data adopted from Nwankwo's work - "The Nigerian Financial System (1980)" could be found at table 12.

Tables 13, 14, and 15 represent data obtained from the Federal Office of Statistics while Table 16 is data obtained from Nigeria the State of the Nation and the way Forward edited by George Kwanashie and Abdullahi Mahdi (ABU Press, 1995).

TABLE 1

DOMESTIC OUTPUT AT 1984 CONSTANT FACTOR COST

(N' BILLION)

ACTIVITY SECTOR						PERCENTAGE SHOWN				
	1988	1989	1990	1991	1992	1988	1989	1990	1991	1992
Agricultural crops	24.83	26.07	27.21	28.43	27.43	31.93	31.24	30.10	30.08	29.90
Agricultural Livestock	4.92	5.07	5.12	5.37	5.32	6.39	6.07	5.60	5.60	5.46
Agricultural Forestry	1.47	1.11	1.20	1.23	1.26	1.89	1.33	1.40	1.40	1.28
Agricultural Fishing	1.00	1.59	1.70	1.77	1.84	1.29	1.91	1.90	1.90	1.87
SUB-TOTAL AGRICULTURE =	32.27	33.84	35.28	36.80	37.98	41.50	40.55	38.00	38.98	38.51
Crude Petroleum	9.59	11.03	11.65	12.59	12.70	12.33	13.22	12.80	12.40	12.90
Mining & Quarrying	0.24	6.25	0.27	3.28	0.28	0.31	0.30	0.30	0.28	-
Manufacture	8.73	6.84	2.36	7.90	8.41	8.65	8.20	8.20	8.30	8.63
Utilities	0.42	0.45	0.50	0.52	0.55	0.54	0.54	0.60	0.50	0.56
Building/Const.	1.58	1.64	1.73	1.80	1.87	2.03	1.92	1.90	1.90	1.90
Transport	2.79	2.80	2.85	2.95	3.05	3.59	3.35	3.10	3.10	3.10
Communication	0.25	6.25	0.26	0.24	0.32	0.72	0.30	0.30	0.30	0.25
Wholesale/Retail	10.75	11.15	11.49	1.86	12.27	13.80	13.30	12.70	12.60	12.47
Hotel & Restaurant	0.42	0.47	0.48	0.48	0.49	0.60	0.56	0.60	0.50	0.50
Finance & Insurance	3.72	5.19	7.88	8.20	8.52	4.78	6.22	8.70	8.70	8.06
Real Estate	0.25	0.25	0.26	0.20	0.27	0.32	0.30	0.30	0.30	0.27
Housing	1.95	1.98	2.08	0.26	2.22	2.51	2.37	2.20	2.20	2.26
Government Services	6.13	6.67	7.60	8.86	8.86	7.88	7.99	8.40	8.90	9.00
Personal & Services	0.64	0.65	0.67	0.70	0.70	0.82	0.78	0.80	0.70	0.71
G. D. P. TOTAL	7.86	88.46	90.36	94.53	98.42	100.00	100.00	100.00	100.00	100.00
Non-Oil G. D. P	68.77	72.43	78.71	81.94	85.72	87.67	88.78	87.11	86.78	87.11

Source: CENTRAL BANK OF NIGERIA - ANNUAL REPORT, 1992.

TABLE 2

NIGERIAN EXPORTS BY TYPE OF PRODUCT: 1979 -1986

PRODUCTS AGRICULTURE	1979	1980	1981	1982	1983	1984	1985	1986
Cocoa	-	-	-	-	-	-	156.1	139.0
Cotton	217.8	157.1	N/A	50.5	154	103.4	103.4	49.2
Groundnut	2.6	2.4	-	-	-	26.8	30.5	57.3
Groundnut Oil	-	-	-	-	-	27.6	32.0	29.5
Hides & Skin	-	-	-	-	-	-	-	-
Palm Oil	0.7	0.6	-	-	-	0.9	0.5	3.0
Palm Kernel	0.7	0.7	-	-	-	-	-	-
Rubber	20.9	49.6	N/A	113.5	59.6	N/A	454.8	453.8
Timber	34.2	31.0	»	18.9	8.2	401.0	N/A	N/A
Coffee	3.0	-	-	-	N/A	N/A	n	454.5
Mineral Product	-	-	-	N/A	"	"	"	-
Columbine	0.6	0.6	N/A	"	N	-	-	-
Petrol	803.4	729.5	438.6	"	"	-	-	-
Others	3.9	3.9	N/A	"	"	-	-	-
MANUFACTURE & SEMI-MANUFACTURE OF PRODUCTS								
Cocoa Butter	–	–	–	N/A	N/A	N/A	N/A	–
Cocoa Powder	10.8	9.9	N/A		7.2	13.2	4.6	
Cocoa Cake	5.0	4.8	-		1.3	1.2	-	
Groundnut Cake	2.2	1.8	-		3.3	11.1	-	
Tin Motal	-	-	-		6.8	7.0	-	
Others	1.5	1.4	N/A		8.5	8.8	4.4	
T O T A L	1149.6	282.3	438.6	182.9	223.1	1586.8	806.6	1205.3

Source: C.B.N. ANNUAL REPORTS.

