THE EFFECTS OF MONETARY POLICY INSTRUMENTS ON PRIVATE SECTOR CREDITS BY BANKS IN A GLOBALIZED ECONOMY

BY

ESTHER CHIOMA OGUOMA

B.SC BANKING AND FINANCE

REG. NO.9994075088

BEING A RESEARCH THESIS SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) IN FINANCIAL MANAGEMENT TECHNOLOGY, FEDERAL UNIVERSITY OF TECHNOLOGY, OWERRI

MAY 2012

FEDERAL UNIVERSITY OF TECHNOLOGY,

OWERRI

CERTIFICATION

This is to certify that this study was carried out by the student, **ESTHER CHIOMA OGUOMA** in the Department of Financial Management Technology, Federal University of Technology, Owcrri.

PROF. S.M. NZOTTA	**DATE**
Supervisor	
DR. MRS. M.N. OKOLI	**DATE**
HOD, FMT	
PROF. S.M. NZOTTA	**DATE**
DEAN SMAT	
PROF. MRS. K. B. OYOH	**DATE**
DEAN POST GRADUATE SCHOOL	
EXTERNAL EXAMINER	**DATE**

DEDICATION

I dedicate this work to my lovely Children Miss Marrylyn, Oluchi, Tochukwu and Master Nelson Kamsirochukwu Oparaugo.

ACKNOWLEDGEMENT

My greatest thanks goes to the Almighty God the Author and finisher of my faith. I am heartily grateful to the following people without whose endeavour this work would have been a failure. My supervisor Professor S.M. Nzotta whose expert advice, guidance, careful and critical reading of the entire manuscript improved this work tremendously; Dr. A.B.C Akujuobi deserves special thank for his advice and assistance to complete this course.

Also a very special thanks go to my lovely husband Mr. Amanze Okechukwu Oparaugo whose advice, inspiration, encouragement and support needed during the course of this work.

All thanks to Mr. Ekenta and all my lectures whose ingenuity in their respective areas of specialization and adequate deliverance of this knowledge have adequately equipped me to carryout this work. Among these are Prof. S.M. Nzotta, Dr. E. Chigbuh, Dr. Nwaezeaku, Prof. Nze and Dr. A.B.C. Akujuobi etc.

Finally, I am very grateful for the easy access I had to the libraries, banks, internet and every source of gathering materials for the accomplishment of the project.

ABSTRACT

This study evaluated the effects of monetary policy instruments on private sector credits by banks in a globalized economy covering a period of twenty years, from 1986-2005. Six major monetary policy instruments namely cash reserve ratio, liquidity ratio, interest rate; minimum rediscount rate, treasury bill rate and money supply were employed explanatory variables while bank total loans and advances serves as the dependent variable or bank credit. Adopting the multiple regression model, the study revealed that monetary policy exhibited a significant relationship with bank credit. However the treasury bill as a monetary policy instrument exerts a significant effect on the level of bank credit. On the basis of this, the study recommends, among others the use of first, the treasury bill to control the level and direction of flow of credit from the banks to the private sectors. Also, there is need to e more consistent in the formulation and implementation of monetary policies in Nigeria in order to achieve desirable target, Key words: Bank credit, monetary policy prudent guidelines. Project fine monetary policy instruments, treasury bills.

Keywords: Export Finance, Monetary Policy, Post Shipment Finace, Financial Instruments, Documentary Credit, Economic Reforms, Deferred Credits.

TABLE OF CONTENT

LIST OF TABLES

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Banks as part of the financial system are considered the major engine room in any economy. Even in the Nigerian economy, because of the crucial role banks play in the economic development process, especially in such areas as meeting the financing needs and achievement of sound economic growth, this section of the economy has continued to draw the attention of policy makers.

Accordingly, the Central Bank of Nigeria, (CBN) as the apex bank, and in pursuit of price stability, high level of employment, sustainable economic growth, and balance of payment equilibrium among others, at various times have come up with various policies (monetary and fiscal), in its efforts to achieve the afore-mentioned objectives. But regrettably and as observed by both Anyanwu (2005) and Afolabi (1995), the various policy initiatives have were not been able to bring sanity into the banking system. As such, the Central Bank of Nigeria is not relenting in this onerous task of restoring sanity to the banking sector. Among these efforts was the lifting of credit ceiling on individual banks that met specified criteria on selective

basis in respect of statutory minimum paid up capital, capital adequacy ratio and cash reserve requirements as well as sound management, especially as spelt out by the prudential guidelines in the areas of credit allocation etc (CBN, 2005). Meanwhile, the use of stabilization securities to mop up excess reserves in the banks was intensified and this

saw the emergence of three discount houses in March 1993. Two years after, in 1995, the fourth discount house commenced operation, while the fifty one started operation in 1996.

Perhaps, we need to note also, that prior to these years (1995 and 1996) on 30th June, 1993, the Central Bank of Nigeria had commenced Open Market Operations (OMO) in treasury securities with banks through discount houses on a weekly basis. The use of open market operations as a major monetary policy trust since June 1993, was perceived as an effective means of moderating liquidity in the financial system.

However, the extent to which the open market operations and other monetary policies have affected the banking system, especially in the areas of granting credit remains to be seen. This study therefore, is intended to investigate empirically, the impact of monetary policy on commercial banks' loans and advances.

1.2 THE STATEMENT OF THE PROBLEM

Invariably, investment in capital goods is carried out by entrepreneurs who may not necessarily be savers. However, capital formation, though of necessity, is tied to economic growth, it could also be desired from borrowing whether in form of internal or external sources. Banks generally play a vital role in capital formation by pooling funds from those who have the propensity to save (surplus spending unit) and subsequently loaning same to entrepreneurs f(deficit spending unit) or investment or business purposes. This is no doubt, carried out at a profitable rate to the banks while ensuring the safety of the depositors' funds.

However, while banks are available agents of development by way of their services, especially in the area of capital formation, having greater production of goods and services, cautious procedures must be followed before this vital resource (credit), is extended to the borrower. Beside the entrepreneurs, banks' loans and advances ordinarily should be available to all the sectors that engage in productive investments. But, one doubts whether if this has been the practice.

Jhingan (2006) have noted that the volume of credit is influenced by some key variables in the economy. These he categorized as boom and recession, political conditions, currency conditions, banking system, speculation, credit policy of the Central Bank as well as economic development. It may suffice to say therefore, that it must have been in line with this thinking that the Central Bank of Nigeria has continued to focus on the regulation of banks capital base. Hence, William (2003) has noted that the government regulation on the capital base is very necessary to ensure that banks carry on effective local and international banking operation in the globalized environment.

Tomori (2004) on the other hand, succinctly states that bank profitability is a function of the monetary policy which in turn affects their loan portfolios.

However, past studies in banking have focused on other areas. For instance, Kamalu (2005) studied the effects of recapitalization on the performance of banks in Nigeria; Nwakanma (2005) centred on the appraisal model for evaluating commercial banks performance in Nigeria while Enwereuzor (2007) considered the impact of banks credit on the growth of small and medium scale enterprises in Nigeria. Even the study carried out by Ashamu (2008) on the impact of monetary policy measures on bank credit, still fell short

of expectation. This study by Ashamu (2008) failed to include money supply as one of the factors that influence monetary policy effect on bank credit (Jhingan, 2006). This present study, therefore includes this key monetary policy variable while at the same time extending the study period to the year 2005 from Ashamu's study period of 2003. This is considered vital especially with the objective of feeling out the effect of the introduction of the bank twenty five billion Naira (N25bn) capital base in 2004.

This study therefore investigates the effects of monetary policy on private sector credits by banks in a globalized economy for the period, 1986 - 2005.

1.3 OBJECTIVES OF THE STUDY

The central objective of this study is to accomplish the effects of Monetary policy instruments on private sector credit by banks in a globalized economy. But specifically, we intend to achieve the following:

i. To investigate the influence of liquidity ratio on bank credit.

ii. Determine if interest rate affects bank credit.

iii. To find out if cash reserve ratio affects the amount of credit granted by banks.

iv. To determine the extent the minimum rediscount rate has affected bank credit.

v. To ascertain the influence of treasury bW rate on hank credH

vi. To determine the influence of money supply on bank loars and advances

vii. Finally, to identify problems dssociated with this policy ad make possible suggestions and recommendations,

1.4 RESEARCH QUESTIONS

With the above objectives in mind, the following research questions are therefore considered relevant for the study;

i. What is the influence of liquidity ratio on bank credit?

ii. To what extent has interest rate affected the volume of bank credit?

iii. Has reserve requirement played any significant role in the Bank credit administration?

iv. How has the minimum rediscount rate affected the volume of bank credit?

v. To what extent has bank credit been affected by the Treasury bill rate?

vi. What is the influence of money supply on bank loans and advances?

1.5 RESEARCH HYPOTHESES

As a guide to this research, the following hypotheses are to be tested;

Hoi: There is no significant relationship between Liquidity ratio and bank loans

Ho2: Interest rate has no significant impact on bank credit.

Ho3: Cash reserve requirement does not significantly affect bank credit.

Ho4: The minimum rediscount rate does not significantly affect the level of bank credit

Ho5: The level of Treasury bill rate has no significant effect on bank credit.

Ho6: There is no significant relationship between money supply and bank loans and advances.

1.6 SIGNIFICANCE OF THE STUDY

Sound monetary policies have formed the economic bedrock for good banking culture in Nigeria, hence this work significant in a number of ways. First, the study will be a guide to bank regulatory agencies and monetary policy makers on the effects of good monetary policies on the performance of banks in a globalized economy. Also the government of Nigeria will be guided on the very important role good monetary policies play in the control of the direction of credit and in the economic development of Nigerian. In addition, the study will be a reference material for further studies by other researchers and policy makes. To the banking industry, the management of banks will be guided on the impact of monetary policies on the performance of their organization in terms of operating profits, quality of assets, the level of liquidity, and capital base. Lastly, the study will be a reading companion to prospective investors in the banking industry in Nigeria.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 INTRODUCTION

The origin of bank credit could be traced to the medieval times, long before the advent of Gold Smiths in the Western Civilization. As far back as 1850 BC, lending activities were recorded in the temple Samas in sipper of Babylon. The actual existence of the temple covered a century of two previously. During this period, lending was primarily for consumption and the imposition of interest was termed exploitation. One of the earliest enactments on bank lending is Hebrew Law. Hebrew law recognized lending but prohibited the taking of interest Enrichment through lending with interest was frowned at and severe punishments were prescribed for such acts. This was later incorporated into mosaic laws, which prescribed thus 'you shall not lend upon interest to your brother" About 1545, the Mosaic laws were abolished and the taking of interest on loans was made legal. The Arabic civilization also recognized lending activities, but usury is condemned and prohibited as much as possible.

However, as commerce developed and as the opportunities for transactions in money became abundant, secular practice went in the direction of lending with interest. Modern principles and practices of bank lending could be traced to the activities of gold smiths who transacted business in benches and which formed the basis for formal banking

business in benches which started in 1587 in Venice-Italy. In Nigeria, the origin of lending could be traced to the activities of traditional financial intermediaries, long before the advent of the colonial masters. These intermediaries developed as a consequence of the credit needs of the rural population. It is noteworthy that the basic occupation of the rural populace was peasant farming and crafts and these sustained the unformalized intermediation structures available at that time. These intermediaries consists of voluntary 'esusu' groups, age grade associations, village, rural development schemes, family fund pools extend family cooperative funds, social clubs, etc Essentially, people relied on these groups for their credit needs. Bascom (1952) vividly described the 'esusu' in Yoruba Land, for instance, as: "a fund to which a group of individuals make fixed contribution of money at fixed intervals; the total amount being contributed by the entire,. group (is) assigned to each of the members in rotation. The esusu is a credit institution. All members except the ones who receive of share the very last fund of a given cycle receive and advance on their contributions, although the amount advanced declines as the cycle progresses. An attempt is made further more to make the fund available to members of the groups at times when they have need for it. When an individual requires outside financial assistance, he may apply for the esusu fund rather than borrow money from a relative or friend without interest, paying interest in money or to regularly money lender, pawning his Cocoa tree or, pawning himself or his children, before it was prohibited by law".

