

22. Specialized Banks

Objective

At the end of this chapter, the students should be able to mention and explain the specialized banks such as the Merchant Banks and Agric. Development Bank and their functions.

22.1 Introduction

These are finance houses which specialize in the primary functions of meeting the needs of the economy for long-term development capital. The three leading examples in Nigeria are the Nigerian Bank for Commerce and Industry (NBCI); the Nigerian Industrial Development Bank (NIDB); and Nigerian Agricultural Development Bank (NADB). Other development banks in West Africa are: Sierra Leone National Development Bank; National Investment Bank in Ghana; and the Gambia Commercial and Development Bank. The last one performs the functions of both a commercial bank and a development bank.

22.2 National Industrial Banks

22.2.1 The Nigerian Bank for Commerce and Industry (NBCI)

This bank was born in 1973 with an authorized capital of ₦50 million which was fully provided, jointly, by the Federal Government and the Central Bank of Nigeria. It was set up purposely to provide the much needed capital for the implementation of the objectives of the Nigerian Enterprises Promotion Decree (now an Act). Thus, Nigerians were afforded ready sources of capital for the pursuit of foreign business as provided by the Act. The NBCI provides medium-term loans of between 12 to 15 years to qualified industries. The industries covered are food and beverages; textiles; iron and steel industry; machine and basic metal products; wood and wooden products; chemical and petrochemical products.

22.2.2 The Nigerian Industrial Development Bank (NIDB)

The NIDB was set up in 1964 with an authorized capital of ₦10 million, out of which ₦2 million was issued and fully paid up immediately. The capital was provided by the Central Bank of Nigeria and other international financial institutions, including the World Bank. It is to provide both medium and long-term capital to various enterprises in Nigeria. Although it was initially forbidden from assisting enterprises in which the government has shares, this restriction has since been removed. However, it still cannot finance infrastructural projects such as construction of roads and hospitals. Apart from these, it is free to aid both old and newly qualified industries.

22.2.3 The NBCI and NIDB have now been merged to form the National Industrial Bank (N.I.B.) to take over their functions

The similarities are as follows:

- (i) to provide finance to qualifying enterprises.

- (ii) to assist enterprises by either buying shares in such businesses or by lending money to them directly.
- (iii) to give financial assistance to only limited liability companies.
- (iv) the collateral securities on which it would give loans are limited to legal mortgages, bank and government securities.
- (v) to provide other services to industries apart from finance, e.g. to act as consultants to business, giving them feasibility studies, technical and managerial assistance, and supplying information on investment prospects in the country.

22.3 Agricultural Development Banks

These are banks charged with the sole function of making funds available for agricultural projects. These are known as agricultural development banks in Ghana, or simply the Nigerian Agricultural & Co-operative Bank (NACB) in Nigeria. The NACB has been restructured and renamed the Nigerian Agricultural, Co-operative and Rural Development Bank. The bank makes loans available to farmers with approved farming schemes for agricultural and rural infrastructural developments. Like any other development bank, N.A.C.R.D.B. obtains its funds from the government (via the Central Bank), commercial banks, insurance companies and international organizations.

22.4 Merchant Banks

22.4.1 Introduction

A merchant bank is a bank that provides banking services for businesses rather than for ordinary people. Most of the world's known merchant banks started as merchants and traders. They later became increasingly involved in the financing of trade rather than in trading on their own account. Notable among them are Hambros, Rothschild and Kleinworts.

Merchant banks are found in most parts of the world including Nigeria. Merchant banks in Nigeria are not as many as commercial banks but they have extensive connections with banks both in Nigeria and overseas. Some of the merchant banks in Nigeria are as listed below.

1. Afribank Int'l Ltd (Merchant Bankers)
2. Centre Point Merchant Bank Plc
3. First International Merchant Bank Plc
4. Indo-Nigeria Merchant Bank Ltd
5. Lead Merchant Bank Ltd
6. Nigerian-American Merchant Bank Ltd
7. Stanbic Merchant Bank Ltd
8. Triumph Merchant Bank Ltd
9. Union Merchant Bank Ltd

22.4.2 Functions of Merchant Banks

- (i) They assist in sales of shares to the public.
- (ii) They act as general financial advisers to their customers undertaking industrial ventures.
- (iii) They offer advice and guidance to their client institutions on how to manage their funds.

