GOVERNMENT REGULATIONS AND SURVIVAL OF GLOBAL FIRMS IN NIGERIA (1990-2014)

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ABSTRACT

Government regulations on interest rate have caused many banks from having good investments in Nigeria. Interest rate price ceiling and absence of harmonization have prevented businesses from growing as expected. It becomes necessary to reflect on the influence of government regulations on the survival of global firms in Nigeria. This study specifically examines the extent to which interest rate affects banks investment with particular reference to First Bank Nigeria Plc and United Bank for Africa Plc. Diagnostic survey research design was used in this study. Time series data were obtained from CBN statistical bulletin, journals, and publications from First Bank Plc and UBA Plc. Data were analyzed using the ordinary least square method for regression. The finding of the study showed that interest rate has a negative influence on investment. The study concluded that regulation of interest rate has significant negative effects on banks operations and global firms investments. It therefore recommended that banking laws, rules and regulations should be harmonized by the Committee of Banking Supervisory Authority (CBSA) for adoption and implementations by all licensed banking institutions. The CBSA which should have an administrative secretariat should meet more frequently to ease the growth of banks in Nigeria.

Keywords: Government Regulations, Global Firms, Interest Rate, Bank Investment, Nigeria.

INTRODUCTION

Background of the Study

We are living in a boundary-less global world where individuals, groups and organisations from different countries interact economically, politically, socially, culturally and otherwise. It becomes inevitable that for any organization to stand firm there must be rules and regulations guiding its operations. In Nigeria, federal, state and local governments create these rules and regulations in which organisations are able to compete against one another. Business is thus affected by rules and policies formulated by government. One of the key areas of government policy that affect business is interest rate regulations. Regulation is the rule of order having the force of law prescribed by a superior or competent authority. It refers to rules or norms adopted by government and backed up by some threat of consequences. The goal of regulatory policy is to help institutions become stronger players in a manner that will ensure longevity and hence higher returns to the shareholders over time as well as greater impacts on the Nigerian economy (Soludo, 2004). Government imposes regulations on public firms, private firms and individuals as a necessary requirement to achieve government's purposes. These necessary requirements among others include better and affordable goods and services, promotion projection and protection of existing firms from fair and unfair competition.

Banking sector regulations are propelled by the need to deepen the financial sector and reposition the economy for growth, to become integrated into the world capitalist system as well as to promote international best practices. Global firms such as the banking sector operate in a country's regulated environment. The outcome of such regulations could be favorable or

unfavorable at various situations. Government regulates various sectors of the economy through various institutions established to handle such specific purpose.

In Nigeria, the federal government through the Central Bank of Nigeria (CBN) lay out the goals of monetary policy. It specifies that, in conducting monetary policy, the CBN should seek “to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.” Interest rates and inflation usually work in tandem. Interest rates tend to rise when inflation goes up and fall when it comes down. Global firms need to understand why that happens in order to make critical decisions of whether to borrow money, plan to pay back loans and anticipate whether the cost of funds is going to become more expensive. In Nigeria, interest rates are decided by the CBN. They set short-term interest rate targets. Interest rates directly affect the credit market (loans) because higher interest rates make borrowing more costly. By changing interest rates, government tries to achieve maximum employment, stable prices and a good level growth. As interest rates drop, consumer spending increases and this in turn stimulates economic growth. The banking sector in any economy serves as a catalyst for growth and development. Banks are able to perform this role through their crucial functions of financial intermediation, provision of an efficient payments system and facilitating the implementation of monetary policies. The banks of focus which are First Bank Nigeria Plc and United Bank for Africa are not an exemption as they contribute to the banking sector growth rate. It is not surprising therefore, that government all over the world attempt to evolve an efficient banking system, not only for the promotion of efficient intermediation, but also for the protection of depositors, encouragement of efficient competition, maintenance of public confidence in the system, stability of the system and protection against systemic risk and collapse as put by (Iyade 2006, Toby 2007, Soludo 2007, Somoye 2008).
The banking subsector in Nigeria is generally viewed as being complex and uncertain. According to Idemobi (2012), banking sector recorded forty-five (45) banks with varying minimum paid-up capital for merchant and commercial banks. The number of banks increased to fifty-four (54) from 1979-1987. The number of banks rose to one hundred and twelve (112) from 1988 to 1996 with substantial varying increase in the minimum capital. The number of banks dropped to one hundred and ten (110) with another increase in minimum paid-up capital and finally dropped from 89 as at end of 2003 to twenty-five in 2006 with a big increase in minimum paid-up from two billion naira in January 2004 to twenty five billions in July 2004. As at the end of 2010, the number of banks licensed to practice in Nigeria stood at 24. Thus government regulation as they relate to banking industry faces big problems, such as meeting up with recapitalization policy, interest rates price ceiling, absence of harmonization and coordination of monetary policy .

