

CHALLENGES OF INSTITUTIONAL FUNDS MOBILIZATION AND INVESTMENTS: COMPARATIVE SURVEY OF SELECTED FINANCIAL INSTITUTIONS IN NIGERIA

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Abstract

The study sought to empirically investigate the factors that affect the funds mobilization and investment activities of commercial banks, merchant banks, insurance companies, and finance houses operating in Nigeria. The research design followed the quasi-experimental method with the questionnaire as the critical instrument. Analysis was done using descriptive statistics and the multivariate general linear model. The results indicate that, on individual considerations, the socio-political instability factor posed the greatest challenge to institutional funds mobilization and investments. When the factors are pooled, the operating financial (OF-) factors constitutes the greatest bane of these institutional intermediation activities. From the test of hypotheses, there is a significant relationship between the factors that affect the funds mobilization activities (FMAs) of commercial and merchant banks and those that affect their investment activities (IAs). For insurance companies and finance houses, there is no significant relationship between what affect their fund mobilization activities and their investment activities. Thus, while the factors that affect FMAs significantly affect IAs of banking institutions in the country, the situation did not necessarily hold for non-banking institutions. Also, the factors affecting investment activities of commercial banks relates significantly with the factors affecting funds mobilization activities of merchant banks and finance houses but not significantly with the factors affecting funds mobilization activities of insurance companies, indicating existence of cross effects.

Introduction

Institutional funds mobilization and investments are the hallmarks of the financial intermediation operations of any financial institution. Funds or savings mobilization represent the supply side of the intermediation function whereby the institutions go out of their way to source, generate, and or acquire monetary resources from the savings surplus units (SSUs). These monetary resources are channeled to the savings deficit units (SDUs) in form of loans, advances, and investments. The second set of activities involving making loans and investments has been referred to, in Ezirim (2003), as the demand side or outflow side of the financial intermediation function, and in Ezirim (2000) as institutional investments. Whereas institutional funds mobilization activities answer the question of how to raise needed funds; institutional investment activities address the problem of how to utilize funds to achieve nominated objectives.

The sets of activities on both sides of the intermediation function encompass and give relevance to the whole web of activities engaged by financial institutions. The plexus of activities would include depository and treasury services (and premium generation for insurance companies), acceptances, bills discounting, money market investments, equipment leasing lending, trade finance, project finance and loan syndication, foreign exchange services, and international trade financing and transfers. It is easy to see that most of these activities are either part of, or directly related to, the overall funds mobilization and investment operations.

In carrying out these operations, a plethora of forces are accused of affecting financial institutions such that their overall intermediation performance in Nigeria has been adjudged suboptimal to say the least (See for instance, Ezirim, 1999a). These factors that pose tremendous challenges to institutional savings and investments have been categorized into two: internal or corporate level factors and external or environmental factors. Internal factors range from managerial

inefficiencies through poor marketing inertia, and from bureaucratic dysfunctions to socially amoral behaviors such as fraud. Environmental or external factors are industry or economy level factors including socio-economic disturbances, financial market imperfections associated with disparities in lending-borrowing rates, taxation, inflation, and distress conditions in the financial system. What is of research concern is that it has not been properly discerned or determined how and to what extent these forces affect Nigerian financial institutions in their funds mobilization and investment bids. More specifically, the following questions will be addressed: How do the factors affecting investment operations of a typical institution relate with the factors affecting the fund mobilization activities of the concerned institution as well as those of the other institution? To what extent do these factors interact among institutions? For instance, to what extent do factors affecting the activities of commercial banks affect the activities of other financial institutions? An analysis of the magnitude of effects these factors have on financial intermediation is the mainstay of this study.

Literature review

Background Empirical Studies

Fragmentary studies conducted on institutional operational performance appear to yield mixed conclusions on whether or not financial institutions in Nigeria have operated optimally in their intermediation functions. In a study on merchant banks' operation in Nigeria, from 1980 to 1994, Ezirim (1999b:4) observed that "the inflow side of merchant banks' financial intermediation function produced desirable and significant potentials in stimulating economic growth while their activities at the outflow side proved suboptimal in generating the needed growth in the country". The findings in Agiobenebo and Ezirim (2002:29) indicated that given their intermediation function, it takes the insurance industry about 43 months, 29 days to adjust their profitability fully to the desired

levels. This slow rate of adjustment reveals a regime of sub-optimality in the industry's performance. In another study on intermediation operations and profitability of insurance companies, Ezirim (2004:67) observed that "supposed efficiency in funds generation was not matched with equivalent efficiency in utilization (and as such) insurance management cannot be said to be performing creditably. The commercial banks and other financial institutions are not left out in this suboptimality syndrome (see Anao, 1981; Ezirim, 1999; and Ezirim and Muoghalu, 2002).

Many commentaries have attributed the above suboptimal conditions to a number of factors. Some of these factors are internal to the financial institutions while others are external. For instance, Ezirim and Muoghalu (2002) showed that high rates of inflation experienced in the country did not encourage high intermediation operations of financial institutions in real terms. Agene (1991) and Cookey (1997) observed significant effects of the socio-political disturbances index on the foreign-exchange-market-based intermediation activities. Osayemeh (1986) identified the lack of the "social variable" described as the personal characteristics of the savings deficit units (SDUs) to be the critical factor inhibiting efficient intermediation operations of banks in Nigeria. Ntekop (1992) found the financial market disequilibrium associated with demand-supply gap in the foreign exchange market to affect institutional intermediation operations in Nigeria. Ezirim (1999a) saw foreign exchange fluctuations and associated risks as important factors affecting intermediation operations. In a more comprehensive study on the effects of environmental factors on financial intermediation, Ezirim, Muoghalu, and Emenyonu (2002:57) found that the financial intermediation index (FII) of the superstructure was a positive function of the socio-political trend index (STI), financial market imperfection (FMI), and regulatory index (RI); but a negative function of inflationary spirals, taxation, rate of growth of the economy,

and exchange rates. Among these variables, the STI was seen to affect the FII most significantly.

