TITLE PAGE

MULTI-LATERAL FINANCIAL INSTITUTIONS AND CAPITAL FORMATION IN NIGERIA (A CASE STUDY OF THE PERFORMANCE OF ADB AND NERFUND)

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DECLARATION

I hereby declare that this Project Report has been written by me and it is as a result of my own research. All sources of information and their applications and writer views, have been duly acknowledged by means of references. In case of error of omission or commission in the project, I should be held responsible.

Ibrahadeya

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November, 1999

CERTIFICATION

This project entitled "MULTILATERAL FINANCIAL INSTITUTIONS AND CAPITAL FORMATION IN NIGERIA" (A case study of the performance of ADB and NERFUND) by MOHAMMED IBRAHIM meets the regulations governing the award of Degree of Masters of Business Administration of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

SUPERVISOR	**(DATE)**
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DEAN, POSTGRADUATE SCHOOL.	**(DATE)**

DEDICATION

All praise be to Allah. This project is dedicated to my late father. May Allah forgive you, Amen.

ACKNOWLEDGEMENT

It is impossible to handle solely a research of this nature without the assistance of other persons. I therefore wish to acknowledge and extend my gratitude particularly my supervisor Mallam MIFO for his invaluable assistance and brotherly help he gave in writing the project. May the Almighty Allah bless you abundantly.

I would also like to thank all those who were part of it from the very beginning. To Hayatu, I would say a big thank you, and may Allah give us Good Health and long life. Stay blessed.

ABSTRACT

Capital formation is an important essential ingredient of industrialisation in any economy, be it developing or developed. Where the basic elements of Capital formation, that is hard labour, and technological know-how are available within an economy. The problem of financing industrialisation will be essentially domestic.

The countries of Africa free these acute economic difficulties in sourcing finance for infrastructural development, but with the will and determination, the developing countries of Africa can act to set the new base for a new millenium, where life can be significantly improved.

The role of multilateral development finance institutions in financing economic development in developing countries cannot be over-emphasized, this is particularly so, as funds from multilateral institutions constitute the single largest source of foreign investment in Nigeria and in Africa as a whole.

This study seeks to analyse the various attempts made in the past at financing capital formation in Nigeria from Import substitution government owned large-scale enterprises to government agencies, promote private sector initiatives.

The study will also review the overall operations, performance and commitment of multilateral financing agencies and also give an insight into how better they can contribute to capital formation and hence economic development of Nigeria.

Due to constraints, time and unavailability of data and materials, the scope of the study have limited on indepth examination of the two latest actors in the field - the African Development Bank (ADB) and the National Economic Reconstruction Fund (NERFUND).

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CHAPTER I

1.1 INTRODUCTION

The countries of Africa face acute economic difficulties today. The long term outlook appears bleak, but this is not to be the case, with the will and determination, the developing nations of Africa can act to set the base for a new millennium, a time of growth and development when the quality of life of millions of Africans can be significantly improved. Scholars; administrator and politicians alike are in agreement as the cases of this unacceptable state of underdevelopment.

Okafor (1983) identified inadequacy of industrial infrastracture as both a cause and a consequence of underdevelopment, private enterprise is often inhibited by basic infrastractural problems. For example, many rural areas are inaccessible, there is near absence of electricity supply and portable water is inadequate supply. At various times, and most especially since independence, most African countries have realised that the answer to the problem of underdevelopment lies in a sustained policy of capital formation. Some of the policy initiative adopted in the past included the promotion of import substitution industries, the processing of mineral resources and other raw material which were then exported in that state, but imported back as finished products. A worse scenario has been the exportation of raw materials from the developing countries, which are processed in the west and then imported back as imports into our industries. Several studies has disclosed the in appropriateness of these approaches.

Today, the focus has shifted from the grandiose, capital intensive, large scale industrial projects to the encouragement, promotion and development of the private sector as a means of evolving a solid capital base for the various economies. Specifically, the development of small and medium scale enterprises has been identified as a vehicle for achieving the goals of capital formation. In Nigeria, the Federal Government has established, in the past few years, some specialised financing schemes primarily to boost small and medium scale enterprises (SMCs). The importance of these enterprises lies in their potentials for employment generation, creation and Mobilisation of domestic savings, training of managers and semi-skilled workers and also promotion of indigenous technology. Small and medium scale enterprises are particularly more conducive to the creation of more jobs per unit of Naira investment, then the larger scale.

However, one major factor affecting the growth is the limited access which they have to medium and long term financing. Other factors include high rate of business facility shortage of skill, poor accounting standards, etc. Even though, the Central Bank of Nigeria (CBN) in its Annual Monetary and Credit Guidelines (1986 - 94), prescribed certain percentages of credit which banks must extend to this sector, commercial banks are not willing to finance such ventures and would better finance working capital and other less risky investments and pay the penalty for non-compliance.

1.2 STATEMENT OF THE PROBLEM

The term "development" is incapable of universally accepted definition. It is perhaps more functional to describe it. Development refers broadly to desirable social and economic progress, though people will always have different views about what is desirable. For the purpose, we will define economic development as done by Abdulkadir (1989) as the improvement in the living conditions for which economic growth and industrialization are essential ingredient. However, if there is no attention to the quality of growth and to social change, one cannot speak of development. Development involves a profound transformation of the entire economic and social structure. This embraces changes in production and demand as well as improvement in income distribution and employment. It means creating a more diversified economy, whose main sectors become interdependent for supplying inputs and for expanding markets for outputs.

Statistical measurement of growth excludes the crucial elements of social welfare of individual rights or values not measurable by money. Development, according to the World Banks Taskforce (1983), is more than passage from poor to rich, from a traditional rural economy to a sophisticated urban one. It carries with it not only the idea of economic betterment, but also greater human dignity, security, justice and equity. It must be stressed that the main ingredient of development is finance.

Finance occupies a very significant position in any modern economy. In an industrialization process, the main handicap is the inadequacy of capital. In the case of Nigeria and in deed many African countries, a major problem could be the absence or effectiveness of financial institutions and techniques as means of channeling domestic savings and foreign financial flows into productive investments.

Developing countries obtain external finance from a number of sources: Government to Government aid programmes and export credit agencies, International Financial Institutions, including the World Bank group and Regional Development Banks (such as the African Development Bank), the IMF, the UN agencies and other Multilateral Funds, Private Investment, much of it Multinational Corporations; and Commercial Banks.

The Government to Government aid programmes (bilateral financing), as a source of finance is always frustrated due to a lot o bureaucracy leading to these funds not being made available as and when needed. As regards the commercial banks, the bulk of financing is predominantly on short term basis as shown by OJO (1992). Hence, Commercial Banks provide finance to business mainly in the form of short-term advances and only very little finance is provided for capital expenditure on medium to long-term maturity basis. There have been some explanations put forward in defence of Commercial and Merchant Banks in these regard.

It has been said that the bulk of funds used by these banks are made up of customer deposits. These deposits are short-term funds often withdrawable on demand; consequently in order to maintain a required degree of liquidity, these banks generally restrict the end-use of their deposits to financing short-term transactions. This situation, as further shown by OJO (1992), has not contributed to our economic recovery which requires long-term funding. In addition, the high interest rate, financial instability in the country as well as the unsuitable funding terms have rendered them unreliable to make the expected contribution to economic development.

In order to obviate the problems facing SME development, the federal Government has therefore in the past few years evolved means of providing the much needed medium and long-term financing for small scale enterprises and enterpreneurs, by the establishment of NERFUND, NEXIM, etc. These serve as conduit pipe through which funds flow from multilateral support agencies like ADB, World Bank and IFC, since these major sources of financing will not lend directly to non-governmental end-users but only to Governments and their agencies. These specialised financing facilities support primarily small and medium scale enterprises (SMEs).

In view of the importance attached to NERFUND as a major instrument for promoting small scale enterprises which are important tools in the industrialization process, (particularly in the area of employment generation and development of indigenous technology), this study tries to review and appraise the NERFUND Scheme, analyse the implementation problems of the scheme and assess the achievements so far and the prospects of the scheme.

It will also assess the successes registered to date and the extent to which certain observed constraints such as high risk associated with credit operations of SMEs, tying of credit facilities to conditions of the multi-lateral support agencies, and the policy on risk sharing burdens have hindered the scheme.

The study will also examine the criteria for project selection, such as conditions attached to disbursements of funds and how these hinder or promote the objectives of the scheme. If disbursement lags behind approval, it is obvious that this will greatly hinder the success of the scheme.

1.3 OBJECTIVES OF THE STUDY.

Finance, according to OJO et al, (1987), occupies a very significant positions in any modern economy, be it industrialised or developing. In any industrialization process, the main handicap is the inadequacy of appropriate financial institutions and techniques for channeling domestic savings and foreign financial assistance into productive investments.

The role of Multi-lateral development Finance Institutions in the financing of economic development in a developing country like Nigeria cannot be over emphasized. This is particularly so since the economic crises of the 1980's that devastated many developed economies and dried up private capital flows into developing countries. This multilateral development finance institutions became increasingly involved in the financing of projects.

The increasing level of participation of these multilateral finance institutions in the various development projects in Nigeria in particular, and in Africa in general, has given credence to their importance in the development process. As will be seen later in this study, funds from these multilateral institutions constituted the single largest source of foreign investment in Nigeria in the last ten years.

In view of the wide gap left by banks in meeting the development requirement owing to increasing difficulty in accessing funds from the international capital market, developing countries have continued to look up to multilateral finance institutions for capital formation. These multilateral institutions have been assisting in the establishment of national development finance institutions with the primary objective of stimulating capital formation.

Generally, this study will examine the contributions of multilateral institutions, and national development finance institutions they helped in creating, to capital formation in Nigeria. This is because these institutions are the most active in Nigeria in the last twelve years or so. Since the introduction of Structural Adjustment Programme (SAP) in 1986, bilateral official and private sources of capital inflow have declined considerably, thereby leaving the multilateral institutions notably, the World Bank and the ADB as the major players when total inflows are taken into account. Of these two institutions (World Bank and ADB), the ADB's facilities have been made largely for financing capital projects whilst the World Bank's facilities have been heavily tilted towards the funding of public sector projects mainly social services and infrastructures. For purposes of emphasis therefore, the study will dwell more on the activities of the ADB, especially in relation to the National Economic Reconstruction Scheme which led to the establishment of NERFUND. NERFUND has been selected because it is one of the major policy tools for capital formation initiated in the last 25 years or so. As the study will reveal, NERFUND is probably one of the most successful in terms of impact on capital formation, as well as ability to recycle funds, judging from its Modus Operandi.

1.4 SIGNIFICANCE OF THE STUDY

In this age of rapid development and accelerated growth of the populace, the Government must be equipped to meet the ever-increasing demand for industrial and consumer goods and services, the bulk of which are produced by the small scale industries. Over the years, the economy of the country has gradually declined as a result of mis-management by successive Governments. It has come to a point where we shall put a check on these continuous failings. Resources must be pooled and a concerted effort must be made towards bringing our detailed economy back to its right track. Some corrective measures were initiated in 1986 which included a program of Structural Adjustment, diversification of the economy to reduce heavy dependence on fluctuating oil market, reduction in the high unemployment rate through the encouragement of self-employment schemes, devaluation of the naira and an attempted change in our value system.

Financing through FDI and loans from bilateral and international capital (ICM) sources come in insufficient quantities. In the case of the international capital markets, they are often for short to medium-term, duration to the extent that they can be inappropriate for development financing. Thus, the only remaining source - Multilateral sources have over the years proved to be the major source of funding for long-term development projects in developing countries.

In the case of Nigeria, a significant proportion of development projects both at the Federal and State levels, especially funding of infrastructural projects have been supported through borrowing from multilateral sources. The main institutions in the area are the International Bank of Reconstruction and Development (IBRD of the World Bank), the International Finance Corporation (IFC), which is an affiliate of the World Bank, and of recent, the African Development Bank (ADB).

The activities of these institutions have often been subjected to severe criticisms and in some cases applauded. The introduction of Structural Adjustment Programme (SAP) in 1986 again brought the activities of these institutions under greater searchlight.

The purpose of this study is to evaluate the contributions of these institutions to capital formation in Nigeria. It will also examine the Modus Operandi and how these have contributed to their success or failure.

In so far as capital formation is concerned, credit facilities available from multilateral financial institutions are channeled through certain intermediate institutions like the NERFUND and NEXIM - And given the commitment of the Federal Government to the promotion of SME's, most of the support from International Finance Institutions such as ADB, are meant to finance capital projects. In this regard, NERFUND is expected to play a lead role in the financing of SME's. By identifying the strengths and weaknesses of NERFUND, the study hopes to give an insight into how NERFUND can better perform in these turbulent times of economic depression in Nigeria and most African countries.

1.5 RESEARCH HYPOTHESIS

Hypothesis is tentative assumption made in order to draw out and test its logical and empirical consequence. It may be reviewed as an assumption or concession made for the sake of argument. With these definitions in the following hypothesis formulated in the study:-

That while multilateral finance institutions are important players in the provision of financing for capital formation, most of the projects funded through loans provided by them have often not yielded the deserved results, as a result of too much bureaucratization, mis-judgement as o the relevance of the project to

economic development and lack of appreciation of local peculiarities through a universal application of concepts and theories. For the same reasons, intermediate institutions set up to stimulate SME's as important agents of capital formation, are not likely to achieve their objectives unless concerted efforts are made to ensure their effectiveness.

1.6 SCOPE OF THE STUDY

This study will trace history of capital formation and Multilateral Financial Corporations to National Development Financing in Nigeria from 1989 to 1997.

1.7 LIMITATIONS OF THE STUDY

This study will confine itself to the operations of the ADB and NERFUND as organs of industrialization in Nigeria. Due to time constraints and unavailability of data, we have made use of various reports on Multilateral Institutions and the NERFUND. These are supplemented with interviews with officials of both ADB and NERFUND.

1.8 PLAN OF THE STUDY

In analysing the attempts made at the financing capital formation in Nigeria, the study has been divided into five Chapters.

Chapter one seek to introduce, analyse the objectives of the study.

Chapter two will trace the origin of capital formation and multilateral financial institutions and the Nigerian Financial system and also review sources of financing and developing the national intermediate institutions. Also the structure, role and the operational performance of the ADB and NERFUND will be analysed.

Chapter three will review the methodology used in collating data and the analysis procedure used in the study.

Chapter four will be an in depth analysis of the data collated, interviews granted with officials of the various institutions and also the discussions held.

Chapter five will be a summary conclusion of the overall operations, performance and commitment of the ADB and NERFUND and how they can contribute to economic development in Nigeria.

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CHAPTER II

LITERATURE REVIEW

2.1 INTRODUCTION:

As earlier pointed out, development affects the totality of a people and finance is a very essential element in the process of economic development.

In Nigeria, apart from performing its traditional functions, finance is needed to fund the various indigenisation policies and programmes that have been on for an up and of eight years. The big questions are therefore, on who provides the finance, what do business organisations need finance for and who sponsors these programmes. According to OJO (1987), Firms and other business organisations need (i) Finance for fixed capital investments such as plant, machinery, factory premises and facilities for expansion or diversification of existing business and (ii) for working capital requirements to enable it improve its competitive position in the area of credit facilities to customers or to bridge temporary gaps between the receipts and payments of money by a firm. It is evident from above that the financial requirements of a firm may be long-term finance, medium-term or short-term, depending on the reasons for seeking finance.

In any economy, there are two main sources of financing capital formation. These are savings and borrowing or equity and debt finance. Basically, a bank is a financial intermediary that facilitates the transfer of funds from the surplus to the deficit units of the society for the purpose of investment.

Okafor (1983) defines savings as the pegging of current consumption at a level lower than what current income can sustain. Every Economic Unit capable of earning income can undertake to save. In national income accounting, both aggregate savings and aggregate investments are derived as the balance of national income over total consumption expenditure. For Government, savings came through excess revenue over expenditure derived from taxes, rates, etc, while borrowing takes the form of issuance of bonds, treasury bills, etc.

In the case of a developed economy, the extent of borrowing to acquire the various elements of capital formation technology, labour could or are often off-set by what others borrow from them. However, in the case of developing countries where industrial goods are imported in the form of technological know-how, machinery and equipment, the only means by which these can be paid for is in the sale of primary commodities. In the last twenty five years or so, primary commodities as a source of foreign exchange earnings for developing countries have continued to dwindle. It does became imperative that the other sources must be explored.