In First Bank Nigeria PLC and United Bank for Africa, government regulations on interest rate have caused the banks from having good investments, due to high circulation of money which brings about inflation and this inflation attracts high cost of goods and services. Government coming in to regulate this inflation increases interest rate in order to stabilize the economy and this stabilization policy affects banks operations; such that investors who borrow large amount money now go for smaller amount in order to meet up with interest rate that is attached to it. Business executives argued that the amount of new regulation is one of the problems preventing them from growing. Interest rate and lending rates is an important economic price. This is because whether seen from the point of view of cost of capital or from the perspective of opportunity cost of funds, interest rate has fundamental implications for the economy. By either impacting on the cost of capital or influencing the availability of credit, by increasing savings, it is known to determine the level of investment in an economy. This study therefore seeks to determine the extent to which interest rate affects investment of banks in Nigeria.

Objectives of the Study

The broad objective of the study is to examine the extent of government regulations on the survival of global firms in Nigeria. The specific objective is to examine the extent to which interest rate influence investment of banking firms in Nigeria.

Research Question

To what extent does interest rate influence investment of banking firms in Nigerian?

Hypothesis

H1: Regulation on interest rate significantly influences investment of banking firms in the Nigerian.

Scope of the Study

The study assesses regulatory policy of government and the survival of global firms with a focus on First Bank Nigeria Plc and United Bank for Africa Plc (1990 to 2014). The content scope is delimited to examining the extent to which interest rate influence the investment of banks in Nigeria.

REVIEW OF RELATED LITERATURE

Conceptual Review

Regulation

The concept of regulation has been viewed by many scholars from different perspectives. Vitas (1990) defines regulation as the legal and administrative rules created, applied and enforced by state institutions – at local, national and supra-national level – that both mandate and prohibit actions by individuals and organizations, with infringements subject to criminal, civil and administrative penalties. This definition implies that regulation is a necessary condition for sustaining market economy especially in this era of globalisation. A good regulation and supervision will most likely minimize the negative impact of moral hazards and interest rate fluctuations on the banking system. Regulation of banks in the views of Llwellyn (2000) is a body of specific rules or agreed behaviour either imposed by government or other external agency or self imposed by explicit or implicit agreement within the industry that limits the activities and business operations of banks. Banking regulation has two major components: it includes the rules or agreed behaviors; and the monitoring and scrutiny to determine safety and soundness and ensure compliance. Bench (1993) asserts that effective supervision of banks leads to a healthy banking industry, thereby leading to a reduction in bank failures and banking system distress. Supervision is the process of monitoring banks to ensure that they are carrying out their activities in a safe and sound manner and in accordance with laws, rules and regulations. It is a means of determining the financial condition and of ensuring compliance with laid down rules and regulations at any given time.

Thayer (2000) posits that regulation imposes a degree of control for business, which keeps it from excesses that could ultimately lead to the destruction of our capitalist economy. The competitive pressures of a largely unregulated economy invite unethical behavior. They cause decent, responsible and well-intentioned business people to engage in socially negative practices that they may find personally unpalatable. Robert (1987) argues that regulations are issued by

various federal government departments and agencies to carry out the intent of legislation enacted by Congress. Administrative agencies, often called "the bureaucracy," perform a number of different government functions, including rule making. The rules issued by these agencies are called regulations and are designed to guide the activity of those regulated by the agency and also the activity of the agency's employees. Regulations also function to ensure uniform application of the law. Coen & Heritier, (2005) and Thatcher, (2005) submitted that the regulatory complexities with the business environmental regulations appear to create difficulties for potential entrants.

