A Long-Term Assessment of Bank Credit Allocated to the Nigerian Private Sector in an Era of Privatization and Commercialization

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Abstract
The study dealt on the effect of privatization on performance in a panel of Nigerian banks for the period 1988–2017 (a 30-year period). Despite nine banks being privatized the banks credit to the private sector has not met the target of the proponents of the policy makers who started the privatization programme in the first place. The research seeks to establish if there is a valid argument in the belief held in some quarters that privatization of government businesses and assets which facilitate economic growth have not had significant effect on the credit facilitation of the private sector. In the process of developing of the model the first step is to identify the linear regression model requiring the inclusion of the dependent and independent variable and the attendant coefficient weights identified by using statistical method called Ordinary Least Squares (OLS), Granger causality test and Unit root test. There was a positive correlation between credit to the private sector and Gross Domestic Product (GDP) at current prices (R = 0.98). This indicates that 1% incease in CPS also increase GDP at current prices by 98%. It is recommended that the monetary authorities can grow the economy better by putting more policies that aid the real sector which is private sector driven by channeling more credit to the SMEs.

Keywords: Long-term, bank credit, Nigerian private sector, privatization and commercialization

1.0 Introduction

Banks are primarily the facilitators of institutional credit in any country of the world, Nigeria is not an exception. In credit loan administration banks are guided by statutory regulations enforced by monetary authorities like the Central Bank of Nigeria (CBN), the Federal Reserve of United States and the Bank of England in the United Kingdom. Onoh and Iheanacho (2017) recognized the sensitive consideration given by banks and the regulatory bodies regarding credit administration. Profit, liquidity and safety considerations are primarily what concerns the management of deposit money banks. The regulators on the other hand are concerned as to the response of credit administration to macro-economic policy and the effects of the latter on money supply, inflation rate and foreign exchange rate.

The Nigerian financial markets especially the banking industry has had its fair share of turbulence. Within three decades of formal banking in the British colony of Nigeria most of the banks were foreign owned and there was little emphasis on lending significant amounts of money to local businesses largely due to the credit risk associated with indigenous businesses. Many Nigerian nationalists and elite saw the lending requirements of these expatriate banks as discriminatory and hence established their own indigenous banks around the 1930s. Most of these banks however, capitulated within a year or two due to poor management, fraud,

excessive risk taking, lack of due diligence in their operations and most importantly due to the absence of banking regulations.

After several committees to look into banking businesses in Nigeria, the first attempt at regulating banks was in 1952 with the establishment of the *'banking ordinance'*. This action of instituting the ordinance was appropriate at the time but not adequate as years progressed. In a matter of years the arguments for a central monetary authority increased. This gave rise to the Central Bank of Nigeria Act of 1958, there have been several amendments to the Act to give the CBN a grip on the industry and there have been other regulators like the Nigerian Deposit Insurance Corporation (NDIC) that undertakes the insurance of statutorily specified deposits of banks and supervises how the bank manages these deposits and dissolution or merger of banks.

In 1988, the Nigerian government embarked on a privatization and commercialization programme. The idea being to reduce the inefficiencies resulting in public sector enterprises. Other countries with centrally planned economy started to lurch towards a private sector driven economy in the face of increased global competition and emerging markets. Due to poor service delivery and corruption government parastatals such as the telecommunication industry was privatized, paving the way for significant foreign investments in that sector and it's positive multiplier effect on employment and reduced cost of doing business.

This research problem here is that despite all these, there have been reports that as robust as banks have become those small scale businesses in the private sector have not received a reciprocal attention by banks towards credit facilitation. And many scholars in the past echoed sentiments suggesting that when privatization reaches a significant height then most credits will be geared towards the private sector, sadly the real sector has not seen the level of growth as the Nigerian financial sector. Biswas J (2005) opined that if the banks in emerging economies are not encouraged to utilize its allocation powers efficiently that the real sector would continue to witness stunted growth. He recommended that central banks should do more towards directing banks to do more in credit administration towards SMEs.

The research seeks to establish if there is a valid argument in the belief held in some quarters that privatization of government businesses and assets which facilitate economic growth have not had significant effect on the credit facilitation of the private sector.

