The Contribution of Development Banks to the Nigerian Economy

A Case Study of the Nigerian Industrial Bank (NIDB) 1993-1998

BY

Akinola Foluso Roseline

JSP/CBMS/DUTSE/98/5161

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This project is submitted to the Department of Financial Studies, Hussani Adamu Polytechnic in partial fulfilment of the requirment for the award of National Diploma (ND) in Accountancy.

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CERTIFICATION

This is to certify that this project work is prepared and submitted by ***AKINOLA FOLUSO ROSELINE*** to the department of financial Studies and has met the requirement for the award of National Diploma (ND) in Accountancy.

MALLAM ALHASSAN	13/2/01
SUPERVISOR	**DATE**

HEAD OF DEPARTMENT	13/2/01
	DATE

DEDICATION

This project is wholeheartly dedicated to my Creator (GOD) almigthy. And my parents:

MR ARIFAYO & MRS SARAH AKINOLA

And to my beloved brother Moses and my only sister Labake for their moral and financial support.

MAY GOD CONTINUE TO BLESS THEM ALL, AMEEN

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Having said this, any error, commission or omission found in this dissertation is entirely my responsiblity.

Foluso Akinola.
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TABLE OF CONTENTS

CHAPTER THREE

DATA PRESENTATION AND ANALYSIS

CHAPTER FOUR

SUMMARY,CONCLUSION AND RECOMMENDATION

CHAPTER ONE

GENERAL INTRODUCTION

1.1 INTRODUCTION

The idea of setting up development banks was proposed soon after the establishment of the Central Bank of Nigeria. It became clear that there was an urgent need for finanical instituions capable of providing medium and long-term capital to fill a serious gap in the finanical structure. It was recognised that the commerical banks were traditionally providers of short term finance for working capital purposes, although they did entertain some medium term financing, but only in exceptional circumstances.

Similarly, the Central Bank confined it's activities to its normal functions.i.e.the financing activities of the bank ended with granting temporary day-to-day advances to the federal government and acting as lender of last resort to the commercial and merchant banks.It was initially thought that merchant banks could fill the gap and provide medium and long term finance to industry(ies) ,but it was found that merchant banks were also ill-equipped to fill the gap.

Merchant banks are by tradition, small, although they deal with substantial sums of money and they depend almost solely on short term funds. These they need for development banks devoted primaryly to stimulate the private sector of the economy and concerned with the promotion and finance of enterprises by the provision of long term and medium finance was accepted. With the support and encouragement of the International Bank for Reconstuction and Development (World Bank), the first development bank was established in 1964; other development orientated banks which followed later included the Nigerian Agricultural and Commerce Bank, the Nigerian Bank for Commerce and Industry and the federal Mortgage Bank.

HISTORICAL BACKGROUND

The rapid growth of development banks or corporations in less developed countries (LDCs) is a phenomenon of the period after the second World war,and their numbers have increased greatly with the attainment of independence by colonial territories.The demand and supply of these institutions have therefore acquired both economic and political dimensions. The main economic origins of these institutions are rooted in early western european economic conditions.[1] The political aspects of the demand for them will be explained in relation to Nigeria.

The general economic aspect of the demand for development banks arose from the ardent desire of less developed countries to accelerate their rate of economic development after the war and especially after most dependent countries of Africa and Asia won political independence. This desire mainfested itself in the belief that development could be most easily and rapidly acheived through industrialization and rapid expansion of industries. However, the rapid economic development thus hoped for has been impeded by several shortages and those which are often mentioned in the literature are capital, effective instruments for channelling available savings into productive investment (such as capital markets), management skills and even of viable projects. It was thought that an appropriate institution for overcoming these obstacles are development banks or corporations, many of which have been established with the aid of the

International Bank for Reconstruction and Development (IBRD or World Bank). The world banks' original interest in these institution lay in the provision of practical solutions to the difficulty in financing private industrial projects directly. Where the institution to be financed was a local government one, which could secure government gurantee; the world bank had little difficulty in giving assistance.

The knowledge that development banks were agencies for channelling international banks assistance to private industry naturally attracted an avalanche of demand for them in many less developed countries. However, the nature of the problem they were expected to solve and the diverse economic, social, and political settings in which they were to function produced considerable variety in their types and scope. It is because of these considerations that it is thougth that only a functional rather than any precise definition of the term **"development banks"** is possible.

STATEMENT OF PROBLEM

In a developing economy like Nigeria; development banks which are part of financial institutions in an economy are set up so as to develop other sectors of the economy i.e. industrial sector, agricultural sector etc.

In Nigeria , development banks with reference to NIDB are faced with a lot of undermining factors that does not allow it to carryout its' necessary operation(s) in the economy.

To this end; these research work is being carried-out as to find solutions to the problems hindering contirbutions of development banks(i.e.NIDB) to the economy.

AIMS AND OBJECTIVES OF THE STUDY

The main aim of this research is to determine the contribution of development banks in general and the Nigerian Industrial Development Bank in particular to the Nigerian economy. Specific objectives to be pursued to achieved this this aim include:

a) to set out and identify various segments(sectors) of the Nigerian economy;

b) to examine how the NIDB has affected the development of the sub-industrial sector; and

c) to identify problems and suggest solutions to the development of speciaized financial institutions in the Nigerian economy with particular reference to NIDB.

RESEARCH HYPOTHESIS

The null hypothesis(Ho), that is adopted for this research states that development banks in general and NIDB in particular have no positive impact on the Nigerian economy.

The alternative hypothesis(H_1) or the working hypothesis that is adopted for this research states that development banks in general and NIDB in particular contributes significantly to the development of the Nigerian economy and most especially to the manufacturing sub-sector.

SIGNIFICANCE OF THE STUDY

This research work is justified because financial institutions are the major agents that could bring about economic growth and development. To this end, there is the need for governments' direct capital investment to meet up with the increasing requirements of the different sectors of the economy that require urgent attention. There is also a need for the private sector to compliment the effort of the government, which might come through academic research, and making recommendations for top government utilisation.

Therefore, this research work on development bank in general and the NIDB in particular will be justified because it will focus on the private versus government argument.Thus, at the end it is expected that the findings and recommendations will be useful for policy formulation not at the macro level alone but also at the micro level. Also, the report of this research will serve as a guide or literature to be review for future studies.

