**ABSTRACT**

The resultant impact of financialliberalization opened up the Nigerian economy to global financial markets,which has generated increasing apprehension in the economy and has exposed thefragility and vulnerability of the financial system. It is therefore imperativefor the central Bank of Nigeria to introduce measures that will reduce theexposure and enhance the stability of small business in the nation's financialsystem. A defensive measure that will strengthen the existing banks and stillprovide small businesses with financial facilities and services is what isreally needed. This study investigated the impact of previous recapitalizationin the banking system on the performance of some selected small businesses inthe country with the aim of finding out if the recapitalization is of anybenefit. The study employed both primary and secondary data obtained fromresponses gotten from banks, investors, government public, and customers. Thedata were analyzed using both descriptive e.g. means and standard deviationsand analytical techniques. It was found that the mean of key profitabilityratio such as the yield on earning asset, Return on equity and Return on Assetwere significant meaning that there is statistical difference between the meanof the bank before 2001 recapitalization and after 2001 recapitalization.Thestudy recommends that the banks should improve on their total assets turnoverand to diversify their funds in such a way that the can generated more incomeon their assets, so as to improve their return on equity. As a result of thefindings, recommendations were made and some of them are:Recapitalizationshould be sustained until Nigerian banks are among the first 100 banks in theworld. Standard regulations should be enacted in order to control banksservices to prevent exploitation tendencies various types of competitionsshould be stimulated thereby pushing Nigerian banks towards global trends.

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# CHAPTER ONE
# INTRODUCTION

## 1.1BACKGROUND OF THE STUDY

Over the years, the Nigerian economy is facedwith national and global economic challenges and as such, the financialinstitutions, especially the banking sector has an option of sanitizing andrestructuring its operational processes in order to survive the depressedeconomy, as well as embarking on a consolidation exercise which would have somewider structural effects on the industry and on the economy as a whole. Uboh(2005) set the pace for the landslide of other works on the interdependent andthe relationship between banks and economic growth. Also, Imala (2005) positedthat the objectives of banking system are to ensure pure stability andfacilitate sustained rapid economic development.

Basically, banking is a service industryoperated by human beings for the benefit of the general public while makingreturns to the shareholders. As such, it is natural that the services providedthereof by the industry cannot be 100% efficient; however, there is always aroom for improvement. The banking sector in the third world economies has beengrossly under managed when compared with their counterparts in the developedcountries of the world. This has made it imperative for Nigerian banks tosanitize and restructure their operational processes so as to be in line withthe global trends, and to survive the depressed economy. Thus, this has led tothe recapitalization of banks.

Before the introduction of StructuralAdjustment Programme (SAP) in 1986, the banking sector was characterized by fewbanks. The operators of these banks had almost total control of the business ofbanking as customers had to look for their services which most of the timeswere of poor quality.

The managers, because of the pressure toprovide banking services, had little time to market their bank services ordesign new products to improve their customers' service and at the same time,they received changes based on the approved tariff. Competition was minimal andcustomers could spend long hours trying to obtain service in the banking halldue to long queues.

