INDUSTRIAL DEVELOPMENT FINANCING IN NIGERIA

A CASE STUDY OF

NIGERIAN INDUSTRIAL DEVELOPMENT BANK LIMITED

AN MBA PROJECT

BY

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INDUSTRIAL DEVELOPMENT FINANCING IN NIGERIA

A Case Study of NIDB

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A B S T R A C T

Industrial Development has been a major corner stone of economic development of any nation. The success of such a programme can be attributed to the methods and modes of financing the policy. This study is therefore focussed on industrial development financing in Nigeria. Since NIDB is at the apex of industrial development financing, this study is essentially concerned with the appraisal of NIDB: its history, project appraisal techniques and recommendations for its improvement and further steps for the realisation or modification of its set objectives and policies for better performance and industrial development of Nigeria.

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CHAPTER I

OBJECTIVE OF THE STUDY

The objectives of this study can be summarised as an investigation of industrial development financing in Nigeria with a particular reference to Nigerian Industrial Development Bank Limited. The study seeks to highlight the problems of Industrial Development Financing and how these problems are militating against industrialists vis-a-vis industrial development banks and studying Nigerian Industrial Development Bank in respect of the issues. The study is also aimed at assessing the extent to which NIDB is achieving its objectives as a developmental institution and to make suggestions to improve on its operations in particular and industrial development financing in general.

Scope of the Study:

This study discusses the role of Development Bank generally and the project appraisal techniques adopted by such Banks. A cursory look is taken on NIDB's project appraisal techniques as a development Bank. The study also, within a reasonable length, discusses NIDB's history, objectives and guide-lines, and the dynamics of the relationships between NIDB and its clients. A detailed exercise on the performance appraisal of NIDB since its inception and particularly for the past ten years is also under-taken.

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Rationale of the Study:

This study is considered relevant and desirable because it will provide a meaningful and purposeful guide for the evaluation of NIDB as a Development Bank and also be of some assistance in the improvement of NIDB's mode of operation in order to meet, and in more concrete terms, its functions as a development bank. This study will also be of great significance at this juncture when both Federal and State Governments have been itching to find out ways and means to develop industrial projects with the help of local enterpreneurs and resources. The findings of the study will be useful both for the policy makers and academics alike.

Research Methodology and Sources of Information:

The research was conducted through a combination of methods of data gathering. The information gathered were both from secondary data - published literature and primary data - questionnaires and interviews.

The bulk of the data were culled from published materials which were mainly available from NIDB Annual Reports and comments by other scholars like Dr. Okigbo, Professor Nwankwo and other several materials from the World Bank and write-ups by associates of the World Bank in journals, and magazines were read. The Bank Annual Reports and other in-house compilations were well examined.

Due to the scanty nature of published materials,

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tremendous efforts were made in search of primary data, consequently interviews and questionnaires were employed in data collection and Bank officials were interviewed personally by the author. Some clients of NIDB were also interviewed and very useful information were gathered in the course of the interview.

The Sample:

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

Questionnaires were designed and administered on some of the selected clients of NIDB in Kaduna, Kano, Bauchi, Niger and Sokoto States. The response was quite encouraging. The questionnaire was directed at clients opinion of NIDB conditions of assistance, its popularity and significance in industrial project financing, promotion and development as well as the strengths and weaknesses of the bank.

Plan of the Study:

The study is arranged into eight Chapters. The first Chapter is an introduction. The Chapter deals with the objectives and scope of the study, the methodology, and limitations of the study. It also gives the outline of the write-up of the study.

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Summary of the Chapters:

Chapters two and three discuss the role of development Banks project appraisal techniques and NIDB's approach or procedure for appraising projects. Chapter four attempts to combine historical narrative with analysis of functions and an appraisal of the performance of NIDB. Chapter five deliberates on an appraisal of NIDB's activities and overall performance as a development bank since it came into being.

Chapters six and seven take a look at the analysis of the questionnaires, summary and recommendations respectively.

Limitations of the Study:

One cannot help to mention that numerous problems cropped up in the course of this study. The first major constraint is time. The time as a limited resource narrowed down the scope and depth of the investigation. Consequently sufficient visits to interviewers throughout the country were not possible hence only a few States were covered through interviews and questionnaires. Even in the States there was not enough time to visit all the clients who are spread all over the State.

The issue of cost cannot be left without discussing the availability of or the lack of funds. The importance of cash for information gathering vis-a-vis the quality

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of information cannot be over emphasized. This study was constrained by limited funds to meet all the relevant costs adequately.

Thirdly, the study is based on the performance of NIDB only and does not cover the whole gamut of industrial financing institutions in the country. Techniques and methods of industrial financing adopted by the NIDB may not necessarily be adopted by other institutions in its entirety, hence the limitation of the study.

Fourthly, this being an empirical study based on responses received from the respondents to the questionnaires, hence in some cases full information was not given and this is another limitation of the study. And finally, we have made use of published data which have their own limitations and were used as they are in this study. Their limitations can affect the quality of information gathered from such sources.

Literature Review:

In the course of this exercise a number of available literature on development financing were consulted. Apart from NIDB's published records and information bulletins, many other published works on the subject were read. The most helpful and educative are Shirley Boskey's work on Problems and Practices of Development Banks, N. Imbodens - A Management

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Approach to project Appraisal and Evaluation, Professor G.O. Nwankwo's work on the Nigerian Financial System, P.N.C. Okigbo's Nigerian Financial System and the works of H. Harlander and D. Mezger on Development Banking in Africa - Seven Case Studies among others. A number of write-ups from India were also of immense benefit while reviewing literatures for this study. An unpublished work on Financing Indigenous Enterprises and Development Banks in Nigeria by Samuel Kaku Msheliza was also very informative and also of some benefit in this exercise.

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CHAPTER 2

THE ROLE OF DEVELOPMENT BANKS

Introduction:

The ravages of the Second World War triggered off the thought for a search for a quick means of reconstructing the war torn-cities and countries of Western Europe and other parts of the World.

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

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

The less-developed countries, spurred by the rapidity of their political advancement strive to achieve

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

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

Development Banks:

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

International Bank for Reconstruction and Development (IBRD)

The International Bank for Reconstruction and Development can be regarded as the foundation stone for Development Financing. It emerged from the Bretton Wood Conference in July 1944 as an Anglo Saxon Creation, USA, being the senior partner. At that

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IFC also helps in the mobilization of domestic and foreign capital.

Specifically IFC engages in the following activities:

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

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

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

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

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

There is no specific limit to IFC's size of investment it is prepared to review, and for which it will try to arrange financing. However, investments for its own account are normally between $ US1 million and $ US20 million.

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

Actually and in summary, International Finance Corporation is the industrial financing arm of the World Bank and the bulk of its investment is in industry.

As regards terms of financing, IFC is flexible in its terms and invests in a form suited to a particular situation. Most investments consists of a share subscription or a long-term loan, or both, or a long-term loan with an equity feature. Loans are generally expressed in United States Dollars but may be made in

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other major convertible currencies. The type of investment, the investment mix and investment terms vary from case to case, they depend on the circumstances involved, the risk entailed and the prospect of return.

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

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

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

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

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

International Development Association (IDA)

This is one of the members of the World Bank Group and it was established in 1960. Its head office is in Washington D.C., United States of America and it has three Branch Offices at London, Paris and Tokyo. It is owned by 121 member countries.

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

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are more flexible and bear less heavily on balances of payments than those of conventional loans.

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

Nigerian Agricultural and Co-operative Bank (NACB)

As Nigerian economy has been dominated by the oil industry which triggered off a number of industrial activities, agriculture began to lag behind. Nigeria which was a major producer and exporter of a number of agricultural cash products suddenly become a major importer of such products as well as food stuffs. Thus, agriculture was gradually drifting into oblivion.

As a major effort to wedge the drift, the idea of agricultural development bank was conceived and the Nigerian Agricultural Bank which was latter renamed Nigerian Agricultural and Co-operative Bank was established. The Bank is to boost and salvage the declining agricultural industry. The Nigerian Agricultural and Co-operative Bank was incorporated in 1972. The main objectives as stated in the memoradum and articles of association include the following

i) To promote agricultural production and rural development.

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

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

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

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

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

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

Nigerian Bank for Commerce and Industry (NBCI)

The Nigerian Bank for Commerce and Industry was an off-shoot of the Nigerian Enterprises Promotion Decree of 1972. The decree made it mandatory for foreigners in certain sectors whose business activities fall in a particular schedule to either completely sell off their business or sell shares to Nigerians according to the provisions of the schedule. In order to make funds available to Nigerians who are willing to participate in business in response to the decree, NBCI was set up.

NBCI was established by Decree No. 22 of May 5th, 1973. It now has branches in all the State Capitals of the Federal Republic of Nigeria. The decree specifically states the purpose of the Bank as follows:

> Provide equity capital and funds by way of loans to indigenous persons, institutions and organisations for medium and long-term investments in industry and commerce at such rates and upon such terms as may be determined by the Board in accordance with the policy directed by the Federal Executive Council.

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Originally NBCI was conceived as an institution to finance indigenisation, when the Decree was written, it was realised that indigenization will not provide enough work for the Bank consequently the objectives of the bank were expanded to include development financing. Thus the Decree provided as follows:

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

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

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

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

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

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

f) provide cheque facilities for its customers.

Apart from the above aspects which were geared towards the successful implementation of the indigenization exercise, NBCI also engaged in investment banking functions as well

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as commercial business. The Bank can participate in financing a project in either of three ways:

i) Through direct subscription in equity participation;

ii) Granting of Loans;

iii) A combination of equity and loan.

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

Federal Mortgage Bank (FMB)

The Federal Mortgage Bank of Nigeria is one of the development finance institutions in Nigeria. It was established by Decree No. 7 of 1977 which stipulates the following functions:

a) The provision of long-term credit facilities to mortgage institutions in the country at such rates and upon such terms as may be determined by the Board in accordance with the policy, directed by the Federal Government, being rates and terms designed to enable the mortgage institutions to grant comparable facilities to Nigerian individuals desiring to acquire houses of their own.

b) The encouragement and promotion of the development of mortgage institutions at State and National levels.

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c) The supervision and control of the activities of mortgage institutions in Nigeria in accordance with such directive as may be given on that behalf by the Federal Government.

d) The provision of long-term credit facilities directly to Nigerian individuals at such rates and upon such terms as may be determined by the Board in accordance with the policy directed by the Federal Government.

e) The provision, with the approval of the Minister, at competitive commercial rates of interest, of credit facilities to commercial property developers, estate developers and developers of offices and other specialised types of buildings.

