Financial Structure and Economic Development in Nigeria

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Abstract: *In this study , the measurement of the Nigerian financial interrelation ratio was considered in line with the structure and development of financial system between 1999 and 2008 with a view to examining the incidences of the financial liberalization . The financial intermediation role for Nigeria on current basic prices was computed to determining the extent of stability and /or positive cum negative changes. This is to ensure the involvement of government as well as the degree of financial institutions' involvement in the economic growth and development of the country. In essence, the results of this study will be of relevance to formulate and execute policy formulation in its entirety. The result of the study revealed a pure neglect in the country with emphasis on financial intermediation. The earlier we put an enhanced financial structure in place, , the better for the economy.*

Keywords: economic development, Nigeria, emerging market

1. Introduction

One major challenge in this regard is the inability to arrive at a convincing platform to quantify efficiently and effectively the Nigerian financial market . It is an hub for financial transaction in the whole of Africa considering the size and population which was put at 150million by the International Labour Organization in 2009. However, the financial system is not well developed unlike what obtains in a place like South Africa. It is on record that only in South Africa and Egypt could one have access to derivatives market operations for hedging in the whole of Africa continent. In fact, the stock market in Nigeria experienced a major shift in paradigm due to the 2005 bank consolidation exercise..

The objective of this study is to assess the financial structure in Nigeria in line with the financial interrelation ratio. The aim is to determine the level of changes over time. In line with global requirements as well as the impact on the level of economic development and growth. There is little empirical evidence concerning the subject matter in literature and this study on the Nigerian financial structure is expected to fill this gap. For the purpose of this work, the method of analysis adopted by Raymond Goldsmith (1969) forms the method of analysis while the scope for this study covered the period between 1988 and 2008.

In the light of the above, the problem of the study is to examine the financial interrelation ratio of Nigeria during the study period and also to actually assess the level of involvement of financial institutions in the nation's quest to achieve economic development.

This is to ensure the involvement of government as well as the degree of financial institutions' activities in the economic focus of the country. In essence, the results of this study will be of relevance to formulate and execute policy formulation . this will go a long way to chart a positive course for the country in an effort to follow required procedural requirements in achieving excellence.. In this light, the viability or otherwise of the nation's financial structure il linkage with FIR becomes imperative. When operational, it is expected to change the face of financing on one hand and improved living conditions on the other hand.

2. Review of Relevant Literature

In the light of this, the level of financial intervention however substantial has not been really felt in the larger economy and this could be attributed to the high level of corruption and mismanagement that permeates through the polity. This made the immediate past civilian administration to set up the Economic and Financial Crime Commission (EFCC) and by extension the current reform in the banking industry which has been hinged on poor corporate governance, inefficient risk management structure and week liquidity position. The bond market in Nigeria is at the lowest ebb while the market capitalization and the AA Share Index has been on the decrease since 2007 aftermath of a major boost. When compared with the economy of an emerging market such as Japan it is evident that while Japan is still referred to as an archetype of a bank-based system, Tokyo is one of the leading financial centers in the world. In 2003, Tokyo was ranked first in market capitalization of newly listed domestic shares. Moreover, the Japanese corporate bond market is small, but the Japanese Government Bond (JGB) market is the largest in the world. At first sight, one can interpret this as evidence of the convergence of the Japanese financial system toward a capital market-based system. But it seems more interesting to see it as evidence of a close connection between banks and capital markets in the financial system.

Beyond the empirical problem, a more fundamental issue challenges the ground of the traditional approach. The latter considers markets and intermediaries as two substitutable and opposite modalities. In essence, one should not ignore the important interactions between markets and intermediaries: the services provided by each may overlap, and it is very likely that there is cross fertilization between markets and intermediaries(Levine,2005).

By nature, the traditional approach cannot cover the whole variety of financial systems. Moreover, this dichotomous vision of financial systems is gradually being replaced by theoretical analyses that underline the complementary quality of financial services. Bodie (1995) and Merton, (2004) argued in favor of a functional approach instead of an institutional one; in this case, banks and capital markets are in opposition, but assume largely identical functions such as financing, portfolio management, risk management, liquidity insurance, portfolio insurance and so on, although in different ways. Moreover, numerous studies challenge the convergence hypothesis by highlighting the role of historical or institutional characteristics such as the legal system, the political context, the cultural and religious legacies, the geographical endowments or the social capital that may shape national financial systems. In any case, these conflicting analyses highlight the need for better empirical measures of financing structure.