The sources that have been utilised include direct foreign investment (DFI), co-financing and debt financing. The sources of debt financing include bilateral loans, International Capital Markets (ICM) and Multilateral Development Financing Institutions.

There are advantages and disadvantages of financing development through foreign investment. Foreign investment is where foreigners or foreign residents bring in capital into the country to finance projects. This has declined in Nigeria significantly, following the Federal Government Indigenisation programme of the 1970's.

The most important advantages may be seen in the areas of risks sharing with the foreign investor whose interest is sustained because of the state he has in it. DFI also brings with it access to superior technology, raw materials and markets for output. It is less costly than funding via loans and the direct equity investment can be relied on to react positively to generous tax and other industrial incentives, a stable political system and a friendly investment climate.

However, at times the disadvantages may outweigh the advantages and makes Dfl less attractive. For example DFI relies heavily on imported technology which is itself based on factor endowment of developed countries. It also does not automatically transfer foreign technology.

DFI has not been forthcoming on the scale expected, and even the bulk of its is in high profit maximizing, sectors. It is inadequate in important areas like agriculture.

In the cases of loans from Bi-lateral and International Capital Market sources, they came in insufficient quantities; an in the case of international capital market, they are often for short to medium duration to the extent that they can be inappropriate for development financing.

Borrowing through bilateral agreement is often rendered unwholesome by bureaucracy and some unfavourable strings being attached, leading to these funds not being available as and when needed. Funds from International Capital Markets are always very costly and are available for short-term or at best medium-term, which makes them unsuitable for development projects, which have long-term gestation period.

On the role of development finance institutions, Okafor (1983) asserts that situational factors influence the functions and operations of development finance institutions. In spite of the differences, the general framework of their operations is basically alike. Their primary role is to provide capital and to perform promotional activities for other enterprises. The financing role is discharged through equity participation in industrial projects and or through the provision of long-term loans for investors. A good deal of selectivity is required in the discharge of this function, because the financial position of the institutions often places severe limitations on their ability. In general, Okafor (1983), continues, that the development impact of financing is maximised if:-

a) Financing intervention takes the form of equity participation;

b) Intervention is restricted to strategic, import substitution and pioneer industrial enterprises;

c) Preference is given to beneficiaries who cannot obtain the necessary financing from alternative sources;

d) Beneficiaries are so related so as to achieve an even distribution of growth centres in a given economy.

Okafor (1983), insists that the promotional functions of development financing institutions are often more important than the provision of capital. On his part, OJO (1984), has pointed out that money exerts a powerful influence on the level of economic activity so that its management (or management) would, among other factors determine the level and pace of development of an economy. As further shown by OJO (1984) quoting Gulgy and Shaw (1955)

"Development is associated with debt issue at some points in the economic system and corresponding actuations of financial assets elsewhere. It is accompanied too, by the "industrialization of saving and investment" that diversifies channels for the flow of loanable funds and multiplies varieties of financial claims.

Development also implies, as cause and effect, change in market prices of financial claims and in other terms of trading in loanable funds. Development involves finance as well as goods."

Money for business venture can come from interest or external savings. In Nigeria as pointed out by Nwankwo (1973), depending on internal sources to finance will be building on a shifting sand, because of low per capita income resulting in low savings as well as the many built in sociological and psychological consultants on capital accumulation. The country is believed by a lot of these consultants, like the extended family system, and the wasteful and highly ostentatious living often reflected in burial, naming, house warming ceremonies often undertaken by our so called few elite. All these militate against accumulation of savings in Nigeria and makes it imperative for the country to depend mainly on external finance. External finance can be foreign capital or domestic external source.

Foreign capital invariably is an important source of finance in Nigeria. Foreign capital can be derived from three main sources: External earning, foreign private investment, and foreign aid which could be in form of loans and or grants.

Multilateral financing is a specialised area of development finance which did not come into prominence until after the Second World War when the war-turn countries of Europe had to begin reconstructions and re-development

Foreign capital invariably is an important source of finance in Nigeria. Foreign capital can be derived from three main sources - external earning, foreign private investment, and foreign aid which could be in form of loans and or grants.

Multilateral financing is a specialised area of development finance which did not come into prominence until after the second World War when the war turn countries of Europe had to being reconstruction and re-development of the whole region with the establishment of the United Nations (1946) and of the Marshal plan for Europe inaugurated by the Unites States, the concept of development began to creep into the vocabulary of economists in the more advanced countries. During the post colonial era, when economic problems of independent countries like India, Sierra-Leone and others increased, the concept of deliberately assisting development took root through the International Bank for Reconstruction and Development (IBRD). The African Development Bank (ADB) is a post-colonial development to help accelerate development in independent African countries. With civilization and prosperity returning to the industrialized countries, most of the organisation for Economic Co-operation and Development (OECD) members became aid givers. Foreign aid can be in form of foreign assistance provided by the Government (bilateral assistance), or international agencies (Multilateral assistance).

According to Serageldin (1993), there have been arguments for an against foreign aids. Arguments against the effectiveness of foreign aid can be grouped into for broad headings. These are that aid has failed to produce any significant impact on development as over four decades of such assistance has failed to remove misery and backwardness in the recipient countries. Secondly, it was argued that aid promotes dependency in the recipient countries, and as such countries always fail to rely on themselves.

Thirdly, it was further argued that aid is often misused such that aids ind their ways into the bank accounts of the rich elite and corrupt rulers instead of going to the needy recipients countries. Finally, critics feel that trade is better than aid in promoting economic growth.

Apart from one or two isolated cases, all the above arguments cannot, as shown by Serageldin (1993), be supported, while on the contrary, experience has shown that some developing countries have performed better than the OECD countries in terms of economic and social transformation, simultaneously, looking at parameters as per capital income in relation to population growth, growth in output, eradication of misery and disease, life expectancy and eradication of illiteracy. According to Serageldin (1993), it is also not correct to say that aid necessarily promotes dependancy as evidenced from economics like Taiwan which has received substantial amounts of aids but today is an economic powerhouse in its own right.

The argument in respect of misuse of aid, as further shown by Serageldin (1993), may be covered when one looks at politically motivated bilateral aid which has invariably been diverted from its original objectives and has failed to reach the poorest groups of society. However, unlike international bilateral aid, multilateral aid is focused on promoting development objectives. If one looks at the simplistic approach or view of trade promoting cheaper goods to consumers, OECD taxes being available for use domestically if trade barriers are removed, thereby promoting transfer of about US$54 billion to the developing countries, one would be tempted to support the argument that trade and not aid promotes development. However, as noted above, the approach is too simplistic because we find that what US$50 billion free trade would bring to developing countries, would be highly concentrated among a few countries. Korea, Taiwan, Mexico, and not Chad, Ethiopia or Zambia.

It is therefore, evident that what is needed is a combination of aid and trade. It cannot, however, be said that aid has no attendant problems peculiar to it. problems can be created as a result of lack of coordination on the part of the donor agencies, unsustainable aid programmes, poor evaluation of programmes that prevent the opportunity of leaning from experience and the difficulty of reaching the poorest groups, because most aid is channeled through government institutions. According to the World Bank Report on Financing African Recovery (1986), the African Continent presents some of the most intractable development problems in the world. The great majority of its countries are heavily dependent on imported manufacturers, imported oil and even imported food. To earn foreign currency for these essential imports, they rely on a narrow range of commodity exports, whose prices fluctuate erratically. The physical infrastructure - roads, housing, schools, hospitals, etc is grossly inadequate by the standards of most of the world. Management and administrative skills are scarce, population growth is high and per capital incomes are generally very low indeed.

In addition to these chronic problems, the 1990s also present a new set of problems which turned a disappointing picture into a critical one. The region export earnings fell disastrously as the prices of its staple products, notably coffee and cocoa, weakened and remained weak.

The international community has recognised Africa's need for external help if it is to develop its potential and raise income above subsistence level. Official development assistance has for more than two decades been given on a substantial scale by individual donor countries.

The Nigerian situation has presented a very pitiable picture, pitiable in the sense that despite the enormous development problems facing the country, there is as shown by OJO and Adewunwumi (1980), still this wrong believe of considering Nigeria as a special case that its large oil exports make it differed from the majority of the countries in the region". Even though oil has been our major foreign exchange earner, the effect of the large oil exports is not seen in the standard of living of the majority. Rather, it has found its way into the purses and bank accounts of the rich few. Nigeria has gone into more debts today than it was when its mainstay was agriculture. The loan rescheduling agreements reached by the government with our many creditors about handling of its sizable debts have reduced the country into a critical situation. Our creditors see us as a country that can readily cope with our debts because of the life style of our leaders and politicians.

In addition to the provision of adequate long-term and medium-term finance for industry, commerce and agriculture as well as general development projects, Multilateral Financial Institutions are expected to make available from their won resources facilities and services that will enhance and aid general economic activities.

However, these institutions cannot, under their charter, make direct private sector investments without a government guarantee, so it has encouraged countries to establish financial intermediaries like NIDB, NERFUND, NEXIM which can then, serve as the channel through which financial assistance can be passed on to end users. It is also cheaper and more convenient for these institutions - ADB, the World Bank to advance money to a single institution or at least a few large institutions rather than to several small establishments and projects.

Hence these international financial institutions encouraged establishment of national counter-parts through which they largely operate at the grass root level and to investigate and undertake projects which required more local knowledge and patronage than international finance.

Institutions like NERFUND, NEXIM, NIDB, and NBCI, are therefore needed to undertake detailed technical and credit worthiness appraisals of many small projects at the grass-roots level since these require a greater knowledge of local conditions and the business standing of the sponsors than a foreign institution possesses.

Most importantly, it was not feasible for most private enterprises to obtain Government guarantees required by the World Bank's charter when a loan is made to non-governmental borrowers.

These difficulties were avoided or so mounted when the borrower was a local financial institution, which could readily obtain a government guarantee, could select the most promising enterprises for financing out of the proceeds of the banks' loans and could undertake the necessary technical and financial appraisal. As a result of its catalystic effect in achieving macro objective such as employment generation, the focus in government in polling in place specialized facilities in boasting small and medium scale enterprises has been a step in the right direction.

In recognition of their potential benefits as well as problems encountered by them, the government has played a leading role in encouraging their proliferation. Facilities or schemes set up by the Government to promote SME include World Bank Assisted small and medium scale enterprise (SME), Apex Unit loan scheme, the export stimulation loan (FSL) scheme, some of the programmes of the National Directorate of Employment (NDE), Central Bank of Nigeria's guidelines to banks on minimum credit to be granted to small scale enterprises, CBN Rediscounting

and Refinancing facilities (RRF) for exporters and the National Economic Reconstruction Fund (NERFUND). Each of the facilities or schemes has a great potential for promoting SMEs and indeed many SMEs have been able to utilise them.

In his contribution, OJO and Adewunmi (1982) says that the special financing institutions variously referred to as development banks and development finance companies, are very much a development of the post "Macmillan Gap" of the 1930's. However, this is not to say that institutions involved primarily in development finance did not exist before then. Certainly, such industrial/investment banks as credit mobilizer of Germany, Banque d' Affaires of France, Japanese Industrial Bank, Security Affiliates in the USA and Tata Industrial Bank of India did exist as institutions designed to supply much needed long-term finance to industries, but they performed an investment rather than a development role, whereas development finance institutions in developing countries are supposed to perform the latter.

Development finance Institutions, therefore play very useful and more successful roles when they concentrate on bye-passing the obstacles in the Capital Market and on providing promotional services for private enterprises. Both activities constitute the development or promotional role.

It has been argued that financing intermediaries are a necessary condition for development. The main protagonists of this argument are Schun Peters, Aameron who claim that financial institutions are a necessary and sufficient condition for development, and they base their claim on a study conducted on 95 countries where they found a high correlation between financial institutions and economic development. This argument pre-supposes the availability of entrepreneurship and free enterprise by a capitalist economy.

One way by which the development of a financial system might be considered inadequate is where financial innovation has failed to be sufficiently responsive to meet the needs of deficit "economic units" (which implices also making less efficient financial facilities available to surplus economic units) either as a result of personal qualities of financiers, especially a pre-occupation with short-run prospect or as a result of the conservative behaviours of financial intermediaries. In this case, some form of government intervention might be necessary in many developing countries in order to restructure the financial system and make it tend towards the optimum, i.e. towards some form of Professor Patrick's "supply leading" phenomenon of financial development rather than being content with the "Demand Following" (Guttentag & Herman (1987) and Hugh (1966).

OJO and Adewunmi (1982), further added that, while in may cases Government activity and financial policy might limit the development of an elaborate financial system, so also, in certain cases, it might be that Governments have stepped in so as to fill some financial gaps created by under-developed or inadequately developed financial system.

Development finance institutions have therefore evolved to fill in the gaps in the financial system in terms of providing long term finance to enhance the economic development of the nation and hence constitute an integral part of banking system.

To conclude, after attempting to review some of the extensive literature on the them of capital format and development, financing, one can say that development financing constitutes an important element of capital formation. Multilateral funding agencies and national intermediate institutions have evolved to fill in gaps created by the drying up of DFI in the 1980s. They have provided long term finance to enhance the economic development of the nation.

2.2 CAPITAL FORMATION AND FINANCIAL INSTITUTIONS.

2.2.1 Multilateral Development Finance Institutions and Capital Formation

According to Serageldin (1993), development of financial institutions constitute a major source of institutionalized financing for industrial projects. This term which is generic describes all financial intermediaries that facilitate industrial development through the provision of capital and or promotional (development) services.

The development Finance Institutions (DFIs) in any developing country, assist the country both to accelerate its economic growth and to reduce its level of domestic poverty by increasing the productivity of the poor. In this context, DFIs embrace institutions such as the World Bank, the International Finance Corporation, African Development Bank, the OPEC Fund, etc.

2.2.2 The International Monetary Fund (IMF)

The IMF was established in 1944 as one of the Bretton Woods Institutions. The other Institutions are the International Bank for Reconstruction and Development (IBRD) and the International Trade Organisation (ITO). It should be noted that the ITO never took off because of the refusal of the United States to ratify the agreement establishing the body. The Fund (IMF) was designed as the principal international organisation, having jurisdiction over inter-governmental monetary relations. Its functions include;

a) Overseeing the exchange rate practices of its members;

b) Promoting liberal regime of international payments;

c) Providing "loans" by sale of foreign currencies or what is called special Drawing Rights (SDR) to Government that encounter balance of payments difficulties.

d) Providing information and financial statistics to member government, and,

e) Providing forum for consultation on international monetary relations.

Although, the IMF is an important multilateral financial institution and indeed plays an important role in international monetary relations, its role as a source of development finance is minimal. Consequently, the IMF plays very little or no role in capital formation.

2.2.3 The International Bank for Reconstruction and Development (IBRD) and its other affiliates.

The International Bank for Reconstruction and Development or the World Bank as its is commonly referred to, was established in 1944 as part of the Bretton Woods institutions. The principal purpose of the World Bank is to promote the economic development of its member countries. This purpose if accomplishes by providing loans, and related technical assistance for specific projects and for programmes of economic reforms in member countries. It is a principal provider of capital in developing members countries.

In Nigeria, the World Bank has played a dominant role as a source of foreign capital for developmental purpose. However, its dominant position has continued to dwindle since the beginning of the 80's and particularly the introduction of the Structural Adjustment Programme (SAP).

Apart from the (IBRD), there are two other organisations that are attached to it. These are the International Development Association (IDA) and the International Finance Corporation (IFC). The IFC was created in 1955, while the IDA was established in 1960. These two organisations supplement the activities of the World Bank.

Both the World Bank and the IDA lend only to members or organizational authorities, and in very exceptional cases, to private enterprises in territories of member countries. Where loans are made to private enterprises in member countries, such loans must be guaranteed by the Government of the country, its

Central Bank or other comparable agencies of the Government of the member countries.

The IFC on the other hand, was set up principally to encourage the growth of private enterprise in member countries through investments (loan and equity). In such enterprises without the guarantee of the Government of the countries where such enterprises are situated.

World Bank credits are usually extended to finance projects such as infrastructures, utilities, manufacturing, social services, etc. Indeed, a great proportion of its credits to Nigeria, go into social services, infrastructural and utilities development. In he case of the IDA, its credits are available, only to member countries whose per capital income are below a certain level i.e. in countries regarded as less developed areas of the World. Its credits are usually for long-term and at highly concessional rates. Until recently, Nigeria did not qualify such credits as it was formally in the middle income group as opposed to the low income.

