FINANCIAL SECTOR MALADAPTATION
AND NIGERIA'S ECONOMIC
TRANSFORMATION PROBLEM

By

J. A. T. OJO

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FINANCIAL SECTOR MALADAPTATION AND NIGERIA'S ECONOMIC TRANSFORMATION PROBLEM
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By

J. A. T. OJO
Professor of Finance
Faculty of Business Administration
University of Lagos.
YOU are all aware and quite familiar with the multifarious economic problems confronting the Nigerian economy today, with a record of disappointing performance in her bid to achieve a sustained economic growth and thereby improve the general welfare of the people. It is a fact that economic performance of developing countries has been poor generally over the past two decades such that the 1980s has been described as a 'lost decade' for these countries. As briefly reviewed later, while many have their economic fortunes reversed and worsened, including Nigeria, some have been able to improve their economic fortunes to successfully achieve industrial take off.

This economic transformation problem confronting Nigeria and many other developing countries, as well as the unsatisfactory and disappointing role of the financial sector to the countries' economic development, has reawakened the lecturer's interest in revisiting his thesis of about two decades ago at the University of Wales titled: "Financial Sector and Economic Development, with special reference to the Nigerian Capital Markets" (Ojo 1974).

An attempt has, therefore, been made about two years ago to update the earlier study by examining in greater details how the financial sector has performed in Nigeria since that study, compared with other countries where the banking/financial sectors have made the expected significant contributions to their economic transformation, for example, Germany, Japan, and some newly industrialised countries. The study of some other countries' experiences incorporated in this lecture has been facilitated by the short-term visiting professorship appointment offered the lecturer by the University of Bayreuth Special Research Unit in Germany, three weeks each in July 1990 and October/November 1991. I am grateful to the institution for affording me the opportunity.
INTRODUCTION

An economy can be broadly grouped into financial and non-financial sectors. The financial sector can, in turn, be sub-divided into its main sub-sectors of banks, non-bank financial institutions, financial markets. The financial market can be further sub-divided into money and capital markets, and foreign exchange market. Various financial instruments, monetary and non-monetary instruments of varying degrees of liquidity are employed to engage in financial transactions among the various economic units in the economy. The sector thus facilitates borrowing by the deficit economic units and savings by the surplus economic units through the intermediation of financial intermediaries. The various types of financial transactions engaged in have major implications for consumption, investment, production, macroeconomic stability and achievement of other economic objectives.

Our previous study on the role of financial sector in economic development (Ojo, 1974), among other important issues dealt with, contains analysis of the then (that is, in the 1970s) gaps in the Nigerian financial system. The existence of the financial gaps identified in the early seventies was of wider dimension and intensity than the Macmillan-type gap on the 1930's (identified for the U.K. by the Committee on Finance and Industry - the Macmillan Committee), being mainly in respect of the absence of adequate institutional source of industrial finance provision.

As shown in the study, it is not only on the side of the provision of finance that the financial gap exists but also as regards the availability of savings facilities. In the study of the gap (See Ojo 1974 & 1976), we analysed fully the extent to which agricultural and small and productive industrial enterprises which could productively utilise external finance have been unable to obtain such needed finance, either because of (a) an "information gap" or (b) a genuine "availability of funds gap."

Another feature of the financial gap is concerned with the problems of getting the right type of finance at the appropriate time, in appropriate amount and on satisfactory terms in such a manner that would meet the demand of deficit economic units for external finance.

Here, the nature of what gaps still exist is being examined in a continuing attempt to offer possible solution. Secondly, that thesis focuses on the view that finance matters, and that a country's financial sector can significantly assist in the promotion of its economic development. It is thus pertinent to examine and appraise how the financial sector has performed that expected function/role over the years; and its shortcomings and failings, if any. It is of particular interest to appraise the contributory role of the financial sector to the failure to achieve the desired economic transformation since these years after independence.

Finally, some possible strategies and measures are examined - appraising how they have been applied to-date and how they might have been applied to effectively address the country's economic transformation problem.

In the lecturer's 1976 publication: The Nigerian Financial System, the basic problem in financial sector development is stated thus:

"Although many LDCs have started to become aware of the potential role that financial sector can play in their efforts to promote economic development, what seems to be the major problem confronting them in this respect is that many of them do not know exactly what financial technology to adopt or how to combine alternative financial techniques and what policy to pursue to make the financial sector play the desired role adequately". (Ojo, 1976, p. 18).

On learning from the experience of developed countries, some useful guidelines are stated in the same book - Ojo (1976, p. 20) thus:

"... in view of the pressing need to allocate available capital into highly urgent uses and the fact that the establishment of financial markets (of the formal orthodox type) may actually lead to a diversion and wastage of capital, many LDCs could only benefit in financial development by looking at the hard won
experience of the advanced countries for the purpose of adapting it creatively to their own development requirements rather than for the trapping of financial maturity... the urgent need of these countries is for institutions much closer to their economic and social situation".

ROLE OF FINANCIAL SECTOR IN ECONOMIC DEVELOPMENT

In the financial sector of most developing countries, commercial banking sub-sector dominates the other sub-sectors of non-bank financial institutions and markets. Their performance has substantial influence on the overall efficiency of domestic resource mobilisation and allocation, being a major reason to justify their being controlled more than any other sectors in an economy.

Expected Role of Financial Sector in Economic Development

The importance of capital as a necessary, though not sufficient, condition for economic growth is recognised in development theory. This is particularly true in a developing economy where it is believed that the provision of adequate financial resources is a prerequisite for economic transformation. The vital role the financial sector can play becomes obvious; namely, by making the vast financial resources they could mobilise available for financing and promoting economic development.

In the performance of their financial intermediation function (mobilising funds from the surplus economic units and allocating the funds to the deficit economic units) the provision of the required financial resources for the promotion of economic development is best facilitated by the availability and development of appropriate well-functioning financial institutions.

Experience in some countries has shown that banks, if sufficiently adapted to their respective countries' needs to be of the development-oriented, innovative and dynamic type, could serve as an engine of growth to greatly assist the promotion of rapid economic transformation of a nation.

One of our major findings earlier was the possibility of negative rather than positive effects of financial development on economic development, where the establishment of its banking and other financial institutions and markets has not been suitably adapted and oriented to its structural and developmental requirements.

McKinnon (1973) and Shaw (1973) produce a theoretical basis for financial development that has been formalised and extended to show how some financial controls that produce financial repression effects, as discussed later, could make the financial sector stifle rather than promote a country's development. The McKinnon-Shaw view has also exerted considerable influence on macro-economic policy in developing countries, particularly through the recommendations of the International Monetary Fund (IMF) and the World Bank.

The function of a sound financial structure is to move financial resources efficiently from surplus to deficit non-financial units, and from activities yielding low social returns to those yielding high social returns. This movement of funds requires appropriate institutions and institutional philosophy; financial instruments that are consistent with savers' and borrowers' preferences and needs and a rational structure of positive real interest rates.

It is unfortunate to note that despite this expected role, the financial sector of many developing countries has failed to live up to expectation.

Some Issues in Poor Performance of the Expected Role

As shown in some works on LDC financial systems, for examples, Ojo (1976 and 1986), Kitchen (1986) Fry (1988) and Bhatt (1986), financial sectors in many developing countries do not intermediate efficiently between savers and investors. One major reason, emphasised in the McKinnon-Shaw view, is financial repression; but other important reasons are financial system maladaptation and orientation, market structure and management performance of both the financial intermediaries and financial regulators.