Other supporting functions provided by the Decree include commercial bank functions such as accepting deposits and savings from institutions and individuals, promote the mobilization of savings from the public, invest in companies engaged in the production of building materials in the country, give financial advise and guarantee loans among others.

The Banks mortgage operations can be classified as follows:

- Social loans which are directed mainly at financing owner-occupied houses.
- Economic loans and Commercial loans.

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The Bank like other institutions, pursues the policy of decentralization to ensure an even spread of its services and bringing its services nearer to the people. In compliance with that, seven Area Offices were opened to man the nineteen branches situated in the State Capitals.

Put in straight form, Federal Mortgage Bank is specifically concerned with the provision of shelter in various forms.

Other Development Finance Institutions:

As the Federal Government makes conscious effort to encourage industrial development, State Governments did not sit and watch. Most States in Nigeria have also set up Industrial Development Institutions such as Northern Nigeria Development Corporation, Kaduna, owned by the Northern States, Kaduna State Investment Company, Odua Investment Company, Ibadan, Central Investment Corporation Enugu to mention a few.

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

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

Scope of Development Finance Institutions:

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

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

According to William Diamond, Development Banks modify the environment in which they work as well as provide finance for it. This process is considered as "promotion". The general charters of development banks express the intention to encourage, stimulate or promote development in one sector or another; critics observed that

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Development Banks promotional activities are usually inadequate or too specialised. Promotion and the activities related to it are invoked not only as criticism, but also as inspiration and extortionate demand for development banks to pursue their development duties more vigorously.

Promotional Activities:

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

Development Banks are also involved in innovation and creativity. William Diamond asserted that the two essential functions of Financial Institutions are: the mobilization of savings and their allocation. This exercise, he argues, gives room for dynamism and creative imagination on both sides of their balance sheet - dynamism in expanding the limits and improving the quality of both assets and liabilities. This implies a more aggressive search for additional business, which itself can be a creative process; the invention of new instruments and inducements to encourage and attract savings; the search for newer, better, more productive, more socially useful investments. The creation of such new structures to provide specialised services as the economic environment becomes more complicated, are supposed to be among the functions of

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development Banks.

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

With their wealth of experience, Development Banks have the ability of putting to test the technology and engineering used in a project and to advise their clients on such aspects when they seek their assistance. They could force their clients subtly to re-examine their plans, to spell them out in unaccustomed and explicit detail and to understand more clearly their implications and the available options.

In their follow-up activities, Development Banks are able to safe guard their investment and build the confidence of their clients that they are partners in development.

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

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CHAPTER 3

PROJECT APPRAISAL TECHNIQUES

Introduction:

This chapter is divided into three parts. The first part discusses project appraisal techniques which are empirically applied or adopted by various Development Banks. Part two discusses project appraisal in NIDB while part three deals with NIDB's general policies.

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

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1. A Management Approach To Project Appraisal and Evaluation,
N. Imboden page II.

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

What is Project Appraisal:

Project appraisal offers the analyst the opportunity to establish at least, tentatively, the inputs required in a project and the expected out-put. One is able to assess the resources available and ensure their effective allocation for maximum return. As N. Imboden puts it:

> "Project appraisal is the ex-ante analysis of a proposed project. It identifies and values the expected costs and benefits of a project. The expected costs and benefits of a project. The expected results of a project are based on an analysis of the functioning of the project and of its inter-relationships with the Socio-economic environments. The determination of the effects of a project is always based on some more or less verified hypothesis:
>
> Meaningful project appraisal, depends on a minimum of knowledge about the production process and the environment in which the project is supposed to function."[2]

2. A Management Approach To Project Appraisal and Evaluation with special reference to non-directly production projects by N. Imboden page 15.

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Appraisal Processes:

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

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

Industrial Development Bank of India in Guide to Practical Project Appraisal, Social Benefit - Cost Analysis in Developing Countries, observed that the United Nations Guideline for Project Evaluation, lacked satisfactory method of evaluating the economic and social benefits and cost in Developing countries. They therefore improved on the Guidelines and developed the five stage approach, each of which leads towards a measure of the social benefit of the project namely:

1. Calculation of financial profitability at market prices;

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2. Shadow pricing of resources to obtain the net benefit at economic efficiency prices;

3. Adjustment for the projects impact on savings and investment.

4. Adjustment for the projects impact on income distribution.

5. Adjustment for the projects production or use of goods such as luxury consumers goods and basic needs whose social values are less or greater than their economic values.

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

In a situation in which a sense of priority is utmost to the decision maker the project analyst evaluates the project by benefit-cost criteria. Hence the assertion that, "it is easy to become so involved in the theoretical niceties of project appraisal that it is carried to the point where it produces only superfulous information instead of better investment decisions. However, a simple uniform cut-off point for analytical detail cannot be established for all projects in all countries because needs vary widely."[3]

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3. Guide to Practical Project Appraisal, Social Benefit - Cost Analysis in Developing Countries Page 4. Industrial Development Bank of India.

.... /28

Stages of Project Appraisal:

Guide to Practical Project Appraisal by Industrial Development Bank of India Bombay suggests the following points for consideration in practical project appraisal:

i) A good technical and financial analysis must be done before a meaningful economic evaluation can be made. This is to emphasise that financial profitability analysis is a prerequisite in all cases of project appraisal. This is particularly so if backed by a good engineering analysis that presents well-considered alternatives rather than economic appraisal.

ii) They also observed that commercial profitability analysis would suffice only if the projects were to operate in a reasonably 'perfect' market. That is a situation in which prices reflect the relative scarcity values of various goods.

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

iv) On income distribution the Guidelines suggest that the analysis should depend on the priority

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the government gives to increasing the income of the poor and the degree to which the project generates above average benefits to either the very poor or the very rich.

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

It was also clearly stated that some stages could be skipped in practice, more so, if the adjustments required at a stage is infinitisimal. "In an oil-rich country where savings are no problem, but where income is very unevenly distributed, the guideline stipulates, it would be reasonable to skip analysis on impact on investment. Stage five may be especially important in socialist countries when non-efficiency goals are critical".[4]

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

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4. Guide to Practical Project Appraisal - Social Benefit cost Analysis in Developing Countries. Industrial Development Bank of India Pages 4 - 5.

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Social soundness analysis is outside the formal technical steps and their negligence has caused the collapse or failure of some projects.

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

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

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

Financial/Profitability Analysis:

Based on projected out-put and market price/ current prices or constant price of the product the financial analysis must have the following projections, income statement, cashflow statement and balance sheet

projections. These projections are tested through various adjustments and calculations of the financial Internal Rate of Return (IRR) Net Present Value, Payback Period and other related parameters. It is important to mention that the above analysis is based on, cost estimates and the market potentialities of the project.

Direct Economic Benefits and Shadow Pricing:

Shadow pricing is a concept which I.M.D. Little and J.A. Mirrless extensively discussed in their book - Project Appraisal and Planning for Developing Countries. This consept calls for a more theoretical approach which employs mathematical models which stress the concentration of scarce resources on the most important divergencies between market and economic profitability. In practice, in applying shadow pricing, emphasis is put on the following:

a) Main outputs - the entire benefitstream if there are no externalities and are often sold at protected prices.

b) Importable material inputs which if domestically produced enjoy substantial projection, if imported they may be heavily taxed.

c) Major non-imported material inputs which often involve tradeable material content that is protected.

d) Unskilled labour which market wage exceed shadow wage.

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The World Bank has been known to have been applying the shadow price to establish a project's economic profitability. Although this method has been universally acknowledged, there are some sections in which difficulties arise. For example, technically, if the appraisal is to focus strictly on economic benefits to the country specifically it implies that all citizens living in the country who do not send any money abroad will benefit from the project. However, shadow pricing or the more current concept of border pricing considers, the resources, taxes, unit of account or numeraire in which the values of inputs and outputs are to be expressed, inflation and present value in order to establish a useable shadow or border prices.

Adjustments for Projects Impact on Savings and Income Distribution:

The analysis here establishes the difference between consumption and savings, the difference between consuming now and consuming later.

The analysts determine the income gained or lost, evaluate the net impact of either, and place a premium on the additional savings the project will induce by its impact on income distribution.

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The valuation of savings impact can be calculated thus:

$$AFs = \left(\frac{(1 - s)q}{i - sq}\right) - 1 = \left(\frac{Mpc\ (MP^{cap})}{CRI - MPcap\ (MPS)}\right) - 1$$

Where AFs = Adjustment Factor for Savings

MPC = 1 - S = Marginal Propensity to Consume

MPS = S = Marginal Propensity to Save

MP^{cap} = q = Marginal Productivity of Capital

CRI = i = Consumption Rate of Interest

This simplified equation for the savings adjustment factor is valid, only if:

a) The time until saving becomes optimal and the premium becomes zero is indefinitely far in the future.

b) The marginal propensity to save, the marginal productivity of capital and the consumption rate of interest are all constant over time.[5]
It is however worthy of mention that in practice because of lack of the right quality and quantity of information, it is convenient to accept these assumptions unless there are obvious reasons not to do so.

The measurement of the distribution impact is focussed on the income gained or lost by individual groups within the society because of the project. These gains or losses are assumed to be equal to the distortions between

5. Guide to Practical Project Appraisal Social Benefit Cost Analysis in Developing Countries. Industrial Development Bank of India page 66.

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shadow and market payments to each input or output in the case of physical resources or the distortions between price paid and value received. These calculations are weighted to each level of income of the various groups, valuation in terms of the impact of a given set of income flows.

Savings and income distribution depends on the social value of savings compared with that of consumption and the social value of income in the hands of different groups. Necessary adjustments particularly in terms of foreign exchange are conducted to arrive at the impact of the project on income distribution.

For the merit and demerit of Goods - Social Politics, here it may be necessary for the adjustment of present value of the project to be made. This means accounting for the difference between the efficiency and social value of the income that was redistributed because of the project. If the social value is less than its efficiency value, it may be regarded as a dormant good and upward adjustment could be made, otherwise it is vice cersa.

Project Appraisal by NIDB:

Like most development finance institutions, Nigerian Industrial Development Bank treats project appraisal from these perspectives - namely: Government, the Investor and Finance Institution. Their appraisal exercise is primarily undertaken to establish that the project will lead to satisfactory social economic returns to the nation as a whole and that in the ensuring operation the project will as much as

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possib le be financially self-sustaining. By implication, the project should be technically feasible, financially viable and socially desirable.

