Research Innovation and Discovery On the Role of Financial Institutions in the Management of Loan Syndication and Its Impact On Nigerian Economy

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ABSTRACT

Financial institutions have become very indispensable as they have the sole responsibility of mobilizing funds from surplus to deficient sectors of an economy. Operating through its banking arm, its policies encourage banks to come together under a single umbrella to support promising but somewhat "elephant-natured" investments which cannot be solely financed by a single bank. The major purpose of this research was the examination of the role of financial institutions in the management of loan syndication and the impact of same on Nigerian economy, with the syndicated loan of 9 mobile as the case study. Data for the study were obtained through the use of structured questionnaires administered on 140 key officials of 9 mobile and the 13 Deposit Money Banks involved in the loan syndication exercise, with First Bank of Nigeria as the lead bank, using purposive sampling technique. Secondary data collection tools were equally employed and the data collected were analyzed using descriptive and SPSS (Chi-square) statistical techniques, the result of the X^2 showed that at 0.05 level of significance, the X^2 c >X^2 t, which implies that financial institutions play significant role in the management of loan syndication; the result as well revealed that at 5% level of significance, X^2 c >X^2 t implying a positive impact of loan syndication on the Nigerian economy. The study thus recommended among others, that banks should establish a special unit to take charge of loan syndication requests and do all that may be required to facilitate the administration of successful loan syndication procedures.

Keywords: Banks, Fund, Investment, Loan Syndication, Financial Institutions, Management, Economy, Chi-square.

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1. INTRODUCTION

Financial institution occupies a vital position and plays a large role in the economy of a nation. Their major purposes are proper mobilization of funds as well as provision of capital for industrial development which is aimed at enhancing economic growth and development. In the early year of banking operation in Nigeria, banks performed their intermediary function by giving loan mainly on individual basis (i.e. Separately), but as they entered into the threshold of development and more investment opportunities, investors crave for large sum of money which was provided by bank on medium and long term basis. Banking, being a highly regulated industry the world over, operates with restrictive monetary and credit guidelines in loan growth and reserve requirement. It occupies the sector of the economy saddled with excess liquidity mop up through the assurance of stabilization of securities.

Yet the sector often find it difficult to meet up with huge loan demanded by customers on singular basis; also it is well known that lending is not risk free, thus banks prefer to spread their risk with others in the same industry. Nigeria is well known as a mono-product economy which depends only on crude oil for its revenue. Government and individuals need resources to finance an elephant (huge) project for the economy to grow. The establishment of huge projects in the economy can provide some social amenities like creation of employment, water, electricity etc. The only way government or individual can finance their projects is by borrowing from a bank. According to CBN Act, a bank can only provide a certain amount of money to a borrower, but borrowers most times need more than what the bank can offer. So this situation brought about the coming together of two or more banks to give out loan to a borrower with an agreed percentage, thereby leading us to what we refer to in our economy today as loan syndication.

Loan syndication in this context can be defined as the arrangement between two or more lending institutions to provide a borrower with credit facilities utilizing a common documentation. Loan syndication is a potent source of funding for business organization. It has two main parties to loan syndication which is the lender and the borrower, but since there are many lenders, we categorize them according to their active role in the syndication process which are: (i) Lead bank and (ii) Participating bank.

It is against this background that the study sets out to ascertain the role of some selected banks in the management of loan syndication in Nigeria with specific focus on the N377.4 billion loan advanced to 9 mobile in year 2016 which was brought about by the intention of the Nigerian government to take over ailing Etisalat thereby transforming it into 9 mobile. A total of thirteen (13) deposit money banks were involved in the loan syndication, with the First Bank standing as the Lead bank, supported by the remaining 12 banks listed. The money banks involved are: (i) First bank (ii) Union bank (iii) Access bank (iv) First City Monument bank (v) Stanbic bank (vi) Guarantee Trust bank (vii) Zenith bank (viii) United Bank of Africa (ix) Eco bank (x) Fidelity bank (xi) Keystone bank (xii) FSDH merchant bank and (xiii) Main street bank. The lead bank contributed the biggest portion (N100Bn) while the balance of N277.4Bn was shared evenly among the remaining 12 participating banks.

In line with this, the study shall consider the following as our specific objectives: to ascertain the role of financial institutions in syndicating a loan; to evaluate the effect of loan syndication in economic development and to suggest ideas than can help to minimize the problems associated with loan syndication as confronted by lenders and borrowers. The paper is structured into five sections including this introductory (background to the study) section, section two reviews the related literature, section three deals with the methodology, section four deals with the analysis of results while section five concludes the work.