Financial repression has as one of its main features the unintended consequence of low, fixed nominal interest rates (both loan rate ceilings and deposit rate ceilings) combined with high and rising inflation.

Financial repression could thus be viewed as consisting of an administratively fixed nominal interest rate that holds the real rate below its equilibrium level. One major
effect is that actual investment is limited to the amount of saving forthcoming at the real interest rate. It might also feature in form of financial control restricting more competitive financial structure, like the exclusion or restriction of foreign banks, which by making domestic banks' operations less competitive would tend to reduce the overall efficiency of the banking system.

The past and recent experiences in Nigeria and many other developing countries have shown that policy measures taken to deal with fiscal exigencies have often run in conflict with some other measures aimed at achieving other economic policy objectives, and they could in fact operate to negate financial reforms and thereby retard financial development.

Discriminatory taxes of one type or another have been imposed on financial intermediation. The more frequently used measures that have repressed financial development include high reserve requirements, obligatory holding of government bonds by financial institutions, and deposit and loan rate ceilings. All these might make financial systems in these countries handicapped in achieving their full potential.

In the context of the financial repression hypothesis, it has been argued that past financial policies in many countries did not ease, but worsened the credit availability constraint for the economy as a whole. This reason, as argued, is that the incentive to save was reduced, since savers also received only an artificially low interest rates on their bank deposits, a rate which was often negative in real terms, as it was the case in Nigeria for years at least up to 1986. While certain priority sectors might be insulated by the government bank credit allocation policies, the economy as a whole has a smaller pool of saving with which to finance real capital formation.

Some Developing Countries' Comparative performance

The performance of developing countries over the last two decades (1970s and 1980s) has been disappointing, as recently analysed in the Amex Bank Review (January, 1992). Of the 18 developing countries analysed, accounting for 2/3 of output of all LDCs, only six countries recorded significant per capita growth over the period, with one-third including Nigeria, poorer now than in 1970.

The differing record has resulted in a complete reordering of the countries. The deceptively 'richer' countries in 1970, and even in 1980 (e.g. Venezuela, Chile, Mexico, Argentina, Nigeria), having been replaced by the fastest growing economies, mainly in Asia, where itself only Taiwan, Korea and Thailand recorded positive real income growth (per capita) and are characterised by high investment and outward orientation.

Many LDCs have depended on abundant resources to fuel growth - "extensive" growth. The much harder task is to use resources more "intensively", that is, increase productivity. As long as there is a plentiful supply of labour and natural resources, there will be less of an impetus to be more efficient. The fast growing countries have developed through improved productivity, often driven by a lack of natural resources.

Countries with consistently high growth rates also have higher levels of investment. Investment accounts for well over 30% of GDP in the Korean economy while the slow growing economies like Nigeria have generally investment/GDP ratios of under 20%. Where high levels of investment were concentrated in oil or other commodity producing sectors, as in Venezuela, Mexico and Nigeria in the 1970s, this did not provide a good basis for future growth, as assessed in the Amex Bank Review (January, 1992).

Interventionist financial policies made a contribution to the rapid growth and industrialisation in many of these countries in the 1960s and 1970s. In Japan, too the regulated financial system made an important contribution to industrial expansion, with adequate provision of industrial finance by banks on suitable terms.

The 1991 UNCTAD report also suggests that interventionist financial policies played an important role in the newly industrialising countries such as the Republic of Korea.
Here interest rates were not left entirely to market forces, credit was allocated directly and the cost of finance was differentiated according to economic sector and activity, as part of the country's active and successful industrial and trade policies. Indeed, Korea followed a gradual and cautious approach, introducing financial liberalisation after attaining stability and a considerable degree of economic and institutional development.

Moreover, "when interest rates were deregulated and directed credits were phased out, a number of less visible levers of policy (administrative guidance, moral suasion, etc.) continued to be used both to avoid high interest rates and financial instability and to channel credit to targeted industries". (UNCTAD Report, 1991).

In countries where liberalisation was not appropriately introduced, the result has been widespread speculation, excessive risk-taking, fraud and irregularities, which could eventually give rise to widespread insolvency among debtors and financial intermediaries, financial instability and significant damage to the real economy.

**MAIN FEATURES AND CAUSES OF FINANCIAL SECTOR MALADAPTATION**

A financial sector could be said to be a maladapted type when its institutional structure, culture, orientation and modes of operation of its main operators are mainly of foreign transplanted type, and/or not appropriately adapted and oriented to suit local structural peculiarities, as well as not being made relevant to the development needs of the economy concerned.

**Main Features of Financial Sector Maladaptation**

A major manifestation of a maladapted system is that banks and other intermediaries perform their financial intermediation function in such an inefficient way as to render them unable to make the expected contribution to economic development. Funds are mobilised inefficiently, and since the savings instruments and facilities offered by banks are not quite attractive, less than the available potential saving is mobilised. The limited mobilised funds are allocated inefficiently mainly on short-term basis to less productive activities; and if made available to some productive enterprises, the costs are usually too high and the terms not quite suitable (as illustrated in figure 1 and 2, and the comparative data in Tables 1 - 5).

In such a system, measures taken by the Central Bank and the Authorities to make the banks and other operators change their unsatisfactory financial practices are often unsuccessful, due mainly to lack of cooperation. Thus, financial controls and regulation like sectoral guidelines, and prescribed maximum and minimum interest rates on loans and deposits respectively are only observed in a perverted manner, such that the intended desired effects could not be achieved.

The British financial system which originated in Britain and was once relevant to the then economic structure and Empire status, has failed to change in line with the changing world and economic/industrial realities of the time. Its problem could thus be said to be that of misalignment, a system that has been transplanted here in its defective form without making the necessary adaptation to suit our own less developed non-Empire status, having retrogressed from middle to low income category.

In his lucid analysis contrasting both the main features of a misaligned British type financial system and the industrial-oriented German or Japanese type, Edwards (1987) quotes Prof. Glyn Davies (in his First submission to the Wilson Committee in UK in 1977) while exploring the paradox of flourishing British financial system and a low-growth industrial system, with British bankers thriving even in a depression (like ours in a "sapped" economy):

"Industrialists have long been rather suspicious of bankers' powers of survival in stormy weather.... Industrial attitudes on the whole seem always to reflect Mark Twain's view that 'A banker is a man
who lends you an umbrella when it is fine and asks it back as soon as it begins to rain.

This is in sharp contrast to the description by Gerschenkron (1962, p. 14) of a German banker thus:

"A German bank, ... accompanied an industrial enterprise from cradle to grave, from establishment to liquidation throughout all the vicissitudes of its existence". These we were able to confirm as still true of the banks in the course of our study of the German banks in 1990 and 1991.

For Britain (as described by Edwards (1987), Jequier and Hu (1989) and Gerschenkron (1962), during its early industrialisation process, individuals made money by trading in the colonies, then established family firms, and ploughed back profits into further investment. There was no real need at that time for financial institutions to occupy themselves particularly with promotion of industry, since it was already profitably engaged in financing trade. This was in contrast with Germany, France, Japan, and so on.

