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Nigeria's 2005 Bank Recapitalization: An Evaluation of Effects and Social Consequences

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Abstract
This study critically evaluated the 2005 recapitalization of banks in Nigeria in terms of the positive fallouts and the unanticipated consequences. It was necessary to look at the performance of banks, the recapitalization, while at same time evaluating the human resources and other developmental challenges that grew out of the recapitalization effort. This critical evaluation required the formulation of some testable hypotheses to confirm the merit of the recapitalization or the absence of same. Tests of the differences of means were also applied to determine if there is any significant relationship between the pre and post recapitalization of banks and Nigerians economic growth. The results obtained confirmed that the 2005 recapitalization effort actually improved the performance of banks and also positively impacted the economy as a whole. The second hypothesis which tried to prove that there is no significant relationship in the pre and post performance of banks after the recapitalization. Our results tend affirm that the standard of living of the population were negatively affected mostly because of number of banks staff who had to be sacrificed and thrown into unemployment to achieve, what some banks experts in the system call " paper profits". The extended family system practiced in the country means that the negative consequences of the recapitalization was far reaching than expected, with the result that most families are still licking their "wounds" occasioned by the 2005 recapitalization. Banks recapitalization is not adequate to strengthen and enhance the banking system to face the global challenges. The implication of this study is that government should formulate policies that aim at contribute to the growth of economy and improving standard of living.
Keywords: Banks recapitalization, banks performance, economy, employment, standard of living.

1.0 INTRODUCTION

Bank recapitalization is the act of beefing up the long-term capital of a bank to the level at least required by the monetary authorities and to ensure the security of shareholders fund (equity plus reserve). Since 1952, the banking sector in Nigeria has witnessed several reforms and the issue of increasing the minimum paid up capital has become an annual ritual. The Central Bank of Nigeria on July 6th 2004, announced the recapitalization of banking sector from N2 billion to N25 billion with effect from 31st December, 2005. The initiation of increasing the banks minimum capital base to N25b in 2006 led to a remarkable reduction in number of banks from 89 to 24. Some of the banks merged and some were completely taken over by the stronger banks. The main objective of banks recapitalization as stated by Central Bank of Nigeria (CBN) is to mitigate the crises in the financial sector. Recapitalization which resulted to consolidation meger/acquisition is mixed of the other factors of initiation, technological innovations, and deregulations of financial services at the national level, opening up to international competitions, changes in corporate behavior such as growing intermediation and increase in shareholders' funds.

This equally reduced the contributions of banks to economy because banks play vital roles in the development of the economy. Banks obtain money from surplus savings and distribute to various deficit units of the economy The 89 banks have not been sufficient to meet the financial demands of the people and economy and now that we have only 24 banks, what is the impact on the financial sector of Nigeria economy? The 2006 consolidation was expected to improve efficiency and profitability of banks in Nigeria, thereby contributing heavily to the economic development with improved standard of living. The Japanese experience in the banks recapitalization resulted in the improvement of the economies of scale. In USA, as a result of consolidation, the number of banks reduced to from about 12000 in the early 1980s to about 7000 in 1999, and decrease more to 40%. Banking sector is the hub around which all other economic activities revolve. In every country, economic activities should be enhanced where sufficient job opportunities are created and capacity utilization is at its maximum. However, the recapitalization of 2006 left a good number of workers out of jobs.

Again, Adegbaju and Olokoyo, (2008) maintain that banking sector recapitalization in Nigeria is driven by the need to deepen the financial sector and reposition of the Nigeria economy for growth; to become integrated into the global financial structural design and evolve a banking sector that is consistent with regional integration requirements and international best practices. The question is whether the recapitalization of 2006 saved or marred the economy?

1.1 STATEMENT OF PROBLEM

The primary objective of a sound capital base is to guarantee an efficient banking system. Lemo (2005) said that solid capital base would enable the banking system to develop the required flexibility to support the economic development of the nation by efficiently performing its functions as the pivot of the process of financial intermediation. In the same vein, Uchendu (2005) said that banks capitalization in Nigeria was preceded against the backdrop of banking crisis due to highly undercapitalization of commercial banks; weakness in the regulatory and supervisory framework; weak management practices; and the tolerance of deficiencies in the corporate governance behavior of banks.