Interest Rate

Bonn (2005) views interest rate as a rate which is charged or paid for the use of money. An interest rate is often expressed as an annual percentage of the principal. Interest rates often change as a result of inflation and Federal Reserve Board policies. Burton (2008) defines interest rate as a rate at which interest is paid by borrowers (debtors) for the use of money that they borrowed from lenders (creditors). Specifically, the interest rate is a percentage of principal paid a certain number of times per period for all period during the total term of the loan or credit. Interest rates are normally expressed as a percentage of the principal for a period of one year. Sometimes they are expressed for different period such as a month or a day. Smith (2004) views interest as the price a borrower pays for the use of money he does not own, and has to return to the lender who receives for deferring his consumption, by lending to the borrower. Interest rate can also be expressed as a percentage of money taken over a period of one year. Interest rate is the rental payment for the use of credit by borrowers or the return for parting with liquidity by lenders. An interest rate is a price and like other prices, it performs a rationing function by allocating the limited supply of financial resources (Onwumere, 2011).

Interest can also be defined as the return or yield on equity or opportunity cost of deferring current consumption into the future (Uchendu, 2013). These varying definitions clearly show that interest is a concept which can mean different things for different people or a group depending from the perspective it is viewed. In Nigeria, interest rate decisions are taken by the Central Bank of Nigeria. The benchmark interest rate in Nigeria was last recorded at 13 percent. Interest Rate in Nigeria averaged 9.86 percent from 2007 until 2015, reaching an all time high of 13 percent in November of 2014.

Investment

Graham (2014) viewed investment as one which, upon thorough analysis promises safety of principal and an adequate return. Investment Management is the process of managing money, including investments, budgeting, banking and taxes. Fredrick (2011) posits that investment is to invest money in financial physical assets and Marketable assets. He further identified major investments features as risk, return, safety, liquidity, marketability conceal ability, capital growth, purchasing power, stability and the benefits. Many areas of investment exist for which Nigeria can benefit and at the same time contribute to the development of Africa. In the agricultural sector, Nigeria is looking for investors in the processing of produce, like cassava, for the export market. In the energy sector, they are looking for investors in electricity generation. The banking sector is another major growth area for investment. Changes in policy by the Central Bank of Nigeria requiring each commercial bank to attain N25 billion (US$185 million) capitalization by December 2005 has driven banks to mergers and increased stock exchange activity.

Regulatory/ Supervisory Role of the Central Bank of Nigeria

Finance and banking activities are governed by rules and regulations which are reviewed from time to time to reflect the changing economic environment. The major regulatory/supervisory authorities are the Federal Ministry of Finance (FMF), Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM), Federal Mortgage Bank of Nigeria (FMBN), and the National Board for Community Banks (NACB). The CBN is at the apex of all banking institutions operating in the money market and has responsibility for controlling and supervising all financial institutions (commercial, merchant and community banks, the People's Bank, finance companies, discount houses, primary mortgage institutions, bureau de change, and all development banks). This role has significantly influenced the development of the financial system, especially the money and capital markets. The CBN's regulatory/supervisory role for commercial and merchant banks is complimented by the Nigerian Deposit Insurance Corporation (NDIC).

The CBN in April 1994 under took to facilitate a formal framework for the co-ordination of regulatory and supervisory activities in the Nigerian financial sector by establishing the Financial Services Coordinating Committee (FSCC) to address more effectively, through consultations and regular inter-agency meetings, issues of common concern to regulatory and supervisory bodies. On 27th May, 1994, the name of the Committee was changed to Financial Services Regulation Coordinating Committee (FSRCC). The Committee was accorded legal status by the 1998 amendment to Section 38 of the CBN Act 1991 and formally inaugurated by the Governor of the CBN in May 1999.

The supervisory function of CBN is structured into four departments: Financial Policy and Regulation Department; Banking Supervision Department; Other Financial Institutions Supervision Department; Consumer Protection Department. Financial Policy and Regulation department develops and implements policies & regulations aimed at ensuring financial system stability. It also licenses & grants approvals for banks and other financial institutions. Banking Supervision Department carries out the supervision of Deposit money banks and Discount houses while Other Financial Institutions Supervision Department supervises other financial institutions.