The major view by Dr. Hu (1975) as also shown by Gerschenkron (1962) is: "Because of the historical background to Britain's industrialisation, there was no need for an organised system to provide long-term finance for industry on a continuous and sizeable scale ..." He blamed attitudes and the system rather than the banks or industry for perpetuating this, long after it has become irrelevant and unhelpful.

Thus, as could be inferred from the exposition of the structuralist hypothesis (as shown by Ojo and Adewunmi (1982), banks in Nigeria and in other former British colonies have no such traditions and economic circumstances to make them behave in the same manner and adapt to the same conservative financing practice as British banks in the financing of industry.

The British financial system as further shown by Prof. Davies in Edwards (1987), "Operates in isolation as a financial system. It is successful on its own terms, but as an integrated part of the financial-industrial system, it hardly works at all". To what extent does the above describe ours today? The above features of the British financial system have, no doubt, largely influenced our own maladapted financial system.

Implication for Vicious versus Virtuous Economic Cycles

Another major outcome of a maladapted or misaligned financial sector as affecting business operations and performance is captioned under "vicious cycle" of business as against the "virtuous cycle" in a suitably adapted financial system. Why do the Japanese and German manufacturers think long-term than British? How did the Japanese and German corporation build up such high liquidities? The lecturer interviewed some banks in Germany in the course of his study in 1990 and 1991 to obtain answers to these and other related issues. The answer is that Japanese and German banks loaned money to industry on terms and conditions which permitted surplus liquidity to build up in company accounts, having successfully mobilised long-term funds (See Table 3c).

This way of looking at the economic problem from an industrial viewpoint (as shown by Edwards (1987) recognises a virtuous cycle in which long-term industrial loan produces rising company liquidity, and more looking forward by companies due to these improved liquidity position, and hence permanently higher investment. In a vicious cycle resulting from the British short-term financing, the shortage of long-term loans leads to the increasing decrepitude and resulting desperation of manufacturing industry, attempts at modernisation produce liquidity crises, and a cumulative collapse of much of manufacturing industry follows. Japan and Germany are seen as being on a virtuous economic cycle, (depicted in figure 1). Figure 2, which describes Britain and several of its former colonies, depicts that vicious cycle, in which relatively low liquidity produces a short-time-horizon of survival, so companies restrict investment levels to short-term, high-yield...
projects, and these lower investments produce less liquidity and reduced business confidence in the future, as we witness in Nigeria today.

Generally, the aspirations and values of the society, and the mission and orientation of banks affect the attitude of staff. In a maladapted financial system, managers will tend to give priority to making the figures look good on a risk aversion behaviour basis; compared with banks that should have positive commitment to the enterprises they support.

Main Causes of Nigeria's Financial Sector Maladaptation

Nigeria's financial maladaptation problem is traceable to its colonial past, whereby the banking system and capital markets which developed here have been modelled after those operating in Britain without effecting necessary adaptation to suit local development conditions.

Some years after attainment of political independence, with determined effort to industrialise, Nigeria might have gotten over the colonial heritage problem by restructuring her institutions and adapting them to the nation's development needs.

But unfortunately, rather than curing the infested financial structure and orientation, the canker-worm "Resource Curse Thesis", bred by the oil windfalls, reared its ugly head and further reinforced the financial maladaptation structure and orientation. Thus, instead of curing the disease, it has become rather chronic and endemic, defying today nearly all medicines, often administered out of context, after expiry dates and in a piecemeal half-hearted form.

The Resource Curse Thesis

Now what is this "Resource Curse Thesis" all about? Basically, this thesis suggests that a well-endowed country is tempted with over-optimism (possibly being under the illusion of being rich) to enjoy its apparent resource advantage vis-a-vis other countries in the form of a less demanding and/or a less prudent development strategy; while the less well-endowed country, mindful of its more marginal position, eschews risk and applies conscious and concerted effort which more than compensates for its initial observed disadvantage.

A feature of this thesis in the Nigerian case was first analysed in the lecturer's paper titled: "Oil Wealth Illusion and Problems for Economic and Financial Management in Nigeria" (Ojo, 1982). Other writers (notably Alan Gelb and Associates (1988) and Richard Auty (1990 and 1991) have further elaborated on the issue of the negative developmental effects of resource endowment like oil windfalls in some developing countries, including Nigeria.

In the context of the resource gap analysis, it is assumed that the natural resource endowment of a country is of critical importance to economic performance at lower per capita income levels. However, there has been growing evidence among the developing countries, for example, as analysed in the Nigerian case by the lecturer in Ojo (1982), that a favourable resource base like the rich mineral reserves of Peru or oil in Nigeria might have actually proved counter-productive in terms of overall national development effort and performance.

As could be noted in the Nigerian case, there is no doubt that natural resource endowment like oil windfalls brought higher levels of investment as well as an additional source of foreign exchange, taxation and an alternative route to industrialisation via resource-processing. Thus apart from enabling the country to fill the domestic resource and foreign exchange gaps, resource-based industrialisation is made easier. But surprisingly, while the inverse relationship between resource endowment and economic performance is not a universal law, it has occurred often enough (as shown by Auty, 1991) and others to spawn the resource curse thesis.

Although some oil-exporting countries responded to the post-boom conditions better than others, the formulation of prudent policies for windfall management were the exception
rather than the rule. For instance, while some were able to deploy their windfalls prudently, others including Nigeria and Venezuela increased conspicuous consumption of mainly imported items and embarked on non-productive domestic investment projects, mainly of prestigious 'white elephant' type which were usually poorly executed with large cost overruns. The latter group that includes Nigeria used their oil as collateral to take "jumbo" foreign loans with unsuitable and costly hard terms, so that far from saving some of the windfall, they actually accumulated large foreign debts that has today constituted a formidable obstacle to economic development. Thus, in terms of our economic development, the oil boom with its oil illusion aftermath has now become oil doom (as analysed by the lecturer a decade ago (Ojo, 1982)). This our conclusion has been recently substantiated in a study by Auty (1991) of Nigeria and some other developing countries thus: "Given the pre-boom rapid rate of Nigerian economic growth and the country's large and competitive agricultural exports (which collapsed during the oil booms), the 1974-78 and 1979-82 oil booms have almost certainly been a curse rather than a blessing."

The remarkable economic transformation that started in Japan much earlier has now spread through much of East Asia and is now transforming South-East Asia, while Nigeria and some others with oil and other resource endowments continue groping in the unclear path towards economic transformation.

APPRAISAL OF ROLE PLAYED BY THE FINANCIAL SECTOR IN NIGERIA'S ECONOMIC DEVELOPMENT

Our appraisal of the financial sector focuses mainly on the banking sub-sector in view of its dominant place in the overall system.

Appraisal of Role in the Context of Fostering Economic Transformation

In view of its chequered history of about a century now, banking development in Nigeria has operational features of diverse nature such that an assessment of the banks' performance would vary with one's criteria or from what angle such an assessment is made. An assessment of bank performance poses some difficulties because of the nature of bank objectives (often conflicting) against which an assessment has to be based.

Our discussion should as much as possible enable us to resolve a few key questions about the financial sector performance which include:

(i) what has been the nature of the main financial intermediation process in the economy; and

(ii) how well the banks have met some financing requirements that are considered indispensable for economic development.