SCOPE AND LIMITATION OF THE STUDY

The research covered a period of five years; the researcher appraised the contribution of development bank to the Nigerian economy as a whole during the period and its' impact on the manufacturing sub-sectors. Also, emphasis was placed on the following manufacturing units because it is the basis for the country's long term growth, viz textiles, footwear, chemical and petroleum products; paper products; glass, clay and store product; mining and quarrying; and the miscellaneous.

The study went further to identify the problems and prospects of NIDB in the Nigerian economy. The research has been limited to the analysis of loans and advances to the manufacturing sector of the Nigerian economy. This is because of the cost of collecting and processing of larger set of data which may also lead to some inefficiency in data handling.

RESEARCH METHODOLOGY

A period of five years (1994-1999) was chosen for the database after a through examination of the Nigerian economy.The year 1994 marked the end of the Structural Adjustment Programme (SAP) in Nigeria and the begining of a guided deregulation of the economy. Thus, relevant data in the study period (1994-1999) is available all over the country.

Data collection was done through extensive use of secondary source, such as publications. of the federal office of statistic,Central Bank publications i.e financial reports, text-books, journals; the primary source was also used. This included visitations to the Central Bank of Nigeria library and the administration of questionaire where necessary.

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CHAPTER TWO

LITERATURE REVIEW

2.1 DEVELOPMENT BANK

Typically, the term **"Development Bank"** describes an institution created to Encourage the growth of private sector. Limitation of funds and the quality of personnel have led countries in an early stage of development to entrust to development Banks responsiblities in several fields. Such fields include:- Agriculture, Industry, Housing, Mining, e.t.c. Hence, emphasis on single field is more pronounced.

Development Banks vary in size, source of Funds and scope of activities. This variability is the only yardstick that can be used to differentiate development Banks. However, whatever type of development Bank is, it's aim is to mobilize and channel medium and long term capital, and provide technical and managerial assistance so as to encourage economic growth. Such functions also include project Identification, appraisal and market surveys to determine the feasibility and viability of the proposed projects.

Various authors have written at lenght on development Bank. Diamond (1994) has pointed out that development Banks were established as primary agent for executing government investment projects. Some were given the responsiblity for planning ecomomic development, presumablely in order to remove planting from direct political influences.

He went further to say that development Banks were set up as capital enterprises and management. The author further states that such institution can make a contribution to development wherever a private sector exists and particularly where opinion and policy had that economic development depends ultimately on broadly base initiative, management, ability and technical skills, and the opportunity to excercise them.

Adekanye views the rationale behind development Banks as having the primary objectives strategy to optimize the use of the countries scarce resourses. In this regard, the business of development Bank is to raise and disburse Funds and develop other managerial and techinical inputs. Principally, therefore the bed rock of its activities is financing. Finance has the strenght to command all resources and direct their flows in socially desirable directions.

2.2 THE NEED FOR DEVELOPMENT BANKS

The developing countries in Africa since their independence from the colonial masters have been desirous of rapid economic development with greater emphasis on industrialization. However, progress towards the achievement of this goal is impeded by the scarcity of Funds: one ready source of capital that could be tapped for industrialization is private savings. But private savings seem to vary, and where they exist, there is hardly any efficient mechanism to mobilize and channel such savings into productive investment. This is mainly due to the fact that capital market in particular and financial markets in general have not been fully developed in developing economies. These suggests that there is but only little accessiblity to investment financing techniques.

In the absence of a fully developed capital market and developmental financial institutions, one would think that the existing commercial Banks would be the next source of funds to turn to. However, their ability to advance (i.e. grant) loans for investment purposes, most of which are long-term is subset to some constraints. For example, commercial banks deal with liabilities that are subject to withdrawal upon demand by customers since one of the major goals of commercial Banks is that of profit maximization and cost minimization.

Moreso, since long-term loans take a longer period to materialize than short-term loans which involve high rises, it is in their interest to limit their business as much as possible to short-term loans. Hence they constitute one of the major institutions in the money maket (Okafor, F.O. 1979:6).

The above contraints compounded with others led to the establishment of development banks in developing economy with the hope that they will go along way in solving problems. This hope is strenghtened by the fact that less developed countries (LDCS) are aware of the significant contribution which development banks have made in the industrializations of developed countries. Experiences from developed countries, especially Great Britain, Japan, Germany, France and the United States of America showed that indutrialization promotes economic growth and development.

Indeed, the particular financial needs of small business farmers and exporters have not always been adequately met by the security markets and existing financial institutions, hence the need for specialized institutions to serve them.

As to ownership, some of the institution are publicly owned and are therefore controlled by the government. Some are privetely owned while both the private sectors and the goverment jointly owns some. Development institution have the right to raise Funds by borrowing from Banks such as the World Bank, Commercial Bank, Merchant Bank, e.t.c. and also from individuals through the sale of equity shares or through the financial market (i.e. capital market).

Sometimes, various government advance loans of different categories are given to these institutions. As regards the capital market, every economy seeks to promote them with the primary objective of molilizing long-term funds from surplus economic units for the use of the deficit units for investment purposes. This tends to facilitates an efficient allocation of financial resources. The use of this market reduces over reliance on the money market; assists in promoting a solvent and competitive financial sector as well as fostering a healthy stock market culture.

FUNCTIONS OF BANKS

As to functions, some of the development bank act as Fund raising institutions for various governments while some advance loans for investment protects. Others give technical as well as managerial assistance to their customers. Some of them undertake the survey of market situations, new areas of profitable investments and make them known to prospective investors. They also undertake the supervision of some protects such as manufacturing and processing projects (Dialy, 1989:10)[2].

According to Afolabi (1991)[3] the need for economic development has brought about the need for development bank to be set up in line with priorities of the economy. In the light of the above, Nigeria being a developing economy, saw clearly the need to establish development bank to cater for its needs.

