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EXPLORING DEVELOPMENT FINANCE INSTITUTIONS TO BRIDGE THE INFRASTRUCTURE DEFICIT DURING A PERIOD OF REVENUE DECLINE IN NIGERIA

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ABSTRACT

This paper examines the possibility of exploring development finance institutions to fill the financing gap in the infrastructure provision in Nigeria. This study is premised on the finance-led hypothesis that finance has a catalytic effect on the economic transformation process. The positive contributions of developments finance institutions to infrastructure expansion in other economies is remarkable, noteworthy and compelling, more so with the reality of dwindling revenues in this period of business disruption and financial instability.

Keywords: Finance, Financial development, financing gap, infrastructure deficit, development finance institutions, Gross Domestic Product, Economic growth

INTRODUCTION

The role of finance in an economy is indisputable, just as infrastructure is an enabler of economic activity. Finance is the lifeblood of any organisation and the economy in general. Money plays an important role in all economic activities both in the private and public sectors of the Nation. Illiquidity is mostly at the root of corporate failures and the collapse of public governance. The inability to earn sufficient revenues to meet obligations usually results in poor or underperformance by corporate managers and public servants. Business trouble means different things to different people depending on the perception of the stakeholder. Business trouble or distress often results in loss of investment, loss capital, loss of jobs, loss of goodwill, loss of reputation, loss of income and loss of corporate entity. Business failures are attributed to a number of factors such as loss of revenue, poor management quality, mismanagement of resources, lack of capital or investment, bad loan or wrong credit utilisation, heavy interest burden, frauds and economic conditions.

The coronavirus outbreak with its spread to nearly all the nations of the world has adversely affected the households, business firms and national economy. The pandemic has effectively shut down almost all economic transactions within national territories and cross- borders businesses. The international border has been closed to control the spread of the disease which presently has no vaccine for its cure. Production of goods is almost at a standstill with the exception of a few essential organisations for national security and interest. At the household level, sources of income (salaries, wages and trade and transaction income), especially in the private sector and informal sector, is almost frozen. The income of business firms is declining with possibilities of corporate failures, job cuts and losses. Public revenue to government at all levels, oil or non- oil revenue is reducing at a very fast rate due to paralysis of economic activities in most sectors of the country, especially with a heavy dependency on oil production.

Life and livelihood are two variables with the latter as the dependent variable. Life comes first so all resources (financial, materials and manpower) must be deployed to secure life. After the return of normalcy, the household, the business firms and the Government (Public Sector), livelihood would become a key consideration. There would definitely be a structural adjustment, policy realignment, and prioritization within the National system for efficient and effective allocation of scarce resources for greater social impact on the citizens. The Federal Government and the federating states would decide the economic and social implications and benefits of projects and programmes based on revenue realities.

The infrastructure deficit in the country is dreadful and demanding, in the facing of fall in revenues. Adequate provision of infrastructures would not only facilitate economic revival but also reduce drastically the production costs of goods and services in comparative terms. As infrastructure is a major component and bedrock for economic development in every country. The availability of power, health facilities, roads and other transport facilities, housing and telecommunication are inevitable for economic development. Funding the infrastructure stock with Public revenue has continued to widen the infrastructure gap in Nigeria especially in the face of dwindling government revenue. Hence the level of decay of almost roads in the states of the federations, the poor health facilities, incessant power failure all these have contributed to the high of goods and services in the system. While the volume of infrastructure is rapidly declining the population growth rate rising thereby putting pressure on the inadequate stocks of infrastructural facilities. Jackson, et al (2014) argues that in Nigeria, as in other parts of the world, infrastructure needs continue to expand and increase on the other hand government revenue continues to be constrained by unstable crude oil production. With the growing demand for infrastructural development in Nigeria, it is very obvious that Government budgetary allocation is inadequate to solve the infrastructure gap of the country.

Nigeria's infrastructure stock stands at 35% of the Gross Domestic Product (GDP) which is below the international benchmark of 70% of GDP (Sanusi, L. S. 2012). According to Failure to Act (2016) infrastructure is the backbone of the US economy and necessary input to every economic output. It is critical to every nation's prosperity and the public's health and welfare. Infrastructure deficits have adverse effects on businesses, households and the economy as a whole such as high production costs, high unemployment rate, lowers disposable income and increases consumer spending. In its 2016 Reports on Bridging Global Infrastructure gaps, Mckinsey Global Institute states that " today the world invests some $2.5 trillion a year in the transportation, power, water, and telecom systems on which businesses and household depend. Yet this amount continues to fall short of the world's ever-expanding needs which results in lower economic growth and deprives citizens of essential services" The world needs annual average investments of $3.3 trillion in economic infrastructure to meet up the growth in population. Unfortunately "the global investment in infrastructure is reportedly to be a decline in percentage to Gross Domestic Product (GDP) among the G20 economies since the financial crisis in European Union, the United States, Russia, and Mexico." Sustainable growth and development of any economy depends on the provision and maintenance of adequate infrastructure and building infrastructure capacity of a country requires huge money. The Structure of the Nigerian economy is predominantly primary product-oriented (agriculture and crude oil production) with oil and gas sector accounted for over 70% total revenue which is subject to global market forces has constituted funding constraints for investment in infrastructures. According to the African Development Bank report on An Infrastructure Action Plan for Nigeria, it acknowledges there is a widespread agreement that the inadequate physical infrastructure of the country is one major constraint to sustained and broad-based strong economic growth. Addressing these challenges will require a substantially larger annual level of investment in infrastructure, a significant increase in annual allocations for routine and periodic maintenance to ensure reliable infrastructure services and increased attention to the institutional arrangements that support the infrastructure network of the country and the related services.