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

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

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

b) The Technical Aspects - Here the technology is examined, is it practicable in NIGERIAN circumstances, what kind of personnel, how many expatriates would be required and for what functions, what is the optimal level of production, where is the equipment coming from, will there be spare parts, any after sales services; what raw materials are required, are they available locally; what is the

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proposed project cost, is it reasonable; how long will it take to implement; is the location good, are there infrastructure, if not how much will be required to create some ? If the outcome of the examination is favourable, the project is considered to be technically feasible.

c) Management and Org anisation - This is another area that is usually examined.
In most cases owners provide the management, particularly the family based limited liability firms. For joint ventures and other large projects, professional managers are usually involved. NIDB examines the competence of whoever is going to manage the project in which she has some exposure; the quality, experience and capability of managers are analysed and areas of deficiency if any are rectified by insisting on the recruitment of certain key personnel or Nigerians for certain posts.

d) Profitability and Financial Aspects
The focus here is on the assessment of the possibility of getting the necessary funds particularly the equity contribution and whether the project would be financially viable through profit and loss income statement, cash flow and balance sheet projections. All other tests are carried out by the calculation of Internal Rate of Return, Net Present Value, Breakeven analysis and other Rates of Returns.

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e) Socio-Economic Dimension:

Here effort is made to determine and if possible quantify the socio-economic benefits of the project in terms of the number of people employed, capital/ labour ratio, value added and economic rate of return.

NIDB General Policies:

The General Policy specifies the role of NIDB and the method of applying for NIDB's financial assistance thus:

"NIDB is a development finance company which provides medium and long-term finance and sometimes makes equity investment." Financial assistance is available only to limited liability companies registered in Nigeria and complying with the Nigerian Enterprises Promotion Decree; thus NIDB prefers to provide funds for companies which are either wholly-owned by Nigerians or with substantial equity investment by Nigerians. Furthermore, NIDB provides financial assistance to small, medium and large scale enterprises which by their size can make significant contribution to the Nigerian economy. The Bank finances projects located in any part of the country and encourages dispersal of industries away from the more industrialised centres.

The scope of investment is presently limited to manufacturing, non-petroleum minning and tourism which includes hotels of international standards. Service industries are generally excluded except where there is the prospect of

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manufacturing in the short-term. Project proposals could be for the establishment of new ones or for the expansion of existing projects.

Normally the project should be economically desirable that is show evidence of improvement of the living standard of the people, provide employment or save foreign exchange. The project should be technically feasible and commercially viable to attract NIDB financial assistance.

The General Policies also specifies the standard conditions of NIDB loan investment among which are the following:

a) The size of investment:

The minimum loan investment in any project is ₦50,000.00. NIDB's total exposure in a project will not be more than 75% of the projects' total capital cost. For equity investment the minimum NIDB can accept is 11% or a maximum of 20% of the client company's paid-up share. However, there have been some exceptions to this.

b) Rate of Interest:

The rate of interest as at now (1984) is between 13% - 14% payable half-yearly and an additional 2% penalty for any default in overdue repayment of principal and interest.

c) Commitment Charges:

NIDB charges a commitment fee of 3/4 of 1% on un-disbursed part of the loan and it is payable

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six months after the date of the acceptance of the offer or from the date of signing the Loan Agreement which ever is earlier.

d) Repayment Period and Moratorium:

A minimum of one year moratorium is usually granted to loan beneficiaries while loan can be amortised within a minimum of five years or a maximum of fifteen years.

e) Security of Loan:

The security is usually a first legal charge on the fixed assets of the project and a second charge on the floating assets. Sometimes other collaterals such as personal property or guarantee or reputable bank guarantee is accepted. The coverage should not be less than 1.5 times of the NIDB loan to the project.

f) Debt/Equity Ratio:

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

g) Pre-payment Option:

A client has an option to retire any outstanding principal subject to a graduated prepayment premium.

h) Promoters Contribution to Project Costs:

The promoters are required to contribute not less than 25% of the total capital cost of the project. "In no circumstances will assistance be given except NIDB is satisfied that the promoter has means to contribute the counterpart funds.

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Method of Application:

Promoters are required to contact NIDB in writing or by personal visit to the office. An early contact is advocated to make it possible for promoters to benefit from NIDB's Promotion and Development Department before spending money in studying projects that may not be viable. The Promotion and Development Department can undertake such studies at a nominal fee.

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

If a promoter is enlightened he or she can apply by submitting his feasibility study, Memorandum and Articles of Association of the company and other technical details like building sketch, quotations for plants and equipment etcetera.

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

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Generally one can assert that NIDB is conventionally carrying out appraisal of projects within the known provisions of such other experts like the World Bank and Industrial Development Bank of India. In due course NIDB may have course to look at, more critically, the aspects of the impact of a project on savings, consumption and income distribution.

This chapter dealt extensively with project appraisal techniques and NIDB's methodology for appraising projects requiring financial assistance from the Bank.

Armed with this discussion, the examination of NIDB in general perspective is the concern of the next Chapter.

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CHAPTER 4

NIGERIAN INDUSTRIAL DEVELOPMENT BANK LIMITED

At the end of the Second World War, the ravages left behind by the war made Western Europe to view reconstruction and development as a global responsibility. With the Marshal Plan for the reconstruction of the war ravaged areas of Europe, the concept of development began to creep into the vocabulary of economists in the more advanced countries. These were extended to their colonial territories and development plans were drawn to steam-line their development and reconstruction efforts.

This gave birth to the creation of special institutions for specific purpose of development in the widest sense of the term. These institutions came in the form of Boards, Corporations, or special purpose Banks to provide medium and long-term investment funds for direct investment or for assisting private initiative; to provide technical assistance and supporting services.

With the ten-year development plan drawn for Nigeria by the Colonial Government, the Nigerian Development Board was established in 1946. The Board could not achieve much before it died in 1949.

In 1959, the Investment Company of Nigeria (ICON) a private limited investment company was formed to provide

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development finance for businesses, undertake business of stockbrokers and underwrite issues of stock.
In 1964, with the aid of International Finance Corporation (IFC) and other institutions, the Investment Company of Nigeria was changed to Nigerian Industrial Development Bank Limited by a special resolution and with the authority of the Registrar of Companies on 22nd January, 1964 as was incorporated under the Companies Act as a limited company on the 17th October, 1959. The ownership of NIDB had undergone a number of changes. The structure of ownership rose from 51% Nigerians, and 49% overseas in 1976 to 95% Nigerian and 5% in 1977. In 1978 the Federal Government purchased more shares from the Overseas Partners and the distinction between class 'A' and Class 'B' shares disappeared.
As at now the NIDB can better be described as solely Federal Government owned with about 99% shares.

The Objectives of NIDB:

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

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

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

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

iii) Encouraging, sponsoring and facilitating acquisition or ownership of investments, shares and securities;

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

v) Creating expanding and stimulating investment shares and security markets. As at now NIDB does not engage in agricultural cultivation but can engage in food production or production of agriculture equipment or feeds.

Functions of NIDB:

NIDB's functions include the following:

a) providing finance in the form of long or medium term loans or share participations.

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

c) guaranteeing and counter-guaranteeing loans and obligations.

d) making funds available for re-investment by causing the transfer of shares and securities and by resolving

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investments as rapidly as prudent..

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

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

g) To purchase, subscribe for absolutely or conditionally, underwrite acquire, hold, sell, exchange issue or turn to account, deal in and dispose of shares, stocks, bonds, debentures, debenture stocks and other securities whether fully or partly paid, and whether registered or inscribed or payable to bearer of any company or corporation or the stocks loans securities or obligations of any government or authority (supreme, municipal, local or otherwise) or any international organisation or any participation in syndicates or other interests wherever situated.

Source of Finance:

To borrow, or raise money in such manner as the company shall think fit and in particular by the issue of debentures or debenture stock (perpetual or otherwise and to secure the repayment of any money borrowed raised or

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owing by mortgage, charge or lien upon all or any of the property or assets of the company (both present and future) including its uncalled capital.

The above mentioned object clauses are just part of the provisions in the Memorandum and Articles of Association. They are broadly specified in the General Policies and functions of NIDB. They act as a guide to would be investors or those interested in the activities of NIDB.

Financial Resources of NIDB:

It is part of the functions of Development Banks to mobilize domestic savings and direct them into productive channels, and in most cases also they attract funds from abroad.

The resources of NIDB can be classified as follows:

- The Banks own financial resources;
- Medium and long-term borrowing and lending;

NIDL's resources are made up of share capital, reserves, or undistributed profits. The loans have been domestic and foreign with domestic loan being the highest.

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N IDB's Financial Resources as at the end of 1983:

1.	Share Capital (Authorised)	200,000,000	
	Fully-paid		99,352,000
2.	Reserves		17,973,000
3.	Loans		265,447,000

These are further broken down as follows:

Share Capital:

Allottee	Amount ₦000	%
Federal Government of Nigeria	59,000	59
Central Bank of Nigeria	40,000	40
Private Individuals	1,000	1
	100,000	100

Loans	₦'000	%
Federal Govt. of Nig.	216,317	81
International Bank for Reconstruction and Development	21,170	8
Commonwealth Development Corporation London	2,515	1
European Investment Bank	11,016	4
Commonwealth Dev. (Ng.) Limited	-	
$11^{3}/4$% NIDB Loan Stock	15,000	5
	265,447	100

Source: NIDB Annual Report 1983

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From the above it is obvious that the main source of NIDB funds is loans and the bulk of this is from the Federal Government of Nigeria. The debt/equity ratio is approximately 1:1.7. This is not attractive in strict financial analysis. There is need for improvement and the injection of additional equity or the call-up for the payment of outstanding shares. In the alternative the Federal Government being the majority shareholders and the main lender should be urged to convert part of its loan to equity.

NIDB's Administrative Set-up:

The headquarter of NIDB has been at Lagos. In an effort to bring its services nearer to the people and also to make the people aware of its existence and services two area offices were opened at Aba and Kaduna respectively.

In 1980 more vigorous efforts were made on industrialization. The Board of NIDB agreed on some degree of decentralization and the opening of more offices. Consequently the idea of area offices were abolished and five Area Headquarters were opened. The country was broken into zones with each Area Administration covering specific zones. Each Area Administration is headed by an Assistant General Manager and the Area Administration can appraise projects in which NIDB's total financial exposure is not more than ₦1 million. The five Area

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Administration are:

1. North-West Area Administration:
   Area Headquarter is Kaduna and the zone is made up of Kaduna, Niger, Kano, Sokoto States and Federal Capital Territory, Abuja.