In the work of Capelle-Blancard, Couppey-Soubeyran and Soulat (2006) a unique style of measurement was adopted in the computation of financial intermediation ratios. In the breakdown of external financing, direct and indirect financing were not considered. The total financial intermediation ratio was sub-divided into the sum of the credit intermediation ratio and the market intermediation ratio. This finer breakdown allows for the modalities and the changing nature of the financial intermediation to be properly captured.

It was found that the Japanese intermediation ratio remained stable overall between 1979 and 2004 as a result of two opposite trends: a decrease in the share of credits in the domestic non-financial sectors' external financing (i.e. the credit intermediation ratio) and an increase in the share of investments in claims carried out by banks and other financial Intermediaries (i.e. the market intermediation ratio).

3. Method of Data Collection and Analysis

The Financial data were got from both the Central Bank Annual Accounts (various editions) and Statistical Bulletin for 2008. The financial interrelation ratio (FIR) explains the determinants as well as the changes in the national accounts vis-à-vis the involvement of the financial institutions with emphasis on the financial development variables and real variables, coupled with the financial assets , tangible assets et cetera. In essence, FIR is a ratio of measurement in relation to development and real development over time. It is the ratio of the aggregate market value of all financial instruments in the country to the value or ratio of the tangible net wealth. The R. W. Goldsmith Financial Inter-Relations Model was used for the study. This was represented in the following model specification.

$$FIR = a \times b^{-1} \times m \times k \times e \times f \times v$$

Where:

$$a = (p + q + pq)^{-1} + 1$$

a is the average rate of growth @ current basic prices. It can further be broken down into the following;

q stood for real gross national product

p is the rate of changes in general price level

m is the monetization ratio

k is capital formation ratio

e represented new issues
f is the financial transfers
v is the effect of changes in prices
b is the capital output ratio

4. Results

The results and discussions on the above data are presented below and also in the appendix relates with the intent to achieve a reasonable leverage in the quest to move the nation forward. This will enable a level of capability required as scale economies being fallout of financial sectoral intervention. This is expected to bring about the required positive changes. The results showed that successive government had neglected the normal operational flow of the economy. The data collected revealed that from 1988 to 1999, the financial interrelation ratio was in a state of comatose. A fresh breath of live manifested between 1999 and 2000, thus, no meaningful financial changes was expected in the lives of Nigerians. On the other hand, the health of the financial institutions was not even guaranteed. This could have been responsible to a spate of bank failures the nation has experienced. It might also be a key factor to a continuous financial institutions' failure due to a faulty foundation in terns of poor or weak financial intermediation role and structure.

Correlation Coefficient (see Table 6 in the appendix)

Fir components	*p*	*q*	*b-1*	*m*	*k*	*f*	*e*	*v*
Correlation coefficient	*(0.69165)*	*0.019027*	*(0.49325)*	*0.486161*	*0.507058*	*0.848657*	*0.792705*	*(0.28761)*

Source: Central Bank of Nigeria Statistical Bulletin

In a nutshell, the above indicated that FIR is inversely related to price level changes. However, it was not inversely related to the growth rate in terms of the real national product labeled as q. The correlation is near negative. In essence, the capital output ratio is inversely related to the financial interrelations ratio (m) while the FIR is positively related to monetization ratio (m).

Both the capital formation ratio and new issues ratio constitutes a positive relationship to FIR. Thus, there exists a negative correlation between FIR and value adjustment (v) when compared with the position in literature.

The correlation coefficient in this work explained the relationship in terms of the instances earlier explained further strengthens the trend factors. Consequently, the general behavior of the financial inter relation ratio also determines the growth and development concept of the economy.

5. Discussion of Results

Raymond Goldsmith posit that the FIR should be within 1:1.5 in developed economy while it is usually within 0.6 : 1 in developing economies. Thus, the general findings in this work were at variance with the position of

Goldsmith in this regard. The positive index that characterized the banking capitalization programme in 2005 brought about positive impact on the FIR and as such enhances the level of financial development in the economy. From the records, it was crystal clear that the FIR was better the years between 2006 and 2008. This may likely be due to efficient operations as fallout of economic growth and development indicators.