The traditional financial intermediaries constitute substantial sources of credit for economic activities prior to the advent of commercial banks in Nigeria. It is noteworthy that even today, that role has not been entirely eliminated by the presence of organized

banks. The impact of these institutions is still felt in these rural and semi-urban centres. Basically they serve three functions. Savings function, credit function and investment function.

2.2 THEORIES OF ECONOMIC DEVELOPMENT AND NEED FOR INVESTMENT.

Deposit money banks' loans do not just occur for any reason, something or a need must instigate it. Savings is encouraged in every economy, but in a situation where the savings is not enough to take care of all the investment needs available, the need for loans arises.

In countries of the world, the maximization of the welfare of citizens is always aimed at by the governments. In doing this, effort is always made to satisfy the human wants by the provision of affordable goods and services. This is why most countries, particularly the developing ones, always have the promotion of economic development as one of their major goals. How do they achieve this? Theories of economic development abound that propound what should be done, and they have always advocated investment of funds in capital goods. Let us look at Harrod-Domar and Rostow development models, for example.

HARROD-DOMAR MODEL

According to Akujuobi (2006), the Harrod-Domar Model developed in the 1930s suggests that savings provide the funds, which are borrowed for investment purposes. The model

believes that the economy's rate of growth depends on:

- The level of savings and savings ratio

- The productivity of investment i.e. the economy's capital output ratio. Following from the last variable, it means that if for example N10 worth of capital equipment produces each N 1 worth of annual output, a capital-output ratio of 10:1 is in existence. If the economy later has a capital- output ratio of 2:1 it means the country has improved its efficiency as to use only N2 capital to produce each Ni of output annually.

Further analysis of the model, which was originally developed to analyze business cycles, but later adapted to explain economic growth, shows the following:

- Economic growth depends on amount of capital and labour i.e. NY = 7 (K, L)
- Developing countries are endowed with abundant amount of labour. Therefore, it may not be far from the truth to say that it is lack of physical capital that hinders economic growth and hence economic development in these developing economies.

- More physical capital generates economic growth.

- Net investment (i.e. investment over and above that needed to be replaced worn out capital (depreciation). Leads to the availability of producer goods (capital appreciation). This, in turn, leads to higher output and income. With higher income, higher level of savings would be achievable.

Even though this model has some limitations such as being for business cycles, not being able to stimulate desire savings and strict adherence to it leading to large debt over hangs,

the need for investment for an economy desiring economic development is highly projected.

ROSTOW DEVELOPMENT MODEL

This is basically a linear theory of development. According to Akujuobi (2006), the model shows that economies can be divided into primary, secondary and tertiary sectors and the economic history of developed countries has amply shown these stages.

Stage 1: **Traditional Society**

This stage is characterized by subsistence economic activities. This means that producers just produce enough for themselves. Nothing remains for trading. If and when there is any exchange, it is by trade by barter. Agriculture is the mainstay of the economy and highly labour intensive. The use of capital is limited and minimal.

Stage 2: Tradition Stage

This stage is a precondition for takeoff; it is at this stage that surplus goods for trading begin to emerge. Transportation to move these goods beyond their producers begins to emerge also. Entrepreneurs desire to handle the nascent business begin to emerge also.

Stage 3: Take off

Industrialization begins to flourish and attract workers away from land and agriculture-related fields into manufacturing. By this time, economic growth is concentrated in a few

regions of the country where one or two industries exist. Associated with this period is the emergence of new political and social institutions to support the growing industrialization.

Stage 4: Drive to Maturity

At this stage, economic growth is now in areas and industries supported by needed technological innovations.

Stage 5: High Consumption

More goods and services are now available for consumption. Rostow's theory implies that development requires substantial investment in capital equipment. To enhance growth in developing nations, however, the right conditions for such investment would have to be created. In that case, the economy needs to reach stage 2. For Rostow's theory, the following can further be implied.

• Savings and capital formation (accumulation) are essential for the process of economic growth and hence development.

• The central issue to development is to mobilize savings so as to generate investment that would trigger-off self generating economic growth.

Development can stall at stage 3 for lack of savings, which is common in developing countries. Most experts suggest 15-20% of GDP as the required savings. It then means that if the local economy is able to save about 3%, it then means that aid and/or loan of 12-17% is needed to plug the "savings gap". The resultant investment would then push the

economy to stage 4, which is the drive to maturity and self-generating economic growth. Lack of such investment, on the other hand, meansthe vicious circle of under-development, according to this theory. Limitations of this theory, according to Tutor 2u (2004) include the fact that the the dry is limited. This authority believes that determinations of a country's stage of economic development are usually broader and include:

• The quantity and quality of resources

• A country's technologies

• A country's institutional structures e.g. law of contract.

According to Akujuobi (2006) from the review of these two development theories, the role of investment in economic development is clearly seen. As a result of this, many developing countries out to achieve economic development, have often embarked on policies aimed at promoting investment of capital funds. These capital funds are, in most cases, sourced from banks as credits so as to fill the gap between what is supposed to be invested and what is saved.

2.3 WHAT IS BANK CREDIT?

Various authors from various perspectives have defined credit. The UBS Dictionary of Banking and Finance (1981). For instance defined credit as:

- The ability to borrow money on the promise of future payment
- In finance, an amount loaned to a borrower.

The above definition presents a narrow perspective of the concept of credit. The definition relates more to fund based lending activities to the exclusion of non-fund based activities. The prudential Guidelines (1990) succinctly convey a more comprehensive definition of credit it defines credit facilities as the aggregate of all loans advances, overdrafts, commercial papers, bankers acceptances, bills discounted, leases, guarantees and other loss contingencies connected with a bank's credit risks. Also the definition of credit proposed by the CBN monetary policy circular (1992) agrees with the view above. Generally, we could conclude that credit includes all commitments by a bank that has risk exposure and that may result in financial loss to the bank.

2.4 TYPES OF BANK CREDITS

From the definitions above, bank credits includes

a. Loans and Advances Consisting of

* Overdrafts

* Advances

* Medium term loans

* Long-term loans

b. Special Credits Consisting of:

* Public Works Bonds, made up of

(1) Bid bonds or tender bonds

(2) Advance payment guarantee

(3) Performance bond

* Custom and Excise Bonds

* Bill Lading Indemnities

c. Documentary Bills

d. Leases

e. Other credits

* Commercial papers

* Bankers Acceptance

* Bills Discounted

We shall discuss the above types of credit in detail in the following section.

Loans and Advances

a. Overdrafts: These are the most common and simplest forms of credit facilities. They are usually granted for working capital purposes and the amount outstanding is expected to fluctuate over the life of the facility, depending on the borrowers working capital financing needs, at any material time.

Over drafts permit the borrower to use those amounts required on a day-to-day basis, thus saving unnecessary interest changes. In accordance with general banking practice, overdrafts are repayable on demand and can be cancelled at the banks option without prior notice to the borrower. The overdraft limit is usually communicated to the customer and this limit serves as the banks' reference point in all drawings by the beneficiary.

b. **Advances:** An advance is a short-term credit, which is granted for a definite period usually between 30 and 180 days. They are usually granted for specific purposes, for example, payment of various collections refinancing of maturing loans, project bridging finance, refinancing of letters of credit for project equipment imported etc. the exact maturity date of an advance is normally determined at the onset and this makes it possible for the project to have a lower interest charge on the advance due to the reduced risk (money and credit risks).

Short term loans are also used in financing seasonal increases in working capital and also in temporary accommodation of a project capital expenditure needs, and other long term commitments, pending final negotiation of a long-term loan. Most times short term loans are usually renewed at maturity. Banks predominantly extend substantial amounts of short-term loans to farming, manufacturing, small-scale projects etc short-term loans may be secured or unsecured. Banks extend secured loans borrowers who have a high debt/equity

ratio or projects that have not established a record of satisfactory performance and stable earnings or generated enough sales revenue in relation to their capital large exposures are also often secured.

Unsecured loans, although disallowed by banking laws in Nigeria, are granted in exceptional cases to projects that are properly financed have adequate capital and net worth, competent management, stable earnings, a record of prompt payment of obligations and a bright future. Unsecured loans, however, often crystallize into bad debts in Nigerian banking scene.

c. Medium-Term Loans: These constitute important sources of intermediate funds for project and businesses. Medium-term loans are usually granted for specific purposes such as investments, equipment financing, housing, share acquisitions, agricultural financing, construction etc.

A medium-term loan is a facility with an original maturity of more than one year or a loan granted under a formal agreement (revolving credit or credits) on which the original maturity of the commitment is in excess of one year. Medium-term loans have maturities of between 1 and 5 years. They are negotiated between a borrower and a lender and are most prevalent in industrial projects characterized by heavy fixed capital requirements. Most of the loans however are made to small projects and business, which rely on these sources, due to their limited access to the capital market. Medium-term loans provide flexibility for the user and are amortized in fixed installments on a monthly, quarterly, semiannual or even annual basis, as the case may be. The interest rates on this type of loan

amongst other factors depend on the genera' level of interest rates prevailing in the market, the amount and maturity of the loan and the credit standing of the borrower. Generally, the interest rate is higher than in ordinary advances or short-term loans, due to higher money and credit risks and the fact that it is less liquid. Medium-term loans are usually supported by a loan agreement between the bank and the borrower.

This agreement outlines the terms and conditions of the loan, and other important features such as:

• Preamble which contains the parties to the loan and the purpose of the loan

• Amount of the loan

• Tenor. The maturity of the loan is usually well specified
• Repayment schedule; term loans generally specify that a repayment schedule be in the form of an annuity

• Interest rate — this is usually specified and may range from fixed rates to floating rates Security/Guarantee. There are usually specifications for collateral. When a revolving credit agreement that does not require collaterals is converted into a term loan, the borrower may then have to secure the loan according to the condition of the loan agreement

• Representations and warranties

• Covenants of the borrower. This usually include affirmative covenants, the negative covenant and other restrictive clause/negative clause are restrictions on the borrower from special actions such as increasing its dividend payments, making loan to its officers and/or directors and purchasing or leasing fixed assets etc.

• Events of default/acceleration clause

• Miscellaneous matters

Usually, a borrower is expected to execute series of promissory notes corresponding to each repayment date. Enforcement of repayment is thus facilitated and the parties tend to have a greater faith in the agreement.

Advantages of medium term loans

(I) Medium term loan affords the borrower the advantage of trading on its equity. This concept assumes that the profits on the borrowed funds exceed the cost of borrowing

(II) With a medium term loan, it is possible for the borrower to negotiate the provision of the initial lending agreement directly with the lender.

D. **Long-Term Loans:** banks in Nigeria do not usually provide much of long-term loans. This is due to the nature of their deposit liabilities from where the loans are granted. Recently, however banks have been engaging in long-term lending through syndicated loan arrangements. Investment banks, development banks and various international lending agencies usually provide long-term loans. Long-term loans are granted for periods

exceeding five years, they are usually provided for fixed capital requirements. They are amortized in fixed installments like the medium term loans. The interest the contract. The guarantee is in terms of the contractor's financial and technical standing.

c. **Performance bonds:** Banks issue this type of bond on behalf of their clients who have contract awards. The bond provides a guarantee on the contractor's capability of handling the contract, his financial standing and credit rating.

2. Customs and Excise Bonds: This type of bond is issued the bank to guarantee **a** third party (usually **a** government organ) with regards to an importer's capability of making payment of customs duties (for imports) and excise duties (for manufactured goods in Nigeria). As soon as the customer defaults, the bank would be held liable to pay the sum guaranteed.