2. North-East Area Administration:
   Area Headquarter is Bauchi and this covers Bauchi, Borno, Gongola and Plateau States.

3. South-Western Area Administration:
   Headquarter is Akure and States in the Zone are Ondo, Oyo, Bendel and Kwara States.

4. South-Eastern Area Administration:
   Headquarter is Aba and the Zone covers, Anambra, Benue, Cross-Rivers, Imo and Rivers States.

5. Lagos Area Administration with headquarter at Lagos covers Lagos and Ogun States.

This arrangement is meant to bring NIDB to the door steps of the people and eliminate or minimise the phobia and difficulties of clients and potential clients of going to Lagos for the processing of their applications for medium size investments.

Lagos is still the headquarters and this is likely to be moved to the new Federal Capital Abuja when the city is ready. The main headquarter handles projects in

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which NIDB involvement is above ₦1 million.

The above not withstanding, below is NIDB's organisation chart as at now.

Organization Structure of NIDB Limited:

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

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

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

The investment Management is made up of Investment Supervision and Management Consultancy Departments. Investment Supervision is in charge of already sanctioned projects. The department overseas, the implementation of projects, monitors their performance and recovers the investment made by NIDB in the projects. The Management Consultancy engages in rendering consultancy services to

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NIDB client companies as well as the other companies at a minimum fee.

The Project division is made up of appraisal department and financial institutions department. Appraisal department is responsible for determining the viability of a project while the financial institutions handles NIDB's relationship with other financial institutions in the country.

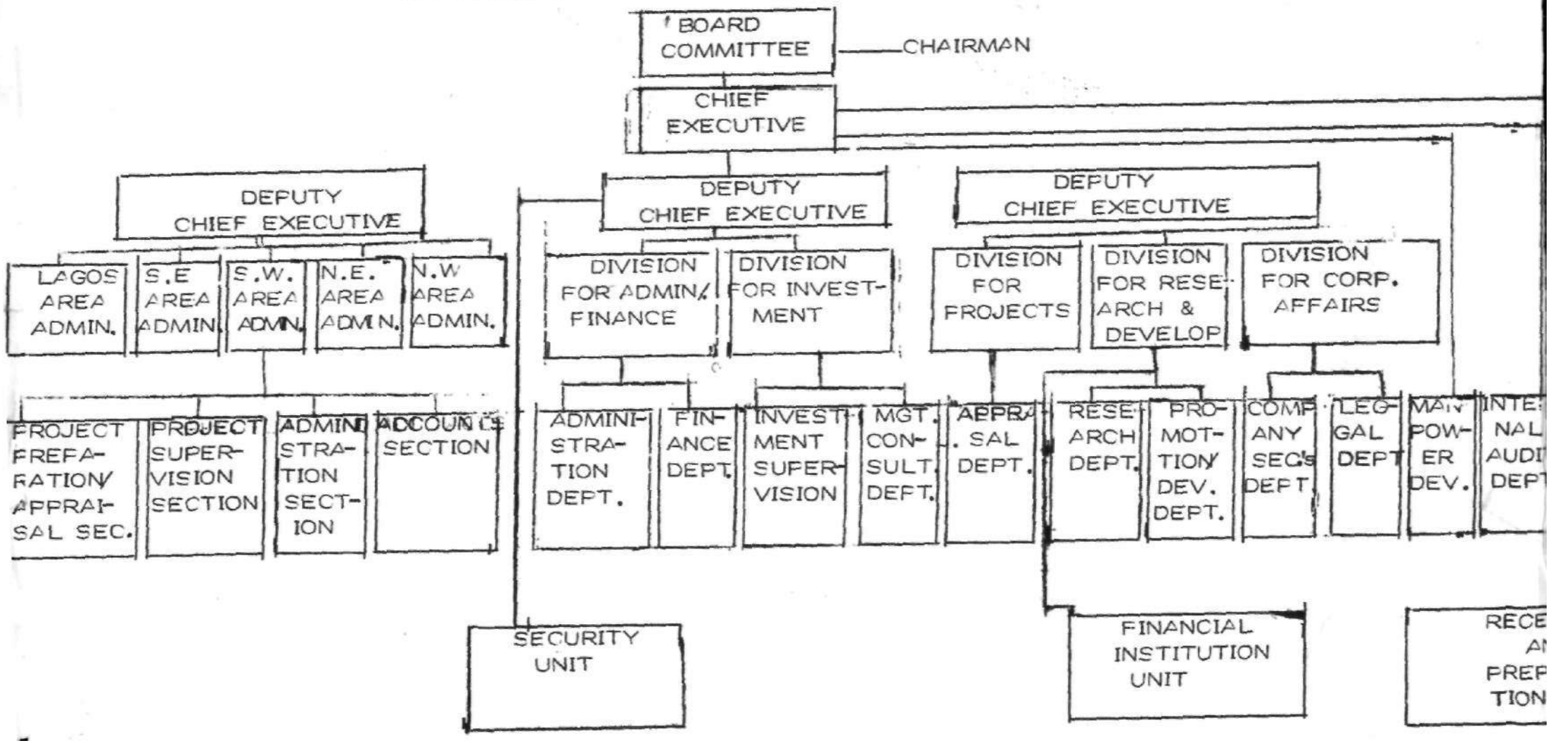
Finance and Administration perform the usual functions of the management of the bank's funds and administrative matters. Manpower Development Department however reports directly to the Managing Director.

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

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

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ORGANISATIONAL STRUCTURE OF THE NIGERIAN INDUSTRIAL DEVELOPMENT BANK LIMITED



put either the company or NIDB's investment in such companies are not put into jeopardy.

Other departments report directly to the Managing Director in matters relating to Internal Auditing and Initial Contact of Client's with NIDB.

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

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CHAPTER 5

THE OPERATIONS OF NIDB

An Overview:

The Nigerian Industrial Development Bank has been in existence since 1964. For two decades now, NIDB has made some progress in terms of investments and industrial promotion.

With the provision of an original loan of 4 million Naira and a total of N131 million in various soft loans by the Federal Government, Nigerian Industrial Development Bank Limited also obtained loans from the World Bank and the European Investment Bank for its investment activities. The World Bank loans totalling about N50 million by 1978 made up of N4 million in 1969, N6 million in 1971 and N40 million in 1978 rose by N21 million credit line secured from European Investment Bank. All these loans contributed to the raising of NIDB total resources from N8.5 million at the end of 1964 to N150 million by the end of 1978. The total resources of the Bank as at the end of 1983 stood at N265,447,000.00.

From the above background and the financial resources an appraisal of the performance of Nigerian Industrial Development Bank Limited can be attempted.

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TABLE 5 - 1

NIDB'S OPERATION 1964 - 1983

Year	Projects Total	Project Indigen.	Total Sanctions ₦'000	% Indigan.	Total Disbur-sements ₦'000	Employ-ment Genera-ted	Savings in Fore ign Ex-change (₦'000)
1984	26	10	19,526.6	N. A.	2,765.4	3,588	N. A.
1975	18	5	13,430.5	"	1,946.5	4,154	3,256.0
1966	7	6	1,150.78	"	451.0	592	2,340.0
1967	9	3	5,221.6	"	1,250.0	820	2,269.6
1968	8	2	4,988.2	.04	1,000.0	695	2,496.0
1969	20	7	27,907.2	27	2,267.8	7,832	10,066.0
1970	28	20	33,664.5	58	2,192.6	4,551	10,358.8
1971	40	35	64,243.5	64	4,149.1	10,657	21,236.5
1972	14	13	16,731.3	82.4	5,590.9	1,716	23,817.6
1973	32	28	91,386.9	77	4,801.2	5,985	26,104.9
1974	22	19	213,188.0	92	7,361.7	5,185	59,318.4
1975	40	29	360,000.0	74	12,832.7	12,997	71,370.7
1976	28	25	429,700.0	97	31,384.9	9,147	71,618.9
1977	27	24	229,500.0	91.8	42,100.0	7,000	10,000.0
1978	24	N. A.	34,788.8	N. A.	45,852.6	N. A.	N. A.
1979	N. A.	N. A.	35,131.9	N. A.	41,173.9	N. A.	N. A.
1980	N. A.	N. A.	58,388.0	"	4,760.0	N. A.	N. A.
1981	75	N. A.	94,176.2	N. A.	44,456.3	N. A.	N. A.
1982	52	N. A.	47,886.1	N. A.	54,743.2	N. A.	N. A.
1983	45	N. A.	35,742.9	N. A.	39,849.8	3,657	N. A.

Source: NIDB Annual Reports and Accounts (Various Issues.)

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Table 5 - 1 gives details of NIDB's total sanctions and disbursements for almost two decades. Although some figures are not available due to the level of information management, acquisition and preservation, the available data serve as a fair lead in looking at NIDB's activities. The Table shows the volume of funds or the aggregate financial assistance from NIDB to the industrial sector of the Nigerian economy.

The financial assistance provided by NIDB takes the form of loans and direct subscriptions or equity participation. Table 5 - 1 provides details of the assistance sanctioned and disbursed during the period 1964 - 1983. Since the inception of the bank the total assistance sanctioned amount to N1, 816, 723, 000. Excluding records for 1979 and 1980, the total numbers of companies assisted is about 489.

Forms of Assistance:

The assistance were in the form of foreign currency loan and local currency loans and equity. Out of the total amount sanctioned between 1964-1983 the sum of N386, 027, 300, representing 21.3% of total amount sanctioned were disbursed. Table 5.2 contains the forms of financial assistance granted by the Bank, 1978 - 1983.

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TABLE 5 - 2

COMPOSITION OF TOTAL SANCTIONS AND DISBURSEMENTS (1978 - 1983)

Year	SANCTIONS ₦'000		DISBURSEMENTS ₦'000	
	Equity	Loan & Debentures	Equity	Loan & Debentures
1978	2,800 (3%)	32,000.0 (92%)	5,300.0 (11.5%)	40,600.0 (88.5%)
1979	4,956.2 (14%)	30,175.8 (86%)	4,409.0 (11%)	36,764.9 (89%)
1980	9,020.5 (15.5%)	49,362.5 (48.5%)	8,514.9 (18%)	39,085.1 (82%)
1981	11,900.8 (13%)	82,300.0 (87%)	5,917.1 (1.3%)	38,500.0 (98.7%)
1982	5,700.0 (12%)	42,161.1 (88%)	13,301.3 (24%)	41.400.0 (76%)
1983	723.7 (2%)	35,019.2 (98%)	1,315.9 (6%)	19,484.4 (94%)

Source: Compiled from NIDB Annual Reports (Various Issues)
)(%) shows the percentage of the total.

