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A Comparative Credit Management Appraisal of the Production Sector by Commercial Banks in Nigeria for the Periods of (1982 - 1992) AND (2002 – 2012)

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Abstract

This paper compared the impacts of credit allocated by Nigerian Commercial (Deposit Money) Banks on production sector for two periods (1982 - 1992) and (2002 - 2012). Specifically, it assessed all the credit allocations by the banks to the production sector and examined comparatively, the impact of credit allocations on production sector for the two stated periods.

Data which are secondary in nature were gathered from the Central Bank of Nigerian Statistical Bulletin. The extracted figures within the reference period (1982 – 1992) and (2002 – 2012) were compared, using an unconventional quantitative technique. That is, the study employed a Z-test approach within the framework of the data presented as the main tool to assess and determine comparatively the impact of deposit money banks credit allocations on production sector output in Nigeria within the two periods. The mean value was used to ascertain the extent to which the credit allocation influenced each sub-sectors of the production sector output in Nigeria. The result revealed that with z = 6.5594 for the aggregate production sector in the first period of (1982 – 1992) and z = 14.3890 for the aggregate production sector in the second period of (2002

– 2012), indicated that credit allocations by the deposit money banks had a greater significant impact on the production sector output in the second period of (2002 – 2012) than the first period.

The result, further, showed the impact of credit allocation by deposit money banks on each sub-sector of production sector. Also the result revealed that with z = 7.0177 for agricultural sub-sector in the first period and z = 14.2247 for agricultural sub-sector in the second period, credit allocations by deposit money banks had a greater impact on agricultural sub-sector output in the second period than the first period. Moreso, there was an indication that credit allocations had a greater impact on manufacturing sub-sector in the second period (2002-2012) than in (1982-1992) with z = 18.7872 and z = 6.6492 respectively. Also with z = 7.5643 for mining sub-sector in the first period and z = 11.3586 for the second period indicated that credit allocations by deposit money banks had a greater impact on mining sub-sector output in the second period than in the first period.

The study concluded that, there is a positive and significant impact of deposit money banks credit allocations on the production sector output in Nigeria within the two specified period of 1982-1992 and 2002-2012. Specifically, the study found out that, all the sub-sectors are more viable in the second period under review than in the first period.

The study therefore, recommended that, government through the Central Bank of Nigeria should pursue policies that lower interest rate and reduce inflation on one hand and increase money supply as well as loans and advances to the investors in order to increase the output of the production sector which is capable of stimulating economic growth.

Keywords: credit allocation, deposit money banks, unconventional quantitative technique, production sector

1.0 Introduction

The structure of the Nigerian economy is multi-sector in which the banks and the production sectors have roles to play. Long before now, the relationship between the banking industry and the production sector in Nigeria has been a contentious issue Ugwuh (2004). If one were to take a census of all the pronouncements on the matter by various governments since independence and classify them into those praising the efforts of the banking industry and those castigating them as regards granting credit to production may likely notice that the ratio of those in favour of the later will be in the ratio of four or more is to one. This could further be reflected in the legislation of governments and the directives of quasi government institutions like the CBN on the issue.

The setting up of a wholly government owned bank in the name of the Nigerian Agriculture, Cooperative and Rural Development Bank (NACRDB) with an aim of solely lending to agricultural which is one of the branches of production sector endeavours on short, medium and long-term basis is predicated on the philosophy that the mainstream banking industry does not adequately cater for the urgent need of credit required for rapid transformation of the production sector of the economy(Ogar, Nkamare, & Effiong,. 2014)

This study focused on the few areas: (i) examine of credit allocations of deposit money banks to production sector in Nigeria from 1982 to 1992; (ii) assessment of the impact of credit allocated by deposit money bank on production sector in Nigeria from 2002 to 2012; and (iii.) a comparative analysis of the impact of credit allocated by these banks on the production sector for the two periods under study. The choice of choosing these periods premised on the fact that the first period covered partly democratic and military dispensations, while the second period covered pure democratic dispensation.