An empirical extension of the above study, as in Ezirim, Muoghalu, and Emenyonu (2004), equally underscored the fact that the intermediation role of financial institutions was greatly affected by the interplay of forces in the environment in which they operate. The study revealed that among the various environments, the socio-political trends, the regulatory trends, and the eco-financial environments (represented by the foreign exchange market conditions) exert very great influence on the operations of the financial institutions. Other factors such as inflation, taxation, financial market imperfection, and growth rate of the economy did not exert significant influence. The improvement on, and difference between, these two studies may be accounted for by the use of more sophisticated analytical tool applied on larger sample observations and redefinition of variables in the second study. Interesting as these results may seem, there is need to compare and harmonize them with those obtainable from primary data (survey) evidence. The present study is an attempt in this direction. Contrary to the earlier studies on the effect of environmental factors, the present study will attempt to analyze the effects of identified internal and external (environmental) factors. It will also x-ray the various activities carried out by the selected financial institutional divides namely commercial banks, merchant banks, insurance companies and finance houses. Finally, in this study comparative analyses are made on how the factors affect the two sides of intermediation activities; namely funds mobilization and funds utilization operations, on one part, and among the various institutional divides, on the other.

Akintola-Bellow, O. (1986), in his study of investment behavior of insurance companies in Nigeria, observed a peculiar pattern of investment that reveals management of the companies to be extremely cautious, relatively aggressive, and less innovative in their employment of funds. This is expected

since an important criterion of their investment activity relates to safety of assets. Ezirim (2001) investigated investment behavior of banks and other financial institutions in Nigeria. He compared observed behavior with known theoretical behavior described as Markowitz efficient. The findings reveal that the behavior of the institutions studied failed to conform totally to the Markowitz efficient behavior. It was also observed that all the financial institutions exhibited behavior consistent with the profit maximization and non-satiation axioms. Apart from insurance companies, other institutions studied, namely commercial banks, merchant banks, and finance houses, displayed the risk-averting attitude. It was also inferred from the work that the financial and economic environments of the country did not seem to encourage the institutions to behave as posited by theory. The question of the other environments forces that affect the investment behavior or the savings mobilization activities of financial institutions were not addressed in Ezirim' (2001) study. This needs to be investigated.

Other Related Studies

Several authors have carried out studies focusing on aspects of savings behavior, mobilization, and investments and their major challenges. Among these include Muradoglu and Taskin (1996), CGAP Study Group (1998), Ogaki, Ostry, and Reinhart (1996), Tanzi and Zee (1998), and Prinsloo (2000). Muradoglu and Taskin (1996) hypothesized the determinants of savings or funds mobilization from the house-hold sector to be a function of income, wealth, rates of return, inflation, foreign savings and demographic variables. In their analysis using the OLS technique, they observed that determinants of savings behavior for industrial countries are not valid for developing countries and vice versa.

CGAP Study Group (1998) in their study of four microfinance institutions (MFIs) identified three major challenges of funds mobilization by MFIs. These include: a hostile macroeconomic and financial sector environment, where the

MFI's find mobilizing savings interference exists through interest rate controls and subsidized credit. The second challenge is the absence of regulatory framework tailored to the special characteristics of MFI's. The third challenge is the need for more sophisticated management capabilities to be able to match assets and liabilities (matching the different maturities and sizes of small credit and savings accounts) and thus appropriately manage liquidity. The CGAP Study Group (1998) further identified four factors influencing the decisions of households to hold a savings account. These include security of savings and confidence and trust in the depository of the savings (the trust factor), the liquidity of the savings option, the transaction costs such as the cost of making a deposit and of liquidating it; and the real interest rate. In all it was underlined that the poor would hold financial savings in savings account with financial institutions, if appropriate facilities are available.

Prinsloo (2000:27) contended that "one of the central issues in analyzing the saving behavior of countries is the relationship between changes in real interest rates, savings, investment, and economic growth". According to this author, the general conclusion is that higher savings rates may not be forthcoming, even with relatively large increases in real interest rates, especially if the particular country is struggling with poverty. The contention however, is that even for such low-income countries, a change from negative to positive real interest rates, despite the fact the change might have little impact on saving, may still be desirable from the point of view of macroeconomic and of improving the efficiency of investment.

Tanzi and Zee (1998) have shown that changes in income tax (including capital income and wages) have for more negative effect on the household saving rate than on consumption expenditure. Prinsloo (2000) observed that tax incentives directed to influence savings behavior are far more likely to influence flows to the various forms of savings, rather than to have lasting impact on the

overall saving rate of the economy. Prinsloo (2000:31) also contended that “government policy could also make an important contribution to increasing savings by the private sector and to the efficient use of these savings, by providing macroeconomic framework which keeps inflation low”.

Method and Scope of Study

Research design, instrument, and sampling procedure

The study followed the quasi-experimental research design which is very suitable for studies in social and management sciences where respondents’ opinion are sought and evaluated for possible inferences. The critical research instrument was the questionnaire. Construction of the questionnaire followed the Likert scale of rank-observations on a five-point maximum scale. The questionnaire constructed was relevant in that it sought to generate information that is not usually contained in the statutory returns or annual reports of the concerned institutions. The study covered all the deposit banks (115 in number including their regional, area, and major offices: 64 for commercial banks and 51 for merchant banks) as at the time of the survey. For ease of comparability, the same number of insurance companies (115) and finance houses (115) were selected. The sampling procedure for the insurance companies followed the random sampling method. Accordingly, we listed the companies registered with the Nigerian Insurance Association including 5 reinsurance companies. We numbered the 150 companies from 000 (for the first unit), 001 for the second; to 149 (for the last unit) as per the listing. We then used the simple random procedure with the table of random digits and selected the companies with numbers appearing on the table until we got 115 companies.

