EFFECT OF BANK LENDING ON INDUSTRIAL SECTORS FINANCIAL PERFORMANCE IN NIGERIA

(A Case Study of Dangote Cement Plc)

BY

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BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF BANKING AND FINANCE, INSTITUTE OF FINANCE AND MANAGEMENT STUDIES, KWARA STATE POLYTECHNIC ILORIN KWARA STATE

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CERTIFICATION

This is to certify that this research study was conducted by **KEHINDE HAMMED OLAMILEKAN** with Matriculation Number **HND/23/BFN/FT/0121** and this work has been read and approved as meeting the requirement for the award of Higher National Diploma (HND) in Banking and Finance, Institute of Finance and Management Studies (IFMS), Kwara State Polytechnic.

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DEDICATION

I dedicate this project to ALMIGHTY ALLAH and to my beloved family, [KEHINDE'S FAMILY] whose constant support, encouragement, and belief in me have been my greatest motivation. May Allah continue to bless you (Amen).

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I give thanks to Almighty Allah, The sole source and the understanding of knowledge. He's the Creator of heaven and Earth and which we dwell in, He kept me among all through the year, thanks to his protection and guidance over me, that he makes it possible for me to complete part of my miles in my academic life.

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ABSTRACT

Bank Lending is a crucial aspect of industrial growth of an economy as it helps industrial firms carry-out capital-intensive projects to remain operational and stay competitive in their respective markets. The nature of these loans may be short-term or long-term. This study set out to obtain a relationship how long-term and short-term loans from banks and other financial institutions may boaster the net revenue (EBITDA) of industrial firms in Nigeria. Using Dangote Cement Plc as a test sample, a linear regression model was adopted to compute the correlation coefficients and p-values of the independent variables: Total Current Liabilities (TCL) and the Total Non-Current Liabilities on the EBITDA of the organisation. The results from the analysis showed that the TCL positively contributes to the EBITDA of DCP with a correlation coefficient of 0.504 and a p-value of 0.001. On the other hand, the TNCL, negatively connects with the EBITDA with a coefficient. of - 0.001 and a p-value of 0.998. Also, the model's ability to classify new data by an R-squared value of 92% showed a promising response of the independent variables on the dependent variable. Finally, based on the results, it can be concluded that whereas non-current liabilities have no direct or positive impact on a manufacturing company's net earnings (EBITDA), current liabilities such as short-term loans, dividends, accounts payable, notes payable, and income tax owed, contribute to growth of industrial firms.

Keywords: Bank Lending, Industrial Sector, Financial Performance.

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CHAPTER ONE

INTRODUCTION

1.0 Background of the study

Banks grant loans and advances to individuals, business organizations, manufacturing industries as well as governments to enable them to embark on investment and development activities as a means of aiding their growth in particular or contributing toward the economic development of a country in general which enhances global competitiveness. Credit facilities have proven to facilitate developed economies of the world and the inherent possible roles in developing African economies cannot be overemphasized to instigate the desired economic development and direction.

Cement is a vital product for housing and infrastructural development (Mbongwe et al., 2014: 3). Also, due to the construction boom in many African countries and the importance of cement to developmental initiatives like constructions, the demand for cement continues to rise in Africa. Until the entry of the Dangote Group, the continent had relied heavily on the industrial powers as major sources of cement. Indeed, developing states require large supply of cement for infrastructural development like housing and schools. Therefore, "development of basic infrastructure from roads, rails and ports to hospitals, schools, shops and housing all require cement as a primary input, making it a key indicator of performance and the trajectory of an economy – especially those coming off a low base" (White, 2015: 124).

Recently, most industries in Nigeria have been existing in the form of small industries (cottage industries) this includes household carrying out industrial activities in the traditional methods without paid employment. (Akinwumi Adesina, 2010).

Hence small and medium industries can be said to be the cornerstone of any nation's industrial and economic well-being and successive government have directed policies encouraging the development and growth of industries.

The small and medium scale industries (SME's) were not accorded significant importance in Nigeria until 1975 when the government realize that its industrialization strategy of

import substitution only resulted in the setting up of large industries. It was not until the third national development plan of 1975 to 1980 that the programmes for the small and medium scale industries were explicitly spelled out; “The creation of employment opportunities, mitigation of rural-urban migration, mobilization of local resources, and a more even distribution of industrial enterprises in different parts of the country”. (Olu Ajakaiye and M. A. Olomola, 2003).

Despite all efforts by the three tiers of government to enhance the development of industrialization, historical survey indicates that there have been inadequate credit facilities. This has been a major impediment in the development to small and medium scale industries in Nigeria. For this reason, many of them are either proprietary or partnership and so cannot obtain funds from the capital market.

As a result of this, they are either starved of funds or, at best obtain fund on extremely unfavourable terms from other sources like money lenders, thrift societies etc. The problem of finance hinders them from operating profitably in a competitive and depressed economy.

In other to overcome this problem, the federal and state government set up industrial credit schemes and gave guideline to commercial banks to increase their lending to these categories of enterprises.

Blatantly, the past military and civilian administrative made effort toward the development of small and medium scale industries, notably among them was the past military administration of General Babangida with introduction of the structural adjustment program (SAP). The introduction of SAP in 1986 gave birth to various government organs and general conditions, which encourage the development of industries even in rural areas. Some of these organs involves the Better Life for Rural Women Programme, National Directorate of Employment (NDE), the Export Promotion Council and the Nigeria Economic Reconstruction Fund (NERFUN). Whether these organs are really achieving the derived results or not is above the scope of this study.

The establishment of the Nigerian Banks for commerce and industry (NIDB) and various

industrial development centres all over the country by past administrations show the desire of the nation toward industrialization. The transformation of the economy of a depressed nation such as ours from her present agrarian positions of productions of production and industrial productivity can only be brought about by indigenous industries.

Inegbenebor (1991) states that the desire of most developing countries including Nigeria is to have a self-reliant and self-sustain growth. Nigeria is blessed with abundant mineral resources and if these resources are vividly harnessed and managed, she will compete with other industrialized nations of the world.

In realisation of credit (finance) as core input in stimulating production through the acquisition of capital equipment and other factor inputs that foster production and economic growth and following the treatise of Schumpeter in 1911 and 1934, Central Bank of Nigeria has at various times developed macroeconomic models, banking reforms and policies aimed at encouraging commercial banks to play the significant role of mobilising and providing credit to all segments of the economy but with special priority to the real sector. Available statistics from the Central Bank of Nigeria's Statistical Bulletins (various years) show that over the years Banks' credit to the various sectors of the Nigerian economy and especially the productive sectors have been on the increase. In the same vein, Nigeria's economic growth proxied by Gross Domestic Product has been making positive growth except for a few negative growths within the study period. In assessing the performance of the Nigerian economy, Udeaja and Obi (2015) in their study traced that during the oil boom era (1970 - 1978), gross domestic product (GDP) grew positively by 6.2 per cent annually. However, negative growth rates were recorded in the 1980s while in the period (1988-1997) that constituted the period of structural adjustment programme (SAP) and economic liberalisation, gross domestic product (GDP) grew at a positive rate of 4.0 per cent. In his submission, Sanusi (2010) posits that economic growth rose substantially in the last 15 years, i.e., 1996 - 2010.

An in-depth look at the major contributors to gross domestic product (GDP) reveals that agriculture, services and industrial sectors rank highest. Nonetheless, with increases in

Banks' credit and economic growth over the years of study, economic growth indices (unemployment rate, the level of income per capita, poverty) are abysmal. Worried over this situation, Sanusi again echoed that available statistics have put the national poverty level of Nigeria at 54.4 per cent while unemployment has risen to 19.7 percent by National Bureau of Statistics.

Currently, these figures are 62.6% and 13.9% as at 2016 respectively, Sanusi expressed that while China and Thailand occupy a 5 and 22 the position in 2009 Global Hunger Index, Nigeria was ranked 64 The ugly situation of Nigerian economic indicators underscores the United Nations Development Program's Annual Report (2014) that Nigeria continues to be an example to the rest of the World on many fronts, having attained the rank of being the biggest economy in Africa after rebasing.

However, juxtaposing United Nations Development Program's (UNDP) positive remarks and the poor economic growth indices of Nigeria, one is poised to ask if commercial Banks' Credit to real sector has any impact on economic growth in Nigeria. It is on the basis of this question that the research work is premised and further, the research attempts to study the impact of Commercial Banks' Credit to the productive sectors on the growth of Nigerian economy. Consequently, this work evaluates the relationship between commercial banks' credit to the real sector and economic growth in Nigeria.

1.1 Statement of Research Problem

The Nigerian industries are confronted with a myriad of problems but notable among them is financial constraint caused by the sources of funds used in financing the project. An industrial project has a long maturity or gestation period and to finance such firms requires long term sources of funds instead of short-term funds often provided by commercial banks.