Hence, there are in Nigera today, four(4) Federal Government owned developmental financial institutions (Development Banks). They include, the Nigerian Industrial Development Bank (NIDB) which was established specially for Industrial growth in 1964; the Nigerian Bank For Commerce and Industry (NBCI) which was established for both Industrial growth and commerce in 1973; The Nigerian Agricultural and Co-operative Bank (NACB) which was established for agricultural development in 1973 and lastly in 1957 the Federal Mortgage Bank of Nigeria (FMBN) was created to facilitate urban growth and rural development.

The establishment of the above institution came about for the need of Nigeria's economic development which was motivated by the need to provide development finances to priority sectors (namely Indusry, commerce, agriculture and Housing construction) as the prospects for raising long-term capital remained low. The operations of these institutions involve the use of their capital and reserves as well as loans and subventions from the government. The primary objective of development banks therefore, is the promotion of natural economic development. The factors that necessitated their establishment in developing countries such as Nigeria are low income, low savings and adequate Investment(Agene, 1991:22)[4].

In addition to these four development banks almost every state in the federation has as investment co-operation, which mainly perform the function of a development bank in a more restricted form, owing to the limitations of (q) resources. Examples of such companies are: Oodua Investment Company, Kwara

State Investment Company United, The Northern Nigera Investment Company e.t.c.

2.3 THE ROLE OF DEVELOPMENT BANKS

The role played by development banks in an economy are enomorous. Such roles include:

a. Provision of medium and long-term loans and guarantee loans from foreign sources;

b. They mobilise and channel domestic savings to profitable investment opportunities;

c. They receive foreign and international loan and redistribute them to local enterprises;

d. They participate in the provision of risk capital for local enterprises;

e. They promote the growth of a domestic capital market by selling part of their own shares or portfolio to the public, and participating in underwriting and guaranteeing operations;

f. Depending on the particular enviroment, a development bank may also provide short-term advances in a situation where sources for such finances are non-existent;

g. Where appropriate, a development institution may perform some Commercial banking functions, such as accepting deposits;

h. They may develop indigenous entreprenurial skills through training facilities and provision of consultant services. (q)

i. Where circumstances warrant, the bank should enter into the field of identification of productive investment opportunities in the country, and develop and promote projects on its own.

This financing activity is certainly by no means restricted to industrial development projects. The development functions are considerably ramified, ranging from overcoming the supposed critical shortage of viable projects and lack of management and technical skill to the fostering of capital markets.

The development functions are explicitly as follows:-

a. The building of elements of viability into the project of applicants for asssistance. This is particularly important because most applicants for long term industrial finance do not present their projects in real assests.It should also help in identifying developmental viable projects.

b. Development of business skills. It is shortage of these skills that creates the supposed shortage of viable projects. A development bank can foster the business skill of its clients at the application stage when it assists them to formulate their project, and secondly, at the stage of implementation of projects, especially when signs of trouble show up in the accounts or when technical difficulties begin to manifest themselves. The bank assists with its specialised staff with outside resources.

c. Development of a capital market. A development bank is expected to stimulate, strengthen or establish a capital market by:

   i. Issuing, promoting and selling its own equity investments or debt (q) obligations:

ii. The purchase and sale of debt or equity from its portfolio:

iii. Underwriting and guaranteeing and by participation in capital market transactions, thus generating considerable confidence.

From experience, the functioning of development banks and from the above dicussions; it is easy to deduce that demand for development banks may have a functional element, which implies that the bank may be expected to perform certain functions in specific fields of economy activities.

2.4 SOURCES OF FINANCE

Development banks borrows from insitutional lenders like banks or insurance companies, or through re-financing by the Central Bank:They also secure loan capital from the Central Bank and the federal government. Equity participation is by both the federal government and Central bank of Nigeria.

As it has been said earlier, one would now introduce briefly other development banks (or developmental financial institution).

2.5 THE NIGERIAN AGRICULTURAL AND CO-OPERATIVE BANK (NACB)

The Nigerian Agricultural and cooperative Bank (NACB) was established in 1973 with the long term objectives of booting agricultural production and improvement. It was expected to provide farmers with medium and long term loans on easier and cheaper terms. The NACB has no independent means of generating funds. Therefore, it depends largely on the treasury and Central Bank for funding. It sometimes uses the capital market for capital mobilization for funding the production level, or for storage and marketing of agricultural products. The activities of the bank have spread throughout the country through its loans to individual farmers and farmers' cooperatives.

The bank gives loans for agricultural production. These loans cover several agricultural crops and livestock. It finances both small and large scale farmers.Presently, a farmer can get over a million naira loan.

Apart from financing agricultural prodution, the bank gives loans to individuals that which to purchase agricultural products. As long as a farmer meets the demands of the bank, he can obtain the banks loan that is cheaper and is often more convenient to pay back, than other loans. The NACB also gives advice to farmers of course, some of the constraints in lending are in the area of suitable security and delays in obtaining certificates of occupancy (C of O) by borrowers. Total loans and advances made by the bank have been increasing.

In summary, the objectives for which the bank was set up include the promotion of agricultural production and rural development; others are the improvement of incomes and the quality of life of the countries rural population. The banks main focus is on horticulture, poultry farming, pig breeding, fisheries, forestry, and timber production. It also includes animal husbandry and any other type of farming, as well as storage, distribution and marketing the products of the activities listed above.

2.6. THE NIGERIAN BANK FOR COMMERCE AND INDUSTRY (NBCI)

The Nigerian bank for commerce and indistry (NBCI) was established by decree 22 of April 1973, as a multipurpose bank, wholly owned by the federal government of Nigeria. Its capital was provided by the government and the Central Bank in the ratio of six to four (6:4) respectively. The NBCI was set up to provide equity and loan funds to indigenious persons, institutions and organisations for medium and long-term investment in industries and commerce. It also undertakes all aspects of commercial and merchant banking business. As a rule, NBCI does not support projects of less than N20,000.00.00 in the case of new clients. It cannot finance any simple company in excess of ten percent of the banks capital and reserves. Also, its' investment in the shares of any company (other than companies promoted by the bank) does not exceed 40 percent of that companies paid-up capital.

The NBCI performs all its functions to support indistrial, agro-based, commercial and service projects by providing a whole range of financial services. Such services include loan syndication, guarantees, letter of credit, bill of collection, business feasibility studies and management consultancy. It gives both short and long credits. It finances small, medium and large scale businesses. However, more attention is given to the small and medium business. It has access to borrow from the federal government and it is also free to borrow within and outside Nigeria. In fact, it enjoys substantial credits from many highly reputable overseas financial institutions.