It is acknowledged that good roads, expansive rail system, and constant power supply could positively improve productivity and movement of goods and people. On the other hand, poor infrastructure generally slows down the rate of economic growth and development. In many of the advanced countries, rapid industrialisation has been attributed to the increasing involvement and relevant development finance institutions as suppliers of long term funds. Countries such as Germany, Japan, France, and Holland have employed development banks to meet the needs of the growing industry (Diamond 1957). This Developmental role of Development finance institutions was acknowledged by the Central Bank of Nigeria as specialized financial institutions established with a specific mandate to develop and promote key sectors of the economy considered to be of strategic importance to the overall socio-economic development objectives of the country (Central Bank of Bulletin, 2015)

The infrastructure deficit is worsening rapidly due to a decline in public revenue and an increase in government social responsibilities. It is a universal knowledge that as the population of a country increases the infrastructure needs would be growing as well. The provision of adequate infrastructure facilities such as roads, electricity, energy, health facilities, qualitative and quantitative education, railways, housing, communication are essentials and represents core values and pillars economic development in terms of sustenance, self - esteem and freedom. (Todaro and Smith, 2011). In Nigeria, the unstable oil production and fluctuating oil prices have further worsened government capacity in the provision of infrastructure facilities generally as significant revenues are employed for debt servicing and increasing expenditure on subsidies. This has created a huge infrastructure gap. Nigeria's infrastructure stock stands at 35% of her Gross Domestic Product (GDP) which is below the international benchmark of 70% of Gross Domestic Product (Sanusi, L. S, 2012). Conversely, Nigeria has continued to invest less financial resource in the provision of infrastructures compared with other nations – India (58%), South Africa (87%), China (76%), Indonesia (70%), and Brazil (47%).

This huge infrastructure gap is a major constraint towards the industrialisation of the economy and has consequently retarded growth with negative effects such as corporate business failures, high job losses, high rate of unemployment, high poverty level, high mortality, high rate of inflation, poor standard of living, high cost of living, high level of insecurity among other socio vices that are prevalent in the country. The resultant effects of infrastructure deficiency have hampered the movement of farm produce to the urban markets thereby creating food insecurity, growth in rural-urban migration, the frustration of Government Industrialisation policy programmes, disincentives to entrepreneurship development, discouraging foreign investments into the real sector, underutilization and underproduction by many manufacturing companies while established multinational business firms have relocated to other countries.

The paucity of funds and inadequate statutory revenue allocations have evidently weakened the capacity of Government at all levels in meeting the ever-increasing demand for stocks of infrastructure through the country. More so with the yearly budgeting of over 85 % for recurrent expenditures by the government at all levels. Incidentally, the formal banking institutions especially the Commercial banks are not operationally structured to supply the needed long term funds for this all-important infrastructural development and maintenance of existing stocks. It is the funding gap of infrastructure development in Nigeria that this research work is focusing on the role of Development Finance institutions (DFIs). As development finance institutions reputed as providers of long term fund that catalytic nature to stimulate economic growth and development. Research works on Development banks in developing countries have revealed their significant contributions to the economic development of their respective countries thereby improving the social-economic wellbeing of their citizens. Also in developed nations, these specialized financial institutions serve as a catalyst for economic development through the provision of appropriate funding of socio-economic activities that aid national economic development.

The positive finance and growth relationship had been validated with a number of studies over the past decades. (See Schumpeter, 2011, Mckinnon,1973, King and Levine 1997 among others).The role of development finance institutions in the facilitation of the process of economic development has been premised on the postulations of development necessity, financing gap, stimulating growth, rapid reconstruction strategy and Post- World War 11 theory. Nwankwo (1985) identifies three theories for the rationale for the establishment of development banks namely (i) Gap thesis,(ii) Exigency thesis and (iii) Catalyst thesis. **Gap Thesis -** The need for the provision of the medium and long term often necessitate the creation of specialized finance institutions or development finance institutions to fill the funding gap.

Exigency Thesis- the desire for the provision of infrastructures and enabling environment after post wars due to massive destruction of infrastructures results in the formation of multinational financial institutions to support development on a global basis. **Catalyst Thesis –** this thesis is based on the need for the supply of long term finance for rapid economic transformation among the developing countries generally. Nwankwo(1985) development banks are established to stimulate a fast rate of economic development and from the belief that industrial expansion can be achieved speedily and the understanding that inadequate access to finance is a major impediment to the establishment and growth of small independent manufacturing and industrial enterprises. Hence the development banks are creatures of government for these reasons – gap thesis, exigency thesis and catalyst thesis to tackle the developmental needs and also provide both medium and long term finance for commercial enterprises, entrepreneurship development and industrialization which the conventional banks are inadequately or inappropriately positioned to give such financial assistance.

The theoretical foundation of this research proposal is the Gap Theory or Analysis which emphases the necessity of employing development banking institutions to bridge the infrastructure funding gap which the conventional commercial banks are ill-equipped or are not structurally empowered for the medium and long term funding. Previous works have been on the supply leading hypothesis to determine the causality relationship between financial development and economic growth with affirmative results by different researchers. Similarly, research results on the positive contribution of commercial banks to economic development littered works of literature. Ozturk, Karakas and Hisarciklilar (2010) examined the role of Development banking in promoting industrialisation in Turkey and the research revealed the positive developmental role in the Turkish economy. In Nigeria, there non- empirical publications on the vital role of

Development finance institutions on key sectors of the economy like infrastructure, Agriculture entrepreneurship in the country. This research proposal is an empirical study to investigate the specific role of Development finance institutions in promoting infrastructure in the country.

The provision of an appropriate infrastructure is inevitable for the following reasons socio-economic transformation, entrepreneurship development, the industrialisation of the economy, transforming and growing the agricultural sector, ensuring food security, mitigating rural-urban drift, poverty reduction, reducing the unemployment rate, crime control and reduction and attracting foreign direct inflows. Development is seen as a process of continuous change in socio-economic and institutional structures for a nation to attain desirable aspirations of the people and national objectives. Economic transformation involves scaling up economic activities, urbanization, industrialisation, environmental upgrade, human capital development, agriculture development and mechanization, rural development and improvement of the welfare of the people. Capital accumulation and formation is an essential determinant for economic development. Financing development is a direct function of financial resources mobilized from savings, domestic investments, and foreign investments that are available for economic growth.