The utilisation of loan proceeds from the World Bank group is closely supervised to ensure that funds used for authorised purposes and with due attention to consideration of economy and efficiency.

2.2.4 **The European Investment Bank**

The European Investment Bank was established in 1958. The purpose of the EIB is to help developing countries that have a share past and close cultural links with Europe; achieving better living standards for their people as well as reduce tension and strengthen the chances for equilibrium in these countries.

Only a small proportion of EIB's activities involve loans and investments in developing countries. However, Nigeria has been one of the beneficiaries of EIB investments especially since the introduction of the Structural Adjustment Programme (SAP), best this has mainly been to provide bringing loans to facilitate loan rescheduling.

2.2.5 **The African Development Bank (ADB)**

The African Development Bank was established on 4th August, 1963. The agreement establishing the bank was adopted and opened for signature on August 4th, 1964 and entered into force on 10th September, 1964. The first meeting of the Board of Governors of the Bank was held in Lagos, Nigeria from 4th - 7th November, 1964. The principal role of the Bank is for finance the economic and social development projects and programmes in African countries through direct transfer of resources to fund such projects, and programmes, provision of technical assistance, and institutional support, mobilisation of external resources in its capacity as a catalyst. For inducing funds other than its own to flow to these countries. In recent times, many multilateral funding agencies realised the objectives of capital formation can be greatly enhanced through the promotion and development of small and medium scales enterprises in developing economies.

But the fact that these institutions lend only to Government or with Government guarantee, the need then arose to establish institutions such as NERFUND to act as intermediaries between the World Bank and the ADB on one hand, and the numerous small and medium scale enterprises on the other.

2.3. National Development Financing Mechanism.

2.3.1 The Nigerian Financial System

The Nigerian Financial System consists of financial intermediaries, financial markets, financial instruments, rules, conventions and norms that facilitates and regulate the flow of funds through the macro-economy. The system is controlled by the Government through the agency of the Central Bank of Nigeria which supervises the activities of financial intermediaries and monitors adherence to the Government monetary and Fiscal policies. The major types of financial intermediaries are commercial banks, Merchant Banks, Development Financial Institutions , Insurance Companies, Credit and Savings.

Nwankwo (1986) in his contribution posits that two aspects of banking environment may be highlighted, i.e. the Institutional and the legal. The institutional is the Nigerian Financial System. Top most in the hierachy is the monetary authority. More finely defined is the Federal Government. It is the final authority that approves the budget and the final arbiter in any dispute between the next two layers, the Ministry of Finance and the Central Bank of Nigeria (CBN). To all intent and purposes, however, the monetary authorities are made up of the Ministry of Finance to whom the Central Bank reports and the Central Bank which is the apex of banking system. Next to the Central Bank are the banks and the non-bank financial institutions and financial market.

2.3.2 Early Approaches.

In the 1960s and 1970s, as many developing countries realised that SMEs could do a lot for their economics, they thus, encouraged the growth of SMEs with a complex range of measures touching in finance technology and infrastructure. The concentration of policy during these period, was the grant of heavily subsidized credit facilities and the provision of backup services which were virtually free.

During these period, projects were often run by Government promotion agencies which took on a whole range of jobs from training the promoters of local firms in general theory to presenting their projects to local development banks - which were usually public and expected to offer, interest rebates on their loans. SMEs could obtain, this aid, if they set up an industrial or craft estates where a range of technical services was freely available.

In this system, some funding institutions adopted the approaches of UNIDO and ILO. These institutions had suggested focusing aid on intermediaries bodies such as promotion agencies, while other donors preferred the more financial approach of World Bank of backing up the development banks and other state controlled promotion agencies.

Criticism of this kind of assistance for SMEs began in the early 1980s and gather momentum after 1985, when multilateral financial institutions started new approaches geared to the private sector and its capacity for initiatives, and the Institutions were anxious to reduce the state hold over development.

This change of approach came about because the promotion agencies which had supported the creation of some firms and a lot of infrastructure, were accused of having worked more for social than economic ends and especially of having failed to choose decent operators. There was also the complaint that they had promoted services and had expensive industrial estates built which the SMEs used little or not at all.

The development banks on their part, were criticized for agreeing to have their credit activities determined by these promotion agencies or heavily influenced by pressure from various public authorities. The loans they made, often on very soft terms, were in many cases not available to the worthiest on the smallest firms. And their rate of recovery was very low, as the beneficiaries were either too powerful for the banks to control or unable to repay (or indeed failed to run their businesses properly).

These pitfalls of the traditional approach to promoting SMEs led to the decision to introduce a private sector financing programme that is independent of the public sector.

2.3.3 **The Establishment of NERFUND.**

It was against the foregoing background that the Government established the National Economic Reconstruction Fund. The aims and objectives of the NERFUND, as stated in the NERFUND decree No.2 of 1989, are to;

(i) Correct any observed inadequacies in the provision of medium to long-term financing to small and medium scale industrial enterprises, especially manufacturing and agro-allied enterprises and ancillary services;

(ii) Provide long-term loans to participating commercial and Merchant Banks for on-lending to small and medium-scale enterprises for promotion and acceleration of productive activities in such enterprises;

(iii) Facilitate the provision of loans with five to ten years maturity, including grace periods of one to three years, depending on the nature of the enterprises or project; and

(iv) Provide such loans either in Naira or foreign currencies or both, according to the needs of each enterprise and the source of funds available to the NERFUND.

The resources of the NERFUND are to be made available to manufacturing and agro-related projects, mining, quarrying and industrial support services and equipment leasing related to those activities. All these and other such enterprises or projects ancillary to them shall be eligible for loans under the Decree if;

(i) the enterprise or project is wholly owned by Nigerians;

(ii) the enterprise or project is small or medium-scale and the value of the Fixed assets other than land, including the cost of the new project being financed via NERFUND and other sources, does not exceed N10 million; and

(iii) in the case of a manufacturing enterprise, or project at least 40% of its raw materials and other production inputs are locally derived or at least 60% shall by 30th September, 1990, be so derived.

The activities of the National Economic Reconstruction Fund are supervised and managed by a committee headed by the Honourable Minister of Finance and Economic Development or his representative. Others on the committee are the Governor of the Central Bank of Nigeria or his representative, the Fund Managing Director and a representative each from the commercial and Development banks; and the Federal Ministry of Finance and Economic Development.

In line with the provisions of the enabling decree, the National Economic Reconstruction Fund is not permitted to have direct dealings with entrepreneurs. In other words, all applications for financial assistance are therefore expected to be channeled through are of the appointed participating banks.

NERFUND came from a variety of sources with each having a different conditions governing disbursement. Currently, apart from contributions from the Federal Government and the Central Bank of Nigeria, the World Bank, the African Development Bank and the Government of Czechoslovakia are lenders to the NERFUND.

2.4 THE STRUCTURE, ROLE AND OPERATIONAL PERFORMANCE OF ADB AND NERFUND.

2.4.1 THE AFRICAN DEVELOPMENT BANK (ADB)

In its 36th years of existence, the ADB has made significant contributions to capital formation in Africa. To date, the bank together with its affiliates, the African Development Fund and the Nigerian Trust Bank has made a cumulative commitment of nearly US $20 billion in about 1500 loans and grants. In relation to Nigeria, the bank was not very active in Nigeria until the beginning of the Structural Adjustment Programme (SAP), IN 1986. In deed, the facility of NERFUND constitutes one of the earliest and perhaps its highest commitment in Nigeria.

2.4.2 Composition

As at 31st December, 1997, the African Development Bank had 75 member countries composed of 50 independent African countries (regional) and 25 non-African countries (non-regional). The 50 regional member countries are: Algeria, Angola, Benin, Botswana, Burkina-Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, cote-D'IVOIRE, Djibouti, Egypt, Equatorial Guinea, Ethiopia, Gabon, The Gambia, Ghana, Guinea-Bissau, Kenya, Lesotho, Liberia, Libya, Madagascar, Malawi, Mauritania, Mauritius, Morocco, Mozambique, Niger, Nigeria, Rwanda, Sao Tome and Primae, Senegal, Seychelles, Sierra-Leone, Somalia, Sudan, Swaziland, Tanzania, Togo, Uganda, Zaire, Zambia and Zimbabwe.

The 25 non-regional member countries are: Agentina, Austria, Belgium, Brazil, Canada, China, Denmark, Finland, France, Germany, India, Italy, Japan, Korea, Kuwait, Holland, Norway, Portugal, Saudi-Arabia, Spain, Sweden, Switzerland, United Kingdom, United States of America and Yugoslavia.

2.4.3 **Organizational Structure.**

The bank has a Board of Governor, a Board of Directors, a President, at least one Vice-President and other officers and staff to perform such duties as the Bank may determine.

The Board of Governors of the Bank:

This is the supreme organ. It is composed of Ministers and high level officials of economic and financial institutions of member countries. Each member country is represented on the Board by a Governor and an Alternate subject to re-appointment or to termination of appointment at any time by the appointing member country. Governors exercise the voting powers of their countries in the Board. Each member country in the ADB has an equal number of basic votes in addition to a number of votes proportional to its paid in shares. No one member country nor group of countries has veto powers. Board decisions are generally made through discussion and consensus voters than through the excise of voting powers. The Board of Governors meets annually to review the implementation of past policy decisions and to deliberate on new policy issues initiated by them, the Board of Directors or by the Management of the Bank. Decisions on certain issue concerning the ADB are reserved for the Board of Governors. Among these are the admission of new members, increase in the capital stock amendments to the articles of Agreement and the election of the Board of Directors and the President.

The Board of Directors is composed of 15 members who are neither Governors nor alternate Governors. Twelve members are elected by the Governors of regional member countries and six by the Governors of non-regional member countries. Directors are elected for a term of three years and may be re-elected. Each Director appoints an alternate may be of the same nationality as his Director. The members of the Board of Directors are responsible for the conduct of the general operations of the Bank.

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In this capacity, they exercise powers provided in the Articles of Agreement or other powers delegated to them by the Board of Governors from time to time. The Board of Directors, but not their alternatives, are resident at the headquarters of the Bank and meet for business as often as the work of the Bank may require. Alternates may however be invited to attend Board meetings.

2.4.4 **Management.**

The President:

The President is elected by the Board of Governors of the Bank. Upon the recommendation of the Board of Directors for a term of five years. He may be re-elected, he must be a national of a regional member country. The President is also the President of the Bank as well as the Chairman of the Board of Directors of these Institutions. The President is the chief of staff and conducts, under the direction of the Board of Directors, the day to day business of the Bank. He determines the functions, responsibilities and internal structure of the organizational units, regional and field officers.

He proposes to the Board of Directors the appointment of the Vice-Presidents who assist him in the day to day management of the Bank group. As at 1997, there were five Vice-presidents:

- Vice President, central operations
- Vice President, Finance
- Vice President, Operations Region I
- Vice President, Operations Region II
- Vice President, Administration and General Services.

OFFICE, DEPARTMENTS AND UNITS.

On 3rd March, 1987 the Bank re-organised its services in order to establish a sound and effective framework for executing Bank Group Operations and meeting the challenges of development.

The main feature of this organisation was based on grouping the operations and country programmes departments into Regions I and II. Region I covers North East and South Africa while Region II consists of West and Central Africa following the re-organisation, the Bank has 24 departments, 58 Divisions, 4 Regions, 2 Representatives and 2 Field Offices. The Association of African Development Finance Institutions (AADF I) and the Federation of African Consultants are other Units linked respectively to the Co-operation and Central Projects Departments. The following is he description of the functions of the offices, Department and Units.

Strategic Planning and Policy Development Staff.

Responsible for assisting the President to monitor and evaluate existing Bank policies and determining their effectiveness and utility identifying and recommending ways to strengthen the policy framework of the Bank, including modifications or new policy initiatives; assisting to translate all policy declarations into workable operational programmes, budgeting and follow up of implementations.

Office of the Secretary-General:

Responsible to ensuring that the decisions of the Boards of Governors and Directors are implemented, organising Board documents and protocol services and relations with the host country. It is also responsible for promoting the image of the bank group, and disseminating information on all the Bank activities.

The General Council:

Responsible for advising and assisting the Board of Governors, the Board of Directors and the President of the African Development Bank on legal matters and the implementation of all actions taken and policies adopted in their role as the official representatives of the Bank.

Office of the Internal Auditor:

Responsible for assisting all levels of management in the Bank, including the Board of Directors by providing periodic, independent audit of financial accounting, operations and administrative activities.

Operations Evaluation Office:

Responsible for evaluating the operational activities of the Bank Group, paying particular attention to lending activities with a view to establishing whether the objectives have been or are likely to be achieved and to drawing lessons and experience which could be used to improve the quality and effectiveness of Bank Group Operations, policies, practices and procedures.

Central Project Department.

Responsible for formulating and proposing projects and operations policies in the sectors where the Bank operates as well as procurement policies, roles and procedures and advising the other departments on the selection of consultants. This Department supervises the Unit seconded to the Federation of African Consultants (FECA).

Development Research and Policy Department:

Responsible for conducting research on the development strategies for regional member countries as well as for the Bank Group Operations; developing suitable economic and analytical tools to assist Bank activities; providing statistical and research resources to all Bank staff.

Co-operative Department

Responsible for promoting, negotiating and administering technical and financial co-operation programmes and agreements between the Bank and other donor institutions and agencies to facilitate pre-investment studies; the co-financing or projects and technical assistance programmes of any development activities of the common interest and benefit to the Bank and its regional member countries.

The Co-operative Department supervises the Unit detached to the Association of African Development Finance Institutions (AADFI).

Training Centre:

Responsible for promoting and implementing training programmes and curricula for the Bank staff as well as officials from member countries, and mobilising external resources for these programmes.

Country Programmes Department.

a) **Country Programmes - Region I:**

Responsible for maintaining close relations with member countries; drawing up country lending programme and for loan administration in the African member states in the North, East and Southern African sub-regions; initiating and conducting dialogue with borrowing member states.

b) **Country Programmes - Region II:**

Responsible with the same functions as Country Programme I for African member states in the West and Central African Sub-Regions. Country Programmes I and II also supervise regional offices in Nairobi (Kenya), Harare (Zimbabwe), Rabat (Morocco), Yaounde (Cameroon), and Representative and Field offices in Addis-Ababa (Ethiopia), Conakry (Guinea) and Lagos (Nigeria).

Project Department:

There are two Projects Department in each region, Agriculture and Rural Development Departments I and II; and infrastructure and Industry Departments I and II. These Departments are responsible for conducting sector and technical studies and analysis relating to lending and technical assistance programmes as well as sector studies in borrowing countries on sectoral problems, priorities for the development of projects through identification, preparation, appraisal, execution and implementation phase.

Treasury Department:

Responsible for managing the Financial Resources of the Bank Group; carrying out financial plans and making all payments authorised by the Accounting and the Disbursements Department.

Financial Policy Planning and Budgeting:

Responsible for developing, proposing and updating medium and long-term financial policies and plans of the Bank Group; developing proposing and maintaining guidelines for all the organizational units for preparing and executing the annual budget.

Disbursements Department.

Responsible for the financial control processing and authorization of disbursement applications on loans given by the Bank Group as well as on grants made from funds managed or administered by the Bank; making disbursements.

Accounting Department:

Responsible for maintaining all financial transactions of the Bank Group; processing and authorising payments of salaries, benefits and all other administrative expenses and preparing financial statements.

London Representative Office.

Responsible for initiating, developing and maintaining contact between the Bank and the International Financial and Investment Community.

Administrative Department.

Responsible for Bank property, supplies, travel, communication and security matters.

Human Resources Management Department.

Responsible for formulating, implementing and monitoring personnel policies and programmes to attract, recruit, develop, motivate and retrain competent and qualified staff to serve the objective of the Bank Group, promoting management/staff relations, providing through the Bank's Medical Centre, Health and related services to officers, staff and their dependants.

Legal Department:

Responsible for advising and assisting all organizational units of the Bank on legal aspects of financial, operational and administrative matter; proposing suitable legal solutions; participating in the negotiations and preparation of all agreements and contracts.

Languages, Conference and Documents Service Department.

Responsible for translating Bank documents into English and or French, providing interpretation services and meeting facilities, printing, micro filming, storing and distributing the Bank's documents.

Computer Service Department.

Responsible for proposing and implementing policies, procedures and strategies governing the optimal use of data processing technology for the Bank Group; managing computer services facilities and equipment.

