Finance Companies, Central Bank of Nigeria and Economic Development

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Abstract
This paper is an empirical study of Central Bank of Nigeria (CBN) regulatory activities , finance house activities and economic development, within the period 1992-2010, using gross domestic product GDP(dependent) as a measure of economic development, while Activities of Finance houses proxy by domestic credit and total assets, CBN activities proxy by the shareholders fund and minimum paid up capital, estimation of regression models and subsequent analysis of results using micro fit 4.1 econometric, statistical analytical tool. The findings indicate that significant relationships existed between Finance house activities and economic development, and CBN regulatory activities in finance house has no significant relationship. Therefore, this calls for policy options that would favor the encouragement of existing finance houses and licensing of new ones to adequately carter for the needs of the overall economy..
Keywords: Economic development, Finance houses/companies, Money market, CBN, and GDP.

1. Introduction

Fiscal development is regarded as the most important objective of national plan in any economy, Economic development has been defined as the process whereby the intensity of national production (that is national income) or per capita income, increase over a period of time (Nwankwo & Ejekeme, 2007).In a more conventional approach, economic development is defined as economic growth plus changes. The changes here being interpreted as the achievement of better living conditions and an expanded rate of opportunities in work and leisure for the poor people, it involves more than just growth (Ogbonna, 2000). This means that a sustained increase in total national income per head of population which involves changes such as improved performance of factors of production development of institution. The Central Bank of Nigeria is the apex regulatory authority of the Nigeria financial system (money market). CBN regulate - discount house, commercial banks, finance house and bureau de change in the money market. Finance companies also create room to channel funds from lenders to borrowers, it mobilize fund from the surplus sector of the economy and channel it to the deficit sector of the economy. The importance of finance companies can be emphasized from the structure of the financial system, in the financial system in most countries commercial banks have emerged in a dominant role in mobilizing funds and using these resources for investment. Due to their structural limitations and rigidity of different regulations, banks could not expand their operations in all expected areas and were confined to a relatively limited sphere of financial services. Moreover, their efforts to meet long term financing with short-term resources may result in asset-liability mismatch which can create pressure on their financial lease. These drawbacks led to the emergence of non-bank financial institutions for supporting industrialization and economic growth of the country (Chowdury & Ahmed 2007).

Finance companies play a key role in fulfilling the gap of financial services that are not generally provided by the banking sector. The competition among non-bank financial institutions such as development finance institutions, insurance companies, pension funds, mortgage institutions, specialized banks, finance companies etc, is increasing over the years, which is forcing them to diversify to a wider range of products and services and to provide innovative investment solutions. Finance companies appear to offer flexible options and highly competitive products to help customers meet their operational and financial goals.

1.1 Statement of the research problem

Financial intermediaries are very important factor that need to be consider for an economic development, taking note of the functions of finance houses in Nigeria has prompt this study to find out if finance houses activities(mobilization of fund; fund management and project financing among others) has a significant relationship with economic development .specifically, the research question are stated thus;
  1) Will CBN regulatory activities have a significant relationship with finance houses operations?
  2) Can there be a significant relationship between finance houses operations and economic development?

1.1.2 Objective of the Study

The objectives of this study is to find out if CBN regulatory activities has significant relationship with finance houses operations and if finance houses activities has a significant relationship with economic development, using GDP(dependent) as a measure of economic development, while Activities of Finance companies proxy by domestic credit and total assets and CBN activities proxy by minimum paid up capital and shareholders fund,

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as these are the specific variables used by CBN to regulate finance houses. Specific objectives are to:

1) Ascertain the relationship between CBN regulatory activities and finance houses operations.

2) Examine if there is a significant relationship between finance houses operations and economic   development.

1.1.3 Hypothesis

In line with the objectives the following hypothesis stated in their null form will be tested;

H_{o1}:   There is no significant relationship between CBN regulatory activities and finance houses operations.