CONCEPTUAL FRAMEWORK

In literature the terms Development bank and Development finance institution are conceptually the same hence they are interchangeably applied as their purpose of establishment is developmental by governments. While a Bank is generally a financial institution licensed to engage in the banking business of accepting deposits from the public and extending credits to customers, it should be noted Development banks are essentially established to promote industrialization and entrepreneurial development and are classified as non-banking financial institutions or specialized financial institutions with a mandate to provide long term financing unlike commercial banks that provide short term loans. These specialized financial institutions are known by different names like Finance corporation, Credit and Investment, Credit Corporation, Development bank, Development Institutions or Investment Banks among other names. Whatever the title, essentially these specialized institutions have the mandate providing long term loan or equity capital to preferred sectors of the economy.

The major objective of the Development bank is the promotion of industrial development, entrepreneurship development by facilitating the movement of financial resources for the acquisition of real assets for economic development. Desai (2007) defines development bank as a "financial institution concerned with providing all types of financial assistance to enterprises in the form of loans, underwriting, investment, guarantee operations and promotional activities to accelerate the process of sustainable socio economic development and fosters growth and cooperation. It is a multi-purpose institution which shares entrepreneurial risks changes its approach in tune with the industrial climate and encourages new industrial projects to bring about speedier economic growth

Rigouzzo (2010) describes Development finance Institutions as government-controlled institutions that invest in sustainable private sector projects with the twofold objective of spurring development in developing countries while themselves remaining financially viable. Similarly, Sharma (2010) explains development finance institutions as government-owned financial institutions set up to provide finance to projects that are important for the development of the nation. These institutions are established to provide medium long term funds to finance the needs of the economy.

The mandate of Development Finance Institutions

The mandate of Development finance institutions is to facilitate economic growth through development and investment loans which conventional banks are unable to provide by bridging the gap between commercial investment and national economic planning goals. They are created with the specific objective of meeting the financial requirements of the nation, to facilitate rapid industrial development of the economy in line with the economic objectives of the state.

Globally Development banks have contributed significantly to economic progress, serving as a catalyst for economic transformation. As they are conceived as financial gap fillers or specialized funds providers to meet specific purposes, their primary focus is developmental. These financial institutions normally address themselves to solving funding challenges of enterprises or underdevelopment such as ;(i) Stimulation of the capital market (ii) Growth of broad-based entrepreneurship (iii) Promotion of a diversified industrial structure (iv) Encouraging new ventures (v) Developing rural economy and (vi) Promoting private sector.

According to Sanusi (2012), development finance institutions in developing countries exist traditionally to address market failures and as a complement to government resources and market financing. The dual roles of these institutions involve financing development projects and acting as facilitators of finance in the broader industrialization and economic development strategies of countries. Therefore development finance institutions act as a catalyst to accelerate industrialization, economic growth and human resource development. According to Jhingan (,2012), these specialized financial institutions are those financial intermediaries which provide long term finance, promote entrepreneurship, enhance organisational effectiveness and upgrade know-how and do how. They intermediate by supplying medium and long term funds to bankable economic development projects and providing related services. Their functions, therefore, be seen as a multi-purpose for all-round development focusing (i) industrial development (ii) entrepreneurship (iii) leadership (iv) efficient resources management (v) resources mobilisation and (vi) economic development and growth

Imperatives of Development finance Institutions

Economic transformation requires long term investment for the expansion of productive capacities as well as infrastructure development that underpins industrial activities and reduces bottlenecks. Rapid transformative growth will also require that the developing world a more autonomous development strategy in light of the fragile world economic recovery and the uncertainty about developed country demand and capital as drivers of developing country growth (UNCTAD,2016). The challenge of infrastructure provisions is enormous due to capital intensive needs, unfortunately, which most developing countries can hardly afford solely, which has resulted into a financing gap that is difficult to fill by mainstream banking institutions. Bhattachary and Romani (2013) recognized the need for financing support for Sustainable Development Goals. Lack of investment in infrastructure is a key bottleneck to economic transformation. The global infrastructure financing falls within $5 trillion to $ 7 trillion per year and for developing countries alone, an infrastructure financing needs there is a shortfall of $1.0 trillion to $1.4 trillion per year. And these financing needs are of long term nature that requires maturity transformation, greater market and commercial risks which commercial lenders often tend to avoid due to higher social returns than private returns. The relevance or rationale for the establishment of development finance institutions by governments or regional and international bodies to fill the financing gap has become appropriately important in view of required tenor and volume and social benefits globally as against private returns. Development finance institutions have consequently emerged to provide long term capital to support growth and economic transformation by accelerating economic growth.

Economic underdevelopment is generally linked to lack of or inappropriate or insufficient investment of fixed and working capital. As capital accumulation or formation is cardinal for economic growth because financial assets are needed to acquire real assets like land, buildings, plants, machinery that would facilitate economic activities. Capital shortage or deficit is highly inimical to socio-economic development hence capital accumulation is generally seen as the vehicle of economic growth. Savings and investments are determinants of economic growth. Financial institutions as intermediaries are responsible for facilitating the transfer or movement of funds from the surplus sector to the deficit sector for productive employment in the preferred sectors. While commercial banks as savings mobilizers such savings are tailored towards providing short term financing as against the medium or long term funds required for industrialization and infrastructure development. Other non-banking financial institutions such as Insurance companies, Mutual funds, Provident fund are very conservative and risk-sensitive to support industrial and entrepreneurship development directly as they tend to avoid risks associated with ventures more so returns from such ventures are not always attractive. Central Banks are normally restricted to monetary management functions though in some situations they assumed development role which most times are distractive in the implementation process.