Prior to the 2004/2005 recapitalisationexercise, the Nigerian banking sector was highly oligopolistic with remarkablefeatures of market concentration and leadership. Under the recapitalization andconsolidation exercise in the industry, each licensed bank was expected to meetup with the new minimum capitalization requirement of =N=25 billion on asolo-basis or achieve that either through merger with others or acquisition of others.
The banks were encouraged to enter intomerger/acquisition arrangements with other relatively smaller banks thus takingthe advantage of economies of scale to reduce cost of doing business andenhance their competitiveness locally and internationally.
According to the former governor of theCentral Bank of Nigeria (CBN), Prof. Charles Soludo, recapitalisation of theNigerian Banking Sector was necessitated by the high concentration of thesector by small banks with capitalization of less than $10 million, each withexpensive headquarters, separate investment in software and hardware, heavy fixedcosts and operating expenses, and with bunching of branches in few commercialcenters – leading to very high average cost for the industry (Soludo, 2004).The fragile
state of the Nigerian Banking Sector in thepre- recapitalization exercise is so bad that, only ten banks (10) out of theeight-nine (89) in operation accounted for 51.9% of total assets, 55.4% oftotal deposit liabilities, and 42.8% of total credit (CBN, 2004). The rating ofthe licensed banks in operation, using the CAMEL parameters, revealed that ten(10) banks were “sound”, fifty-one (51) were “satisfactory”, sixteen (16) wererated “marginal” and ten (10) banks were rated “unsound” in 2004 (CBN, 2004).
However, the performance of banks since 2001exhibited a deteriorating trend as the number of “satisfactory” banks declinedsteadily from 63 in 2001 to 51 in 2004. In the same vein, the number of banksthat were “marginal” increased from 8 in 2001 to 16 in 2004. “Unsound” banksalso increased from 9 in 2001 to 10 in 2004. The marginal and/or unsound banksexhibited such weakness as undercapitalization, illiquidity, weak/poor assetquality, poor earnings etc (CBN, 2004; Soludo, 2004).
The CBN reform to consolidate the bankingsector through drastic increase of the minimum capital base of commercial banksfrom =N=2 billion to =N=25 billion in 2005 led to a remarkable reduction innumber of banks. Immediately after the recapitalization deadline ended inDecember 31st, 2005, the number of operating banks in the country reduced from89 banks to 25 banks but later reduced further to 23 banks with the merger ofsome banks like First Altantic Bank Plc and Inland Bank to form Fin Bank Plc,
Stanbic Bank Limited and IBTC Chartered BankPlc to form Stanbic-IBTC bank Plc. The number of operating bank later increasedto 24 banks with the entering of Citibank
Nigeria Limited. With the recent merger andacquisition of some of the nine rescued banks i.e. the merger of Access BankPlc with Intercontinental Bank Plc; merger of
Ecobank Transnational Incorporated withOceanic Bank Plc; merger of First City Monumental Bank with Fin Bank Plc, thenumber of banks operating in Nigeria has been reduced further. Sixteen banks(16) that were operating in the banking sector before recapitalization and alsomet the N25 billion minimum requirements shall be studied.
However, in August 2011, the CBN revoked thelicenses of three of the rescued banks for failing to show ability torecapitalise ahead of the September 3 2011 deadline, effectively nationalizingBank PHB, Afribank and spring Bank. The assets of these banks were transferredto three newly created, nationalised banks; keystone Bank, Enterprise Bank andmainstreet bank. Assets management company of Nigeria(AMCON) which took overthe banks also injected N680 billion to recapitalise the banks. Unity Bank plc,one of the bailed out banks has already recapitalised while wema Bank plc, thelast of the rescued banks, has since scaled down operations to become aregional bank with emphasis in the south west region.
The post-recapitalization performance of allNigerian banks was overcast in 2008 by the global financial and economiccrisis, which was precipitated in August 2007 by the collapse of the sub-primelending market in the United States (Bunescu, 2010). The crisis led to thecrash of most other sectors and markets across Europe with consequent effect ondeveloping

economies especially oil-export dependent countries like Nigeria.The rush by stock investors to liquidate their investment to repay their loansin order to avoid the excessive lending rate caused the Nigerian stock marketto crash. The crash of the stock market did not only affect the financialperformance of some of the banks, it also increased their risk exposure. Sanusi(2010) attributed the post-recapitalization challenges of Nigerian bankingindustry to the inability of the industry and the regulators to sustain andmonitor the sector's explosive growth which as a result led to risk-build inthe system.

According to Sanusi (2010) the reports of thespecial examination team carried out by CBN/NDIC revealed that nine (9) out ofthe 24 (twenty four) banks were in grave situation, prompting immediateintervention by CBN. The reports further revealed that non-performing loans inten banks totaled =N=1,696 billion, representing 44.38% of total loans whilethe Capital Adequacy Ratio in the ten banks ranged between -1.01% and 7.41%,which were below the minimum ratio of 10%. This statistics portrays a fragile bankingsystem. It is therefore necessary to conduct a study of this nature to evaluatethe =N=25 billion recapitalization exercise in Nigerian banking sector in termsof the financial performance of the commercial banks.

## 1.2 Statement of the Problem

The recapitalization of banking sectors isalso an evidence of transformation as to achieve economic growth in Nigerian.Evidence has shown that the Nigerian economy is undergoing severaltransformations. With the 2005 recapitalization policy mandated on banks inNigeria, the various effects from structural changes in unemployment, interestrate and population can be noticed in the economy. The service of banking issupposed to be hinged on the effective satisfaction of both the surplus unitsand the deficit units of the economy. The quality of banking is based on themanner and the environment in which such services are rendered. Quality servicein banking must meet three basic requirements namely; competence reliabilityand credibility.

For banks to be able to function effectivelyand maintain high efficiency level in the economy and to contributemeaningfully to the economic growth and development of a country, then theindustrial sector must be safe, sound and stable, being devoid of any economicproblem that can tilt it off the rail of achieving its primary duty ofsatisfaction, such as distress. In all indication what we are experiencing andwitnessing in this country today is a far cry from the ideal state of stabilityexpected. Due to inflation and the general socio-economic decline and politicaluncertainties around us which have taken a large toil on the banking industry.

Many banks have suffered from loss ofbusiness and this has resulted to loss of income.

The banks were unable to pay customers ondemand due to non-availability of liquid cash, thus, the loss of confidence inthe banking industry by the public. The above problems has necessitated theneed to carry out this study.

## 1.3 Objectives of the Study

The main aim of the study is to criticallyreview the 2005 bank recapitalization policy, and bring out the total effectsthe policy has had on the economy of Nigeria. The specific objectives of thestudy are:

1. To determine the effect of the bank recapitalizationpolicy on unemployment before and after recapitalization.
2. To examine the circumstances that gaverise to the 2005 bank recapitalization.
3. To analyse the impact of the 2005recapitalization policy on interest rate changes and loan to small businessenterprise before and after the recapitalization exercise.
4. To examine how the recapitalizationexercise brought changes to GDP economic growth in Nigeria before and afterrecapitalisation.