On the other hand, there were 279 finance companies operating in the system. We also numbered a list of the finance companies from 000 (for the first unit) to 278 (for the last unit) and drew 115 companies from the random table as

per the assigned numbers. The reason for the writer's decision and subsequent adjustments is to place the selected institutional divides –deposit banks, insurance companies and finance companies on equal footing for reliable analysis and comparison. We distribute the questionnaire to responsible personnel in the selected institutions. Care was taken to ensure that the respondents were not below the rank of managers. The practicability of this was ensured since the researcher went personally to concerned institutions, and in some cases used research assistants.

Tools of analysis

The analysis of survey data was carried out, first, using simple descriptive statistical techniques involving the construction and analysis of frequency distribution tables of the type and number of responses which we afterwards translated into percentages, where applicable. The second tool of analysis involved the use of the multivariate general linear model (GLM). The GLM multivariate procedure provided regression analysis and analysis of variance for multiple dependent variables by one or more factor variables or covariables. The procedure enables one to investigate interactions between factors as well as the effects of individual factors. Calculations were made of effects using Pillai's Trace, Wilks' Lambda, Hotelling's Trace, and Roy's Largest Root tests. Also, the paper conducted tests of between-subjects effects with type III sum of squares as the default method of evaluating different hypotheses. Inclusively, we conducted the univariate analysis of variance tests of between-subjects effects under the same default scenario as in the multivariate case. This helped us to dichotomize individual effects as they apply to respective financial institutions (For more detailed explanation of the GLM procedure, see Nurosis, 2001). The results of the univariate analysis of variance tests produced similar results as those obtained in the multivariate case, so they are not reported in this paper.

Scope and limitations of study

Our investigation covers mainly the activities of commercial banks, merchant banks, insurance companies, and finance houses. Commercial banks in Nigeria are generally those retail banks that accept deposits that are withdrawable by cheque. Merchant banks, unlike commercial banks, concentrate on wholesale banking and thus serve the financial needs of corporate and institutional customers. Whereas commercial banks customarily engaged in short-term financial transactions, merchant banks were created to provide medium-term financing for development. However, with the taking into effect of the universal banking scheme in 2001, the traditional wall of demarcation between the two institutional divides has been broken. Nevertheless, most banks that started as merchant banks have remained so in 'spirit'. Insurance companies are financial institutions, occupying the same position that commercial banks occupy among banking institutions in Nigeria. A finance company is a person licensed to carry on financial businesses of extending credit facilities to customers and to industrial, commercial, or agricultural enterprises, including lending of money; leasing business; business of hire purchase; factoring; project financing and consultancy; debt administration, local purchase order financing, export finance; and others. They are not expected to accept or score deposits but can borrow monies for their operations. They are the next non-bank financial institution in importance, after insurance companies. Thus, this study limits its scope to the activities of the two most important banking institutions and the two most important non-banking financial institutions in Nigeria (Ezirim, 2005). The study does not cover the funds mobilization and investment activities of such banking activities as community banks, peoples' bank, development banks, and mortgage banks (known as the primary mortgage institutions (PMIs)). Also other non-bank finance institutions were not covered in the present study owing to the enormous work involved that is beyond the present monetary resource base of this study,

especially since it is self-financed. More so, such non-banking institutions as discount houses, bureau de change, stock broking firms, insurance brokerage firms and loss adjusters do not have clearly defined intermediation processes and activities that are congruent with the dictates of the purposes of this study, neither are their activities consistent with those required by our primary survey tool, as constructed. The primary mortgage institutions (PMIs) are basically hybrid institutions as defined by the Nigerian monetary authorities. They are neither full-bankers nor full-non-banking institutions. They possess the features of both. They become non-classificatory for the purpose of our primary evidence. However, giving that the institutions covered in this study accounts for over 97% of the total institutional savings and investments in the country, we have good reason to believe that deductions made in this paper would pass the test of reliability.

Presentation and analysis of data

Preliminary information

Out of the total number of questionnaire distributed, only 260 sets were retrieved: 100 from deposit banks, (52 from commercial banks and 48 from merchant banks); 100 from insurance companies and 60 from finance houses. This implies a response rate of 75%. It is of note that most finance houses operators were secretive and averse to divulging information on their operations. Notwithstanding, the information generated from all the institutional divides were sufficient to yield reliable inferences.

Activities engaged in by financial institutions

The responses revealed a list of major activities which financial institutions engage in Nigeria to include deposit taking/premium generation, acceptances, bills discounting, money market investments, equipment leasing, loans and advances, trade finance and commodities, project financing, loan syndication, foreign exchange dealings and transfers and foreign exchange

treasury operations. A summary of their responses is depicted in Table 1, which describes the activities engaged in by financial institutions in Nigeria. From the table, all the financial institutions studied (commercial banks, merchant banks, insurance companies, and finance houses) highly emphasized funds generation described in terms of deposit taking by banks and premium generation by insurance

TABLE 1 Major Activities Engaged By Financial Institution in Nigeria

TYPES OF ACTIVITIES	ALL	COMM	MERCH	INSU.	OTHERS
Deposit taking/Premium Generation	219 (18.4)	46 (14.5)	38 (10.2)	80 (33.33)	55 (21.15)
Acceptances	72 (6.0)	25 (7.9)	32 (8.6)	0 (0)	15 (5.76)
Bills Discounting	56 (4.7)	17 (5.3)	24 (6.4)	0 (0)	15 (5.76)
Money Market Investments	156 (13.1)	30 (9.4)	36 (9.6)	80 (33.33)	10 (3.84)
Equipment leasing	69 (5.8)	9 (2.8)	30 (8.02)	0 (0)	30 (11.53)
Loans and Advances	218 (18.3)	43 (13.5)	40 (10.7)	80 (33.33)	55 (21.15)
Trade Finance & Commodities	99 (8.3)	25 (7.9)	34 (9.1)	0 (0)	40 (15.38)
Project Financing	98 (8.2)	23 (7.2)	40 (10.7)	0 (0)	35 (13.46)
Loan syndication	71 (6.0)	36 (11.3)	30 (8.02)	0 (0)	5 (1.92)
Foreign Exchange	68 (5.7)	28 (8.8)	40 (10.7)	0 (0)	0 (0)
Foreign Exchange Dealings & Transfer	60 (5.0)	30 (9.4)	30 (8.02)	0 (0)	0 (0)
Others	6 (0.5)	6 (1.9)	0 (0.00)	0 (0)	0 (0)