3. **Bill of Lading Indemnities:** A bill of lading is a quasi- negotiable document, which confers title of goods. Banks usually issue a bill of lading indemnity to their customers in cases where the goods imported into the country arrive before the importer (customer) receives the bill of lading. This indemnity issued will thus assist the customer in clearing the goods.

The Bill of Lading Indemnity indemnifies the shipping company against any loss of subsequent claims on the ownership of the goods covered by the indemnity and usually the bank is primarily liable on the indemnity.

Documentary Credits

A documentary credit or letter of credit is a written commitment of one bank addressed to an identifiable party to pay the seller of goods of services, an agreed sum of money on condition that the seller produces documents evidencing that the goods have been shipped or that 1-ic has performed the services required of him. There are different types of documentary credits. These include: the revocable documentary credits red clause, 'back to back' credit and stand by letters. of credit. For our purpose we shall concentrate on the following types.

a) Revocable Documentary Credit

b) Irrevocable, Unconfirmed Documentary Credit

c) Irrevocable, Confirmed Documentary Credit

(a) Revocable Documentary Credits: A revocable documentary credit allows the issuing bank to amend or cancel the credit without notice to the beneficiary (the seller) before he is paid.

(b) Irrevocable, Unconfirmed Documentary Credits: This represents a commitment by the issuing bank (usually the buyer's bank) to pay the seller, if the terms of the credit are met and it is usually not amended or cancelled without the seller's consent.

(c) Irrevocable and Confirmed Documentary Credits: This type of documentary credit offers the best security for payment to the seller assuming he fulfills his part of the contract. In the arrangement, another bank (the confirming bank) commits itself to paying the seller, if all the conditions of the credit are fulfilled.

Documentary credits could also be categorized according to the terms of payment. Here, we could distinguish between sight credits, acceptance credits, deferred payment credit, red clause credit and revolving credits.

(i) **Sight Credit** — This is a situation where the beneficiary receives payment on presentation and examination of the documents.

(ii) **Acceptance Credit** — In this type of credit, the beneficiary draws **a** time draft either on the issuing or confirming bank or on the buyer or another bank, as specified in the documentary credit. As soon as it is accepted by any of the parties above, the issuing and confirming bank guarantees payment of the instrument at maturity to any bonafide holder.

(iii) **Deferred Credit** — In this form of credit, the issuing or confirming bank issues a written promise to make payment on due date. This contrasts with the acceptance credit since in the later case, a draft is accepted upon presentation of properly confirmed documents. Here, there is an obvious advantage since the draft being a negotiable instrument, could be easily discounted.

(iv) **Red-Clause" Credit** — This is a special type of advance credit. It authorizes the advising bank to advance a part of the credit amount to the beneficiary to enable him mobilize the merchandise.

(v) Revolving Credit — This form of payment, arises where a buyer intends to place orders in excess of his requirements. The revolving credit is established stipulating intervals of delivery and thus guaranteeing payment of each delivery, assuming the terms of the credit are maintained.

The process of establishing a documentary credit involve two banks and two parties: the importer and an exporter, it should be noted that banks adopt normal credit evaluation methods in granting these special credits. The basic requirements, most times, are the same as in normal loans and advances.

The two banks involved in documentary credit transactions consist *of,* first, the importers bank also known as the opening (establishing) bank. There is also the confirming or notifying bank that is the exporter's bank.

2.5 CLASSIFICATION OF LOANS AS TO PURPOSE (Selected Cases)

AGRICULTURAL LOANS: As **a** result of the increased emphasis on increased agricultural output, government places **a** lot of emphasis on provision of loans by banks for agricultural projects. The essence is to establish, reactivate, expand or modernize all types of agricultural enterprises, which are considered economically feasible and desirable to the achievement of stated national economic goals of self-sufficiency in agricultural production, and commercially viable. Agricultural project lending in Nigeria is enhanced by the agricultural credit guarantee scheme fund operated by the Central bank of Nigeria. According to the guidelines of the scheme, the fund seeks to provide guarantee in respect of loans granted by any bank for agricultural purposes with the aim of increasing the level of credit to the agricultural sector.

Banks extend loans to agricultural projects through two methods: Direct lending and On-lending. Direct lending involves lending directly to farmers (individuals, groups or organizations). On- lending on the other hand, involves lending to farmers through intermediaries such as co-operative unions or a financing agency, agricultural corporation, state or federal ministries of agriculture, River Basin Development Authorities and other relevant agricultural lending institutions and agencies. The later method is practiced mainly by the Nigerian Agricultural Cooperative and Rural Development Bank (NACBDB).
The criteria for. this type of lending is the same as other types of lending and the security is the same, except that the ACGS requires that banks may make loans of up to a maximum exposure with personal guarantee. The interest rates are market — determined unlike previously when concessionary interest rates were charged by banks. Agricultural lending could be by way of overdraft, shortterm loans, medium-term loans or long-term loans, depending on the purpose and gestation period of the project.

EXPORT FINANCE: Deposit money banks have always been involved in the export business in Nigeria, even before the emergence of oil as the dominant source of earnings for the country. For example, during the era of commodity boards'

involvement in the export trade, banks provided bridging finance to licensed buyers of commodities meant for export. However, following the deregulation in the Nigerian economy, banks are presently involved in export finance in the following areas:

• Short term financing of all aspects of non-oil export including storage, packaging, handling, transportation and delivery to the ultimate buyer.

• Identification of the eligible non-oil export products, technical services and the identification of viable foreign markets etc.

• Providing status reports on foreign buyers
• Advising on modes of payments for the exports
• Enhancing the quality of documentations of the export trade. Banks in Nigeria finance exports as part of the overall national export promotion strategies. There are basically two types of export finance the pre-shipment finance scheme and the post-shipment finance schemes.

(a) PRE-SHIPMENT FINANCE:

This could be classified broadly into two — the mobilization advance and the merchandize or produce advance. Pre-shipment finance is usually required by exports to ease the production, processing and/or packaging of export goods, up to the point they are placed on board a ship or any other mode of transportation pre-shipment finance could be classified broadly into two:

i MOBILIZATION ADVANCE: This type of facility is similar to an overdraft. The only difference is that where as an overdraft may be cancelled without notice and is always current, a mobilization advance is liquidated at the end of its tenure or on completion of the particular export project or at the end of the operating cycle of the transaction. This

financing scheme assists an exporter to obtain funds for purchasing produce from other sources — local buying agents or growers.

ii MERCHANDIZE OR PRODUCE ADVANCE: The merchandize or produce advance is a form of export finance provided by banks on the basis of warehouse receipts. This presupposes that the exporter has purchased the produce and put them in an approved warehouse and a reputable ware house agent then issues a warehouse receipt. Here, loans are provided to the exporter and as a security for the finance, the export goods are controlled by placing them in the custody of a warehouse company, who issues a warehouse receipt on them. When a loan is made on the security of warehouse receipt, there is a great reliance on the competence and integrity of the warehouse company.

(b) **POST SHIPMENT FINANCE:** Banks often advance funds to an exporter, up to a certain limit, on the basis of the estimated export proceeds. There is a presumption here that the produce or merchandize has been delivered on board the ship or other means of transportation and the full set of properly endorsed shipping documents or airfreight document delivered to the bank.
Generally, banks also provide some form of bridge loans to exporters. This represents a form of short-term lending, provided with the understanding that a longer-term loan will be used to repay the short-term source. Banks are usually cautious about this arrangement since the short-term funds provided may eventually turn out to be long term at the end of the day.

Additionally, other methods of exports finance provided include the negotiation of, and advance against foreign bills of exchange, foreign currency loans, documentary and acceptance credits and other services offered through accepting and confirming of letters of credit.

SYNDICATED CREDITS

Banks usually resort to loan syndications in an effort to spread risks, accommodate new and viable projects and enhance their earning potentials. They also resort to this approach whenever they find a viable project which one bank cannot finance single handedly. Under the syndication arrangement, there is a lead bank and a consortium of other financial institutions (syndicates) comprising of banks, investment companies and insurance firms. Loans provided are usually large in nature and may be medium- term or long-term in nature. The interest rate may be above the prime-lending rate and is usually payable annually or semi— annually or at any agreed period.

The increased cases of syndicated cases of syndicated project financing in Nigeria can up to 1998 be explained by general trends in the economy. Rising project costs and increased risks of doing business in a recessed economy were crucial factors that gave rise to loan syndications. Increased restrictions on lending by the monetary authorities, the high demand for loans and the need for capital adequacy dictated that banks enter into consortium arrangements, to cater for the credit needs of large project concepts.

However, the increased level of distress in the financial system adversely affected syndications and thus there has been a hill in this area especially between 1998 and 2004.

LOANS TO THE RURAL SECTOR

The limited nature of credit to the rural sector and the lopsided nature of bank branch expansion in favour of the urban segment, motivated the federal government to introduce the rural banking programme in 1977 and recently the community-banking scheme in 1991.

The rural sector could to a large extent be equated to the agricultural sector, since the predominant occupation of the residents of the area is peasant farming. Limited credit facilities as a result of limited access to banks and poor banking habits, meant that this vital sector would be strangulated and growth would not be in the desired direction. The monetary authorities during the era of direct control of bank credit prescribed minimum levels of loans for the rural sector in the monetary policy each year.

This measures was aimed at compelling the banks to assist in the economic development of the rural sector. It was also aimed at breaking the vicious circle of low productivity, low incomes, low savings and low growth that has been the bane of the rural sector.

Under the present indirect system of credit control, these minimum credit prescriptions have been deemphasized. Banks however, are still expected to extend substantial volumes of credit to the rural sector, even with the phasing out of the rural banking programme.

LOANS TO SMALL AND MEDIUM SCALE ENTERPRISES

Banks are also required to grant loans to small and medium scale enterprises. SMEs have the potentials of enhancing the level of development of the economy, in terms of increased output, creation of employment opportunities and the level of exports of the country. Over the years, banks did not substantially provide the necessary assistance to SMEs because of the high level of risks associated with lending to small businesses.

However, in 2001, the bankers committee agreed to set aside 10 percent of the profit before taxes of each banks for financing of SMEs. A small and medium scale enterprises equity and investment fund was set up for this purpose.

The monetary authorities also set up the National credit Risk Fund to provide additional guarantee for credit accommodation to small and medium enterprises. Available data show that the level of financial accommodation to SMEs has increased with the introduction of the equity investment fund.

2.6 ROLE OF BANK CREDIT IN THE ECONOMIC SYSTEM

It is generally accepted that bank credit influence positively the level of economic activities in any country. It influences what is to be produced, who produces it and how much is to be produced.

This derives essentially from the intermediation role of banks (i.e link between surplus and deficit units in the economic system).

Bank credits affect and alter the level of money supply and costs of credit and thus moderate inflationary trends in the economy. This is premised on the fact that excessive credit expansion, affects money supply, which ultimately affects the level of inflation and aggregate economic performance.

Also, bank credit is the most important source of bank incomes. It affects a bank's profitability and long-term growth prospects. It is also the most important aspect of a bank's assets and infact the largest portion of the asset base. Bank credits also affect bank liquidity and non performance credits are the major cause of bank distress and failure. It is note worthy that the current distress in the financial system has its root in the large non-performing loans and advances granted by banks to various persons and the high level of credit abuses and inside dealings. Credits also promote the activities of bank and non-bank financial institutions and thus influence the level of growth of the financial system.

Finally, bank credit affects aggregate output and productivity, the pattern of production the level of entrepreneurship, the realization of aggregate economic performance and economic growth. It could thus be concluded that credit is of crucial importance to banks, the monetary authorities and also the growth of the economy. The role of deposit money banks credit is not only limited to the Nigerian economy, we can also refer to some other nations like the United States, we can also talk about the Evolving Role of deposit money banks in the US credit market. Samolyk (2000) stated that, the deposit money banks played a great role in funding non financial borrowing, ten years after the end of the industry's most significant crisis since the great depression, banking has remained a major player in financing the nation's economic activity. She also examined the evolving role

that deposit money banks play in the US credit markets.