1.1 Statement of the Problem

Presently in Nigeria with her vast expanse of rich soil, a sizable number of her citizens suffer from hunger and starvation as a result of neglect of production sector especially agriculture. Few agro-industries around depend greatly on importation of necessary raw materials in their production and many of the Nigerian youths roam about unemployed. Even her crude oil is refined outside the country. It is of note that various policies have been made to solve these problems in which the banks have been targeted to provide the pivotal roles in the area of funding through provision of credits. However, the facts remain that the banks precisely the deposit money banks have not come to grapple with the problem as much and their impacts have not been felt in the area of credit allocations to production sector. The accusation was that deposit money banks prefer granting credit to commerce or trading than to production sector. Even where the credit was allowed, the interest payable seemed outrageous with some tight securities, which place restrictions and scare many prospective producers.

On the contrary, where the credits are ready to be granted, some of the individuals that ready were to venture into production sector or clients were unable to furnish the necessary collateral and honesty required by the banks as guarantee to cushion the effects of leakages or unforeseen exposures should there be default. Also there are fears of diversion of the loans to non-production sector as it has been the attitude of some people to embrace luxurious household family spending thereby suffocating the purpose for which the credit was given. Clearly, it has been noted that more credits were allocated to production sector in the democratic dispensation than the military regime as a good number of individuals that were ready to venture into production sector gained access to credit in the democratic era (Olayiwola, K. and D.T. Busari 2010). The credit to the production sector was averagely better between 2002 and 2012 than between 1982 and 1992.

On the above highlighted problems, this study will do a comparative credit management appraisal of the production sector by deposit money banks in Nigeria between the two dispensations, the financial allocation to production sector and all the element of the sector in relationship to their outputs.

1.2 **Objectives of the Study**

This study did a comparative credit management appraisal of the production sector by deposit money banks in Nigeria, while other specific objective were subsumed under the following:

I. To assess all the credit allocations of deposit money banks to production sector in Nigeria for the two periods of 1982 to 1992 and 2002 to 2012.
II. To examine comparatively the impact of credit allocated by deposit money banks on production sector in Nigeria for each of the two periods under review.

1.3 Hypotheses

Ho_1 Deposit money banks credit allocations has no impact on production sector for the first period (1982 - 1992) and the second period (2002 - 2012)

Ho_2 There is no significant difference between the impacts of credit allocations on production sector for the two periods.

2.0 Literature Review

According to the United Nations production year book, production sector was defined to include all sectors producing cereals, starchy roots, sugar, edible oil, crops, nuts, fruits, vegetables, wine, cocoa, tea, coffee, livestock and livestock products. Also included in the group are industrial oil seeds, tobacco, fibre, vegetable and rubber.

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Further to knowing the subject agriculture as one of the production sectors, Anyanwu *et a1* (1979) defined agriculture as the cultivation of the land for the purpose of producing food for man, feed for animals and fibre or raw materials for industries. It also includes the processing and marketing of crops. With regard to the above viewpoint, the central role of production sector in the individual and the country's life at large cannot be overemphasized.

Udoka (2013) attributed low productivity in all production sectors to problem of manpower development in production sector, parochialism in the aspect of training, lack of appraisal and demoralization of their employees, proffering solution; he offered that training should be made available to all personnel engaged in production of one item or the other. He also recommended for availability of funds to the investors, that the sector should harness its resources and opted that service conditions be made more favourable and competitive so as to attract the right type of personnel into the sector as to him, the low rate of Nigeria's productivity is due to lack of sufficient personnel.

2.1 Commercial Bank Credits

Credit is the extension of money from the lender to the borrower. Spencer (1977) noted that credit implies a promise by one party to pay another for money borrowed or goods and services received. Credit cannot be divorced from the banking sector as banks serve as a conduit for funds to be received in form of deposits from the surplus units of the economy and passed on to the deficit units who need funds for productive purposes. Bank credit can be described as a process of making fund available to another sector of the economy based on some agreed terms in respect of repayment with interest. Loan may be simple, fixed payment, coupon bond and discount bond.