2.0 Literature review

According to Thorsten Beck (2005) Nigeria's first bank, the African Banking Corporation, was established in 1892. While the earliest banks were essentially foreign owned, several wholly or partially indigenous banks were established in the 1930s, but the majority of these collapsed. No banking legislation existed until 1952, at which point Nigeria had three foreign banks (the Bank of British West Africa, Barclays Bank, and the British and French Bank) and two indigenous banks (the National Bank of Nigeria and the African Continental Bank).The Central Bank of Nigeria, empowered to regulate the industry, commenced operations on July 1, 1959. In the 1970s, the Nigerian authorities introduced an array of direct controls in the banking system, both through ownership, as well as through interest rate and credit controls. As part of an "indigenization wave" that had the goal of securing domestic majority ownership of strategically important sectors, many foreign-owned banks were nationalized, since no Nigerian purchaser could be found.

While these shares were formally warehoused for future sale, they effectively were used for political influence in these banks. At the same time that entry into the banking system was restricted, a floor for deposit and a ceiling for lending interest rates were established and a credit allocation quota of up to 70% of a bank's portfolio was enforced. In the context of the

Structural Adjustment Program (SAP) in 1986, Nigeria undertook a broad program of financial liberalization. Interest rates and entry into the banking system. The 1952 ordinance set standards, required reserve funds, established bank examinations, and provided for assistance to indigenous banks. In 1993, the Federal Government acquired a 40 per cent equity ownership in the three largest banks. In 1996, under the second Nigerian enterprise decree requiring 60 per cent indigenous holding, the Government acquired an additional 20 per cent holding in the three banks and 60 per cent in the other foreign–owned banks were liberalized, and credit allocation quotas loosened. At the same time, while ending direct rationing of foreign exchange for the real sector, the government maintained a multiple exchange rate regime, thus opening a new area of arbitrage and rent seeking for financial institutions that had privileged access to foreign exchange auctions.

The consequence was the quick entry of many new players into the banking system, especially merchant banks that specialized in foreign exchange operations.6Very low entry requirements and the high market premiums that could be earned with arbitrage activities in the foreign exchange markets allowed for returns on equity of 300% or more according to Lewis and Stein (2002). In the following years, the number of banks tripled from 40 to nearly 120, employment in the financial sector doubled and the contribution of the financial system to GDP almost tripled (Lewis and Stein, 2002). The financial sector boom, however, was accompanied by financial disintermediation. Deposits in financial institutions and credit to the private sector, both relative to GDP, decreased over the period 1986 to 1992.

The increasing number of banks and human capital in the financial sector was thus channeled into arbitrage and rent-seeking activity rather than financial intermediation. The arbitrage potential arose from the spread between the official exchange rate and the interbank rate. After the trade liberalization, which was part of the SAP, there was an increasing demand for trade-related financing. Lewis and Stein (2002) describe the different arbitrage possibilities in more detail. 6 Another reason was the still existing guideline on credit growth, which made it more profitable to open a new bank than to expand an existing one. For the empirical tests that follow, data were available from 1990 to 2001, and thus we cannot describe well the boom period in speculation which occurred largely in the last half of the 1980s. 8 By 1990, the bubble started to burst. Non-performing loans (NPL) increased sharply.

Especially, the merchant bank sector – where most of the foreign exchange speculators were concentrated – and the government-owned banks showed increasing signs of distress. In 1991, the Central Bank imposed a moratorium on new licenses. New Prudential Guidelines, introduced in 1990-91 made the extent of distress in the banking system even clearer. During 1992, several banks were scrutinized and delicensed. By mid 1993, political uncertainty following a failed transition to civilian rule triggered a bank run, which resulted in paralysis of the financial system, temporary closures and bank failures. Finally, in 1994, the new military government reintroduced exchange and interest rate controls. The following inflationary burst, rising black market premium on the Naira and economic decline resulted in windfall gains for some connected market participants, while deepening the overall distress in the financial system. Political economy explanations of the liberalization and boom-and-bust period focus on rent-seeking activities of the governing elites as opined by Lewis and Stein (2002).