Some problems of banks as stated by Ajede were that as at May 2005, there were 89 banks in Nigeria with only 3,382 branches, reflecting the existence of a large member of small banks with relatively few branches when compared to other countries of the world. A typical example is South-Korea that has eight banks with about 4,500 branches Deloitte (2005). The Nigerian Apex bank, CBN resolved to increase the minimum capital base of banks from a mere N2b to N25b in order to eliminate the unserious banks and strengthen the healthy ones. Many people hoped that the increase in the capital base will go a long way to salvage the banking sector, reduce constant bank failures and enhanced economic development. However, when the good number of operating banks was eliminated; many people inadvertently got affected in a negative way as many staff members lost their jobs. The implications were quite adverse to the economy, given the extended family system which pervades the social and cultural system in Nigeria. It is on this background that this study evaluates the economic consequences of 2005 recapitalization with the sole objective being to determinine whether it inflicted more harm than good to the nation's social and economic fabric. The rest of this paper is as follows: section 2 review the related literature, 3 describes the data and methodology, section 4 deals with the data analysis and the results, section 5 deals with the conclusion and recommendations of the study.

1.2 OBJECTIVES OF THE STUDY

The primary objective of this study is to evaluate the impact of banks recapitalization of 2005 on the Nigeria economy. While the specific objectives are:

1. To determine the relationship between banks recapitalization and the performance of the economy
2. To evaluate the relationship between banks recapitalization and employment

1.3 HYPOTHESIS OF THE STUDY

Based on these objectives, the following hypotheses were formulated

1. There is no significant relationship between banks recapitalization and economy
2. There is no significant relationship between banks recapitalization and employment

2.0 REVIEW OF RELATED LITERATURE

Capital is a very vital tool for the efficient and effective performance of any business enterprise especially banks because of the dynamic nature of their operations. (Kanu & Isu, 2013).

According to Soludo (2004), "The Nigeria banking system today is fragile and marginal. The system faces enormous challenges which if not addresses urgently, could snowball into a crisis in the near future". Soludo identified the problems of the banks, especially those seen as ineffective, as persistent illiquidity, unprofitable operations and poor asset bases.

According to Adegbaju and Olokoyo (2008) the primary objective of bank capital is the maintenance of public confidence because it is the only collateral that any bank could offer to the depositors of funds.

Imala (2005) posited that the objectives of the banking system are to ensure stability and facilitate sustained rapid economic development. Regrettably, these objectives have remained largely unattained in Nigeria as a result of some deficiencies in the banking system.

Janson (2005) emphasizes on the fact that a financial institution needs to hold capital to attract depositors and also be ready to pay interest on deposit and dividend on shares.

One can say that banks hold capital to help serve as a buffer against unexpected losses such as those suffered in a recession of unexpected economic shocks. According to Soyinbo and Adekanye (1992) and Adam (2003), most banks in Nigeria failed as a result of their endemic capital inadequacies, overtrading, lack of regulation and control; and unfair competitions from the foreign banks. Therefore, increase in capital base will enhance bank profitability as well as performance. Aderinokun (2004) maintain that increasing the capital base of banks in Nigeria would strengthen them and, in the process, deepen activities within the industry, provide better funding for banks lending activities and increase profitability. Improved capital will help to reduce risk, to ensure quality asset management and to put banks in a strong liquid position.

2.1 BANKS RECAPITALIZATION AND ITS IMPACT ON EMPLOYMENTS.

In this section, the study reviewed the issue of capitalization and levels of employment. Specifically, to ascertain whether capitalization has any significant relationship with levels of employment in the system. Bank recapitalization of 2005 reduced the number of banks from 89 to 24banks. This drastic reduction in the number of banks had far reaching on employment in the sector in particular and the economy as a whole.