H_{o2}:   There is no significant relationship between finance houses operations and economic development.

1.1.4 Significance of the Study

  Inadequate writing exist on finance houses activities thus the research aims to contribute to such limited literatures in order to bring the interest of researchers to this important financial institution. An exposure on the activities of finance companies will help government formulate necessary policies to strengthen the institution. To the finance companies, the study will further enlighten them on the best way to enhance their efficiency as this will help them make better returns and meet the demand of investors for funds to finance their businesses.

The reminder of this paper is section under the literature review, methodology, findings, Policy Implication, conclusion and recommendation.

2. Literature review

2. 1 Money Market and its institution:

Investopedia , (2012).say it is a segment of the financial market in which financial instruments with high liquidity and very short maturities are traded. The money market is used by participants as a means for borrowing and lending in the short term, from several days to just under a year.

2.1.1 Discount Houses

Discount houses operate as principals in the primary market for treasury bills. CBN's Guidelines for Discount Houses, as cited in (Olorunshola, 2003), defined Discount Houses as any financial institution in Nigeria who transact a discount business which in the main, consists of trading in and holding of treasury bills, commercial bills and other securities and whose operations are in the opinion of the CBN those of a discount house.

2.1.2 Commercial Banks

These are institutions which accept any form of deposit with varying maturity periods and pay cheques on such account. Commercial banks traditionally lend to medium and large enterprises which are judged to be credit worthy (Anyanwu, 2004).

2.1.3 Finance Companies/Houses

According to Lemuel (2009). These companies focus on short-term, non-bank financial intermediation by mobilizing monetary resources from the investing public in form of borrowing and provide, among others, facilities for local purchase order (LPO) and project financing equipment leasing and debt factoring. They are under the direct control and supervision of the CBN. Finance companies are institutions whose activities involve holding money balance and borrowed money from individual and other institutions with the aim of creating loans (Ogbonna, 2000) Finance companies thus through their activities accumulate capital where are channeled to the productive sectors for increased productivity and output. Isern (2009) observed that finance companies have in recent years been relevant in the financing of small and medium scale enterprises. This has led the CBN along with the Finance Houses Association of Nigeria (FHAN), to look at ways to strengthen and reposition the sub-sector.

Finance companies also create room for channeling funds from lenders to borrowers. Generally, finance companies mobilize fund from the surplus sector of the economy and channel it to the deficit sector of the economy.

2.1.4 Bureau De Change

 According to Solomon(2010) These are institutions that perform the vital functions of broaden the foreign exchange market and improve access to foreign exchange, especially for small users.

2.1.5 Central Bank of Nigeria (CBN)

This is the apex regulatory/supervisory financial institution empowered to promote monetary stability (through the control of money supply) and a sound and healthy financial system) (Onoh, 2002).

The Bank and Other Financial Institution Decree (BOFID) brought the activities of a myriad of financial institutions under the CBN, for instance, the Decree empowers the bank to issue guideline to any person and any institution that engages in the provision of financial services as well as having the last say in formulating operating rules and codes of conduct. Also, the bank is empowered under (BOFID) to undertake special investigations of these institutions if the Governor of CBN considers it necessary. These provision of the BOFID and CBN Decrees, therefore, give the bank clear and substantial powers to regulate the activities of all financial institutions operating in the country (Olorunshola, 2003).

2.1.6 The Place of Finance Company in Nigerian Financial System

The significance of finance and financial system in the drive for economic growth and development is fairly well established and generally accepted. For instance, availability of adequate financial resources and regular acquisition in proper mix of the needed funds from alternative sources for investment purposes are part of derivable benefits from an efficient financial system (Olorunshola, 2003). A financial system is a conglomerate of various institutions, markets, instruments and operators that interact within an economy to provide financial services. These services, among others, include resource mobilization and allocation; financial intermediation; and facilitation of foreign exchange transactions to boost international trade.