The banking sector, by nature of its operations has loanable short-term deposits, which are very liquid. Thus, for banks to tend on long-term basis creates a deposit loan maturity gap as the owners of such deposits can call for their money at short notices. To solve this problem, commercial banks adopt a careful strategy of strategic approach in extending medium to long-term financing which always attracts high interest rate. This constitutes a

hard condition for promoters or investors.

With the increasing cost of production and falling real income of consumers, the demand for goods and services are on the decline. This leads to stockpiles of finished goods (inventory) in their warehouses. As stated by Anao and Osaze (1990):

"In financing the traditional small business in Africa often has to depend on a mortgage from a deposit money banks. Survival after a few years may lead to success with obtaining seasonal overdrafts and lines of credit from commercial banks, but no fund for permanent growth…"

Access to foreign exchange is another impediment to industries. Most of these industries need to import machinery and they find it extremely difficult to obtain foreign exchange even if they have the naira cover closely related to the above. There is also the inability to secure foreign loans due to high cost of servicing the loans.

This study on bank lending and industrial performance in Nigeria delves into the relationship between the banking sector's lending practices and the overall performance of industries within the Nigerian economy. It may examine how access to credit from banks impacts the growth, productivity, and competitiveness of the industrial sectors in Nigeria. Factors such as interest rates, loan terms, and availability of credit might be analysed in relation to their effects on industrial output, employment, and investment. Additionally, the study might explore any potential challenges or constraints faced by industries in accessing bank loans, as well as the role of government policies in shaping lending practices and industrial development.

1.2 Research Questions

In line with the research gaps, following research questions are answered in the study:

i. How does the bank credit to Industrial sector influence the Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) of industrial firms?
ii. What is the impact of Current Liabilities on the EBITDA of industrial firms?
iii. How do Non-current Liabilities affect the EBITDA of industrial firms?

1.3 Objectives of the study

The broad objectives of this study are to examine the effect of bank lending and

industrial sector financial performance in Nigeria. The specific objectives are to:

i. To analyze the relationship between the bank credit to Industrial sector and the EBITDA of industrial firms.
ii. To investigate the effect of the current liabilities on the EBITDA of industrial firms.
iii. To analyze the relationship between non-current liabilities and the EBITDA of industrial firms.

1.4 Research Hypothesis

The issue of banking sector credit made available to industries has been a running battle between the government and banks. In the light of the above, the study will attempt to test certain hypothesis, which will include;

i. The bank credit to Industrial sector does not significantly influence the EBITDA of industrial firms.
ii. Current Liabilities do not significantly affect the EBITDA of industrial firms.
iii. Non-current Liabilities do not significantly affect the EBITDA of industrial firms.

1.5 Significance of the Study

The significance of the study is derived from the basic feature of lending as a time important function of most banks. The findings of this study are believed to be of great value to the government especially in terms of policy-making, the banking sector, the industrial sector operators, other researchers, to students alike and the society at large.

1.6 Scope of the Study

The study comprehensively examines various factors, including the credit to Industrial sector, short term debt (current liabilities) and medium- and long-term loans (Non-current Liabilities), to understand their respective impacts on industrial firms' Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA). These Industrial firms also take a critical look at the effects of banking sector credit (loans) on the overall performance or growth of the Nigeria industrial sector from 1993 to 2023. It intends to know the possible ways through which Nigeria can become an industrialized giant.

1.7 Definition of Terms

1.7.1 Bank Lending: The process by which financial institutions, such as banks, provide funds to individuals, businesses, or governments with the expectation of repayment, usually with interest. This includes various types of loans, such as commercial loans, mortgages, and overdraft facilities.

1.7.2 Industrial Performance

The quantitative and qualitative measures of the productivity, output, profitability, and competitiveness of industrial sectors within the Nigerian economy. This encompasses factors such as GDP growth rate, employment levels, capacity utilization, technological innovation, and export performance.

1.7.3 Credit Accessibility:

The ease with which individuals and businesses can obtain loans or credit facilities from banks and other financial institutions. This includes factors such as interest rates, loan terms, collateral requirements, credit scoring criteria, and the availability of alternative sources of financing.

1.7.4 Current Liabilities:

The total debt owed by an organisation to credit firms that is due for payment within 12 months (1 year). It comprises short-term debts, dividends, accounts payable, notes payable and income tax owed.

1.7.5 Non-Current Liabilities:

The total debt owed by an organisation to credit firms that is not due for payment for at least 12 months. It usually comprises Long-term loans, long-term leasing, debentures, bonds payable, obligations, deferred tax liabilities.

1.7.6 EBITDA:

It is a financial metric used to evaluate a company's operating performance which shows the cash earnings generated by the core operations of the business. It provides an indication of a company's ability to generate cash from its operations, which is crucial for assessing profitability and also for comparing the financial performance of companies across different industries.

1.7.7 Loan Terms

The specific conditions and terms under which a loan is provided by a bank or financial institution. This includes the duration of the loan (term), repayment schedule, interest rate, collateral requirements, and any other contractual obligations agreed upon by the borrower and lender.

1.7.8 Industrial Sector

Refers to specific segments or categories of economic activity within the Nigerian economy, such as manufacturing, agriculture, mining, construction, and services. Each industrial sector may have unique characteristics, challenges, and contributions to overall economic growth and development.

1.7.9 Government Policies

Refers to the regulations, laws, and directives implemented by the Nigerian government to influence economic activities, including bank lending and industrial performance. This includes monetary policies (set by the central bank), fiscal policies (set by the government), trade policies, industrial policies, and regulatory frameworks governing the banking and industrial sectors.

1.8 Organization of the Study

Chapter I: This chapter will provide an overview of the study, including the background, statement of problem, objectives, research hypotheses, significance, scope, and definition of terms.

Chapter II: This chapter will review existing literature on the effect of bank lending on industrial sectors in Nigeria (A case study of Dangote Cement PLC), including theoretical frameworks and empirical studies.

Chapter III: This chapter will describe the research design, data collection methods, and data analysis techniques used in the study.

Chapter IV: This chapter will present the results of the data analysis, including descriptive statistics, correlation analysis, and regression analysis.

Chapter V: This chapter will summarize the findings of the study, draw conclusions, and make recommendations for policy and practice.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Conceptual review

2.1.1 Industrial Sector Performance

Industrial sector performance is a complex and multi-dimensional concept that encompasses various aspects of a company's or industry's operations and outcomes. At its core, industrial performance reflects how efficiently and effectively industries transform inputs such as labor, capital, and raw materials into valuable outputs, including goods and services.

A key aspect of industrial performance is productivity, which measures the efficiency of input utilization. High productivity indicates that an industry is effectively converting resources into outputs, which is crucial for maintaining competitiveness and profitability. Alongside productivity, the quality of products and services plays a significant role in determining industrial performance. High-quality outputs meet or exceed customer expectations, fostering customer satisfaction and loyalty, which are essential for market success.

Industrialization is the process of building up a country's capacity to produce varieties of goods and services– extraction of raw materials and manufacturing of semi-finished and finished goods. Anyanwu, Oyefusi, Oaikhenan and Dimowo (1997), describes industrialization as the process of building up a nation's capacity to convert raw materials and other inputs to finished products and to manufacture goods for further production or for final consumption. Industrialization enhances the utilization of productive inputs (labour, capital and raw materials), given the country's technology, to produce non-durable and durable consumer goods, intermediate goods and capital goods for domestic consumption, export or further production. Thus, industrialization could be described as the process of transforming raw materials, with the aid of human resources and capital goods into;

(a) Consumer goods, (b) New capital goods which allows more consumers goods

(including food) to be produced with the same human resources, and (c) Social overhead capital, which together with human resources provide new services to both individuals and businesses (Ekpo, 2005). Kirkpatrick (1985), posited that industrialization involves a number of changes in economic structure of a country such as a rise in the relative importance of manufacturing industry; a change in the composition of industrial output; and changes in production techniques and sources of supply for individual commodities. Industrialization is, indeed, a wide concept. Broadly conceived, it relates to development in many industries/sectors such as manufacturing, banking, building/construction, mining/quarrying, communication, real estate (Obioma and Ozughalu, 2005) and public utilities (Ekpo, 2005).

CBN (2002), gives the components of industrial sector in Nigeria to include the manufacturing, construction, electricity, mining, water and gas industries. On the other hand, industrial policy, broadly defined is all forms of state intervention that affect and influence industrial activities (Foreman-Peck & Federico, 1999; Busari, 2005).

Joseph T. Mahoney and J. Rajendran Pandian (1992): In their paper "The Resource-Based View Within the Conversation of Strategic Management," Mahoney and Pandian define industrial performance as the outcome of the utilization of resources within a firm to achieve strategic goals. They emphasize the importance of firm-specific resources and capabilities in determining industrial performance.