The people rendered jobless in Nigeria have lots of dependants; some are involved in small retail businesses; as a result, these retail businesses have been forced to liquidate or preparatory to eventual closures in most cases. The sequences of events have been thus; the bank staff are retrenched and those dependent on them, also lose their businesses. The effects are that many Nigerian are out there in the streets jobless, increasing the high incidence of crime in the country.

As a result of global financial crisis which led to another recapitalization in United States of America, President Obama repeatedly said that he is trying to fix the worst recession since the Great Depression in the 1930s. The crisis which was global in nature produced the following statistics: as of July 2009 more than 12.5million Americans were unemployed and more were expected to join the list of the unemployed. Unemployed people are unable to participate fully in economic decisions, requiring varied expenditures.

Numerous retail shops and small businesses have had to restructure their enterprises because of the prevalence of the dependency syndrome pervading the economy.

On another note, Uchendu (2005) said that he identified Job losses which could have nevertheless occurred if remedial measures were taken before recapitalization. Gross country cost estimates to national economies resulting from banking sector recapitalization are enormous ranging from 12% of GDP for Malaysia 15% of GDP for Korea, 45% of GDP for Indonesia. Adedipe as cited in Uchendu (2005) opined that an adequate manpower planning and control measure is fundamental in order to achieve the goal and gains of the recapitalization exercise. This suggested that proper manpower planning should have been done during recapitalization so that level of unemployment remains within the norm. As has become obvious, the recapitalization exercise created more unemployment in the system than ever anticipated. Many middle level Nigerians who were in the banking sector have forced their way to Canada to seek new live, with unemployment benefits hardly in the horizon.

Jika (2004) as cited in Aminu and Aderinokun (2004) maintained that increasing the capital base of banks in Nigeria would strengthen them and, in the process, deepen activities within the industry. "Growing the Nigerian economy is about the number of banks that have the capacity to operate in all the states of the federation, funding agriculture and manufacturing concerns, and in the process generate employment for Nigerians." However, the number of the banks were reduced which resulted in underutilized human resources.

Ogunleye (2005) observed that it was not surprising that the sector witnessed widespread financial distress, because it was unable to adequately mobilize and allocate the financial resources in the economy, to achieve the desired growth. . It was generally agreed that the capitalization has reduced Job schedule because of reduction in number of domestic branches of the banks. Umar, (2009) said that recapitalization can lead to reduced morale, job and career dissatisfaction, employee stress, and uncertainty. That is exactly Nigeria experience, even those who are working in bank are afraid of tomorrow. Some changed banks as if they were changing clothes; within a year, they work in more than four banks because of the fear of unknown.

Althouth Ajede maintained that recapitalization improved the total welfare package of the remaining banks employees, it was increased salaries followed by increased allowances top highest in the improved total welfare and man power training. The issue is about the people that have been laid off as a result of recapitalization of banks and the level of impact on the standard of living. How many lives have been touched and how many employees as result this unexpected loss of jobs and fear of unknown future resigned from banking job? On the theories of economic development emphasis has always been on the importance of human capital.

2.2 BANK RECAPITALIZATION AND NIGERIAN ECONOMY.

The following authors like Boyd and Runkle (1993), Peek and Nosengree (1998), Allen and Gale (2000), Gelos and Roldos (2002), Sani (2004), Adetiloye (2006), Onaolapo (2008) and Adegbayi et al. (2008) made some empirical contributions on the positive impact recapitalization on the economy. Kanu & Isu, (2013) maintain that capital position of most Commercial banks in Nigeria have marked increased ever since the change came into effect in 2005. Onaolapo found out that recapitalization has improved the financial health of the banks. Onaolapo discovered that the percentage of sound bank has reached the highest point of 70% as at 2006. This finding was collaborated by Sani (2004). Using a regression model, Sani discovered a positive and significant relationship between recapitalization policy and economic growth in Nigeria. To the contrary, Adegbaju (2008) examined the effectiveness of recapitalization on the performances of 20 Nigerian banks. He discovered that while few banks recorded appreciable improvements in their performances, majority of the banks remain the same or even worse off. This has negative impact on the economy of the country.

