Post Consolidation Effects of Banking Sector Recapitalization on Nigeria Construction Industry (Lagos and Ogun State Case Study)

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***Abstract*:** Construction project involves huge capital flow (materials, machines, manpower, management, finance) from inception to completion and handover. Bank consolidation will enhance synergy; improve efficiency through cost reduction revenue in the long- run, reduction in the industry’s risk by eliminating weak bank and acquiring of smaller ones by the bigger and stronger bankers as well as creating opportunities for greater diversification and financial intermediation. This paper aimed at assessing post consolidation effect of the banking sector recapitalization on construction industry and the major objectives of the study are: assessing the volume of credit facilities given to building contractors by commercial banks the trend in the interest rates charged by commercial banks on credit facilities allocated to building and civil engineering contractors and to evaluate whether building and civil engineering contractors now have better access to credit facilities. This research is purposive and 120 structured questionnaire were distributed to the construction professionals, developer, financial institution houses, and registered building and civil engineering contractors in some selected firm in Lagos State and Ogun state out of which 92 questionnaire were retrieved and analyzed. The result of the hypothesis showed that the level of construction activities financed by banks has not increased during post-consolidation. The paper found out the following as effects of banking sector recapitalization on construction industry which resulted into the inability of the contractors to meet up the outrageous demands for high value collateral to commemorate loan applied for, limited payback period on the loan applied for, because the longer the payback period; the higher the interest rate and finally high interest rate charged on the loan obtained by the contractors which are geo-metrically increased from 3-30 percentage. The research work thereby recommend Commercial banks need to pay more attention in financing medium and small size firm and their projects as they constitute larger percentage of the Nigeria construction industry, so as to increase their financial activities and expand their assets and recouping capital.

***Keywords*:** Recapitalization, Construction Industry, Consolidation, Banking.

1.0 Introduction

Bank consolidation is the reduction in the number of banks and other deposit taking institutions with simultaneous increase in the size and concentration of the consolidated entities. Consolidation can be the fusion of assets and liabilities, in whole or in part, of two or more business establishment to form an entirely new establishment. Adam (2005) stressed that, bank or corporate consolidation could be achieved by way of mergers and/or acquisition, recapitalization and proactive regulation. The driving motive for bank consolidation is technology innovations, deregulations of financial services, enhancing intermediation and increase emphasis on shareholders' value, privatization and international competition.

Banking Sector Consolidation in Nigeria Reforms is predicted upon the need for reorientation and repositioning of an existing status quo in order to attain an effective and efficient state. (Ajayi, 2005; Soludo, 2004; Somoye, 2008). Okeke (1993) argued that reforms are deliberate actions by the government to fast track, jump-start and consolidate specific sector of the economy to achieve desired objectives. The bank consolidation in Nigeria was to correct the problem of the banking sector to make it more stable and efficient.

Resources for construction projects should be adequately planned and scheduled to avoid failure. Though the contractor is aware of the limited resources available to him to mobilize and carry on with the job, he most times relies entirely on the stage payments made by client to keep the work going. Ideally, the legality of a contract is that the clients' financial payments obligations to the contractor must be met soon as it is due to enable the contractor proceed with the works diligently and regularly. A shortfall in timely release of funds to finance construction project affects the overall timing and cost of the project, which further affects the contractors' profit.

2.0 Review of Related Literature

2.1 The Construction Industry

The construction industry is one of most important secondary sectors of the economy that contribute to the gross domestic product (GDP) in the country. It contributes about 61 percent of the GDP of the nation employed up to 20 percent of the total labour force of the country Balogun (2007). The other two sectors in this category are the power and manufacturing sectors. The industry is one of the non-directly productive sectors. The gross value of construction constitutes between 45 and 60 percent of the gross fixed investment in Nigeria (Ofori, 2007). The provision of employment in the construction industry induces economics activities in other sectors of the economy by opening up the market for their products. Thus providing economic opportunities for small scale enterprises. The industry has two main classes of products, the first one is the building, which is associated with residential housing units, offices, hospitals, schools, factories etc. the second one is civil works involving infrastructure for water supply, transport, irrigation, power generation etc. These products of the industry are the most important for the physical survival of man after the provision of food. Hence, it can be said that the industry contributes immensely to the attainment of an acceptable level of physical and moral health by the citizens of the country. (Balogun, 2007).