Michael E. Porter (1985): Porter, in his seminal work "Competitive Advantage: Creating and Sustaining Superior Performance," defines industrial performance as the ability of firms within an industry to achieve profitability and competitive advantage over their rivals. He emphasizes the role of industry structure, competitive forces, and strategic positioning in determining performance.

Richard R. Nelson (2002) defines industrial performance in the context of national innovation systems. He emphasizes the importance of technological innovation, learning, and knowledge creation in driving industrial performance at the national level.

David J. Teece, Gary Pisano, and Amy Shuen (1997) define industrial performance as the ability of firms to adapt and respond to changing market conditions and technological

environments. They argue that dynamic capabilities, such as innovation, learning, and the ability to reconfigure resources, are critical for achieving superior performance.

Arnold C. Cooper and Chrisman (1987) define industrial performance as the financial and operational results achieved by firms within an industry. They emphasize the importance of strategic planning, execution, and performance measurement in achieving and sustaining superior performance.

2.1.2 Nigeria Industrial Policies /Industrialization Strategies

Many industrial policies had been adopted since political independence of Nigeria in 1960. The changing nature of Nigeria's industrial policies is classified and discuss as follows:

Import Substitution Industrialization Strategy: Import substitution industrialization (henceforth ISI) was adopted in Nigeria as far as back as 1960 (Ndebbio, 1994) and persisted till 1985 (Bushari, 2005). Often described as an inward-looking strategy of industrialisation, ISI refers to domestic production of manufactured goods for domestic markets. It involves processing of raw materials and setting up of manufacturing factories to produce locally certain manufactured goods which were originally imported by a country thereby saving the country from importation of such commodities into the local markets. To get the home industries started and make them survive, it requires the imposition of protective tariffs, import quotas and exchange controls to protect the home industries from foreign competitors by making the entry of foreign goods expensive. ISI was first implemented by Latin American countries following the disruption of import flows by the Second World War and the depression in the international economy between 1927 and 1933 with the aim of reducing imports through increased reliance on domestic manufactured goods and to create a favourable balance of payment. Following the perceived success of ISI in these countries, other countries, Nigeria inclusive, adopted it.

The motives of adopting ISI strategy in Nigeria, like that of the Latin American countries, were to reduce the volume of imports and external dependence via increased reliance on goods manufactured domestically, save foreign exchange, create favourable balance of trade and payments, encourage technological development as well as create employment

(Egwaikhide, 1997; Bushari, 2005). Furthermore, the local industries, which were largely multinational corporations, were to gradually and over time substitute imported inputs for local inputs. To facilitate the implementation ISI in Nigeria, protectionist measures deemed necessary for its success such as imposition of low tariff rate on imports of intermediate and capital goods, high tariff rates on imports of finished and consumer goods, as well as import licensing, quota and outright prohibition restrictions on imports of certain consumer goods were introduced (Bankole, 2004). A wide range of fiscal, monetary and infrastructural incentives were granted to private sector in the 1960s through 1970s to reduce business cost. These incentives include tax holidays, income tax relief, capital allowance and depreciation allowance for investment in equipment, duty exemption on machinery, spare parts, raw and intermediate materials for manufacturing. Industrial estates were established and let out to industrialists at subsidized rates, thus relieving them of part of the very heavy capital expenditure on getting their business started. To provide the much-needed capital to the industrialists, the Nigerian Industrial Development Bank (NDIB) was set up in 1963 by the Federal Government of Nigeria in partnership with the International Finance Corporation to provide loan to Nigerian incorporated companies in the industrial sector (FGN, 1970). In addition, the Federal Loan Board was also established to provide modest financial aid to industrialists.

In pursuit of the ISI objectives, government took steps to pressurize the local and foreign investors, especially importers of manufactured goods to set up local plants. Industries such as textiles, wearing apparels, paints, tyres and tubes, cement and other building materials producing units as well as grain milling factories were established as joint stock ventures with trading companies which originally imported the goods (CBN 2002). With the dramatic increased in the inflow of „oil funds" in the 1970s, government became a major player in the ISI process by setting up many public enterprises. Heavy industries such as Nitrogenous Fertilizers Projects, Calabar Cement Company, Ngalaku Cement Company, Ikot Ekpene Sunshine Batteries, Nigeria Newsprint Manufacturing Company, Petrochemical Complex, the Kaduna and Warri Refineries, Calabar and Iwopin Pulp and Paper Mills, etc. were established. Government also embarked on large-scale capital-

intensive projects such as Ajaokuta Steel Company Limited, Steel Rolling Company at Aladja, Jos, Kaduna and Oshogbo, and Auto-assembly Plants at Kaduna among others. However, the unfortunate thing about some of these projects was that while some of them were abandoned at construction stage, others were shut down few years into production following the departure of the construction/ maintenance expatriates, none availability of imported raw materials or insufficient funding. ISI has been described as having four stages (Alokan, 2005).

2.1.3 Nigeria's Industrial Sector Performance

The motives of industrial policies were to address the macro problem of economic growth, unemployment, balance of payment deficit by reducing imports and raising manufacturing exports, technology transfer and technical progress. The performance of industrial sector in relation to industrial policies objectives is examined using industrial performance indices such as index of industrial and manufactured production, percentage contribution and value added to the Gross Domestic Product, manufacturing capacity utilization, percentage growth rate, manufacturing share in total export, import and employment. The examination of industrial sector performance involves its‟ sectoral components. The components of industrial sector are manufacturing, mining, electricity, construction, water and gas (Kirkpatrick et al, 1984). In this work, we concentrate on manufacturing, mining and electricity. However, more attention is accorded manufacturing since the degree of manufacturing in the country measures the extent to which other components have been effectively utilised (Ndebbio, 1994) to makes possible by huge inflow foreign exchange earnings from crude oil exportation.

2.1.4 Prospects for Better Industrial Performance in Nigeria

Nigeria's inability to actualize its industrialization aspiration is often blamed on the strategies adopted so far as been faulty. Such hasty conclusion could be very misleading. Though Nigeria's industrialization strategies are not completely absolved of blame, Nigeria industrial development has been constrained by a myriad of factors. Among them include the following:

Poor Conception and Implementation of Industrialization Strategies:

Industrialization programmes/strategies so far adopted in Nigeria failed to bring about expected results because they were poorly conceived and haphazardly implemented. As Roberts and Azubuike (2005) had observed, Nigeria's industrial policy and strategy was not necessarily a unitary, closely coordinated or planned programme of the state intervention; rather it consisted of an improvised amalgam of ad hoc objectives and instruments intended to influence the behaviour of firms and other stakeholders. Besides, the industrial programmes were not well implemented. As (Ekpo, 2005) has noted, if the industrial programmes/policies of previous years (1960-1965,1970-1974, 1975-1980, and 1985-1988 development plans) and various sectoral policies were properly implemented, Nigeria would have been on the path of sustained growth and development a long time ago and policy makers would have been occupied with fine tuning and adapting to new realities given the dynamic of the world. The implementation of industrial programmes in Nigeria has generally been casual. It was not given the kind of serious attention it deserves. Government provided tax incentives and subsidies to induce foreign owners/controllers of industrial capital and technologies to transfer their factors for activities in Nigeria but there was little or no set up mechanism to monitor or supervise the operation of the induced foreign and indigenous enterprises to ensure compliance with the industrial policy objectives of the country. We are of opinion that there is no way such a care-free attitude would have succeeded in achieving significant positive results for the domestic economy in the self-seeking, competitive and contemporary world.

Technological Development: Though technological capability is a crucial factor for industrial development, the pursuit of development of local technological capability was not given serious attention in Nigeria early enough not until after the Third National Development Plan. It was after 1975 that government started to realize the need to consciously pursue the development of technological capability. However, we believe that in pursuing this critical ingredient of industrialization, the government should have been more vigorous and aggressive in the way and manner it was going about it. Agreed, many Technical Colleges, Polytechnics and Universities of Technology have been established;

and students have been encouraged to undertake science-and-technology related subjects/courses. It is surprising to note that standard science laboratory/practical workshop are lacking in some of these institutions. In most cases, practical materials for laboratory experiments and workshop practical where students could acquire non-proprietary technology are not provided. Non-proprietary technology is essential for local technological capability development and could be acquired through learning and imitation in technically oriented institutions. For acquisition of this important aspect of technology, we believe that the practical workshop in institutions of learning should have sufficient stock of component parts of simple machines and electronic appliances. Students in technical colleges and polytechnics should be well familiar with those component parts as well as know how to fixed simple machines.

2.1.5 The Roles of Deposit Money Banks in Nigeria

Commercial bank is a type of bank that provides services such as accepting deposits, making business loans and offering basic investment products.