The post-recapitalization performance of all Nigerian banks was over shadowed in 2008 by the global financial precipitated in August 2007 by the collapse of the sub-prime lending market in the United States (Bunescu, 2010). The crisis led to the crash of most other sectors and markets across Europe with consequent effect on developing economies especially oil-export dependent countries like Nigeria. The rush by stock investors to liquidate their investment to repay their loans in order to avoid the excessive lending rate caused the Nigerian stock market to crash. The crash of the stock market did not only affect the financial performance of some of the banks, it also increased their risk exposure. Sanusi (2010) attributed the post-recapitalization challenges of Nigerian banking industry to the inability of the industry and the regulators to sustain and monitor the sector's explosive growth which as a result led to risk-build in the system.

There is therefore a divergence views on the effectiveness and growth Demirguc-kunt and Levine (2003) argued that recapitalization drives bank consolidation (mergers and acquisitions) so that increased concentration goes hand -in- hand with efficiency improvements, Boyd and Runkle (1993), Sulaiman (2004) and Imala (2005) buttressed this argument. They stressed further that consolidated banking system enhances profits efficiency, and lower bank fragility. More importantly, high profits arising from this provides a buffer against adverse shocks and increases the franchise value of the banks. The bank recapitalization of 2005 appears to have resulted in the following:

- Increase in the capital bases of banks
- Increase in shareholder's funds
- Risk reduction in the recapitalized banks

However, recapitalization of 2005 increased the level of unemployment in Nigeria. A lot of bank workers were laid off as a direct consequence. Economic activities were paralyzed with many businesses closed, because of the drastic reduction in the flows of money in the hands of people. The efficient and effective operation of the economic activities in the country is determined by utilization and contribution of human resources to the development of the economy because it is through human resources that economy is developed and sustained.(Note)

- Nigeria was still under the British Rule and UK Pound was used as the common

= From 1969 to 2005, Naira was the prevailing currency in Nigeria

3.0 RESEARCH METHODOLOGY

MODEL SPECIFICATION

The models take the form of simple equations operating with one independent variable – Minimun Capital Base and one dependent variable Economic Development.

PAT =f(MICAPB)
TDL=f(MICAPB)
SHF =f(MICAPB)
TAS =f(MICAPB)
LUNEMP=f(MICAPB)
LPOV=f(MICAPB)

Where:

MICAPB = Minimum Capital Base
PAT= Profit after Tax
TDL=Total Deposit Liability
SHF =Shareholders Fund
TAS =Total Asset
LUNEMP = Level of Unemployment
LPOV = Level of Poverty

Total Deposit Liability, Profit After Tax, Total Asset , and Shareholders fund are proxies for economic development. While level of poverty and level of unemployment are proxies for unemployment.

4.0 DATA PRESENTATION AND ANALYSIS

Hypothesis

4.1 There is no significant relationship between the pre and post banks recapitalization and economic development. (NOTE 2)

The results obtained from testing the hypotheses indicate that there is no significant relationship between the pre and post recapitalization of banks and economic development. Using test of differences of means indicate that P(Value) for various variables are TDL .001, PAT .003, TAS .295 , SHF .000 and the means are TDL 73052.70964, PAT 626890.4096, TAS 299243.8011, SHF 2134757.704. The means, standard deviations and P(value) are quite significant. This implies that in both the pre and post recapitalization of banks, there have been improved performances of banks as shown in the result above. Although banks performed better after the recapitalization, it is mostly as a result of the increase in the capital bases of banks. This has impacted positively on the economy. This conforms to our apriori expectation that banks performance is positively affected by the recapitalization. The positive correlation between banks performance and recapitalization has also been demonstrated by Kanu and Isu (2013), Furlong and Keeley (1989), Keeley and Furlong (1990), Berger (1994) and Kwan and Eisenbeis (2005). However, Hughes and Mester (1997) argued that high capital results high cost and low profit. It is widely believed that the overall performance of banks would be enhanced by the increased capital.