Banks are therefore debtors to the depositors of funds and creditors to the borrowers of funds. Bank credit is the borrowing capacity provided to an individual, government, firm or organization by the banking system in the form of loans. According to CBN (2003), the amount of loans and advances given by the banking sector to economic agents constitute bank credit. Bank credit is often accompanied with some collateral that helps to ensure the repayment of the loan in the event of default. Credit channels savings into productive investment thereby encouraging economic growth.

According to Nzotta (2002), the factors that determine lending in Nigeria include contact position of the bank, risk and profitability of various types of bank credit, economic condition, monetary policies, ability and exposure of bank personnel, credit need of the area served and the nature of the source of bank. Nzotta said bank credit is said to mean the act of a bank giving out advances to a debtor after considering the risk and profitability that must follow such lending decision.

Orji (2012) defined commercial bank credit as a process where a commercial bank provides loan or advance to a single borrower or group of individual or client. It is believed that bank credit contributes significantly to banks' profitability, with its disparities explained by the difference in their lending rates, lending policies and unavoidable competition that may be between banks. Bank credits to the production sector are often referred to as business loans or advances. Business loan provides financial assistance for either small businesses that are in dare need of capital or large ones that need additional funding for expansions (Balogun 1991). The term 'loan' refers to the amount borrowed by one person or organization from another. The amount is in the nature of loan and refers to the sum paid to the borrower. Thus, from the view point of borrower, it is 'borrowing' and from the view point of bank, it is 'lending'.

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Loan may be regarded as 'credit' granted where the money is disbursed and its recovery is made on a later date. It is a debt for the borrower. While granting loans, credit is given for a definite purpose and for a predetermined period. Interest is charged on the loan at agreed rate and intervals of payment. 'Advance' on the other hand, is a 'credit facility' granted by the bank. Banks grant advances largely for short-term purposes, such as purchase of goods traded in and meeting other short-term trading liabilities. There is a sense of debt in loan, whereas an advance is a facility being availed of by the borrower. However, like loans, advances are also to be repaid. Thus a credit facility- repayable in installments over a period is termed as loan while a credit facility repayable within one year may be known as advances. However, in the present study, these two terms shall be used interchangeably.

The credits granted by Nigerian commercial banks are predominantly of a short-term nature. This perhaps, is to be expected in view of the fact that the activities of commercial banks over time concentrated in the financing of foreign trade. With the growth of the economy and the wider outlets for bank funds which this has brought about, there has been a change in the pattern of bank lending. In particular, the rapid growth of production sector has increased the demand for bank credit on the part of production sector. Financial institutions such as commercial banks and merchant banks have increasingly been providing finances for production sector, some of which are managed by a rapidly growing number of indigenous entrepreneurs. Indeed, under the credit guidelines prescribed by the Central Bank since 1964, the banks have been encouraged to reallocate credit and re-channel it to the production sectors of the economy (Olajide, 1976).

Thus, the availability of credit allows the role of intermediation to be carried out, which is important for the growth of the economy. The total domestic bank credit can be divided in to two: credit to the private sector and credit to the public sector. Thus, for this paper, we adopt the definition of credit given by Ogar, Nkamare and Effiong (2014) which is defined above.

3.0 Methodology

Data which are secondary in nature were gathered from the Central Bank of Nigerian Statistical Bulletin. The extracted figures within the reference period (1982 – 1992) and (2002 – 2012) were compared, using an unconventional quantitative technique. That is, the study employed a Z-test approach within the framework of the data presented as the main tool to compare and determine the effect of commercial bank credit on production sector output in Nigeria within the two periods. The mean value was used to ascertain the extent to which the credit allocation influenced each sub-sectors of the production sector output in Nigeria.