From available banking data, one might easily conclude that the banks in Nigeria performed satisfactorily well in terms of their profitability and growth over the years. However, as shown elsewhere (Ojo, 1986), the existing conventional methods of measuring the profitability of enterprises are not considered adequate for measuring the performances of enterprises like banks operating in such an imperfect market situation as in Nigeria. In view of the extent of market imperfection and widespread distortions in economic activities, Nigerian enterprises might be recording increased paper profits while the volume of operations has been on the decline and there has been unabating public criticisms of deteriorating banking services similar to the earlier description of the British banking system by Prof. Davis.

In view of the foregoing stated limited objective and coverage, we wish to be excused by those who would like to point out that we have been rather one-sided in criticising than in extolling the virtues of the financial system. One is fully aware of some useful role which we need not be reviewing here now. Rather, the aspects we consider relevant for the purpose of the country's overall development should be such evaluation and appraisal of the operations of the
main institutions and markets that could facilitate the nation's successful industrial take-off. Instead of eulogising what those institutions and markets have done and could do, our goal here is to face the stark realities and, looking back at their operations over the years, to enable policy makers as well as the main actors in the system appreciate the sector's limitations as far as its healthy operation and promotion of economic development in a desirable manner is concerned.

The role of the financial system in Nigeria leaves much to be desired in terms of financing economic development and fostering the country's industrialisation process. The maladapted structure and functioning of banks and other financial institutions have not significantly changed or improved since independence over three decades ago. Thus, there would be need for more concerted efforts and bolder positive initiatives to bring about the desired dynamic change and orientation in a manner to make the banks and other financial institutions become more of assets than liabilities in the country's efforts to achieve concrete development and general welfare of the populace.

From available data, there is no doubt that banks and other financial institutions have grown dramatically over the years since independence both in the number of institutions and volume of finance. But much is called into question when one analyses the proportion of enterprises in need of finance that actually got financed and developed to enhance the country's industrial capability; and also the type, relevance and productivity of finance from banks and other financial institutions. The industrialisation process is unlikely to be served well and fostered in a desired manner by the pattern and direction of finance in Nigeria to-date. Here, the bulk of financing has been predominantly on short-term, quick money-making and turning-money-around and asset-switching basis; and where long-term finance for capital formation and concrete as opposed to spurious and transient investment has been in gross short supply, being seen as non-attractive and non-profitable in the context of the distorted value and orientation in the country. This problem has to be seriously and realistically addressed if the country's industrialisation is to be made attainable in the foreseeable future.

The Authorities have, on several occasions, blamed the unpatriotic role and attitude of the banks, with the banker seen as the enemy of the economy. In The Guardian of February 3, 1992 (p. 27), this was fully described under; "The Banker As Enemy" of the nation.

Banks, as being criticised, have continued to fail in providing the expected support for the recovery of the economy, particularly in the manufacturing sectors. For instance, the Vice-President, in an address recently in Lagos (on January 16, 1992), called upon banks to demonstrate their support for the current economic recovery efforts in the country rather than hustling to make profits at all cost.

For the problem of the foreign exchange market, and the fast depreciating value of the naira and production activity, the president, as recently reported (see the Sunday Times, March 29, 1992, pp. 1 and 2), blamed the activities of bankers and so-called businessmen who bought foreign exchange at the official rate and resold it at "exorbitant profit against all convention and all laws of decency".

To this criticism, banks often respond that they were in for business to maximise profits for their shareholders. This might be viewed as correct to a certain narrow extent that fails to consider the overall development aspect of the nation. Such attitude and behaviour are similar to those of banks in the Anglo-Saxon tradition, but at variance with those of banks in Japan, Germany and other Continental European and some newly industrialising Asian countries. What is needed, therefore, is a new banking culture in Nigeria - to change from the Anglo-American orientation to a more developmental-oriented type (as shown, inter alia, by Edwards (1987), Jequier and Hu (1989), and Kitchen (1986)).

To what extent has recent financial deregulation and the resultant proliferation of banks and other financial institutions filled the financial gaps which we have postulated since the seventies (see Ojo, 1976)? The gaps might have been filled only to some extent in terms of
increased number of banks and other financial institutions (that is quantitatively in terms of volume of business done.) But not much has been achieved in terms of the quality and relevance of the provision of financial facilities for productive activities capable of making Nigeria achieve rapid industrial take-off. In terms of orientation, the same bank officials often move round with almost the same old bank orientation, ability and culture. It does not appear, therefore, that much has happened in terms of adaptation to the industrial development needs of enterprises in the Nigerian environment.

The trend towards diversification into commercial and other banking or financing activities as being witnessed under financial deregulation and liberalisation, rather than being quite helpful, has raised major questions about the developmental and healthy role of the sector's institutions and markets. What should be assessed is whether industrial development is likely to be better served than hitherto as a result of diversified operations. What is the bank's motivation? Will it use this opportunity to provide better and more complete range of services to its industrial clients at cheaper cost, or will it continue to chase after personal consumption and unproductive quick money-making financing of short-term LPOs/LCs, and underwriting fees and play in the money market, the stock market and the foreign exchange market on mere speculative money-making-gaming motives?

Problems of Orthodox Formal Capital Markets and Role of Informal Capital Markets

The term structure of finance as well as the various costs of obtaining funds in the capital market in Nigeria are not quite suitable for industrial promotion. The costs, both explicit and implicit are (as shown by the writer in previous works) very high, being an important element in the high costs of locally produced goods. The bulk of the funds often provided by banks and other capital market institutions are of short-term nature (see Tables 4 and 5). This type of short-term finance is not quite suitable for funding industrial projects that are usually of long-term gestation period.

We have earlier shown that the formal financial institutions and markets have, as oriented hitherto in their maladapted form, been functionally unable, or have not cared, to accommodate the financial needs of farmers and other small and medium-sized enterprises - which accounted for a majority of economic units. The vacuum thus created in the nation's finance has to be filled. Here the informal institutions and markets have evolved to meet, by and large, the requirements of small and medium indigenous industrial enterprises, petty trading and other similar activities in the country, albeit on a limited scale.

Concerning the risk obstacles to the financing of agriculture and small-scale enterprises in Nigeria, as well as in many developing countries, we have shown that these are often exaggerated, partly because of a strict adherence to some anachronistic financial practice and partly because of the general lack of necessary information, and ignorance of the most appropriate technique to adopt to minimise some risks inherent in such types of enterprises - viewed as a sort of "economic distance" caused by the capitalist imperfect knowledge of the economic potentials of the economic units concerned.

Our finding about two decades ago (Ojo 1974, 1976) about the insignificant relative importance of equity markets as suppliers of funds for net new investment or capital formation has been confirmed recently by Cosn, Hughes and Singh (1989, p. 19). As they concluded, "there is an interesting paradox in the fact that, despite the enormous growth of the financial markets in recent years, the equity markets have not been significant suppliers of funds for net new investment in Germany, Japan, the UK. or the U.S."

A financially efficient market, even in a perfectly competitive economy (that we cannot boast of having), may lead to resources not being allocated to those projects or activities which maximise economic welfare if it is maladapted or inappropriately oriented. However, in an
economy with market imperfections and distortions, like those existing in Nigeria, numerous firms would profit from such 'inefficiencies.'

As described by Rotberg (1991), stock exchanges in LDCs, "are at best the flame on the candle or the icing on the cake - and in many countries they haven't even built the cake yet".