Commercial bank can also be referred to as a bank or a division of a bank that mostly deals with deposits and loan from corporations or large businesses, as opposed to individual members of the public, Commercial banks perform many functions. They satisfy the financial needs of the sectors such as agriculture, industry, trade, communication, so they play a very significant role in a process of economic social needs. The functions performed by bank, since recently, are becoming customer centered and are widening their functions. Generally, the functions of commercial banks are divided into two categories: primary function and secondary functions. These functions include;

i. Commercial banks accept various types of deposits from the public, especially from its clients including; saving account deposit, recurring account deposit and fixed deposit. These deposits are payable after a certain time period.

ii. Commercial banks provides loans and advances of various forms including an overdraft facility, cash credit, bill discounting money at call etc. they also give demand and term loan to all types of clients against property security.

iii. Credit creation is the most important function of commercial bank. While sanctioning a loan to a customer, they do not provide cash to the borrower. Instead, they open a deposit account from which the borrower can withdraw.

2.1.6 Bank Lending and the Principles of Interest Rate

The most widely adopted definition of a bank describes an institution whose operations involve granting of loans and receiving deposit from the public. Banking activity has gradually experienced a new turn over the last two decades, due in part to financial liberalisation embedded in the Structural Adjustment Programme (SAP). The major role of banks precisely consists of screening the demand for loans and monitoring firms indebted to them.

Loan may be referred to as credit arranged where the money is extended and its repayment made on a later date. It is a debt for the borrower and a credit for the lender. Loans are usually offered for a specific purpose and for a predetermined or futuristic period of time. Interests are usually charged on the loans at an agreed rate and which payment could be made at intervals. Advances conversely, are a credit facility offered by the bank. Banks grant advances principally for short- term purposes, which includes; purchase of goods for trading and meeting other short-term trading liabilities. There is a sense of debt in loan; while advances are a facility availed of by the borrower.

However, like loans, advances are also to be repaid. Hence a credit facility that could be repaid over a period of time, usually in installment is referred to as loan while a credit facility repayable within one year may be termed as advances. Though in this particular study, these two terms shall be used jointly to describe credit.

The credits granted by Nigerian commercial banks are mostly short-term in nature. This conceivably, is to be probable taking into account the fact that the activities of commercial banks over the years were focused on the financing of foreign trade. With the advancement of the economy and the extensive outlets for bank funds which this act has developed, there has been an adjustment in the arrangement of bank lending by banks. Particularly, the rapid growth of industrial activities has heightened the need for bank credit on the part of these

industrial firms. Financial institutions such as the commercial banks and merchant banks have more and more been ensuring the provision of finances for industries, some of which are utilized by a rapidly growing number of indigenous entrepreneurs. Undeniably, under the credit guidelines recommended by the Central Bank since 1964, the banks have been encouraged to reallocate credit and re-channel it to the productive sectors of the economy (Olajide, 1976).

Ajayi (2000) noted that credit entails an assurance by one party (the borrower or spender) to pay another (the lender or saver) for money received or for goods and services collected. The factors that determine a lending in Nigeria according to Nzotta (2002), includes location of the bank, the risk and equally the return of various types of bank credit, sterility of deposit, prevailing economic condition, monetary policies in place, ability and exposure of bank personnel, credit need of the area served and the nature of the source of bank. Nzotta also provided a definition for bank credit to mean act by which a bank gives out advances to a debtor after the risk and profitability that must follow such lending decision has been considered.

Anuolam (2008) also defined bank credit as a process where loan or advance is provided to a single borrower or group of individual or client by a bank or financial house. It is believed that bank credit plays a vital role in improving banks' profitability, with its disparities explained by the difference in their lending rates, lending policies and unavoidable competition that may exist between banks.

Credit cannot be separated from the banking sector; this is because banks serve as a channel enabling the movement of these funds in form of deposits from the surplus units of the economy and disbursed to the deficit units who usually require the funds in carrying out productive activities such as investment. Banks are thus regarded as debtors to the depositors of funds and creditors to the borrowers of funds. This act defines the creditor-debtor relationship by banks and its customers.

According to CBN (2003), the volume of loans and advances prearranged by the banking sector to economic agents constitute the bank's credit. Credit is frequently complemented with some form collateral that assists in providing assurance on the repayment of the loan

in the event of default. Credit channels savings into investment thereby encouraging economic growth within the nation. Therefore, the availability of credit encourages the role of intermediation to be carried out effectively, which is significant for the growth of the economy.

International Monetary Fund (2001), in its bulletin on world economic outlook stated that national economies are constantly still influenced by the international financial markets. Thus, there is a rapid movement of short-term capital between currency areas in in exchange for higher returns, thus, disrupting the operation of domestic monetary policy. Internal monetary conditions can be also be influenced greatly by external factors. The volume of flow of such funds affects economies in at least two ways. An inflow or out flow of investment into or out of the financial markets will lead to a rise or fall in long-term interest rate, which could in turn affect the exchange rate, and domestic monetary policy. This can result into conflict, the kind which faced the UK in-September 1992, when in order to avoid a sterling depreciation and to keep it within the European monetary system's exchange rate mechanism, a higher interest rate was required and lower rates to avoid recession.

The overall purpose of financial sector is interpersonal transfer of resources (Winkler 1998). More specifically, financial sector also assists firms to overcome difficulties of moral hazard aid adverse selection and this lowers the costs of external financing (Rajan, Zingales 1998) and transaction costs in general (Levine 1997). The existence of global financial markets ensures that real long-term interest rates have a tendency to move together in different economies. However, Nominal long-term rates reflect inflationary expectations in the separate economies which invariably reflect the credibility of domestic monetary policy.

2.1.7 Bank Lending Functions

Usually, commercial banks are mostly seen to be short-term and medium-term lenders. But in the recent times they now offer long-term credit especially through loan syndication. Merchant banks are used to extending loans to individual or group of individuals that have

the need of building houses or in the financing of a long-term project. The functions performed by banks vary between countries and from one institution to another. For instance, special banks are usually identified to deal specifically with certain problems of economic development. Other identifiable banks include; The Nigerian Agricultural and Co-operative Bank Limited, Nigerian Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry etc.

According to Adekanye, (1983) the cannon of lending or credit extension by banks can be summarized into 6 C's credit. They are:

a. Character – Intention, Willingness to repay, honesty

b. Capacity – management experience, ability to repay

c. Capital – money, security, financial commitment

d. Collateral – asset pledged as security

e. Condition – prevailing economic condition in the economy

f. Confidence – faith of lender in the above

Often times, each financial institution has its own credit policy guidelines that are designed to meet its market target and risk acceptance criteria, but fall ensured to be in accordance with the framework of CBN monetary and credit policy guideline.

2.1.8 General types of loans

Since banks usually provide short term and medium-term loan, the various types of loan which they offer includes;

1. Term Loan

A term loan from a bank is a specific amount of with a specified interest rate, payable at a particular date and at a particular time. They are called term loans because the terms are specified and clear to both parties involved.

Uses of term loans

i. Acquisition of operational facilities such as land and buildings, machineries.
ii. Enhancing working capital.
iii. Financing transport facilities.

iv. Financing period commitment by the business. Good provisions for term loans
v. Collateral security: banks usually demand for collaterals as security or loans, these are usually dependent on the amount of loan to be obtained.
vi. Interest charges: usually interest charged on term loans are usually higher than those in other forms of credit facilities.
vii. Maturity: term loans usually have maturity of two to six years.
viii. Liquidity position of the bank
ix. Duration: this is the repayment schedule for the loan.

2. Real Estate Loans

These are credit facilities usually granted for the purpose of purchase or construction of building structures. In real estate loan, the property involved automatically becomes the collateral for the loan. That is, immediately the loan is granted, the bank possesses an automatic lien on the property such that in the case of default the bank has ownership to that property.

Features of a real estate loan

i. There must be a deed conferring a legal lien over the property to the bank.
ii. There must be title deed of the estate to the bank.
iii. The deed must be registered to the appropriate authorities to the bank.
iv. The customer obtaining the loan can pay up the loan before the maturity date.

3. Working Capital Loans

This is a short-term loan acquired by businesses for running the day-to-day activities of the business. The amount for this type of loan is usually small and not used for long term operational purposes. Working capital loan can be in form of overdraft and export packing credit.

Reasons why businesses obtain working capital loans

i. Purchase of new equipment, in order to increase production. Develop their present inventory (in addition of a new line of product).
ii. To open new facilities (such as production centers).
iii. To finance expensive promotional campaigns.

iv. To enable sourcing for everyday expenses.

v. Purchase of raw materials.