Organizational and Methods Units.

Responsible for analysis, elaborating, appraising the most official orgnisational systems and structure for the Bank to promote efficient management. The Bank's organizational structure is shown. (Annex (3).

2.4.5 **Capital and Resources.**

The capital stock of the ADB is subscribed by its members states. The authorised capital is made up of paid-up and callable shares. The authorised capital which was US $250 million at the creation of the Bank in 1963 is now US $22 Billion following the 200% capital increase achieved in June 1997 in Cairo, Egypt. This increase also accompanied by a change in the ratio of the paid-up to callable shares from 25/75 percent to 6/93 percent. The substantial increase in the capital base of the ADB is a reflection of the moment gained by the Bank's operations since 1980.

The resources of the Bank are from Ordinary or Special Funds:

(a) Ordinary Resources Comprise;

i. The subscribed shares of the authorised capital of which the called portions is subject to call in order to guarantee ADB borrowing obligations;

ii. Funds received in repayment of ADB loans

iii. Funds raised through ADB borrowings on international capital markets;

iv. Income derived from ADV loans

v. Other income received by the Bank, e.g. income from other investments.

(b) **Special Funds**:

Under Article 8 of the Agreement establishing the ADB, the Bank is authorised to establish or be entrusted with administering and managing special funds which are consistent with its purposes and functions. In conformity with these provisions, the African Development Fund (ADF), was established with non-African states in 1972, and the Nigerian Trust Fund, NTF with the Nigerian Government in 1976.

The Summary on the Bank Group Resources and Operations is in Annex (4).

The African Development Fund (ADF)

Establishment and Function.

The Fund was formerly inaugurated at the 9th Annual Meeting of the Bank held in Lusaka in July, 1973. The Fund provides finance on concessional term for the purpose of assisting the Bank's contribution to the economic and social development of the Bank's African member countries and o the promotion of co-operation, including regional and sub-regional co-operation and increased international trade, particularly among such members. The agreement establishing the Fund was centered into force on 10th June, 1973. The Fund commenced operations on 1st August, 1973 and granted its first loan on 16th January, 1974.

Composition.

The African Development Fund is made up of the African Development Bank and the following 26 state participants: Argentina, Australia, Belgium, Brazil, Canada, China, Denmark, Finland, France, Germany, India, Italy, Japan, Kuwait, Korea, Netherlands, Norway, Portugal, Saudi-Arabia, Spain, Sweden, Switzerland, United Arab Emirate, United Kingdom, United States of America and Yugoslavia.

STRUCTURE

The Fund has a Board of Directors and a President.

Board of Governors of the Fund.

The Governors and Alternate Governors of the Bank are ex-officio Governors of the Fund. In addition, each state participant which is not a member of the Bank appoints a Governor and an Alternate.

Board of Directors of the Fund.

The Board of Directors is composed of twelve Directors of whom six are designated by the Bank from regional members of the Board of Directors of the Bank, and six are selected by the state participants.

The Fund utilises the offices, staff organisation, services and facilities of the ADB to carry out its functions. The President of the Bank is ex-officio President of the Fund. He is Chairman of the Board of Directors of the Fund.

RESOURCES.

The Resources of the Fund consist of:

(i) Subscription by the Bank;

(ii) Subscription by state participants;

(iii) Other resources received by the Fund;

(iv) Funds derived from operations or that otherwise accruing to the Fund.

The Funds resources are dependent on periodic replenishment from the participants. The first replenishment, ADF -I about US $327 Million, covered the operational period 1976 - 1978, ADF-II US $712 Million, covered 1979 - 1981, US $1.0 Billion covered 1982 - 1984, ADF-IV about US $1.5 Billion was for 1985 - 1987, while ADF-V, about US $2.8 billion, covered, 1988 - 1990 and ADF VI about US $4 Billion covering 1991 - 1993 and ADF VII about US $5.6 Billion covering 1994-1996.

2.4.6 **Beneficiaries and Types of Loans.**

Eligibility.

Under the African Development Bank Charter, all regional member countries are equally eligible for development financing from the Bank resources. However, taking into account, the levels of resource endowment and economic development of the various potential beneficiary countries, the Bank has singled out the poorest countries as the main target for the allocation of its concessional funds, notably the African Development Fund (ADF).

LENDING INSTRUMENTS.

In the 1960's and 1970's, Bank Group operations were oriented almost exclusive to project lending, which involves investments in discrete sectorally identifiable activities. Since 1980; in response to the changing economic circumstances of regional member countries, the Bank Group has greatly diversified its lending, making use of several different lending instruments, including the following:

Project Loan:

Discrete investments aimed at creating specific productive assets or increasing identifiable outputs.

Lines of Credit:

Funds channeled through national or sub-regional development institutions aimed at financing a number of specific projects, most frequently small and medium-sized enterprises.

Sector Investment and Rehabilitation Loans:

Investments aimed at strengthening or rehabilitating sector specific planning, production or marketing capacities; often used to finance imports of equipment or inputs for a sector.

Sector Adjustment Loans:

Credits aimed at supporting policy changes or institutional reforms in a specific sector.

Structural Adjustment Loans:

Credits aimed at overcoming specific macro-economic policy problems and structural imbalances.

Technical Assistance Operations:

Loans or grants that provide expertise aimed at increasing capabilities of regional or national institutions or that finance studies needed for project preparation.

The first three lending instruments are referred to collectively as "project or programme lending". The designation policy based lending (PBL), applies to the 4th and 5th categories - sectoral and structural adjustment lending. Technical assistance operations, financed only through ADF, remain in a separate category.

2.4.7 **Programming of Bank Group Lending:**

Five Years Operational Programmes.

Since 1977, the use of resources of the Bank Group is effected on the basis of successive five-years operational progrmmess which indicate the priority sectors. In line with the overall objective of the African Development Bank Group, to help in the economic development and social progress of African countries, the ADB Group Programming is synchronized or in tandem with the development mandates and priorities of African countries. The five-year operational programme is further divided into Annual Operational Programmes to ensure better implementation and follow-up.

SECTORAL ALLOCATION

The following three considerations are generally taken into account in allocating resources during a programme period.

- Bank Group's own past experience
- The volume of resources of the disposal of each of the three institutions.
- The order of priorities in the regional member countries individually and as collectively expressed in regional economic mandates such as the Lagos Plan of Action (LPA), and the African Priority Programme for economic recovery (APPER).

Normally, ADB resources are more suitable for projects with higher economic and financial rates of return such as industrial and certain infrastructure projects. The ADF and NTF resources, because of their concessional character, are more suitable for social and rural development projects. Since the inception of the Bank, lending has generally tended to be in the following order of sectoral priority; agriculture, public utilities, transport and telecommunications, industry, education and public health and finally multi-sector.

COUNTRY ALLOCATION OF RESOURCES.

For country allocation of resources the following five criteria are taken into consideration:-

- per capita gross national product (GNP).
- The size of population
- A minimum presence of the Bank Group in each country (as at 31st December, 1989 only Libya has deliberately delivered to benefit from ADB Group lending).
- Unfavourable geographic location such as enclave countries
- Emergency situation

These factors are weighted, with the first two being the major criteria. Once the country resource allocations are made, comprehensive country programmes supported by country economic analysis are carried out to determine country-specific orientation and priorities.

COUNTRY CATEGORIES.

Taking into account the first criterion for country resource allocation, which is the GNP per-capita, borrowing member countries have been grouped into the following three main categories, A, B, C.

Category A:

Consists of thirty four regional member countries with GNP per capita of US $510 or less. These countries continue to be seriously affected by the adverse World economic situation and growth prospects have been severely constrained by their extremely limited access to international capital markets and low debts servicing. Given the disparity between countries with a GNP per capita of US $510 or less, the ADB Group has further sub-divided category A countries into two sub-categories.

Sub-Category AI:

Comprises of 28 regional countries with GNP per capita of US $350 or less (1987). Benin, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Djibouti, Equatorial Guinea, Ethiopia, Gambia, Guinea Bissau, Kenya, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Sao Tome and Principe, Sierra-Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Zaire and Zambia.

Sub-Category A2:

Comprises the following six-regional member countries with GNP per capita of between US $351 and US $510; Cape-Verde, Lesotho, Liberia, Mauritania, and Senegal.

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Category B:

Regional member countries with a GNP per capita of between US $511 and US $990, which could be considered to be in the middle income category. By 1987 data, the following 9 countries fall under this categories: Angola, Botswana, Cameroon, Cote-D'IVOIRE, Egypt, Morocco, Nigeria, Swaziland, and Zimbabwe.

Category C:

Regional member countries with a GNP per capa of over US $990, or which have renounce their right to benefit from the Bank Group financing. By 1987 data, the following 7 countries which normally do not benefit from Bank Group concesssional resources are: Algeria, Congo, Gabon, Libya, Mauritius, Seychelles and Tunisia.

2.4.7 (i) **Project Cycle.**

Project Initiation.

Project and programme proposals reach the Bank Group through the following sources:

- Request for financing from borrowing member countries;
- An ADC identification mission;

- Familiarization and other missions undertaken by the ADC President, Vice-President, Executive Director and Bank Experts;
- Initiation extended to the Bank Group for co-financing by other institutions.

Prospective projects and progrmmes for consideration for Bank Group financing are compiled into a pipe line of projects, studies and programmes. The pipeline of projects is regularly updated with new projects and programmes added and others selected if found to have diminished in priority. Project elaborating including preparation and appraisal is generally mounted from the pipeline of projects.

In general terms, the ADC Group project cycle comprises the following stages:

- Economic analysis of the country
- Project identification
- Preparation
- Appraisal
- Negotiation and Board Approval
- Execution and Supervision
- Post-Evaluation

ECONOMIC ANALYSIS:

It is a general macro-economic study aimed at reviewing the major economic, fiscal and financial features of the country, evaluating its past performance, bottlenecks and development prospects. In the light of this overall analysis, the various economic sectors are studied. Sectoral analysis makes it possible to highlight the priority sectors and sub-sectors likely to benefit from Bank Group financing. Since 1986, Economic analysis have systematically formed part of a comprehensive country programming and counseling effort of the Bank Group.

PROJECT IDENTIFICATION

Project in a country is an exercise during which the Bank Group itself undertakes a mission to a country to search for possible bankable projects and programmes. This may be undertaken following an obvious depletion of bankable projects in the country's pipe line of projects. During such missions, the Bank Experts assist the country to formulate projects and project idea for the pipeline taking into consideration the country's economic situation, orientations, as well as Bank Group resource allocation and sectoral priorities for it. The countries Programmes and Projects Departments are jointly responsible for taking the initiative in organizing identification missions.

Project identification is not an automatic, phase of a country's pipe line of projects is well-fed with projects from other sources including requests from the country or initiation for co-financing from other institutions.

PREPARATION.

It is the phase which begins from the moment the Bank Group shows concrete interest to finance a given project and programme and includes building -house and external collection of information which will help Bank Experts obtain any existing documentation such as feasibility studies on the project and cross-check other information with the authorities of the country. Often, one of the project department concerned is responsible for the preparation with an Engineer, an Economist and a Financial Analyst.

APPRAISAL.

Appraisal is an essential stage which makes it possible to review the major technical economic, financial and institutional aspects which determine the achievement of the goals of the project and to take a decision either to retain the project or reject it.

At the end of the appraisal mission, an appraisal report is prepared and submitted to inter-departmental working group and loans committee meetings for discussion. In fact, the intention at this stage is to justify the financial economic and social viability of the project and to demonstrate that the project is technically feasible.

The loans committee meeting is generally chaired by a Vice-President in charge of Operations. It is a Bank Group Policy even when previously appraised by other co-financing institutions, to approve a project or programme financing only on the basis of appraisal reports prepared and submitted by the Bank's own experts.

NEGOTIATION AND BOARD APPROVAL.

When the loans committee completes its work, it recommends that the loan should be submitted to the Board of Directors on condition that there is a satisfactory outcome of loan negotiation with the Borrower. The Borrower is then informed of the detailed amount, the terms and conditions which the Bank Group proposes to attach to the loan. Except otherwise expressly authorised by the President or the Vice-President for operations, negotiations always takes place at the Headquarters of the Bank.

NEGOTIATION DELEGATIONS.

From the Bank Group's side, the negotiation team must comprise;

- the country's loan officer;
- the legal officer in-charge of the country;
- one representative of the Central Project Department;
- The country's economist.
- any other official deemed necessary
- From the Borrower's side the negotiation team must include:
- a leader with certified evidence of being duly nominated to negotiate the loan with the Bank or the Fund;
- a representative(s) of the Ministry of Finance;
- representative(s) of the Executing Agency;
- a legal officer;
- other appropriate officials directly concerned with the loan or project.

NEGOTIATION ISSUES.

During negotiations, agreement should be reached on the following:

- objectives and description of the project, studies or programmes;
- the local and foreign cost and financing plan of the project;

- the tentative list of goods and services to be procured while a final list should be presented later;
- the schedule of execution and expenditure;
- the disbursement methods selected by the Borrower as well as the schedule of disbursement including precise information on the account numbers and agencies or correspondent Banks where the funds could be transferred to in favour of the Borrower;
- Procurement methods and dates;
- Other issues on which agreement should be reached include;
- Precise information on the Executing Agency and the Project Implementation Unit, the channels of communication between the Bank and the Borrower;
- Presentation and periodicity of progress report, and audited accounts;
- Proposed realistic date for loan effectiveness as well as deadlines for first and last disbursement;
- For co-financial projects, respective financing plans, protocol of agreement, cross-effectiveness of loans, miscellaneous information to be exchange, etc.

Subject to successful negotiation, the appraisal report is submitted by the President with a project memorandum to the Board of Directors, which, after detailed review of all the issues concerning the project, is the final authority to approve or reject the project or programme.

IMPLEMENTATION AND SUPERVISION.

Project implementation proper starts from the moment the project is declared effective. This is when the conditions precedent to first disbursement have been fulfilled by the borrower, the disbursement Bank Group resources can effectively take place. Other conditions stipulated in the loan agreement would be met during project implementation.

The country Programmes Departments are responsible for making sure that the conditions are fulfilled and for taking appropriate steps to assist the borrower to fulfill them. The supervision of project implementation enables the Bank Group to make sure that the physical realisation of the project is progressing smoothly and in accordance with the implementation schedule, possible problems during implementation may be solved by ADC supervision missions. The identification of such problems makes it possible for the Bank to provide effective technical assistance and policy counseling . The Project Departments also monitor progress made in the physical implementation through regular reports made by the borrower, ensuring that disbursements tally with the physical progress achieved.

POST EVALUATION.

Post evaluation is the last stage in the project cycle. The purpose of this stage is to assess the project taking into account its initial objectives and to make suggestions likely to improve the effective preparation, appraisal, implementation of similar Bank Group projects in future. The Operations Evaluation office is responsible for Post-Evaluation.

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TERMS OF ADB GROUP LOANS:

ADB:	
Interest:	**Variable**
Commitment charge on un-disbursed balance	1%
Payment Period	20 years including a grace period of 5 years maximum.
ADF:	
Interest:	No interest rate.
Service charge	0.75%
Payment period	50 years including a 10 years grace period.
TAA Loans:	50 years repayment including a 10 year grace period which could be extended to 45 years if the study does not lead to a bankable project.
TAF: Studies:	On grant basis, Repayable in 20 years including a 5 year grace period.
Lines of credit.	

LOAN EFFECTIVENESS:

Once a loan has been approved and signed, a Borrower in addition to other conditions has to fulfill the following standard conditions precedent to first disbursement:

- Designate the authorized signatories for the use of the loan resources on behalf of the Borrower and their specimen signatures;

- Present a legal opinion ;
- Submit the investment schedule;
- Present a list of goods and services to be procured;
- Open and maintain a special account;
- Any other condition judged necessary to precede first disbursement

When these conditions precedent to first disbursement have been fulfilled, the loan is declared effective and the Borrower may request disbursement in accordance with the terms of loan agreement.

DISBURSEMENT METHODS.

Disbursement can be made according to one or more of the following methods as agreed upon during negotiation

Reimbursement Method:

Under this method, Bank repays the borrower for its payments it made on the project from its own resources.

Use of Letter of Credit:

The Bank reimburses a commercial bank for payments it made in favour of suppliers at the request of the borrower.

Revolving Fund Method:

The Bank grants initial advance payment which the borrower utilize at its own discretion to finance items on the list of goods and services. The revolving funds may be replenished when the initial amount is exhausted, subject to justification of how the previous funds had been used.