2. LITERATURE REVIEW

Loan syndication is a potent source of funding for business organizations and also an important revenue consummation. It is froth with series of problems such as lengthy time in appraisal of the credit risk, delays in packaging of loans, dilatory behavior of the borrower among others. It is an arrangement between two or more lending institutions to provide a borrower with credit facility, utilizing common loan documentation. There is need to look at the two operational words: loan and syndication in other to gain a closer insight into the subject matter.

A loan may be regarded as something lent, usually money, on the condition that it is returned at a future date with or without interest. A syndicate can be regarded as a combination of commercial firms/financial institutions associated to forward a common interest. Such financial institutions come together as a consortium to provide the required facility, the risk is spread out and experience is shared. The major partner who initiates the proposition and invites others to participate is the lead bank, while the other banks that came together to provide the facility are the participating banks.

2.1 Theoretical Framework

Loan Pricing Theory

Banks cannot always set high interest rates. They should consider the problems of adverse selection and moral hazard since it is very difficult to forecast the borrower's type at the start of the banking relationship (Stiglitz and Weiss, 1981); if banks set interest rates too high, they may induce adverse selection problem because high risk borrowers are willing to accept these high rates. Once these borrowers receive the loans, they may develop moral hazard behavior or so called borrower hazard since they are likely to take an highly risky projects or investment (Chodecal 2004). From the reasoning of Stigliz and Weiss, it is usual that in some cases we may not find that the interest rate set by banks is commensurate with the risk of the borrowers.

Theory of Multiple Lending

It is found in literature that banks should be less inclined to share lending (Loan syndication). In the presence of well developed equity and mergers and acquisition however, there has been an increase in banks lending capacity, thus reducing their need for greater diversification and monitoring through share lending (Loan syndication (Carlett, 2006), Ongene and Smith, 2000), Karet et al, 2004), Degryse, 2004. This theory has a great implication for banks taking part in loan syndication. The 3rd Theory is **Firm Characteristics Theory**

2.2 Historical Background and Introduction of Loan Syndication to the Nigerian Economy

The first syndicated loan is traced to banks of the middle ages who often distribute financial risks among several houses to support trade flow. However, this traditional form was mostly on participating banks unlike formalized syndication in use these days, as lenders did not adopt common loan documentation. Modern loan syndication has its roots in the United States of America, before the Second World War. The practice was for banks to lend money to their client on short term basis (i.e. within one year) with specific interest attached to the loans. However, since banks were controlled by the government through monetary policy guidelines, it became difficult for a single bank to lend all the money required by investors to meet projected investment programmes. In the United Kingdom loan syndication started with the formation of consortium of banks. Loan consortium was introduced to Nigeria in 1960's when consortium of commercial banks and acceptance houses produced bill finance scheme. Formalized loan syndication came in to being during the oil boom of 1970's when there was need for sufficient capital to finance the industrialization programme. Adeniyi (1990) posited that loan syndication has assumed international dimension because of its need to provide capital to finance the fast growing economy.

The borrower and the lead bank in loan syndication: Lead bank has a major role to play in syndication. When the borrower conceives the idea to embark on an investment programme, he chooses the lead bank, commissions management consultants to prepare a feasibility report on the proposed project. The borrower submits the feasibility report together with other pertinent documents which include information such as articles and memorandum of association, certificate of incorporation, audited account if the business already exists etc.to the bank. Occasionally banks solicit to lead the syndication especially if they have prior knowledge of the customers' intention to borrow large sum of money.
The two main parties to loan syndication the lender and borrower but since there are many lenders; we may categorize them according to their active role in the loan syndication. These parties are: The **Lead bank, The participating bank and The Agent bank** whose main function is to monitor the disbursement utilization and repayment of the credit as per the lending agreement

2.3 Process of Loan Syndication

The process of loan syndication is divided into (3) three main parts namely:
Contract/mandate stage; ii. The contractual/documentation state and iii. The post signing/credit administration stage

i. Contact/Mandate Stage: Macdonald (1995) regards the contract mandate stage as the green field state where the basic ground work and infrastructure for the successful prosecution of the syndication are inhibited and laid. Usually a prospective loan applicant draws up credit requirement and the most suitable package that would maximize its expected utility. These categories of requirements are presented to a bank who rather than commit itself to the total amount demanded or reject the loan application due to portfolio constraints, may rather suggest to the loan applicant that the desired credit be raised through a syndicate. Nervitt (1990) was quick to add a case of a limited liability company. In order to sell their project to other financial institutions, the lead bank must prepare the placement/confidential information memorandum. Ebgu (1998) emphasized the importance of a meeting among the players, where they would reach an understanding on all the issues involved and thereafter present a preliminary offer to the borrower in order to obtain a firm mandate to raise the credit if the borrower gives his consent.