Theoretical Framework

This study is anchored on Neo Kaynesian/modern theory of interest rate by Hicks-Hansan (1986) which states that the intersection of the investment/savings (IS) and liquidity preference/money (LM) curve determines the interest rate i.e. the changes (shift) in the IS curve or changes in the LM curve or both and their respective positions determines the equilibrium of interest rate accordingly. The IS curve which denotes equilibrium in the real sector shows the various contributions of the level of income and interest rate at which there is equilibrium between aggregate real savings and real investment. On the other hand, the LM curve denote equilibrium in the monetary sector which shows the various contribution of the levels of income and interest rate corresponding to which the supply of and demand for money are in equilibrium. LM curve may be interest inelastic at high income level and interest elastic at low income level. Income and interest rate are determined together at the point of intersection of these two curves. This theory is relevant to this study, in the sense that increase in interest rate will affect banks investment which will in turn reduce the loanable funds required by investors.

Empirical Review

Many scholars/researchers have investigated government regulation and survival of global firms using different approaches. Iyade (2006) conducted an empirical analysis of the impact of regulation and supervision on the activities of Nigerian banks with emphasis on the role of the Central Bank of Nigeria and the Nigerian Deposit Insurance Corporation. The result of the analysis showed that the supervisory and regulatory framework of the Central Bank of Nigeria and the Nigerian Deposit Insurance Corporation are not sufficient to guarantee effective banking practices in Nigeria.

Chirwa (2003) investigated the relationship between government regulation and profitability of commercial banks in Malawi using time series data between 1970 and 1994. They used time-series
techniques of co-integration and error-correction mechanism to test the hypothesis to find out whether a long-run relationship exists between profits of commercial banks and concentration

in the banking industry. Chirwa (2003) provided definition, measurement and descriptive statistics for the variables which are used in his regression analysis. He concluded that a long-run relationship exist between profitability and concentration, capital-asset ratio, loan-asset ratio, assets, demand deposits-deposits ratio, market deposits and market growth, in commercial Malawian banks. The relationship between commercial bank profits and concentration is positive and its coefficient is statistically significant at the 5% level in all specifications. The results show that a long-run relationship exists between profitability and market structure in Malawian banking. The hypothesis is strongly supported by the positive and significant relationship between commercial bank profitability and government regulation in Malawi.

Alao (2010) examined the relationship between government regulation and performance in the banking sector using data from Nigerian commercial banks. A sample of 20 scheduled commercial banks operating in Nigeria was used. He examined the relationship using annual and pooled data for a period of 9 years from year 1996-2004. Three measures of bank's performance were utilized: return on assets (ROA), return on capital (ROC) and return on equity (ROE). They used concentration ratio (CR) to measure structure-conduct-performance (SCP) hypothesis and market share to measure efficient-structure (E-S) hypothesis. They also used control variables to capture market specific characteristics such as bank size, market size, risk to owners, liquidity measure, market risk, and market growth. Using regression analysis, they found a positive relationship between concentration ratio (CR) and profitability while market share (MS) which is used for efficient structure (E-S) hypothesis yielded a negative relationship with profitability. In the light of these results, they concluded that there is a positive relationship between profitability and concentration implying that government regulation affects the profitability in Nigerian commercial.

Balogun (2007) reviewed the perspective of banking sector reforms since 1970 to date and noted five eras of banking sector reforms in Nigeria, viz.: Pre-SAP (1970-85), the Post-SAP (1986-93), the Reforms Lethargy (1993- 1998), Pre-Soludo (1999-2004) and Post-Soludo (2005-2006). Using both descriptive statistics and econometric methods, three sets of hypothesis were tested and the empirical results confirm that eras of pursuits of market reforms were characterized by improved incentives. Also while growth was stifled in eras of control, the reforms era was associated with rise in inflationary pressures. Among the pitfalls of reforms identified by the study are faulty premise and

wrong sequencing of reforms and a host of conflicts emanating from adopted theoretical models for reforms and above all, frequent reversals and/or non-sustainability of reforms.