Direct Payment Method:

The Bank disburses directly to the supplier or contractor for the goods and services procured by the borrower. The Bank Group reserves the right of indicating the method or methods of disbursement it considers most convenient. The Bank also has the responsibility to ensure that the loans are used only for agreed purposes. Consequently, disbursement is made against certification either that the relevant services have been duly performed or that goods of suitable quality and origin (member states of the Bank) have been acquired.

DISBURSEMENT PERIOD:

The loan agreement fixes the dates within which the first and last disbursements must be made. The dates generally must be observed. Request for extension of deadlines for first and last disbursements when necessary should be made well in advance of the termination of the original date and should be supported by the circumstances upon which the request is made.

2.4.8 **Procurement of Goods and Services:**

Origin of Goods and Services:

The general rule is that goods and services should be procured from member countries except where the Board of Directors agrees to permit procurement from a non-members country which has been responsible for significant contribution to financing of Bank Group activities.

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BIDDING PROCEDURE.

It is the policy of the Bank Group that Borrowers should utilize the system of public bidding which the Group finds satisfactory, taking into account the laws of the country of the borrower and the purpose for which the loan is contracted. Generally, borrowers are required to obtain goods and services needed for Bank Group Projects on the basis of international competitive bidding except in case where the Board of Directors determines that such international competition would not be justified. International competitive bidding is a method which requires advertisement to be made within and outside the Borrower's country as well as notification to the international community. Such a procedure provides adequate specification of the Borrower's requirements equal opportunity to bid, procedures for pre-qualification as well as bid period, etc.

EVALUATION OF BIDS AND AWARD OF CONTRACTS.

Bid evaluation which must be consistent with the terms and conditions set orth in bidding documents has the lowest market price available quality, specification, financial resources and appropriate standard of capacity to execute the contract as well as delivery time. The lowest evaluation bid may therefore not necessarily be the lowest offered price. The Bank has to approve the final selection of the successful bidder as well as the award of contract.

REGIONAL AND DOMESTIC PREFERENCE MARGINS.

In order to promote the participation of national and regional contractors and suppliers the Bank encourages member countries to accord a margin of preference to those firms that satisfy the conditions of eligibility for the said preferences.

The performance margin granted to domestic manufactured goods is about 15% and to domestic contractors eligible for domestic preference is 10%. The maximum preference granted to goods eligible for regional preference is 10% and to contractors eligible for regional preference is about 7%.

REFINANCING.

The Bank Group only fiances goods and service which are directly incorporated into a development project. Loans required for the refinancing of existing debts or to complete projects already stated and underway are not considered. Under normal circumstances, the Group will only finance projects its conceived and appraised either on its own or in collaboration with other co-financiers

CURRENCIES OF PAYMENT.

Money lent by the Bank Group has to be repaid by Borrowers in the same currency as that is which the loan was made or in such other freely convertible currency as the Bank Group will request. The same principle applies to interest and other charges related to the loan.

2.4.9 **Problems Relating to Execution of Projects.**

Types of Problem Situations.

The following are examples of problems identified by the Bank which may hamper timely smooth, or efficient implementation of Bank Group project and programmes.

Failure on the part of Borrower to sign the loan agreement within one year after Board approval, or to fulfill the conditions, precedent to first disbursement before the deadline for such disbursement.

Expiration of deadlines for disbursement necessitating of the project size, scope, design technology, contracts which may result in a revised project, or any event giving rise to a supplementary loan including natural calamities or cost overruns, etc. The revised project must pass through the process of Board approval.

In ability or long delay (1 year) on the part of the Borrower to provide counterpart funds, fulfill other major loan conditions for the successful implementation of the loan or inability to complete the project within the scheduled time frame, after the Bank loan has been fully disbursed.

Long standing (6 months), disagreement between the Bank Group and the Borrower on one hand usually on procurement procedures, or on the other hand, between the Borrower and the supplier/contractor/consultant which affect the execution of the project.

ACTIONS TAKEN BY BANK TO REDUCE PROBLEM SITUATION.

The Banks country Programme Department regularly updates the status of implementation of projects and compiles what are known as problem projects requiring special attention. It also advised the borrowing country ahead of time on the possible specified problem situation. At times, a special Bank Group Mission is launched to resolve the issues. The Bank also organises loan administration seminars aimed at training officials of the borrowing countries in project management. Since 1985, the Bank has increased its policy counseling efforts in order to reduce in-efficient macro-economic policy measures which tend to adversely affect general project programming and implementation. The Bank has also improved its own internal administrative and operational procedures aimed at a move efficient country progamming project appraisal, implementation and follow-up.

BORROWING POLICIES.

Unlike the African Development Fund and the Nigerian Trust Fund, the African Development Bank Mobilises additional funds in the World's Capital Markets. The Bank borrows on the strengths of the callable portion of its capital subscription which since June, 1987 constitutes 93.75% of its authorised capital. Before 1984, the Bank borrowing needs were minimal as requirements for disbursement and liquidity holdings were relatively limited. Moreover, the Bank was not rated and was generally considered a high credit risk. Since the admission of non-regional countries at the end of 1982 and the rating of the Bank as from 1984, the borrowing possibilities have enlarged.

The concept of borrowing on senior and subordinate debt basis was introduced in 1985. Normally, all the debt is senior debt unless by its level it is expressly subordinated in right of payment to other debt of the Bank. However, both classes rank pari-passu except in the event of a call on the callable capital of the Bank, whereupon, the holders of debt which is not expressly subordinated hence its senior debt have precedence over holders of subordinated debt.

It is the policy of the Bank to limit its total borrowing on senior debt basis together will guarantees to 30% of the callable capital of its non-borrowing member countries, and to limit its total borrowing both senior and subordinated debt to 80% of the total callable of all its members.

The General objectives of the Bank borrowing programme include among others, to lower the cost of debt funding so as to on-lend to borrowing countries at more favourable rates, to lengthen the average maturity of outstanding borrowing and to consolidate the Bank's standing with investors in the various capital markets. In 1989, the average cost of the total outstanding debt was 7.47% compared to 8.18% in 1987.

BANK GROUP LOAN APPROVALS IN 1989

.In 1989, Bank Group loan approvals amounted to US $2,856.34 million compared with US $2,176.22 million. In 1988, a growth of 31.3% as against 1.7% in 1988. The growth rates in 1986 and 1987 were 42.1% and 30.5% respectively.

Of the Bank Group total commitments in 1989 US $1,864.95 million or 65.3% was from ADC resources, US $982.19 million or 34.4% from ADC resources.

2.4.10 **Bank Group Lending By Sector.**

Sectorally, Bank Group lending in 1989 was as follows:-

Agriculture	US $561.34M or 19.17%
Transport	US $437.68M or 15.3%
Public Utilities	US $520.51M or 18.2%
Industry	US $300.06M or 10.5%
Education and Public Health	US $418.26M or 14.6%
Multi-Sector	US $618.49M or 21.7%

SOURCE: ADB REPORT.

Sectoral distribution of Bank Group lending varies from Institution to Institution. Bank Group lending in 1989 was significantly influenced by ADC lending in multi-sector, public utilities, and agriculture, while ADC lending was comparative high in Education and Public Health, Transport and Agriculture.

CUMULATIVE BANK GROUP LENDING.

As at 31st December, 1989, the Bank and its affiliates the African Development Fund and the Nigeria Trust Fund has made a cumulative commitment of US $15,617.51 Million for a total of 1,285 loans and grants. This showed an increase of 22.4% compared to 20.6% increase in 1988. The share of Bank Group cumulative commitment by Institution indicated that as at the end of 1989. ADB had invested US $9,455.04 million or 60% for 540 loans and grants. The ADF invested US $5,970.68 million or 38.2% for 706 loans and grants.

CUMULATIVE BANK GROUP & LENDING BY SECTOR.

Bank Group cumulative loan and grant approval as at 31st December, 1989 were sectorally distributed as follows:-

Agriculture	US $4,450.70M or 28.5% for 361 loans
Public Utilities	US $3,433.58M or 22% for 290 loans
Transport	US $2,897.15M or 18.6% for 282 loans
Industry	US $2,067.76M or 13.2% for 157 loans
Education and Public Health	US $1,465.86M or 9.4% for 164 loans
Multi-Sector	US $618.49 M or 21.7%

SOURCE: ADB REPORT.

LENDING BY SECTOR AND INSTITUTION

The order of sectoral importance of Bank Group Operations given earlier was agriculture, Public Utilities, Transport, Industry, Education and Public Health and finally Multi-sector. For each Bank Group Institution, the order of sector emphasis may be different. As at the end of 1989, the order of cumulative lending by sector and institution was as follows:

Sector	Cumulative Lending in Million US $	% Shares	No of Loans
Public Utilities	2,452.79	25.6	151
Agriculture	2,226.04	24.2	114
Industry	1,789.59	19.1	122
Transport	1,632.22	17.2	123
Multi-Sector	802.40	8.0	7
Education & Public Health	551.62	5.9	24

SOURCE: ADB REPORT.

ADF Sector	Cumulative Lending in Million US $	% Shares	No of Loans
Agriculture	2,125.62	35.7	244
Transport	1,272.17	21.3	145
Public Utilities	994.69	16.8	130
Education & Public Health	910.25	15.2	135
Multi-Sector	434.07	7.2	24
Industry	233.90	3.8	29

SOURCE: ADB REPORT.

AVERAGE LOAN PORTFOLIOS BY INSTITUTION & SECTOR.

In 1987, the Bank Group annual lending had reached US $2,856.34 million giving the Bank Group an average annual lending of US $679.02 million since the inception of the Bank. The annual lending of US $411.09 million since the past 25 years. The average annual commitments of the ADF and NTF as at the end of 1989 was US $373.17 million.

The following are the average loan amounts per sector (i.e. cumulative commitment per sector over total number of loans in the sector).

Agriculture	US $12.33M
Transport	US $10.27M
Public Utilities	US $11.84M
Industry	US $13.17M
Education and Health	US $8.94M
Multi-Sector	US $42.00M

SOURCE: ADB REPORT.

ADB GROUP CO-FINANCING OF PROJECT

ADB sustained catalytic effort in mobilising additional resources for Africa's development is made through co-financing of projects with other donors. As at 31st December, 1989, the Bank Group had co-financed a total of 319 projects and programmes for a cumulative amount of US $28.94 billion, out of which the Bank Group contribution was about US $5.79 Billion. Thus, for each dollar, the Bank Group invested in co-financed projects it attracted about US $4, and for each dollar, the Group invested generally it attracted about US $1.5 dollars. The Bulk of Bank Group co-financing operations was in agriculture for a total of 120 projects and a cumulative amount of about US $10 Billion with a total contribution of about US $2.0 Billion by the Bank Group.

2.4.11 **Resource Mobilisation**

Evolution of Authorised Capital.

As a result of the 4th General capital increase (GCI-IV), achieved by the ADB in June, 1987, the Bank's authorised capital from US $6.3 Billion to US $21.80 Billion or 200% increase. Of this amount regional member countries subscribed two-thirds majority share went to non-regional member countries. The evaluation of the ADB's capital stock has been as follows: 1994 (US $250M); 1977 US $965M); 1981 (US $2.8 Billion); 1982 - 1984 (US $1 Billion); ADF 4: 1985-1987 US $1.5 Billion); ADF 5: 1988 - 1990 (US $2.8 Billion). ADF 6: 1991-1995 (US $ 3.2 Billion), ADF 7: 1996 - 1997 (US $4.0 Billion).

ADB'S AAA CREDIT RATING.

Rating exercise by and large, provide a guide to investors in determining the investment risk involved in operations with a given institution. Rating categorization ranges from D to A that is from securities and bonds that are prone to adverse economic changes, speculations, possible defaults on principal or interest to investment grade of high quality. Under A category, AAA is the highest investment grade, which generally indicates strong asset protection conservative balance sheet ratios, excellent ability to pay interest and repay principal which is unlikely to be affected by reasonably foreseeable events.

Since 1984, major rating agencies including Moody's Investor Services, and Fitch Investment Services Inc., had given AAA ratings to the bank's senior debt. This credit rating places the Bank on the same premier credit level as other institutions such as the World Bank, he Inter-American Development Bank, etc on the international capital market.

In rating evaluation of the ADB, these factors were taken into consideration: the equality of assets, the capital structure, the Bank's equity participation, the bank's assets and liability management, the borrowing and lending rate match, the liquidity management and the internal financial operations. All these factors proved that the Bank is vibrant and effectively managed financial institution in an excellent position to pursue its goals without seriously being affected by situation in the African and World scenes.

Since 1987, the Bank's subordinated debt has also been rated AA which is considered to be an excellent grade for subordinated debt, which is hardly ever rated.

EQUITY PARTICIPATION AND INSTITUTION BUILDING.

Bank Group's efforts in equity participation and institution building are based on the belief that strong sub-regional and national institutions can play an important role in the mobilisation of domestic resources and subsequently in the promotion of public and private investments in activities that encourage economic development and social progress in the borrowing countries.

AADB has acquired equity participation in a number of African Institutions thereby reflecting on the Bank's aspiration that its participation should easily fill institutions and encourage efficiency in the administrative machinery of the existing institutions.

ADB's involvement here has included support for four national development bank, three sub-regional development banks, a finance institution on and five pan-African Organisation.

Bank Group Technical Assistance Programme With Regional Member Countries.

The technical assistance programmes of the Bank Group in favour of African Countries are mainly aimed at the following objectives:

- to assist regional member countries carry out feasibility studies in view of their relatively limited capacity to prepare technically viable projects;
- to meet the cost of short-term consultants engaged by the Bank for project related activities such as preparation of terms of reference (TORs) project appraisal reports and for topical assignments with the countries;
- to finance training programmes for officials from the regional member countries especially in loan administration and project evaluation;

- to improve management techniques and dialogue aimed at improving macro-economic policy measures of the countries;
- to undertake Bank Group project identification mission;
- to co-finance projects.

The Bank Group has a strategic framework of intervention in each of these broad objectives in regional member countries. The Bank Group technical assistance programmes with member countries are co-ordinated by the co-operation department while the training centre is specifically in charge of Bank Group training programmes for both the staff of the Group and officials of the regional countries. To enable the Bank carry out its technical assistance programmes it has since 1967 entered into bilateral co-operation agreements with most of the non-regional countries of the Bank as well as a number of international institutions.

2.5 THE NATIONAL ECONOMIC RECONSTRUCTION FUND.

2.5.1 Introduction.

The National Economic Reconstruction Fund (NERF) is set up to mobilise financial resources that would enable small and medium scale eligible industrial and allied enterprises to better access medium to long-term (five to 10 years) loan facilities, to help them acquire their fixed assets such as machinery and equipment.

It has been observed that one of the reasons why Banks in Nigeria do not provide Naira loans for medium to long-term is the short-term nature of their (deposit) funds. In other words, the short-term nature of the various deposits placed by bank customers create future uncertainty for the banks; hence their reluctance to "mismatch" the term of their deposits and loans.

Evidently, in trying to reduce the risks inherence in the mismatch, banks have been very cautious in selecting projects to be granted medium to long-term financing. At the same time, most charge relatively high interest rates as compensation for not only the commercial risk of the project but also for the medium to long-term financing risk.

Small and medium scale indigenous manufacturing and agro-related projects including mining and quarrying given the relatively modest amounts the banks are willing to commit to medium to long-term loans, have difficulty in passing the stringent selection processes. Where they do, the invariably get charged much higher interest rates than those obtaining another projects outside those sectors. Also, where small and medium scale projects require their machinery and equipment from outside Nigeria, they have had problems obtaining the requisite foreign exchange through legal channels (even when they are wiling to pay exorbitant prices) even institutions where they were able to mobilise the naira resources required. In addition, small and medium scale enterprises generally have difficulty in obtaining foreign exchange loans not only because of the complex process involved in obtaining a foreign loan, but also because the loan each requires may be too small, hence the cost of securing the loan is usually prohibitive when compared with the size of the loan.

These financial difficulties are of curse additional to the well-known special problems of small scale activities, lack of technical and economic counseling, lack of management know-how, lack of common service facilities imperfect knowledge of markets, etc. However, as it is well known, small scale (and also medium scale) industrial enterprises provide the engine of growth for any economy and create more jobs per unit of investment than large scale ones.