TABLE 3

N.I.D.B. LOANS AND INVESTMENT SANCTIONS - 1975 – 1986

YEAR	AMOUNT (TOTAL)	LOANS	%	EQUITY	%	TOTAL NO. OF PROJECTS
1975	59.8	55.6	92.97	4.2	7.03	40
1979	179.8	-	-	-	-	-
1980	213.6	-	-	-	-	-
1981	93.6	81.0	86.58	12.6	13.42	73
1982	-	-	-	-	-	-
1983	39.9	35.0	87.71	4.9	12.28	45
1984	19.8	17.9	90.40	1.9	9.60	32
1985	66.8	64.9	97.15	1.9	2.85	47
1986	58.5	56.1	95.89	2.4	4.11	30

Source: CALCULATED FROM C.B.N. ANNUAL REPORTS.

TABLE 4

N.I.D.B. ASSETS AND LIABILITIES - 1979 - 1987

YEARS	TOTAL ASSETS & LIABILITIES (N' MILLION
1979	213
1980	278.8
1981	305.5
1982	385.3
1983	415.6
1984	339.7
1985	411.1
1986	656.7
1987	664.3

Source: CALCULATED FROM C.B.N. ANNUAL REPORTS.

TABLE 5

N.I.D.B. SECTORAL ALLOCATION OF LOANS - 1982 - 1986 (IN %)

SECTOR	1982	1983	1984	1985	1986
Food	56.0	34.4	53.8	51.0	56.0
Textile	27.0	28.2	27.8	38.4	18.9
Rubber Products	17.0	19.8	9.4	-	9.1
Others	10.0	17.6	8.0	10.6	17.0
TOTAL	100%	100%	100%	100%	100%

Source: CALCULATED FROM VARIOUS C.B.N. ANNUAL REPORTS.

TABLE 6

N.I.D.B. LTD. CURRENT SANCTIONS, 1965 - 1986 (N'MILLION)

YEAR	TOTAL	EQUITY	%	LOANS & DEBENTURES	%
1965	6,721,628	1,313,200	19.5	5,408,428	81.5
1966	7,176,628	1,375,200	19.2	5,801,428	81.8
1967	8,606,628	1,923,200	22.3	6,683,428	77.7
1968	8,428,028	1,949,600	23.1	6,478,428	76.9
1969	12,716,800	2,675,800	21.0	10,041,000	79.0
1970	18,805,800	3,125,200	16.6	15,680,600	83.4
1971	27,052,800	2,421,486	8.9	24,631,314	91.1
1972	33,140,800	4,730,486	14.2	28,410,314	85.8
1973	59,498,000	16,874,486	28.4	42,623,514	72.6
1974	66,110,730	9,000,116	13.6	57,110,614	86.4
1975	124,329,330	13,245,116	10.7	111,084,214	89.3
1976	175,104,930	19,127,116	10.9	155,977,814	81.1
1977	247,300,453	23,467,335	9.5	223,833,118	90.5
1978	-	-	-	-	-
1979	801,040,451	11,434,561	1.4	789,605,890	98.6
1980	103,157,245	2,234,571	2.1	100,922,674	97.9
1981	138,672,456	3,625,412	2.6	135,047,044	97.4
1982	102,684,567	1,145,618	1.1	101,538,949	98.9
1983	75,584,231	-	-	-	-
1984	75,584,363	3,468,717	4.6	72,115,646	93.4
1985	89,752,347	4,251,320	4.7	85,501,027	95.3
1986	140,028,721	5,251,413	3.8	134,777,309	96.2

Source: N.I.D.B. ANNUAL REPORT: FOR THE VARIOUS YEARS.

TABLE 7

N.I.D.B. EQUITY/LOANS PARTICIPATION 1980 - 1988

YEAR	EQUITY (N'M)	LOANS	MILLION NAIRA
1980	5,917,116	38,539,209	44,456,325
1981	13,304,321	41,438,902	54,743,223
1982	11,317,380	38,532,336	49,849,716
1983	15,215,000	40,222,142	55,437,142
1984	18,273,000	42,318,126	60,591,726
1985	25,912,000	38,415,130	64,327,130
1986	26,817,214	42,218,140	69,035,354
1987	28,117,230	45,114,150	73,231,380
1988	N/A	N/A	N/A

Source: Research Findings for N.I.D.B. Kaduna Area Administration.

TABLE 8
NIDB NO. OF APPLICATIONS RECEIVED, APPROVED AND REJECTED KADUNA AND BAUCHI AREA ADMINISTRATIONS

KADUNA AREA ADMINISTRATION

YEAR	NO. OF APPLICATION	NO. APPROVED	NO. REJECTED
1981	19	3	16
1982	26	6	20
1983	21	3	18
1984	25	5	20
1985	29	3	16
1986	35	6	19
1987	N/A	5	N/A
1988			
1989			
1990			

BAUCHI AREA ADMINISTRATION

YEAR	NO. OF APPLICATION	NO. APPROVED	NO. REJECTED
1980	40	10	30
1981	28	12	16
1982	50	15	35
1983	38	11	27
1984	42	9	33
1985	25	3	22
1986	28	8	20
1987	45	9	34
1988	N/A	N/A	N/A
1989	"	"	"
1990	"	"	"