While moving forward with structural reforms in many areas, liberalization measures were selective to maintain patronage opportunities and to insulate the governing elites and their supporters from the economic costs of these reforms. The expanding financial sector and the new arbitrage possibilities through the multi-tiered exchange rate system offered numerous patronage opportunities for political and military leaders. Bank licensing was a politically influenced process and managing boards of banks included many politicians and senior military

officers. However, the shift of arbitrage and rent-seeking activities from the real to the financial sector – further fostered by macroeconomic instability – also created new groups of wealth and economic power. It was in this volatile environment, that in 1992 the privatization agency (Technical Committee on Privatization and Commercialization, TCPC) scheduled the sale of government shares in eight commercial and six merchant banks in which the federal government had an ownership stake.

These 14 banks constituted 51% of total banking system assets and 60% of total banking system deposits and included the largest three commercial and largest three merchant banks. Eight of these privatizations were implemented through flotation on the stock exchange, with purchasers restricted to Nigerians and limited groups of other Africans. The government shares in Merchant Bank of Africa, on the other hand, were sold to staff. The shares of the privatized banks were widely spread, reportedly to some 150,000 new shareholders. Several banks that were originally scheduled to be privatized were not divested. This program, however, did not affect the purely state-owned banks and while it reduced, it did not eliminate government ownership in the banking system. In December 1996, there were still 20 banks with government interests. Following privatization, there were little if any governance changes in the privatized banks.

Few privatized banks changed their senior management or governing boards following privatization, and recurrent struggles between shareholders and management are reported as opined by Lewis and Stein (2002). In 1995, at the high point of the banking crisis, the government even considered renationalizing the banks, but was discouraged by internal and external pressure. As the financial boom was fed by arbitrage and rent-seeking activities, so did the government use the resolution of the banking crisis for political purposes. A Failed Bank Decree was used to prosecute cases of misconduct and fraud in the banking industry. The Federal Government had equity investment of at least 45 per cent in thirteen out of the fourteen banks and 4.45 per cent in Merchant Bank of Africa. Few failing banks, on the other hand, were resolved and the authorities focused more on containing than resolving the crisis. It was only under the new government in 1998, which eventually handed over power to a civilian regime in May 1999, that a more serious cleanup started in the financial system, with 26 bank licenses revoked in 1998.

La Porta (2001) and Dinc, (2005) observed that cross-country and bank-level evidence shows that the poor performance of government-owned banks, especially in developing countries, so that privatization could be expected to improve performance and thus boost efficiency of financial intermediation. Evidence from individual countries that have undertaken large privatization programs, however, has been mixed. This position was supported by Cull, Clarke, and Shirley (2005) and Megginson (2005). For example, in Mexico in the early and mid-1990s, privatization outcomes were bad enough to prompt re-nationalization of the banking sector in the wake of the Tequila crisis as observed by Haber (2005). Banking sector performance eventually improved, but only after a second round of privatization in the late 1990s in which foreign ownership participation was encouraged.

Bonin, Hasan, and Wachtel (2005) noted that initial attempts at bank privatization in the Czech Republic, and to a lesser extent Poland, were also not fully successful, at least in part because the state maintained relatively large shareholdings in the privatized banks and discouraged ownership by foreign investors. Assessing the effects of privatization across countries is made difficult by country specific circumstances that are hard to control for.1 Researchers have therefore turned to country-level studies, which offer natural experiments if data availability

allows the performance assessment of privatized banks before and after privatization, relative to other banks in the financial system and controlling for other bank and country-level but time-variant characteristics.

Otchere (2005) examines the effects of share issue bank privatizations for twenty-one banks in nine developing countries using pooled econometric tests. In the case of direct sales to strategic investors, this type of cross country analysis is more difficult, because share prices cannot be used as performance indicators and listed banks are generally subject to lower disclosure standards. This paper assesses the effect of privatization on bank performance in Nigeria over the period 1990-2001. Nigeria undertook a major privatization program in the early 1990s, divesting a total of 14 banks, constituting more than 50% of total banking system assets. However, this period was also characterized by other major changes in the financial system. The privatizations were part of a larger liberalization process that included interest rate and entry liberalization and the loosening of credit allocation quotas. At the same time, a multitiered exchange rate market offered plenty of arbitrage and rent opportunities for licensed banks. Consequently, the late 1980s saw a massive entry of new banks specializing in foreign exchange operations. While the number of banks multiplied during this period and the financial sector boomed, financial intermediation, as measured by credit to the private sector and deposits, decreased. Finally, economic recession and political instability brought the boom to a halt in 1992, with a major banking crisis crippling the financial system until the late 1990s. The volatile macroeconomic and financial environment, in which the privatization took place, makes it difficult to compare the effects of the Nigerian privatization program to privatization in other countries.