The greatest challenge and need of developing economy is the rising demand for investment capital to fill the "funding gap " in the financial system due to the inability of the conventional or traditional banks to provide the long term finance which has necessitated the emergence of Development finance institutions that are more equipped and positioned to fill this "missing link". They are suited in the mobilisation and provision of a larger volume of funds for productive sectors and infrastructure development than the other financial institutions, as they are operationally equipped ineffective allocation of funds for industrialisation and infrastructure development. Specialized finance institutions are also more entrepreneurial, possess managerial skills and expertise, more prudent and imaginative to manage long term investments and development financing relatively.

Scope, Ownership and funding source of Development Finance Institutions

Generally, the scope of activities of Development finance institutions varies from country to country and from institution to institution depending on the enabling Act or Legislation. However these specialized financial institutions are reputed for facilitating rapid economic development, The functions of development finance institutions can be classified into financial functions and promotional or development functions. Their ownership varies from country to country and the nature of business is also determining factor. Ownership pattern includes (i)

Government-owned Institutions (ii) Bank –owned Institutions (iii) Privately owned institutions and (iv)Mixed ownership (Government and private institutions)

A world Bank survey describes a development bank as a bank or financial institution with at least 30 per cent state-owned equity that has been given an explicit legal mandate to reach socio economic goals in a region, sector or particular market segment (Luna – Martinez and Vicente, 2014). They tend to be mostly owned by the State yet in a significant number of cases the private sector owns up to 49% of the total shares of such banks and in few cases over 50 % (Luna-Martinez,2012), for instance, the BNDES (Banco Nacional de Desenvolvimento Economico e Social) is fully owned the by State, IDBI (Industrial Development Bank of India) is owned by the Government of India and Reserve Bank of India, on the other hand, the Industrial Development Bank of Turkey is owned by the Private banking system. Development finance institutions, unlike commercial banking institutions, are specifically designed to provide long term finance to bridging the funding gap between savings and financing needs in turn significantly contribute towards the achievement of the Sustainable Development Goals.
Identified sources of financial resources of Development finance institutions include (i) share capital (ii) reserves (iii) borrowings through bond and debenture (iv) loan from Government (v) loan from Central Bank (vi) loan from foreign Institutions and Agencies and (vi)deposits and other sources

The categorisation of Development Financial Institutions

Development finance institutions can be classified along with national, regional, continental and international groupings. Similarly, Development finance institutions are classified as bilateral or multilateral financial institutions. Regional development finance institutions are financial institutions owned by regional economic blocks such as Asian Development Bank (ADB), Inter-American Development Bank (IADB), African Development Bank (AFDB), European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD). Bilateral development finance institutions are owned by two national governments mandated to serve and implement government foreign development and cooperation policies. Multilateral DFIs are also known as International finance institutions usually have greater financing capacity and provide a forum for close cooperation among nations

Development Finance Institutions in Abroad

Development finance institutions are noted for providing a wide range of financial services in developing countries such as loans or guarantees to investors and entrepreneurs, equity participation in firms or investment funds and financing for public infrastructure projects. Development banks have been globally acclaimed as a catalyst for economic growth and development. Some of the unique roles of development banks include; engines of development, the spirit of development finance, creation and promotion of enterprise, promotion of balanced regional development, increasing the productivity of investment, up-gradation of skills, up-gradation of technology, research development, gap filling, project coordination, capacity and institutional building, and attraction of foreign capital (Dickinson, 2014).

(i) The Brazilian Development Bank BNDES

The Brazilian Development Bank BNDES has shown the catalyst benefits in terms of stimulating economic activities through the provision of countercyclical lending. BNDES provides loans to finance private and public enterprises which are mainly for infrastructure and long term investments that have helped in creating new jobs, protecting existing jobs, expanding infrastructures in underdeveloped areas and promoting new industries. BNDES has also been heavily involved in financing the industrialization process in Brazil since 1950s BNDES has a trailblazer in green economy initiatives by financing renewable energy programmes (NewNet, 2011). BNDES is the main financier and investor in the ethanol sector and supports relevant technological initiatives (BNDES, 2010).

(ii) The Korea Development Bank KDB

The Korea Development Bank (KDB) equally plays a catalyst role in supporting strategic industries in the country through equity participation in domestic industries and with government tariff protective policies.

(iii) The Mexican Development Bank

The Mexican Development Bank has equally demonstrated the capacity of building a financial system that helps enterprises to grow. The Nacional Financiera (NaFin) focuses on financing small risky businesses by allowing small firms to use their receivables from big buyers to acquire working capital financing thereby transferring their credit risk to their high-quality customers in order to access additional and cheaper financing.

(iv) Indian Development Finance Institutions

India has well-structured development finance institutions at the National, State and Local government levels tailored at meeting the vital long term financial and developmental needs of industries and agriculture in the country (Desai V 2007). According to (Jhingan M.. L, 2012) there are three types of development banks in India namely, development banks for agriculture at local, state and national levels, development banks for the industry at the national and state levels and development bank for the foreign sector. India DFIs have been acclaimed to contributed significantly to its economic development strategy. The importance of development finance institutions in India is clear from the fact that their contribution to the total capital formation has grown significantly over the years with 70 % of total investment loans directed to the private sector and taking the form of loans as well of underwriting and direct subscription of shares and debentures. The sectors that development finance institutions have targeted over the years are wide which include manufacturing, services, agribusiness, construction, energy and infrastructure in addition to social sectors such as health and education(UNCTAD, 2016).