Moreover, the bank has departments that reflect its activities. One is the department for the promotion of projects and preparation of project profiles for offering recommendations to any interested Nigerian. This department provides a host of business advisory and consultancy services.

2.7 THE FEDERAL MORTGAGE BANK OF NIGERIA (FMBN)

The federal mortgage bank of Nigeria (FMBN) is one of the four development banks in the country. It was established as a government bank by decree No. 7 of 20th January, 1977, to take over the assets and liabilities of the Nigerian Building society. The principal functions of the bank as spelt out in the decree are as follow:

(a) the provision of long trem cridit facilities to mortgage institutions in the country at such rates and upon such trems as may be determined by the board in accordance with the policy directed by the federal executive council (these rates and terms are designed to enable the mortgage institutions to grant comparable facilities to Nigerian individuals desiring to acquire houses of their own);

b) the encouragement and promotion of development of mortgage institutions at state and national levels;

c) the supervision and control of the activities of mortgage institutions in Nigeria in accordance with such direction as may be given on behalf by the Federal executive council;

d) the provision of long term credit facilities to Nigerian individuals at such rates and upon such terms as may be determined by the board in accordance with the policy directed by the Federal Executive council; and

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

In addition, FMBN was established as an apex mortgage institutions in the country. It was charged to supervise and control the activities of mortgage institution in the country as may be directed by the federal government. The FMBN was to carry-out research into mortgage finance activities. The initial equity capital was held by the federal government and the Central Bank in the ratio of six and four (6:4) respectively.

Thereafter the bank obtain funds mainly from the federal government subventions and deposits from its various saving schemes.Available resources are used to provide long term funds for housing development for both owner-occupied houses and houses built for commercial purposes. But it also finances office development of private estates.

The latest government initiatives was the mortgage institution decree No. 53 of 1989. It aims at promoting the formation of intermediary ventures known as primary mortgage institutions to tackle the perennial housing shortage problem in the country. Moreso, the FMBN is charged with the responsibility of mobilizing financial resources in the most advantageous markets (including the money and capital markets), for lending to mortgage institutions. The development is expected to widen the resource base of the FMBN with a view to improving the rate of flow of funds to the mortgage sector.

In furtherance of achieving houses for all in the year 2000, a housing fund decree was promugated in January, 1992. The fund is motgaged by the FMBN in order to finance the housing sector of the economy through wholesale lending to primary mortgage institutions. It is also expected that the aims and objectives and functions would be carried-out by the FMBN and mortgage institutions.It is also expected that the aims and objectives and functions of the funds would be effectively carried-out by the FMBN and mortgage institutions.

With these developments, it is expected that the FMBN has more role to play, and housing problem will gradually be resolved. One would now single out the NIDB for detail consideration.

2.8 <u>THE NIGERIAN INDUSTRIAL DEVELOPMENT BANK(NIDB)</u>

<u>HISTORICAL BACKGROUND</u>

In 1962, the Federal Government sent a delegation to washington to discuss with the World Bank., several matters of economic and financial interest to Nigeria. The delegation which was led by cheif simeon Adebo was composed of one delegate each from the federal ministry of finance and economic Development, and one from the Central Bank of Nigeria. The delegation discussed with the World Bank, the proposal to set up a development Bank with the World Bank assistance and participation.

By the end of 1963, it had been agreed to set up NIDB. The Bank started with a total capital of N8.5 million on January 22, 1964. The first major decision of the new board to adopt an operating policy which was in line with similar institutions set up in other developing countries with the help of the World Bank group. The policy restricted NIDB to investment in industries, mining and agro-allied industry only; later the policy was amended to include tourism such as in hotels. It was the Investment Company of Nigeria Limited that was incorporated in 1959 as an industrial development finance company which was transformed into NIDB. The bank started to operate in 1964 as the first of the development banks. It was established as a private concern and its'share capital was held by domestic and foreign investors. The NIDB (from 1964), was partially funded by the federal governement; the Central Bank; and even international financial Institutions like the World Bank.

In 1976, steps were again taken to restructure the equity base of the company (Bank) which in 1976 led to the federal government and Central Bank acquisitaion of nearly all the issued capital of the company. Between 1972 and 1978, the share capital was increased from N40 million to N100 million;this share capital changes the ownership structure.

The federal government and the Central Bank of Nigeria now held 79.3 percent and 20.2 percent of its shares respectively, leaving just 0.5 percent to private Investors. In 1988, the ratio of ownership changed again very slightly to 59 percent, 40.0 percent and 1.0% respectively. But with the on-going commercialization and privatization; the private sector ownership should have increased to 70 percent.

As the name implies, it was a financial institution charged with the responsibility of developing the industrial sector by developing new industries and also by expanding existing ones through provision of medium and long-term loans and sometimes by equity participation. In 1983, however, it floated its N15 million loan stock which was over-subscribed by the investing public.

Apart from the NIDB, some subsidiaries, over the years (since the inception of NIDB) offers specialized services to industrialists.

Moreso, there is the need in this study to make reference to the role of the World Bank (International Bank for reconstruction and Development) in sponsoring and financing development institutions for accelerating the growth and expansion of industries in the World Bank original charter, the bank was not mandated to make its funds available to private industries in less developed countries (LDC'S), with guarantee of re-payment from the relevant government. However, such governments were finding it difficult to give this guarantee owing to political or constitutional reasons.

In addition, most of the private industries wanted both equity and loan capital and some of them were too small and also had financial problems. They are also too complex for World Bank to undertake the responsibility of screening them. As a result, new techniques were devised, (the technique which was essentially for collaboration with and) lending to development bank for the purpose of re-lending the proceeds of the bank line of credit enterprises.

2.8.1 OBJECTIVES OF NIDB

According to the memorandum and Articles of Association, the objectives of the Nigeria Industrial Development Bank amongst others are as follows:-

i. to carry out the business of assisting enterprises engaged in industry, commerce, agriculture and exploration of natural resources in Nigera in general;

ii. to assist in the creation, expansion and modernization of such enterprises;

iii. to assist in the creation, expansion and modernization of services, auxiliary to industry, commerce, agriculture or the exploration of natural resources;

iv. to encourage, sponsor and facilitate participation of capital, internal as well as external in such enterprises;

v. to create, expand anbd stimulate investment shares in the security market.