We therefore evaluate the effects of privatization on bank performance relative to the same banks before privatization and to other privately owned banks in Nigeria. Specifically, we assess the performance of privatized banks, i.e. the return on assets and equity as well as the share of non-performing loans (NPL), relative to other banks in the Nigerian financial system and relative to their performance before privatization. Given the large reliance of banks on foreign exchange revenue during the sample period, we use profit measures both including and excluding foreign exchange profits. We apply different robustness tests and estimation techniques. Our results indicate some performance improvement due to privatization.
While privatized banks performed significantly worse than privately owned commercial banks before privatization, this gap was effectively closed by privatization. This is remarkable given the macroeconomic and regulatory environment that was very inhospitable to true financial intermediation during our sample period. However, there were no further performance gains beyond the performance of other private banks in the Nigerian banking system. In addition, our results give evidence of the poor performance of banks that continued with minority government ownership during the sample period. Our results also provide microeconomic evidence on the distorted incentives that banks faced in Nigeria during the sample period. Long established banks that focused on retail banking performed significantly more poorly than new wholesale banks that focused on lending to the government and on fee-based business.

These results are the microeconomic complement to the aggregate picture of declining financial intermediation that Nigeria suffered during this period. Our results are subject to some caveats. First, poor data quality makes it difficult to find significant relationships between bank characteristics such as ownership and bank performance. The fact that we find significant and robust relationships in spite of these shortcomings makes us more confident in our findings. Second, limited information on the privatization transactions and the individual banks limit our analysis to a primarily statistical one. We try to offset these hurdles with a thorough sensitivity

analysis. This paper makes several contributions to the literature. First, it shows the effects of privatization on performance in the context of a financial system that went through a boom and bust cycle with perverse incentives for true financial intermediation. Second, it analyzes 5 the performance of Nigerian banks over an important period of recent economic history and thus complements a large, mostly qualitative literature on banking sector development in this African economy, which is second only to South Africa in size.

Third, to our knowledge this is the first detailed quantitative analysis of bank privatization for an African nation, despite substantial recent reductions in state ownership of banks as opined by Clarke, Cull, and Shirley (2005). Fourth, we study share issue privatizations (SIP) in which the government fully divested its shareholdings. In other developing countries where governments attempted SIP of banks, they also tended to retain sizable shareholdings, and post-privatization performance improvements did not materialize. In those cases, it is difficult to identify whether poor outcomes should be attributed to the government's failure to fully relinquish its shareholding, or to attempting an SIP where stock markets and the associated monitoring of firms by investors were not fully developed. To the extent that our empirical tests reveal that the SIP in Nigeria was unsuccessful, the SIP method itself is called into question.

3.0 Research methodology

The methodology of research used the e-views statistical package in carrying out series of tests (including diagnostics). This research adopts the *ex-post facto* research design. In the context of social and educational research the phrase 'after the fact' or 'retrospectively' refers to those studies which investigate possible cause-and-effect relationships by observing an existing condition or state of affairs and searching back in time for plausible causal factors. Secondary data is data which has been collected by individuals or agencies for purposes other than those of our particular research study (Onwumere, 2005). The justification for the use of secondary data in this research is that; it is available and is entirely appropriate and wholly adequate to draw conclusions and answer the question or solve the problem; it is far cheaper to collect; the time involved in searching secondary sources is much less than that needed to complete primary data collection; secondary sources of information can yield more accurate data than that obtained through primary research; secondary data can play a substantial role in the exploratory phase of the research when the task at hand is to define the research problem and to generate hypotheses; and it will help define the population. Thus, the data used for this research was generated from the CBN statistical bulletin 2007 to 2016.