The available data reveals several consistent patterns over the past two decades. First, there had been a permanent increase in the overall borrowing capacity in credit market. In other words, an increase in the credit market is associated with the functioning of the economy. This increase was associated with the decline in the share of domestic non financial borrowing that is directly funded by deposit money banks, but when debt growth leveled off in the early l990s, so did deposit money banks share of this credit market. Banks' smaller share of the credit market pie reflects a dramatic shift in the way loans to households and businesses are being financed. Specifically, asset securitization (the pooling of loans and their funding by the issue of securities) has allowed loans that used to be funded by traditional intermediaries, including banks to be funded in the securities markets. She also stated, however, that deposit money banks still play significant role in funding business borrowers: we estimate that the share of non financial sector business borrowing that deposit money banks fund on their balance sheet has not declined notably in five decades. Never the less, there has been a clean shift in how banks lend, a shift from shorter-term lending not secured by real estate to loans collateralized by business real estate. This shift may reflect banks' continuing comparative advantage in real estate lending. With respect to borrowing by households, in contrast, we find that the securitization of home mortgages and, more recently, of consumer credit has reduced the extent to which these types of loans are directly funded by deposit money banks (and savings institutions). This finding is consistent with the broadening of household-sector

credit market over time, longer-term increases in borrowing by households have generally not been associated with greater intermediation through banks. The securitization trend, however, has had a more severe effect on savings institutions than on deposit money banks. At the same time, the commoditization of credit markets, that is, the standardization, unbunding, and repackaging of payments and risks associated with credit flows makes it harder to measure the importance of banks as well as other intermediaries in providing credit related services. Balance sheet data on who is funding loans can be a poor proxy for who is providing the financial services associated with the credit flows. Deposit money banks, particularly larger institutions, provide significant services in originating, servicing, and enhancing the liquidity and quality of credit that is ultimately funded elsewhere. The provision of financial services is, however, reflected in bank earnings. And indeed, when one looks at income-based measures of market shares, one does not see any evidence of a secular decline in the importance of deposit money banking. Thus, the conclusion of this study is that although the role of deposit money banks in US credit market has certainly evolved, banks remain a critical part of the modern flow of funds that has broadened the availability of credit in the US economy. IFC's International Bank lending catalytic Role in $395 million syndicated loan to MTN Nigeria Scoops "Africa Telecoms Deal of the year" Award. Ahmed (2004) in Washington, stated that in Washington, D.C. / London, March 5, 2004 the International Finance Corporation, the private sector arm of the World Bank Group, received the "Africa Telecoms Deal of the year" award at Euro money's project finance magazine 4th Annual Awards Diner at the millennium Hotel, London, for its key role in a $395 million syndicated loan to MTN Nigeria Communications Limited (MTNN), the country's leading operator, announced on

Nov. 21, 2003; IPC contributed $ 100 million to the financing package — one of its largest ever investment in the telecommunications sector, and the corporation's second largest investment in Africa so far.

The project finance award for IFC's international and local bank lending — catalyzing role in the MTNN financing package represents a dual accolade to its sub-saharan African and Global information and communications technologies departments. Project finance said the award reflected that "the IFC part of the loan helped encourage other international lenders to provide the largest ever local currency debt facility Nigeria has seen — 10 times as big as its closest comparable deal. Another key factor that swayed the Africa telecoms deal of the year award to IFC is that its pivotal presence in the loan helped deepen local capital markets by catalyzing the largest non-natural resource financing ever seen in Africa. Haydee (2001) noted that the project finance award for IFC's catalytic role in the financing package, which MTN is using to expand and improve its network in Nigeria, was all the more satisfying because the MTNN transaction fitted so well with IFC's strategy for Nigeria anyway, namely, it facilitated private participation in key areas of infrastructure, spurred financial sector deepening, and has supported the government's reform of the telecommunication sector.

In February 2001, MTN Nigeria was awarded a 15-year GSM license through an open auction process and launched its service in August 2001. The company now provides coverage to 56 cities and over 1000 villages and communities spanning all of Nigeria's six geopolitical regions. Owing to robust demand for telecommunication services, MTN

Nigeria achieved a total of more than one million subscribers within less than two years. For more details on IFC's $ 100 million investment in the $ 395 million financing package to MTN Nigeria. IFC's strategic priorities in Nigeria include assisting small business by providing technical assistance and financing; assisting the non- oil sector, especially in financial restructuring and expanding nontraditional exports, enhancing the domestic financial sector by providing resources to deposit money banks for medium-term lending; introducing new financial products to enhance the development of local capital market, and promoting privatization and private investment in infrastructure services. Since its first investment in 1956, IFC has committed financing to projects in Nigeria amounting to $181 million as of FY 2003 — the largest country portfolio in Africa. The mission of IFC (www.ifc.org) is to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives. IFC finances private sector investments in the developing world, mobilizes capital in the international finance markets, helps clients improve social and environmental sustainability, and provides technical assistance and advise to governments and businesses. IFC's worldwide committed portfolio as of FY03 was & 16.8 billion for its own account and $6.6 billion held for participants in loan syndications.

The World Bank approved two poverty reduction loans, which heavily empower target communities with the projects management and implementation. The US$ 90 million in loans to Nigeria and Senegal aim to help the government from a top-down, supply-driven and non-participatory mode of delivering services communities, to a demand-driven approach to poverty reduction, covering multiple sectors and depending on specific community — determined needs. The total includes a US $60

million credit to the Federal Government of Nigeria local communities to help increase their capacity to work together in developing poverty reduction activities, and a US $ 30 million credit that will give local communities in Senegal an improved quality of basic social services, while helping them effectively manage their own development resources with equal participation of women and youth. The Nigeria Community Based Poverty Reduction project will improve access to poor social and economic infrastructure and increase the availability and management of development resources at the community level. This project will focus on two main components: (1) poverty reduction policy, designed and dissemination, and (2) community — based initiatives in basic social and economic infrastructure. State and local government will benefit through increased knowledge about, and capacity for community-based interventions and they will be able to target their resources in a more cost- effective manner. The Federal Government will benefit through increased capacity for policy analysis, monitoring and evaluation, and enhancement of its role as coordinator of the national poverty reduction strategy. The Federal Government of Nigeria has recently reoriented its focus towards developing community based poverty reduction approaches and it has constituted presidential panel to rationalize and streamline all the poverty alleviation related programs and agencies. The African Development Bank will co-finance the project with an additional US $26.74 million. These World Bank projects will support the following four of government's main strategic objectives:

a. Increased access to basic social services through direct and indirect poverty reduction interventions.

b. Increased access of poorer groups to micro-finance products and services existing, participating financial institutions and savings and credit associations.

c. Strengthening of community — based organizations, participating financial institutions and savings and credit associations.

d. Strengthening poverty strategy management, monitoring and evaluation.

According to Anyanwu (1991), credit to Agriculture has been of immense advantage to the Nigerian economy since Nigerian has land areas of 98.3 sq.km and 74million sq.km is good for farming, but less than half is being explored. The population involved in farming is up to 6O-7O%, Agriculture's contribution to GDP is also more than 41.5%, crops. Livestock and fish have potentials for providing food and nutrition. Despite all these, there is threat of hunger and poverty; 70% of the population live on less than N100 (US $0.7) per day, youth unemployment is on the increase, small holder farmers constitute 80% of all farm holdings; their production system is inefficient, there is regular shortfall in national, food import is thus a common feature. Agriculture is a key sector that can affect majority of Nigerians. Domestic food production is on the increase but not enough to meet national food demand, post harvest losses are more than 20-40%, because harvesting, processing/ storage technique are inefficient; as a result, supply is unstable. Access to adequate and nutritious food is limited by low-income/poverty, because nutritious foods are sometimes expensive. Domestic production has been on the increase but demand remained above production and food import is on the increase, food production must grow consistently well above demand to bridge shortfalls. Credits to agriculture will help increase the quality and quantity of Agricultural products and bridge the gap between the

high demand and low supply of domestic product which give rise to increase in importation which has an adverse effect on the economic development of Nigeria.

In addition to banks, there are other institutional programs that has been introduced recently for the support of agriculture in the Nigerian economy such as:

(1) National Acceleration Crops Production Programme (NAICPP) — 1996.

(2) Agricultural and Rural Transformation Programme (ARTP) — 2000.j

(3) National Economic Empowerment Development Strategy (NEEDS) was introduced in 2003/2004; it is a reform programme that encourages private sector operations.

Funding was, and remains a major problem for both the government and farmer investor. Government budget for Agriculture has been on the decrease and should rather be increasing this gave rise to sourcing assistance from external sources as the banks and other international finance institutions.

There are some others sectors of the economy that benefit from the bank credits and credits from other finance institutions. Like the IFC (International Finance Corporation.

(IFC) finance in Nigeria 2002,reports that the enthronement of democratic government in Nigeria, in May 1999, and the incessant foreign tours of Chief Olusegun Obasanjo to various developed economies to solicit for foreign investments and funds into the Nigerian economy, one can say that his efforts has yielded positive impacts, as more foreign aid and

foreign Direct Investment (FDI) have been flowing into the Nigerian economy. It is of great importance to note here that the International Finance Corporation (IFC) is one of the Bretton Wood institutions. Recently, term loans were granted to about seven institutions in Nigeria. This includes five banks and two other organizations, one in the transport sector and the other in security and safety services. International Finance Corporation IFC is an International organization, founded in 1956 to cater for economic growth and development of economies of developing member countries by promoting private sector development. IEC is a member of the World Bank group, which includes the International bank for Reconstruction and Development (IBRD) otherwise known as World Bank, the International Development Association (IDA) and the Multilateral Investment Guaranty Agency (MIGA). IFC is a legal entity separate and distinct from the World Bank, IDA and MIGA. It has her own Articles of Agreement, share capital, financing structure, management and staff. Although, membership of IFC is only open to member countries of the World Bank, which was put at 175 member countries as at June 2001.

IFC's prime product and service are loans, equity investment, quasi-equity, client risk management service, guarantees and partial risk guarantees, under writing and investment banking service, technical assistance, advisory activities and special targeted assistance to boost the economic welfare of member countries and private sector initiatives.

One of the principal areas of interest of IFC, is the finance of small and medium Scale Enterprise (SME) which they are thoroughly giving the highest priority in the financial assistance given to developing member countries and private sector of such countries. Seven Nigerian Institution were beneficiaries of IFC loan in the last accounting year.

These institutions includes Diamond Bank, Guaranty Trust Bank (GTB), FSB International Bank, Investment Banking and Trust Company Limited (IBTC), Citibank Nigeria, Oha Motors (Nigeria) Limited, and Safety Centre International Limited.

- Diamond Bank Nigeria Plc is one of the leading deposit money bank in Nigeria with branches in major cities of the federation. Diamond Bank is a deposit money bank with a strong focus on manufacturing, oil, gas, transportation and general commercial activities. They were given a loan of twenty million US dollars ($20 million) to assist small and medium scale enterprise (SME) for rehabilitation and new investment for viable projects.

IFC Finance and Projects in Nigeria (2002) Reports that; Guaranty Trust Bank Plc over the years has proved to be one of the leaders in the emerging new generation banks in the Nigerian financial market. It is quoted on the stock exchange and ranks among one of the top twenty quoted companies on the Nigerian Stock Exchange in year 2001. IFC term loan given to GTB was put to twenty million US dollars (US$20 million) to finance SME's in Nigeria. This will be on lent to private sector companies operating in a variety of sectors, especially serving export or domestic market.

- PSB International Bank is another banking institution that received IFC term loan to be on lent to private Nigerian enterprises for rehabilitation, project finance, trade finance, working capital and new investment project. A term loan of twenty two million five hundred thousand US dollars (US$22.5 million) was granted to this reputable bank of good track record as a formidable bank in the Nigerian financial market.