In Nigeria, the financial system comprises the regulatory/supervisory authorities' bank and non-bank financial institutions. Over the years, the country's financial system has undergone remarkable change in terms of ownership structure, the depth and breadth of instrument employed, the number of institutions established and the regulatory framework within which the system operates.

2.1.7 Finance Companies and Economic Development in Nigeria: An Overview

Finance companies in Nigeria are non-bank financial intermediaries involved in funds mobilization particularly short-term fund, placement and funds management project financing, equipment leasing, debt factoring and granting credit. (CBN,2007).

Finance companies are statutorily barred from accepting deposits and undertaking foreign exchange transactions as stipulated in the guidelines for their operations. The CBN is responsible for monitoring finance companies operation to ensure that they conform to specified regulation to avoid financial distress in the sub-sector.

Finance house emerged in Nigeria in 1959 with the formation of bent worth finance limited (Ogbonna, 2000). The main business being the provision of finance by way of hire purchase and equipment leasing facilities, principally to those engaged to the transport and allied industries. Since then, the number of finance houses increased tremendously.

According to Onoh (2002), finance houses generally were under no specific regulatory and supervisory body they began to perform like banks but unlike banks they were not regulated. By 1973, there were at least 23 companies that provided consumer credit facilities. Even though they did not function in any consistent and formal manner, they were nevertheless in existence to give assistance to companies which were unable to finance the purchases of leasing arrangements (Ojo,1982). But between 1986 and 1990, NDIC Annual Report shows that 100 finance houses were in existence of which 63 had fully complied with the registration requirement. During 1991, the place of finance companies in Nigeria financial system was the main-focus especially when the bank's lending rate was pegged at 21 percent since finance houses were not subjected to similar ceiling.

The role and developmental activities of finance companies were not put on record until 1991 when they come under the regulation of the CBN. However, literatures have show that the limited nature of the traditional banking system and high lending rate charged by banks during the structural adjustment programme (SAP) era brought the finance companies into the lime-light and as an important institution in the Nigerian financial system (Onoh, 2002; Lemuel, 2009).

Finance companies through their act as suppliers of loans and credit facilities ensures financial deepening in Nigeria which implies the ability of financial institutions in general to effectively mobilize financial resources for development (Solomon, 2010). CBN (2010) report shows that total assets change from ₦ 118,136.40 to ₦113, 781.60 in 2009-2010. Compare to ₦2,445.9, ₦13,385.8 in 1992 - 1993. CBN (2010) report also shows that finance companies domestic credit increased from N1,512.8 million in 1992 to ₦6,291.40 million in 2002. By 2008, finance companies have played an encouraging role in economic development through domestic credit valued at ₦102,020.80 million. and in 2010 ₦57,769.60,   Although within these periods the number of finance companies operating in Nigeria fluctuated. CBN (2008) report further shows that out of 618, finance companies that were registered in 1992, only 102 were re-registered in 2002 following the revised guideline of the CBN in 2002 while 75 finance companies were in existence by 2008, and Following the recent Routine Examination carried out by the CBN on the finance companies under its supervisory purview, fifty five (55) of the companies were found to be actively engaged in the finance company business while four (4) others were undergoing restructuring. Consequently, only fifty nine (59) finance companies with CBN licenses are the institutions currently approved to Carry on finance company business in 2010.

2.1.8 Theoretical Framework

Finance as a factor is considered to affect economic growth, stagnation or even decline in any economic system. Financial resources are mobilized and channeled to economic activities by financial institutions or financial intermediaries who channel these resources from surplus unit to deficit economic units. In doing this, they evolve appropriate structures necessary for the intermediation functions, which they perform. Various studies have shown that there is a strong and positive relationship between the financial sector and economic development (Nzotta and Okereke, 2009). Again,   Iyoha (1999) and Anyanwu (1995) also provided evidences that money is significant to the economic development.