Government, therefore realise that an improved financial flow mechanism must be established to further help promoters of these enterprises in search of funds. Such a financial flow mechanism must be established to further help promoters of these enterprises in search of funds. Such financial flow mechanism would importantly, complement Government's other current assistance programmes to small and medium scale enterprises.

2.5.2 **The Rationale for Setting up the NERFUND.**

In spite of the recognition of the role of small and medium scale enterprises, (SCE's) in fostering economic development through the promotion of indigenous technology, employment generation activities and broadening of the production base, the impact of Nigerian SME's on economic development has been less than desirable. A major reason for this, is their restricted access to institutionalised credit as a result of bank's perception of SMEs as high risk ventures. In deed, despite the directive of the Central Bank of Nigeria that Banks grant not less than 16% (up till of 1959), and later a minimum of 20% (from January, 1990 of their total loans and advances outstanding to small scale enterprises, the banks granted less than 10% of their loans and advances outstanding to small enterprises during the period 1980 - 1986. With the introduction of the Structural Adjustment Programme (SAP) IN 1986, and the inevitable devaluation of the naira, many SMEs find it very difficult to cope with the attendant high production cost as a result of high cost of imported inputs, and high rates of interest. In addition, banks loans to SMEs tend to be short-term in nature as a result of their portfolio structure. SMEs therefore, tend to borrow short-term for some of their long-term financing requirements. They also experienced restricted access to foreign exchange.

In order to bridge the observed gap in bank's lending to SMEs, the Federal Government set up, the National Economic Reconstruction Fund (NERFUND), through the NERFUND Decree No. 2 of 9th January, 1989.

2.5.3 **Objectives.**

NERFUND is aimed at providing soft, medium to long-term funds for wholly Nigerian owned small and medium scale enterprises. SMEs are defined as those with cost of new investment up to, but not exceeding N10 Million. SMEs through NERFUND, have access to local and foreign loans over a period of five to ten years. Specifically, the aims and objectives of NERFUND are to:

(i) correct any observed inadequacies in the provision of medium or long-term financing to small and medium scale industrial enterprises, SMEs, especially manufacturing and agro-allied enterprises, mining, quarrying, industrial support services, equipment leasing and other ancillary projects.

(ii) provide medium to long-term loans to participating commercial and merchant banks (Pes) for on-lending to SMEs.

(iii) facilitate the provision of loans with 5 - 10 years maturing including a grace period of 1 - 3 years, depending on the nature of the enterprises or project; and

(iv) provide loan in local and/or foreign currency depending on the funds available to NERFUND and the project being funded.

It was against this background that the National Economic Reconstruction Fund (NERF) was established by the Government.

2.5.4 **Promotion**.

The NERF publishes, at monthly interval a newsletter indicating, among other things, the Funds that are available to it in various currencies and geographical restriction to their use, if any.

The newsletter is regularly made available to the state Ministry of Finance, Commerce and Industries and information , the Local Governments, the various Chambers of Commerce and the Manufacturers Association of Nigeria (MAN). As of January, 1989, the following funds were made available:

(a) N300 Million

(b) US $550 Million out of which US $50 Million can be utilised only in purchasing machinery and equipment from Czechoslovakia.

Further bilateral and mobilateral contributions are expected. Funding replenishment and enlarged funding support by the Federal Government and external agencies are possible and depend solely on demand, efficient draw down and repayments.

2.5.5 **How to Access Loans from the NERFUND.**

The project promoter applies to the bank of his/her choice and indicate to the bank his/her interest in accessing funds form the NERF. Since the NERF is not a bank, but only a funding mechanism, participating banks will, in all cases, be the intermediary.

The applicant's bank should therefore, approach the NERF after it has done its evaluation of the application and is willing to assume the credit risk involved.

Although, the Bank will be the primary obligor to the NERF, the NERF is interested in the projects that are being funded because it is its duty to ensure that those projects meet all the eligibility criteria establishment by Government. Therefore, the bank is expected to submit to the NERF all documents related to the project so that the NERF can satisfy itself as to the eligibility of the project.

2.5.6 **Eligibility.**

According to Section 2 of the NERF Decree No.2 of 1989, small and medium scale manufacturing and agro-related projects, mining, quarrying, industrial support services, equipment leasing and other ancillary project shall be eligible for funding by the NERF provided that;

(a) the enterprise or project is 100% owned by Nigerians.

(b) its fixed assets, other land but including the cost of the new investment to be financed, does not exceed N10 Million.

(c) in the case of a manufacturing project at least 40% of its raw materials are available locally. Preference shall be given to projects with a higher raw material content, and

(d) the project must be accepted by a participating bank that has indicated willingness to assume the credit risk.

Preference shall be given to projects located in the rural areas.

2.5.7 **Geographical Spread of NERFUND Projects**.

Projects located in the rural areas are to be accorded priority. Accordingly, the dissemination of information on NERFUND resources and activities is expected to be carried out at the local government level, while State Commissioners of Finance are expected to coordinate activities pertaining to the utilization of NERFUND's resurces. Beneficiaries of NERFUND are NOT expected to be considered on a quota basis.

2.5.8 **Administration and Management of NERFUND**

The NERFUND Secretariat is responsible for the disbursement to and recovery from PBs of all loans made to PBs for on lending to enterprises and projects approved. Unless, a PB has pre-paid all the amounts due on a loan before the scheduled repayment date.

NERFUND shall notify the Central Bank of Nigeria (CBN), of the amounts outstanding and the account (s) of the bank (s) involved shall be debited. Exception are where the NERFUND agrees to rescheduling a particular loan to a PB. To ensure that loans are promptly and effectively disbursed and managed, NERFUND resources are managed by a committee, which initially comprised of:

(i) The Federal Minister of Finance and Economic Development or his representative - Chairman.

(ii) The Governor of the Central Bank of Nigeria or his representative, - Member

iii) The General Manager/Chief Executive of NERFUND - Member

(iv) A representative of Commercial Banks - Member

(v) A representative of Merchant Banks - Member

(vi) A representative of Development Bank Member and

(vii) A representative of the Federal Ministry of Finance and Economic Development - Secretary.

The three representatives of the Banks were to be appointed by the President on the recommendation of the Minister of Finance.

Recently, however, the Board composition was restructured to provide for greater flexibility in management. The use of banks' representative is being de-emphasized with the inauguration in February, 1991, by the Minister of Finance and Economic Development, of six-man board, with members drawn from varied background and with different areas of interests and specialization. The Board is headed by a Chairman (not a Government official) whilst a Managing Director is the Chief Executive of NERFUND.

Other Board members are mainly from the private sector.

A NERFUND Monitoring office is headed by the Chief Executive, Oversees the day to day operation of the Fund.

2.5.9 **NERFUND's Fund Sources**.

According to Section 8 of NERFUND Decree No.2 of 1989, the sources of fund are:

(1) The Federal Government of Nigeria = N200 Million

(2) The Central Bank of Nigeria = N100 Million, and,

(3) Counterpart funding from the World Bank, the African Development Bank, Export Credit Agencies, Governments, Banks and other Organisations acceptable to the NERFUND committee currently, NERFUND's resources base comprises of three components.

(i) N300 Million from the Federal Government of Nigeria (including Central Bank's contribution), as stated in the enabling decree, of which N140M has been paid up;

(ii) $230 M from the African Development Bank (ADB) which $130M was recently approved; and

(iii) $50M from the Government of Czechoslovakia.

In order to meet foreign exchange obligations promptly, NERFUND is expected to procure the foreign exchange required to service its foreign currency loans. NERFUND is expected to hold such foreign exchange required in income-bearing securities and repay loans, as and when due. NERFUND, as stipulated by the enabling decree, shall not receive any government subvention except as provided by those responsible for the funding. Accordingly, the scheme is expected to be self-funding. NERFUND is to service its loans and meet all expenditure from its own resources.

Disbursement of funds are subject to compliance with he rules and regulations attached to a particular source of fund. For example, the African Development Bank (ADB) non-oil export - simulation loan (ESL) is for funding foreign exchange requirements for imported input for non-oil export production. The Czechoslovakia line of credit is primarily for funding capital goods import from Czeck, with the beneficiary paying up front 15% of the f.o.b. value of each contract amount. The Naira component is to fund SMEs geared towards local sourcing of inputs.

2.5.10 **Modalities**.

The NERFUND reserves the right to disburse funds on behalf of PBs and the bank's customers, directly to the suppliers of machinery and or equipment. The payment for machinery imports by NERFUND counts as part of the loan. Payments include port handling charges, port development charges and import duties. The purpose is to ensure that imported machinery are brought in on a timely basis since some letters of credit take up to eight months before they become effective. NERFUND usually undertakes machinery imports so that there would be no room for funds diversion by SMEs, with regards to imported machinery, nor would machinery be left unattended at ports, because fund were not released on a timely basis by the PBs or because of other real or imagined bottlenecks.

2.5.11 **Approval Procedure, Disbursement and Recovery of Funds.**

It is important to note that five to ten years loans in Naira and foreign currencies (some of which may be restricted to procurement from particular country are available through NERF. However, the first port of call of every applicant is his/her bank. Should the bank elect to participate, the following steps will be taken:

(a) The bank will evaluate each eligible enterprise and project and approve loans in accordance with its normal practice.

(b) The Bank will determine with the project sponsors, the amounts required in various currencies.

(c) The various suppliers must be identified.

(d) In-principle concurrent approval of the NERF is then obtained by the bank/customer. It must be stressed that the NERF is only concernedd with ensuring that the eligibility criteria are satisfied.

(e) The loan agreement (showing disbursement and repayment schedules) reached between the bank and the customer will be deposited with the NERF office.

(f) The NERF will release the funds, at the agreed intervals and at the written request of the participating bank, to the bank for onward disbursement to the project or enterprise.

(g) Each participating bank shall disburse funds meant for an enterprise or project not later than three working days of release of funds by NERF to the bank.

(h) It is the responsibility of the bank to collect from its customers all interest payments and loan repayments, and pay to the NERF the amounts due to it on or before the due date.

(i) For loans disbursement in foreign currency, payments of interest and principal instruments due shall be the main equivalent at the prevailing exchange (selling) rate at the interbank Foreign Exchange Market. Since it is recognised that the project may have generated foreign exchange (perhaps through exports of products), payment in foreign exchange will also be acceptable.

(j) Unless, a participating bank has paid all the amounts due on a loan before the schedule payment date, the NERF shall inform the Central Bank of Nigeria (CBN), of any amounts due but not paid at that due date. The CBN is obliged buy the decree setting up NERF to debit the CBN account of the participating bank with the amount due on the loan principal and/or interest) and credit such amount to the account of NERF.

INTEREST RATES.

The interest rates chargeable by the NERF to the participating banks is limited to one per cent above the cost of borrowing the particular fund. Although, the participating bank are allowed a maximum spread of 4% above the interest rate paid by them to the NERF, they will be expected to limit their interest margin to a level consistent with the commercial/market risk perceived for the project/enterprises. The actual margin charged by the banks is therefore, expected to be less than the maximum allowed. The NERF shall monitor the bank's interest rate spread.

The Naira interest rate for each loan shall be fixed for the duration of the loan.

INFORMATION AND FEEDBACK MECHANISM

Since most of the projects funded are expected to be located away from the urban areas, the network whereby the NERF distributes its monthly newsletter shall be the Local Government level. Each Local Government Chairman is expected to appoint and forward the name of his Local Government's NERF Ombudman, who perfectly shall be the supervisory councillors for finance. The Ombudsman will receive the monthly NERF newsletter regularly. On his part, he will be expected to publicise the programme widely in the Local Government Area and advise the NERF (through the State's NERF Advisory Committee) of problems in programme implementation and possible.

Steps that, if taken, would improve the implementation of the objectives of NERF. In each state of the Federation, there will be established an Advisory Committee of the NERF which will consist of the NERF Ombudmen of the Local Government Areas and any other persons or organisations so selected by the state Commissioner of Finance. The Committee will be chaired by a representative of the Commissioner, responsible for Finance in the state. The Committee's responsibility is to advise the NERF of any problems encountered in implementation of the programmes and to advise on any changes that may, in its opinion improve the NERF's effectiveness.

2.5.12 **Constraints in the Implementation of the NERFUND Scheme.**

The NERFUND Scheme was relative by slow in taking off due to a number of constraints that emerged shortly after the scheme was introduced. The problematic issues centre on;

15. Risk sharing
16. Access to individual sources of Fund within NERFUND.
17. Definition of qualifying projects.
    Problem inherent in SMFs themselves
18. Confusion/disagreement over the modalities and management of NERFUND by various pressure groups and
19. Rigidness in the enabling decree.

1. **Risk Sharing.**

The banks are generally displeased at having to hear all the credit risk involved in financing SMEs. As loans fall due, a participating bank (PB) is expected to repay NERFUND, falling which the Central Bank would automatically debit the PBS account with its respective of the ability of a beneficiary to pay maturing obligations.

The claim that the perceived socio-economic benefits of funding SMEs are far less than the credit risks they might inevitably have to bear. They also argue that since the government is committed to promoting SMEs, the risk-taking should be the going responsibility on the part of the banks and the government. The overall result is that because the banks are primary obligation, they were over-cautious initially in granting NERFUND Loans to SMEs, particularly, because of the short-term nature of the portfolio structure. The PBs were thus relatively slow at the onset in tapping NERFUND's resources.

2. **Restricted Access**.

SMEs sourcing funds from the ADB's component of NERFUND are required to source their input from the 76 member countries of the ADB. Even though, the technologies of many of these countries are basically of high standard, this restriction limits the scope of an SME that requires imports from non-member countries of the ADB such as Taiwan.

3. **Conflicts Over Definition of Qualifying Projects**.

The US $50 million time of credit from the Czechoslovakian Government is technically inaccessible to Nigerian SMEs, because the Czechoslovakian Government defined SMEs as one with a minimum project cost of US $30M whereas NERFUND Decree put ₦10M about (US $1 Million) as the upper limit for the project cost of an SME. Moreover, an SME is required to source its machinery from Czechoslovakia as well as make a 15% down payment for the machinery.

Although recently, the Czech. Government yielded the redefine on SME within the Nigerian context, using US $3 million as the upper limit instead the minimum earlier stipulated, the Czech. Line of credit is still untaped because of the condition that makes up front and some down payments should be made.

4. **Problems of SMEs.**

Derivation of maximum benefit from NERFUND is constrained by the problems experienced by SMEs themselves. Many of them are unable to put forward the minimum requirement of twenty five percent of the cost of the projects. The result is that even when a project has been approved, disbursement fails to take on a timely basis while the cost of the project could have escalated in an inflationary environment. Also SMEs are beset by other problems such as aversion to ownership dilution and hence under capitalisation aversion to information disclosure, poor accounting standards shortage of skill, badly prepared feasibility reports on projects to be embarked upon, inadequate collateral and restricted access to that export market. These problems restrict SMEs access to NERFUND and to some other schemes set out to promote them.

5. **Confusion/Disagreement over he Modalities and Management of NERFUND**.

Misleading information through some of the news-media presented NERFUND as another cake-sharing programme. When it appeared that this was not to be, criticisms were rife at the early state of implementing the scheme because many small and medium scale enterpreneurs were reported to be disenchanted by bank's relatively slow response to their credit needs, as well as by the high rate of interest some enterpreneurs anticipated a "free for all soft loan package". When it became clear that the SME had to access NERFUND through banks, various protest against the modality of the scheme surfaced. Some of these protests were organised, others were not. One of the major critics of the NERFUND has been the National Association of small scale Industrialists (NASSI), whose spoke man argued that NASSI should be represented on NERFUND's Board of Directors, since NASSI, according to them, understands the problems of small scale industrialists best.

Other critics (until the Board was recently reconstituted) blamed the Government for entrusting the Management of NERFUND to a "group of civil servants". It is not the purpose of this paper to suggest who should be on the Board of NERFUND. The important thing is that competent people (whether from the public or private sector) direct the implementation of the scheme and such persons should not be saddled with conflicts of interest. The issue of NASSI's representation on NERFUND's Board implies that a beneficiary, NASSI in this case, decides how much it obtains from the find and in what form. Would NASSI's representation on Board yield overall not benefit for implementation of the scheme. There appears no easy answer to this question because whatever argument one puts forward here, they could only be conjectural. NASSI and some others also disagree with NERFUND's definition of an SME. The current upper limit of ₦10 M on project cost (not size of enterprise) implies that many medium to large enterprises can benefit from the scheme thereby carding out the very small industrialists. A counter argument however, is that the scheme was set up for "small" as well as "medium" scale enterprises and since a clear cut definition between small and medium is not given under the NERFUND funding arrangements, the NERFUND's Secretariat and the PBs have a free hand to decide which enterprises qualify. Since the provision of some collateral is a pre-requisite for most PBs before they sponsor a project qualified for NERFUND's support, it is not difficult to surmise that more "medium" than "small scale" business would be financed from NERFUND resources.