Note: The figures in parenthesis are in percentages. **Source:** Computed from primary data from questionnaires

companies. They see it as the most important activity claiming about 18.4% of the entire distribution. This is followed by loans and advances (18.3%), money market investments (13.1%), trade finance and commodities (8.3%), and project financing (8.2%) in that order. Acceptance, loan syndication, and equipment leasing accounted for 6%, 6.0%, and 5.8% of the entire distribution. With the exception of acceptances all the above activities accounting for over 77% combine to represent the hard core financial intermediation operations.

As is the case with the entire financial institutions analyzed together, commercial banks place their highest emphasis on deposit generation (14.5%) followed by loans and advances (13.5%). The next activity observed to have gained significant attention of commercial banks is loan syndication (11.3%) followed by foreign exchange dealings and transfers (9.4%) money and market investments (9.4%), treasury operations (8.8), acceptances (8.8%) and trade finance and commodities (8.8). Critically considered, it is easy to see that if we put together every activity that relates to foreign exchange dealings this activity commands 18.2% of the entire distribution, the highest attention far above any other operation second only to lending or credit transactions (loans and advances, trade finance, project financing, loan syndication and equipment leasing) which accounted for 42.8% of the entire distribution. This tend to reverse the order of importance attached to the activities showing credit transactions to be the most emphasized, followed by foreign exchange transactions and then depository activities. An implication of this trend is the revelation of commercial banks as rational economic agents who act in such a manner as if to maximize profit. The two principal activities – credit and foreign exchange transactions are high income earning activities, and placing more emphasis on them implies following courses of action that are consistent to the objective of profit maximization.

Taking the activities singly for the purposes of identifying the degree of emphases placed on them by merchant banks, we observe that the most important

are lending (loans and advances – 10.7%) project finance (10.7%) and foreign exchange treasury activities (10.7%) followed by depository and treasury services (10.2%), and then by money market investments (9.6%), trade finance and commodities (9.4%), and acceptances (8.6%). Equipment leasing, loan syndication, and foreign exchange dealings and transfers accounted for 8.02% each to occupy the sixth position, in order of importance for merchant banks. Bills' discounting is given the least attention among the identified activities. An interesting observation at this point is that acceptance, which was the hallmark of merchant banking services during the incipient stage of their creation in Nigeria in the 1960's and early 1970's is seen to occupy the fifth place of importance out of seven. This tends to suggest that merchant banks in Nigeria have since shifted their emphasis away from their known traditional role as acceptance houses. Another observation worthy of note is the shying away from leasing operations by merchant banks which they enjoyed monopoly until 1990 when commercial banks were allowed into the market. An explanation for this may be a possible inability to compete induced by the in-coming of commercial banks that enjoy broader capital base. Another reason may be related to the inability of lease transactions to generate guaranteed quick and high returns in the face of viable alternatives. From a broader perspective, credit transactions defined to include equipment leasing, loans and advance, trade finance and commodities, project financing, and loan syndication combine to account for an all-high proportion of over 46% of emphasis of merchant banks. Thus, they represent the most important activities of these banks. This is naturally followed by overall foreign exchange activities (18.2%) and then by deposit-taking activity (10.1%). Again, it can be inferred that, (i) Like commercial banks, the distribution tends to suggest on action consistent with profit-maximization behavior; and (ii) that the lending-borrowing activities designated as financial intermediation function constitute the center-pin of the insured banks in Nigeria.

For insurance companies, only three activities are considered principal by respondents in their contribution to economic growth. They are premium generation, money market investments, and loans and advances. Accordingly all of them accounted for 33.33% of each of the entire distribution. By implication, insurance companies place equal emphasis on these three activities. Fortunately, for the purpose of our study they are the most important services that underscore the financial intermediation function of insurance companies. A critical look at this position tends to suggest a behavior other than profit maximization. In the first place, placing such a great emphasis on money market instruments such as government securities would mean a decision to channel funds in assets that will not guarantee highest possible returns. On the stead they are highly safe and relatively risk-free. Money market instruments of this sort do not yield high returns, and as such investing much in them is not in line with profit maximization. It is important to appreciate the position of insurance companies in this light. They are required by the law and government to allocate their assets in the way they are doing – mainly in money market instruments – without any freedom to do otherwise. A behavior such as this follows the maximum compliance theory. This theory suggests that financial institutions would be said to be justifying their existence in helping the country to achieve its nominated economic objectives if they act in such a manner that is congruent to complying maximally with monetary policy and regulation put in place by relevant authorities. It is only then that they can enjoy full governmental support and protection.

Finance houses consider their funds generation activity as equally important as loans and advances claiming about 21.15% each of the entire distribution. These duos are followed by trade finance activities (15.38), project financing (13.46%), and equipment leasing (11.53%). Acceptances and bills discounting (5.76% each) took the fifth position in order of importance with

money market instruments (3.84%) and loan syndication (1.92%) trailing the list. Putting like activities together, we see credit transactions, accounting for over 63% of the entire distribution, as the most important activity of finance houses and related institutions. This is followed by funds sourcing activities (21.15%) and finally money market investment – related activities (15.36%). As is the case with the insured banking institutions this distribution reveals behavior tending towards profit maximization. Another observation of interest is the reversal of emphasis typical of these institutions prior to 1993. Before this time much of their emphasis was on funds mobilization and treasury activities characterized by high interest rates. Perhaps the massive failure of many of these firms, which took an escalated turn from the wake of 1993 and continued unto the new millennium, may be advanced as a reason for this turn-around. The table also shows the exclusion of activities such as foreign exchange treasury operations and from the ‘rank and file’ of operations of these institutions. This is expected, and shows some degree of consistence and objectivity in the responses, since they are statutorily restrained.