- Investment Banking and Trust Company Limited IBTC has become a household name in the banking Industry in Nigeria. As a bank with an excellent financial testimony in investment banking as an area of specialization. They received IFC term loan up to twenty million US dollars ($20 million) to finance SME's operations in Nigeria. This will be on lent to private sector companies operating in a variety of sectors, especially serving export or domestic market.

- Citibank Nigeria, a member of the Citi Group of companies received the highest IFC term loan of forty million US dollars (US$40 million) to finance Nigerian private enterprise. Citibank, a renown bank with a strong information technology bedrock will assist in financing SME's and entrepreneurs both in the formal and informal sector of the economy for loans in the following key areas, rehabilitations, project financing, trade financing, working capital and new investment projects.

Limited companies in the transport business sectors were not left out, Oha motors an emerging company in the transportation venture in Nigeria was given IF'C loan of nine hundred US dollar (US$0.9) to acquire 6 new 55-seater buses to ply Lagos-Abuja route. Part of this loan will also be used to rehabilitate their old and dilapidated buses and acquire skilled man-power among others, this loan has gone a long way to improve road transportation in Nigeria. Jf'C in a bid to make the Nigerian environment more investment friendly realizes that providing private security system network and fire fighting service to safe-guard investments that will be serviced through loans given to IFC beneficiary banks who will invariably give out such loans to entrepreneurs in Nigeria. In other words, IPC gave out a term loan to safety centre international, a private security outfit to set up a

training centre for fire brigade and safety personnel. This is to be the first of its kind in the country. A loan of five hundred thousand US dollars (US$0.5) was approved by IFC for the organization.

Apart form the IFC term loan enjoyed by private sectors in Nigeria, there are other projects that are being approved for finance by fEC in the country, among which are Niger Delta Contractors Revolving Credit facility, Novotel Port Harcourt Hotel project. Citibank NigeriaETM. Also, technical assistance and advisory services is currently being given to the privatization exercise in Nigeria. IFC is the lead advisor to government on the privatization moves of Lagos State Water Corporation, the reviewed Nigeria Investment Promotion Council Commission (this under their Foreign Investment Advisory Service FIAS") and they under took diagnostic study oF environment for non-oil sector, they supported the establishment of financing facilities for small enterprises serving the oil sector.

Over the years fEC has shown that good investment returns are compatible with creating employment, a healthy environment and an improved quality of life in developing countries. These IFC loans have further enhanced economic development through empowering the private sector. This is a task they have carried on their shoulders and which they hope to realize in Nigeria, a country that is reputed to be a leader in the emerging economy. The sleeping giant of Africa that is fast waking up to assume, her enviable position.

(IFC report 2002) further stated that, meeting the challenge of climate change in Nigeria, will require the involvement of the private sector to develop and introduce new

technologies, as well as create supportive business models and marketing practices. IFC is calling on banks in developing countries to increase their lending to companies wishing to invest in climate —friendly technologies. In a message delivered at a United Nations Conference in Nairobi to discuss the future of the United Nations climate convention, Lars Thunell (2002) urged delegates to consider ways to empower the private sector. He said "private companies in developing countries can play a significant role in combating climate change, but they still face a number of obstacles, including access to finance for investing in clean technologies".

Stern (2002), finds that costs of stabilizing the climate are significant but manageable, whereas delay would be dangerous and much more costly.

IFC provides financing for a variety of climate change mitigation ventures. Through innovative business models, IPC has been demonstrating the profitability of clean energy investments.

Supporting private sector investment in climate — friendly technologies is particularly important in developing countries like Nigeria.
IPC lighting the Bottom of the pyramid project is an initiative to mobilize the private sector for a commercial solution to a global development challenge. In china IFC brought together for the first time a gas company, a supplier of clean energy equipment, and a commercial bank, industrial bank, to create a new financing model. The bank provides commercial credit to the customers of the Xinao gas company to finance their clean energy projects. Xinao Gas Offers advice on reducing energy consumption and pollution. It also provides the equipment — such as boilers and heating systems — and partners with

industrial bank to provide loans for the equipment. The result will be $150 million worth of clean energy projects over six years, and a total carbon dioxide reduction of five to 10 million tons.

Going back to financing for Agriculture in Nigeria, we can say that increased financing for agriculture has and will continue to firm an important part of president Obasanjo's economic reforms. Agriculture is a vital sector for the development of the Nigerian economy, as the oil sector alone cannot be the engine of sustainable development. While oil revenues form the largest share of government income, it is the agricultural sector that employs 70% of the population and provides subsistence for two thirds of Nigerians who are low-income earners.

According to the most recent studies every 1% rise in agricultural productivity has a dramatic effect on reducing poverty (by as much as one-sixth of one percent). Very few countries have experienced rapid economic growth without agricultural development. In Brazil, India, and China reforms in the agricultural sector served as the foundation for their overall economic development. Nigeria's economic reforms are designed to realize the targets articulated in the Nigerian Economic Empowerment Development Strategy (NEEDS) and to facilitate achievement of the millennium Development Goals (MDGs). As we continue to consolidate on the gains of the first phase of the NEEDS programme, we are already embarking on providing the policy framework for the second phase of NEEDS if we are to timely achieve the MDGS. The key components of NEEDS are poverty reduction, wealth creation and employment generation. It is without doubt that these objectives cannot be achieved without a strong and sustained growth in the

agricultural sector. If we are to make an impact on improving the livelihoods of Nigerians living near the poverty line, we need to invest in agriculture.

President Obasanjo's commitment to agriculture is reso'ute. This is demonstrated by the fact that since 2003, federal government expenditure on the sector has increased by 20% per annum. Furthermore in 2006, agriculture was allocated the sum of N8.7 billion from the debt relief savings. Not only have we increased our overall spending, we have diversified the areas of support by providing funding for areas such as National food security and the acquisition of silos despite all the government support for agriculture, the central bank of Nigeria most times persuade the deposit money banks to give credits in support of Agriculture in Nigeria, since agricultural products provides more than 80% of Nigerians their daily bread.

We also envisage that by the creation of the Virtual Poverty Fund (VPF) agriculture will continue to benefit from savings in the future. In addition to federal funds, agriculture receives significant levels of support from state governments, which further aids the development of the agricultural sector. However it needs to be emphasized that this increase in funding is not designed for government to engage in the production or distribution of agricultural produce. Instead the policy is designed to create an enabling environment for the private sector to achieve growth in agriculture.

One of the policy measures we are working towards is the award of the contract for the construction of the East-West road and the dualization of the kano-maiduquri road to aid

the free flow of people and goods, especially agricultural products. To achieve this however, it has become apparent that additional budgetary funding will be required and the ministry will therefore; seek the approval of the National Assembly for extra spending on infrastructure.

Till date our economic reforms have made the following achievements: reforms have increased the availability to farmers of inputs such as pesticides, fertilizers, and high yielding seed varieties-helping to increase overall productivity in the sector.

Government has implemented structural reforms to alleviate the supply side constraints, which used to hamper rural communities from having affordable access to power, irrigation water, and roads. As part of these structural reforms, we have dedicated about N4.2 billion from the excess crude oil Account to support crucial projects, such as the independent power plants in the Niger Delta and the gas pipelines to service these power plants.

Increased expenditure and reform in the health sector has helped to reduce the impact of diseases such as malaria, TB and HIV on rural communities. This is clearly important, but it has also had the additional benefit of increasing the productivity of those employed in the agricultural sector. As a result of our commitment to economic reforms, our country's international standing has also been significantly improved; this has led to a significant increase in external support to the agricultural sector. This support is crucial if we are to bridge the $3 billion financing gap necessary for the achievement of the NEEDS objectives.

These reforms have translated into concrete results and impacted positively on the lives of our farmers. As a result of the reforms in the agricultural sector, since 2003, growth has increased significantly to an average of 6% p.a. compared to an average of around 3.5% in the previous 15 years.

The importance of credit for growth in Agriculture rest on the fact that despite the increase in agricultural growth we are not resting on our oars. In 2006, government has set an ambitious, but achievable target growth rate of I 0% with a strong focus on the agricultural sector; we will be able to meet this target. A significant pant of these efforts will focus on improving the access of farmers to affordable credit. Access to credit is an important mechanism to enable increased investment in this productive sector that will uplift the standard of living of our farmers. In the short run, access to credit will enable our farmers to overcome vagaries of weather, protect our food security and reduce the need of farmers to sell their assets to ensure their survival during difficult times. In the long run, access to credit will permit our farmers to finance investments in machinery, tools and agricultural inputs thereby reducing production costs and increasing productivity.

In the past our farmers had found it difficult to access credits from deposit money banks, particularly when compared to other sectors of the economy. This has been partly due to weaknesses in the financial institutions, particularly a failure to develop a lending policy suitable for the agricultural sector there have also been constraints in the rural financial environment. Such as, the weak flow of information between farmers and lenders on the opportunities available, and the high risks inherent in agricultural lending.

2.7 REFORMS TO IMPROVE ACCESS TO CREDIT FOR THE AGRICULTURAL SECTOR

To help reverse this trend, the present Government has extended existing programs such as the Agricultural Credit Guarantee Scheme Fund (ACGSF) and increased the capacity of the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) to allocate funds for agricultural development.

Since 2003, the ACGSF has guaranteed close to N2.5 billion of credit and in fsrt 3 months of 2006, the fund guaranteed over N391 million of loans to farmers. In the 2005 budget the sum of N5 billion was provided to recapitalize the NACRDB and an additional N2 billion was provided to facilitate the establishment of a micro-credit fund, Mr. President initiated a committee on financing of Agriculture, which has introduced a new Agricultural Credit Support Scheme (ACSS). The ACSS aims to provide a fund of N5 billion, which will be used to provide increased access to affordable credit for Nigerian farmers. In the past five months, the sum of N46.7 billion of funds has been mobilized by the ACSS out of the intended N50 billion and the guidelines on how to access this has been widely publicized. These funds are available to farmers at a concessionary rate of 14%. There are incentives for early repayments. Borrowers who make timely repayments are granted a rebate of 6%, which is covered by the Central Bank, thus reducing the interest rate to only 8%.

Despite all these achievements we are faced with some challenges. As of yet the progress made in the approval and disbursement of the N46.7 billion available have been rather slow. Current figures from the Central Bank of Nigerian indicate that only 389 applications for loans amounting to Nl5.13 billion have been received. Unfortunately, only

44 loans amounting to N71 billion have been approved. Therefore to date only 1 *5%* of mobilized funds have been allocated to farmers.
This slow progress has been attributed mainly to the low levels of participation in the scheme by the State Governments and deposit money banks. The State Government is yet to contribute their expected share of N7.2 Billion to the fund. Furthermore many of them are yet to set up their ACSS state implementation committees, which could have assisted in improving the awareness of the scheme within the farming communities around the country. To this end, stakeholders should increase pressure on the states to ensure that they set up their committees as quickly as possible. The NACRDB has already made significant progress in allocating close to all of its N2.5 billion comparably; the rate of loan disbursement by deposit money banks to farmers remains a major challenge in achieving the goals of the ACSS. Many of the deposit money banks are yet to make any loan approvals under the ACSS, to all nationwide branches, which is further weakening the take-off of the scheme in different areas of the country. These draw backs are not acceptable and should be addressed immediately.