The study highlighted the fact that ratios calculated in the early periods prior to 2002 were somehow below the standard for developing economies. In other vein, the ratios of 2002 to 2004 were in consonant with the position of Raymond Goldsmith in this regard. The predominance of deposit money banks in the Nigerian economy could have accounted for the trend of the ratio during this period of study. In addition, the emergence of other financial institutions such as pensions fund, insurance companies, savings and loan schemes and other relevant ones is of note. This probably brought out a reversal in the ratio of the asset compositions of banking institutions to that of non-bank financial institutions. In this instance, a firm impact is made on the FIR in the following period of time.

The results recorded between 1999 and 2000 implies that the democratic dispensation constitutes a major turn around for the FIR because the previous military regimes lacked the required focus for an enhanced economic flow and economic blueprint which is expected to jump-start the economy. It has been noted in literature that military regimes as an aberration has failed to help the nation advance in all sphere. This also impact significantly the economic growth and development position of the country.

However, the result above vividly showed why Nigeria has been experiencing growth in all economic indices but with no real development economically. It was in 2007 that the country achieved the peak in terms of financial inter-relations ratio (FIR) at 2.24 and this also nosedived significantly in 2008 to 1.99. This showed the attitude of the government in this regard. Thus, the inability to reflect on the economic development of the country and improved living conditions for the citizenry comes to the fore. In essence, we experienced economic growth in all economic indices but failed to convert such to economic development, since this did not reflect in the living conditions of the nationals. The FIR over the period covered did not follow a particular pattern; between 1999 and 2000, there was a slight sign of a positive turnaround or change and this slight change was not sustained because the FIR again dropped in 2003. From 2004 through 2007, it was an encouraging result and trend. After this, the fall crept in from 2008. The unstable position of the financial ratio indicated instability in the polity which became evident.

It could be inferred therefore that the banking sector still predominates in the economy and the negative effect of this control is the lack of circulatory tendencies with other sectors of the economy which invariably impedes growth and development within the framework of the economy. The total assets of the financial institutions were on the increase, deposits and number of other financial institution increase in figures. The population figure is on the increase also. In essence, financial development which is expected to move faster than economic development is being called to questioning such that the increase occurred at a decreasing rate.

In the light of the above, there are certain differences which were noted in the result and thus subjected to a critical discussion. Such factor as differential level of per capital income in which the minimum wage is less than one US dollar per day or in some instance per month is not good enough for the citizenry. In the light of this, our over reliance on external financing which turns such a nation to beggar nation and subject such to the whims and caprices of the lender. It is both insulting and a clog in the wheel of progress of a nation's financial and economic development.

In Nigeria of today, we import practically every item produced anywhere globally with our hard earned money and in this regard, the country has been be experiencing unfavorable balance of payment position in all its ramifications. The government's insincerity particularly in the areas of money and capital market development is not helping matters and as such the level of sound monitoring and control is absolutely nonexistent. The high cost of doing business in Nigeria has made all profitable firms in the country to relocate to other more friendly economy and this will create a negative effect on our earnings and product in the long run since in such a situation, the growth being experienced now will definitely be wiped -off if care is not taken.

6. Conclusion

This work has been able to provide a vivid illustration of the financial structure of Nigeria as an emerging market with the aim of bringing out the salient requirements relevant for this study . Thus, the ability to give a link to a forward movement as a nation becomes imperative. The ratio according to Raymond Goldsmith in to be in the range of 1 to 1.5 for developed and mixed economies and between 0.6 and 1.0 for developing economies like Nigeria. However, the FIR in Nigeria does not really follow a definite pattern and this could be attributed to the high level of imperfections in the financial system as earlier noted under discussion of findings.

7. Recommendations

1. A very sound and reliable supervisory framework that is trackable (i.e. capable of being improved upon) should be on ground at all times.

2. Creation and sustenance of an awareness process particularly in the money and capital markets as well as among all stakeholders in the form of early warning signals coupled with an efficient failure resolution system is imperative.

3. Build and operate a strong credit culture which is Information Technology based to reflect the global trends and best practices.

4. An efficient banking system thrives under a stable polity and this involves a virile and stable economy. This is not negotiable and must be sustained in Nigeria with selfishness syndrome being a thing of the past..