Source: RESEARCH FINDINGS: KADUNA AND BAUCHI AREA ADMINSTRATIOI

TABLE 9
NIDB NO. OF PROJECTS AND NO. OF EMPLOYEES

KADUNA AREA ADMINISTRATION

NO. OF PROJECTS	NO. OF PERSON ON PAY ROLL
3	0 - 10
7	11 - 20
0	21 - 30
15	31 - 40
0	41 - 50
5	50 & Above

BAUCHI AREA ADMINISTRATION

NO. OF PROJECTS	NO. OF PERSON ON PAY ROLL
5	10 - 20
2	21 - 30
2	31 - 40
1	40 & Above

Source: RESEARCH FINDINGS:
KADUNA AND BAUCHI AREA ADMINSTRATIONS

TABLE 11

CLIENT REPORT: BAUCHI AREA ADMINISTRATION

NAME OF ESTABLISHMENT	LOCATION	PRODUCTS	N.I.D.B. EQUITY DISTR	LOAN ('000)
Bauchi Fur.Manf. Co.	Bauchi	Furniture		230
Salama Steel Ltd.	"	Steel Manf.	110,000.0	1,100
Kuda Nails Manf. Co.	"	Nails	52,000.0	1,036,989
Gombe Oil Seeds Prod.	Gombe	Oil Seeds	110,000.0	1,100,000
Arabi Bakeries Ltd.	"	Bread		350,000
Gombe Alum. Co. Ltd.	"	Aluminum		720,000
Sunwar Nigeria Ltd.	Jos	Furniture	52,800.0	970,000
Jos Superfine Furn. Co.	"	Furniture	52,800.0	970,000
Hotel Cross Ben Ltd.	Makurdi	Hotel Serv.	136,000.0	2,200,000
Okamata Ltd.	Ogugu	Palm Oil		1,210,000

SOURCE: NIDB ANNUAL REPORT FOR VARIOUS YEARS.

TABLE 12

N.I.D.B. INVESTMENT - 1965 - 1976 (N'MILLION)

YEAR	TOTAL	EQUITY	%	LOANS & DEBENTURES	%
1965	3,360,830	956,200	27.1	2,404	72.9
1966	3,739,326	1,027,200	30.2	2,762,126	69.8
1967	4,721,590	1,427,200	30.5	2,794,390	69.5
1968	5,608,682	1,712,772	38.7	3,895,910	61.3
1969	5,361,458	2,072,772	24.2	3,288,686	75.6
1970	9,139,826	2,232,472	20.9	6,907,354	79.1
1971	12,311,726	2,577,158	20.4	9,734,268	79.6
1972	15,659,920	3,202,256	17.2	12,457,664	82.8
1973	19,158,848	3,302,357	19.1	15,856,491	80.9
1974	24,579,466	4,705,017	18.4	19,874,449	81.6
1975	33,643,309	6,183,754	16.8	27,459,515	83.2
1976	61,634,898	10,338,754	12.5	5,286,144	87.5
1977	98,599,914	12,348,840		86,257,074	

Source: ADOPTED FROM NWANKWO (1980) PAGE 103.
"THE NIGERIAN FINANCIAL SYSTEM".

TABLE 13

VALUE OF GROSS OUT-PUT OF MANUFACTURING INDUSTRY

INDUSTRY	1977	1978	1980	1981	1982	1983
Food	540,704	714,487	1,157,764	1,601,562	1,869,223	1,304,696
Beverages	383,348	447,763	950,255	901,818	708,017	997,798
Textiles	628,404	714,037	707,558	1,067,809	994,087	1,172,828
Wood/ Products	55,201	81,383	55,298	375,992	23,821	111,169
Paper Products	135,849	142,753	203,657	444,135	322,300	484,697
Medicine/ Cosmetics	241,908	210,228	293,787	234,742	154,133	137,981
Other Chemicals Products	366,348	469,970	365,376	917,509	443,141	825,655
Rubber and Products	104,870	415,956	163,126	1,198,567	123,448	119,897
Electrical Products	205,352	268,517	143,930	659,602	223,314	397,780
Others	82,794	123,432	87,891	396,142	N/A	N/A
T o t a l	2,746,755	3,590,504	4,130,622	7,799,859	4,863,466	5,554,484

Source: FEDERAL OFFICE OF STATISTICS, LAGOS, 1986.

TABLE 14

NO. OF PERSONS EMPLOYED IN MANUFACTURING INDUSTRIES IN NIGERIA

INDUSTRY	1980	1981	1982	1983
Food	57,872	46,035	52,296	40,209
Beverage & Tobacco	32,169	24,872	16,583	19,284
Textiles	88,169	85,604	65,583	62,270
Leather & Products	7,157	23,538	14,108	7,837
Wood & Products	53,566	34,504	24,490	31,228
Paper & Products	30,243	26,967	32,459	26,351
Medicine/Drugs with Cosmetics	20,712	18,950	10,662	14,450
Other Chemicals	12,024	14,061	8,385	8,999
Rubber and Products	44,896	39,988	14,659	15,194
Electricity Products	9,752	12,071	10,773	8,001
Others	96,084	122,503	83,607	88,583
T o t a l	853,632	449,093	329,704	322,396

Source: Federal Office of Statistics, (Digest of Statistics), 1985.