4.2 The second, hypothesis that there is no significant relationship between `pre and post banks recapitalization and standard of living of people proxy by Level of unemployment, Level of poverty in the economy was presented with Bar chart as shown below. (Note 3)

The result of hypothesis that there is no significant relationship between `pre and post banks recapitalization and standard of living of people proxied by Level of unemployment and level of poverty in the economy indicate that banks recapitalization increase the level of unemployment. The level of unemployment during the pre banks recapitalization was lower, and more in tun e with the norm. This is inconsonance with our aprori expectation which implies that the reduction of banks from 89 to 24 would naturally create less opportunity for people to work and develop their human potentialities. This led to the astronomical increase in the number of the unemployed, with the attendant upsurge in poverty. This implies that increase in banks capital has negative impact on the level of employment. Although, Jika (2004) as cited in Aminu and Aderinokun (2004), agreed that capitalization would generate employment for Nigerians.

Ogunleye (2005) argued that the inability of consolidation to adequately mobilize and allocate the financial resources in the economy in order to achieve the desired growth has resulted to the rising unemployment. Umar, (2009) said that capitalization can lead to reduced morale, job and career dissatisfaction, employee stress, and uncertainty.

From what has happened since the recapitalization, it is obvious that the recapitalization exercise reduced the job schedules of many bank personnel, resulting in the apparent unintended consequences in the nation's economic platforms and strata.

It has been observed that the 2005 recapitalization has reduced the rural banking. Infact, in some situation, some Nigerians have to travel up to 200 kilometers to do banking transactions because of the merger , those banks who do not find it profitable have to close shops causing decline in banking inclusion (Isu, 2009).

Recapitalization led to banking culture and people to substantial exclusion from banking sector. It has equally made management of monetary policy difficult. A lot of money were no longer in the banking sector because of reduction in the number of banks and decline in the banking activities. The implication is that inflation is still remaining at double digits, confirming that the percentage of money outside have made valid the execution of monetary policy increasingly difficult.

5.1 CONCLUSION

Banking sector in Nigeria has had numerous reforms but the laudable one among them was the recapitalization of 2005 –which increased the banks' capital bases to N25b. It is hoped that this will strengthen the banks to face financial challenges in the global market and place, to restore peoples' confidence in Nigeria banking system and to minimize the high incidence of bank failures pervading the sector.

The results show that 2005 banks recapitalization impacted positively on the economy because of the improved banks performance. Again, we could confirm that banks recapitalization of 2005 increased the level of unemployment, reduced standard of living of most of the people and adversely impacted on Nigeria economic space. Above all, that bank recapitalization as a reform has not stemed the ever rising possibility of more bank failures in the country.

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NOTE
Note 1
TABULATION OF MINIMUM CAPITAL FOR BANKS

YEARS	AMOUNT OF CAPITAL
-1952	£0.13m
= 1969	N0.3m
1979	N0.6m
1988 (February)	N5m
1988 (October)	N10m
1989	N20m
1991	N50m
1997	N500m
2000	N1b
2001	N2b
2005.	N25b

Source: CBN Statistical bulletin

Note 2.
DATASET NAME Dataset 1 WINDOW =FRONT
T- TEST GROUPS=YEARS (2005)
/MISSING=ANALYSIS
/VARIABLE = TDL PAT TAS SHF
CRTERIA= CF (.95).

T. Test
Group Statistics

YEAR	N	Mean	St Deviation	St. Error Mean
TDL>= 2005.00 <2005.00	8 7	68864.000 19303.4286	19662.78709 22275.54221	7022.55572 8419.36357
PAT>= 2005.00 <2005.00	8 7	406503.5000 10720.4286	28168525:5 7913.62584	09559.43101 2991.06842
TAS>=2005.00 <2005.00	8 7	254461.2500 154057.4286	192517.4899 159007.9010	680065.21129 60099.33752
SHF>=2005.00 <2005.00	8 7	1582571.375 116862.7143	803876.5091 147991.6626	264213.2654 55935.59076

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Independent samples Test

		Levene's Test for	Equality of variances	t-test Equality of means
	f	Sig.	t	df
TDL Equal variances assumed Equal variances not assumed	.014	.907	4.558 4.520	13 12.194
PAT Equal variances assumed Equal variances not assumed	8.815	.011	3.700 3.974	13 7.013
TAS Equal variances assumed Equal variances not assumed	203	660	1.091 1.106	13 12.971
SHF Equal variances assumed Equal variances not assumed	38.13	.000	4.733 5.090	13 7.540