- (iv) They deal in stock exchange securities as a means of assisting companies with long-term capital.
- (v) Shares issues:
 - (a) Merchant banks act as issuing houses for public issue of stocks and shares of companies.
 - (b) They can assist in raising capital through private placement for private companies.
 - (c) As an issuing house, a merchant bank often sponsors and underwrites the new issue to guarantee its success. By underwriting a new issue, the merchant bank undertakes to buy any stock/share which is not taken up by the public.
- (vi) Loan provision:
 - (a) Merchant banks can syndicate loans, that is, co-operate with other banks, financial houses or institutions in consortium or group financing of their clients' projects.
 - (b) Merchant banks often assist private companies by way of medium term loans to establish themselves.
 - (c) Foreign loans: Merchant banks, especially overseas, specialize in raising foreign loans which enable governments of foreign or developing countries execute their development projects.
 - (d) Equipment leasing: This is another form of loan assistance merchant banks give to their clients which might involve heavy capital outlay.
- (vii) Foreign Trade financing. Merchant banks usually engage in import and export financing by executing bills of exchange and letters of credit.

22.4.3 Problems of Transacting Business with Merchant Banks

- (i) *Delays in processing loans:* There are usually complaints of delays in processing applications of customers for loans.
- (ii) *Stringent terms and conditions of granting loans:* There are allegations that some of the terms under which loans could be granted by merchant banks are unreasonable, e.g. the form of collateral security sought from customers may be unobtainable.
- (iii) *Inefficiency:* Evidence abounds that merchant bank officials could be inefficient, e.g. loss of files of application forms.
- (iv) *Corruption:* There are cases of officials asking for part of the loans clients have applied for in the tradition of the infamous or ignoble "10%".

Summary

- â€¢ *Nigerian Industrial Development Bank (NIDB):* This was specifically founded in 1964 for provision of medium and long-term finance for industries.
- â€¢ *Nigerian Bank for Commerce and Industry (NBCI):* This was to provide long-term finance in order to meet the capital requirements in the implementation of the Nigerian Enterprises Promotion Decree of 1972, whereby Nigerians were to participate in some industries which were hitherto the preserve of foreign investors.
- â€¢ These two banks above have been merged to form the National Industrial Bank whose finance is meant for limited liability companies only. It also provides advice for and assists in preparation of feasibility studies for any company that may desire such services.
- â€¢ *Nigerian Agricultural Co-operative Bank Limited is now the Nigerian Agricultural, Co-*

operative and Rural Development Bank (NACRDB): This was set up purposely for providing long-term finance for agricultural and rural development projects.

Merchant banks are active in arranging for sales of shares to the public; in assisting companies with long-term capital and offer financial advice to their client companies on investment matters. In 1987 there were 15 of them in Nigeria.

Revision Questions

A. *Essay Questions*

1. Show the similarities and the differences between the NIDB and the NBCI as designed for the Nigerian capital market.
2. What is the Nigerian Agricultural Co-operative and Rural Development Bank? Discuss the success of its operations in your state.

B. *Objective Questions*

1. Promissory notes, bank drafts and cheques are classified as
 - A. bank deposits
 - B. legal tender
 - C. documents of title
 - D. credit instruments

(WASSCE 1999)

2. Which of the following grants loan to members without stringent collateral security?
 - A. Commercial banks
 - B. Mortgage banks
 - C. Saving banks
 - D. Thrift societies

(WASSCE 2000)

3. Government raises funds usually through the sale of
 - A. bill of exchange
 - B. debentures
 - C. premium certificates
 - D. treasury bills

(WASSCE 2000)

4. An example of a secured loan is
 - A. trade credit
 - B. mortgage
 - C. co-operative loan
 - D. overdraft

(WASSCE 2001)

5. A collective name for money market and capital market is
 - A. financial market
 - B. financial institutions

- C. insurance market
 - D. foreign exchange market
6. The means through which the government borrows from the public on short term is
- A. treasury bill
 - B. exchange rate
 - C. bill of exchange
 - D. bank draft

Project

1. Have you started to try your hands on some of the small saverâ€™s facilities available in your locality? If so, state the procedures involved. If not, state why and how soon you wish to start your small savings?
2. Ask your parents which other financial institutions stated in this chapter they have had dealings with before. Write a short brief on their experiences with any of them.
3. List some of the â€˜otherâ€™ financial institutions mentioned that have offices in your state or in five of the states closest to you.