2.2 The Nigerian Banking Sector

The banking sector is one of the major sub-sectors of the Nigerian financial system. The significance of this sector in the economy cannot be over emphasized. Banking activities have been in existence in Nigeria since the colonial period. Banking operation started in Nigerian in 1892, when the first bank named African Banking Corporation (ABC) was established. The bank was later taken over in 1894 by first Bank of British West African Limited (BBWAL) which after several changes of name is now known as First Bank of Nigeria Plc. (FBN) (Molokwu, 1994). Banks facilitate economic growth in a variety of ways. Firstly, they act as financial intermediaries between the surplus generating units and the deficit spending ones. This is a two-fold function involving the mobilisation of savings from the former group which are then channeled to the latter to support productive economic activities. This intermediary role is important in two respects. First, by pooling together savings that would have otherwise been fragmented, banks are able to achieve economies of scale with potential benefits for the users of such funds. Secondly, in the absence of banks, each person or business seeking credit facility would have had to individually look for those with such funds and negotiate with them directly. AlajekwuUdoka & Obialor (2014) in studying the Nigerian bank recapitalization Reforms, find out that bank recapitalization has no meaningful effect on bank profitability and asset quality, whereas liquidity and financial deepening were significantly influenced by the recapitalization. This was in disagreement with Donwa Pat & Odia James (2011) study who investigated the impact of the capitalization of the banking reforms on the Nigerian Capital Market between 2004 and 2008, the study concluded that market confidence has been rekindled and the consolidation deepened with realistic prospects and the secondary market has been revived.

2.3 Commercial Banks

There are various categories of banks. These include commercial banks, mortgage banks and merchant banks. However, the commercial banks are great importance to this research. Commercial banks are the largest category of depository institution (Hubbard, 2000). They are financial intermediaries that accept deposit and make loans, offering risk-sharing, liquidity services and information services that benefits savers and borrowers. Savers obtain risk-sharing benefits from commercial banks diversified portfolios of loans; borrowers can obtain needed funds to finance the purchase of personal items inventories or plants and equipment.

Commercial banks also provide liquidity services through checking accounts in which savers deposits are available on demand, they have stiff competition from other financial institution in the provision of risk-sharing and liquidity services. Presently, savers can deposit their cash in money market fund that invests them. Savers can also purchase diversified portfolio by buying shares in a mutual fund. However, many borrowers cannot raise funds easily through bond, stock thus serve a special function in providing credit to some particular types of borrowers by reducing transactions and information cost of lending (Hubbard, 2000).

2.4 Banking Sector Recapitalization

In Nigeria, the reforms in the banking sector preceded against the backdrop of banking crisis due to high undercapitalization deposit taking by banks; weakness in the regulatory and supervisory framework; weak management practices; and the tolerance of deficiencies in the corporate governance behavior of banks (Uchendu, 2005). Bank consolidation will enhance synergy; improve efficiency through cost reduction revenue in the long- run, reduction in the industry's risk by eliminating weak bank and acquiring of smaller ones by the bigger and stronger banks as well as creating opportunities for greater diversification and financial intermediation. It will also induce investors' focus and trigger productivity and welfare gains (Berger, 2000).

2.5 Interest Rates on Loans

Interest rates on loans represent the price paid by 'borrowers' to compensate 'lenders' of funds, Olashore (1988). Borrowers and lenders come together in the financial market place, and the subsequent demand and supply of funds determine the general level of interest rates. According to Jagboro (1995), investments are encouraged where the prospective net return is higher than the interest on the money being borrowed, and that high rate of interest tends to restrict development and low rate of interest tends to encourage development. The study further highlighted that most construction projects take relatively long time to execute, an unpredictable inflation rate also makes any venture extremely risky to conceptualize, plan, execute and complete. This is to encourage National development; interest rate charged on borrowed fund should be reduced from the present high rate of almost 30%.