TABLE 15
SIZE OF MANUFACTURING ESTABLISHMENTS IN NIGERIA

YEARS	EMPLOYMENT SIZE	NUMBER OF FIRMS
1972	10 - 19	170
	20 - 49	173
	50 - 99	119
	100 - 299	178
	300 - 499	57
	500 - 999	35
	1000 & Above	21
	Total	753
1973	10 - 19	190
	20 - 49	182
	50 - 99	121
	100 - 299	132
	300 - 499	59
	500 - 999	40
	1000 & Above	25
	Total	749
1975	10 - 19	245
	20 - 49	298
	50 - 99	292
	100 - 299	202
	300 - 499	82
	500 - 999	55
	1000 & Above	40
	Total	1214
1979	10 - 19	334
	20 - 49	390
	50 - 99	402
	100 - 299	356
	300 - 499	356
	500 - 999	150
	1000 & Above	60
	Total	2048

Source: Federal Office of Statistics - for the various years

TABLE 16
NUMBER OF COMPANIES IN DIFFERENT STATES OF NIGERIA

SER. NUM.	S T A T E	NUMBER OF COMPANIES (1986 - 1988)
1.	Akwa Ibom	142
2.	Anambra	2202
3.	Bauchi	177
4.	Borno	251
5.	Bendel	1179
6.	Benue	350
7.	Cross Rivers	462
8.	Gongola	207
9.	Imo	1741
10.	Kaduna	1755
11.	Kano	1413
12.	Katsina	61
13.	Kwara	611
14.	Lagos	21937
15.	Niger	437
16.	Ogun	540
17.	Ondo	1019
18.	Oyo	2107
19.	Plateau	621
20.	Rivers	732
21.	Sokoto	187

Source: Nigeria, the State of the Nation and the way Forward (ABU Press, 1995) edited by George Kwanishe and Abdullahi Mahdi.

CHAPTER FOUR

4.0 DATA ANALYSIS AND FINDINGS

In this chapter, an attempt will be made to analyse the data obtained and state the findings arising from the data.

4.1 PERFORMANCES OF N.I.D.B. SINCE INCEPTION

The combined operation of ICON and the NIDB from 1959 to September, 1966 showed that the two institutions made available a total of 7.7 million in loans and equity investment to finance 52 projects, of this amount N5.2 million or 67% were loans from external sources out of 52 projects, Nigerians were in control of 19 projects. While the other 33 were controlled by foreigners. NIDB during its early years between 1964 to September, 1966 invested in 40 projects at the total cost of 6.3 million.

Over the years, the amount in terms of loans sanctioned and disbursed by the bank has been on the increase, as the number of the projects it assisted also. This can be seen in Table 6 while the volume and magnitude of NIDB's loan and equity participation as presented in Table 7 has over the period favoured loans to clients more than equity participation. This bias on the part of the bank shows its unwillingness to take risks.

Furthermore, there seems to be some fluctuations in the volume of sanction in 1980's. The bank's total exposure fell from the peak of N138 million in 1981 consistently through to 1985 while in 1986 there was a sharp increase. This fluctuation was brought about by prevailing economic conditions in the country. The adverse national economic situation in the country continues to slow down the rate of investment. This could be seen at Table 6.

Another way of measuring performance of a development bank is to look at the value of her investment. If a bank exhibits an increasing level of development finance overtime, it is likely that the value of investment projects being financed by the bank will also increase. By this criteria the N.I.D.B. showed a positive trend in the early years of its operation as Table 12 indicates.

In the 1980's despite the general economic depression, the bank's performance continues to be on the increase both in value of investment and in terms of growth in her assets and liabilities. For example, by December, 1980 the N.I.D.B's assets and liabilities stood at 278.8 million, this represent an increase of N65.8 million or 18.8% over December, 1979 level. The remarkable improvement in the performance of the bank was partly due to increases in loans from the Federal Government, International Bank for Reconstruction and Development (IBRD), the Commonwealth Development Corporation (CDC) and also from European Investment Bank. By December, 1983 when the down trend of the economy worsened. the bank's value of investments dropped remarkably from the peak of N213.6 million in 1980 to N9.8 million in 1984. Out of this amount, N17.9 million or 90.40% was advanced as loans, while N1.9 million or 9.60%

went into equity participation. This can be seen in the loans and investment sanctions as Tabled 3 indicates.

By the year 1983, N.I.D.B. for the first time resorted to the Nigerian Capital Market for funding. The Bank floated a 15.0 million (11 3/4%) loan stock in 1987 - 1995. The stocks were over subscribed and this may in the future encourage other development banks to go to the market for funding.

However, it is important to point out here that the glut which was witnessed in the banks performances between 1981-83 started to pick up after 1984. At the end of December, 1987 for example, the assets and liabilities of N.I.D.B. stood at N664.3 million, representing an increase of N253.2 million or 59.7% over the 1985 level. These could be seen at Table 4.