Other criticisms focus on the modalities of NERFUND. Some argue that the NERFUND should have been set up as a bank and not just a funding mechanism. While this may be an attractive proposition, there are the cost implications of setting up such a bank with branches established on a nation wide basis.

Apart from the fact that there are already some specialised banks for a small and medium scale enterprises, the Nigerian Bank for Commerce and Industry (NBCI), for example, the cost implications on a nation wide basis may not justify such a demand. Another issue is the small scale industrialists disenchantment with some banks. At the inception of the scheme, it was mooted by some of them that the NERFUND should blacklist banks that had "frustrate" small and medium scale industrialists in the past. Proposals on how this could be effected however were not specified.

6. **Rigidities in the Enabling Decree.**

There are what appears to be unnecessary details in the enabling decree. Such details include;

(a) Specification of the number of days a PB would disburse funds on a project;

(b) Definition of eligible projects without a provision for inflationary factors over the years.

(c) Specification of interest rate spread and numerous over details. Although these rigidities have not seriously hindered the operation of the scheme, it is believed that many of the details should be expunged from the decree. The details operational modalities should be in the guidelines of the NERFUND management, while the decree should provide mainly the regulatory framework and broad guidelines for the successful implementation of the scheme. By and large, the NERFUND scheme has continued to be criticized by some small scale industrialists, because the operational modalities are at variance with their own perception of how the scheme should be managed. Indeed, the NASSI would want a scheme managed by them and for them.

The numerous - criticisms contributed to the slow pace with which the scheme commenced, as there were uncertainties as to whether some change would be effected in the operational modalities of the scheme in line with some of the criticisms. Although, some changes have since been introduced such as reconstitution of the Board to de-emphasize bank's representation and re-definition of qualifying projects with regard to the Czechoslovakian line of credit, a review of the enabling decree to provide greater flexibility, is yet to be carried out. This and other issues notwithstanding, the objectives for settling up the NERFUND remain as valid as when the scheme was first conceptualized.

ACHIEVEMENTS AND PROSPECTS.

Owing to the constraints highlighted in the proceeding section, NERFUND received on the average, only 3 project applications per month between September 1989 (when it commenced its activities. With a growing awareness about the potentials of the scheme in promoting SMEs and realising that certain components of NERFUND were readily accessible, the SMEs and the banks stepped up their recourse to NERFUND's facilities. Between January and July, 1990 therefore, PBs submitted on the average, not less than 12 applications per month for project funding. Since then till date, the number of applications per month has steadily increased.

Owing to the newness of the scheme, it is perhaps too early to make pronouncement on projects funded and their perceived impact on the economy. Indeed, due to the grace period of 1 - 3 years, most NERFUND loan are yet to be due for repayment. The achievements of NERFUND therefore, can only be ascertained at this stage, by the information on the number of participating banks, approved and commissioned projects and disbursement by NERFUND.

NERFUND represents a major break through in the provision of funds for SMEs. Its major focus of facilitating the rehabilitation of viable but ailing manufacturing enterprises caught in the throes of some of the unintended side effects of the Structural Adjustment Programme (SAP), is to be highly commended.

This is because prospective investors are bound to use existing enterprises as their yardstick, before they venture into new investment. The existence of many ailing firm is bound to be a disincentive to prospective investors. Hence, the resuscitation of viable but temporary troubled manufacturing firms by NERFUND is a vital contribution to the process of economic recovery. The provision of concessionary long-term loans in both local and foreign currency to such enterprises marks a significant contribution by NERFUND to industrial development.

Participating Bank

The growing confidence in the scheme could be said to have influenced the growth in the number of participating banks from very few in the first six months of the commencement of the scheme to 96 as at May, 1991. The active PBs however, are less than half of those listed, even though the number of active banks has continued to grow.

Approvals and Disbursements.

At the beginning of 1990, NERFUND projected that it would approve for funding a total of 200 projects. By early August, 1990 however, only 61 projects with N315 million has been approved for funding, out of which 31 had begun to draw on available funds.

Total disbursements early in August, 1990 comprised US $1.5 million plus N3.5 million judged by the active number of projects approved as against what was planned for, NERFUND could be said to have performed below its target. One of the major reasons for this, is the banks' role in NERFUND's programme. NERFUND cannot authorise the banks to accepts projects hence NERFUND in this regard, is on the receiving end.

As at the end of May, 1991, however, NERFUND's approvals and disbursements had increased substantially. Projects for which approvals were granted numbered 120. The total value of projects approved amounted to N504.87 as at end of May, 1991 and the projects cut across various categories including food and beverages/ wood and wood products, rubber, textiles, chemical products, glass and glass products, pharmaceutical, paper, plastic and leather projects. The projects span virtually all the states of the federation and Abuja.

At the end of May, 1991, disbursements had been made for only 41 out of the 120 projects approved. This indicates that disbursement was only in respect of 34% of total projects approved. Also, only 20 banks were involved in the disbursements so far. The wide gap between approved projects and those for which disbursements were made is a major cause for concern. The inability of the banks to satisfy some of NERFUND's conditions has been adduced as one of the major reasons for the wide gap.

NERFUND's performance hinges critically on the bank's inability to discharge their obligations which in turn depends on the beneficiaries capability to meet minimum requirements. As a result, it is difficult to criticize NERFUND of certain short-comings since it does not deal directly with the applicants.

As at the end of May, 1996, the application for NERFUND's loans exceeded 3,000, while some of these may not be worth the paper on which they were written, there is no doubt that the demand for funds by SMEs is indeed very high. Going by the number of projects approved as at the end of May, 1996, i.e. 460 compared with the target of 500 as at the end of 1994, and judging by the value of approvals so far indicated in Table 2, NERFUND's contribution to SME financing could be judged as quite substantial, though, inadequate in the face of huge demand for financing, by many SMEs. Available information on similar schemes for financing SMEs however, indicate that the tempo of NERFUND's activities is relatively high, given some of the initial constraints experienced in implementing the scheme.

There is no doubt that NERFUND has begun to achieve its primary objective of providing soft, long-term loans to SMEs.

CHAPTER III

METHODOLOGY

3.1 INTRODUCTION

The aim of this study is to critically and quantitatively evaluate the performance of the ADB and NERFUND as agents for the promotion of capital formation in Nigeria especially between the period 1989 to 1997.

3.2 DATA COLLECTION

Materials collated for this project were collected from ADB and NERFUND records, annual reports and interviews with NERFUND officials. Other sources include, NIDB, NEXIM, Central Bank of Nigeria (CBN), Annual Reports and statistical reviews, etc. In Nigeria and indeed most third world countries, most research problems revolves around the lack of statistics or up to date and reliable statistical figures. This is particularly the case in Nigeria where very little importance is attached to such figures.

Nigeria is a seller's market where anything that is produced can be sold and as such, manufacturers, bankers, etc do not feel the need to keep up to date or keep any statistics. It is also difficult to keep up to date figures due to problems of communication and time lapses in the flow of information. These sometimes result in different institutions producing conflicting statistics on economic issues like in the case of where we find the Central Bank and the Federal office of Statistics quoting different GDP figures or the Ministry of Finance quoting different inflation figures.

3.3 DATA ANALYSIS PROCEDURE.

This study is an ex-post facto survey using tabular, percentage and trend analysis.

The following data was analysed:

1. Loan approval
2. Loan disbursements
3. Number of SMEs financed
4. Geographical and Sectoral distribution of projects sponsored
5. Development financing.

CHAPTER IV

DATA ANALYSIS

4.1 INTRODUCTION

The data collected have been properly edited, analysed and organised employing various statistical measures. The analysis is based essentially on the primary data collected with the aid of the questionnaires, the interviews held with the bankers with multi-lateral agencies especially, the ADB, Central Bank experts, NERFUND officials, some participating banks as well as a few project promoters who are beneficiaries of funds provided by the ADB through NERFUND. Reliance was also placed on secondary data such as the Annual Reports and statement of Accounts; statistical bulletins, Quarterly Economic and Financial Reviews and monthly reports, all published by the Central Bank of Nigeria (CBN), particularly during the period 1988 and 1997.

Capital formation over a given period consists of the total change in value of fixed capital plus the change in stocks, while gross fixed capital formation, measures the capital change in value of fixed capital excluding stocks at current prices.

While Naira values are given in this study, the analysis concentrates on the average US Dollar equivalent during a given period. This is to have a fairer assessment of the real value of capital formation given the vagaries of the Naira that has greatly depreciated in value over the last 10 years.

4.2 AVERAGE NAIRA EXCHANGE RATE

Table 4.2 shows the average exchange rate of the Naira to the US Dollar for the period 1975 - 1997.

TABLE 4.2 **AVERAGE NAIRA EXCHANGE RATES**

1975 - 1997

YEAR	US DOLLAR
1975	0.6158
1976	0.6266
1977	0.6466
1978	0.6067
1979	0.6027
1980	0.5469
1981	0.6052
1982	0.6731
1983	0.7506
1984	0.7672
1985	0.8924
1986	1.7323
1987	3.9691
1988	4.5367
1989	7.3651
1990	8.3469
1991	9.9095
1992	17.2984
1993	22.0650
1994	24.0221
1995	36.0121
1996	88.2120
1997	89.6722

SOURCE: CBN.

It can be seen from the Table that average exchange rate of the Naira was stronger to the Dollar till late 1985. With the introduction of the Structural Adjustment Programme (SAP), the Naira value fell as against the Dollar to N89.

4.3 GROSS FIXED CAPITAL FORMATION

TABLE 4.3 shows the total gross fixed capital formation for Nigeria in both Naira and US Dollar equivalents, calculated then for each period prevailing exchange rates between the 19 years period 1979 to 1997.

TABLE 4.3 **GROSS FIXED CAPITAL.**

YEAR	GROSS FIXED CAPITAL FORMATION AT CURRENT PRICES N'000'000	GROSS FIXED CAPITAL FORMATION AT CURRENT PRICES US $'000'000
1979	9,094.5	15,089.6
1980	10,841.2	19,823.0
1981	10,922.0	19,823.0
1982	8,135.0	16,226.4
1983	5,417.0	7,060.7
1984	5,573.0	6,244.9
1985	7,323.0	4,227.3
1986	10,661.0	2,686.0
1987	12,380.0	2,836.1
1988	18,410.0	2,499.6
1989	30,626.8	3,669.1
1990	36,423.9	3,675.7
1991	58,890.0	3,404.4
1992	104,750.0	4,747.3
1993	112,230.6	4,787.0
1994	112,230.6	4,787.0
1995	104,230.0	4,752.6
1996	122,210.0	4,923.0
1997	135,200.0	5,029.0

SOURCE: CBN

The table shows that total capital formation reached its peak in Dollar terms) in 1981. This declined progressively to the lowest level in the early years of the Structural Adjustment Programme (SAP), 1987 - 1989. Since 1987 there has been modest but steady rise in total capital formation.

4.4 CONTRIBUTION OF MULTI LITERAL AGENCIES.

Table 4.4 shows the relative contributions of the major multilateral funding agencies in Nigeria over the period 1987 to 1997, compared to the total capital inflow during the same period.

TABLE 4.4

YEAR	Total Capital Inflow		Private Foreign Capital Inflow	World Bank		IDA	IFC	ADB
	N '000'000	US $ '000'000	N '000'000	US $ '000'000		US $'000'000		
1987	35,326.2	8,900.3	5,110.8	1,287.6	600.0	-	20.0	-
1988	27,424.2	6,045.6	6,236.7	1,374.7	300.0	-	22.9	-
1989	25,628.0	3,479.6	1,692.7	229.8	1,100.0	101	14.4	278.0
1990	38,084.9	4,562.7	10,450.2	1,252.0	500.0	100	6.2	400.0
1991	53,318.9	5,380.6	5,610.2	566.1	540.0	300	95.1	500.0
1992	102.576.8	5,929.8	14,561.1	838.3	100.0	130.0	10.0	300.0
1993	-	-	-	-	-	240.0	20.0	150.0
1994	105,237.2	4,028.7	13,276.0	422.6	-	-	7.2	182.0
1995	105,237.2	4,028.7	19,822.2	388.7	-	-	6.4	132.0
1996	180,267.7	5,203.7	16,098.3	276.4	-	-	8.2	189.0
1997	230,302.6	6,729.0	12,077.0	389.6	-	-	7.4	154.0

SOURCE: CBN

In 1997, the total capital inflow in US $8.9 Billion, subsequently over the years the value kept falling to about US $5.2 Billion in 1996.

TABLE 4.5 **CONTRIBUTION OF ADB TO TOTAL CAPITAL FORMATION.**

	A Total Capital Formation	B Total Capital Inflow	C Total Multi-lateral Inflow	D Inflow from ADB
1989	2,499.6	3,479.6	1,492.4	278.9
1990	3,669.1	4,562.7	1,006.2	400.0
1991	3,675.7	5,380.6	1,435.1	500.0
1992	3,404.4	5,929.8	540.00	300.00
1993	4,747.3	NA	410.0	150.0
1994	3,206.7	NA	320.0	130.0
1995	3,508.7	3,476.9	190.0	140.0
1996	3,508.7	3,508.7	128.0	112.0
1997	3,207.6	3,209.9	128.0	112.0

SOURCE: CBN.

Similarly, Table 4.5 expresses the relative contribution of ADB to total capital formation, total capital inflow and total multi-lateral inflows for 1989 to 1997. It must be stressed that the figures for 1993 and 1994 were not available.

When it is realised that most of the facilities from ADB were meant for funding of capital projects as against the World Bank's emphasis on infrastructures, social services, utilities and technical assistance then, the percentage contribution by ADB to capital formation is bound to be higher.

Between 1989 to 1997 ADB's commitments to Nigeria totaled US $3,628 million representing 56% to total capital formation and multilateral funding agencies contributions respectively. Thus, within the short period of five years, the ADB has emerged as a major source of development funding:

It is also significant to note that the bulk of ADB lending to Nigeria has gone to NERFUND and NEXIM, two intermediate institutions set up respectively to stimulate SME and export development.

When NERFUND was established in 1989, there were three major sources for funding its projects. These were to be the Federal Government (through the CBN).

SOURCE	NAIRA	US $
Federal Government/CBN	300M	-
World Bank	-	270M
ADB	-	230M
Czechoslovakia	-	50M

SOURCE: CBN

Although, no official figures of actual disbursements were made available, we were reliably informed through interviews, that as at 1997, disbursements from ADB fund was in excess of US $250 Million.

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TABLE 4.6 **NERFUND PROJECT APPROVALS.**

Year	No of Projects	No of Active Bank	States Covered	Capital Outlay	Expected NERFUND assistance	Expected Direct Employment
1989	4	2	4	38,152,755	24,832,000	382
1990	76	23	12	588,429,942	327,318,084	2,737
1991	60	31	22	502,973,176	280,984,846	1,852
1992	32	19	15	657,157,000	444,771,985	1,852
1993	28	19	18	660,122,000	527,022,036	1,900
1994	37	22	22	678,108,322	646,377,048	2,000
1995	92	27	24	772,000,000	824,000,000	2,200
1996	89	27	24	797,300,000	1,088,901,915	2,360
1997	92	27	27	805,242,767	1,428,000,000	3,000
TOTAL	473					

Table 4.6 is a summary of NERFUND project approval during its nine years of operation. Between 1989 to 1997, NERFUND has approved a total of 473 projects covering 27 states with the number of banks participating to 27 since 1995 with a capital outlay of N805,247,767 million.

4.7 STATE DISTRIBUTION OF APPROVALS AND AMOUNTS.

In order to promote even development of the country, NERFUND project approvals are spread all over the 30 states of the Federation and Abuja. Table 4.7 shows state by state distribution of projects approved cumulatively over the period 1989 - 1997. It shows that only 4 states namely; Jigawa, Kebbi, Kogi and Taraba were yet to benefit fully from the operations of NERFUND.