2.1.9 Special types of Secured Credits

Bank Credit, Small and Medium Enterprise (SMES)

In Nigeria, the lending by the Nigerian banking industry to SME's increased by 600% owing to the positive business condition, a lower interest rates and the advent of new technologies in the industry. Former CBN Governor, Professor Chukwuma Soludo, revealed that banks credit in Nigeria allotted for SMEs has increased by 600% from N35 billion (US $ 0.30 billion) in 2003 to N204 billion (US $1.73 billion) in 2007 in a report by "All Africa". Professor Soludo also asserted that the growth in credit in various Nigerian banks indicated that there was a positive reaction in the core private and real sector resulting from the consolidation act of banks. The Nigerian banks' credit to the private sector has risen from about N1,191.5 billion (Us $10.12 billion) in 2003 to N1,150.9 billion (US $ 9.77 billion) in 2004, and then to N1,950.4 billion (US $ 16.56 billion) in 2005, N2490.4 billion (US $21.15 billion) in 2006, and N4,941.5 billion (US $ 41.97 billion) in 2007, recording accumulating year growth rates of 26.6%, 29.3% 27.7% and 98.4% correspondingly. The major reason for the growth of the Nigerian banking industry is attributed to the growing economy of the nation accompanied by the infrastructural development in the Nigerian banking sector. A good number of attractive policies such as low interest rate, alongside easy availability of loans, play an important role in the growth of the Nigerian banking industry.

Monetary Policy Guidelines and Small-Scale Industries

Before the promulgation of the Nigeria Enterprises Promotion Decree in 1972, the Nigerian government deemed it essential to direct financial institutions through the Central Bank of Nigeria's (CBN) credit guidelines and allocate a certain percentage of its total loans and advances to indigenous borrowers, that is, businesses in which there is not less than 50% Nigerian equity participation. The percentage allocation increased progressively from 35% in the late sixties to 90% for fiscal year 1984. Owing to the indigenization decree, most

business became at least 60 percent owned by Nigerians. Hence, it became possible for banks to initiate full compliance with the directive on lending to indigenous borrowers without necessarily allocating facilities to small scale enterprises, which the policy was initially intended.

Self-Help Groups (SHGs) Linkage Program

Self-Help Groups (SHGs) are voluntary grass-root organizations at the group, community or local level. They have operated for centuries in Nigeria, assisting in meeting a variety of people's needs for goods and services. The SHG in Nigeria consists credit associations such as 'Esusu' or "Adashi' which functions through small savers-borrowers to make small loans available to members. In 1991, the Central Bank of Nigeria formalized the SHGs to encourage group synergy, cross guarantees, peer-group pressure and more importantly, allow loan applicants under the ACGSF to overcome the problem of collateral often required by banks in exchange for loans. This initiative was also introduced to improve the level of bank credit channeled to the rural sector of the economy, encourage saving habits by the rural poor, lower the cost of loan administration as well as ensure the viability and sustainability of agricultural credit delivery. A total of 413 SHGs was formed in the first 12 years of the program, while a total of N12.52 million was mobilized as savings (CBN, 2009). Besides the goal of increasing agricultural support especially for the rural poor, the program would also have some direct effect on poverty alleviation and wealth creation.

Trust Fund Model (TFM)

Trust Fund Model was introduced in 2001 as a strategy for reducing the risk exposure of banks that extend agricultural loans to small scale farmers without collateral. This process involves intermediation by some parties willing to pledge funds in the bank such as cash or treasury instruments as security for loans to target borrowers. The parties involved could be Federal or State or Local Government, religious bodies, non-governmental organisations (NGOs), companies, especially those in the oil sector etc. For instance, the total amount placed under the scheme by the various stakeholders as at end-December, 2008 stood at N4.887 billion, with the Government Ministries, Departments and agencies having the highest of N2.361 billion. As a scheme managed by the CBN, it shows the

impact of the Bank in creating income and wealth for the rural poor.

Interest Drawback Program (IDP)

Owing to the high incidence of loan default under the ACGSF, the IDP was introduced in 2003 as an interest management framework under the ACGSF in order to minimize the effective borrowing rate under the scheme without the complication of introducing dual interest rate regime or contradicting the existing deregulation policy of the government. The objective of the program is to encourage the repayment of loans promptly as well as lower the cost of loan recovery. The IDP is funded by the Federal Government and the CBN in the ratio of 60:40 with capital base of N2 billion. The program operates in such a way that farmers could borrow from the lending banks at a market-determined rates, while the program provides an interest rebate of a determined percentage of 40 percent to farmers who were able to repay their loans as at when due. As at end December 2008, a total of 71,981 IDP claims valued at N275.2 million had been paid to the eligible farmers (CBN, 2009). This is another major contribution of the CBN in encouraging agricultural production as well as wealth creation.

Small and Medium Enterprises Scheme (SMEs)

The growth of the small and medium scale enterprises has been identified as an important tool in promoting accelerated industrial development, employment, income generation and poverty reduction in Nigeria. Hence, the launching of a program by the Federal Government to enhance the allocation of credit to SMEs, in addition to some of the measures taken by the CBN in acting as growth catalyst for the SMEs, The Federal Government of Nigeria secured a loan from the African Development Bank (AFDB) known as SME I in an initial attempt to use the SMEs model as a basis to stimulate growth, generate employment and create wealth within the nation. During the period, the scheme, however did not achieve its stated objectives. The scheme was managed by the defunct Bank for Commerce and Industries. In light to the, the CBN secured a World Bank facility known as the SME II, with loan tenure of 15 years, for on-lending to small scale enterprises. Disbursements of these loans commenced in 1990 and the bank was responsible for ensuring the loans are repaid and also remitted to the World Bank. By the time operations

of the scheme ceased in 1996, the sum of N2.0 billion (USD $ 107.2 million) had been allocated to 194 projects through 27 participating banks (CBN, 2009). Following the transfer of the debt management function from the CBN to the newly-established Debt Management Office, in 2000, the Federal Ministry of finance took up responsibility for servicing the facility with effect from that year.

Small and Medium Enterprises Equity Investment Scheme (SMEEIS)

The SMEEIS, formerly known as Small and Medium Industries Equity Investment Scheme (SMIEIS) was introduced by the CBN and the Bankers' committee. The scheme launched operations on 1st August, 2001 under the supervision of the CBN. The objective of the scheme was to modify the small and medium scale industries in Nigeria and build them into becoming a growth catalyst by instilling in them the technical know-how in finance and management. Under the scheme, all the retail banks were required to reserve ten (10) per cent of their profits before tax for equity investment in the small and medium enterprises. Some activities covered by the scheme included; manufacturing, solid minerals, construction, information technology and telecommunication, education as well as tourism and services. The scheme was initially designed for equity participation and not a loan. Nonetheless, in an attempt to further encourage greater exploitation of SMEEIS funds, the Bankers' committee approved a micro-credit window for micro entrepreneurs under the scheme in 2003. The window opened 10 percent of the funds reserved by the participating banks specifically for the development of microfinance institutions. In addition, the operating guidelines of the scheme were modified in 2005 to further improve the accessibility of the fund to farmers. Firstly, the scope was broadened to accommodate non-industrial enterprises, allowing all business activities, with the exception of general commerce and financial services, qualified for equity investment under the scheme. This also exposed the scheme further to strategic sectors of the economy, such as agriculture, housing, transport and utilities. Also, the limit on a bank's equity investment in a single enterprise was raised by 150 per cent from N200 to N500 million. As a result of increase in the number of enterprises to be covered by the scheme, the name was changed to small and medium enterprises equity investment scheme (SMEEIS). In April 2006, SMEEIS

guidelines were further reviewed.

Microfinance

Recent studies have revealed long-term microfinance program to play an important role in national economic growth and development. It has had some positive influences on the individual households' budget and changed the quality of life of millions of people in the developing countries, especially in South East Asia, the pacific and Latin America regions. As significant as finance is in an economy, the majority of the economically active poor still have limited access to basic financial services such as credit, savings opportunities, and money transfers among others.

The availability of these services would significantly raise their standard of living of these individuals. The hidden capacity of the poor for entrepreneurship would be significantly improved through the provision of microfinance services to enable them participate in various economic activities and be more self-reliant; increase employment opportunities, enhance household income and create wealth. In Nigeria, however, the formal financial system provides its services to about 35 percent of economically poor, while the remaining 65 percent are excluded from having access to financial services (CBN, 2006-2007). This 65 per cent are often served by the informal financial sector, through the non-governmental organization microfinance institutions, money lenders, friends, relations and credit associations. The poor or non-regulation of these activities have some severe implications and hinders the Central Bank of Nigeria's ability to exercise one aspect of its mandate of promoting monetary stability and a sound financial system.

2.1.10 Objectives of bank lending

We identified the major objectives of bank lending to include.