In terms of sectoral distribution, the N.I.D.B Investment has been biased in favour of the food and beverages, hotel and tourism, textile and other light manufacturing industries over the years. The other sectors which have benefited though with less emphasis are foot wear and leather products, wood products and furniture among others. The sectoral breakdown of N.I.D.B. investment percentage wise in recent times is indicated in Table 5.

4.2 AN ASSESSMENT OF THE PERFORMANCES OF NIDB

The assessment of the performances of N.I.D.B. to Nigerian industrialisation can be made from two levels: (1) From the bank's perspectives and (2) from their clients perspectives.

4.3 BANK OFFICIAL REPORTS

According to most of the bank's officials interviewed, their conventional way of measuring their bank's performances is through what they call "Development Finance". Development finance in this case, is a stock concept, computed from the bank's balance sheet, and represents the assets which the bank currently has in investment, which may be assumed to directly stimulate industrialisation. This will ordinarily include medium-term and long-term loans and equity investment in industrial sector. Thus, if the bank exhibits an increasing level of development finance over time, it is likely that the value of investment projects being financed by the bank is also increasing. Development Finance also provides some information about the demand for the bank's resources and about the supply of funds which the bank supplies to its clients. A stable level "Development Finance" entails a continuing supply of funds or finance for investment at a level similar to the average level of the recent past. An increasing level of development finance implies both demand for bank's resources and the funds supplied for investment are increasing.

After a visit to the two Area Administration offices, the commitment of the bank since 1980's in loans and equity was obtained. Observation on these revealed that they have been increased. Hence, by the bank's judgement, it has been contributing positively to the rate of industrialisation.

From Table 7, it can be observed that the equity participation and loans of the bank to various projects has been expanding. This expansion is despite the economic depression of the 1980's. Although the national reports will reveal a declining report during the 1983-84 period.

According to an investment executive, this expansion is possible because of grants from International Bank for Reconstruction in 1983. The bulk of the bank's assistance is in loan forms, while equity is lesser. The industries in which these assistance are given include Furniture, Textile, Food, Beverages, Oil milling, Ceramics etc.

The reason given by project valuer indicates that they will prefer these light consumer goods industries to capital or intermediate good industries for now whether they may shift emphasis he could not tell.

Another way of the bank's measuring its performance is through the number of applications received. This measures the demand in forms of application, and supply in forms of those approvals. When the number of applications approved fall short of the actual applications, then the demand is to be more than supply. In that case, the bank is expected to increase on her resources in order to effect the desired level of industrial promotion. As can be seen in Table 8, the number of applications processed and approved has been too far below the applications rejected. The Bauchi Area Manager pointed out that this situation does not outrightly conclude the inactivity of the bank but rather projects rejected could be due (in most cases), to the fault in the way forms and the applications are presented. The number of applications and forms processed could be seen in the Table 8.

According to an investment executive in the area, most of the projects not approved are those with high import content, or those with insignificant out-look in contributing to the industrial growth of the economy, or those in which huge resources have been committed by NIDB.

Assets and liabilities, according to the Area Manager are not maintained in Area office.

In general however, an investment executive in the bank noted the bank's ability to assist industrialists have however been frustrated

by a number of factors. These range from frequent interference in the bank's operation by government officials or through their mentors on the board, or even within the bank's staff hierarchy. Another frustrating factor indicated by an officer in Bauchi is the dearth of the technical staff. The caliber of this staff available, tends to be inadequate for effective project appraisal, supervision and promotion. For example, there are only four (4) qualified Engineers, two Quantity Surveyors in the project appraisal division of the Area office in Kaduna. The implication of this is that, these ones cannot frequently move out to the field, hence they rely on information and data supplied by the clients or those collected by their assigned staff, who may not possess the professional competence. As a result of this, the officer indicated that apart from the few projects in Kaduna metropolis, their assistance to clients in this regard has not been adequate.

In Bauchi Area, the problem of transportation is one of those faced by the bank. There are only two vehicles (land cruiser), that could be used to visit sites more often, one or the two of them are broken down.

Another problem peculiar to the two area offices is that the administrative staff of the banks tend to be too much for the bank to maintain. In Kaduna, there are well over one hundred administrative staff comprising of staff of different rank and cadres. This problem according to an Executive Investment Officer of the bank was created particularly, during the last civilian regime when staff were just posted from Lagos, whether vacancies existed for them or not. So the funds

which could have been used for investment may at times have to be sacrificed for the maintenance of administrative staff.

Furthermore, it was reported in the two area administrations that the problem of false supply of information by clients and abandonment of projects after an initial disbursement was so common. There are over fourteen of such in Kaduna currently, and five in the Bauchi area. Other problems reported by the bank's officials are inadequate manpower and communications equipment.

It is worth pointing out at this juncture, that development bank is utilized by banks, as quantitative measure of the overall effectiveness in promoting industrialisation, but this measure excludes as a technique of measure, the evaluation of the performance of the bank's promotional activities, the sectoral analysis of the bank's loans, the nature and structure of the industrial projects being promoted and other quantitative and dynamic variables in the bank's operational activities. This technique also does not show the bank's operational activities and the bank's relationship with her clients, other financial institutions and government.