4.8 NERFUND SECTORAL DISTRIBUTION OF DISBURSEMENTS

Distribution of loan disbursements in both local and foreign currencies are indicated in Table 4.8 below. From the table, it is shown that Food, Beverages, and Tobacco industrial sector has the highest number of projects and also the highest in terms of value both local and foreign currency allocations. This sectror is followed by the chemical products sector. Both sectors taking 5.2% of the total (36.9% and 16.3% respectively).

NERFUND: Sectoral Distribution of Disbursements

A - **Local Currency (1989 - 1997).**

S/No.	Sector	No of Projects	No of Banks	Amount
1	Food, Beverages and Tobacco	35	22	95,126,334.34
2	Textiles and Garment	5	3	5,705,801.00
3	Wood Products and Furniture	6	6	9,202,833.70
4	Chemical Products	12	10	23,800,316.00
5	Metallic Products	2	2	6,977,690.62
6	Rubber and Rubber Products	3	2	3,179,305.96
7	Pharmaceauticals	2	2	1,233,033.00
8	Industrial Support	3	3	11,299,065.53
9	Leather Products	1	1	5,495,478.00
10	Non-metallic Products	1	1	946,204.01
11	Mining and Quarrying	2	2	19,221,000.00

NERFUND: State Distribution of Approval and Amounts: (1989 - 1997)

		Total Approved	Amount Approved $LC	N LC
1	Abia	15	4,944,288.95	24,937,400
2	Adamawa	1	-	4,200,000
3	Akwa-Ibom	4	2,169,765	9,198,000
4	Anambra	15	6,059,153.89	17,605,708
5	Bauchi	2	397,710	3,768,000
6	Benue	3	1,217,311.17	14,395,000
7	Borno	5	6,685,505.10	47,395,000
8	Cross Rivers	5	2,968,878	26,631,000
9	Delta	8	3,511,730	16,350,000
10	Edo	7	2,320,191.95	14,211,395
11	Enugu	7	3,361,831	7,358,000
12	Imo	5	3,531,305	10,963,000
13	Jigawa	-	-	-
14	Kaduna	5	1,970,057.54	11,751,145
15	Kano	9	4,388,032.98	29,198,000
16	Katsina	2	1,668,459	7,000,000
17	Kebbi	-	-	-
18	Kogi	-	-	-
19	Kwara	4	415,296	7,821,000
20	Lagos	30	12,377,137.02	64,762,780
21	Niger	3	372,240	3,532,000
22	Ogun	16	6,334,757.93	40,724,000
23	Ondo	16	4,144,954.51	18,556,400
24	Osun	1	-	5,413,000
25	Oyo	5	704,880.30	6,788,860
26	Plateau	4	1,232,460	26,796,000
27	Rivers	3	486,602.21	5,364,000
28	Sokoto	1	-	10,677,000
29	Yobe	3	-	31,526,000
30	Taraba	-	-	-
31	Abuja	2	693,661	8,154,000

SOURCE: NERFUND.

B - **Foreign Currency (1987 - 1997)**

S/No.	Sub-Sector	No of Projects	Value US $
1	Food, Beverages and Tobacco	20	11,121,272
2	Textiles and Garment	4	1,588,230
3	Wood Products and Furniture	4	2,171,041
4	Chemical Products	10	6,399,333
5	Metallic Products	3	2,615,097
6	Rubber and Rubber Products	6	3,667,145
7	Pharmaceauticals	2	524,950
8	Industrial Support	3	458,016
9	Leather Products	1	489,240
10	Non-metallic Products	4	1,337,196
11	Mining and Quarrying	14	3,217,451
	TOTAL:		**33,588,971**

CHAPTER V:

SUMMARY, CONCLUSION & RECOMMENDATION.

5.1 SUMMARY

African Development Bank with its affiliate has contributed about US $230 million into development in Nigeria in the past ten years. Apart from this, it has support small and medium scale enterprises in terms of machinery and equipment. The percentage of project costs financed by the ADB may be up to 75% in most cases in the area of Agro-Allied industries.

The record of ADB operations during the period 1967 - 1989 showed that lending was not rigidly linked to any individual economic and social sectors. Sectoral emphasis tended to vary over different periods depending on the prevailing economic situation in member countries. In the early years of ADB operations, the bulk of the lending went to public utilities and transport. Progressively agriculture became the overall lending sector especially sine 1980. Health and Education projects have on the other hand, consistently accounted for a small share of its lending.

The admission of non-African countries had the impact of further increasing ADB lending activities. From an annual commitment of US $507.8 million in 1980, by 1985 the Bank had for the first time crossed the US $1 Billion mark. From 1985, the bank moved into non-traditional lending including policing based lending instruments. From US $1.15 billion in 1985 annual bank commitments in 1997 increased to US $5.2 billion which was higher than whole Bank Group lending programmes in the 1970s and early 1980s. Hence for the years 1986 - 1997 period, Bank Group total lending rose by US $26,052 million or about 150% increase over the entire cumulative lending of US $6,804.46 million for the 1967 - 1987 period.

Disbursement is another area in which the ADB has made remarkable progress. In 1968, the Bank's first annual disbursement amounted to US $0.6 million. In 1989, Bank Group disbursement amounted US $1,536 million bringing the Group's cumulative disbursement to US $6,787.6 million. Cumulative ADB disbursement as at the end of 1997 amounted to US $8,171.8 million or 61.5% of the total. Cumulative ADF disbursement amounted to US $2,506.7 million or 36.9%.

Cumulative disbursement as a percentage of cumulative Bank Group in 1968 was barely 3%, In 1997, it had reached 52.5%. In 1997, Bank Group disbursements as a percentage of 1997 Bank Group commitments was as high as 53.8%.

The ADB mobilises additional funds in the World's capital markets on the strength of its callable capital which currently constitutes 93.75% of its authorised capital compared to 75% under previous capital increase. Until 1982, the Bank's borrowing needs were minimal as requirement for disbursement and liquidity holdings were relatively limited.

Pioneer borrowing by the bank were made between 1973 and 1975 in Austria, Canada, and Sweden for a total of US $12.8 million. As at December, 1977, the bank has secured Euro-Dollar loans totaling US $230 million. In 1989, several notable achievement were made in the area of borrowing including the Yen 40 billion, Dame Senior bond issue which because of its size facilitated the secondary market trading of the Bank's bond in the market, the Yen 20 Billion subordinated bond which was the first ever subordinated debt of any borrower in the Yen domestic bond market.

Also, in 1989, the bank was able to obtain cost-effective long-term funds in the US $ by targeting its subordinated debt instrument to a new group of domestic investors. In France, the bank for the first time successfully entered the Euro-France Market. Thus, as at 31 December, 1997, the Bank's gross borrowings amounted to an equivalent of US $3,811.06 million of which US $2,571.81 million was senior debt and US $1,239.25 million was subordinated debt.

The African continent presents some of the most intractable development problems in the world today. The great majority of its countries are heavily dependent on imported manufactures, imported oil and even imported food. To earn foreign exchange for these essential imports, they rely on a narrow range of commodity exports whose prices fluctuates elastically. The physical infrastructure - roads, housing, schools, hospital, etc is grossly inadequate by the standards of most of the World Management and Administrative skills are scarce. Population growth is high and per capita incomes are generally very low indeed.

Multilateral aid institutions and individual donor countries, have for decades given assistance on a substantial scale. Many countries that have resorted to increase borrowing much of it on commercial terms, have by so doing, aggravated the already bad situation by creating debt-service burden, they are palpably unable to bear. Even though the developed world has an important part to play in rescuing Africa from its present predicament, the African countries themselves have a vital role in their own recovery. These countries have themselves acknowledged the short comings of policy and organisation which have contributed to their present distress. Many of them are now undertaking programmes of economic structural reform, which are designed to promote growth, investment, stability and a better balance of trade.

Parts of past efforts by the Government to promote SME are through the establishment of development corporation, finance corporation by which direct disbursements are made to borrowers. These did not work because recipients of such loans often looked at such disbursement as part of their own share of national cake. It is in realisation of the above inherent defects and as a means of avoiding them and ensuring a sustained development of SME that the Government of Nigeria introduced the concept intermediary institutions such as NERFUND which disburses funds through participating Banks (PB) to the ultimate users, hence better commercial viability and the comment of the participating banks in recovering such loans because they are liable for recovery. The fact that the loan was not recovered from the ultimate borrower will not exonerate the participating banks, failure of the project will not necessarily exonerate such bank. This is because the decision to lend to the beneficiaries is that of the participating Banks and not that of ADB and NERFUND even though these institutions have input as to the type of projects that could benefit so they must have done credit analysis of such projects.

Other approaches in the past include:

1. Government in the past also established and funded enterprises.
2. Government also provided fund to government agencies for direct disbursement to individuals.

In the case of (1) above, there is the problem of unprofitability, wastage on overhead, political interference and inefficiency. As a result, Government decided on (2) approach have attending problem are unprofitability inadequate of projects; political influence in the decision as to who to benefit late disbursement which also led to misapplication of loans, since they are not available when needed; corruption by officials whereby they must have taken part of the loans, hence beneficiaries, they regard whatever percentage gets to him as for him to keep as his own share of the national cake.

The third approach is the creation of institutions like NERFUND by the government which will be independent of government control and interference. While disbursements were made by these intermediate institutions in order to avoid the pitfalls that bedeviled previous attempts, disbursements are not made directly to beneficiaries but through their bankers who are expected to have carried out commercial feasibility as well as credit risk analysis of the project. The participating bank identifies the project, and identifies the borrowers and make recommendations to NERFUND.

The objective of the ADB's US $230 million loan, which is otherwise called the Export stimulation loan is to provide to Nigeria concrete support aimed at sporing adherence to, and implementation of, the Structural Adjustment Programme. More specifically, the loan is use to stimulate non-oil exports by helping to meet some of the immediate foreign exchange requirements needed to import raw material, capital equipment and other imports, thereby increasing the capacity utilisation of export oriented industries. To this end, the loan resources are used for the benefit at small and medium scale enterprises.

(a) to support export-oriented industries

(b) to support export-oriented agricultural production and;

(c) to encourage the utilisation of local raw materials and intermediate goods by industrial enterprises so as to save foreign exchange and provide a solid formation for a competitive export.

In addition, an enterprise which may not meet the above specifications is assisted if it qualifies under the NERFUND programme. In every case, however, procurement must be from ADB member countries.

Within 10 years of its operations, NERFUND approved projects rose from 4 in 1989 to 473 projects in 1997. As at 1994, mid year, the projects have exceeded the 200 mark. The number of participating banks increased from less than 10 in 1989 to about 120 as at the end of 1997. This figure remains at 120 as at 1997. The number of banks actively involved have also risen encouragingly to about 50. In 1997 alone, the Fund approved about 52 projects. This is in contrast to 76 and 61 in 1990 and 1991 respectively. The decrease in the number of approved projects can be traced to the unfavourable operating environment which has given rise to a lot of caution and skepticism from sponsors and funding agencies alike.

All the states of the Federation have benefitted from NERFUND assisted projects with the highest approval coming from Lagos (30) followed in second position by Ogun and Ondo (16 each) while Abia and Anambra have (15 projects each).

In terms of financial commitments, NERFUND's assistance to projects have exceeded the N1 billion mark and expected employment generation is close to 12,000 direct employment.

The prospects of NERFUND can only be based on its present achievements and what are perceives as its ability to reach many SME's in the future.

Its achievements as discussed in the preceding chapter demonstrate that the scheme has a great potential for accelerating the industrialization process through SMEs. Although, NERFUND Funds are not distributed on a quota basis, the geographical spread is also expected to promote industrial linkage through industries heavily reliant on local inputs.

Limiting factors that may however stall the realisation of this objective are (1) a drying up of funds for the scheme, the inability to reduce the 100% risk currently borne by the banks and the lack of commitment on the part of the banks. The fear of shortage of Funds may however, not materialise, because the present administration is committed to SME financing. Also a number of international institutions have indicated their support for their scheme and may continue to provide such support until the economy fully rebounds. The ADB has recently approved US $200 million loan to NERFUND.

With respect to the problematic issue of risk-sharing, discussions have reached an advance stage whereby an insurance package NICON is expected to make participating banks bear only 75% of the credit risk. The NICON-NERFUND Guarantee Scheme is expected to undertake equity interest in some of the SMEs.

NERFUND's future prospects depend on the banks commitment to project Federal Government's aspiration, using the SME's as a tool for industrialization. While some of the banks are fully committed, it is difficult to discern the commitment of others. There is no doubt that the bank's profit maximisation motive may not always tally with the Federal Government's aspirations, hence the need to consider further incentives for the bank or else reduce their role in NERFUND's performance.

Given the focus of the NERFUND, the flexibility in the implementation of the scheme and the support of international financial institutions such as ADB, NERFUND constitutes a critical channel in the promotion of SMEs and consequently in the industrialization of the country.

5.2 CONCLUSION.

Small and medium-scale enterprises constitute the bedrock of any economy, and the success story of countries like Japan, USA, Taiwan and other industrialised countries early show that no economy can dream of industrialization without the solid growth and development of SMEs. Their importance is demonstrated in the possible impact on employment generation and the creation of a strong production base. However, inherent in the operation of such enterprises are problems like, poor management, poor accounting systems, high risks and lack of funds. These factors hinder their progress. Our Commercial and Merchant Banks which lend short-term loans are inappropriate for supporting SMEs, since they require medium to long-term loan.

The various efforts made in the past by the Government e.g. imposition of Import licensing, trade restriction, outright import bans, artificial exchange rates, import substitution policy and foreign raw materials dependency did not yield any meaningful result. However, the recent policy measures geared towards the promotion of SMEs through the establishment of ADB-ESL facility, NERFUND has substantially enhanced capital formation in Nigeria.

The role of ADB in providing the much needed medium to long-term fund has made possible the establishment of some real productive enterprises all over the country.

NERFUND, which acts as a conduct pipe through which the Funds flow from ADB and other multilateral financial institutions now makes it possible for people to now think of production and not of trading activities.

This research work examined the National Economic Reconstruction Fund (NERFUND), as one of the specialised financing facilities for promoting SMEs. Given the importance of SMEs in the industrialization process, particularly, in the areas of employment generation activities and development of indigenous technology, the effectiveness or otherwise of a scheme, such as NERFUND is of major interest. The work also examined the objectives and operational modality of NERFUND, the problems in implementing the scheme, the achievement so far and the prospects of the scheme.

NERFUND's major role was stated to be the provision of relatively soft, medium to long-term funds to SMEs through participating banks (Bps) NERFUND, it was found to have experienced some initial constraints such as the reluctance by banks in participating in the scheme, owing to the issue of their bearing all the credit risk burden, conditionalities attached to some of NERFUND's funds and criticism on the composition of NERFUND's Management. SMEs were also noted to have their own problems limiting their access to institutionalise credit.

These problems notwithstanding, NERFUND had by 1997 approved 473 projects worth over N26 billion and had made disbursement totaling over N1 billion. NERFUND was found to have approved a wide range of projects nationwide although the disbursements lagged far behind the approvals. Approved projects were estimated to have the potential of boosting employment by more than 10,000 people.

5.3 RECOMMENDATIONS

The promotion of SMEs by Government through which direct disbursements are made to borrowers is an important step taken by the Government to aid financing developments. With the introduction of intermediary institutions like the NERFUND through which disbursements are made to beneficiaries through the participating banks, it has helped easing the methods of disbursement, but is not to say it has no flaws.

For the NERFUND to be more efficient in the operations of the scheme, the following recommendations are made:

i) NERFUND should be set up as a bank so that disbursement would be made easier.

ii) The 100% risk recently borne by the participating banks should be shared with NERFUND, this would make both parties totally committed to the scheme.

iii) The restriction of SME's in sourcing funds from non-member countries should be abolished; since most of the imports of majority of SME's does not come from those countries.

iv) The Czechoslovakian Government should redefined its line of credit. As most SMEs could not source fund from it due to conditions attach, such as up-front and down payments should be made.

v) NERFUND should set up an enlightenment campaign so as to encourage and disabuse the minds of enterpreneurs that the Fund is not another cake-sharing programme.

vi) The management of NERFUND should be charged to accommodate the National Association of small scale industrialists (NASSI) in the Board of Directors since NASSI is one of the main beneficiaries.

vii) The details in the enabling decree such as (i) specification of the number of days a PB would disburse funds on a project, and (ii) definition of eligible projects without a provision for inflationary facts, and (iii) specification of interest rate spread should be expunged from the decree so that they will not hinder the operation of the scheme.

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