2.8.2 FUNCTIONS AND ORGANIZATION OF NIDB

NIDB, like other banks perform both Banking and developmental functions. The banking functions include the sanctioning of prospective clients application for financial assistance and subsequent disbursement after approval.

The developmental functions consist of contributing to the removal and managerial bottlenecks to industrial development, investigation of new investment opportunities and selling managerial assistance to clients, amongest others.

The NIDB provides medium and long-term finance to limited liability companies registered in Nigeria with a strong bias for companies registered in Nigeria with a strong bias for companies that are either wholly owned by Nigerians or with substantial equity investments by Nigerians.The scope of the Banks investment outlet is presently limited to manufacturing, non- pertroleum, mining and tourism which includes hotels of international standards. The banks minium loan investment in any project is N50,000; while the maximum exposure in loan and equity in any single enterprises does not exceed 75% percent of the total capital cost of the proposed project or 15 percent of NIDB'S paid-up share capital and reserves, whichs is lower (Agene, 1991:23).

The organisational structure of NIDB consists of the following division for use of operation; project appraisal division, apex financial and management, and the promotion and development division.

The appraisal department undertakes the appraisal process of project. An appraisal team consists of a financial analyst (investment executives), a technical analyst (industrial engineer) and an economist. Each of these experts examine the viability of the proposal from his point of view.

The industrial engineer consider the technical feasibility of the project while the financial analyst considers the financial viability, while the economist considers the marketing of the project and undertaking by the promoter and a report submitted for appraisal. Also NIDB'S promotion and development department can undertake the project feasibility study on behalf of promoters for a nominal fee (olusegun, 1992:10).

2.8.3 STANDARD CONDITIONS OF NIDB'S LOAN INVESTMENT

a. SIZE OF INVESTMENT

NIDB'S minimum loan investment in any project is N500,000. On the other hand, NIDB'S maximum exposure in loan and equity in any single enterprises will not be more than 75 percent of the projects total capital and free reserves, whichever is lower. Both number of criteria include total project lost and debt equity ratio.

b. RATE OF INTEREST

NIDB'S interest rate is at present 19.6 percent. All interest charges are payable half-yearly. In case of default, NIDB charges extra 2.0 percent on overdue principal and interest.

c. COMMITMENT CHARGES

NIDB'S loan attract commitment charges of three-quarter (3/4) of 1.0 percent on the undisbursed part of the loan and the same shall be payable in six (6) month after the date of the acceptance of the offer or from the date of signing the loan agreement which ever is earlier.

d. REPAYMENT PERIOD

In general, a moratorium on repayment of twelve months is granted begining from the commissioning of the project. The minimum term in five years while the maximum period is fifteen (15) years which gives a total term of between five and fifteen years.

e. SECURITY ON LOAN

This is normally at first legal mortgage on the fixed assets of the project and; secondly charges on the floating assets. In order to obtain overdrafts from commercial Banks for working capital, NIDB allows a second charge on the fixed assets and first charge on the floating assets to be created by them. Other collateral securities and stock quoted on the Nigerian stock exchange (NSE) (Olusegun: 1992:4).

FOOTNOTES

1. Layi, A. (1991); monetary economics, lagos pp. 188.
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CHAPTER THREE

DATA PRESENTATION AND ANALYSIS

3.1 INTRODUCTION

The method of analysis to be employed will be the statistical methods; thus it will involve the use of correlation coefficient of samples of the manufacturing sub-sector.

a) **STATISTICAL METHOD** : statistics has been defined as the science which deals with the method of collecting, presenting and analysing numerical data. It is also a method of drawing conclusions from numerical data. In this research work, the simple correlation coefficient will be use and this is given by the formula :

$$r_{xy} = \frac{\Sigma x_1 y_1}{\Sigma x_1^2 - \Sigma y_1^2}$$

Where $x_1 = x - x$ and $y_1 = y - y$

x stands for loan sanctions, while **y** represents loan disbursements. Total loan sanctions and disbursements to each manufacturing sub-sectors are added.

b) **SAMPLE SIZE :** The sample size of the research is six (6) years, that is, from 1994-1999. The population of the research will be the whole of the manufacturing sub-sector with special focus on the following sub-sectors: food, textiles, chemical and petroleum products, mining and quarrying, paper products, electronics and electrical appliances, cement, wood products and furniture etc.

c) **HYPOTHESIS TESTING :** The student t-test of the sample correlation coefficients will be used to accept or reject the research hypothesis.

d) **CORRELATION :** This may be defined as the degree of relationship existing between two or more variables. The degree of relationship connecting two variables is called simple correlation. Correlation may be linear when all points (x,y) on a scatter diagram seem to cluster near a straight line or non-linear when all points seem to lie near a curve.

Two variables may have a positive correlation, a negative correlation or they may be non-correlated. This holds both for linear and non-linear correlations. Two variables are said to be positively correlated if they tend to charge together in the same direction, that is , if they tend to increase or decrease together. Negative correlation on the other hand, is said to exist if they tend to change in the opposite direction; that is, when **x** increases **y** decreases, and vice versa. There is no correlation or zero correlation when two variables tend to change with no connection to each other.

Hence, the correlation coefficient is a measure of degree of covariability of the variables **x** and **y**. The values that the correlation coefficient may assume, vary from –1 to +1. When r is positive, **x** and **y** increase or decrease together. When r = +1, there is perfect positive correlation between **x** and **y**. When r is zero, then the two variables are not correlated. In practice, we almost never observe either perfect correlation or zero correlation, usually r assumes some value between zero and one; the closer that value is to one, the greater is the degree of

points approach a straight line.

On the other hand, the greater the scatter of points in the diagram, the closer r is to zero.

e) **DEFINITION OF VARIABLES :** Sanctions which is represented by **x** implies the loan sanctions that is recieved by NIDB from the federal government, the central bank of Nigeria and even from the international financial institutions, such as the World Bank.