Independent samples Test

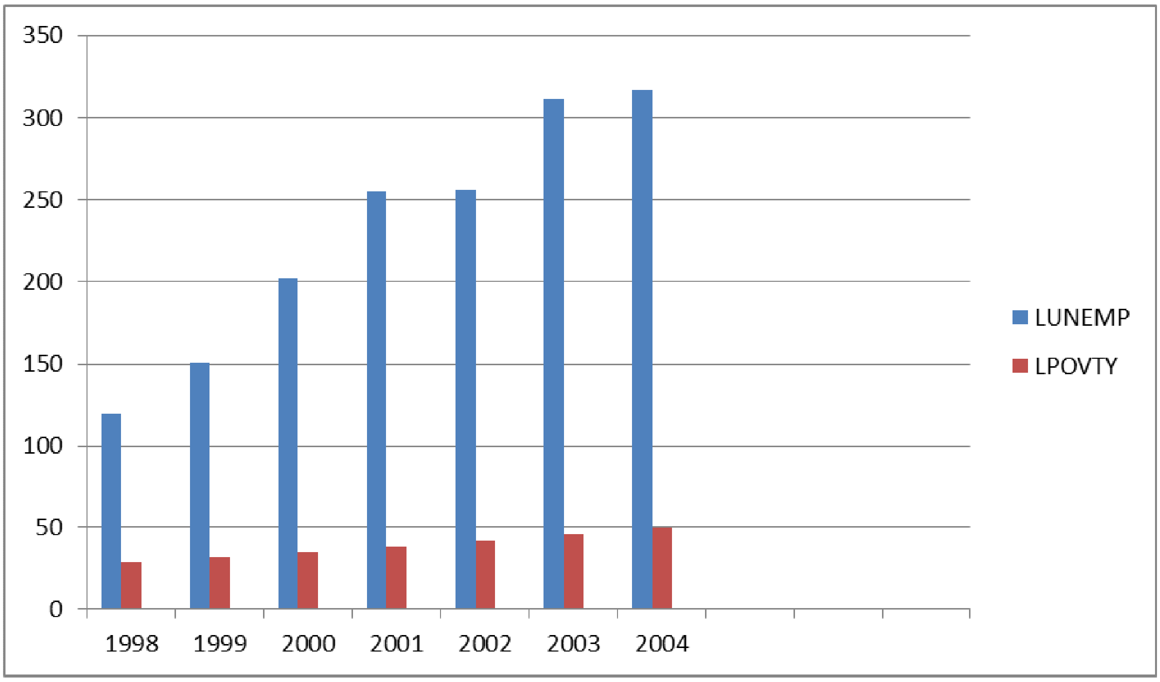
			t-test for Equality	means
				95% confidence
	Sig(2-tailed	Mean difference	Std.error differences	lower
TDL Equal variances assumed Equal variances not assumed	.001 .001	49660.57143 49560.57143	10874.13398 10963.66597	26068.43322 25714.83685
PAT Equal variances assumed Equal variances not assumed	.003 .005	395783.0714 395783.0714	106975.8800 996600.35311	164675.7333 160361.6641
TAS Equal variances assumed Equal variances not assumed	.295 .289	1004038214 1004038214	92039.83731 90800.89954	96436.15825 95803.73813
SHF Equal variances assumed Equal variances not assumed	.000 .001	1465706661 1465706661	309696.6996 289565.2733	796649.6179 790571.9974

Independent samples Test

	t-test for Equality
	95% Confidence
	Upper
TDL Equal variances assumed Equal variances not assumed	73052.70964 73406.30601
PAT Equal variances assumed Equal variances not assumed	626890.4096 631214.4788
TAS Equal variances assumed Equal variances not assumed	299243.8011 296611.3810
SHF Equal variances assumed Equal variances not assumed	2134767.704 2140845.324

Note 3

PRE BANKS CAPITALIZATION



POST BANKS CAPITALIZATION