1. Stimulate economic growth: both on the borrowers and lenders.
2. It encourages savings and investments.
3. Maintaining maximum profitability to shareholders and liquidity for depositors.
4. Realization of government policy objectives of ensuring financial stability within the country: through monetary policy tools such as liquidity ratio, bank rate etc.

2.1.11 Constraints to lending

1. Volume of the bank deposit base: this is the greatest constraint to bank lending. The deposit base of banks is made up of; deposits from government agencies and parastatals, insurance companies and finance houses, corporate bodies and private individuals.

2. Liquidity requirement: The central banks of Nigeria have a ratio required for all banks to keep as liquidity. This limits the amount that banks are able to give out as loans.

3. Shareholders fund capital base: this limits the amount of loans that the commercial banks are able to give out as loan.

4. Statutory lending limit: the central bank of Nigeria also gives commercial bank a limit above which loans cannot be given out.

2.2 Theoretical Review

2.2.1 Finance Led Growth Theory

As considered by the finance led growth theory, financial institutions activities serve as an important tool for increasing the productive capability of the economy. They argue that countries with a more developed financial system would grow faster. The importance of financial institutions in engendering growth within the economy has been extensively discussed in this work. Early economists such as Schumpeter (1911) identified the role of banks in facilitating technological innovation through their role of intermediation such as supply of credit (loans) to the productive sector of the economy. He assumed that savings being efficiently allocated through identification and its provision to entrepreneurs with the odds of successfully developing innovative products and production processes are ways to achieving its objective. Several scholars thereafter (Mckinnon 1973, Shaw 1973, Fry 1988, King and Levine 1993) have supported the theory about the relevance of banks to economic growth. There are various transmission channels used by the monetary policy in affecting economic activities and these channels of transmissions have broadly been examined under the monetarist schools of thought. The monetarist assumes that a change in the money supply would directly result to a change in the real magnitude of money. I explaining this transmission mechanism, (Friedman and Schwartz. 1963) as reported in Onyeiwu (2012)

say that an expansive open market operations conducted by the Central Bank, would lead to an increase in money stock, which would also lead to an increase in Commercial Bank reserves and its credit creating ability and hence increase the supply of money through the multiplier effect. In order to reduce the quantity of money in their portfolios, bank and non-bank organizations purchase securities with similar characteristics of the type sold by the Central Bank, thus stimulating activities in the real sector of the economy such as the manufacturing sector. Bencivenga and Smith (1991), in a similar study, explained that bank's development and performing an efficient financial intermediary function contributes to the growth of an economy by channeling savings to high productive activities and reduction of liquidity risks. They came to a final conclusion that financial intermediation leads to economic growth. Based on this statement, this study examines the extent to which intermediation or credit to the manufacturing sector of the economy has influenced the sectors performance. This explains that credit provision by banks and the bank density (availability of the bank) can affect the performance of the manufacturing industry by efficiently carrying out its functions, among which the provision of credit is.

2.2.2 The Loanable Funds Theory of Interest Rate

This study adopted the loanable funds theory of interest rate based on its fancies in describing the dynamics of bank credit and the cost of the credit in relation to investment decisions. According to the theory, the rate of interest is the price of credit which is dependent on the demand and supply of loan able funds. The demand for loanable funds has basically three sources; the government, businessmen and consumers to carry out investment activities, hoarding and consumption. The government borrows money for establishing public works or for war measures. The businessmen borrow in order to purchase capital goods and good staring investment projects. Such types of borrowings are interest rate elastic and mostly based on the expected rate for profit as compared with the rate of interest. The demand for loanable funds on the part of consumers is used in acquiring durable consumer goods. Individual borrowings are also interest elastic. The propensity to borrow is more at a lower rate of interest than at a higher rate. Therefore, the demand curve

for investment funds based to this theory slopes downward illustrating that less funds are borrowed at a higher rate and more at a lower rate of interest. The theory of loanable funds creates a link between commercial bank credits and manufacturing sector output in that, it supports the fact that borrowing for investment in the manufacturing sector is interest rate elastic since it is determined by the existing rate of interest.

2.2.3 Loan Pricing Theory

Loan Pricing Theory states that banks cannot always fix high interest rates. Banks should put into consideration the problems of adverse selection and moral hazard since it is very challenging to predict the borrower characteristics at the start of the banking relationship (Stiglitz and Weiss, 1981). If banks fix interest rates too high, they may stimulate adverse selection problems, this is with respect to the fact that high risk borrowers are prepared to accept these high rates. Once these borrowers receive the loans, they may cultivate moral hazard behavior since they are likely to adopt highly risky projects or investments (Chodecai, 2004). From the reasoning of Stiglitz and Weiss, it is common that in some cases we may not find that the interest rate set by banks is proportionate to the risk of the borrowers.

2.3 Empirical Review

2.3.1 Empirical Reviewed from Developed countries

Empirical evidence also abounds in this line of study with the international research space. Were, Nzomoi and Rutto (2012) investigated the impact of access to bank credit on the economic performance of key economic sectors using annual data of various sectors from Kenya. They revealed a positive and significant impact of credit on the gross domestic product of sectors measured as real value added. However, when factors such as the labour employed and past economic performance of the sectors are taken into account the level of impact is reduced. They also revealed that overall; the provision of private sector credit to crucial sectors of the economy has a great potential in promoting economic growth in the different sectors. The banking industry, which is the key source of credit to the private sector, is a very important means of financial intermediation through which facilitates the

allocation of financial resources for productive investment required to ensure the high economic growth path visualized under vision 2030.

In line with the findings, the researcher recommended strategies towards deepening of the financial sector and lowering cost of credit which at present is considered to be high. Such policies should, however, be complemented with other strategies that enhances productivity and consequently the growth of relevant sectors of economy such as manufacturing and agriculture sectors.

Arne and Mans (2003) in a panel study they carried out on whether firms in Africa's manufacturing sector are credit inhibited. Specifically, on whether firms have a demand for credit and the degree to which this demand was satisfied by the formal credit market (banks), the study revealed that while banks extend credit on the basis of expected profits, micro or small firms have the probability of getting loans than large firms. It found out in effect that debt is positively related to obtaining further lending.

Nuno (2012) in examining the relationship between bank lending and economic growth for European Union countries (EU-27) for the period 1990-2010, used data generalized method of moments, system estimator. The study indicated that savings pays an important role in promoting the growth of bank credit while bank credit indicated a negative impact on economic growth. Also, in line of micro studies and internationally documented evidence, Alexander and Luis (2003) studied the finances and the effect of credit limitations on the behavior and performance of firms in Costa Rica. Using panel data of firms in Costa Rica, the study revealed that while the formal credit market (such as banks) are the main sources of credit for larger firms, non-banking credit (trade plus informal credit) remains the leading source of funds for smaller firms. Moreover, own funds and informal credit is a leading form of credit for newly established firms. It is also revealed that the likelihood of having banking credit and the fraction of banking credit/total debt there often is affected by (if anything) the characteristics of the firm and not by those of their owners.

Certainly, the value and life span of a firm and whether it keeps formal accounting procedures seem to be the most significant factors in accessing banking credit. From the

above recent local and international studies, it is said there exist a broad array of findings, conclusions and assertions on the effect of credit (be it general or bank) on the Industrial sector. Taking a stand in this argument, this study would further seek to provide a specific but detailed result, while ensuring the currency of data and adequacy of analytical technique in studying the relative impact of bank lending/credit on the productivity and performance of the Industrial sector within the economic/financial environment of Nigeria.

2.3.2 Empirical Reviewed from Developing countries

Basically, a number of empirical literatures proliferate on the study of bank Credit and the industrial sector. These literatures differ in terms of time, space, setting and methodology. Empirical evidence within the Nigerian research space which includes, but is not limited to;

Macro analyses of the effect of credit on Industrials, Tawose (2012) examined the effect of bank loans and advances on industrial performance in Nigeria between 1975 and 2009. Long run relationship and adjustment to shocks and dynamics were checked using Co-integration and error correction technique. The outcomes revealed a relationship between industrial performances and all the identified explanatory variables. Industrial sector as dependent variable was represented by real GDP, while Commercial Banks' loan and advances to industrial sector (BLM), aggregate saving (SAV), interest rate (INT), and inflation rate (INF) were used as the independent variables. The study clearly revealed that the performance of real GDP contributed by industrial sector in Nigeria was explained by the commercial banks' loan and advances to industrial sector, aggregate saving, interest rate and inflation rate within the period under study.