The loans disbursement is represented by **y** and it implies the credit to a sub-sector of the manufacturing sector of the Nigerian economy.

3.2 DATA PRESENTATION AND DISCUSSION

As stated in chapter one, Section 1.2, among the aims and objectives of this research is the identification of the ways in which various segments (sub-sectors) of the manufacturing sector of our economy has been financed by NIDB. The data sets presented been in Tables I and II, are to achieve this objective. These illustrations show the annual sub-sectoral distribution of loan sanctions (actual) and disbursements (percentages).

Moreover, the lending activities of NIDB increased in 1994. The loan sanctions to the sub-sectors amounted to N1,105.6 in 1993 compared with that of 1994 which was N566.8. The 1993 figure shows that the chemical and petroleum products recieved the highest with N265.5 million or 24.0%; while the textiles, food, glass, clay, and stone products, paper products, mining and quarrying (M&Q) recieved N212.9 million or 19.3%, N139.2 million or 12.6%, N98.4 million or 8.9%, N83.4 million or 7.5%, N57.6 million or 5.2% respectively. Others recieved a total of N248.6 million or 57.5% and were shared as follows: Footwear N50.8 million or 4.6%, electronic and electrical appliances N53.9 million or 4.9%, wood products and furniture N27.8 million or 2.5%, transport equipments N26.2 million or 2.4%, beverages N9.4 million or 0.9%, hotel and tourism N3.0 million or 0.3% and miscellaneous N77.5 million or 7.0%. The loan disbursement on the other hand were shared as shown in Table II for example chemical and petroleum products recieved a total amount of N141.1 million or 22.4%, the breakdown of which can be read from Table I.

The breakdown of the loans sanctions in 1994 showed that the textile sub-sectors dominated with N427.8 million or 75.5%. While the balance of N139 million or 24.5% was shared by chemical and petroleum products (N88.4 million or 15.6%) and food (N50.6 million or 8.9%). The disbursements was dominated by the chemical and petroleum products sub-sectors with N286.6 million or 46.8%, and N95.8 million out of the total disbursements (N612.8 million) was shared between textiles (7.3%) and food(8.4%). The balance of N230.4 million was shared among all other manufacturing sub-sectors: beverages(0.2%),footwear(3.3%),wood products and furniture(2.3%), paper products (2.2%), glass, clay and stone products(2.4%), metal fabrication (5.2%), electronics and electrical appliances (3.0%) and miscellaneous (10.7%).(see Tables I & II).

Loans sanctions approved by NIDB in 1995 amounted to N565.1 million representing a decrease of N1.7 million or 0.3% below the level in 1994. Correspondingly, total disbursements fell from N612.8 million in 1994 to N436.0 million in 1995, representing a decrease of 28.8% over the same period. A total of N536.2 million accounting for 94.9% of total loans sanctions was absorted by the three traditionally dominant manufacturing sub-sectors: textiles (60.5%), chemical and petroleum products (30.8%) and food(3.3%). The balance of N28.9 million or 5.1% was gulped by metal fabrication alone. The breakdown of loan disbursement during the year showed that the largest share N113.7 million or 26.1% of the total was absorbed by the chemical and petroleum proucts sub-sector. This is in line with the position in 1994 when the same sub-sector gulped

N286.6 million or 46.8%. The food sub-sector recieved N8.9 million or 18.1%, while the glass, clay and stone products recieved N102.1 million or 23.4% and the balance of N141.3 million or 32.1% was shared among all the other sectors except rubber. Cement, iron and steel and transport equipment which recieved no new fund. (see table I & II)

Lending activities of NIDB showed further declined in 1997 with no sanctions of new loans and a substantial drop in disbursements provisional figures indicated that the bank had no new approvals in 1997, this contrasted with sanctions of N351.0 million in 1996. At N105.3 million, disbursements fell sharply from N925.4 million in 1996, reflecting a decline of N820.1 million or 88.6%. The breakdown of loan disbursements in 1997 indicated that textiles sub-sectors absorbed the largest share of N39.5 million or 37.5% compared with N637.5million or 68.9% absorbed by the same sub-sector in 1996.

Paper products got N21.9 million or 20.8% while chemical and petroleum products sub-sector took N17.7 million or 16.8%. The footwear sub-sector absorbed N16.7 million or 15.5% compared with N111.3 million or 12.0% in 1996. The balance of N9.7 million went to others including food (5.3%), berverages(1.3%), electronics and electrical appliances (1.2%), clay and stone products sub-sectors. However, wood products and furniture, rubber, cement, iron and steel, metal fabrication, transport and equpment; hotels review (See Tables I & II).

In summary, from 1993-1998; the were three (3) traditionally dominant sub-sector namely: food, textiles, chemical and petroleum. The total sanctions within this period was N2,856.75 million; and N1,825.98 million or 63.9% was shared among the three sub-sectors as follows: food N212.3 million or 7.43%, textiles N1,051.7 million or 36.8%; chemical and petroleum products N561.98 million or 19.67%. The total disbursement within these same period was N2,825.71 million; the breakdown showed that a total of N2,004.21 million or 70.9% was shared among the three sub-sectors as follows: food N253.31 million or 8.96%, textiles N1,039.6 million or 36.76%, chemical and petroleum products N711.3 million or 25.2%.

3.3 STATISTICAL ANALYSIS OF DATA

3.3.1 THE RANGE

This shows the difference between the highest and lowest score in a data. The main advantage of using this method is that it is easy to calculate and give a quick idea of variability in the data.

In this research, the range shows a difference in values between the year with the lowest and highest sub-sectorial loan sanctions and disbursement.

From Table 3, the range of loan sanctions is as explained below. The 1993 figure shows the highest variation of (N256.1 million), between the sub-sectoral lowest and highest sanction values during the year. No sanction was recorded in 1997, while the other years have the following ranges: 1994(N377.2 million), 1995(N324.7 million), 1996(N23.4 million) and 1998(N67.2 million).