Soludo (2004) conducted an empirical analysis of the impact of regulation and supervision on the activities of Nigerian banks with emphasis on the role of the Central Bank of Nigeria and the Nigerian Deposit Insurance Corporation. The results of the analysis showed that the supervisory and regulatory framework of the Central Bank of Nigeria and the Nigerian Deposit Insurance Corporation are not sufficient to guarantee effective banking practices in Nigeria. Duke and Yingnian (2006) conducted an analysis on determinants of long-term interest rate in US economy. The data examined in this paper suggest that there is a highly uniform pattern between short- and long-term interest rates in general. The result of the analysis shows that short-term have a significant influence on long-term horizon of investors traders other market participants may be shorter than that suggested in academic literature.

Neely and Rapach (2008) conducted an analysis on real interest rate persistence. The study adopted a survey design. The finding shows persistence in real interest rate. It concludes that real interest rate appears to display long-memory behaviour; shocks are very long lived, but the real interest is estimated to be ultimately mean reverting. Akinlo and Owoyemi (2012) studied the determinants of interest rate spread in Nigeria. Using a panel of 12 commercial banks for the period 1986-2007. Interest rate spread equations were estimated using bank balance sheet and income statement as well as macroeconomic data. The result suggest that cash reserve requirement, average loans to average total deposits, remuneration to total assets and gross domestic product have positive effect on interest rate spreads.

Adeyeye and fajembola (2006) studied the impact of interest rate policy on economic growth in Nigeria (1970-2003). Hypotheses were formulated to determine the direction of causality between savings and economic growth. The study adopted ordinary least method for data analysis. The study reveals that financial savings as well as bank loan were negative but significantly related to gross domestic investment suggested that real interest rate policy cannot be used to promote investment and economic growth. Abala (2014) conducted an analysis on foreign direct investment and economic growth. The result of the study shows that FDIs in Kenya are mainly market-seeking and these require growing GDPs, political stability and good infrastructure, market size as well as reduction in corruption levels. The prevalence of crime and insecurity would be impediment to FDI inflow. Kayode, Babatunde and Abiodun (2013) reviewed an empirical analysis of transport infrastructure investment and economic growth. The finding of the study suggested that transportation is insignificant in determining economic growth in Nigeria

Summary of Reviewed Literature

From the empirical work reviewed, a number of studied have been carried out on interest rate such as lending rate, short-term rate ,deposit rate but no research have been carried out on how interest rate affects banks investment from the reviewed literature. It was observed that, some scholars such as Neely and Rapach (2008), Duke and Yingnian (2006), Akinelo and Owoyemi (2006) emphasized much on short-term rate, real interest rate, average loans and giving less attention to financial measures such as how interest rate affects investment. In order to bridge the gap, the study examined the extent to which interest rate influence investment of banks with particular reference to First Bank Nigeria Plc and United Bank for Africa.

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METHODS

Research Design

Diagnostic survey design was employed for this study so as to establish the linkage between the variables. This was also necessitated because of the use of secondary data and prolonged period involved in the study (Solomon Bekure, 1983).

Method of Data Collection

The study used secondary data sourced from journals, textbooks , Central Bank statistically bulletin, and publications of different banking operators such as First Bank Plc and UBA Plc.

Method of Data Analysis

The ordinary least square (OLS) regression method was adopted in analysing the statistical data. This facilitated in establishing the association between the dependent variables and independent variables .The statistical software package used for analysis is E-VIEW 7.

Model Specification:

Interest rate equation

Model estimation for the impact of regulations of interest rate on the investments of banking firms is as follows:

INVT = f (INTR) et……. ……………..…………..(1)

LnINVT= a0 + a1INTR+ et……………………… (2)

Where:
a0 – a1 = parameter estimates / parameter structure et = stochastic or error term or white noise
LnINTR = log of Interest Rate

LnINVT= log of Investment

Table 3.1: First Bank Nigeria Plc and United Bank for Africa Plc. Data for Interest Rate and Investments from (1990 – 2014)

Year	INTR (of savings)	INVST (inward/outward of GDP)
1990	12	27.1
1991	15	32.1
1992	15	36.6
1993	19.0	41.7
1994	19.0	36
1995	19.0	17.8
1996	29	14.3
1997	33	14.5
1998	37.5	15.4
1999	37.0	57.1
2000	29	45.6
2001	33.2	49.1
2002	33.2	38.6
2003	24.12	35.5
2004	27.0	28.6
2005	25	16.2
2006	19.6	14.6
2007	19.8	15.1
2008	19	14.8
2009	20.9	21.5
2010	26.18	17.4
2011	7.96	17.9
2012	13.24	17.9
2013	17.12	17.4
2014	19	16.9

Source: CBN Statistical Bulletin (various issues).