Based on the limitation of this technique of measure (Development) the second level of examination of the research becomes necessary.

4.4 CLIENTS REPORT: KADUNA AND BAUCHI AREA ADMINISTRATION

The establishments visited at Kaduna Area Administration could be seen from Table 10.

Out of the projects visited, Seven are located within Kaduna, Ten within Kano, Five within Sokoto, Four within Minna, and One within Bida . This then indicates that almost 99% of the projects are located within the urban centers.

Table 11 indicates the projects visited in Bauchi Area Administration. Among the projects sampled, Three are in Bauchi, Three in Gombe, Two in Jos and One each in Makurdi and Ogugu in Benue State. Apart from Ogugu all the projects are sited in urban centers.

According to reports from Kaduna Area Administration, there are Five projects which are established before 1982, while the remaining ones were established between 1983 and 1985. In the case of Bauchi Area Administration, Five of the establishments were established before 1982, and the remaining ones were established between 1983-86.

According to interviews sampled, out of the 28 people that were interviewed, Twenty Seven indicated that the greater proportion of the bank's assistance is in loan form. In the Bauchi area, all the

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respondents indicated that in most cases loan form between 70-90% of the bank's assistance.

With regard to loan disbursement and loan processing, all the respondents except Two in Kaduna area indicated that it is not timely, since one could wait for between 15-24 months.

Most of the clients interviewed responded that without the N.I.D.B. the project would have equally attained the level it has now reached. According to the Managing Director of Kaduna Furniture and Carpet Company Ltd; without his own other sources of funds which form about 48% the company would have collapsed. This is because, according to him, since the bank's approval of N330,000.00 in equity and N4,000,000.00 in loan, the bank only made available N200,000.00 as initial disbursement and since then (1983), all efforts proved abortive to get the remaining amount.

Over 50% of those interviewed in Bauchi Area indicated that the NIDB assistance in their project was just a cosmetic affair, and that with the manner and mode of their assistance, they could have done away without the bank's assistance.

Most of them over 50% in both areas, indicated that no consultancy services is rendered by the bank, no assistance in carrying out feasibility studies and the participation of the bank is less than 50% of the total cost of the project.

After conducting interviews round the 30 sampled establishments in Kaduna Area Administration, it was gathered that

only 5 have more than 50 staff on their payroll, 15 have between 31-40, while 3 have between Zero and 10, and the rest 11-20. These can be seen at Table 9.

Twenty-five (25) of the clients in Kaduna Area Administration indicated their acceptance of the term of borrowing of the bank, while three did not agree or do not accept it as it is. In Bauchi area, 8 accepted the terms as being favourable and acceptable.

With exception of Peugeot Automobile and Nortex Nigeria Limited that export between 11-20% of their products, all the others produce for local consumption. None is recorded as producing for export in the Bauchi Area Administration. Some of the problems indicated as the main obstacles to production in these two areas are indicated below:

- In adequate funds
- In adequate Manpower
- Government Policies
- In adequate Infrastructural facilities
- In ability to acquire raw materials from abroad because of scarcity of foreign exchange.
- Capacity under utilisation.

4.5 MAJOR FINDINGS:

This study was set out to assess the performance of NIDB as relates to its role in promoting industrial growth and development. As earlier indicated, the areas in which the study was carried out are the

North-West Area Administration and that of the North-East Area Administration.

In assessing the bank's performances, one will unavoidably have to look at it from two sides, that is, the side of the bank, and from the perspective of the bank's clients. From the bank's perspective, the measure of their own performance is "Development Finance". With this measure, it is discovered that there is a continuous and persistent growth in the bank's assets and liabilities and in the bank's financial assistance to clients of various class and category, therefore, N.I.D.B. is contributing positively to industrial growth of the economy.

This finding and assessment is in conflict with the economic indicators of industrial performances of the economy. This contradiction therefore has to be reconciled by looking at how, when and to who and where the bank's resources are channeled, and it is for this purpose that the second level of the research is conducted.

At this second level, reports gathered from interviews have indicated that the bank tends to have emphasized more on its banking function than on its promotional and development functions. For example, the bank like Commercial banks and Merchant banks tends to be more in love with financing projects that have short-term gestation period. It is not surprising therefore that over 70% of the project assisted in the Kaduna and Bauchi areas are in the light, low technology and consumer goods oriented industries. This arrangement will not augur well for a proper industrialisation of the economy. With these types of industries, the self reliance objective cannot be accomplished as the country will continue to import

machines and other intermediate goods for the local industries to survive.

Furthermore, many projects were turned down in receiving the banks assistance because they were termed small scale. According to the bank's sources, loan applications of less than N50,000.00 will not be considered. This policy is enforced, despite the fact that most Nigerian Industries are small scale household based that cannot afford adequate collateral as to seek loans of such magnitudes. This policy therefore cannot contribute to the industrial growth of the economy.

The research has revealed that the bank has failed in its role on even dispersal of influential ventures in the country. Almost 45% of the 30 projects visited are concentrated in Kaduna, 30% in Kano and less than 30% in the other areas. This situation is unfavourable for industrial growth as these urban areas are already industralised and therefore efforts to promote industrial growth could only be meaningful if there is a decentralisation of industrial location to avoid misallocation of resources.