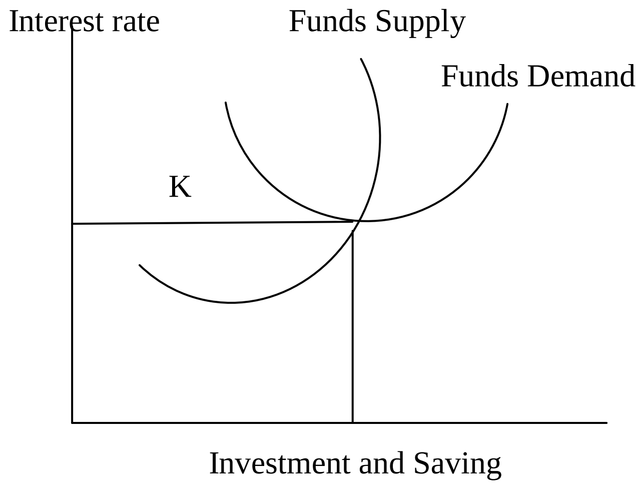

Figure 1 Interest Rate Structure on Supply & Demand
Source: Maness T.S-Introduction to corporate finance (1988)

According to Maness (1988), the level of interest (k) is determined by the interactions between demand and supply, (see fig 1.) The demand for funds is related to the level of real investment in the economy. The supply of funds is Fund supply related to the level of savings in the economy. The higher the interest rate, the higher the savings and the lower the level of investment funds demanded by firms for investment in real assets. The lower the interest rate, the less people are willing to save and the greater the level of investment funds demanded. The real rate of interest is that which balance the supply and the demand for funds in the absence of expected inflation. This has never been observed in any economy because there has always been some expectation of inflation. However, Maness incorporated the expectation for inflation in the formulae given below as:

Nominal rate of interest = (Real rate of interest) + (expected rate of inflation) + (default risk of maturity premiums)

2.6 Problems of the Construction Industry

The introduction of information technology to resolve complex construction designs and analysis has led to the growth of transnational businesses such that, operators in the industry must source for extra funds to equip their high-tech units. According to Husseini (1991), the few indigenous construction firms available have no access to funds for financing construction projects. Another problem of the construction industry is delayed payments especially by government clients. Payment certificates are deliberately not honoured when due thereby disregarding the contract payment arrangement in the contract agreement. The effects of these delayed payments are numerous and include: increased cost of borrowed capital, staff redundancy, extended completion date, spoilage of materials, wastages and pilfering due to prolonged abandonment, inflation, litigations, etc.

Olatoye, Oluwaseun, & Job (2015) adopted explorative research work on Bridging the Finance Gap in Housing and Infrastructure Provision through Private Finance Initiatives in an Emerging Economy by using the findings from recent empirical studies with reference to Nigeria public-private-partnership (PPP). After exploring diver's means of bridging the finance gaps in Housing and Infrastructure Provision through private finance initiatives in an emerging economy, the bane of national development is tied to the dearth of infrastructure. In order to tap the full benefits of public-private-partnership (PPP).

3.0 Methodology

This paper work aimed to investigate the significant impact of post consolidation of banking recapitalization on construction. Literature review findings form survey components includes a review of journals, articles, textbooks, and other published and unpublished materials which are relevant to the aim and objectives of the study. In this research work, the sampling frame used for this study were represented the number of buildings and civil engineering construction works financed and executed after consolidation in some selected firms in both Lagos State and Ogun state. The population of the study area consisted, 10 financial institution houses, 10 developers, 40 registered building and civil engineering contractors, there are about 240 intended respondents. 50% of the sample was drawn across the board, this amounted to 120 copies of structured questionnaire but only 92 copies were retrieved for final analysis.

Table 3.0 Analysis of sample frame

S/n	Area of study	Contractors	Developers	Bankers	No of respondents	Total
1	Lagos stat	20	10	10	3 respondents each	120
2	Ogun state	20	10	10	3 respondents each	120
3	Total	40	20	20		240

Source: *Field survey, 2014*

Frequency analysis was used to represent the data result of respondents, the descriptive l statistics methods were adopted for the analysis. The descriptive statistics was used mainly for presentation of data through the use of Frequency table, Mean, Standard deviation, Variation, etc.