In the process of developing of the model the first step is to identify the linear regression model requiring the inclusion of the dependent and independent variable and the attendant coefficient weights identified by using statistical method called Ordinary Least Squares (OLS). These coefficient weights measure the strength of the relationship between independent and dependent variables. The two dimensions of the coefficients are direction and magnitude. The direction indicates whether variations in the dependent variable are caused by changes in the independent variable. Generally, the magnitude of coefficients can be compared only if two independent variables have the same unit of measurement. Otherwise the variables need to be normalized to a standard scale to be compared to measure the strength of the relationship across different independent variables.

Model specification

According to Onwumere (2009), regression is a statistical technique used in measuring the impact of one or more variables (otherwise known as independent variables or regressors) on

another variable (the dependent variable or the regressand). The general linear regression model according to Koutsoyiannis (2006) and Onwumere (2009), is:

$$Y = \alpha_0 + \alpha_1 X + \mu \qquad - \quad - \quad - \quad - \quad - \quad - \qquad (i)$$

Where Y is a function of X independent variable and μ is the error term, a_0 being the constant and a_1 being the coefficient of the independent variable.

where;

Log CPS   = Log of Credit to Private Sector (a proxy for private sector credit)
Log GDP   = Log of Gross Domestic Product (a proxy for economic growth)
α_0 =   Equation constant
α_1 = Coefficient of independent variable
μ =   Error Term

Model Assumption
The model adopted are based on the following assumptions
1. There must be enough data available to compare with the number of parameters to be estimated. If there is too little data, then you end up with a system of equations with no unique solution. The thirty-year data from 1988-2017 is sufficient to meet this assumption for this research. Though, this is a necessary but not a sufficient condition but if this condition fails this could lead to multicollinearity in the regressors.
2. The regressor is also assumed to be error-free. In standard regression models, regressors have been measured exactly, or observed without error; as such, those models account only for errors in the dependent variables, or responses. However since the figure will be computed from secondary sources, it is hoped that the problem will not arise.

4.0 Data analysis and discussion of findings
Table 1 Data Presentation

Year	Credit to Private Sector[2] (CPS) (N' Billion)	GDP at Current Basic Prices (N' Billion)	(CPS/GDP) (%)
1988	27.33	320.33	8.5
1989	30.40	419.20	7.3
1990	33.55	499.68	6.7
1991	41.35	596.04	6.9
1992	58.12	909.80	6.4
1993	127.12	1,259.07	10.1
1994	143.42	1,762.81	8.1
1995	180.00	2,895.20	6.2
1996	238.60	3,779.13	6.3
1997	316.21	4,111.64	7.7
1998	351.96	4,588.99	7.7
1999	431.17	5,307.36	8.1
2000	530.37	6,897.48	7.7
2001	764.96	8,134.14	9.4
2002	930.49	11,332.25	8.2
2003	1,096.54	13,301.56	8.2
2004	1,421.66	17,321.30	8.2
2005	1,838.39	22,269.98	8.3
2006	2,290.62	28,662.47	8.0
2007	3,680.09	32,995.38	11.2
2008	6,941.38	39,157.88	17.7
2009	10,219.34	44,285.56	23.1
2010	9,830.34	54,612.26	18.0
2011	14,183.59	62,980.40	22.5
2012	15,151.76	71,713.94	21.1
2013	16,191.47	80,092.56	20.2
2014	18,126.05	89,043.62	20.4
2015	18,720.51	94,144.96	19.9
2016	21,982.15	101,489.49	21.7
2017	22,290.66	113,711.63	19.6

Table 2

Group unit root test: Summary
Series: CPS, GDP
Date: 03/18/19   Time: 16:33
Sample: 1 33
Exogenous variables: Individual effects
Automatic selection of maximum lags
Automatic lag length selection based on SIC: 0 to 1
Newey-West automatic bandwidth selection and Bartlett kernel

Method	Statistic	Prob.**	Cross-sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	5.71173	1.0000	2	57
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	6.36487	1.0000	2	57
ADF - Fisher Chi-square	0.00017	1.0000	2	57
PP - Fisher Chi-square	0.00020	1.0000	2	58

** Probabilities for Fisher tests are computed using an asymptotic Chi
    -square distribution. All other tests assume asymptotic normality.