Factors affecting institutional funds mobilization

A plethora of factors have been identified by the respondents as affecting the funds mobilization activities of the financial institutions. These are summarized in Table 2. If the activities of all the financial institutions are considered globally, and in the light of the degrees of influence to which the factors affect the superstructure, ten of these factors are listed as follows: (i) Political instability causing panics and runs and generally crippling operations (13.92%), (ii) Informational content effect of distress conditions prevailing in the financial sector (13.28%); (iii) Tight regulation and control by monetary authorities (13.09%); (iv) Risk climate of the financial environment (12.49%); (v) Inflationary spirals (11.24%); (vi) Exchange rate fluctuations (9.75%); (vii)

Capital market imperfections arising, for instance, from price differentials between lending and borrowing (8.91%), (viii) Taxation, such as withholding taxes on customers' income (8.00%) (ix) Rigid adherence to traditional cash management methods (6.43%); and (x) Poor information technology (2.89%). A cursory look at these factors shows that distortions in the political environment such as instability, impasse, turmoil, disturbance and civil unrest have constituted themselves as the most critical factors affecting the funds mobilization activities.

Table 2: Factors affecting the funds mobilization Operations of financial institutions

	ALL	COMM	MERCH	INSU.	FH
Tight Regulation & Control (LR)	674 (13.09)	193 (14.98)	136 (13.57)	210 (12.57)	135 (11.34)
Risky climate (OF)	643 (12.49)	121 (9.39)	122 (12.18)	200 (11.98)	200 (16.81)
Capital market imperfections (OF)	459 (8.91)	169 (13.12)	130 (12.97)	85 (5.09)	75 (6.30)
Political instability (S-P)	717 (13.92)	157 (12.19)	100 (9.98)	260 (15.57)	200 (16.81)
Inflationary spirals (E)	579 (11.24)	145 (11.26)	114 (11.37)	140 (8.38)	180 (15.13)
Taxation (OF)	412 (8.00)	112 (8.70)	90 (8.98)	160 (9.58)	50 (4.20)
Exchange rate fluctuations (E)	502 (9.75)	106 (8.23)	86 (8.58)	225 (13.47)	85 (7.14)
Informational content effect of distress conditions (OF) Announcement	684 (13.28)	137 (10.64)	122 (12.18)	235 (14.07)	190 15.97
Rigid adherence to traditional cash management methods (S-P)	331 (6.43)	101 (7.84)	60 (5.99)	95 (5.69)	75 (6.30)
Poor information technology (S-P)	149 (2.89)	47 (3.65)	42 (4.19)	60 (3.59)	0 (0)

Source: Computed From primary Data

The second most important factor is the informational content effect of distress conditions announcements of the financial institutions. The link is not farfetched. The political factors set the stage for panics and runs in the financial system, which aggravates distress and insolvency conditions.

The government and monetary authorities announces the distress conditions of affected institutions; the situation further deteriorates with the institutions; the monetary authorities further comes up with stiffer conditions, sanctions, and threats; the problem deepens to unbearable stages. It is no wonder; therefore, that tight monetary regulation and control come up third on the list of factors affecting the mobilization effort.

For commercial bank studied, the most critical factor affecting their funds mobilization activities is tight regulation and control (14.98%) followed by capital market imperfections (13.12%), and then socio-political instability (12.19%). Other factors of great influence are inflationary spirals (11.26%), informational content effect of distress conditions (10.64%) and risky climate of the financial environment (9.39%). Taxation (8.70%), exchange rates fluctuations (8.23%) and rigid adherence to traditional cash management methods (7.84%) were averagely mentioned. Poor information technology (3.65%) was not seen as a very critical factor affecting their mobilization efforts.

On the part of merchant bankers as is the case with their commercial counterparts, tight monetary regulation and control (13.57%) and capital market imperfections (12.97%) were seen as the most critical factors affecting the funds mobilization efforts of their banks. They also identified risky climate of the financial environment (12.18%) and informational content effect of distress condition announcement (12.18%) as factors exerting equal degrees of influence on their mobilization efforts. Possessing considerable effects are inflationary

spirals (11.37%) and political instability (9.98%). Taxation (8.98%) and exchange rate fluctuations (8.58%) are mentioned as exerting fairly considerable effect. As in the case of commercial banks, rigid adherence to traditional cash management methods (5.99%) and poor information technology (4.19%) are not so greatly mentioned among merchant bankers as hindrances to resource mobilization operations.

Insurers accuse socio-political instability (15.57%) as the worst culprit hampering their premium generation. This is paradoxical in the sense that at such times the arising ugly emergency in the country ought to push people to the insurance companies for protection. The other factors considered very critical were informational content effect of distress conditions (14.07%); exchange rate fluctuations (13.47%), tight regulation and control (12.57%) risky climate (11.98%), and taxation (9.58%). Inflationary spirals (8.38%) was only moderately mentioned while orthodoxy (5.69%), capital market imperfections (5.09%), and poor information technology (3.59%) were not-so-greatly emphasized as hindering factors to funds mobilization.

For finance houses, socio-political instability (16.81%), risky climate (16.81%), and informational content effect of distress conditions (15.97%), in that order, were seen as the most excruciating factors affecting their funds mobilization effort. Inflationary spirals (15.13%) and tight monetary regulation and control (11.34%) are seen to possess great effects after the first set of factors. Other factors are not so much emphasized. The general observation is that all the respondents acknowledged that all the factors listed above were indeed the factors that affect the funds mobilization efforts of financial institutions. The differences among the institutional divides were largely matters of degree.

Alternatively, we can re-classify the ten factors, identified in Table 2, into four, major groupings – namely, Legal and regulatory (LR) factors, operating financial (OF) factors, social and political (S-P) factors, and economic factors.