THEORETICAL FRAMEWORK

Financial System

The financial system of any country provides the catalyst for Economic growth and development. The state of any economy is a reflection of the state of the financial system. The financial system refers to a network of financial Institutions, Instruments, and financial markets that facilitate the transfer of financial resources from the surplus sector to the deficit of the Economy. The financial system consists of financial institutions, financial instruments, financial markets and financial regulatory bodies. Generally, the financial system promotes financial intermediation of moving financial resources from the surplus segment to the deficit sector of any economy. Ojo (2012) argues that an economy can be broadly grouped into two systems of financial and economic systems. The financial sector facilitates borrowing by the deficit economic units and saving by the surplus economic units through the intermediation of financial intermediaries. "These various types of financial transactions engaged in have major implications for consumption, investments, production, macroeconomic stability and achievement of other economic objectives. In most developing economies the financial systems consist of the formal and informal financial sector. According to Germidis, Kessler and Meghir (1991), the financial systems of most developing countries are characteristics by the co-existence and operations side by side of the formal financial sector and an informal financial sector – a situation commonly denoted as financial dualism. Theoretically, the formal sector would refer to an organized urban-oriented, institutional system catering to the financial needs of the modernized modern sector while the informal sector itself unorganized and non- institutional would deal with traditional, rural subsistence (non-monetized) spheres of the economy.

The financial systems no doubts shapes own domestic economy and in turn, economies shape financial systems, since economic growth usually leads to further developments of a financial system" The financial system of any country provides the catalyst for economic growth and development. Ezike (2003) defines the financial system as to a network of financial Institutions, Instruments, and financial markets that facilitate the transfer of financial resources from the surplus sector to the deficit of the Economy. The most basic function of any financial system is to facilitate the flow of payments in an economy and the quality of these services affects the performance of the economy as a whole. Olowe (2011) explains the financial system of any country provides the catalyst through financial intermediaries for productive activities to ensure economic growth and development, that is the state of any economy is a true reflection of the state of its financial system. Therefore the economic development of a country is a function of the development of its financial system. This correlation seems to be true of both developed and developing countries globally. The financial system consists of financial institutions, financial instruments, financial markets and financial regulatory bodies. Generally, the financial system promotes financial intermediation of moving financial resources from the surplus segment to the deficit sector of any economy. Ojo and Adewunmi (1982) opine that the focal point in the consideration of the role of financial institutions in economic development should be (a) The domestic mobilisation of financial resources is essential for capital formation development process (b) An efficient allocation of available domestic resources is a vital importance in the development process (c) Financial institutions offer an efficient institutional mechanism through which resources can be mobilized and directed from less essential uses to more productive investments. It, therefore, implies that the financial system is vital for (a) mobilizing resources for the economy (b) allocating resources for the productive sectors (c) generating income for factor resources (d) creating wealth or assets for owners of factor resources (e) contributing to the promotion of the economy and (f) equitable development of the economy

Financial intermediation

Financial institutions intermediate between the net savers and net borrowers of funds in an economy. Desai (2007) argues that financial intermediaries play a very important role in the saving-investment process by raising the level of saving investment and allocating more efficiently scare savings among most productive investment. A fundamental role of the financial system is that of financial intermediation. Sharma (2008) defines financial intermediation as the process of accepting funds from one entity and lending these funds to another entity. According to Jhingan (2012), financial intermediaries play a special role in underdeveloped countries as they encourage households to hold financial assets as against physical assets thereby helping in savings mobilisation and capital formation thereby releasing resources for development purposes. It is essential to note that without financial intermediaries savers would hoard their surplus funds and investors or borrowers would not carry out their investment plans except those who can finance internally. It is, therefore, to be seen that financial Intermediation is the process of moving funds from the surplus unit to the deficit unit of the Economy. Financial Intermediaries act as a vehicle by which funds can be transferred from the surplus units in the economy to the deficit units. These financial intermediaries include Commercial banks, Merchant banks, Discount Houses, Primary Mortgage Banks, Microfinance Banks, Development Finance Institutions, Finance Companies, Insurance Companies, Bureau de Change and other non -banking Institutions. The financial intermediary role is associated with some identifiable risks like liquidity risk, credit risk, investment risk, interest rate risk, default risk, among others.

Financial Institutions in Nigeria as of December 2019

SN	Regulated and Formal financial Institutions	Number of licensed Institution
1	Commercial Banks	24
2	Development Finance Institution	6
3	Merchant Banks	5
4	Microfinance Banks	911
5	Non-Interest Banks	2
6	Finance Houses/Companies	79

7	Primary Mortgage Institutions	34
8	Bureaux de Change	5,156

Source: Central Bank of Nigeria Data (2019)

Financial System and Economic Development

The controversy of the relationship between finance and economy has continued to generate debate among scholars all over decades and this pitched researchers into different schools of thought. Acaravci, Ozturk, and Ali (2009) in contributing to the debate of the causality relationship between financial development and economic growth said that " the relationship between financial development and economic growth has been a subject of great interest and debate among economists for many years. Apergis, Filippidis and Economidou (2007) suggest that that are four possibilities regarding the causality relationship between financial development and economic growth (i) Supply leading hypothesis (ii) Demand following hypothesis (iii) Mutual or Bi-directional hypothesis and (iv) Independent or No causality relationship.

Supply leading hypothesis postulates that the direction of causality flows from financial development to economic growth. In a well-developed nation, the financial sector provides critical services to reduce those costs and enhances the efficiency of financial intermediation. It mobilizes savings, identifies and fund good business projects, monitors the performance of managers, facilitates trading and the diversification of risks, fosters the exchange of goods and services. These financial services, in turn, result in a more efficient allocation of resources, a more rapid accumulation of physical and human capital and foster technological innovation, thus inducing long term economic growth (Schumpeter,1911; McKinnon, 1973; Shaw, 1973; Pagano, 1993; Levine, 1997, 2003). According to (Adusei, 2013), theoretically, Schumpeterian authors as well as neo – Keynesian authors have unequivocally trumpeted the banking system's ability to create money and channel it into productive and innovative uses as a well – developed financial system has the potential of catalyzing technological innovation and economic growth through the provision of financial services and resources to those entrepreneurs who have the highest probability of successfully producing innovative products and processes."