Oke and Aluko (2015) examined the impact of Commercial Banks in financing small and medium scale enterprises (SMEs) in Nigeria for the period 2002 to 2012. The authors adopted panel data regression analysis using annual data from ten Commercial Banks. The findings reveal that Commercial Banks possesses significant impact on SMEs' financing which implies that Commercial banks are capable of facilitating the growth of SMEs. A similar study by Imoughele and Ismaila (2014) examined empirically the impact of

Commercial Banks' credit on small and medium scale enterprises in Nigeria between 1986 and 2012, by adopting the co-integration and error correction modeling technique. The results shown that SMEs and the selected macroeconomic variables used in the model are co-integrated demonstrating a long run relationship between them. The results revealed further that savings, time deposit and exchange rate have substantial impact on SMEs' output in Nigeria, while interest rate has adverse effect. Onuorah and Anyachukwu (2013) explored the need of bank credit and economic growth of Nigeria, by examining the relationship between bank credit and economic growth in Nigeria during the period 1980 to 2011 and using several statistical techniques such as co-integration, VAR model and Causality test. The study indicated that bank credit measures such as Total Production Bank Credits, Total General Commerce Bank Credits, Total Services Bank Credit, and Other Banks Credit did not granger cause GDP instead GDP had an influence on them. Furthermore, short run relationship was found to have existed between bank credit measures and GDP within the period of study. The study suggested that the problems associated with bank credit facility centers mainly on the limitation and rules imposed by the monetary authorities with emphasis on credit to entrepreneurs. Significantly, the studied used a lagged model in measuring the bank credit/Industrial sector productivity nexus.

In line with a similar study by Aliero et al. (2013) emphasizing on private sector credit used autoregressive distributed lag (ARDL) model to evaluate the relationship between private sector

credit (credit to the Industrial sector inclusive) and economic growth in Nigeria. Using time series data for the period of 37 years (1974- 2010), the results shown that a long run equilibrium relationship exists between private sector credit and economic growth, when private sector credit was used as dependent variable. However, in agreement with Onuorah and Anyachukwu (2013), the causality tests indicate that there is no causal relationship between private sector and economic growth in Nigeria.

2.3.3 Empirical Reviewed from Nigeria

Olanrewaju et al. (2015) investigated the effect of banking sector reforms on the output of

Industrial sector in the Nigerian economy between 1970 and 2011 in order to determine the degree to which banking sector reforms has on the Industrial sector. The study made use of annual time series data from 1970 to 2011, adopting the Co-integration analysis and error correction mechanism (ECM) technique of analysis. The outcome revealed that Bank assets, Lending rate, Exchange rate (EXR) and real interest rate have low and a significantly positive effect on Industrial output while financial deepening and interest rate have a negative and significant effect on the growth of Industrial output in Nigeria.

Imoughele et al. (2013), in their study of bank Credit and the industrial sector. They sought to examine commercial bank credit accessibility and output performance of various sectors in a deregulated financial market economy: Empirical evidence from Nigeria utilizing time series data for a period of 1986-2010. The study adopted ordinary least squares techniques and identified that a number of commercial bank credit supply and other built-in variables has a long run relationship with output performance in various sectors of the economy i.e., agricultural, manufacturing and services sector output and in Nigeria, the manufacturing sector holds a key demand for credit facility. The work also shown that commercial bank credit has direct and insignificant impact on output performance of the different sector but aggregate supply and demand for credit in the previous period has direct and significant effect on the growth of agriculture, manufacturing and the services sectors output. Human capital investment and interest rate has direct and insignificant impact on the output performance of the different sector, while inflationary rate has inverse and insignificant impact on the performances of the sectors.

2.4 Gaps in Literature

In this chapter of our study on the impact of bank lending on the performance of the Industrial sector in Nigeria, we began with a conceptual review which provided an overview of the manufacturing industry while identifying its importance on the growth and development of the economy.

The history of the Nigerian manufacturing sector identified the Nigeria's transitioning from and oil producing and exporting nation to a commodity producing nation. Nigeria has long been dependent on oil as the major source of income to carry out various economic

activities, while paying less attention to other sectors of the economy including the manufacturing sector. We revealed the various contributions of the manufacturing sector to the economic output in Nigeria in different years to explain its growth over the years. Manufacturing industries though very productive just like any other enterprises, are faced with various problems that slow its growth and reduces its productivity level. We identified some of the problems to include; low level of technology, inflation, high cost of production and so on. Banks, in order to participate in the productive sector of the economy, offer credit as a form of investment to assist in industrial operations. The process described in this chapter and study as bank lending. Bank in its lending function requires that all loans and advances be repaid and at a profit, which are obtained from the interests charged on every loan.

In giving loan to prospective loan applicants, there are various criteria evaluated by the bank. These criteria include; character, capacity, capital, condition, including confidence. In the theoretical review, we explored theories that are relevant to the study such as the finance led growth theory, the loanable funds theory of interest rate, the loan pricing. These theories emphasized the relevance of finance in the growth of any enterprise or industry, which would conversely, would stimulate growth and development within the economy. Here also, an empirical review by different authors on the impact of bank lending was carried out. All describing the result of their own research with emphasis still on the relevance bank lending or credit on various activities within the country. Given all these reviews within these, we have begun establishing facts on the relevance of the bank credit function in the growth of productive activities which contributes to the development and wealth of the nation.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This part of the paper defines the variables, explains the model of the study, the research design and data resources used, the population and sample of the study. Other areas discussed are data analysis techniques, methodological issues and the statistical test used.

Definition of variables

CPL: Cement production volume as a percentage of cement production capacity is referred to as the cement production level (CPL). It is chosen as the response variable because of its ability to explain or determine the behaviour of the independent variables. As such, Cement Production Level is considered the best choice as a response variable for performance assessment in this study.

AAPC: Annual Average Price per bag of Cement (AAPC) which is taken as the market price of cement in this study was obtained from major distributors of cement. This was the easiest and most reliable means of sourcing AAPC because Staff at Dangote Cement Plc warehouse were not willing to give out such information they termed as 'classified'. It is considered a useful variable since consumers rationally seek to buy at lower prices time and again.

Turnover: This is the revenue from sale of cement which represents the net amount of goods delivered to customers (in this case, distributors). As an explanatory variable, it is expected to show a relationship with changes in the CPL thereby explaining Dangote Cement Plc's sales activities (and possibly, distributor activities) that would eventually affect the end-user.

3.2 Research Design

This study examined the effect of bank lending on Dangote Cement PLC's financial performance using two models and one ex-post factor. It measured the performance of the chosen organisation using the EBITDA**,** Total Non-current Liability, and Total Current Financial Liabilities. A multivariate linear regression approach was employed to collect and evaluate secondary data to determine the correlation between the independent and

dependent variables.

3.3 POPULATION OF THE STUDY

The study's population includes key players in the cement manufacturing industry in Nigeria, which significantly contributes to the country's economy. These companies are among the largest and most influential in the sector, encompassing Dangote Cement PLC (DCP), Lafarge Cement (LC), BUA Cement, Ibeto Cement, Elephant Cement, and Eagle Cement Corporation. These firms have been selected due to their substantial market share, extensive production capacity, and critical role in meeting the nation’s cement demand. Analyzing these companies provides valuable insights into the performance and dynamics of the Nigerian cement industry.

3.4 SAMPLE SIZE AND SAMPLING TECHNIQUES

Due to the small and well-defined population, the test sample was selected from the study population using a purposive non-probabilistic sampling technique. DCP was chosen because of its readily available information and steady yearly financial performance reports for the specified period.

3.5 Methods of Data Collection

Secondary data was obtained through an analysis of the company's annual financial statements in a fourteen-year period (2010–2023). This aids in establishing a sufficient and robust causal relationship between the variables in the dataset. The data contains information about the company's total current and non-current liabilities, as well as the dependent, variable (EBITDA).

3.6 Methods of Data Analysis

This study used descriptive statistics and multiple regression analysis based on E-view 10 computer software as the statistical toots for analysis of data. To facilitate data analysis the OLS regression model specified below was modified and adopted. The results of the analysis were used to test the hypotheses of the study

3.7 Limitation to the Methodology

However sensitive to outliers and multicollinearity, Ordinary Least Squares (OLS) is the most common estimation technique for linear regression models. It estimates the parameters by minimizing the sum of squared residuals. It was used in this work because of its easy and unbiased nature.