Table 3

Dependent Variable: CPS
Method: Least Squares
Date: 03/18/19   Time: 16:34
Sample (adjusted): 1 30
Included observations: 30 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP	0.210834	0.005914	35.65136	0.0000
C	-850.0613	275.7881	-3.082299	0.0046

R-squared	0.978445	Mean dependent var	5605.653
Adjusted R-squared	0.977675	S.D. dependent var	7625.355
S.E. of regression	1139.335	Akaike info criterion	16.97862
Sum squared resid	36346327	Schwarz criterion	17.07203
Log likelihood	-252.6793	Hannan-Quinn criter.	17.00850
F-statistic	1271.019	Durbin-Watson stat	0.927679
Prob(F-statistic)	0.000000		

Table 4
Pairwise Granger Causality Tests
Date: 03/18/19   Time: 16:36
Sample: 1 33
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
GDP does not Granger Cause CPS	28	7.82148	0.0026
CPS does not Granger Cause GDP		2.23545	0.1297

In testing the possible presence of unit root in the time series data set (see table 2) I ensured that the parameters estimated are stationary time series data. I used the Augumented Dickey – Fuller (ADF). To reject the null hypothesis that the data are non – stationary, the ADF statistics must be negative than the critical values and significant too. The result of the unit root test is revealed, there are no presence of stationarity since the ADF Statistics is less than the critical values at 1%, 5% and 10% respectively.

As revealed from table 3, there was a positive correlation between credit to the private sector and Gross Domestic Product (GDP) at current prices (R = 0.98). This indicates that 1% incease in CPS also increase GDP at current prices by 98%.

The granger causality test (see table 4) was conducted to test the causality of the impact of the independent variable on the dependent variable. As indicated in the above table, it was revealed that GDP does not granger cause CPS (p – value $0.0026 > 0.05$) also, CPS does not granger cause GDP (p-value = $0.1297 > 0.05$). Hence, there is a unidirectional relationship between CPS and GDP.

The result of the regression analysis reveals that the model for our study is well fitted given the F-statistic. The coefficient of determination (R-square), which measures the goodness of fit of the model, indicates that 97.8 % of the variations observed in the dependent variable were explained by the independent variables. This was moderated by the Adjusted R-squared to 93.9%, indicating that there are other variables other than our explanatory variables that might also impact on the dependent variable. The result shows that GDP at current prices has a positive and significant impact on CPS. The Durbin Watson statistic is 0.92 which indicate that there is a slight trace of spatial and serial autocorrelation.

5.0 Conclusions
There is no gainsaying that financial growth remains a major source of capital and investment proceeds in Nigeria. The argument supports that that these indices as a determinant of economic development is true as revealed in the Nigerian situation. Despite been a speculative investment, its inflow into Nigeria has been a blessing as revealed. This result is an indication of the importance of financial growth to economies in government desire to reduce poverty and stimulate economic growth of Nigeria. The result shows that the privatization and commercialization have increased economic growth but the private sector credit has not responded in a reciprocal manner.
Becoming of the top twenty most developed economic by the year 2020 requires serious commitment in improving business activities and increasing economic output. Financial growth which increases technology development can help to increase and improve the low

level of technological development in Nigeria, if favourable conditions are made available as evidenced in the South Africa situation.

6.0 Recommendations

Based on the following findings in this study and to further encourage foreign direct investment in the country, I offer the following recommendations for specific attention of the authorities: There is need for continuity in government's policies aimed at developing the economy so that both local and foreign investors can be encouraged to increase their volume of investment in Nigeria.

(1)   The financial system must be reformed constantly to encourage flow of foreign credit into Nigeria's private sector.

(2)   The monetary authorities must take a more cautious look at financial growth variables as a source of inflation since they relate with money supply in Nigeria. On the other hand, they can be encouraged in an attempt to increase money supply in the economy.

(3)   The monetary authorities can grow the economy better by putting more policies that aid the real sector which is private sector driven by channeling more credit to the SMEs.

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