Demand following hypothesis argues that economic growth leads to financial development as the development of the real economy induces increased demand for financial services, which in turn would generate the introduction of new financial institutions, new financial instruments, new financial markets to satisfy the increased demand for financial services (Robinson, 1952; Patrick, 1996; and Demetriades and Hussein, 1996)

Mutual or Bi-directional causality hypothesis is a combination of the supply leading and demand following hypotheses that financial deepening and economic growth are mutually or bi-directionally causal. Financially deepening gradually induces economic growth and this, in turn, causes feedback and induces further financial deepening (Greenwood and Jovanovic, 1990; Saint- Paul, 1992; Barthelemy and Varoudakis,1996; Demetriades and Hussein, 1996; Greenwood and Smith, 1997; Blackburn and Hung, 1998; and Harrison, Sussman and Zeira, 1999).

Independent or No causality relationship – the independent hypothesis postulates that financial deepening and economic growth are causally independent. Lucas (1988) argues that at best financial deepening plays a very minor role in economic growth; Lucas particularly rejects the existence of a finance – growth relationship arguing "that economists badly overstress the role of finance in economic growth" Stern (1989) ignores the role of financial development in the growth process. Empirical research results with different statistical procedures have produced consistent outcomes as follows; (i) Countries with better – developed financial systems tend to grow faster especially nations with large, privately-owned banks that funnel credit to private enterprises and countries with liquid stock exchanges. The level of banking development and stock market liquidity each exert a positive influence on economic growth and (ii) Better – functioning financial system ease the external financing constraints that impede firms and industrial expectation. Access to external capital is one channel through which financial development matters for growth because it allows financially constrained firms to expand (Levine, 2003)

EMPIRICAL REVIEW

There have numerous studies on the causality relationship between financial development and economic growth both in developed and developing countries. Globally the findings can be summed into four groups. One, finance-led school of thought that conventionally suggests that there is the direction of causality between financial development and the growth of an economy (King and Levine 1999a, Levine and Zervos 1998), Two, supply-led school of thought that argues that it is economic growth that actually facilitates financial development through products innovation and financial services creativity (Robinson 1952, Demetriades and Hussein 1956).

The third, feedback school of thought or bi-directional causality believes that financial deepening and economic growth are mutually interdependent (Greenwood and Jovanovic 1990, Saint- Paul 1992)

Lastly, the fourth school of thought, no causality relationship or the independent hypothesis argues that financial deepening plays a limited or little role in the process of economic growth (Lucas, 1988 and Stern 1989)

Generally, most empirical results have been consistent with results of the causal relationship between the financial sector and economic sector as the economy of any country naturally divides into two segments namely financial and economic sectors. Financial sector development continues to impact positively on the growth of economic which accounts for the reason the financial system is the most regulated sector in the capitalist and mixed economies of the world generally. The impact of development finance subsector has been substantial on the economic growth in different parts of the world. This relative importance or contribution of development finance institutions within the national economy can be appraised by looking at the provision of the long term financing to the real sector. Infrastructure is considered as the backbone or engine for economic transformation as it facilitates development growth and attracting foreign investments. What is the proportion of development and investment loans of development finance institutions to the total long term financing in the country?

Gumede, Govender and Motshidi (2011) - Role of South Africa's state-owned development finance institution in building a democratic developmental state

The study evaluates the mandates of South African Development finance institution in promoting industrialization and human capital development in order to accelerate the economic growth of the South African economy. As it has been recognized that South Africa urgently needs to accelerate its industrial development and economic growth rates and as well expand its human resources capabilities so as to catch up or match the BRICS partners' rapid growing industrialization programmes of Brazil, Russia, India, and China. The study focused on the Development Bank of Southern Africa (DBSA). The authors affirm the resort to development bank was due to financial market failures and the desire to complement government resources and market financing. Development banks are generally promoted to offer broader development policy objectives such as market failures, private sector development, employment creation, income redistribution, import-substitution, development of poor groups or regions, and developing new industrial sectors. The paper concludes, development bank has been most successful beyond what is expected of them and provides game-changing interventions that alter the growth trajectory of their countries. The study affirms that successful development finance institutions accelerated industrialization, economic growth and human development considering the impact in some selected countries like Brazil, Mexico, South Korea, China among others. Some of the contributions highlighted include;

(a) Development finance institutions provide countercyclical lending as shown by the Brazilian Development Bank (BNDES) as the institution has used lending model as a tool to overcome the effect or impact of the 2008/ 2009 global financial crises and eventually turn around the country's economy. The bank's countercyclical lending was aimed at creating new jobs, protecting existing jobs, expanding infrastructure especially in underdeveloped areas and building new industries.
(b) Development finance institutions provide an enabling environment for enterprise and industry as demonstrated by the Development Bank Nacional Financiera (NaFin), Mexico as it focuses on financing small risky businesses at the start of the supply chain. The Mexican DFI (NaFin) offers factoring services to small, medium and microenterprises (SMMEs).
(c) Development finance institutions identify and develop strategic and longer-term profitable sectors and help long term industrialization particularly some of the new generation developmental states have purposefully identified and developed new sectors with the potentials for longer industrialization effects on the economy by using DFIs as financiers, partners, advisers, implementers and integrators (Scott, 2008). The Industrial Development Corporation (IDC) as an integral South African DFI established in 1940 has vigorously supported setting up of companies such as Sasol, Fosker, and Soeker.
(d) Development finance institutions expand infrastructure development as postulated by the Thesis of Albert Otto Hirschman in 1958. Infrastructure development is a tool for long term economic transformation that can stimulate a country's industrialization. As infrastructure investment has the capacity to push up demand in other economic activities with multiplier effects. Infrastructural development has a large direct multiplier effect in raising and redistributing income in the economy. In Africa, infrastructure investment is a missing link for development hence the underdeveloped nature of the entire continent.

While in other advanced economies the high level of infrastructure investment as accounted for rapid economic growth and development especially with the activities of DFIs, like the Development Bank of Japan Inc (DBJ) and the Japan Bank for International Cooperation (JBIC) are classic examples of DFIs in funding infrastructural development.