CHAPTER FOUR

4.0 DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 DATA PRESENTATION

The data collected from the annual financial reports of DCP are presented in table

Table 4.1: Computed Annual Figures of EBITDA, TNCL and TCL

YEAR	EBITDA(₦M)	TNCL (₦ M)	TCL (₦ M)
2010	117600	14722	03660
2011	131900	120285	29904
2012	118900	117634	163545
2013	229600	129565	108500
2014	223400	134588	122300
2015	262448	265525	200698
2016	257243	218316	512247
2017	388147	364047	520476
2018	436261	212344	495506
2019	395427	105341	386639
2020	478122	142756	505615
2021	684595	432169	976181
2022	708238	515023	1021685
2023	886100	600253	1612632

Source: Compiled from DCP Annual Financial Statements

4.2 Descriptive Statistics

Table (4.2): Descriptive Statistics Results

Variable	N	N*	Mean	SE Mean	StDev	Min	Q1	Median	Q3	Max
EBITDA	14	0	379856	63952	239288	117600	200525	325298	529740	886100
Tot. Curr. Liab	14	0	475685	121982	456416	3660	118850	441073	634402	1612632
Tot.Non-CurrLiab.	14	0	240898	46324	173330	14722	119622	177550	381078	600253

Source: Obtained from Minitab Analysis of the Company's Data

The table (4.2) provides basic information about the data used in the analysis. It summarizes the arithmetic mean, median, minimum and maximum values, standard deviation, and interquartile ranges.

4.3 Results of the Multivariate Regression Analysis

The regression equation derived from the analysis is:

EBITDA = 140245 + 0.504 Tot. Curr. Liab – 0.001 Tot. Non-Curr. Liab

Table (4.3): Coefficients

Term	Coef	SE Coef	T-Value	P-Value	VIF
Constant	140245	35460	3.95	0.002	
Tot. Curr. Liab	0.504	0.107	4.73	0.001	5.94
Tot. Non-Curr Liab.	-0.001	0.280	-0.00	0.998	5.94

Source: Obtained from Minitab Analysis of the Company's Data

The regression coefficients, standard errors, t-values, p-values, and variance inflation factors (VIF) are summarised in Table (4.3) above. When all independent variables are zero, the intercept shows the expected value of EBITDA. The intercept, however, is highly significant and shows a substantial difference from zero with a low p-value (0.002).

There is a high positive correlation between the company's EBITDA and total current liability, as indicated by the coefficient of 0.504. It implies that the EBITDA is estimated to increase by 0.504 units for every unit increase in TCL if other variables are kept constant. Furthermore, with a p-value of 0.001, the correlation is highly significant. The 5.94 VIF, however, indicates a considerable level of multicollinearity. The coefficient of -0.001 indicates a negative relationship between total non-current liability and EBITDA. Thus, for each unit increase in the non-current liability, EBITDA is expected to decrease by 0.001 units. The relationship is statistically insignificant with a p-value of 0.998.

Table (4.4): Model Summary

S	R-sq.	R-sq.(adj)	R-sq.(pred)
71904.8	92.36%	90.97%	86.90%

Source: Obtained from Minitab Analysis of the Company's Data

It is plausible to conclude from the R-squared that the model accounts for approximately 92.36% of the variation in EBITDA. It shows that the dependent and independent variables are significantly correlated. Furthermore, the model's projected R-squared value of 86.90% demonstrates its ability to effectively predict new data points**.**

Table (4.5): Analysis of Variance (ANOVA)

Source	DF	Adj SS	Adj MS	F-Value	P-Value
Regression	2	6.87492E+11	3.43746E+11	66.48	0.000
Tot. Curr. Liab	1	1.15841E+11	1.15841E+11	22.41	0.001
Tot.Non-Curr Liab.	1	44242	44242	0.00	0.998
Error	11	56873247383	5170295217		
Total	13	7.44365E+11			

Source: Obtained from Minitab Analysis of the Company's Data

The table (4.5) shows the overall significance of the model.

Based on the regression model's statistical significance, as indicated by an overall F-value of 66.48 and a p-value of 0.000, the independent variables significantly predict EBITDA. Individual predictors such as Total Current Liabilities (p-value = 0.001) are statistically significant; however, the Total Non-Current Liabilities (p-value = 0.998) are not.

4.4 Diagnostic Tests

The Variance Inflation Factor (VIF) values for the independent variables are as follows:

Table (4.6): Variance Inflation Factor

Variable	TCL	TNCL
VIF	5.94	5.94

Table (4.7): Fits and Diagnostics for Unusual Observations

Obs	**EBITDA**	**Fit**	**Resid**	**Std Resid**	
7	257243	398307	-141064	-2.06	R

Source: Obtained from Minitab Analysis of the Company's Data

Often, a VIF score greater than 10 indicates strong multicollinearity. However, in this case, all values are less than 10, showing that multicollinearity is not a major concern. Observation 7 contains substantial residuals, implying it does not fit well into the model. It is observed as a potential outlier or influential point that could alter the model's performance.

4.5 Interpretation of Results

4.5.1 Model Significance

The model's statistical significance suggests that the total of current and non-current liabilities accurately predicts EBITDA. Total current liabilities have a positive and statistically significant impact on EBITDA (p-value = 0.001). On the other hand, total non-current liabilities have a negative impact, although it is not statistically significant. The p-value of 0.998 indicates a weak relationship. The VIF results indicate moderate multicollinearity (5.94). This value may affect the stability of coefficient estimates. Finally, based on the R-squared score, the model can explain 92.36% of the variability in EBITDA. The projected R-squared (86.90%) suggests that the model is good at predicting new data points, the adjusted R-squared (90.97%) shows a good fit.

4.5.2 Inference

Given that total current liabilities have a positive and statistically significant impact on EBITDA, the company should explore using short-term financing options to improve its operational performance. However, careful management of these liabilities is required to avoid liquidity issues. The negative impact of non-current liabilities on EBITDA, while statistically insignificant, implies that long-term debt may not be adding favorably to the company's earnings. The company should evaluate its long-term debt strategy and, if necessary, explore restructuring or refinancing options. The moderate multicollinearity (VIF of 5.94) value may impact the model's coefficient estimate stability. The organisation should use caution when assessing the individual effect of current and non-current obligations.

CHAPTER FIVE

5.0 Summary, Conclusion and Recommendations

5.1 Summary

The objective of this study was to investigate the effect of bank lending on the financial performance and growth of the manufacturing sector within the Nigerian economy, with a specific focus on Dangote Cement Plc (Group). This analysis utilised a robust sample of secondary data collected over 14 years, from 2010 to 2023, encompassing the entire operational history of the group since its inception. The study employed descriptive statistics and multiple linear regression techniques to explore the relationships between key financial indicators. Specifically, it examined the correlation between total current liabilities (TCL) and total non-current liabilities (TNCL) as independent variables and Earnings before Interest, Taxes, Depreciation, and Amortisation (EBITDA) as the dependent variable. The Minitab software application was used for the data analysis, providing a comprehensive assessment of how these financial liabilities influence the profitability and overall business performance of Dangote Cement Plc.

5.2 Conclusion

Based on the analysis, the study concludes that total current liabilities (TCL) have a significant and positive impact on the financial performance of industrial firms, as evidenced by a coefficient of 0.504 and a highly significant p-value of 0.001. This

suggests that as current liabilities increase, the EBITDA of the firm also tends to rise, possibly indicating effective short-term debt management contributing to operational growth.

On the other hand, total non-current liabilities do not appear to have a meaningful effect on EBITDA, with a negligible coefficient of -0.001 and an insignificant p-value of 0.998. This suggests that long-term debt may not directly influence immediate financial performance measured by EBITDA.

5.3 Recommendations

1. **Optimize the Use of Current Liabilities:**

i. **Strategic Management of Short-term Debt:** Given that Total Current Liabilities (TCL) have a significant and positive impact on EBITDA, manufacturing firms should consider strategically leveraging short-term debt to finance their operations. This could include optimising trade credit, short-term loans, and other forms of current liabilities that directly contribute to the firm's ability to generate revenue and increase operational efficiency.

ii. **Regular Monitoring and Adjustments:** Firms should regularly monitor their current liabilities to ensure they are not excessively burdened by short-term debt. While beneficial, excessive current liabilities could lead to liquidity issues if not managed properly.

2. **Cautious Approach to Non-current Liabilities:**

i. **Assess Long-term Debt Utilization:** The analysis indicates that Total Non-current Liabilities (TNCL) do not significantly impact EBITDA. Therefore, firms should be cautious in taking on long-term debt without a clear plan for how it will contribute to future earnings. Non-current liabilities should be aligned with long-term strategic investments rather than short-term operational needs.

ii. **Focus on Cost-effective Financing:** Firms should explore financing options with favorable terms and lower costs to minimize the potential negative impact on profitability. This includes refinancing existing long-term debt if better terms are available or considering alternative financing strategies.

3. **Balance between Current and Non-current Liabilities:**

i. **Integrated Financial Strategy:** Manufacturing firms should adopt a balanced approach to managing both current and non-current liabilities. While current liabilities have a direct positive effect on EBITDA, maintaining an optimal balance with non-current liabilities is essential to ensure long-term financial stability and growth.

ii. **Investment in Revenue-generating Activities:** Firms should prioritize using both short-term and long-term liabilities for investments that directly contribute to revenue growth. This includes capital expenditures, R&D, and other initiatives that are likely to enhance the firm's EBITDA in the future.

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