Most clients and industrialists interviewed or visited indicated that the procedures and processing of NIDB loans and other assistance is actually tedious and time consuming. 100% of those interviewed at Bauchi Area have actually attributed the snags in their venture to either delay in processing loans or in late disbursement. There are two particular cases where a different line of business decision has to be taken just because of such delays. The bank is not therefore aiding industrialisation in this way.

Secondly, there is the habit of piece meal disbursement by the bank. This bits by bits disbursement of funds went to the extent that in some cases, the money disbursed may not be enough for initial take-off.

Furthermore, it is gathered that the bank has little or no acquaintance with the viability of a business venture before considering application. Many projects are not offered consultancy services. This then explains why some projects run bankrupt after a little period of its existence.

There seems to be a general inadequacy of awareness regarding the operation, existence, and the use of the bank by the greater majority of Nigerian business interest. This problem is largely due to the inability of the bank to make itself and its functions known to the public. Its activities tend to center as indicated earlier within the Area Administration Headquarters.

Another major finding is that the economic climate of the country has actually retarded the performances of the bank, especially as from 1982. Bank's ability to give loans was stricken as a result of tight monetary measures, particularly from 1986 when the government was undertaking an economic adjustment policy of mopping excess liquidity through SFEM. It has become fairly difficult for industrial promoters to put their industrial plans, because of inaccessibility to foreign exchange.

NIDB is purely government owned; 60% by the Federal Government and 40% by the Central Bank. This characteristic has affected the performance of the bank. As discussed by some officials of the bank, government's direct or indirect interference is a major serious problem faced by the bank. The management's approval of certain projects are done purely on political basis. This will now allow for sound economic performance.

The bank's performance in generating employment within industrial sector has been so insignificant. Nationally, only 5,317 persons were employed in 1985 when the highest disbursement was made by the bank and it was just 1,309 in 1984.

It is gathered from the research too, that the bank's activities are not reasonably aiding foreign exchange conservation. Import bills of industrial goods have been on increase, from 1970 uptill 1985. As indicated earlier, of the 10 projects being assisted by the bank in Bauchi, only one exported just between 10-20% of its products, while only two exported about the same quantity in Kaduna area.

Finally, as observed, enormous financial commitment has been disbursed to various industrial projects, but it seems the rate of industrial growth in the economy is not commensurate with the financial out-lay. This then lends to the fact that finance alone is not all that matters in the industrialisation of the economy, but combination of other socio-political factors.

4.6 A CRITIQUE ON THE LENDING POLICIES AND OPERATIONAL PROCEDURES

It is considered relevant to mention in this chapter some policies of the Bank that the research revealed to be inimical to the overall performance of the Bank.

Firstly, the bank is involved in financing medium and large scale ventures. There is ambiguity in this policy on what criteria are used to assess a small scale, medium or large venture. The problem with this policy is that a seemingly small scale project may generate into a large scale one within a very short span of time. Therefore, denying such a project amounts to discouraging genuine industrial expansion.

Secondly, most Nigerian Industrialists are within the small scale class. Excluding this class from benefiting from the resources of the bank entails depriving greater majority of Nigerians from contributing to the rapid industrialisation of the economy.

It is the policy of the bank that industrial promoters carry out their own feasibility studies and report to the bank, except in some limited cases, where NIDB undertakes the project feasibility study on behalf of promoters for a nominal fee. This arrangement does not guarantee the safety of the security of the bank's resources.

It is possible as seen in some projects that resources of the bank were either diverted into an entirely different venture from what is indicated in the feasibility study submitted to the bank, or the project

may not in the real sense show the viability indicated in the feasibility study. In this regard, it becomes necessary, that in any project where the bank's financial outlay is committed no matter how small, the bank should be part and parcel of the feasibility study.

Normally it takes more than two months before N.I.D.B. Board approves investment whose detailed study is submitted. When this time is added to the time when client started the processing of the initial application, the wait becomes too long especially for ventures in which the demand for the product is seasonal.

It is the policy of the bank that, the bank's loan is usually disbursed directly to the suppliers of good and services according to agreed schedules. This implies that the fund is not directly disbursed to the client of the bank. This arrangement is quite unconducive to modern day business. The promoter of a business should be accessible to his capital anytime, so that in case there are emergency business callings, he should be able to mobilise his funds, which will not be the case if the money is somewhere not accessible to him. As a principle, the bank is doing this to safeguard against diversion of funds, but well secured loans, and business ventures whose feasibility studies are undertaken both by promoters and banks officials, should be able to account for themselves even when there are such attempts.

As evidenced in all the areas where the bank's area offices are located, they are sited at the state headquarters - their operations are therefore concentrated at these urban areas which are already industrialised. This is one of the reasons why the bank has not been

able to reach the rural areas, and thus, the reason for industrial concentration at the few urban places.