(e) Development finance institutions promote and support their countries' national interests in the international arena. The Chinese Government has effectively employed its DFIs, business community and state-owned enterprises as a diplomatic arm is extending its economic power

(f) Development finance institutions play a major role in institutional capacity development or building- DFIs, especially in developed nations, are important in addressing human capacity defects or failures in public institutions. The Development Bank of Southern Africa (DBSA) provides skills development at the municipal level through programmes such as project management, town planning, poverty alleviation.

(g) Development finance institutions provide leadership in development coalition. Development banks are crucial in fostering such enabling environment and coordinating the process of establishing a public – private partnership for development or growth. DFIs highlight how public-private sectors can collaborate together to address developmental challenges where the development finance institutions provide or facilitate leadership (UN 2005)

(h) Development finance institutions serve as a model corporate citizen as they provide better training opportunities for their employees, employ disabled persons, women empowerment, promoting gender equality, good corporate governance and transparent management.

The authors concluded that DFIs play pivotal roles in promoting economic development and integration which are fundamental for the economic prosperity of the continent. Development finance institutions will have to continue to provide a leadership role in the process of creating continent-wide free trade.

Simone Sieler (2016) -On Perspectives on Development Financing

Sieler (2016 defines development banks as State-owned financial institutions with a mandate to promote economic, social and ecological development. Operationally these financial institutions are not established to maximize profits rather finance projects that are of social relevance as a guiding principle. According to the researcher there four types of development banks, (i) National Promotional Banks that operate exclusively within a geographical territory of a country and are owned by the government of a single country. (ii) Bilateral Development banks which are owned by the government of a single country and operate on a global level, for instance, the Japan Cooperative agency. (iii) Regional Development Banks which are owned by several governments usually from a particular region and in most cases operate exclusively within that region for examples Asian Development Bank (ADB), and African Development Bank (AfDB). (iv) Multilateral Development Banks are owned by the International community or a large number of countries and operate globally, for example, the World Bank. According to the paper, the rationale for Development banks includes; Development banks help to promote economic development by providing basic economic infrastructures like power and energy, roads, employment generation programmes, vocational training establishments, social entrepreneurship and innovations. Development banks are active in promoting measures to protect the climate and or energies, reforestation programmes, climate change adaptation, flood control or climate risk insurance. Development banks aim at promoting social development to ensure the provision of basic needs of poor and disadvantaged groups of the population like drinking water health care, education and living space. Development banks are also responsible for the promotion of favourable framework and conditions for development and crisis aid – political and sectoral reforms programmes, free election, administrative reforms or the introduction of educational reforms, promotion of good governance. Seiler sees the activities of development banks more than closing the funding gap, especially where private financing is not available as development finance institutions are involved in mobilizing additional private capital that is channelled to priority areas of the economy. The research further identified three good principles for operational efficiency of development banks as first, market compliance by offering market-compliant financial incentives in the form of price affordability and energy efficiency construction. The second principle is subsidiarity which implies the development banks must focus on exclusive areas of the economy where there are no adequate provision or supply of finance from the private financing institutions (No displacement effect). The subsidiarity principle does not prevent development finance institutions from a collaborative partnership with commercial banks for project financing. Thirdly is the “bank-like – conduct” principle which affords independence to the management team of development banks by strict adherence to the practice of good corporate governance. The study concludes that development banks should not be seen as "cure-alls" strategy though they are helpful in mobilizing substantial volume of financial resources from the capital markets to meet government promotional and developmental programmes.

Stephany Griffith- Jones (2016) - Development Banks and their key roles – Supporting investments, structural transformation and sustainable development

According to Griffith- Jones (2016) multilateral development banks are public institutions with a mandate to support development over the medium and long term by providing credit mainly to private companies but also to national development banks whilst also assuring small commercial returns which are then reinvested in the development bank to finance increased future lending. The emerging significant role of development banks was the recent establishment of two very large Multilateral development banks – the Asia Infrastructure Investment Bank (AIIB) with all the European 57 countries as a member- sponsors nations and the New Development Bank of the BRICS – (Brazil, Russia, India, China and South Africa). Griffith – Jones and Gottschalk (2012) reported empirically the positive impact of the countercyclical role of Multilateral development finance institutions and Regional development finance institutions in the aftermath of the 2007- 2008 financial crisis. Literature abounds of the body of evidence that development banks provide counter cyclical finance for economic development purposes. Brei and Schlarek (2012) similarly compared the lending responses and financial crisis with a direct relationship. Griffith – Jones acknowledged the roles of development banks to include ;

(a) Financing long term investment to support the structural transformation to the context of national development strategies
(b) Helping to provide systemic stability through the provision of countercyclical financing, to maintaining investments for development, through diversification of risks within the financial system
(c) Helping to develop and deepen the financial markets
(d) Supporting greater financial inclusion through credit lines to commercial banks and other financial institutions and direct lending to SMEs
(e) Financing public goods such as climate change mitigation and environmental issues

According to Griffith – Jones the China Development Bank (CDB) is the largest example of a National Public development bank playing the role of funding national development strategies as it is the key financier of China's five-year strategic plan . Also Brazil's BNDES has significantly provided "patient" finance for long term capital development projects that are not financed by private institutions. Griffith – Jones concludes that development banks have played positive roles and would still continue to be relevant in the economic development and sustainability of socio-economic activities and they are clearly desirable financial institutions with expanded responsibilities, multilaterally, regionally and nationally in countries where they already exist. However the scaling the operations is vital for improved and greater impact on economies because a development bank that is adequately capitalized would perform better than less funded institutions in fulfilling their mandates of promoting structural transformation, providing cyclical financing in crisis periods and downturns, supporting greater inclusion and financing public goods. Equally nations where development banks do not exist currently it is desirable for them to set up development banks for a collaborative partnership.