ii. The Contractual/Document Stage: When this consent is given the entire arrangement then enters the most important aspect, which is the contract documentation stage. Amani (2004) insists that this stage gives legal effect of the syndication of the loan and the various agreements reached. The lead bank arranges drafting of all the legal documents to bind all the parties. The loan agreement is the document that binds the borrowers and the lender. The document provides for the disbursement of the funds- the principal, interest and fees as well as the basis of monitoring the financial health of the borrower until loan is liquidated. Humphrey (2004) said the amount of the loan, the purpose, the interest and other charges, terms of the disbursement of the funds, repayment schedule, termination procedure and security provisions are integral part of the document. The loan agreement must be signed by all the parties involved and stamped. Onwuaghara (1997) emphasized that the agreement between the lenders is the document that specifies the relationship between the lender, the duties and obligation of the lead bank. The arrangement relating to sharing of interest income and other issues are clearly stated.

iii. The Post Signing/Credit Administration: This essentially is the process of managing the loan amount. Teddy and Martons (2003) were quick to point out that all the participating banks are involved in the execution of the loan agreement. The draw down schedule will be supervised by all the participating banks. The lead bank assumes the role of an active player in the credit administration and management vis-a-vis the borrower. Agreeing with the view, Gerrard and Dale (2003) added that the lead bank sees to the proper utilization of disbursed funds and monitors the progress of the project while keeping other participants duly informed. Glyn (2004) emphasized that the lead bank has responsibility to liaise closely and regularly with the borrower to ensure compliance.

2.4 Empirical Studies

A lot has been reviewed in terms of lending activities of various deposits in money banks. Some opinions deliberated on the factor responsible for banks willingness to extend much credit to some sectors of the economy, while some discussed the effect of such extension of credit on productivity and output. Olokoyo (2011) used regression analysis to investigate the determinant of commercial bank lending behavior in Nigeria. The study discovered that commercial banks deposit have the greatest impact on their lending behavior.

2.5 Factors and Challenges Militating Against Efficient Loan Syndication

Various reasons can be adduced as constraints against efficient loan syndication. These include but not limited to the following: Time, Delay in Packaging the Loan, Dilatory Behavior of the Borrower, Rates and other Charges, and Loan Duration.

2.6 Conceptual Framework On Credit Administration

Effects and Impacts of Loan Syndication On the Nigerian Economy

Through loan syndication, financial institutions have continued to support the industrialization policy of the government including economic growth and reduction in the level of unemployment. Syndicated facilities are often medium to long term loan. Hence, loan syndication enhances the investment and economy's productive capacity by promoting the flows of funds into the industry and other priority section of the economy. This had reduced the amount of project failures and mitigated the number of abandoned project in Nigeria. Loan syndication saves the borrowers the pain of raising funds independently from institutions having prepared costly separate documents for each little credit and negotiating one on one with the different lenders terms and condition. The effect of loan syndication in Nigeria economy today is that loan syndication have lightened up the global credit on the primary and secondary markets, thereby reducing the volume of the investors in the secondary syndicated loan market in Nigeria and bringing down the value of shares in the stock market.

3. RESEARCH METHODOLOGY/INNOVATION

The study adopted both quantitative and descriptive designs. Being a survey designed to examine the role of financial institutions in the management of syndicated loans, it is descriptive and analytical in nature and it would be carried out based on lenders and borrowers views. In other words, different questionnaires were designed to elicit information on the two lines of businesses. Purposive sampling technique was employed as we already have a targeted sample size of not more than 140 respondents comprising the earlier mentioned participants of the loan syndication.

3.1 Source of Data and Method of Data Collection

The data for this study were both from primary and secondary sources. Primary data was obtained through the use of structured questionnaires designed to elicit information from 140 key officials of 9 mobile (borrower), and 13 money banks constituting the group of syndicating banks, the data collected were on the socio-economic characteristics such as; age, gender, length of service, marital status, etc.; Secondary data comprise relevant information obtained from publications such as Textbooks, Journals, Magazines, Newspaper, Articles and so on.

3.2 Analytical Techniques

The data collected from the field were analyzed using descriptive techniques and inferential techniques, the descriptive techniques used were: frequency counts, tables and percentages. The inferential technique used was SPSS (Chi-square (X^2)).