We recognize that the Low Deposit Money Bank participation may be partly due to the current low level of expertise on agriculture, within the Banks. Some have begun to remedy this, by establishing desks specializing in agriculture, but efforts need to be increased. In the coming months we need to find a way to share the agricultural skills and knowledge existing within the various Ministries, Departments and Agencies of Government with the Deposit Money Banks, Potentially through secondments and capacity building seminars. In addition, banks may consider the utilization of the enormous capacity residing in vastly experienced retirees from Government Agricultural

Agencies. If we are to unlock the vast potentials existing within Nigeria's agricultural sector, we need to work in partnership with the private sector to ensure the removal of the constraints that had previously held back the sector in order to achieve the 10% growth target in 2006. We must bear in mind that this is an effective means of poverty alleviation. The federal ministry of finance has been putting heads together with the federal ministries of Agriculture, water resources, power & steel and others that have direct relevance in boosting agriculture to develop further policies and programmes that will positively impact on the agricultural sector and thus on the vast majority of Nigerians. Indeed to achieve our 20: 20: 20 vision, we must sustain and even boost the current tempo in financing agriculture because it is the surest way of attaining our twin goal of economic growth and development.

2.8 RESTORING URBAN INFRASTRUCTURE AND SERVICES IN NIGERIA

Deposit money banks lending was also extended to the maintenance of public utilities. According to World Bank report (1996), Nigeria Urban Infrastructure is crumbling, water supply, sewerage, sanitation, drainage, roads, electricity, waste disposal all suffer from years of serious neglect periodic and routine maintenance, by far the most cost — effective infrastructure spending, is almost zero. It has become the norm in Nigeria to wait for a capital infusion to rehabilitate, replacing instead of maintaining the infrastructure. But declining financial resources are making this less feasible, and the deterioration is accelerating. Compounding the situation is the rapid urbanization, mostly migration from rural areas. The number of people living in Nigeria's towns and cities is expected to double to 80 million may reach 100 million by 2010. The reliance on government for the maintenance of these infrastructures has failed most of the time. Credits from deposit

money banks have gone along way to help in the maintenance of these urban infrastructures. Trying to control or limit rural migration is unrealistic. Urbanization is a position force in development. Cities and towns are home to most industry, commerce and services, all of which can be highly productive, most of these "industries rely on these urban infrastructure to carry out their activities successfully, but in a situation where these infrastructure can not be fully relied on as a result of shortage of funds for maintenance, these industries can rely on deposit money banks for credits for the repairs and maintenance of these infrastructure. Nigeria's urban population, over the period 1980 1993, grew at an astonishing 5.5 percent a year, compared with 2.9 percent nationwide. Many urban Nigerians, however, do not earn enough to cover even basic needs. An estimated 21 percent or so (8.5 million people) were below the poverty line in 1992 93. They, more than anybody, suffer from the breakdown in urban infrastructure, especially through poor health.

Urban pollution and poor management of municipal waste (sewage and refuse) add to the health hazards. Numerous industries, From pulp to petroleum, dump untreated and often toxic liquids in open gutters, streams, rivers and lagoons.

2.9 NEED FOR REALISTIC PLANNING

In recent years, Nigeria's leadership, institutions, and policies have been subject to abrupt and unpredictable change, making any planning difficult. A starting point for action can be found in the — National Urban Development policy, prepared in 1992. This, however, has not been adopted officially.

Other government policies have harmed urban productivity and welfare. Fiscal deficits have fueled inflation. Big subsidies for fertilizer, petrol and loss-making state enterprises drain revenues away from more productive use. Inadequate control on public spending, massive extra budgetary allocation, and lack of accountability and transparency hinder allocation of resources for infrastructure and social service. With scarce financial resources and too few trained people, local government and private sectary are unable to carry out their assigned functions. As usual, the poor suffer most. Relieving and reducing poverty must be the main aim of urban development. Even modest investment, which can be commenced through credits obtained from deposit money banks, can make a big improvement in the lives of the urban poor. Better basic services in low-income urban areas can have a major impact on the welfare and productivity of the poor. But such investment must be part of broader programs for primary healthcare, education and employment.

2.10 FUNDING STRATEGY

Given Nigeria's difficult financial situation, where could it find the money for new and rehabilitated urban infrastructure and services cutting bureaucratic waste and many publicly — funded capital projects and credits from deposit money banks would help almost immediately. So too, would tighter controls on extra budgetary spending encouraging privatization of state-owned enterprises, and policies that promote private funding of some ventures, such as urban water and electricity supply, garbage removal, and housing would be critical to change. Infrastructure financing would be helped enormously if the flow of federal statutory allocation to states was more predictable.

Annual budget surpluses and federal grants, however will not pay for many large infrastructure investments, in this situation, loans from banks can be of very great assistance.

In the long run, the domestic capital market for infrastructure needs to be developed. That requires fiscal and monetary discipline to lower inflation and bring down interest rates to affordable levels. The Nigerian government also needs to deal effectively with the banking crisis and restore credible and effective regulation.

In a nut shell I can say that deposit money banks' credits has gone a long way in the assistance of private investments which is on the increase in Nigeria economy. The improvement of urban infrastructure and services is critical to national economic development. Lack of attention to these issues will have a considerable negative impact on the lives and hopes of Nigerians both in rural and urban areas.

According to Chukwenclu and Awkoyo, (2007) Agricultural credit is a necessity in increasing the capital base of women farmers. Women farmers, like most small-scale farmers in Nigeria, do not always have enough funds for farming. Their problem is even more compounded by the fact that they do not have easy access to agricultural credit because they lack such security as land. Findings of the present study confirmed that a majority of the rural women farmers interviewed (76.6%) did not have enough fund for farming (table 2.1). Only 27.7 percent of the women obtained credit for farming during the 1993 season. The few women who obtained credit for farming obtained it through different sources, which include loans from commercial banks.

Table 2.1

Distribution of women farmers by adequacy of funds and access to agricultural credit.

Variables	No of Respondents	Percentage
Adequacy of funds for farming		
Adequate	457	23.4
Inadequate	1498	76.6
Obtained agric credit in 1993 season		
Yes	542	27.7
No	1413	72.3
Source of credit		
Bank	93	17.1
Cooperative	146	27.0
Friends and neighbors	157	29.0 Husband
83	15.4	
Government	63	11.5

Source: Chikwendu and Arokoyo(2007)

It is generally believed that lack of collateral and gender contribute to women's limited access to deposit money bank loans in Nigeria. However, in recent times, deposit money

banks contribute the largest source of credit for rural development, which mainly focus on Agriculture. Anyanwu 1991, made some observations which are:

- Nigerian women do not have limited access to deposit money bank credit, rather fewer women than men apply for credits.

- Nigerian deposit money banks do not discriminate against women on the basis of gender when approving credit applications. A woman's age, educational level and occupational group are not a limitation to her access to credit facilities from deposit money banks.

- The size of a woman's business and income, assets or wealth can be a limitation to her access to deposit money bank credit.

- The cost of credit, loan application procedures, paperwork and a woman's distance from a financial institution are not impediments to her access to credit.

- Language problems (especially English) are not a constraint to women's access to deposit money bank credits.

From these observations above, it would be seen than banks do not discriminate against anybody because of gender. Rather, banks have gone along way to assist both men and women in the area of granting them loans, which has enhanced their small-scale business.

Deposit money banks credit has also been of great assistance to the improvement of quality of lives of Nigerians. Iheduru (2002) talked on Women Entrepreneurship and development she was of the view that women in Nigeria are considered to be the poorest

of the poor. The state of Micro credit summit campaign 2001 report defines “poorest” as “the bottom half of those living below their nation’s poverty line”. According to the World Bank, Nigeria has a national poverty line of 43% in the 1997 survey year. Within the country, 31.7% in urban areas and 49.5% in rural areas lived below the national poverty line. This means that about half of citizens considered “poorest” in Nigeria lived in rural areas. By the year2000, Nigeria had plunged from the “Human Poverty Index (HPI) ranking of 62 in 1998 to 151 in the world. Nigeria’s HPI for 2001 deteriorated to a low 37.6%. This is in conformity with the micro credit summit campaign definition of “poorest”. The import of this is that the governments of Nigeria need to do more to deal with the ever-increasing incidence of rural poverty. In this regards, micro finance policies are excellent microeconomic tools for effecting the required change. Microfinance program when properly implemented, help not only to reduce poverty but contributes to the empowerment of citizens. This financial assistance helps to increase economic activities and raise the standard of living in the process.

It *was* also noted “The People’s Bank of Nigeria is the first institutional bank to link loans, credits and financial services with improvements in health status and quality of life. The development of sound micro credit or microfinance policies underlie the course of a good approach to solving the incapacitation of the poor in the rural and disadvantaged areas of Nigeria move out of poverty. For this to be effective the people must develop the capacity to generate and maintain their means of livelihood and produce excess that will eventually lead to savings, this generation of means of livelihood can be done through loans from deposit money banks. The role of deposit money bank credits in rural and community development cannot be overemphasized.

Deposit money banks mop up and allocate micro credits and thereby facilitate the capacity of the rural poor men and women to embark on income yielding economic endeavors. As a recent study of deposit money banks in Nigeria has shown, micro enterprise have through loan availability been able to sustain and promote rural development, with the help of deposit money banks, communities are realizing that they can advance their own economic fortunes. Deposit money banks have great potentials for promoting rural development. IFC report (2006) still emphasized on women entrepreneurship. In Washington D.C, /Abuja, Nigeria,

June 9, 2006 — the International Finance Corporation (IFC), the private sector arm of the World Bank Group, signed an agreement to provide a $15 million loan to Access Bank Plc, one of the Nigeria's leading banks. The loan will be used to extend lines of credit to women entrepreneurs. With this loan, Access Bank Plc will be one of the first banks in Africa to dedicate lines of credit to finance women-owned businesses. This is the first major loan under IPC's gender entrepreneurship markets (GEM) program, which is designed to leverage the potential of women in emerging markets. Declan (2007) said "women are a driving force in the African economy but their access to finance is still far too small. This is why IPC is partnering with Access Bank a dynamic and innovative local bank to bridge the gap. This initiative will increase the contribution of women owned businesses to the Nigerian economy and can have a significant development impact. IFC's funding will allow Access Bank to meet the financing needs of its female clients particularly those running small and medium enterprises. At the same time, IFC's Gender Entrepreneurship markets program will provide comprehensive assistance and training to

enhance the bank's ability to reach out to the women's market as well as provide business and management training for women entrepreneurs.

Aigboje (2007) has been searching ways to address the needs oF Nigeria's women entrepreneurs. We are very pleased to partner with IFC to launch a new credit program that will enable us to increase our support to women — owned — businesses, we plan to demonstrate that supporting women entrepreneurs in Nigeria is a commercially viable operation". Access Bank has recently become the first deposit money bank in Nigeria to be admitted to the Global banking alliance for women, a consortium of best practice bank that leverage the women's market for profit as well as social good.

Kyte, (2007) said "in partnering with access bank to develop a credit line specifically for women, we are working toward the internationally community's third millennium Development Goal, which is to promote gender equality and empower women". IFC's partnership with Access Bank is a pilot program that IFC aims to replicate in other emerging markets. World Bank Group research has established that women are more likely than men to contribute additional income to household poverty reduction, that giving more women access to credit and increasing their economic power is more likely to translate into improved livelihoods for a wide cross-section of society. Access Bank is a full-service deposit money bank operating through a network of over 80 branches and services outlets in all the major commercial centers in Nigeria; its principal business activities include retail banking, deposit money banking, corporate finance, trade finance, and foreign exchange service. As of March 2006, it reported total assets and shareholders funds of $1.3 billion and $201 million respectively.

The International Finance Corporation which is mostly engaged in the extending of credit to other financial institutions like the deposit money banks, created the GEM initiative in December 2004 to address the economic inefficiencies and social inequities that arise when aspiring business men and women cannot realize their full potential because of financial problems. The mission of IFC is to promote sustainable private sector investment in developing countries through the loans it gives to other financial institutions like the deposit money banks, the IEC also mobilizes capital in the international financial markets, helps clients improve social and environmental sustainability.