POLICY MAKING RECOMMENDATION

The performance stories of the of development finance institutions on infrastructure expansion and development in Brazil, Taiwan, Mexico, South Africa among other nations, calls for the adoption of development finance model as a national strategy to improve the stocks of infrastructure in the country. A key success factor responsible for the accelerated economic development in Taiwan was the expansive infrastructure development through the support of development finance institutions. Also in Brazil, BNDES has been acknowledged for rapid infrastructural development of the nation. The huge and long term finance is needed for the supply of adequate and appropriate infrastructure nationwide. Evidently, the statutory allocation is inadequate, while commercial bank credit is inappropriate to bridge the infrastructure financing gap. In view of the vital role of development finance institutions, the policymakers particularly the financial authorities have to promote the establishment and development of more specialized financial institutions for key economic sectors like infrastructure, industrialisation, SMEs development agriculture and rural development. Effective and sound corporate governance structure should be in place in such financial institutions with competent management personnel to drive the mandates. To achieve the desired objectives of rapid economic transformation, an appropriate and progressive regulatory framework for development finance sector is imperative, which calls for a review of the present financial regulatory structure to allow the Central Bank of Nigeria to focus on monetary and economic management functions.

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APPENDIX

European Development finance institutions and Investment Portfolio as 2009

SN	Country	Development finance institution	Total Portfolio Euros (Millions)
1	Belgium	(a) Belgian Investment Company for Developing Countries (BIO) (b) Belgian Corporation for International Investment (SBI-BMI)	279
2	UK	Commonwealth Development Corporation (CDC – CDC Group)	3,349
3	Spain	Compania Espanola de financiauno del Desarrollo (COFIDES)	482
4	Germany	Deutsche Investitions and Entwicklungsge sellschaft (DEG)	4,701
5	Netherland	Nederlandee Finaacierings Maatschappy voor Ontwikkelingslanden (FMO)	4,598
6	Denmark	Danish Industrialisation Fund for Developing Countries (IFU)	528
7	Norway	Norwegian Investment Fund for Developing Countries (NORFUND)	635
8	Austria	(c) Oesterreichische Entwicklungbank (OEB) (d) Austria Wirtschaftservices Gesellschaft (AWB	149

9	France	Societe de Promtion et de Participation pour la cooperation Economique (Proparco)	2,184
10	Switzerland	Swiss Investment Fund for Emerging Markets (SIFEM)	284
11	Italy	Italiana per la financiamento Societa Italiana per le Impresse (SIMEST)	701
12	Portugal	Sociedade para o financiamento do Desenvolvimento (SOFID)	3
13	Sweden	Swedfund International (SWEDFUND)	232
14	Finland	Finish Fund for Industrial Cooperation (FINNFUND)	403
EDFIs			**18,527**

Source:: European Development Finance Institutions 2009

MULTILATERAL DEVELOPMENT FINANCE INSTITUTIONS

S/N	INSTITUTIONS	DATE ESTABLISHED	MANDATES	CAPITAL US$	PAID-UP CAPITAL	FINANCE SOURCES	AFRICAN/WEST AFRICAN	RESE
1	World Bank (WB)	1944	End extreme poverty within a generation/ boost shared property	$232Billion	$14Billion	- International financial markets -Capital subscriptions -IDA replenishments	26%	$147r
2	New	2015						

	Development Bank							
3	Asian Development Bank	1966	Eradicate poverty in the Asia Pacific	$153Billion	$7.8Billion	-Market borrowing -Spent funds -Shareholder capital	23%	$11B
4	African Development Bank	1963	Promote sustainable economic growth/reduce poverty in Africa	$90Billion	$7Billion	-Shareholder capital -replenishments -Net income/bond issuance	-West Africa 28% -Multi-regional 25% -East Africa 17% -Southern Africa 17% -Central Africa 7% -North Africa 6%	$4Bil
5	Asian Infrastructure Investment Bank	2015						
6	European Bank for Reconstruction and Development	1991	Foster transition towards open market-oriented economies, private/entrepreneurial	$33.7Billion	$7Billion	-Capital, borrowings, and Net Income		$9Bil

			initiatives in Eastern Central					
7	European Investment Bank	1958	Contribute to the development of the internal market in the EU	$275Billion		- International capital markets through bond issuance		$41B
8	Inter-American Development Bank	1959	Promote the economic/social development of the developing member states	$144Billion	$5Billion	- Subscriptions/contributions, borrowings/ financial capital markets		$16B
9	Islamic Development Bank	1975	Foster economic development and social progress in member countries/ Muslim communities	$33Billion	$7.1Billion	- Shareholders' capital -Retained earnings -Funds internally generated	- Morocco 7%	$3.5B
10	Banque Quest Africaine de development\ West Africa Development	1973	Promote economic development in member states and	$2.3Billion	$507,641.00	- Subscription -Reserves - Savings/rese	-Rural development 14% -Basic Infrastructure	$364m

	& Bank		economic integration across W/Africa			rves	6% -Modern Infrastructure 57% - SMEs 9%	
11	Central American Bank for Economic Integration	1960	Promote economic integration and balanced economic/social development in member states	$4Billion	$0.7Billion	-Loans -Loan syndication - Guarantees/ credit lines		$1.6E
12	Development Bank of Latin America	1970	Promote sustainable development and regional integration	$4.9Billion	$4.9Billion	- Subscription -Debt issuance -Funds from central banks		$2.5E
13	East African Development Bank	1967	Promote sustainable socio-economic development in East Africa	$1,080Billion	$173million	- Capital - Credit lines - Bond issuance - Loan syndication		$11m
14	Eastern & Southern African Trade &	1985	Finance and foster trade socio-economic	$3Billion	$307million	- Subscription - Reserves -	-Kenya 36% -Rwanda 10% -Tanzania 10% -Mauritius 20%	$314r

	Development Bank or Preferential Trade Area Bank		development and regional economic across member states			Borrowings	-Ethiopia 14%	

Source: Overseas Development Institute, 2015 modified by the Author.