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Table 1: Credit Allocations by Commercial Bank in Nigeria to the Production Sector (1982-1992) with the Analytical Result

Year	Agriculture, Forestry & Fishery	Manufacturing	Mining & Quarrying	Total of Production Sector
1982	786.6	3037.6	94.3	3918,5
1983	940.4	3053.1	118.7	4112.2
1984	1052.1	3083.5	165.5	4301.1
1985	1310.2	3232.2	236.1	4778.5
1986	1830.3	4475.2	208	6513.5
1987	2427.1	4961.2	246.3	7634.6
1988	3066.7	6078	227.3	9372
1989	3470.5	6671.7	271.6	10413.8
1990	4221.4	7883.7	362.4	12467.5
1991	5012.7	10911.3	541	16465
1992	21406	52782.2	2675.3	76863.5
	45524	106169.7	5146.5	152921.7
Mean Value	4138.545	9651.791	467.8636	14258.2
Stand. Deviation	5897.267	14515.65	742.217	21139.69
Z-test	7.0177	6.6492	7.5643	6.5594

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Source: Author's test result, 2016 from allocations (1982-1992) and extracted CBN Statistical Bulletin

Table 2: Credit Allocations by Commercial Bank in Nigeria to the Production Sector (2002-2012)

Year	Agriculture, Forestry & Fishery	Manufacturing	Mining & Quarrying	Total of Production
2002	59.8	233.5	70.2	363.5
2003	62.1	294.3	96.0	452.4
2004	67.7	332.1	131.1	530.9
2005	48.6	352.0	172.5	573.1
2006	49.4	445.8	251.5	746.7
2007	149.6	487.6	490.7	1127.9
2008	106.4	932.8	846.9	1886.1
2009	135.7	993.5	1190.7	2319.9
2010	128.4	987.6	1178.1	2294.1
2011	255.2	1053.2	1295.3	2603.7
2012	316.4	1068.3	1771.5	3156.2

	1379.3	7180.7	7494.5	16054.5
Mean Value	125.3909	652.7909	681.3182	1459.5
Stand. Deviation	88.15018	347.4668	599.8272	1014.314
Z-test	14.2247	18.7872	11.3586	14.3890

Source: Author's test results, 2016 from credit allocations (2002-2012) and extracted from CBN Statistical Bulletin

4.0 **Result and Discussion**

The main objective of this paper was to compare the impact of credit allocated by deposit money banks on production sector in Nigeria for the two periods under review. The result revealed that with z = 6.5594 for the aggregate production sector in the first period of 1982 – 1992 and z = 14.3890 for the aggregate production sector in the second period of 2002 – 2012, indicated that credit allocations by the deposit money banks had a greater significant impact on the production sector output in the second period of 2002 – 2012 than the first period.

The result, further, showed the impact of credit allocations by deposit money banks on each sub-sector of production sector. Also the result revealed that with z = 7.0177 for agricultural sub-sector in the first period and z = 14.2247 for agricultural sub-sector in the second period, credit allocations by deposit money banks had a greater impact on agricultural sub-sector output in the second period than the first period. Moreso, there was an indication that credit allocations had a greater impact on manufacturing sub-sector in the second period (2002-2012) than in (1982-1992) with z = 18.7872 and z = 6.6492 respectively. Also with z = 7.5643 for mining sub-sector in the first period and z = 11.3586 for the second period indicated that credit allocations by deposit money banks had a greater impact on mining sub-sector output in the second period than in the first period.

Conclusion and Recommendations

The study found a positive and significant impact of deposit money banks credit allocations on the production sector output in Nigeria within the two specified period of 1982-1992 and 2002-2012. Specifically, the study found out that, all the sub-sectors are more viable in the second period under review than in the first period. Loans, advances, and money supply to the production sector positively impacted on agriculture, manufacturing and mining sub-sectors' outputs. However, the overall impact of the credit granted in the second period with z = 1014.314 far outweighed that in the first period with z = 6.5594. Thus, there was a significant difference between the impacts of credit allocations on production sector in the second period and the first period.

It is therefore recommended that, government through the Central Bank of Nigeria should pursue policies that lower interest rate (cost of capital) and reduce inflation on one hand and increase money supply as well as loans and advances to the investors in order to increase the output of the production sector which is capable of stimulating economic growth. Government should put more commitments in implementing vigorously the policy of granting loan by purpose so that those segments of the nation's production sector produce what are targeted for improved productivity to be achieved.

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