5. Transparency fairness and accountability in all facets of the economy must be held in high esteem by both the government, the governed and all other stakeholders.

6. All relevant business information must be released to the public at will so as to discourage situations of undue advantage over others due to the sensitive nature of the banking industry and the stock market as a pivot and barometer to the Nigerian

economy.

7. A very strong and operative legal framework devoid of manipulation must be put in place, enforced and sustained with no sacred cow.

8. All these will enable the positive indices to be turned to positive and an enhanced standard of living for the Nigerian people.

9. The genuine enforcement of the prudential guidelines by the regulators should be paramount. This will enable all flaws to be checkmated. It will therefore help the economy to advance positively for the benefit of all.

Appendix

Table 1: Financial Inter-relation Ratio Components

1999	01	3.02	.001	.001	1.2	.001	3.2	0.00
2000	0.83	0.012	.72	.024	.57	.15	.104	0.1
2001	0.58	.01	.18	.12	.49	0.1	.22	0.24
2002	0.94	.05	.64	.13	.47	.21	.5	0.6
2003	0.74	.04	.44	.12	.38	.77	.11	0.22
2004	6.8	.96	.06	.12	.49	.67	.2	0.9
2005	0.45	.97	.81	.2	.76	0.6	.24	1.3
2006	0.6	.97	.81	.81	.75	1.5	.12	2.22
2007	0.44	.97	.06	.09	.08	.23	.051	2.24
2008	0.45	.03	.49	.11	.77	.69	.176	1.99

Source: Central Bank of Nigeria

Table 2: Financial Indicators

Year	p%	q%	NNP	GNP	TGCE	New Issues	Fin Inst. Instr.	Non Fin Instr.	Cap. Form.	Equities	Total Fin Instr.
1990	13.3	4.4	220.3	269.4	219.5	301.8	1.2.9	224.3	291.1	17.2	322.1
2000	14.53	5.4	319.26	323.25	239.5	35.5	170.93	301.37	331.06	28.15	472.3
2001	16.49	4.6	327.79	330.88	438.7	38.0	218.66	443.84	372.14	57.65	662.5
2002	21.14	3.48	421.72	444.13	321.4	68.6	245.27	519.63	499.58	59.40	764.9
2003	23.84	10.24	471.73	489.88	241.7	185.0	374.06	985.24	549.54	113.88	1,359.3
2004	10.01	6.58	541.39	521.90	351.3	235.5	691.98	1,420.52	609.99	223.77	2,112.5
2005	15.00	6.51	552.31	536.66	519.5	295.8	1,250.17	1,649.33	640.49	254.68	2,900.1
2006	8.57	6.03	596.79	578.53	552.4	833.94	2,198.15	2,922.85	678.92	468.56	5,121.0
2007	6.56	6.45	675.87	654.57	759.3	1,700.0	6,909.13	6,391.47	719.65	1,074.88	13,294.6
2008	15.10	6.41	656.36	679.30	1,123.5	779.8	4,133.72	5,382.48	755.63	1,675.61	9,516.2

Table 4: Variance Chart of FIR Components

year	a	b-1	m	k	f	e	v	FIR
1999	+	-	-	-	-	-	-	-
2000	-	-	+	+	-	-	+	+
2001	-	+		+	-	+	+	+
2002	-	-	-	-	-	+	-	-
2003	+	+	+	-	-	-	+	+
2004	-	+	+		+	-	+	+
2005	+	-	+	+	+	+	-	+
2006	+		+	-	+	+	-	+
2007	-	+	-	+	-	-	+	-
2008	-	+	+	-	-	-	-	+

Table 6: Correlation Coefficients of FIR Components

FIR Components	p	q	b-1	m	k	f	e	v
Correlation Coefficient	(0.69165)	0.019027	(0.49325)	0.486161	0.507058	0.848657	0.792705	(0.28761)

ILLUSTRATION A - KEY:

FIR = a x b $^{-1}$ x m x k x e x f x v

Where:

a= (p + q + pq) $^{-1}$ + 1

a is the average rate of growth @ current basic prices. It can further be broken down into the following;

q stood for real gross national product

p is the rate of changes in general price level

m is the monetization ratio

k is capital formation ratio

e represented new issues

f is the financial transfers

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