The big push theory also states that economic development takes place within and not from the without. that is, internal structure put in place and policies stimulate economic activities which transforms to capital accumulation and thus bring about sustained economic growth and development (Schumpeter, 1934). Thus, financial institutions such as finance companies are expected to play significant role in economic development through their financial intermediation activities. This study therefore, is based on the above theories and assumptions with the focus on finance companies in Nigeria and its economic development.

3. Methodology

A research design is a blue print for execution of a research, a road map in the hands of the researcher Nachmias & Nachmias (1996).In this study, the exploratory survey research will be used because the research study involves collection of data from published work such as financial report. According to Baridam (1990), there are two major steps in carrying out research study which are classified as exploratory and the descriptive research. The exploratory study involves the collection of data from published and unpublished works, a review of identified problems clearly defined and in the process possible assumptions could be developed and used as test on the research findings. Descriptive research is used to describe the main features of data and aims to summarize a data set without employing a probabilistic formulation.

3.1 Population and Sample Size

Convenience sampling was used in selecting a sample for the study which is on non-probability method of selection. It was chosen on the basis of convenience, accessibility and as a matter of fact of particular interest in a specific subgroup within the target population. The finance houses- With the period of (1992-2010) is considered making it a sample size of 19 and Nigeria economy was therefore selected for the study, while the money market serve as the population.

3.1.1 Sources of Data

This study made use of mainly data collected from the secondary source. The secondary source used in this study includes text books, journals, statement of account, National Bureau of Statistics bulletins and CBN statistical bulletins reports.

To be adopted for use in the empirical estimations, the regression of variables in the equation will be conducted electronically via micro fit 4.1 econometric. The overall aim of the estimation is to determine whether or not each δ *(variable)* is significant; and a significance level of 5 per cent is adopted for this purpose.

3.1.2 The Model

Following Ajayi (1978), Agbonkhia (1995) and Anyawu (1995), the following model is specified thus;

$$GDP = \alpha_0 + \alpha_1 Share + \alpha_2 TAS + \alpha_3 DOM + \alpha_4 MCAP \dots\dots\dots\dots\dots\dots\dots\dots(1)$$

A prior estimation of the above model revealed the presence of multi-colinearity as showed by the insignificant intercept. There was the need to respecify the model by introducing natural logs in an attempt to cure the model of the multi-colinearity. Hence the model was re-specified thus;

$$LnGDP = \alpha_0 + \alpha_1 LnShare + \alpha_2 LnTAS + \alpha_3 LnDOM + \alpha_4 MCAP \dots\dots\dots\dots\dots\dots(2)$$

Variable Description:

GDP= Gross Domestic Product which proxies economic development

Share= Shareholders funds captures CBN regulatory activities

TAS= Total Assets proxies the activities of the finance house activities

DOM=Domestic Credit which proxies the activities of the finance house activities

MCAP=Minimum capital which captures CBN regulatory activities.

3.1.3 Data Presentation
Table 1.1   Activities of Finance Companies and GDP (₦' Million)

Year	Shareholders fund	Total Assets	Domestic Credit	Gross Domestic Product	Minimum paid-up capital
1992	576.60	2,445.9	1,512.8	532,613.8	554.90
1993	2,668.20	13,385.8	5634.0	683,869.8	2,668.20
1994	2,111.60	11,660.9	4787.7	899,863.2	2,111.60
1995	1,178.80	11,265.9	5079.1	1,933,211.6	1,178.80
1996	2,137.10	8,940.3	3967.5	2,702,719.1	2,137.10
1997	2,688.50	12,059.6	5517.1	2,801,972.6	2,688.50
1998	1,951.10	8,213.6	4114.9	2,708,430.9	1,951.10
1999	1,249.50	8,941.7	4347.5	3,194,015.0	1,249.50
2000	1,830.60	7,871.3	5270.9	4,582,127.2	1,830.60
2001	2,677.20	12,903.5	8608.6	4,725,086.0	2,677.20
2002	2,388.80	11,684.9	6291.4	6,912,381.3	2,391.20
2003	6,361.40	29606.0	19111.7	8,487,031.6	6,361.40
2004	7,758.20	24504.7	20050.4	11,411,066.9	7,920.00
2005	9,567.60	37460.6	22007.7	14,572,239.1	8,390.40
2006	11,371.40	54339.1	32601.9	18,564,594.7	11,185.60
2007	14,856.79	65804.7	39535.1	20,657,325.0	7,435.75
2008	25,201.50	205,501.6	102,029.8	23,842,126.2	13,253.60
2009	11,984.80	118,136.40	61,088.20	24,794,238.66	17,093.60
2010	10,216.10	113,781.60	57,769.60	29,205,782.96	19,542.40