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Table 5-2 explains the composition of the assistance (sanctions and disbursements) for the period 1978-1983. This is the most current period within the two decades of NIDB's existence. It is clear from this Table that NIDB's investment in equity and loans, (trend culled from reports), appear to portray a fairly consistent pattern. The equity content of NIDB's assistance ranges from 8% to 15% of annual funds sanctioned. The loans and debentures maintain a consistent pattern of being more than 80% of NIDB's total yearly sanctions. The same pattern is reflected in the disbursement. The comparison of yearly sanctions to yearly disbursement is not considered very relevant because their relationship is only in terms of the total NIDB involvement and they are not related in terms of timing. A disbursement can be made to a project after many years of initial sanction and it cannot be made in the year of sanction. This depends on the drive of promoters and completeness of information. However, it is important to note that the total amount disbursed to total sanctions in 1978 is higher due to the reasons discussed above.

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TABLE 5-3

GROSS AND NET SANCTIONS ASSISTANCE (N'000)
1978 - 1983

Year	Gross	Net	Variance	% Change
1978	38,028.3	34,800	3,228.3	8
1979	44,437.2	35,131.9	9,305.3	21
1980	58,383.0	58,383	-	-
1981	93,223.8	78,023.8	15,200	16
1982	47,866.1	36,459.3	11,406.8	24
1983	35,742.9	24,868.8	10,874.1	30

Source: NIDB Annual Reports (Various Issues)

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Table 5-3 shows Gross and Net Sanctions between 1978, 1983. It can be seen that there are differences between the gross amount sanctioned and the net or actual amount sanctioned each year. This implies that some sanctions were either cancelled, deferred or they lapsed due to some problems such as promoters' abandonment of the project, or inability to contribute his counterpart fund, or difficulties in documentation particularly with respect to land or as a result of government legislation in respect of the nations economy.

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SUB-SECTORIAL SANCTIONS BY NIDB 1978 - 1983

TABLE 5-4

	1978 ₦'000	%	1980 ₦'000	%	1981 ₦'000	%	1982 ₦'000	%	1983 ₦'000	%
Food ..	363.2	11	6063.2	10.7	2068.0	2	2878.0	6	4129	11.6
Beverage ..			1013.0	1.8	21535.1	23	5500.0	12	5245.8	14.7
Textiles ..	6576.0	15	957.1	1.7	550.0	1	16008.0	33	7172.0	20.1
Footwear & Leather Products ..	470.0	1	852.0	1.5	217.0	0.2	-		-	
Wood Products & Furniture ..	-		720.0	1.3	2373.5	3	3001.2	6	1905.0	5.3
Paper Products	633.6	2	770.4	1.4	6790.0	7	1355.0	3	1350.0	3.8
Chemical Products	3150.0	9	5893.4	10.0	6679.0	7	2878.0	6	1492.0	4.2
Rubber Products	-		-		-		-		-	
Non-Metallic Mineral Products	1126.0	3	166.0	2	7814.2	8	5619.3	12	8203.0	22.9
Metal Products	180.0	1	6490.0		5687.4	6	1572.8	3	2105.9	5.9
Electrical Appliance	-		950.0	1.7	-		1099.0	2	250.0	0.7
Hotel and Tourism	6340.0	18	26114.6	46	28230.0	30	-		1500.0	4.2
Miscellaneous ..	12677.0	36	6900.0	12	11202.0	12	7054.0	15	2160.0	6
Total		100		100		100.00		100.00		100.00

Source: Compiled from NIDB Annual Reports (Various Issues)

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Table 5-4 shows the sub-sectoral sanctions by NIDB between 1978 and 1983. The investments seems to be evenly spread in all the sectors. Hotel and Tourism seem to have persistently dominated the investment throughout the period under consideration. 1980 and 1981 witnessed a total of 46% and 30% respectively of NIDB's total sanction being made in Hotel and Tourism Sector. This must have been due to the investments on the proposed new Federal Capital Abuja which attracted some five Star Hotels being constructed. For the other years the investment may be a reflection of the general believe by investment analysts that hotels have very fast pay back rate and high returns.

Textiles, food and beverages and chemical sectors attracted fairly reasonable investment. Leather products, rubber, electrical and metal sectors seem to be lagging behind in project development and investment. It may be necessary to investigate the near absence of investments in these sectors.

It is also important that the food and beverage sectors be looked into in view of the state of the Nigerian economy with respect to food production as well as the governments policy towards the sector and its determination to encourage food production in Nigeria.

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SUB-SECTORAL DISTRIBUTION OF NIDB DISBURSEMENT

TABLE 5-5

	1978 ₦'000	%	1980 ₦'000	%	1981 ₦'000	%	1982 ₦'000	%	1983 ₦'000	%
Food ..) Beverages .)	16709.3	36.5	6063.2	10	2390.5	5.4	1214.5	2.2	954.8	2.4
Textiles ..	5002.1	10.9	1013.0	1.8	4033.5	9.1	9921.9	18.1	2098.8	5.3
Footwear & Leather Products	-		95.1	1.75	450.5	1	2709.5	4.9	7431.9	18.6
Wood & Furniture Prd.	2346.3	5.1	852.0	1.5	34.4	0.1	119.2	0.2	0.3	0
Paper Products	71.1	0.2	720.0	1.3	4353.7	9.7	1649.0	3	109.8	0.3
Chemical Products	13403.4	29.2	770.4	1.4	722.4	1.6	701.5	1.3	3278.8	8.2
Rubber Products	-		5873.4	10.3	4065.1	9.1	2072.1	3.8	4894.3	12.3
Non-Metallic Mineral Products	1195.5	2.6	-		-		-		-	
Iron Steel ..	-		166.0	0.3	6466.9	14.6	8852.1	16.2	4012.9	10.1
Metal Fabrications	144.7	0.3	-		-		-		-	
Electronics & Elec.	-		6490	11.4	2380.0	5.4	3545.1	6.5	2089.3	5.2
Transport ..	-		950.0	1.7	553.3	1.2	275.3	0.5	50.9	0.1
Hotels and Tourism	2116.3	4.6	-		-		-		-	
Miscellaneous	4863.9	10.6	26114.6	45.9	11940.6	26.9	14699.9	26.9	12662.1	31.8
Total		100.00	6900.0	12.1	7064.9	15.9	8983.3	16.3	1758.1	4.4
				100.00		100.00		100.00		100.00

Source: Compiled from NIDB's Annual Reports (Various Issues)

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Table 5-5 provides sub-sectoral Distribution of NIDB Disbursements between 1978 - 1983. As in the sanctions, disbursement seems to follow the same pattern with hotels and tourism enjoying the highest disbursement throughout the period. In contrast food and beverages fall below expectation considering the importance of food in the economy and the volume of investment sanctioned in the sector as mentioned earlier.

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TABLE 5-6

STATES-WISE DISTRIBUTION OF NIDB'S ASSISTANCE VALUES (₦'000) 1964 - 1982

	SANCTIONS			
	Equity	Loans	Total	Percentage of Total
1. Abuja ..	6,413.0	11,830.0	18,243.0	1%
2. Anambra ..	24,258.4	42,415.9	66,674.3	3.5%
3. Bauchi ..	33,200.0	93,151.4	126,351.4	6.7
4. Bendel ..	16,355.8	41,756.4	58,112.2	3.1
5. Benue ..	36,396.9	89,748.0	126,144.9	6.6
6. Borno ..	47,000.0	113,673.0	160,673.0	8.4
7. Cross River	32,278.0	50,753.9	83,031.9	4.4
8. Gongola ..	65,544.5	148,880.0	212,424.5	11.2
9. Imo ..	11,214.6	38,972.5	50,187.1	2.6
10. Kaduna ..	31,590.3	83,941.4	115,531.7	6.1
11. Kano ..	10,939.7	27,482.0	38,421.7	2.0
12. Kwara ..	10,884.9	24,231.0	35,115.9	1.8
13. Lagos ..	104,941.7	194,588.6	299,530.3	15.7
14. Niger ..	28,466.2	77,503.0	105,969.2	5.6
15. Ogun ..	35,920.2	152,534.7	187,854.9	10
16. Ondo ..	10,438.2	24,120.5	34,558.7	1.8
17. Oyo ..	29,644.5	104,427.2	134.071.7	7.0
18. Plateau ..	332.8	7,849.7	8,182.5	.4
19. Rivers ..	3,184.1	9,481.7	12,665.8	.7
20. Sokoto ..	6,090.8	21,659.7	27,750.5	1.5
	544,494.5	1,361,000.6	1,905,495.1	100

Source: Compiled fromNIDB Reports - Various Issues.

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State-Wise Distribution of Assistance

Table 5-6 presents State-wise distribution of NIDB's financial assistance. On the aggregate Lagos State accounted for 15.7% of the assistance granted between 1964-1982. Gongola and Ogun States closely followed Lagos with 11.2% and 9.9% respectively. Plateau, Rivers and Sokoto States are trailing behind all the other States. There is some significant shift in the pattern of distribution as the new States are struggling to attract industries and as industrialists are being forced to move out of Lagos due to the congestion and in pursuance of Federal Government Policy of dispersal of industries in Nigeria. In fact the actual assistance to States like Bauchi, Kaduna, Niger and the Federal Capital Abuja are very recent. The leadership of Lagos, Ogun, Anambra and Imo States in industrial establishment and growth do not seem to have had any significant impact on NIDB's distribution of financial assistance as at now. It is imperative to point out that the said leadership must have been substantially generated and filed by the infrastructural development in these States. For the new States infrastructural problems are being tackled by the various State Governments with the assistance of the Federal Government. It was very obvious that there have been a high centration of NIDB assisted project in Lagos and Ogun States. The above data on the current position of the distribution shows a remarkable improvements, although functionally most of the projects in the new States are yet to be fully in operation.

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For a balanced economic development of all States it is imperative for NIDB to provide financial assistance, on preferential basis, to less developed States.

ASSESSMENT OF THE PERFORMANCE

In the first Section of this Chapter we have analysed the operations of NIDB statistically. The overall operations of the Bank suggest that it has done well. However, in this section, an attempt is made to examine its role qualitatively.