From the Table, it is easy to see that in all cases, operating financial occupied the most important position of joint-influence on the funds mobilization efforts of the financial institutions. The degrees of influence are 42.84%, 41.85%, 46.29%, and 42.64% respectively for all financial institutions, commercial banks, merchant banks, insurance companies, and finance houses. The social and political factors (S-P-factor) rank second in all cases with the percentage distribution; 23.24%, 23.67%, 20.15%, 24.83%, and 23.10% respectively for the institutional divides mentioned above. The next in importance are the economic (E-) factors with the distribution; 20.98%, 19.49%, 19.95%, 22.32%, and 22.26% respectively for all institutions, commercial banks, merchant banks, insurance companies and finance houses. Legal and regulatory (LR) factor scored 13.09%, 14.98%, 13.57%, 12.57%, and 11.34% respectively. From this reclassification, the combination of factors described as operating financial (OF) factors constitute the major challenges impeding the funds mobilization of financial institutions studied.

Factors affecting institutional investment activities

As the case is for fund mobilization operations, a number of factors are said to militate against the investment activities of the financial institutions studied. The impressions of the respondents on the extent to which these factors affect the investment activities are summarized in Table 3.

Globally, i.e. taking all the financial institutions studied together, we see the socio-political factor emerging as the most important factor frustrating their investment operations representing over 20% of the entire distribution. Other important factors of consideration were tight regulation (8.69%), risky investment climate (8.68%), bureaucratic dysfunction such as when loans and investment processes take relatively long periods of time (8.55%); and capital market imperfections (8.09%). The other factors were scored below the mean score of 7.69% by respondents.

Table 3: Factors affecting investment/funding utilization activities of financial institutions

FACTORS	ALL	COMM	MERC	INSU.	FH
Poor capital base (OF)	359 (5.17)	84 (5.68)	70 (5.67)	120 (5.01)	85 (4.64)
Weak resource mobilization/deposit base (OF)	480 (6.92)	77 (5.21)	98 (7.94)	175 (7.31)	130 (7.10)
Tight monetary policy & regulation (LR)	605 (8.72)	152 (10.28)	88 (7.13)	220 (9.19)	145 (7.92)
Risky investment climate (OF)	604 (8.71)	146 (9.87)	118 (9.56)	190 (7.93)	150 (8.20)
Capital market imperfections (OF)	563 (8.11)	123 (8.32)	140 (11.35)	175 (7.31)	125 (6.83)
Inflationary spirals (E)	467 (6.73)	139 (9.40)	108 (8.75)	160 (6.68)	60 (3.28)
Bureaucratic delays (S-P)	595 (8.58)	120 (8.11)	100 (8.10)	185 (7.72)	190 (10.38)
Exchange rate problems (E)	369 (5.32)	88 (5.95)	106 (7.59)	125 (5.22)	50 (2.73)
Distress conditions in the financial institutions (OF)	427 (6.15)	165 (11.16)	82 (6.65)	105 (4.38)	75 (4.10)
Taxation on investment income & dividends (OF)	514 (7.41)	83 (5.61)	116 (9.40)	170 (7.10)	145 (7.92)
Poor information technology (S-P)	270 (3.89)	65 (4.39)	60 (4.86)	85 (3.55)	60 (3.28)
Rigid adherence to traditional norms (S-P)	288 (4.15)	87 (5.88)	66 (5.35)	95 (3.97)	40 (2.19)
Socio-Political instability (S-P)	1397 (20.14)	150 (10.14)	82 (6.65)	590 (24.63)	575 (31.42)

Source: Computed from Primary Data

In the case of commercial banks, seven out of the listed 13 factors were seen as important forces affecting investment operations judging by the mean score of 7.69%. In their order of importance, these factors include distress

conditions (11.15%), tight regulation (10.25%), and socio-political instability (10.14%). Others are risky investment climate (9.87%), inflationary trends (9.39%), capital market imperfections (8.31%), and bureaucratic delays (8.11%). It appears that external or environmental factors influence commercial banks investments more than internal factors. For merchant banks, six factors were considered very important forces of influence on investment activities, with capital market imperfections topping the list with a score of 11.34%, followed by risky investment climate with a score of 9.56%. Other factors, in their order of importance were taxation (9.40%), inflation (8.75%), bureaucratic delays (9.10%), and weak deposit base (7.94%). Other factors scored below the mean score of 7.69%. It is of note that weak deposit base is considered a serious limitation in view of the various legal restrictions on the minimum acceptable deposits for merchant banks over the years till the advent of the Universal banking system in 2001.

Investment activities of insurance companies were shown to suffer most due to the over-bearing influence of socio-political instability which scored 24.6% of the entire distribution. This is followed by tight monetary regulation (9.118%), risky climate (7.93%), and bureaucratic delays (7.72%). Other factors of considerable, but not very important, influence are poor resource mobilization base (7.03%), capital market imperfection (7.03%), and tax (7.09%). Others were not seen as important by the respondents. For finance houses, only four factors scored above the average score of 7.69%, namely socio-political instability (31.42%), bureaucratic delays (10.38%), tight monetary regulation (7.92%), and taxation (7.92%). Weak resource mobilization base (7.10%) and risky investment climate (6.83%) were seen to be of considerable importance.

From Table 3, we can see at least four sets of factors namely operating financial (OF), legal and regulatory factors (L&R), economic factors (E), social and political factors (S-P). For all institutions, the operating financial factors (OF-

factor) accounted for 42.34% of the distribution. The proportions for other factors are 12.01% for E-factor, 8.69% for LR-factor, and 36.65% for S-P-factor. From this distribution, the two most important sets of factors influencing the investment activities of all institutions are the OF-factor, and S-P factor respectively. For commercial banks the OF-factor is perceived by respondents to exert the greatest influence (45.81%), followed by S-P-factor (28.44%), and E-factor (15.33%). Merchant bankers gave the same ranking in respect of the above three factors as do the commercial bankers. The various distributions are 50.55%, 24.94%, and 16.33% for OF-factor, S-P-factor, and E-factor respectively. For insurance companies, the OF-factor (39.01%), comes next in effect closely after the S-P-Factor (39.82%). The same order recorded for insurance companies is applicable to finance houses with 37.41% to OF-factor, and 47.25% to S-P-factor. The above results reveal operating financial factors exerting the greatest effect on the investment activities of banking institutions considered jointly; while social and political factors exerts the single most important influence on the investment activities of non-bank financial institutions.