2.11 THE ROLE AND EFFECT OF CREDITS ON FISHERIES DEVELOPMENT IN WEST AFRICA

The objective of the fisheries development program in Nigeria According to the FAQ Corporate Document Repository (1990) fishery department, reflect the general or overall objectives of the economy as a whole. As far back as the late seventies it was realized in the country that, if balanced growth were to be achieve the earnings from petroleum had to be injected into all sectors of the economy. Moreover, high rates of urbanization and the increasing rate of population growth called for immediate action if the deteriorating food situation were to be arrested. To achieve this, most citizens who are involved in fishery business resort to credits from the banks rather than relying on government subsidy, which might never come to them. With respect to the fishery sub-sector of Agriculture, the following objectives were clearly stated in the 1980/85-development plan:

1) Increase in domestic fish production. This objective was adopted as a way of arresting the increasing dependence on fish imports while the country resources remain underutilized.

2) Increase in supply of fish products. The rationale behind this was to exploit the scientific research information transforming under utilized species of fish into by-products such as fishmeal for the local industries.

3) Foreign exchange generation: This objective was addressed to the harnessing of the exploitation of such resources as tuna and shellfish resources such as shrimps for the foreign market. It was the desire of the nation to diversify its resources of foreign exchange earnings for stabilization purpose.

4) Provision of employment opportunities in fish production and fish processing. Fish production, like any other primary production activity generates secondary benefits in processing, packaging and distribution. The government aimed at using investment in fisheries as a way of solving some of the unemployment problems facing the country. For every fishing unit that assisted secondary employment is generated in industries servicing the fisheries as well as in the service sector in fish handling and distribution.

5) Improvement in the standard of living of small-scale fishermen. According to the government, the basic objective was the improvement in the environment and living conditions of fishing communities through the provision of water, roads, health and educational facilities in the hope that such measures would contributed to increased productivity and economic development.

Other objectives include provision of cheap sources of protein, balanced development, introduction of new technologies into fisheries and the training of Nigerians in marine and navigational sciences. All the above mentioned objectives cannot be achieve with the insufficient funds of the fishermen, there is still need for the help of financial institutions as the deposit money banks in the area of giving loans which helps in the achievement of the desired goals in fishery business which will also bring about economic development and reduction in the over reliance of imported foods. The table below presents the cumulative loans granted to the fishery sub-sector, the interest rates chargeable on the loans and the extent of transfer resulting from the rate to the beneficiaries.

Table 2.2

Calculation of subsidy on credit to the fisheries

Year	**Loans granted to fisheries (N million)**	**Subsidized into Rate** (%)	**Value at end of 2 years (N million)**	**Commercial Rates** (%)	**Value of end of 2 years (N million)**	**Transfer to fishermen (N million)**

					(B)	
1980	13.6	5	15.0	12	16.8	1.8
1981	14.4	5	15.9	12	18.1	*2.2*
1982	14.4	5	15.9	12	18.1	*2.2*
1983	11.5	5	16.0	12	18.2	2.2

Source: Basic data from Centre Bank Annual Reports — various issues.

From the table 2.2 above it was observed that despite the lower rates of subsidy by government, the deposit money banks has also assisted greatly in the area of granting credit for fishery development.

CHAPTER THREE

3.0 RESEARCH METI4ODOLOGY

3.1 INTRODUCTION

The essence of this chapter is to describe the methodology adopted for this report. Hence, the chapter covers such areas as research design, sources of data, model specification, as well as the tools of analysis.

3.2 SOURCE OF DATA

The nature of the research work prompted the use of secondary data. In other words, the essence of using secondary data is because of the nature of the study data, which essentially involves the use of published works. The data were sourced through:

(a) Central Bank of Nigeria Statistical Bulletin (Various Issues)

(b) Central Bank of Nigeria: Annual Reports and Statement of Account (Various Issues)

(c) National Bureau for Statistics etc

3.3 MODEL SPECIFICATION

Regression analysis is used in developing a model of relationship between monetary policy instruments credit. There are a total of six (6) variables involved, which will be regressed against the bank loans and advances.

This model is expressed as

Y=po+p1XI+132X2+....13X+e1 . 3.1

Where;

Y = Bank loans and advances, LAD_t

β_0 = The Intercept

X_1 = Cash reserve Ratio, CRR_t

$X_{.2}$ = Liquidity Ratio, LIQRt

X_3 = Interest Rate, $INTR_t$

X_4 = Minimum Rediscount Rate, MRR_t

X_5 = Treasury Bill Rate, TBR_t

X_6 = Money Supply, MS_t

β_1, β_2..... B_n = Slope or coefficient of independent variable "X"

ei Error term.

Re-writing equation 3.1, we have;

LAD = 1o + I31CRRt + f32LIQRt + 1331NTR1 + 134MRRt + 135TBRt + I36MSt + e ---
---------- 3.2

3.4 TEST OF HYPOTHESES

The hypotheses stated in chapter one are restated as follows:

Hoi: There is no significant relationship between Liquidity ratio and bank credit

Ho2: Interest rate has no significant impact on bank credit.

Ho3: Cash reserve requirement does not significantly affect bank credit.

Ho4: The minimum rediscount rate does not significantly affect the level of bank credit

Ho5: The level of Treasury bill rate has no significant effect on bank credit.

Ho6: There is no significant relationship between money supply and bank credit.

Where "n" equals the number of observations or the sample size. All the above parameters are summarized in the table of analysis of variance as follows:

TABLE 3.1: HYPOTHETICAL AVOVA TABLE

Source of Variation	**Sum of Squares**	**Degree of Freedom**	**Mean Square MS**	**F-Ratio**
	SS	**DF**	**MS**	
Regression	$RSS=Y^2R^2$	(k-I)	$RMS=\frac{RSS}{K}$	$F=\frac{RMS}{EMS}$

Error	ESS=	n-kr	EMS=ESS
	∑y2(1R)2	k-I	n-k
Total	TSS =$\sum Y^2$	n-i	

Note:

RSS = Regression sum of squares

ESS = Error sum of squares

TSS = Total sum of squares

N = Number of observations

In multiple regressions, we are interested in testing whether or not there is a significant relationship between the dependent variables (Y) = (LAD) and the independent variables Xl, X2 Xn.

3.5 DECISION RULE FOR TESTING HYPOTHESES

A stated hypothesis is accepted or rejected based on the following rules:

Accept the null hypothesis (Ho) If F* < F'i-cx; Vi(K-1) and V2(N-K) degree of freedom, otherwise the null hypothesis (Ho) is rejected. F 1-a; n-k-l is the critical value obtained from the standard F- distribution table and a = the chosen level of significance, which for the purpose of this study is 0.01 or 0.05 (ie 1% or 5%).

CHAPTER FOUR

4.0 DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 INTRODUCTION

Our chapter three described in lucid form, the methodology adopted in this report. Hence, the chapter clearly defined the model and variables of the study.

The task in this chapter four however, is to present, analyze and interpret the results of our hypotheses in order to draw policy implications. It is equally instructive to note that only secondary data were employed for the analysis, as derived from the Central Bank of Nigeria publications as well as the National Bureau for Statistics. Other supporting analytical tools include simple percentages, charts and graphs as found applicable. The main statistical tool of analysis is the multiple regression model as occasioned by the nature of the present analysis.

4.2 DATA PRESENTATION

In this section of the report, we present the data set on monetary policy instruments and banks' total credit as proxied by banks' total loans and advances covering a period of twenty years, from 1986-2005.

Hence, Table 4.1 contains the figures for Cash Reserve Ratio (CRR_t), Liquidity Ratio ($LIQR_t$), Interest Rate ($INTR_t$) Minimum Rediscount Rate (MRR_t) Treasury Bills Rate (TBR_t) and Money Supply (MS_t) as explanatory variables and banks total Loans and Advances (LAD) as the dependent variables all for the period under investigation.

Table 4.1: Monetary Policy Instruments and bank Credit, 1986-2005.

YEAR	CRR_t	$LIQR_t$	$INTR_t$%	MRR_t%	TBR_t%	MS_t₦,m	LAD_t₦,m
1986	1.7	36.4	12	10	8.5	2421600	83.2
1987	1.4	46.5	19.2	12.75	11.75	3209280	72.9
1988	2.1	45	17.6	12.75	11.75	4278030	66.9
1989	2.9	40.3	24.6	18.5	17.5	4622290	80.4
1990	2.9	44.3	27.7	18.5	17.5	6490270	66.5
1991	2.9	38.6	20.8	14.5	15	8615250	59.8
1992	4.4	29.1	31.2	17.5	21	12908540	55.2
1993	6	42.2	18.32	26	26.9	19847920	42.9
1994	5.7	48.5	21	13.5	12.5	28272540	60.9
1995	5.8	33.1	20.79	13.5	12.5	31876340	73.3
1996	7.5	43.1	20.86	13.5	12.25	37033350	72.9
1997	7.8	40.2	23.32	13.5	12	42973130	76.6
1998	8.3	46.8	21.34	14.31	12.95	54023730	74.4
1999	11.7	61	27.19	18	17	69973370	54.6
2000	9.8	64.1	21.55	13.5	12	103607960	51
2001	10.8	52.9	21.34	14.31	12.95	131586920	65.5
2002	10.6	52.5	23.9	19	18.9	159949460	62.8

2003	10	50.9	20.48	15.75	15.02	198519180	61.85
2004	8.6	50.5	20.62	15	14.21	226356790	68.6
2005	9.7	50.2	19.47	13	7	262645210	70.8

Source: CBN Statistical Bulletin and National Bureau for Statistics Publications.

4.3 TEST OF HYPOTHESES AND DATA ANALYSIS

4.3.lThe Influence of Monetary Policy on Bank Credit

The following hypotheses are tested:

Hoi: There is no significant relationship between Liquidity ratio and bank loans

Ho2: Interest rate has no significant impact on bank credit.

Ho3: Cash reserve requirement does not significantly affect bank credit.

Ho4: The minimum rediscount rate does not significantly affect the level of bank credit

Ho5: The level of Treasury bill rate has no significant effect on bank credit.

Ho6: There is no significant relationship between money supply and bank loans and advances.

To test the effect of monetary policy on bank credit, the study therefore applied the multiple regression model as already spelt out in chapter three. Recall that the use of a multiple regression model enables us to test both the joint and individual effects of the explanatory variables (monetary policy instruments) on bank total credit (loans and advances). The result of this test is presented in

Table 4.2.

Table 4.2 Hypotheses Results/Output

R	0.793
R2	0.628
Adj. R2	0.457
Standard Error of Estimate	7.49157
Observations	20
Predictor Variables	6

Variables	**Coefficients**		**Std. Error**	**t(Df= 13)**	**significance**

Intercept	β_0 =	103.525	15.849		
$X_1 = CRR_t$	β_1 =	-0.207	0.934	-0.221	0.828
$X_2 = LIQR_t$	β_2 =	-0.575	0.285	-2.017	0.65
$X_3 = INTR_t$	β_3 =	0.249	0.515	0.483	0.637
$X_4 = MRR_t$	β_4 =	2.070	1.777	1.165	0.2655
$X_5 = TBR_t$	β_5 =	-3.228	1.459	-2212	0.45**
$X_6 = MS_t$	β_6 =	-44.35e-009	0.000	0.126	0.902
ANOVA Table					
Source	SS	DF	MS	F=3.662	0.024*
Regreesion	1233.098	6	205.516		
Residual	729.608	13	56.124		
Total	1962.706	19			

NB: ****= significant at 0%, ***= significant at 1%, ** = significant at 5%, Vi = 6, V2 = 13: DF (6,13); P(F>4.62) at 1% level of significance, P(F>2.92) at 5%; level of significance; t (DF=13), P(t>3.0123) at 1% level of significance, P(t>2. 1604) at 5% level of significance.