4. RESEARCH DISCOVERIES AND DISCUSSION

4.1 Socioeconomic Characteristics

Out of the 140 questionnaires administered, only 112 were adequately responded to and these were evenly distributed in that we have 8 (7.14%) from each of the 14 groups of respondents (13 DMBs and 9 MOBILE). The socioeconomic characteristics of the thirty (112) respondents was analyzed using frequency tables and percentages,63.33% were males while the remaining 36.67% were females, this is so because our area of focus on the study involved mostly the back office rather than the front office where we usually have more females interfacing with banks and 9 mobile customers. Most (46.67%) of the respondents were within the age bracket of 30-39years, 39.29% were less than 30years, only 12 of them (10.71%) are in the age group 40 – 49, while about 3.33% are within the age range of 18-19 and none of them is 50 years and above. The mean age is approximately 30years, implying that most of the financial institutions as well as other organizations in the 9 mobile category prefer the energetic youths in order to be able to withstand the stress required on the job.

Most of the respondents were married (59.82%), 45 (40.18%) are single, while none of them is divorced nor widowed. Responses on work experience showed that only 10 (8.93%) of the respondents has been in the organization for less than a year, 25 (22.32%) of them have been working between 1 -2 years, 55 (49.11%) have been working between 2 – 4 years and the remaining 22 (19.64%) have been working for over 4 years. In sum, about 85 (76%) of the respondents have more than 2 years experience on the job, indicating the importance of skill and experience in the administration and management of loan syndication.

4.2 Role of Financial Institutions in The Process of Loan Syndication

Out of the 112 respondents, 105 were of the view that financial institutions play a very significant role in the process of loan syndication. The respondents answered "yes" at 93.75%, while seven respondents stood against it at 6.25%. As we can see in table 1 below, the calculated X^2 = 85.02 and is greater than X^2 table value of 5.991 at 0.05 level of significance, the null hypothesis (against) was therefore rejected. It indicates therefore that financial institutions play a very significant role in the process of loan syndication. This was why Gerrard and Dale (2003) affirmed that the lead bank, having successfully coordinated the loan processing, must see to the proper utilization of disbursed funds and monitors the progress of the project while keeping other participants duly informed.

TABLE 1: Role of Financial institutions in the process of loan syndication

No Of Respondents	No In Favour	No Against	% In Favour	% Against	Calculated Value Of X^2	Table Value Of X^2
112	105	7	93.75	6.25	85.02	5.991

SOURCE: Field Survey, 2016

4.3 Impact of Loan Syndication On Nigerian Economy

As indicated in table 2 below, 75 respondents picked "yes" out of the total 112, implying that loan syndication has a great impact on Nigerian Economy. Loan syndication contributes significantly towards stimulating economic growth and development. This translates to 66.96% against the 37 respondents that picked "no" at 33.04%. Calculated X^2 was 38.01 and this is greater than the X^2 table value of 5.991. The null research proposition was therefore rejected. Thus, loan syndication has a positive impact on the Nigerian Economy.

TABLE 2: Impact of Loan Syndication on Nigerian Economy

No Of Respondents	No In Favour	No Against	% In Favour	% Against	Calculated Value Of X^2	Table Value Of X^2
112	75	37	66.96	33.04	38.01	5.991

SOURCE: Field Survey, 2016

5. CONCLUSION AND RECOMMENDATION

Loan syndication as an instrument of financing huge investments has come to stay. It is a potent source of finance to big time industrialists and it is beneficial to banks. Some of the benefits identified are: high returns to the banks, the prestige enjoyed being a lead bank, the generous commitment fees charged; and renewed and the enhanced status the bank faces after the lending. We have also seen that loan syndication has an impact on the economy and financial institutions play vital roles in carrying out syndicated loans even in the face of problems encountered in giving out and recovery a syndicated loan. The study recommended that awareness on loan syndication should be directed towards both the commercial banks as well as investors/industrialists. The following may also be useful towards the administration of successful loan syndication procedures: Banks should establish a special unit to take charge of loan syndication requests. The unit should be well staffed and operational active.

Serious attempt must be made to reduce the time it takes to consummate a syndication facility so as not to render the borrowers projects obsolete and unrealistic. The issue of onsite and offsite inspection of the borrowers' project must be taken seriously so as to ensure the success of the loan. Banks must address the issue of high interest charge and the floating rates which they adopt. A situation where a borrower pays over 25% of the principal as interest on the facility may make syndicated loan unattractive to genuine industrialists.

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