The first basic question is what are the criteria to be used for judging the performance of a Development Bank like the NIDB. The first criterion is 'how well' the corporation is run as a financial institution or a development bank. The technical competence it brings into its various functions such as project appraisal and follow-up need to be examined. It is also necessary to evaluate its performance in carrying out its developmental role. This involves the assessment of the principle of funds allocation among industries and the determination of priorities. Are efforts made to formulate projects that could be set up in industrially backward states or areas, in order to attract investment to such areas?

A further question that arises is whether as a development bank NIDB has taken on itself the responsibility

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to set up projects in certain sectors or areas if adequate projects are not forthcoming or if capable enterpreneurs are not available. As Premier Industrial Finance Institution to what extent has it made positive efforts to encourage enterpreneurial development if the bank cannot engage in direct ownership of projects? How prepared or effective is the bank in managing directly or engage in proper planning and efficient management of some problem industrial units which they have invested in?

A key to the successful performance of any institution and maintenance of a healthy portfolio according to V.V. Chari in his article - Performance and Problems of State Financial Corporation (Commerce Annual Number - 1974), is the existence of an efficient and adequate organizational set-up. It cannot be said that NIDB has no adequate organisational machinery to do real justice to the role it was set up to perform. Therefore effective assessment cannot be done without touching problems such as slow growth of business, delay in sanctioning assistance, deficiencies in appraisal of loans, inadequate follow-up and supervision which may stem from organizational inadequacies. Apart from looking at the statistics of sanctions, disbursements, statements, distribution, sectoral distrib ution, employment generated and foreign exchange savings the appraisal of NIDB's performance cannot be complete without looking at all the issues and questions already stated above.

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For this exercise it would be helpful to glance through the statistics or tables compiled from NIDB reports for purposeful comments on NIDB's performance. Originally the volume of sanctioned financial assistance are quite substantial so also the amount so far disbursed. From the resources point of view it appears that NIDB is carrying large cash at most times and can carry more now that it has no difficulty in raising funds from domestic capital market. With this kind of situation it will be difficult to say that NIDB has fulfilled its role and objectives.

Commercially Oriented Approach:

A look at the Tables on the total amount of loans and equity investment sanctioned by NIDB during the period reveals that there is a high concentration of the assistance in loans and debentures. This excessive concentration tends to point at the fact that NIDB seems to be pursuing a deliberate policy of profit making and avoiding risky ventures. Loans and debentures earn fixed returns and NIDB prefers that to equity particularly in the case of new firms that are not likely to make profit in the immediate future. Furthermore loans give the bank a greater security of the investment for the assets of the beneficiary companies are mortgaged on a first legal charge on fixed assets and second legal charge on floating assets. In certain circumstances personal guarantee and the mortgage of personal assets have been demanded of promoters or entrepreneurs. These are very serious steps to avert risk.

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The structure and working of NIDB indicates that as a 'business concern' NIDB is run on sound lines; whether it has satisfied the developmental and social obligations expected of it is a different matter. To lend to those who can repay is a sound business practice and a sound lending principle. Based on this, it will be fruitless criticising NIDB. If the objectives of NIDB are scrupulously analysed NIDB would face a barrage of criticism that it has not attained an appreciable level of performance.

For example, the Industrial Enterprises Panel severely criticised NIDB's policy of measuring achievement by volume of investments sanctioned rather than by the volume of actual disbursements which is actually very low - just about 21% of its sanctions are disbursed.

Discriminatory Policy:

Criticisms on NIDB's lending to more controlled enterprises does not strongly hold now. More indigenous enterprises are benefiting from NIDB assistance although the level of their projects and NIDB's assistance appears to be a tip of the iceberg if compared with the level of assistance attracted by foreign backed projects. It is important to mention that in most cases the foreign backed projects are better conceived and they enjoy more patronage in terms of disbursement.

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Project Promotion:'

Although NIDB is acussed of not doing enough work in terms of project promotion and development their powers to promote suitable projects is not effectively backed with adequate authority. This authority could be made useful if NIDB is empowered not only to develop suitable and viable projects but to invest directly and await interested shareholders who can be fished out locally or at the Stock Exchange. The Nigerian Enterpreneur is very reluctant about investing and waiting, as is the case in industry. NIDB may then be empowered to take the initial risk of bridging the waiting time or gesticulation period of the factory and the time time dividends are expected by providing the vital take-off capital for projects lacking capable entrepreneurs.

In the words of Professor G.O. Nwakwo, the industrial enterprises panel focussed as 'patently unrealistic the NIDB investment policy which emphasised risk aversion by concentrating its investments mainly in loans and very little in equity.

High Expectations:

The public expects so much from NIDB. This can be seen from the remarks of the enterprises panel.

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"When viewed in the context of the requirements of the country's economy and in the light of what similar institutions have achieved elsewhere, NIDB has thus not measured up to expectations in terms of overall impact in the opinion of the industrial enterprises panel. They argued that it will be necessary for NIDB to play a completely new role. The desired new role should be that of a dynamic institution taking the initiative to effectively promote and finance new enterprises in strategic areas of the economy. However, as much as the new role of NIDB is desirable and indeed mandatory, the panel was of the view that given existing organizational structure, managements lack of aggression in the past, its limited vision of what development banking is all about and the low level of performance and impact on the economy, the NIDB in its existing form cannot successfully undertake the new role expected of it without a complete re-organization."[6]

Professor Nwankwo further observed that the above criticism, severe as it appears the panel seemed to have ignored the influence of the original ownership structure on policies, and operations of NIDB and the traditions that have envolved therein or the operating procedures of the Bank. He pointed out that the memorandum was formulated by the foreign-dominated institutions and they impose very strict limitations on the range and mode of operations of the Bank.

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In the words of the Prof: "It is evident that the criticisms of the NIDB's operations made by the Industrial Enterprises Panel were misplaced. The root cause of the Bank's maloperations was its ownership structure and origin. In effect, the NIDB transplanted UNCRITICALLY, LOCK, STOCK AND BARREL, into the Nigerian environment the operational practices and procedures of World Bank."[7] This he asserted, explains why NIDB is reluctant to assist enterprises in which Government interests were substantial. Federal Governments strong intervention between 1970 and 1976 reduced foreign interests in ownership and that consequently brought some influence on its policies and operations. That notwithstanding the old adage that the chameleon can change its colours and not its habits holds. The management has not been as dynamic and concerned as the government; consequently, as policies changed, the attitude beliefs and behavious of the main executors did not change in the same dimension. The enlargement of the Board of Directors and the setting up of Management Consultancy Unit have not brought any significant change in NIDB's management modes, styles and attitudes.

The above observations indicate that there is a missing link between the status of NIDB as a catalytic and dynamic institution expected to have the initiative to effectively promote and finance new enterprises in

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strategic areas of the economy and the actual practice and performance of NIDB. The concepts held about NIDB and accepted as cultural facts by individuals and groups of individuals underlie both the urge or motive to borrow and the attitudes and values associated with borrowing. The problem is, how to marry the concept of industrial financing with the concepts of borrowing as translated into various kinds of behaviour which are culturally acceptable by the various societies. Such behaviour with respect to borrowing and lending can be expressed physically verbally, socially and in terms of learning and it enables an individual, or group or an organization to produce the appropriate desired result. It is significant to note that the differences in the response of peoples of different nationalities to this, is precisely what would be expected. That is to say, that people of different cultures respond physically and otherwise in different ways to the same exposure depending upon its cultural significance to the various individuals or groups.

For example the attitude to borrowing and lending varies from tribe to tribe, as well as from religion to religion. Inculcation of industrial culture among Nigerians is therefore a challenge, and NIDB is well-equipped to impact this culture.

It is also worthy of mention that the development banker is no less than an industrial and a member of the society. As a leader he plays a specific role and may

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hold a specific status within his society and his role and status are determined by the consensus of the society. As to what would be proper behaviour for development bankers may form a special class or professional discussion. Their role may be ascribed or achieved and their status may be high or low or combination of both. In nearly every case however, the banker behaves socially in certain well-defined ways because they are professionals and their behaviour is sloped both by the expectations and stereotypes of the bankers role as seen by the society at large.

Does NIDB management consider these multiplicity of ethenic groups cultural behaviour and other problems in lending out funds ? An Hausa person respect and regard for financial assistance in terms of loans varies from that of an Ibo or a Yoruba person. A thorough understanding of the concept of borrowing and lending in relation to the cultures, values and general frame work of a people is very important. Since the management of NIDB is solely Nigerian, it is high time efforts are made to reconcile NIDB's lending policies and operational methods. The objectives of its existence and how they fit into society which it is set up to serve, and the phenomenon of life accepted by the people, as well as how the organizers of the means of production are holding the realms of industrialization and financing industrialization.

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Generally, the issue of NIDB/s performance can now be reverted to the basic questions stated above. In the author's opinion satisfactory answers have not been received on the questions.

The commonest view is that NIDB has not done enough to make its impact felt effectively. NIDB seems to be virtually on the foreign bedrock, maintaining their principles and policies and also leaning to foreign traditions and value system in development financing. It is very obvious that a number of improvements are required to make NIDB's impact to be effectively felt in the Nigerian industrial development financing.

This Chapter is divided into two parts - the Performance of NIDB and the Assessment of the Performance. The Performance analyses the operations of NIDB; by employing quantitative factors. The second part quantitatively x-rayed the performance of NIDB. The quantitative analysis suggests that NIDB has to an extent performed well while the qualitative aspect highlights a number of issues and questions which inadequate answers indicate the need for improvement in NIDB's performance. These analysis leads to the qualitative dimensions of NIDB as expressed by the respondents to the questionnaires.

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CHAPTER 6

THE PERFORMANCE OF NIDB - THE QUALITATIVE DIMENSIONS

This study sought to examine NIDB in various dimensions. From the questionnaires, a number of elements were considered and the analysis of the response is done in terms of such elements. This Chapter therefore is devoted to the analysis of the response to the questionnaires distributed.
Each table deals with a particular attribute.

Promotion of Indigenous Entrepreneurs:

As a development bank, NIDB is expected not only to encourage industrial development by providing funds, but also must engage in the development of indigenous entrepreneurs. Table 6.1 shows the response to the investigation on how NIDB has contributed in this aspect of industrial financing.