4.3.1.1 Test of Model Significance - ANOVA Method

In testing the model significance, we compare the computed f-ratio with the tabulated or theoretical f-ratio. Here, from table 4.2, the calculated f-ratio, degrees of freedom (K-i; N-K or 7-1; 20-7 = 6, 13) is given as

F-calculated	=	3.662
F-tabulated, 1%	=	4.62
F-tabulate, *5%*	=	2.92

Therefore, since, F-calculated is greater than F-tabulated (i.e. 3.662>2.92), we reject Ho and accept Ha to conclude that there is a significant relationship between monetary policy and bank credit. The estimated model is in fact, even significant at 2.4%.

4.3.1.2 Test of Model Significance — The Coefficient of Determination R2, Approach

Another way to determine the model significance is through the coefficient of multiple determination, R2, test. This method is adopted in calculating the F-ratio using the formula thus;

$$F\text{-cal} = \frac{(R2) / (Kj1}{(I-R2) / (N-K)} \quad 4.1$$

Where;
R2 = 0.628
K = 7
N = 20

$$F\text{-cal} = \frac{(0.628) / (75-1)}{(1-0.628) / (20-7)}$$
$$= 3.662$$

Whereas, F-ratio tabulated (6,13);
1% = 4.62
5% = 2.92

We therefore, reject H0 and accept Ha to conclude that the model is significant and the resulting regression model is estimated as;

LADE = 103.53 - 0.207CRR - 0.575LIQRt + 0.249INTRt + 2.O7OMRRI — 3.228TBR — 4.35-009MS 4.2

Reading from table 4.2 and appendix 1 and 2, it is even obvious that the model proved significant at 2.4% showing that all the variables belong significant with the model being well specified.

4.3.13 Test of the influence of Explanatory variables on Bank credit, student T-Test.

Recalling that the F-test only tested the extent of significance of the model as a whole, there is therefore, the need to carry out a test on the influence of the individual explanatory variables on the Loans and advances. Stated differently, the t-test is used in determining the extent of contribution of each explanatory variable to the changes in the bank loans and advances as a proxy for bank credit.

Here, two levels of significance (i.e alpha 1 % and 5%; with degree of freedom, of, N-K or 20-7= 13) are sst. As we read from table 4.2 and appendices 1 and 2, the t-calculated is compared with the tabulated of:

1% = 3.0123

5% = 2.1604

These readings, in fact, show that only treasury bill rate contributes significantly to bank credit. The treasury bills rate is only significant at 4.5%. (see appendix 2). On the overall however, the order of importance displayed by the six explanatory variables is as follows;

TBR > LIQRt > MRRt > INTRt > CRR > MS

[2.212] [2.017] [1.165] [0.483] [0.221] [0.126]

This is to say that while the greatest influence is exerted by the treasury bills rate (2.212), followed by liquidity ratio (2.0 17) and the minimum rediscount rate (1.165), interest rate (0.483), cash reserve ratio (0.221), the money supply (0.126) makes the least contribution to bank credit.

4.4 DISCUSSION OF RESULTS

From the results of the hypotheses, it is indeed striking to note that the model as a whole proved to be significant even at 2.4% attesting to the correct specification of the model. Added to this, the model shows over 79% level of relationship between the explanatory variables taken together and the level of bank credit (see the ANOVA table 4.2 and appendix 1).

Also, with an R2 of about 62.8%, it then follows that the explanatory variables have been able to explain about 62% of the total variations in the level of bank credit, thus leaving only about 38% to chance occurrence.

However, in terms of the relationship between each of the individual explanatory variables and the level of bank credit, while the highest relationship was shown between treasury bill rates and bank credit (about 63%), followed by that between the minimum rediscount rate and bank credit (about 60%), liquidity ratio and bank credit (about 34%), the least came from the relationship between the level of money supply and bank credit, showing only about 7% level of relationship. Perhaps, another striking point to note is the direction of change between each of the explanatory variables and the level of bank credit. While

both the minimum rediscount rate and interest rate contribute positively (bearing positive coefficients) to bank credit, the other explanatory variables, namely, cash reserve ratio, liquidity ratio, Treasury bill rates and money supply exhibit negative relationship with bank credit.

One is in fact tempted to conclude from the foregoing that both the minimum rediscount rate (as the driving rate in the economy) and the interest rate, with their positive coefficients appear to meet the a priori expectation. Thus meaning that banks will be more willing to make more credits available at higher interest rates.

By the same token, albeit in a reverse order, cash reserve ratio, liquidity ratio, treasury bill rates and money supply should bear an inverse relationship with the level of bank credit. For instance, higher levels of cash reserve ratio will translate to lesser loanable funds to banks so also will higher liquidity ratios affect the level of bank credit.

Also, when the treasury bill rate is low, banks will not be encouraged to hold much of it since it will no longer be attractive for them to do so, hence more loanable funds will be kept back by banks under such situations and vice versa. For the level of money supply, banks will find more willing borrowers when the quantum of money supply is low in an economy. This is so because individuals and corporate bodies alike will find themselves in some form of liquidity squeeze that will lead to more fervent search for investible funds. As this triggers off more demand, cost of funds, in turn goes up and banks ultimately will be more willing to make more credit available to the economy.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

This work investigated the effects of monetary policy instruments on private sector credits by banks in a globalized economy . The period of investigation covered was twenty years, from, 1986 - 2005. Six major hypotheses were stated with these objectives in mind:

i. To investigate the influence of liquidity ratio on bank credit,

ii. Determine if interest rate affects bank credit,

iii. To find out if reserve requirement affects the amount of credit granted by banks.

iv. To the determine the extent the minimum rediscount rate has affected bank credit.

v. To ascertain the influence of treasury bill rate on bank credit

vi. To determine the influence of monetary pohcy instruments on private sector credit by bank.

vii. Finally, to identify problems associated with this policy and make possible suggestions and recommendations.

5.2 CONCLUSION

The study is on the effects of monetary policy instruments on private sector credits by bank in a globalized economy covering a period of twenty years from 1986 - 2005. Six

Hypotheses were actually tested which laid the foundation for the following conclusions to be reached.

1. Monetary policy exerts a significant effect on the level bank credit in Nigeria.

2. On individual basis, only the Treasury bill as an instrument of monetary policy exerts a significant effect on the bank credit, and this was only at 4.5% level of significance.

3. While both the minimum rediscount rate and interest rate contribute positively to bank credit, cash reserve ratio, liquidity ratio, Treasury bill and money supply make negative contributions to the level of bank credit.

4. The conclusion is that monetary policy instruments as employed in this study appear to meet the prior expectation.

53 RECOMMENDATIONS

The findings of this study therefore, bring the need for the following recommendations;

1. In order to achieve better results from the implementation of monetary policies, the treasury bill should be applied first before trying others. This is mainly because it appears to exert the most significant effect than all others.

2. Also, in order to feel the full positive effects of monetary policy instruments as a way to control the level, and direction of the flow of bank credit an economy, this study is of the opinion that policies should be in consistent and followed up to their logical conclusion. The situation where policies are changed at will by various governments and even the same government should be stopped. Consistent policies make for consistent implementation and better results.

3. Also, the current drive to achieve sanity in the banking industry should be sustained, moreso as banks serve as channels for effective monetary policy implementation.

4. Closely linked to this is the need to improve the country's level of infrastructural development. This is given the fact that solid infrastructural development encourages proper and effective policy implementation.

REFERENCES

Afolabi Y.S. (1995): *The Elements of Banking in Nigeria* **3rd** Edition, F & A Publishers.

Afolabi, *Y.S.* (1984) An analysis of commercial Bank lending behaviour: A case study of UBA Ltd, *Unpublished MBA thesis* University of Benin.

Ajayi, S.I. (2003): "Challenges of Monetary Policy in a Developing Economy" Issues in Fiscal Management: Implication for Monetary Policy in Nigeria, *CBN's* ***3rd*** *Annual Monetary Policy Conference* 11th — 12th Dec. 2003. Pp 266-277.

Akujuobi, L.E. (2006), *Investment Analysis* Osprey Publication Centre Owerri.

Anyanwu, A.E. (2005): Financial Distress in Bankers Nature and Implication *The Nigerian Banker,* **3rd** Edition March

Anyanwu J.C. (1993) Monetary Economics Theory, Policy and Institutions. Hybrid Publishers Ltd, Onitsha.

Ashamu S.O. (2008) The Impact of Monetary Policy Measures on Bank Credit, 1980-2003. *Unpublished Ph.D Dissertation,* Federal University of Technology, Owerri, Imo State.

Central Bank of Nigeria Statistical Bulletin (Various Issues).

Central Bank of Nigeria Monetary Policy Guidelines, Lagos. (Various Issues).

Chikwendu, D.O and Arokoyo (2002), Land ownership and access to farm inputs by rural women. (http: / /www.fao.org/DOCREP/ V9828T/9828t08 .htm) Dennis, G.E.J. (1981): *Monetary Economics,* Longman, Londo.

Egbulonu, K.G. (2002) Elements of statistics, Owerri, peace Publishers Owerri Imo State.

Enwereuzor, B.O. (2007) The Impact of Bank Credit on the Growth of Small and Medium Scale Enterprises (SMEs) in Nigeria. *Unpublished Ph.D* Dissertation, Federal University of Technology, Owerri, Imo State.

Evans, R.W. and Makepeace, G.H. (1979) *Monetary Theory, Institutions and Practice — An Introduction.* The Macmillian Press, London.

IFC, (World Bank Group) (2006), IFC partners with Nigeria's Access Bank to open the first line for women entrepreneurs (http: / /www.ifc. org/ifcext/media.nsf/content/Selected Press Release? Open Document & UNID...)

Iheduru, N.G. (2002), Women entrepreneurship and development: The gendering of micro finance in *Nigeria.(paper presented at the 8tiL international interdisciplinary congress on women 2 1-26 july2002,Makerere University, KampalUganda) (http:* / /www.gdrc. org/icm / country! nigeriawomen .html)

Ingawa, .S. and Sanibako (2006), Animal traction in Nigeria, constraints and current initiatives. "National live stock project dept. (http: / /www.fao.org/ Wairdocs /ILRI/x5455B/ x5455b1g .htm)

Jhingan, M.L. (2006) *Money Banking, International Trade and Public Fiannce.* Vrinda Publications (P) Ltd, India.

Kamalu, E.K. (2005) The Effect of Recapitalization on the Performance of Banks in Nigeria A Study of selected Banks. *Unpublished B.Sc. Thesis,* Federal University of Technology, Owerri, Imo State.

Katherine, Samilyk (2002), The evolving role of commercial banks in U.S credit markets, (http://www.denovobanks.com/ atissue / story. asp?idstory= 104

Nnanna, O.J. (2002) Monetary Policy and Exchange Rate Stability in Nigeria. *Economic and Financial Review,* September, Vol. 40, No.3, Pp 1-21.

Novatny, .E, (1996), "Restoring urban infrastructure and services in Nigeria"(in *A strategy for restoring urban infrastructure and services in Nigeria),* published in Findings, Word bank Africa, Number 62, May. (http: / /www.worldbank. ogI afr/ findings/english /find62htm).

Nwakanma, P.C. (2005) Appraisal Model for Evaluating Commercial Banks Performance: Evidence from Nigeria *Unpublished B.Sc. Thesis,* Federal University of Technology, Owerri, Imo State.

Nvankwo, G.O (1991) Bank Management, Lagos, Malt house press.

Nzotta S.M (1988), Commercial Bank Lending Practices *Unpublished MBA Thesis,* Benin, University of Benin.

Nzotta, S.M. (2004), Money Banking and Finance in Nigeria, Hudson Jude Nigerian Publishers Owerri.

Onoh, J.K. (2007) *Dimensions of Nigeria's Monetary & Fiscal Policies — Domestic and External.* Astra Meridian Publishers.

Uchendu, O.A. (1990): "Transmission Mechanism of Monetary Policy in Nigeria" *CBN Economic and Financial Review.* Vol. 34, No. 2. June, Pp 606-646.