National Bureau of Statistics (various issues).Online Publications.
Dependent Variable: INVST

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Method: Least Squares

Date: 24/11/15 Time: 00:10

Sample: 1990- 2014

Included observations: 24

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	29.7000	0.3242	0.2742	0.065
INVST	0.6800	0.2400	1.6612	0.64

R-squared	0.4624	Mean dependent var	0.3492
Adjusted R-squared	0.2263	S.D. dependent var	0.42537
S.E. of regression	0.2342	Akaike info criterion	5.187605
Sum squared resid	0.6966	Schwarz criterion	5.431381
Log likelihood	-59.84507	Hannan-Quinn criter.	5.255218
F-statistic	5.850999	Durbin-Watson stat	1.575250
Prob(F-statistic)	0.002758		

	INTR	INVST
Mean	0.2312	0.6823
Median	0.1947	0.3413
Maximum	0.0553	0.6587
Minimum	0.1553	0.239
Std. Dev.	4.7688	0.4617
Skewness	1.346419	0.248023
Kurtosis	3.624701	2.195899
Jarque-Bera	7.960027	0.929835
Probability	0.074	0.6231
Sum	5.4793	3.0061
Sum Sq. Dev.	30.0227	9.0366
Observations	24	24

DISCUSSION OF FINDINGS

The regression equation shows that INVST = 29.7 – 0.68INTR. This means that interest rate has a negative influence of 68% on investment. It signifies that increase in interest rate will reduce investment. The coefficient of R – Square (R^2) shows that interest rate has -0.4624 indicating a negative relationship with investment and adjusted. R^2 is -0.2263 indicates a negative influence of interest rate on banks survival in Nigeria. The result of this study is in line with the findings of Neely and Rapach (2008) that real interest appears to display long-memory behaviour; shocks are very long live that affects investment and reverts the progressive economic activities in an economy. The value of Durban Watson statistics (1.575250) is greater than the R^2 (-0.2263) .There is no case of autocorrelation in the model and the result is respectable.

SUMMARY OF FINDINGS

The result from the analysis shows that interest rate negatively influence investment at (-0.68) and the coefficient of R^2 shows that interest rate has a negative influence on investment of banks .The value of Durban Watson statistic of (1.575250) shows that the result is not impressive in forecasting the determination of interest rate on investment of banks. This shows that;
(1)Regulation on interest rate affects banks investment in Nigeria.
(2) Depositors' confidence in the banking system increases as savings and investment potentials of banking firms improves.
(3) The Supervisory and Regulatory activities of the CBN have impacted positively on the pricing of banks' products .
(4) Effective regulations and supervisions of the CBN would boost the volume and the value of
transactions witnessed in the Nigerian banking industry.
(5)The repeated infractions on regulatory and prudential guidelines by banks can lead to a
loss of the operating banking license by the offending banks

CONCLUSION

Without regulation most economies simply will not function effectively. Hence, we conclude that effective regulations and supervisions by CBN would boost the volume and value of transactions witnessed in the Nigerian banking industry . Depositors' confidence in the banking system increases as savings and investment potentials of banking firms improves. The Banks and Other Financial Institution Act (BOFIA) and the Central Bank of Nigeria Act of 1979 are themselves sufficient as tools in the hands of the regulator to effectively regulate the banking sector

RECOMMENDATIONS

Based on the findings of this study, the following recommendations are proposed:

1)Banking laws, rules and regulations should be harmonized by Institutionalising Committee of Banking Supervisory Authority (CBSA). The CBSA which should have an administrative secretariat should meet quarterly to take vital decisions that, if not more frequently and this would ease growth of banks in Nigeria.

2) The Institutionalised CBSA to which all banking supervisory authorities should belong, should be empowered to stipulate minimum rates standards which banks can charge and such harmonized prudential standards should be binding on all financial institutions.

3) Other recommendations include the enforcement of effective monitoring of bank returns and Enforcement of stringent minimum standards for the ownership and management of banking institutions.

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