Table 3: THE RANGE OF NIDB SUB-SECTORAL DISTRIBUTION OF LOAN SANCTIONS 1993-1998 (N MILLION)

YEARS	HIGHEST VALUE (H_1)	LOWEST VALUE (L_1)	DIFFERENCE (D)
1993	265.5	9.4	256.1
1994	427.8	50.6	377.2
1995	343.5	18.8	324.7
1996	187.2	163.8	23.4
1997	0.0	0.0	0.0
1998	67.5	0.3	67.2

SOURCE : **FIELD WORK 2000**

Table 4 shows the loan disbursement ranges from 1993 to 1998 in millions of naira. The range in 1993 is the largest and it is N479.4 million while 1997 has the lowest range of N39.2 million. The varibility in the other years are as follows: 1994(N285.3 million), 1995(N113.5 million), 1996(N637.1 million), 1997(N39.2 million) and 1998(N41.5 million). It is worthy to note that this method of analysis does not show the depth of variability between the sub-sector. In other words, it does not reflect the magnitude of the varations in the rest of the data.

The formula employed in calculating the range illustrated in Table 3 and 4 is given as follows:

$$D = H_1 - L_1$$

Where

H_1 is the highset value of sanctions of disbursement and;

L_1 is the lowest value, while

D is the difference, or the range of values.

Table 4: THE RANGE OF NIDB SUB-SECTORAL DISTRIBUTION OF LOAN DISBURSEMENT 1993-1998

YEARS	HIGHEST VALUE (H_1)	LOWEST VALUE (L_1)	DIFFERENCE (D)
1993	243.0	0.1	242.9
1994	286.6	1.3	285.3
1995	113.7	1.2	113.5
1996	637.5	0.4	637.1
1997	39.5	0.3	39.2
1998	41.8	0.3	41.5

SOURCE: **FIELD WORK 2000**

3.3.2 CORRELATION COEFFICIENTS AND STUDENTS' T-TEST

As a method of drawing conclusion from numerical data, the simple correlation coefficient will be used in conjunction with the students' t-test to accept or reject the research hypothesis.

The computation of the correlation coefficient has been done in the appendix. In this research, the students' t-test is used purely to test the research hypothesis. Here,the number of years is 6 and is represented by n. The degree of freedom (v) is 4 (i.e n-2 or 6-2 = 4), while the level of significant, or probability is 0.05 (5% significant level). The computation of the correlation and t-statistics is shown in appendix I; the calculated t-value is **2.37** while the observed t-value (from the t-distribution table) is **2.132.**

3.3.3 TESTING OF THE RESEARCH HYPOTHESIS

To solve the hypothesis, the decision rule holds as stated below:-

To solve the hypothesis, the decision rule holds as stated below:- Ho : the null hypothesis will be accepted in the result of the students' t - test(i.e calculated t-value) is less than the given table t-value i.e $t_c < t$, accept Ho. Against

H_1, the alternative hypothesis which will be accepted if the calculated t-value is greater than the given table t-value i.e $t_c > t$, accept H_1 and reject Ho.

Based on the final result of the students' t-test given above where the calculated t-value is **2.37** and the given table t-value is **2.132**; the Ho is rejected. Thus, the alternative hypothesis (H_1) is accepted.

The result implies that development banks (NIDB) in particular really have a positive impact on the Nigerian economy due to its' (NIDB) relative contribution to the industrial sub-sector of the economy and the Nigerian economy at the micro level.

CHAPTER FOUR

SUMMARY, CONCLUSION AND RECOMMENDATION

4.1 SUMMARY OF FINDINGS

In this research, it has been argued that the possession of industrial capabilities by an economy is considered as an important potential for improved economic growth and development. Indeed, one of the distinguishing factors between developed and developing economies is the acquistion of industrial knowhow. The benefits of an appropriate industrial base for an economy lies in its' combination of suitable technology, management techniques and other resources. Such a combination is required in order to move the economy from traditional and low level of production to a more automated and efficient system of mass processing and manufacturing of goods and services. This explains why every economy seeks to acquire appropriate industrial base, or expand such a base if the economy is already industrialization (ojo, 1998)[1].

The acquisition of industrial capabilities requires blending of diverse resources of which financial resources constitute a critical factor. Since the availability of such resources is a major influence on developing industrial or other capabilities, every economy seeks avenues to acquire them. Therefore, the need for a specialized financial institutions that has more industrial development bank (NIDB) was created to provide the needed services. However, the impact of NIDB on the economy as regards its' contribution to industrial capital formation should be viewed more in trems of only the bank's own participation since each project financed does not need only the bank financial assistance but also its' technical and managerial assistance to succeed.

NIDB which operated for many years with the constriants of a privately owned bank with public responsibilities, has effected fundamental changes in its' operating policies thereby making them more relevant to the nations economic aspirations. Until 1970, for example, the bulk of NIDB sanctions went to foreign controlled industries. Only the value of N106.9 million sanctions went to indigeneous projects. The reason for this is that when NIDB was set up its' directive was to finance enterprises operating in Nigeria, therefore, no distribution was made between foreign controlled enterprises.

Moreover, until July 1970, the bank was expressly forbidden to invest in projects in which government had controlling interest.This picture has changed since 1970 when Nigeria controlled ventures accounted for 58% of the value of sanctions. This proportion has grown rapidly in recent years being well over 90% now. However, a lot remains to be done with regard to the geographical distribution of the banks investments. To correct the existing lopsidedness in the distribution of the banks' project; the bank has recently been re-organized in such a way that every part of the country will soon feel its' impact. It is noteworthy, that this impact cannot be felt except loan sanctions which will lead to disbursement is on the increase.NIDB loan sanctions and disbursement has been declining from 1993 uptil now, to the extent that there were no new sanctions in 1997 with the least disbursement of N105.3 million.

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

NIDB has required a great deal of experience over the years in its' specialized field of industrial project financing and has developed considerable expertise in both its' banking and development functions.The rate at which the bank grows has led it to contract external loans to supplement locally available resources.

In addition to the findings of this research, it could be asserted hat the problems of industrial development financing in Nigeria (i.e.basd on NIDB'S experience) are many and varied but could be broadly grouped into three: Manpower, financial and operational problems. These problem will be discussed in turns. .