## 1.4 Research Questions

1. To what extent has the bankrecapitalization policy affect unemployment in Nigeria before and after therecapitalization policy of 2005?
2. What circumstances gave birth to the needfor the 2005 recapitalization policy on Nigerian banks?

3. Have the 2005 recapitalization policy haspositively significantly influence changes in interest rate and loan to smallbusiness enterprise before and after recapitalization?

4. Recapitalization of bank has notpositively significantly affected GDP?

1.5 Research Hypotheses

In order to arrive at a result the followinghypotheses will be tested

1. H0: The bank recapitalization policy of2005 has not significantly enhance unemployment rate in Nigeria.
2. H0: The bank recapitalization policy of2005 have no significant impact on the interest rate changes in Nigeria.
3. H0: The bank recapitalization policy of2005 have no significant impact on the increase in commercial banks' loan toSMEs in Nigeria.
4. H0: The Bank recapitalization has not ledto increase economic growth GDP

1.6 Significance of the Study

This study is very beneficial to thefollowing:

– The federal government is making policiesthat will benefit the economy. It will help formulate similar policies in othersectors of the economy by emphasizing the need for prudence in using loans.

– The CBN in better articulation of thepolicies that can improve the banking profession.

– The international community of investors inhaving faith in the Nigeria's economy.

– The local economy in improving investmentand eradication poverty at the long run.

The significance of the research is based onthe fact that the role of financial institutions in general and banks inparticular on the economic stability, wellbeing and development of any society cannot be overlooked and as such, Banks, investors, government public and customer theseinstitutions must be stable and operating well for economic development ofany society. It is in this effort that the federal government of Nigeriaintroduce the 2005 recapitalisation policy in its annual budget in order to stabilise theindustry and eradicate the long existing distress problems in our bankingindustry.

The recapitalisation policy has a lot tooffer as regards the promotion of the banking industry and the economy, butmost banks are frowning at the policy because of the obstacles concerning banks implementation ofthe policy but if proper measures are taken this could eliminate most of theproblems which looks seemingly difficult at the beginning because of the bleak outlook of theNigeria economy at present. This study among other things, will educate thereaders on; what recapitalisation is all about, how best a bank can successfully recapitalise,benefits of the 2005 policy to both banks and the general economy, lawsregulating relating banking operations in Nigeria and various happenings in the Nigeria banking industrysince inception.

1.7 Scope of the Study/ limitation

Basically, the study covers the earlyrecapitalization period in Nigeria so as to relate the problem ofrecapitalisation to performance of banks in this period and the period in whichthe first banking legislature was released, hence the introduction of minimumcapital requirements of banks until date. This study would examine thesignificance of several economic variables in relation to economic growth5-year before and 5-year after bank recapitalization in Nigeria.

Included in the work are the various optionson how best banks can raise the required capital base. This work will also lookat progress existing in the Nigeria economy since its inception and problems faced by theeconomy within the 2005 to 2010. Finally, how recapitalisation will help toresolve the current problems in our economy system. Since this policy concerns the whole economicsystem, it has been decided that this study will cover the recapitalization ofbanks and its effect on unemployment.

1.8 Limitation of the Study

The major constraint to this study is thedifficulty in getting the relevant data for the study.

The area of study(recapitalisation policy of 2005) is a recent development in the bankingsector, so that not much literature has been published on it and most banks arenot ready to release needed data as they see it as an important businesssecret, this compounded the issue of scarcity of data. Therefore the researcherhas little option than to rely on textbooks (which were very scanty on theissue), newspapers reports, Journals, conference papers from N.O.I.C topmanagement and C.B.N Governors. And the opinions of some staff and managers offew banks. Sources of information are quoted in
the report proper where necessary and also inthe reference section.

1.9 Definition of Terms

Banks: this study will give banks a basis tobe able to compare their past performances (before re- recapitalization) andtheir present performance (after re-recapitalization). Such comparison willpoint out how well they have done and what capacity they still have forexpansion. It will also highlight those areas that are still un-harnessed withvery high potential.

Sec 2 and 61 of(BOFID) 1991 defines a bankas; “A duly incorporated company in Nigeria holding a valid banking license toreceive deposit on current account, savings
account or other similar accounts, paying orcollecting cheques drawn by or paid in by customers. Provision of finance orsuch other business as the government may order to
publish in the gazette designated as bankingbusiness.

Capital: This refers to the sum invested in abusiness. It is also seen or used in business by a person, corporation,government etc. Capital can also be referred to as the net worth of a business;amount by which the assets exceed the liabilities.

Recapitalisation: Review of the requireminimum capital and the process of adopting to the new requirement. It is alsodefined as the enhancement and restructuring of the
financial resources of an organization with aview to enlarging the long term fund available to the organization.

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