In addition, Rotberg pointed out that in many developed countries, especially those where property rights and legal systems are weak like ours, stock markets "are going to get manipulated for the benefit of insiders". This would lead to greater concentration of wealth and thus to disillusionment among some groups.

Filling The Gap Through Setting Up of Special Financial Institutions

The situation in Nigeria has been such that the inadequacy of the banking system had resulted in the setting up of special financing institutions in an attempt to fill the financial gap thus created, but the results have not met with expectation. These special agencies, probably by act of omission, inefficiency or sheer failure to grasp properly the main motive in setting them up, have left the gap they were established to fill widely yawning as ever before. This was much the same way as the indigenous banks had failed to fill the financial gap created by the ill-suited operations of the former expatriate banks.

Financial development had been viewed in most developing countries until recently in terms of increasing the number of specialised financial institutions, such as agricultural and industrial development banks. In general, the results have been disappointing in most of these countries. The specialised financial institutions have performed in many cases far less efficiently than the commercial banks that were criticised for their non-developmental behaviour in the first instance.

Relative Effectiveness of Some Financial Policy Measures To Tackle Problem

Before the SAP and the deregulation of the financial system, monetary policies and other restrictive financial regulations were viewed to have produced largely negative results as regards the achievement of macro-economic objectives.

With the introduction of the Structural Adjustment Programme (SAP) in 1986, the deregulated foreign exchange and financial operations, the banking system has witnessed a major change in its former role in economic activity. Banks have since been actively involved in channelling the bulk of the available foreign exchange to various sectors of the economy. They have freedom in determining their interest rate structure.

The removal of complex administrative controls and other cumbersome regulations has now given place to reliance on market forces that are expected to reduce the extent of the former distortions in economic activity as well as financial repression.

However, banks' operations, preoccupied with their profit maximisation motive, have often been at variance with government intended objective of making them operate in a more dynamic and competitive manner to assist the financing of more businesses and thereby facilitate economic recovery.

It has been shown by Shaw (1973) and other related studies that expanded financial intermediation between savers and investors resulting from financial liberalisation and financial development increases the incentive to save and invest and raises the average efficiency of investment. Other things being the same, financial intermediaries operating in a liberal environment raise real rates of return to savers and at the same time lower real costs to investors by accommodating liquidity preference, reducing risk through diversification, reaping economies of scale in lending, increasing operational efficiency, and lowering information costs to both savers and investors through specialisation and division of labour. What have been the effects of financial liberalisation on Nigeria's development?
Since many things have failed to be the same in our own maladapted and distorted financial system, the impact of financial liberalisation has been largely negative to the assumed beneficial effects.

For instance, the interest rate ceiling was removed at the beginning of 1992 in the hope that the interest rate structure would improve; but developments since have been outrageous. The same negative response has been witnessed in the naira exchange rate developments, since free market forces have failed to operate as assumed to determine a realistic exchange rate.

The present high level of lending rates (with inter-bank rate reported to have risen to about 50% p.a) and the fast depreciating naira exchange rate have such negative impacts as discouraging long term investments, especially in new projects and those risky but productive and desirable ventures; while the inflationary problem resulting from low capacity utilisation by firms and low productivity could be further worsened. The other unintended adverse effect that could result (and has in fact resulted) from high lending rates and low production is when the high rate of inflation slows down savings and investment efforts and thus growth performance of the country.

It should be noted, however, that the monetary/financial authorities themselves have their own share of the blame because of the manner by which some monetary measures have been applied, producing some unintended destabilising effects. In like manner, the poor financial management in the public sector resulting in large unplanned deficit financing (e.g. as recorded in 1991) has worsened rather than improved economic performance.

Towards Making the Financial Sector More Responsive to National Development Aspiration

A pertinent question to consider next is: which way out of the Economic transformation doldrum and quagmire? We shall briefly examine some possible strategies that could be helpful.

Financial Reform and Liberalisation

In view of the unsatisfactory functioning of the financial sector and the various forms of financial policy measures resulting in financial repression, the need to introduce appropriate financial reform and liberalisation is widely justified.

It should be realised, however, that the way in which the macroeconomic environment impinges on the efficient working of financial institutions and financial markets in developing countries also affects the outcome of financial liberalisation and reform programs. If the necessary macroeconomic reforms for optimal financial development (as analysed in Table 7), have not been implemented, a second-best financial liberalisation program may perform better than a model programme designed in a vacuum. There are costs and benefits of reform that should be carefully balanced.

Financial Repression and Operation of Market Forces To Determine Interest and Exchange Rates

The implication of financial repression theory popularised by McKinnon, Shaw and others, arising from the above need for reform, is that liberalising the determination of interest rate (and also exchange rate) will have financial deepening effect that could move a country into virtuous circle of increasing saving, investment and growth. This is the background to the financial policy recommendation that market forces should determine interest rate and exchange rate.

However, policy makers often brush aside some basic assumptions or conditions which have to obtain to make market forces operate freely before the financial benefits of liberalisation could materialise. The major change in the so-called determination of interest rates by market forces is that the main cause of financial repression and control has been transferred from the Central Bank and the financial authorities to banks and other financial intermediaries, with greater damaging effects to the overall economic development, while facilitating enhanced unearned incomes.
close association with industry and from the banks' in-house technical and industrial expertise; its consequence is the ability to take a long term view of things and accept risk (or at least what would be considered as risks by less-informed financial institutions).

This mission or sense of purpose is quite important, especially for those brought up to believe that profit maximisation is, or should be, the sole objective of an enterprise, and notably a bank. This sense of purpose, embedded in a corporate culture, should thus enable an enterprise to undertake operations which carry only modest financial rewards but which fit into the enterprise's perception of its mission and its competence.

The ability and willingness is further analysed in terms of five main inter-twined components or determinants:

i) industrial and technological knowledge of staff that introduces industrial logic and equips the staff to make better and sounder lending and investment decisions, which is both to the bank's own advantage and that of the national economy;

ii) equity participation in assisted enterprises, which affects a bank's willingness to promote industrial and technological development;

iii) the bank's institutional culture as well as the attitude of staff;

iv) competition between banks and other financial institutions; and

v) the external environment, notably government policies.

Promotion of Development-Oriented Financial Culture

We shall briefly review some other important issues related to those above that could facilitate the promotion of a development-oriented financial culture, which could greatly assist in tackling the financial sector maladaptation problem.

Institutional Culture

A bank's institutional culture is intimately linked with the culture, aspirations and values of the society in which it belongs. Thus industrial banking in the 19th century Germany developed in an environment where there was a conscious national effort to build up national industrial power. In Japan, the motivation for industrial and technological progress has been attributed to a desire to catch up with the west, said to be "born of a century-old inferiority complex and intense national feelings of shame and pride". In Nigeria, as for many other LDCs, to what extent have the nationals been motivated for industrial and technological progress, when the best brains tend to emigrate?

Government Policies and the External Environment

Government policies affect development generally. To be emphasised here simply is the importance of government leadership, government commitment to development and social cohesion, the formulation of long term sectoral plans or "visions", in which the roles of government, industry and the financial sector are understood and the continuity and stability of policies and development efforts.