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TABLE 8.1

DEVELOPMENT OF INDEGENEOUS ENTREPRENEURS

Nature of Busines Before Receiving Financial Assistance	No. of Respondents	Nature of Business After Rec. Financial Assistance	No. of Enterprises
Trading	6	Trading	NIL
Transportation	1	Trans.	"
Manufacturing	2	Mfg.	10
Public Servant	2	P. Service	NIL
Construction	2	Construction	2
Teaching	2	Teaching	NIL
Bakery	2	Bakery	2
Hotel	1	Hotel	3
Furniture Making	1	F. Making	1
Industrial Investment Promotion	1	Consultancy	2
Total	21		21

Source: Computed from responses to the questionnaire

The above Table gives the details of the job/ occupation major promoters of companies who benefited from NIDB's assistance were engaged in, before the assistance and the business they are pursuing after receiving the assistance. Trading was the main occupation of the new entrepreneurs while only two each were in the manufacturing and other sectors.

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After receiving NIDB's financial assistance the number in manufacturing rose from two to ten; hotel from one to three and teaching from two to nil. After receiving the assistance the promoter seemed to concentrate on manufacturing rather then in trading.

From these it may not be out of place to assert that to an extent NIDB has contributed in entrepreneurial development. NIDB has not done enough in this area because this is the majority opinion of the people interviewed. They expressed dissatisfaction in low levels of entrepenural development. However, in view of the size and volume of resources at NIDB's disposal, more attention should be paid in future to the development of indigeneous entrepreneurs.

Pattern of Ownership of NIDB Assisted Projects:

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

TABLE 6.2

PATTERN OF OWNERSHIP OF NIDB ASSISTED PROJECTS

Ownership	No.	%
Nigerian Owned	14	67
Joint Venture	7	33
Total	21	100

Source: Computed from responses to the questionnaire

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The above Table indicates the fact that NIDB assisted projects are mostly owned by Nigerians. This is probably due to the schedule most of the projects fell in, as stipulated in the enterprises promotion decree. However, it is gratifying to note that this is a reversal of the situation when NIDB was newly established and the bulk of its assistance were to foreign owned companies. NIDB should continue in this way to improve on the level by drawing up a definite plan for the development of indigeneous entrepreneurs. A look at the indigenization decree briefly discussed below confirms government policy in this area. It suggests the big task ahead of NIDB and the need to intensify the development of indigeneous entrepreneurs.

Nigerian Enterprises Promotion Decree 1977:

Having realised the critical significance of indigeneous ownership and control of strategic industrial areas the maximization of local retention of profit, increase in net industrial contribution to the national economy and avoid explosive socio-political absentee control of the nations industrial sector, the Nigerian Enterprises Promotion Decree 1977 came into being. The Government was convinced that for greater Nigerian participation in industries, foreign investments should be simultaneously attracted on mutual beneficial terms.

Before the Decree, foreign investors were in all sectors ranging from sectors requiring simple operation

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techniques and low capital, to other areas which require large venture capital and advanced technology.

The Decree classified enterprises into three schedules, specifying the various levels of indigeneous and foreign investors participation.

Schedule one specified all enterprises which are exclusively for Nigerians. These are mainly service industries, commerce and simple area of manufacturing such as garment, candle, block, ice-cream and singlet manufacturing among others.

Schedule two, are enterprises in respect of which Nigerians must have at least 60 percent equity interest and foreigners 40 percent. This schedule are major service sectors such as Banking, Insurance and medium Technology Manufacturing Industries like Beer Brewing, manufacture of Biscuits, Cement, Soap and Detergents.

In Schedule three are enterprises in which Nigerians must have at least 40 percent equity interest while foreigners can have a controlling share of 60 percent. These are basically high technology industries for manufacturing except very few areas of service industry of which prominent among them are hotels, storage and warehouse operations, Ocean transport and shipping.

These were policy steps taken by the Federal Government of Nigeria to ensure speedy industrialization of Nigeria.

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Awareness of NIDB:

In terms of awareness, this study sought to find out whether entrepreneurs and other investors are actually aware of NIDB and how it can assist them. Table 6.3 shows the response and the medium through which some of the respondents knew about NIDB.

TABLE 6.3

AWARENESS OF NIDB'S EXISTENCE

Medium	No.	%
Through Friends	6	25
Through Advertisement	5	21
Through NIDB Officials	13	54
Total	24	100

* Note the total is more than 21 because of multiple answers.

Source: Computed from responses to the questionnaire

Table 6.3 above indicates that NIDB officials are the main medium through which the respondents knew about NIDB's existence. There is no doubt that the decentralization of NIDB and the creation of Area Administrations must have helped to create the much needed awareness. The promotional activities of NIDB can be said to be effective in terms of making people aware of NIDB since

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contacts are easily made through the officials. However, other media should be exploited in educating Nigerians about NIDB and what it stands for.

Processing of Loan Applications:

Table 6.4 below shows the response on NIDB procedures for loan processing and the length of time spent before a loan application is disposed off.

TABLE 6.4

PROCEDURES OF PROCESSING LOAN APPLICATION

Comments on Procedures	No.	%
Satisfactory	6	29
Unsatisfactory	2	9
Very Difficult	10	48
No. Comments	3	14
Total	21	100

Source: Computed from responses to the questionnaire.

The responses indicate a majority opinion that NIDB's procedure for processing loan applications is cumbersome. Only six of the twenty-one respondents found the procedure to be satisfactory, while twelve expressed the view that the procedure is unsatisfactory and very difficult. There is no doubt that it may be helpful for NIDB to re-examine the procedure and find ways of improving the procedure.

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Disposal of Loan Application by NIDB:

TABLE 6-5

Length of Time Taken to Dispose of Loan Application	No. of Respondents	% of Respondents
0 - 6 months ..	-	-
6 - 12 months ..	3	14
Over one year ..	12	57
No Comments ..	6	29
Total ..	21	100

Source: Computed from the responses to the questionnaire.

The impression given in this Table is that most of the applications to NIDB are hardly processed in less than one year. The situation is far from being commendable in investment decision making. The cause of such long delays may be due to lack of information and/or the difficulties involved in gathering relevant information for the decision making. However, NIDB needs to improve on this and loan applications should be treated with adequate urgency.

Attitudes of NIDB Officials Vis-a-vis NIDB Clients:

The research probed into the opinion of NIDB clients about NIDB officials. Table 6-6 below indicates the opinion of the respondents on the attitudes of NIDB officials.

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ATTITUDES of NIDB OFFICIALS TOWARDS CLIENTS

TABLE 8-6

Opinion Ratings	No. of Respondents	% Respondents
Very Professional	9	35
Very Bureaucratic	5	19
Co-operative	8	31
Uncooperative	4	15
Total	26 (due to multiple answers)	100

Source: Computed from the responses to the questionnaire.

The rating of NIDB officials is quite encouraging. They are seen to be very professional and co-operative. The view that some are bureaucratic and uncooporative is not usual, for there must have been cases of disagreement or the pressurization of clients to get certain things done in a manner acceptable to NIDB. It goes to suggest that whatever deficiencies there are in NIDB's performance, they must be attributed largely to the policies and guide-lines.

This Chapter summarises the analysis of the response from the questionnaires. The views and findings from the analysis indicate the strengths and weakness of NIDB. Most importantly the view expressed in terms of borrowing from NIDV after the first loan, in which only five of the respondents would wish to go back to NIDB is a good guide and valid predicator of NIDB's overall performance and

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the need to seek ways and means of improving NIDB operations generally, as well as its relationship with clients.

From this Chapter and previous ones conclusions and recommendations on this research can be reached in Chapter Seven.

CHAPTER 7

SUMMARY AND RECOMMENDATIONS

This study has examined various aspects of development banking. After the introduction which covered the research objectives scope and methodology the various types and roles of development banks were discussed in Chapter two. Project appraisal techniques and NIDB's methods of project appraisal were examined in Chapter three. Efforts were made to discuss NIDB generally while a hard look was taken on its performance in Chapters four and five.

Chapter six is a qualitative analysis of the performance of NIDB based on the response received from the questionnaires. Having x-rayed the topic in the manner stated above it is i imperative that some recommendation should be made.

The study of NIDB cannot be done in isolation. It definitely touches on the study of the society which it serves. The study of any society, however simple, will show how the resources of people are handled in a systematic way with regard to means and ends. Economic organisation is as fundamental to human life as it is to institutions and is linked with the social structure, the system of government or administration, level of technology and the cultural institutions.

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

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

The basic issue that must be recognised is that NIDB must set out to industrially develop Nigeria, as the premier financial institution with a galaxy of experts. NIDB's goals must be specific and cajoling to potential entrepreneurs and clients, to be able to accomplish its objectives.

NIDB should establish the significance of capital formation from one culture to another and the symbolic social relationships between borrowers and lenders. Borrowing at any level is seen by many Nigerian Societies as a sign of personally mortgaging an individual's total self. Therefore care must must be exercised in selling the idea of capital formation, corporate borrowing, and lending, as well as industrialization to capable entrepreneurs and also create obvious opportunities for the development of entrepreneurs and industries generally. While ensuring a structure and working procedures based on soul sound business ideology, practices and obligations, the lending policies should incorporate relevant cultural traits in lending and borrowing in Nigerian Societies. NIDB's insistence on project financing determined by the economic viability of the project and its sound management including other criteria is highly commendable. That is reflected in the rise of profit from ₦2 million, in 1977 to ₦2.6 million in 1981, and to ₦5.4 million in 1983 despite the dwindling economy as reported in its annual report. This seems to strongly indicate that NIDB is highly motivated by profit objectives. So far, there have been the the experience of many projects otherwise viable failing to provide expected benefits simply because of lack of efficient management. NIDB should examine such circumstances with a view to improve the situation.

In the light of the above and to facilitata the performance of its vital functions, NIDB unlike other financial institutions,

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needs to review its policies and guidelines to diffuse the rigidities and complexities which evolved from the pioner management of NIDB as pointed out in Chapter Four of this work.

Having been empowered to finance all types of viable industrial concerns and ensure even development, NIDB needs to modify its conditions particularly in terms of entrepreneurial development and encourage rural investments. There is need for NIDB to categorize its clients into those who have the skill and project but have no financial ability, those who have the financial ability and no skill but have project; and those who have all the prerequisites as entrepreneurs.