1. **MANPOWER :** The development aspect of development banking presuppoess that a development bank like NIDB should be able to recruit easily the professionals which include economists, business administrators, accountants, engineers and bricklayers. However, despite the increasing output of the countrys' educational system from year to year, these skills are still in very short supply and shortage of skilled manpower continues to plague the activities of industrial development finance institutions as it does the implementation of the countrys' development plans. While some development finance institutions may enjoy temporary advantages by attracting the experienced staff of sister

organizations, the economy does not, on balance gain any thing from that. The only lasting solution lies not only in providing more educational institutions but also in supplementing formal education with relevant training programmes all over the country. Industrial development institutions should also improve the service conditions to enable them compete in the labour market.

2. **FINANCIAL:** While the manpower problem stems mainly from the demand of the development functions of development banking function, the demand for the banks' financial assistance through annual bugdet allocations is meeting less and less of the banks' needs. This problem is not peculiar to NIDB in the 1980's but it has become a familiar problem since mid-90's. Other development banks has been facing the problem for more than a decade now. Besides, the current interest charged on government loans are such as to make those operating on them uncompetitive in relation to the commercial banks which are now venturing into long-term lending. Whatever, the prospects of oil sector, the needs of industrial development would transcend locally available resources.Indeed, the federal government itself may have to raise money from external sources for full implementation of development plans.

One noteworthy aspect of the financial problem is the failure of some successful client companies to repay and service the banks' loans regularly.Similarly, the bank does not get much encouragement from its' equity investment as it often has to wait for a long time before dividends are paid while in some cases clients resort to all sorts of subterfuge to avoid declaring a dividend.

3. **OPERATIONAL** : The operational problems of NIDB do not fall under any of the above identified problems.These problems include the inability or failure of some client to provide counterparts funds- a pre disbursement requirement, inability to secure genuine land, port congestion which delays the arrivals of machinery and equipment as well as imported raw materials, and the problem usually created by some technical partners who attempt to use technical agreements, as a tool for dumping obsolete and over valued machinery on the Nigeria economy. All such problems engender substantical delays in project implementation and cost over runs occasioned by inflationary pressures. There is the additional problem of the limited understanding of goods ,management practice by many of its' clients which complicates the banks' efforts to reorganize their business for efficient performance.

4.2 CONCLUSION

The research sees the Nigeria Industrial Development Bank (NIDB) as an important medium for developing the Nigerian economy and most especially the industrial or manufacturing sub-sector. This has been done over the years through the raising of long term funds by the manufacturing sub-sector and channelling these funds to projects which include industrial development.

Although, a number of problems has continued to frustrate past efforts to strengthen the bank and other development banks for improved performance; the prospect of the banks' lies in the hands of the federal government and the Central Bank of Nigeria which owns the bank.

It is noteworthy, that the lack of policy consistency on the part of the federal government and the political instability in the country are parts of the many problems inhibiting industrial growth and development in Nigeria.

In the 1970's the bank was properly funded up to the General Babaginda's administration (1985-1993). This shows that the policy then favoured NIDB, but from 1993 to date, the funding of the bank has been on the decline. In essence, this researcher believes that if the recommendation of this essay are implementated, the Nigeria Industrial Development Bank, in particular, and other development banks in general, will go a long way to develop the Nigerian economy as a whole.

4.3 RECOMMENDATION

Based on the research findings and indentified problems with NIDB and other development banks, the following are suggestions proffered to enchance the future development of the bank :

1. Government should have little or no dominance in the banks' operations. Though, it is owned by the federal government, but the law inhibiting private ownership of some part of the share capital should be revised.
2. More competent and trustworthy ,skilled personal should be empolyed. Also, there should be the provision of up-to-date training programmes for the staff of the bank in the areas of computers as this will go a long way in easing the problem of retrival of information and that if manual recording of its' numerous customers' data with regards to their transactions.

3. To solve the problem of client companies not wanting to pay back loans, a loan recovery committe should be set up to recover over due loans from debitors.

4. To reduce the problem on the inability of some clients to provide counterpart funds, the bank should generally increase its' financial participation in projects so that clients could find it easier to meet their own part.

5. There is need for government to help the bank in solving most of its' problems. The land problem for instance could be alleviated by the governments compulsory acquisition of land as industrial estates and their allocations should be to prospective investors.

6. Development bank in general should improve on their service conditions to enable them compete in the labour market with financial institutions such as the commercial banks.

7. The bank should solve the problem of low funding by mobilizing resources wherever they can be obtained,locally and externally on reasonable terms. Hence the bank should seek for foriegn assistance to carry out their projects effectively. The world bank and the international finance corporation are in to do this.

FOOTNOTES

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APPENDIX 1

COMPUTATION OF R USING ACTUAL OBSERVATIONS

Recall:

$$r = \frac{n\Sigma xy - \Sigma x \Sigma y}{\sqrt{n\Sigma x^2 - (\Sigma x)^2}\ \sqrt{n\Sigma y^2 - (\Sigma y)^2}}$$

$$\frac{6(1650505.86) - 2856.75\,(2825.71)}{\sqrt{6\,(2058110.67) - (2856.75)^2}\ \sqrt{6(1848770.530 - (2825.71)^2}}$$

$$= \frac{9903035.16 - 8072347.04}{\sqrt{(12348664.02 - 81612020.56)}\ \sqrt{(11092623.18 - 7984637.00)}}$$

$$= \frac{1830688.12}{\sqrt{4187643.46}\ \sqrt{3107986.18}}$$

$$= \frac{1830688.12}{(2046)(1763)}$$

$$= \frac{1830688.12}{36070998}$$

Therefore r = 0.50752381 (3 Significant figures)

= 0.51

COMPUTATION OF 't' USING STUDENTS t-test

$$t = \frac{r(n-2)}{\sqrt{1-r^2}}$$

where
r = the coefficient of correlation,

n = number of years,

t = student's t-test

Hence

$$T = \frac{0.51\,(6-2)}{\sqrt{1-(0.51)^2}}$$

$$= \frac{0.51\,(4)}{\sqrt{1-0.2601}}$$

$$= \frac{2.04}{\sqrt{0.7399}}$$

$$= \frac{2.04}{0.860}$$

$= \mathbf{2.37}$

Therefore, the calculated t = **2.37**

NOTE: The research hypothesis is tested at the 0.05 level of significance with the degree of freedom of 4. Hence, the t-value is **2.132.**