Bank Trust and Honesty

Another important aspect of a new banking and financial culture required in Nigeria is to change from the increasingly rampant cases of bank frauds to the age-long banking and insurance culture of trust and honesty, which still prevailed when the lecturer was also fully in the banking industry in the sixties.

Training to Improve Staff Attitude and Orientation

The situation prevailing in Nigeria seems to necessitate employing certain more positive measures (possibly with CBN and FITC assistance) to improve the quality of bank
personnel, especially, bank management - sufficiently re-orientated to adhere less to alien or maladapted banking techniques and culture, and more suited to the country's special development needs, and at the same time being of the right calibre to provide financial facilities in a more efficient manner than hitherto.

SUMMARY AND CONCLUSION

Our attempt has been to highlight the major deficiencies in the functioning of our financial system, mainly from the viewpoint of meeting the development needs of the country. This is not to say that the financial system has not been developing, but rather that the development of most of its institutions has not been quite satisfactory and well-adapted to suit local developmental needs that could facilitate the country's industrial take-off.

Summary of Main Issues and Suggestions

From our analysis in the course of this lecture, the statement of the problem can be put thus: The financial system, having developed in a maladapted form, has been of a "lame-duck" type which, although growing, has failed to satisfy the real developmental needs of the Nation. This thus calls for some appropriate financial reform and conscious national effort to bring about the desired financial adaptation and orientation, such that a new financial culture will evolve that could greatly assist in the economic transformation task.

Measures for Improvement of the Maladapted Financial Sector

We have considered in the lecture some required strategies and other measures that may be needed to rectify the defects in the financial system, as well as the need to further enhance the role of the informal financial system, by appropriately integrating the informal markets with a better adapted and development-oriented formal financial system.

In Nigeria and many other developing countries, the formal capital markets, which are essentially orthodox in nature, have proved grossly inadequate in financing the bulk of our business enterprises. These formal financial institutions and markets, having been largely fashioned after those operating in the metropolis of our former colonial masters, have some major adaptation problem. This deficiency has made it quite difficult for them to cater for the financial needs of the bulk of indigenous business enterprises that have greater need of start-up finance and venture capital than the few established firms able to utilise the formal capital market facilities.

Their operations in such maladapted form are thus increasingly being criticised as unhelpful in promoting economic development in the desired manner. Banks are being called upon by the President as well as government spokesmen and many other Nigerians to contribute their own quota in a more effective manner towards the achievement of national aspirations.

It should be emphasised that our leaders and policy makers should also play their own leadership role in a more effective and exemplary manner to inculcate in banks and non-banking sectors the discipline that could facilitate the effective evolution of the desired new culture and orientation.

To achieve the desired financial culture would necessitate employing certain more positive measures with CBN and FITC assistance to improve the quality of the personnel of banks and other financial institutions; and sufficiently re-orientate them to adhere less to ill-suited financial techniques and culture, but to that more suited to the country's special development needs, and at the same time being of the right calibre to provide financial facilities in a more efficient manner than hitherto. A greater supply of more efficient personnel would not only cure most of the ills in the operation of the institutions but would also ensure that the Government's developmental and structural adjustment objectives would proceed in such a manner that efficiency would not be sacrificed.

This should make banks rise above the lust for profits at all costs. They have to consider the new roles being
placed on them to act as a catalyst towards the nation's economic recovery. As financial institutions, banks are instrumental in deciding the fate of many citizens through granting of loans and credit facilities and providing investments services, among others.

**Policy Measures to Tackle Financial Repression**

The policy measures often recommended to tackle financial repression and thereby step up economic development, include:

1. abandonment of selective or directed credit programmes;
2. elimination of the reserve requirement tax; and
3. ensuring that the financial system operates competitively under conditions of free entry.

However, in implementing these as well as other measures, it is necessary to modify the implementation details in accordance with the market structure and imperfection or the structural peculiarities of our economy. For instance, where competitive conditions cannot be achieved immediately, certain modified financial actions may be imposed to rectify the adverse implications of certain capital market imperfections, for example, imposition of minimum deposit rates to stimulate the competitive situation.

In attempting to deal with the impact of financial repression by introducing financial reforms, deregulation and liberalisation measures, including leaving interest and exchange rate determination to market forces, the difference in circumstances from one country to another means that a 'blanket' policy prescription, as often made by the IMF and others, is probably not useful. Individual countries, judging from their macro-economic conditions and stability, financial structure, culture and orientation, have to decide what type of financial sector adaptation and reform is likely to be conducive to growth and welfare in their respective countries, for example, just as Japan and the new industrialised countries in Asia did.

What this means is that while financial reform and liberalisation have merits, per se, our policy makers have to be cautious not to rush to bring about financial liberalisation which can distort financial decision-making, allocation of resources, and expectations, as being experienced in the country today.

We wish to recommend that reform measures must be carefully sequenced and timed to avoid destabilising capital flows, high interest rates and distress among firms and financial institutions. Reforms should begin by bringing the fiscal deficit under control and creating macro-economic stability. The government should then scale down directed credit programmes and adjust the level and pattern of interest rates to bring them in line with inflation and development requirement of the private sector. The other prerequisites are the reform of legal and accounting systems, for example, to facilitate debt recovery; restructuring and development of industrial banking and non-bank financial institutions and markets, effective prudential regulations, and adequate bank supervision to ensure stability and discourage fraud.

**Role of Market Forces**

The capitalist exploitation thesis operates in its most detestable form in a maladapted financial system, because the entrenched oligopolistic practices which facilitate exploitation and high unearned abnormal profits, even with inefficient operations, would tend to outweigh the limited positive effects of controlled competition.

In view of the maladapted form of our financial system, we are, therefore, strongly recommending a re-examination and modification of the present role ascribed to market forces in the determination of interest rates and exchange rate.

We do not consider it wise for Nigeria, with most of the macro-economic prerequisites and conditions still out of place, to leave interest rate and exchange rate determination completely to the weak market forces operating in our system now, until a considerable degree of economic
transformation has been achieved. Such financial liberalisation is unlikely to produce beneficial effects for the economy unless it is adopted from a position of economic strength and not as a response to economic weakness. Until satisfactory progress has been made towards ensuring that the above noted prerequisites are in place, the financial authorities should continue to assist the weak market forces by monitoring and regulating both the interest and exchange rates. A range or band should be prescribed, say quarterly, within which the rates could be allowed to fluctuate.

**Interventionist Financial Policies**

During the interim period when interventionist financial policies would still be necessary, there is need for the Authorities to guard against some major shortcomings of the past application of such policies that largely brought about financial repression and macro-economic instability. It is thus essential to ensure that macro-economic stability is maintained. Such interventionist policies should not be allowed to degenerate into large deficit/inflationary financing, as well as to resist excessive demand for credit, particularly for financing unproductive government expenditure. Furthermore, there is need to ensure that any support and protection provided by the government is well targeted and used to serve the intended purposes; and the policies should be continually monitored and revised as may be necessary.

**Concluding Remarks**

Let me reiterate here that although our focus in the lecture has been the economic implications of our financial sector maladaptation, we are not saying that the financial sector should be blamed solely for the economic ills of the nation - other sectors have their own share of the blame.

In fact, all sectors have to be re-awakened, re-directed and oriented to be more conscious and determined to get the country to attain the desired economic transformation. Here, we are also convinced that no single Nigerian firm, group, sector and so on would start reflecting in practice the recommended new culture if not convinced that other Nigerians - banks, public and private sectors as well as our policy makers and leaders are making the entailed sacrifice towards achieving the desired common national economic goal.