Source: CBN Statistical Bulletin and Annual Report, (various years)
Source: National Bureau of Statistics (NBS)(GDP)(various years).

3.1.4 Data Analysis and Findings
With data sourced from CBN Statistical bulletin, and National Bureau of Statistics the estimated models are presented below,

$$LNGDP = 14.454 -0.1348LNShare +0.4455TAS-0.4745LNDOM+0.1900LNMCAP$$

   {6.015}   {0.5487}   {1.0119}   {0.8829}   {0.85117}

R^2 = 0.97277 R^{-2}=0.94895
SER=0.2116   F-Stat F(7,8)=40.82
Mean of Dep.=15.48   S. Dep Var.=1.249
RSS =0.358   DW Stat= 2.23

3.1.5 Interpretation
With mere four explanatory variables, over 97 % systematic variations of the dependent variable are explained. This coefficient of determination is significant at the 5% level as estimated by the F Statistic which is estimated at 40.82. Though there is the presence of slight first order negative autocorrelation as presented by the Durbin Watson statistic of 2.23, the efficiency of the regression line is ascertained by the low standard error of regression which is estimated at 0.2116. This is complemented by both the low estimated value of the Residual Sum of Squares and the Standard Deviation variable, showing a good predictability status. These diagnostic parameters show the reliability of the results for policy making. On the basis of significance of variable coefficients, only Total Assets was significant (though at the 10% level) during the estimated period (1992-2010). The implication is that all other variables never performed well in determining the economic development within the sector. The implication of this is that activities of finance houses, not regulatory activities of the Central Bank has proxies by minimum capitalization have been significant in determining economic development. The insignificance of the regulatory activities of CBN to finance houses operations could be draws largely from the fact that polices are not followed up for it to meet and even corruption. On the basis of prediction, the researchers bear in mind that the estimated coefficients are elastic ties. Hence it could be said that only total

assets was elastic to economic development within the specified period, as a unit increase in total assets could yield 0.445 units in economic development.

3.1.6 Policy Implication

As only total assets was significant in determining economic development, any deliberate policy in increasing total assets will ensure better economic development. This could be done by ensuring finance house development. A deliberate policy in ensuring more finance houses in areas that are under banked will ensure economic development. As a matter of fact this will impinge better on regulatory policies of the CBN which effects can only be realized through these finance house activities. This confirms findings by CBN(2012) that having more banks will ensure growth, economic development via increase in money demand.

5. Conclusion and Recommendation

The findings through empirical analysis, finance companies activities has significant relationship with economic development. This study is therefore of the opinion that finance companies should be effectively regulated to improve their services and make them more responsive to the Nigerian borrowing economy.

Based on the findings observed by the researchers, the following recommendations have been made.

i.   Finance companies should make efforts in enlightening the public on their financial activities and create awareness on their relevance, this will increase patronage

ii.   Finance companies should Endeavour to diversify their products to make them more competitive and meeting demands of the present state of economy.

iii.   There is need for other financial institutions to work together with finance companies who are specialized in leasing, LPO financing and other forms of financial intermediation, this will ensure efficiency and good financial system needed to stimulate economic development.

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