Relationship, Inter-relationships, and Interactions

From the research questions asked earlier in this paper, a general statement can be made in respect of the relationships and interactions of the challenge of institutional funds mobilization and investment: There is no significant relationship between the factors affecting funds mobilization operations and those affecting investment activities of financial institutions.

The above hypothesis sought to determine, from the generated evidence whether the factors that affect the supply side are the same ones that affect the demand side intermediation functions of the financial institutions. It also sought to know the cross-effects of the factors on the savings-investment process. The associated hypotheses were tested using the results from the estimated general

linear model as summarized on Tables 4 and 5. Table 4 depicts the results of the multivariate tests of the general linear model using Pillai's Trace, Wilks' Lambda, Hotelling's Trace, and Roy's Largest Root tests. As can be seen from the Table, for commercial banks, the observed F-ratio for all the above tests was 64.157 which was significant at 1% level ($P=0.15$) in each case.

Table 4: Results of the Multivariate Tests of the General Linear Model

Effect		Value	F	Hypothesis df	Error df	Sig.
Intercept	Pillai's Trace	.956	10.793 ^a	4.000	2.000	.087
	Wilks' Lambda	.044	10.793 ^a	4.000	2.000	.087
	Hotelling's Trace	21.587	10.793 ^a	4.000	2.000	.087
	Roy's Largest Root	21.587	10.793 ^a	4.000	2.000	.087
Y2	Pillai's Trace	.992	64.157 ^a	4.000	2.000	.015
	Wilks' Lambda	.008	64.157 ^a	4.000	2.000	.015
	Hotelling's Trace	128.314	64.157 ^a	4.000	2.000	.015
	Roy's Largest Root	128.314	64.157 ^a	4.000	2.000	.015
Y3	Pillai's Trace	.959	11.757 ^a	4.000	2.000	.080
	Wilks' Lambda	.041	11.757 ^a	4.000	2.000	.080
	Hotelling's Trace	23.513	11.757 ^a	4.000	2.000	.080
	Roy's Largest Root	23.513	11.757 ^a	4.000	2.000	.080
Y4	Pillai's Trace	.681	1.065 ^a	4.000	2.000	.537
	Wilks' Lambda	.319	1.065 ^a	4.000	2.000	.537
	Hotelling's Trace	2.130	1.065 ^a	4.000	2.000	.537
	Roy's Largest Root	2.130	1.065 ^a	4.000	2.000	.537
Y5	Pillai's Trace	.660	.969 ^a	4.000	2.000	.565
	Wilks' Lambda	.340	.969 ^a	4.000	2.000	.565
	Hotelling's Trace	1.938	.969 ^a	4.000	2.000	.565
	Roy's Largest Root	1.938	.969 ^a	4.000	2.000	.565

a. Exact statistic

b. Design: Intercept+Y2+Y3+Y4+Y5

X2 = Factors affecting FMAs of commercial banks.

Y2= Factors affecting funds investment activities (FIAs) of commercial banks.

X3 = Factors affecting FMAs of merchant banks.

Y3 = Factors affecting FIAs of merchant banks

X4 = Factors affecting FMAs of insurance companies

Y4 = Factors affecting FIAs of insurance companies

X5 = Factors affecting FMAs of finance houses

Y5 = Factors affecting FIAs of finance houses.

By implication, there is a significant relationship between the factors that affect the funds mobilization activities (FMA) of commercial banks and those that affect their investment activities (IA). Thus, what affect the FMAs very significantly affect IAs of commercial banks. In the case of merchant banks, all the tests recorded an F-ratio of 11.757 which is only significant at 10% level ($P = 0.08$). The implication of this result is that the factors that affect merchant banks FMAs considerably affect their IAs. For insurance companies and finance houses, the observed F-ratios were 1.065 and 0.969 while the probabilities were 0.537 and 0.565 respectively which were not significant at conventional levels. Thus, for these institutions, there is no significant relationship between what affect their fund mobilization activities and their investment activities. Thus, the factors that affect their FMAs do not necessarily affect their IAs.

Table 5: Results of the Multivariate Tests of between-Subjects Cross Effects of Factors

Source	Dependent Variables	Type III Sum of Square	df	Mean Square	F	Sig.
Corrected Model	X2	111791.467 ^a	4	2947.867	4.337	.070
	X3	8110.297 ^b	4	2027.574	19.905	.003
	X4	20941.331 ^c	4	5235.333	1.150	.430
	X5	38883.518 ^d	4	9720.880	6.745	.030
	Intercept					
Y2	X2	278.977	1	278.977	.410	.550
	X3	469.769	1	469.769	4.612	.085
	X4	499.927	1	499.927	.110	.754
	X5	3572.227	1	3572.227	2.478	.176
	X2	3607.112	1	3607.112	5.307	.069
Y2	X3	3943.174	1	3943.174	38.712	.002
	X4	7928.045	1	7928.045	1.741	.244
	X5	23852.125	1	23852.125	16.549	.010

- a. R Squared = .776 (Adjusted R Squared = .597)
- b. R Squared = .941 (Adjusted R Squared = .894)
- c. R Squared = .479 (Adjusted R Squared = .062)
- d. R Squared = .844 (Adjusted R Squared = .719)

Table 5 summarizes the results of the multivariate test of between subjects crossed effects of the factors. It describes the crossed effects of the FMA and IA factors. From the table, it can be seen that the factors affecting investment activities of commercial banks relates significantly with the factors affecting funds mobilization activities of merchant banks and finance houses ($F=38.7$ and 16.55 while $P = .002$ and $.01$) respectively; but not significantly with the factors affecting funds mobilization activities of insurance companies. The error correction model as can be seen from the same table, posts similar results ($F=19.91$ and 6.75 while $P = .003$ and $.03$ respectively). Thus, we can say that cross-effects only exist among commercial banks, merchant banks and finance houses but not with insurance companies. The reason for this is not far-fetched. The banking institutions and finance houses operate in similar ways such as in their pre-occupation with short term financial transactions.