However, a major outcome of our revisited thesis is that the financial sector could significantly propel a nation's economic transformation, if suitably adapted, oriented and structured in accordance with the nation's structural circumstances and peculiarities.

I challenge my friend bankers and other financial sector operators to devise new and well-adapted financial strategies and ways to effectively extend financial facilities to the hitherto neglected priority sectors of our economy, rather than justifying why this should never be done at all.

Unless our leadership could effectively inculcate in Nigerians the new national re-thinking and orientation, there appears to be no end in sight to the nation's economic woes and retrogression. Here, there is much we can learn from the industrialisation success of Japan, where "Economic Growth First" was the national slogan for decades - which was voiced and actually practised by all, including the leaders and policy makers, with all seriousness and sincerity. Various measures that may be good and sound, per se, e.g., SAP, SFEM, FEM, deregulation and liberalisation are most likely to prove ineffective in a nation with maladapted financial structure and perverted orientation and outlook. In such a system, mere proliferation of banks and other financial institutions offers no effective desired solution, since the new ones would merely swell the rank and file of other to operate in the same maladapted form.

For the economy as a whole, having been seriously distorted and maladjusted by the operation of the Resource Curse Thesis or Oil wealth illusion or "Dutch Disease", it is useful to apply appropriately designed structural adjustment measures which should again take into account structural peculiarities of our economy. It should not be in the generalised designed form as the type sold to us and
other LDCs by the IMF and World Bank, and the measures should be applied in a more serious and concerted form to impact all sectors of the economy rather than the way SAP was half-heartedly implemented, with only some sectors being made to bear the brunt of the costs. Rather than adjusting a maladjusted economic structure, it appears the manner by which SAP has been implemented has exacerbated the structural problems like the worsened disparity and inequality in peoples' income and general welfare.

We should stop playing monkey tricks, deceiving ourselves, wavering and hesitant on issues that personal gains are to be sacrificed for national development. The Authorities and our policy makers should have been more serious and sincere in the decisions taken on some financial issues. For instance, who was kidding whom by saying we were not taking IMF Loan, and not devaluing our currency? What is the difference in the World Bank loan or other foreign loans or harder terms being taken rather than the IMF loan? In terms of economic and financial effects and implications, is there much difference, if any, in the devaluation of a currency or the alternative of allowing the currency to depreciate in value as in the Naira case?

There is need to address the fundamental problems impeding our economic progress and transformation. The new financial culture and orientation we have advocated should extend to other non-financial sectors of the economy, which should significantly modify our attitude to work, moderate excessive demand for imports, step up our low level of national economic productivity and earn increased foreign exchange.

As a nation, we need such leadership that could effectively give the required new sense of direction, make the various sectors imbibe the new economic and financial culture and orientation, which should increasingly emphasise production and de-emphasise the present irrational level and mis-aligned pattern of consumption. Here, mere slogans and preaching are not likely to be effective, unless backed up with concrete commitment such that the people see the leadership practising what are being preached. In attempting this, our leaders and policy-makers, as physicians, should first cure their own contributory malady. All of us should rally round to make the nation's economic transformation dream become a reality.

### TABLE 1

**BANK LENDING TO INDUSTRY IN FOUR INDUSTRIALISED COUNTRIES AS PERCENTAGES**

<table>
<thead>
<tr>
<th>Lending to Industry</th>
<th>1970</th>
<th>1975</th>
<th>1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>31.8</td>
<td>34.5</td>
<td>30.0</td>
</tr>
<tr>
<td>W. Germany</td>
<td>28.5</td>
<td>31.2</td>
<td>33.6</td>
</tr>
<tr>
<td>Japan</td>
<td>51.4</td>
<td>54.8</td>
<td>50.7</td>
</tr>
<tr>
<td>U.K.</td>
<td>17.5</td>
<td>23.7</td>
<td>21.7</td>
</tr>
</tbody>
</table>

**Lending to Non-Bank Residents**

<table>
<thead>
<tr>
<th>Lending to Non-Bank Residents</th>
<th>1970</th>
<th>1975</th>
<th>1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>39.5</td>
<td>47.6</td>
<td>45.3</td>
</tr>
<tr>
<td>W. Germany</td>
<td>53.9</td>
<td>63.0</td>
<td>74.0</td>
</tr>
<tr>
<td>Japan</td>
<td>53.1</td>
<td>58.9</td>
<td>56.7</td>
</tr>
<tr>
<td>U.K.</td>
<td>36.0</td>
<td>43.7</td>
<td>37.0</td>
</tr>
</tbody>
</table>

**Note**: The figures for Germany exclude a number of institutions which do not offer a wide range of banking services and would not be classified as banks in other countries.

**Source**: Dimitri Vittas & Roger Brown (1982), Bank Lending and Industrial Investment. (Table 4).
TABLE 2

MATURITY OF BANK LENDING, IN FOUR INDUSTRIALISED COUNTRIES
end 1980 (Percentages of Total Lending)

<table>
<thead>
<tr>
<th>Lending to Industry</th>
<th>Short-Term</th>
<th>Medium-Term</th>
<th>Long-Term</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>63</td>
<td>9</td>
<td>28</td>
<td>100</td>
</tr>
<tr>
<td>Germany</td>
<td>44</td>
<td>10</td>
<td>48</td>
<td>100</td>
</tr>
<tr>
<td>Japan</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>100</td>
</tr>
<tr>
<td>U.K</td>
<td>67</td>
<td>20</td>
<td>13</td>
<td>100</td>
</tr>
<tr>
<td>Lending to All Non-Bank Residents</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>37</td>
<td>7</td>
<td>56</td>
<td>100</td>
</tr>
<tr>
<td>Germany</td>
<td>24</td>
<td>13</td>
<td>63</td>
<td>100</td>
</tr>
<tr>
<td>Japan</td>
<td>58</td>
<td>42</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>U.K</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td></td>
</tr>
</tbody>
</table>

1. Relates to lending to companies only.
2. London Clearing banks only.


TABLE 3(a)

BAYERISCHEN VEREINS BANK AG (GERMANY):
MATURITY STRUCTURE OF LOANS AND ADVANCES TO CUSTOMERS
As at December 31, 1990

<table>
<thead>
<tr>
<th>Amount in DM</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>18,222,589,884</td>
<td>54</td>
</tr>
<tr>
<td>15,763,835,273</td>
<td>46</td>
</tr>
<tr>
<td>33,986,425,157</td>
<td>100%</td>
</tr>
</tbody>
</table>

### TABLE 3(b)

**BAYERISCHEN VEREINS BANK AG (GERMANY):**

**MATURITY STRUCTURE OF LOANS AND ADVANCES FROM PUBLIC OWNED INSTITUTIONS, As at December 31, 1990**

<table>
<thead>
<tr>
<th></th>
<th>Amount in DM</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a. Money at call</strong></td>
<td>2,660,271,713</td>
<td>17</td>
</tr>
<tr>
<td><strong>b. Borrowings of various maturity:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ba. Of less than 3 months</td>
<td>2,990,022,804</td>
<td>19</td>
</tr>
<tr>
<td>bb. From 3 months to less than 4 years</td>
<td>3,355,559,890</td>
<td>21</td>
</tr>
<tr>
<td>bc. Of 4 years and above</td>
<td>6,651,338,113</td>
<td>42</td>
</tr>
<tr>
<td><strong>c. Credits used by customers for 3rd party</strong></td>
<td>36,091,485</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>15,693,284,004</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Source:** From the 1990 Annual Report of the Bank.