In the light of all our findings and the need for NIDB to breast up to the present needs of the country in industrial development financing as well as for the need to compare favourably with development banks in other developing countries that have made conspicuous progress in industrial development fincing, the following specific recommendations are made:-

i) NIDB, being a crucial factor in Nigerian Economic Development, particularly in the industrial sector, should take appropriate steps to meet the expectations of the government and people of Nigeria. As an apex financial institution NIDB should coordinate the diverse government industrial development strategies and policies that will subserve the larger national objectives of rapid industrial growth balanced state development, self-reliance, employment generation, equitable distribution of income and means of production. NIDB should therefore ensure that projects within priority industrial sectors are given adequate financial assistance.

ii) The Bank has so far confined its financial assistance in the form of loans, and investment in debentures

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and equity. It is high time that the Bank should diversify its forms of financial assistance: by underwriting of equity and debentures, guaranteeing of deferred payments in respect of machinery imported from abroad or purchased in Nigeria and guaranteeing of loans raised in foreign currency from foreign financial institutions (In fact, the Bank is empowered to provide assistance in these forms.

iii) Financial assistance should be broadly distributed to correspond to the pattern of geographical spread - State-wise and even local government-wise to further the grass root development policy of the government.

iv) To ensure industrial development in the rural areas and ensure dispersal of industries as well as even development, NIDB should pursue and encourage the flow of its assistance to entrepreneurs in rural areas by offering or operating a scheme which offers concessional interest rates, liberal financing terms, such as lower promoters contributions or higher debt/equity ratio. Longer moratorium and amortization periods. This has been successfully practiced in India as It was stated that the share of financial assistance by Development Banks in India to backward areas is 40% of the total assistance given by the development banks.

v) In order to make this workable NIDB should note that the development of rural areas, although complex, is very essential. It can be realised by engaging in considerable preparatory and promotional work to instil the relevant industrial culture in the people. The promotion effort should include project

idea identification, preparation of feasibility studies, searching for suitable managerial and technical assistance, continuous follow-up and monitoring of all activities geared towards the main objective of setting viable projects in rural areas. This calls for a reorganization and expansion of the promotion and development department of NIDB in terms of staff, duties and resources allocation.

vi) NIDB should positively pursue the policy of the development of indigeneous entrepreneurs. This calls for the identification and training of potential entrepreneurs. Assistance should be given to technicians and professional entrepreneurs or promoters who have the necessary ability to run and manage projects within their field but lack the necessary financial resources. Efforts of such people should be supplemented by raising adquate equity capital. To make this realistic, NIDB can negotiate soft loans from the Government and operate a special scheme in which capital is provided to a professional and technologists to set up a project without charging interest on that initial capital outlay. In India, this scheme is called "seed capital" it neither yields interest nor dividend. Under the scheme, eligible technicians and professionals are given capital assistance of a stipulated amount according to the requirements of the project, on very soft terms to fill the gap between the equity the promoter ought to bring and what is normally expected from him. This is one way of realising the objective of developing indigeneous entrepreneurs.

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vii) NIDB can also sponsor managerial training programmes for the local promoters with the objective of providing training in modern management techniques in specific functional areas like finance or accounting, marketing, personnel, materials management or inventory management and office management.

viii) In order to promote research in development banking and in financial and industrial management, the bank should create chairs in the Nigerian Universities and Institutions of higher learning by giving endowment funds.

ix) NIDB should participate and provide an important link in the process of development planning and the implementation of industrial development programme. This calls for a strong contact with the government and their agencies and provide them the opportunity to appreciate the problems faced by industrialists, as well as the bank. This kind of link will facilitate the issuing of the necessary documents such as Certificate of Occupancy for industrial sites, consent to mortgage the site, import licenses, expatriate quota and other permits.

x) There is need to review the Memorandum and Articles of Association of NIDB to remove the Statutory inhibitions and rigidities that have or may hamper its performance. If that is done, NIDB may have to engage in direct investment and/or hold controlling shares in projects where capable promoters are not readily available and the projeft is worthwhile.

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xi Having acquired first hand knowledge in the promotion, development and implementation of industrial projects and with its experienced and qualified staff, NIDB should pursue a dynamic policy of direct involvement in the management of projects. NIDB should articulate the policy of sending out experienced staff to manage projects where such service is considered necessary and beneficial to the firm and the economy in general. This will facilitate the process of progressive professionalization of corporate management in some industries.

xii) It is a general opinion that where long-term view is necessary and a certain amount of risk has to be taken, banks tend to be conservative and are not very helpful. As a Development Bank, NIDB should be prepared for inevitable risks which may in the end pay off.

xiii) In view of the importance of management, NIDB should emphasise on the availability of adequate management to avoid circumstances, in which projects otherwise viable fail because of lack of efficient management. The Management Consultancy should be involved in identifying and selecting the essential staff for major projects. This study has had a hard look at lthe efforts and problems of industrial development in Nigeria with a particular emphasis on Nigerian Industrial Development Bank Limited. The problems and prospects of industrial development has been analysed within social economic and geo-political environment. The wide scope and the lneed for a realistic approach has directed most writers to focus on selected elements within the economic environment, emphasing the absence of the right type of economical milieu as the major obstacle to rapid industrial development in Nigeria;

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skilled manpower bottlenecks, inadequate and unreliable infrastructure, narrow markets and limited demand for products and problems of security, basic and ancillary capital equipment and strangulating deficiency in raw material supply are among the factors in the economic environment.

Poor management and bad organisation political factors arising from lack of any solid ideological base policy and other impediments have prevented domestic business enterprises from generating the rate of growth hoped for. Lack of entrepreneurial financial capability, paucity of viable project resulting from shortage of entrepreneural capacity, economic environment are impinging upon the industrialization of Nigeria. Other problems are inadequate spare parts, shortage of capital which lis grossly exaggerated, land problems and the absence of intelligent economic management information have been considered in arriving at the conclusions and recommendation in this study.

The observations of H. Harlander and D. Mezger in their book Development Banking in Africa is worth noting. They contended that although much has been said and written on details of development bank lending, such as size, distribution of loans, interest rates, risks and securities; equity participation and capital market operations, project appraisal and promotion consulting services, there are however countless variations. They vary from country to country, from bank to bank and also within each institution. In the course of its history, a development bank should be as independent as possible to choose and change its instruments

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of policy according to the changing conditions in its economic environment and in the light of its experience. It is hoped that these recommendations will be given some thought as part of the justification of this study and serve as a pointer to the need for more rigorous examination of NIDB, its objectives, prospects and problems. The recommendations are however no panacea for industrial development problem in Nigeria but their consideration may be of use in improving the situation despite the need for additional and continuous work expected on NIDB's operations and impact on the Nigerian Society.

Appendix - 1

Appendix - 1

DEPARTMENT OF BUSINESS ADMINISTRATION

AHMADU BELLO UNIVERSITY ZARIA

QUESTIONNAIRE

TOPIC: INDUSTRIAL DEVELOPMENT FINANCING - A CASE STUDY OF NIGERIAN INDUSTRIAL DEVELOPMENT BANK LIMITED

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

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

PART A

1. Name of Company.....
2. Registered Office.....
3. Is the Company Incorporated? / / Yes / / No
4. If "Yes" State Year of Incorporation 19.....
5. What is the Nature of the Company's Business now?.....
   .....
6. What was the Business of the Main Shareholders before Incorporating the Company?.....
7. When did the Company Start Commercial Operation?.....
   .....
8. What is/are the Company's Main Products?.....
   .....
9. How many workers are employed in the company? Please state as follows: Skilled..... Unskilled.....
   Expatriates..... Nigerians.....

PART B

10. What is the Authorised Share Capital of the Company.....
.....

11. Who are the Shareholders?.....
/_____/ Wholly Nigerian /_____/ Nigerian & Foreigners

12. If it is a joint venture, what lpercentage of the share are held by Nigerians?.....

13. Are the Shares Fully paid-up? /___/ Yes /___/ No

14. What is your Networth as at now, please indicate as follows: Paid-up Capital.....
Retained Reserves.....

15. What are your total assets as at now?
Fixed Assets.....
Current Assets.....

16. Who are your Bankers other than NIDB?.....
.....

17. How long have you been banking with them?
/_____/ One Year /___/ Two Years /___/ More than Two Years

18. Have you enjoyed any loans from these other banks?
/_____/ Yes /_____/ No

19. If Yes, what type of loan? /_____/ Overdraft /___/ Short-term loan
/_____/ Long-term loan

20. How long have you been enjoying such loan
/___/ One Year /___/ Two Years /___/ More than Two Years

21. What is the rate of interest.....

22. Have there been changes in the Rate of Interest charges on on the loan?
/_____/ Yes /_____/ No

23. .Is the Change an Increase or a Decrease?

/____/ Increase /____/ Decrease

24. By How Much was the Change.....

PART C

25. How Did You Know of NIDB?

/____/ Through Friends

/____/ Through Advertisement

/____/ Through the Officials of NIDB

26. If ever applied for NIDB loan, for what purpose did you apply for the assistance?

/____/ Manufacturing /____/ Mining/Quarrying

/____/ Commerce /____/ Tourism/Hotel

27. Did you get the loan? /____/ Yes /____/ No

28. If yes how much was the loan?.....
and the Rate of Interest?.....

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

30. How much time did it take NIDB to process your application? /____/ 6 Months /____/ 1 Year /____/ Over 1 Year

31. What is your opinion about the Rate of Interest?.....
.....

32. What is your view about NIDB Loan Procedure?.....
../..../ Satisfactory /____/ Unsatisfactory /____/ Very Difficult

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

34. Can You make suggestions for improving NIDB Procedures?

.....

.....

.....

.....

35. What are your view about the officials of NIDB?

/___/ Very Professional /___/ Unco-operative

/___/ Very Bureaucratic /___/ Co-operative

36. Comment on your ;choice in question 35 above.....

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.....

.....

PART D

37. What is your attitude towards borrowing in general?

.....

.....

38. What other source/sources do you think you can obtain loan from?

/___/ Commercial Bank /___/ Merchant Bank

/___/ Investment Bank /___/ Private Lenders

/_____/ Insurance Companies

39. What are your future financial plans for the next five years? Please state the amount required if possible.....

.....

40. What do you need the funds for?

/___/ Expansion /___/ Diversification

/___/ Replacement of Machines /___/ Renovation

41. Where do you hope to get the funds from?

/___/ NIDB /___/ Commercial Banks /___/ Merchant Banks

/____/ Company Reserves /____/ Insurance Companies

42. Why do you prefer the source in question 41 above?

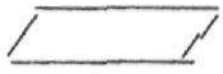
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43. What are the main problems facing your Company?

 Finance  Politics

Thank you very much for finding time to complete this questionnaire and returning it to me.

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