Summary and Concluding Remarks

Institutional funds mobilization and investments are revealed in this study to be the principal activities of financial institutions in Nigeria. They accounted for over 77% of the total operations of commercial and merchant banks, insurance companies, and finance houses put together. This amplifies the importance of the financial intermediation function among the institutions studied. Individual institutional behavior as can be inferred from the general activities of the institutions indicate that commercial and merchant banks were seen as rational economic agents who act in such a manner that is consistent with profit maximization principle. This is predicated on the observed trend where credit and foreign exchange transactions, which are high-income-earning-activities (HIEA) receive their greatest attention. On the part of insurance companies, only three activities were considered principal: premium generation, money market investments, and credit transactions (each accounting for 33.33% of entire

distribution). The revealed behavior favors the maximum compliance theory rather than profit maximization. Following the distribution of activities, finance houses revealed behavior that runs congruent with profit maximization, with credit transactions accounting for over 63% of their activities.

The funds mobilization functions of all financial institutions, on a general note, are revealed to be mostly affected by distortions in the socio-political landscape of the country. The conglomeration of such distortions includes militarism, political instability with associated frequent policy changes and turnover, impasse, turmoil and tensions that at times aggravate institutional runs and panics, and civil unrest. These, more than anything else, adversely frustrated optimized funds mobilization effort. The second most important factor that affected institutional funds mobilization was the informational content effect of distress conditions announcements on concerned institutions. For commercial banks, however, the observed three most critical factors were excessive regulation and control by monetary authorities with associated repressive effects, capital market imperfections, and socio-political factors. Merchant bankers identified excessive regulation and capital market imperfections as the bane of their funds mobilization activities. Insurance companies reveal socio-political trend factors and information content effect of distress condition as worst culprits hindering premium generation. For finance houses, the most mentioned factors were socio-political trends, risky climate and information content effect of distress conditions. Upon reclassification of the factors into four categories operating financial, social and political, economic, legal and regulatory factors, the combination of factors described as operating financial (OF) factors generally emerged as the most important challenges confronting the funds mobilization efforts of the financial institutions. The next in importance are the social and political factors.

Taking the challenges individually, the investment operations of all the institutions studied were affected by the socio-political instability more than anything else. For commercial banks' investment operations, the most important factors were distress conditions, tight regulation and socio-political instability. Merchant banks' investments suffered most from capital market imperfections and risky investment climate. The bane of insurance and finance houses' investments was, mostly, socio-political instability. On the other hand when the factors were reclassified into OF-, S-P-, E-, and LR-factors, the operating financial (OF-) factors were seen to exert the greatest joint-influence on the investment activities of the banking institutions. Conversely, the social and political (S-P) factors exerted the greatest joint-influence on the investment activities of non-bank financial institutions.

From the test of hypotheses, there is a significant relationship between the factors that affect the funds mobilization activities (FMA) of commercial and merchant banks and those that affect their investment activities (IA). Thus, what affect the FMAs very significantly affect IAs of banking institutions in the country. For insurance companies and finance houses, there is no significant relationship between what affect their fund mobilization activities and their investment activities. Thus, the factors that affect their FMAs do not necessarily affect their IAs with the same degree. Furthermore, the factors affecting investment activities of commercial banks relate significantly with the factors affecting funds mobilization activities of merchant banks and finance houses but not significantly with the factors affecting funds mobilization activities of insurance companies. The error correction model posts similar results, an indication of significant cross-effects exist among commercial banks, merchant banks and finance houses but not with insurance companies.

Recommendations

The pervasiveness of the socio-political instability factor as a cardinal factor affecting funds mobilization and investment operations of financial institutions calls for urgent political action and social re-orientation in the country. First, every effort must be made to stem the ugly incidences of militarism, frequent coup de tat and governmental turnover. It is of note that new regimes bring along with them new policies each time and this distorts equilibrium in both the political, economic and social landscapes of the country. Efforts should be channeled along the lines of stemming social disturbances by evolving policies that would bridge obvious inequality gap. For one thing, any part of the country that produces the mineral resources, for instance, of the country should be adequately compensated through increased statutory revenue allocations to the attendant states and local governments. While doing this, adequate education and social re-orientation should be given a pride of place. By so doing, the socio-political disturbances would be minimized and economic activities would thrive better.

Another point of policy redirection is the existence of tight regulation in the financial system. Actually, the author is not an advocate of unbridled liberalization, however, it does appear that the financial institutions give their best in regimes of deregulatory reforms than in times of tight regulatory reforms. Thus, the government and the monetary authorities should reduce their interferences with the market-based activities of these financial institutions such as price determination and concentrate their regulatory tools on stemming amoral behavior and obnoxious practices that erode confidence in the financial system. When this is done, for instance, along the lines of guaranteeing market-determined prices, such factors as capital market imperfections would change its direction of effect towards encouraging the intermediation activities of the institutions.

At the micro level, management of the concerned institutions would take another look at their operations and address such internal problems associated with delays in processing lending and investment proposals. Borrowers, for instance, must not wait for more than two days to get a firm answers as to whether their proposals are accepted or not. Depositors do not need to spend more than five minutes in order to make withdrawals or secure attention of responsible officers to address their problems. Channeling of the funds of savings surplus units (SSUs) to safe investments and assets, optimal liquidity and cash management, and instituting workable measures to reduce or eliminate fraud would assist in contending with the challenges associated with distress conditions in the financial system.

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