### TABLE 3(c)

**BAYERISCHEN VEREINS BANK AG (GERMANY):**

**MATURITY STRUCTURE OF DEPOSITS As at December 31, 1990**

<table>
<thead>
<tr>
<th></th>
<th>Amount in DM</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a. Money at call</strong></td>
<td>8,525,419,685</td>
<td>25</td>
</tr>
<tr>
<td><strong>b. Deposits with various maturities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ba. Of less than 3 months</td>
<td>10,624,490,302</td>
<td>31</td>
</tr>
<tr>
<td>bb. From 3 months to less than 4 years</td>
<td>3,634,567,944</td>
<td>11</td>
</tr>
<tr>
<td>bc. Of 4 years and above</td>
<td>3,870,425,559</td>
<td>11</td>
</tr>
<tr>
<td><strong>c. Savings:</strong></td>
<td>7,374,286,858</td>
<td>22</td>
</tr>
<tr>
<td>ca. Savings (with a withdrawal period)</td>
<td>5,133,335,653</td>
<td>15</td>
</tr>
<tr>
<td>cb. Other savings</td>
<td>2,240,951,205</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>34,029,190,349</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Source:** From the 1990 Annual Report of the Bank.
### TABLE 4 (a)

**Maturity Structure of Deposit Liabilities of a Leading Bank* in Nigeria (₦, Million)**

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
</tr>
<tr>
<td>a) Deposits with various maturities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) under 1 month</td>
<td>5026.2</td>
<td>78.8</td>
</tr>
<tr>
<td>(ii) 1 - 3 months</td>
<td>1127.5</td>
<td>17.7</td>
</tr>
<tr>
<td>(iii) 3 - 6 months</td>
<td>102.6</td>
<td>1.6</td>
</tr>
<tr>
<td>(iv) 6 - 12 months</td>
<td>117.1</td>
<td>1.8</td>
</tr>
<tr>
<td>(v) Over 12 months</td>
<td>5.9</td>
<td>0.1</td>
</tr>
<tr>
<td>Total</td>
<td>6379.7</td>
<td>100.0</td>
</tr>
<tr>
<td>b) Types of Accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand</td>
<td>1923.8</td>
<td>30.2</td>
</tr>
<tr>
<td>Savings</td>
<td>2279.8</td>
<td>35.7</td>
</tr>
<tr>
<td>Time</td>
<td>1353.1</td>
<td>21.2</td>
</tr>
<tr>
<td>Due to other banks</td>
<td>823.0</td>
<td>12.9</td>
</tr>
<tr>
<td>Total</td>
<td>6379.7</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*One of the Big Three Commercial Banks.

**Source:** From the Annual Reports of the Bank.

### TABLE 4 (b)

**Maturity Structure of Loans and Advances of a Leading Bank* in Nigeria (₦, Million)**

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
</tr>
<tr>
<td>On Call</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - 3 months</td>
<td>86.4</td>
<td>2.4</td>
</tr>
<tr>
<td>3 - 6 months</td>
<td>79.7</td>
<td>2.2</td>
</tr>
<tr>
<td>6 - 12 months</td>
<td>112.2</td>
<td>3.1</td>
</tr>
<tr>
<td>1 - 3 years</td>
<td>112.9</td>
<td>3.1</td>
</tr>
<tr>
<td>Over 3 years</td>
<td>46.8</td>
<td>1.3</td>
</tr>
<tr>
<td>Total</td>
<td>3602.3</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*One of the Big Three Commercial Banks.
TABLE 5

COMPARATIVE ANALYSIS OF EXISTENCE OF ESSENTIAL FACTORS FOR INDUSTRIAL RESURGENCE IN SOME COUNTRIES

<table>
<thead>
<tr>
<th>Factors</th>
<th>UK</th>
<th>USA</th>
<th>France</th>
<th>West Germany</th>
<th>Japan</th>
<th>Nigeria</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Political acceptance of Industrial Importance?</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>2. Political will to foster Industrial growth?</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>3. Financial &quot;Commitment&quot; to independently assess investment projects?</td>
<td>No one</td>
<td>No one</td>
<td>Credit National Bank Advisers</td>
<td>No one</td>
<td>No one</td>
<td>No one</td>
</tr>
<tr>
<td>4. Who does it?</td>
<td>No one</td>
<td>No one</td>
<td>Credit National Bank Advisers</td>
<td>No one</td>
<td>No one</td>
<td>No one</td>
</tr>
<tr>
<td>5. Financial System Committed to Industrial success?</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>6. Cheap long-term loans for Industry?</td>
<td>Not Necessary at full market rate</td>
<td>Not Necessary at full market rate</td>
<td>Yes</td>
<td>Yes</td>
<td>Very much so</td>
<td>No, at high imperfect market exploitative rate</td>
</tr>
<tr>
<td>7. Readily Available long-term loans for Industrial promotion?</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>8. Absence of critical debt-equity constraints?</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Completely</td>
<td>No</td>
</tr>
<tr>
<td>9. Cooperative pragmatic approach by:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- government?</td>
<td>Not quite so</td>
<td>Not really</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Not quite so</td>
</tr>
<tr>
<td>- industry?</td>
<td>Not quite so</td>
<td>Not quite so</td>
<td>Not quite so</td>
<td>Not quite so</td>
<td>Not quite so</td>
<td>Not quite so</td>
</tr>
<tr>
<td>- banks?</td>
<td>Not quite so</td>
<td>Not quite so</td>
<td>Not quite so</td>
<td>Not quite so</td>
<td>Not quite so</td>
<td>Not quite so</td>
</tr>
</tbody>
</table>

Notes: 1. Nationalised for that purpose.
2. Common ownership by banks and industry.
3. "Economic Growth First" was the national slogan for decades.
4. Banks continually advise industry.
5. Some companies are 99% Debt-funded.

Source: Adapted in a modified form, T. Eriwotu (1987).
Low cash-flow cost of capital \[\rightarrow\] Investment ceases where cash-flow costs exceed project returns.

Many projects generate excess cash-flows \[\downarrow\] Search for finance to fund high investment

Business liquidity rises \[\uparrow\] High investment levels desired

Survival time-horizon of business increases

Business Confidence increases \[\rightarrow\] Lots of investment Projects generated.

---

Figure 1: The Virtuous Cycle of Business

High Cash-flow cost of Capital \[\leftarrow\] Investment ceases where cash-flow costs exceed project returns.

Fewer projects generate excess cash-flows \[\downarrow\] Finance limited to high-yield investments

Bankruptcy? \[\leftarrow\] Lower Business liquidity

Shorter time-horizon of business survival

Business pessimism increases \[\rightarrow\] Only short-term high-yield projects desired.

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Figure 2: The Vicious Cycle of Business

SELECTED REFERENCES

1. AUTY, Richard (1990), Resource-Based Industrialisation: Sowing The Oil In Eight Developing Countries, Clarendon press, Oxford.


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By

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