3.1 Discussion of Findings

Table 1: Comparison of the respondents that applied for loan,

types of loan and pattern of loan application during bank pre-consolidated and post-consolidation period

	Pre-consolidation		Post-consolidation	
If ever applied for loan	**Freq.**	**(%)**	**Freq.**	**(%)**
Yes	49	53.26	58	63.0
No	43	46.74	34	37.0
Total	92	100.0	92	100.0
Type of loan				
Small-sized	15	30.6	15	25.9
Medium-sized	27	55.1	32	55.1
Large-sized	7	14.3	11	19.0
Total	49	100.0	58	100.0

Sources: *Field survey, 2014*

Discussion

As regards the first objectives that sought to assess the volume of credit facilities given to building contractors by commercial banks. The table showed shift increase in number of credit facilities applied for at the post consolidated period, there was an increment in number of loans obtained by medium and large sized construction industry. Comparing the duration of pre-consolidation period (2004-2006) and post-consolidation (2007-2014) one would have expected greater number of increment. However, Building and civil engineering contractors do not have better access to credit facilities considering the accessibility of finance to small and medium enterprises of the construction industry, this came in agreement with Kehinde and Kareem. (2012) who studied the effect of pre and post bank consolidation on the accessibility of finance to small and medium enterprises in Nigeria using ordinary least square. It was found that banks' consolidation has not done enough to foster vibrant and competitive SMEs that would enhance job creation and economic growth in Nigeria. Thus, for SMEs to play its role in the development of the economy at post consolidation, government intervention is needed. Therefore recapitalization of the banking sector is a giant step taken in the right direction.

Table 2. Percentage distributions of the obtained loan via Commercial bank with the approved percentage at the pre-consolidation and post consolidation period

	Pre-consolidation		**Post-consolidation**	
If ever applied for loan	**Freq.**	**(%)**	**Freq.**	**(%)**
0-60 percent	4	11.8	9	17.6
61-80 percent	9	26.5	20	39.2
81-100 percent	21	61.8	22	43.1
Total	34	100.0	51	100.0

Sources: *Field survey, 2014*

The research findings showed significant increase in the percentage of funds approved at post consolidation over the pre consolidation. This collaborated the findings of Nwankwo (2013) who used T-test analyses for comparison between money supply, exchange rate, interest rate and inflation to evaluate the impact of pre and post bank consolidation of banking recapitalization on the economic growth in Nigeria beginning from 2000 to 2011**.** The result of T-test analyses shows that pre bank consolidation have insignificant positive effect on the growth of Nigerian economy and that post bank consolidation have positive and significant effect on economic growth in Nigeria.

Table 3: Comparison of the respondents on the amount of loan applied for, percentage of interest rate charged during pre-consolidation and post-consolidation period**.**

	Pre-consolidation		**Post-consolidation**	
Percentage of interest rate charged	**Freq.**	**(%)**	**Freq.**	**(%)**
1-10 percent	16	36.3	8	15.7
11-20 percent	8	18.1	12	23.5
21 percent and above	20	45.6	31	60.8
Total	44	100.0	51	100.0
Percentage of the amount approved				
0-60 percent	4	11.8	9	17.6
61-80 percent	9	26.5	20	39.2
81-100 percent	21	61.8	22	43.2
Total	34	100.0	51	100.0

Sources: *Field survey, 2014*

Discussion

The second objectives that sought to examine the trend in the interest rates charged by commercial banks on credit facilities allocated to building contractors. The interest rate charged has no definite rate, even at the post consolidation era, this has resulted into geo-metric increase (0-15%, 15- 21% & 21-30 %), in the interest rate charged from one bank to another and this disagreed with the opinion of Oviemuno. (2006) who stated that adequate capital base results in the strengthening of the banks' ability to attract funds at lower cost. Therefore, banks will be able to allocate credit facilities to borrowers at lower interest rates. Osa-Afiana. (2015) opined that "interest rates are prices paid for credit". The consolidation process is expected to bring about reduction of interest rate but this has not been able to be achieved. According to Jagboro (1995) investments are encouraged where the prospective net return is higher than the interest on the money being borrowed, and that high rate of interest tends to restrict development and low rate of interest tends to encourage development. His study further highlighted that most construction projects take relatively long time to execute, an unpredictable inflation rate also makes any venture extremely risky to conceptualize, plan, execute and complete. However, to encourage National development; interest rate charged on borrowed fund should be reduced from the present high rate of almost 30% but this has yet to be attended to at post consolidation period of bank recapitalization because the result showed that the longer the payback period the higher the interest rate charged by the commercial banks.