The bank allows for a minimum amortisation term of five years, and a maximum of fifteen years, which gives a total term of between five and fifteen years. A minimum gestation period for a worthwhile project is between ten to fifteen years for most medium scale and large scale industries. Therefore, the minimum of five years and maximum of fifteen years amortisation period is too small a time. Ten years minimum and twenty years maximum of amortisation period will be ideal, with this arrangement., promoters are not rushed, therefore, the panic of repayments which may bring about diversion of funds from a purely production oriented venture into general trading and commerce where returns are faster will be avoided.

The bank's facilities are available to incorporated industries. In this way, the bank is restricting it's services to the few incorporated industries. As noticed earlier, most of the business ventures in this country are sole proprietorship, owned by individuals and the members of their families, some of them are even not aware of the need to incorporate a business, or where they are, the procedures may be too complicated as to discourage a good number of them. This does not deny the fact that bank's restrictive policy is not in order. Rather, the viability and security of the business and of the loan respectively should be the main concern.

The bank has not been able to come up with innovations on her lending and repayment guidelines, it is still staying with those old and conservative rules, for example, it is the belief that they do not assist

in funding of real estate. Even now that it is becoming very crucial in the promotion of industrial growth, especially, in the rural areas, the bank is still bent on its stance. No effort is made to bridge the gap between the urban centers where we have high rate of industrial concentrations and rural areas where there is a total absence of this.

The banking services of N.I.D.B. seem or are observed to be over-shining it's development services. There is no year when huge profit is not recorded by the bank. Unfortunately, this profit is not channeled into the provision of development services.

CHAPTER FIVE

5.0 CONCLUSION AND RECOMMENDATIONS

INTRODUCTION:

This chapter will state the implications of the findings arrived at from the data obtained in the course of field work involving interviews and questionnaires.

Based on the findings, an attempt will be made to suggest ways of improving the performances of Nigerian Industrial Development Bank (N.I.D.B).

5.1 CONCLUSION

For an economy that was subjected to colonial domination for over a century, and whose production structure were mercilessly distorted, to be self reliant industrially is not an easy task. It is a task that must not be achieved on a platter of gold, and that no other country will come to do it for us.

When this assertion is well dissolved in the minds of Nigerian policy makers and government, then it will be evidently clear that government's direct intervention in promoting industrial development and Nigerian economy is inevitable. This intervention does not end with just channeling of financial resources as observed in this study, but should be tackled by adequate and concerted efforts to direct the flow of these resources, making sure that, the vital sectors get what is appropriate at the right and suitable time.

Therefore, the evolvement of Development Finance as an engine of industrial growth in Nigeria is a welcome development. The establishment of institutions per-se is not enough unless; they are backed by committed, devoted and articulated government industrial policies and are implemented with vigour. If the administrative structures of NIDB and the above suggestions are taken, no doubt, NIDB and indeed other development finance institutions are capable of enhancing the needed industrialisation for the economy.

5.2 POLICY RECOMMENDATIONS

Based on this conclusion, it is essential to make recommendations in order to improve efficiency in line with the initial objectives of the bank and national objective of self reliance, increased employment generation within the industrial sector, etc.

(I) It is pertinent that each state of the federation has an NIDB State Administration. This will bring the bank and its activities closer to people and will ensure distribution of industrial ventures in the country.

(II) Direct intervention of a development bank in the provision of industrial infrastructures, especially in the states where they are not available is a necessity. It is not suggested here that NIDB or any other existing finance institutions should be responsible for this, but the establishment of an entirely new DB whose responsibility it should be to provide this missing ingredients. When investors are attracted, the bank can then gradually impose a tax or go into equity holdings

with them, transferring the cost of the infrastructural services into her own share holdings in the ventures. Emphasis should be at this point directed in addition to assisting only light consumer goods industries into assisting industries that could go into the production of intermediate goods or capital goods.

(III) An establishment of a small scale industrial promotion department will go along way in the promotion of accelerated industrialisation efforts of the bank. This department should cater for small scale industrial projects which may need less than N50,000.00 to set up ventures in crafts, cottage, textiles and other industries. This is very essential because most of Nigerian Industrialists and Business men fall within this class. Secondly, the economic situation of the country, where there is unavoidable need for self employment creation, requires the bank to take care of the interest of this class of people. In this regard, the bank's assistance to young graduates and starters of various professional callings will go along way in enhancing the industrial growth of this country.

(IV) The instances where the bank cancels certain viable projects after the initial disbursement as a result of the refusal of the client to show up is not in the best interest of the bank and the economy in general. In such situations, the bank should (instead of considering it as a bad debt) take over such ventures and develop them. It may sell them out if it wishes, or have to run them as part of its investment undertaking.

(V) Emphasis should shift to financing production of intermediate and capital goods. Through this, government will facilitate a faster

industrialisation of the economy. If NIDB is charged with the responsibility of assisting industrialists in the intermediate and capital goods industries, on a very long-term or equity assistance, good foundation would have been laid towards achieving a self reliant economy.

(VI) The bank should try to increase the pool of its manpower especially in the technical department. For example, in the areas visited the number of Valuers, Economists, Engineers and other Investment Analyst were so scanty that, they may not be able to adequately shuttle between the field and the office. Inadequate running funds was the excuse for the size of staff, however,, it must be pointed out that what is worth doing at all, is worth doing well. Hence, this staff strength should be increased.

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