Table 4: Comparison of respondents on number of projects financed during pre-consolidation and post consolidation period.

	Pre-consolidation		**Post-consolidation**	
Number of project financed	**Freq.**	**(%)**	**Freq.**	**(%)**
1-9 project	15	53.6	39	76.5
10-19 project	5	17.9	7	13.7
20 projects and above	8	28.6	5	9.8
Total	28	100.0	51	100.0

Sources: *Field survey, 2014*

Discussion

The results extracted from analyzed questionnaires in this section addressed the third objectives which sought to assess the change in the level of construction activities financed by commercial Banks. It cannot bet concluded that the level of construction activities financed with the aid of banking loan has increased at the post consolidation period considering the interval of years between the pre-consolidation (2004-2006) and post consolidation (2007-2014). Though the table showed the increase but in relation to t-test of the hypothesis, the level of construction activities has not increased at post consolidation period of banking recapitalization in Nigeria.

3.2 Hypothesis of the Study

Ho: The level of construction activities financed by the commercial banks has not increased after consolidation.

Hi: The level of construction activities financed by the commercial banks has increased after consolidation

3.3 Test of Hypothesis

Table 4 Paired t-sample Test Result for Hypothesis.

Paired Differences					T	Df.	Sig. (2- tailed)
Mean	Std.Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
			Lower	Upper			
3.16000	8.95209	1.79042	-.53524	6.85524	1.765	24	.090

Sources: *Field survey, 2014*

Discussion

Level of significance: 0.05

Decision making: accept Ho if P> 0.05, otherwise reject

Conclusion: Since the p > 0.05, this implies that the level of construction activities financed by the commercial banks has not increased after consolidation. Therefore, Ho is accepted.

4.0 Conclusion

This research assessed the post consolidation effect of the banking sector recapitalization on construction industry and various factors has been considered in determining the effect of this giant move by the Central Bank of Nigeria. Based on the findings obtained from the data analyzed from the extracted questionnaires; it has been revealed that most of the construction industry are denied access to credit facility not as result of non-availability of fund but due to their inadequate to meet with the outrageous demands for collateral from the banks for the load applied for, As matter of fact, there are many construction companies that have never considered sourcing funds through commercial bank and their reasons are as follows: Demand for high value collateral, Geo-metric increase in interest rate (0-15%, 15- 21% & 21-30 % respectively), Inaccessibility to fund, Limited time for payback period of credit facilities, and Fear of long time commitment to the banks control.

5.0 Recommendation

The construction industry has many features apart from other processing industries which accentuate the need for funds to finance its project. In order for this purpose to be achieved, the under listed points is considered worthy to reduce the current trend faced by the said industry.

i. Commercial banks need to pay more attention in financing medium and small size firm and their projects as they constitute larger percentage of the Nigeria construction industry, so as to increase their financial activities and expand their reach and assets.
ii. Federal Government can as well play a significant role by providing support to Nigeria indigenous firm with needed long-term loans whenever the need arises to finance any viable project with considerable interest rate like some foreign countries.
iii. Federal Government can as well play a significant role by providing support to Nigeria indigenous firm with needed long-term loans whenever the need arises to finance any viable project with considerable interest rate.
iv. Engagement of public-private-partnership should also be encouraged, this can help a lot in curbing the current trend face by Nigeria construction industry by forming partnership with cooperate organisation in financing capital project.
v. Timely interim and final valuation of the project should also be encouraged among the so call client representative for the award of claims available to the contractors, so as to make judicious use of the contractors capital invested.

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