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BANK CREDIT AND CAPITAL FORMATION IN NIGERIA

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Abstract

The paper investigated the impact of bank credit on capital formation in Nigeria between the years 1980 and 2014, and found a positive but no significant impact. The lack of significance was attributed to the bottlenecks or stringent rules surrounding credit allocation by banks, which have so far frustrated the efforts of monetary and federal authorities in Nigeria to let funding get to where they are most needed. Revitalization and substantial capital enhancement of the only infrastructure bank – former Urban Development Bank – was recommended.

Key Words: capital formation; bank credit; investment

Introduction

Financial literature suggests that financial sector development leads to economic growth. This is in consequence of the sector's basic function of resource mobilization and allocation. In the main, resource allocation takes the form of credit provision and expansion, to facilitate economic activities, raise the level of investment and further capital accumulation. Khan and Senhadji, (2000) consider bank credit to be an important determinant of economic development. The literature supports the argument that countries with efficient credit systems grow faster while inefficient credit systems bear the risk of bank failure (Kasekende, 2008).

As an indicator of the level of investment in the economy, capital formation promotes production and the speed of economic activity. It plays an important role in actualizing the production potential of the economy and results in technical progress (Pathania, 2013). Economic theories have shown that capital formation plays these roles irrespective of the model of economic development. As such it determines the domestic capacity to produce. Inadequate capital formation is therefore a major constraint to economic development. For these reasons, factors that determine growth of capital formation have always attracted policy attention.

In recognition of the crucial role of capital formation, government has embarked on structural, institutional and policy reforms to enhance the functioning of the economy in a manner that will enhance capital formation. Examples are the liberalization of the economy in the last quarter of 1986, financial sector reforms such as the internationalization of Nigerian capital market, the recapitalization of the financial institutions as well as other macroeconomic reforms of processes that create bottlenecks and overheads in the business environment. The extent to which these have affected the growth of capital formation remains a matter of concern to scholars. An examination of CBN Reports shows that Nigeria's Gross fixed capital formation was 11.63%, 10.23%, 8.15%,

10.48% and 11.02% of Gross Domestic Product between 2010-2014, compared with 43% in Mauritania in 2014, 32% in India, and 58% in Bhutan. This suggests that the poor level of capital formation is a probable contributor to the inability to achieve the various development plans.

Poor as Nigeria is rated to be, the low level of capital formation remains a surprise. This is because the absence of social nets and preponderance of informal sector encourage precautionary savings, which is the platform for private investment and capital formation. Even in the face of public profligacy and corruption which encourage capital flight, unusually high oil revenues of many years, innovations such as conceptualization of 'excess crude' fund, enthronment of civil democracy after years of backward military rule and financial sector privatization and recapitalization were all expected to not only counterweigh the trend of capital depletion but contribute to efficiency, public savings and higher rate of capital formation. This did not appear to happen, not even in the face of monumental capital held onto by banks, post consolidation, even in the midst of dire need for investible capital by firms. The thrust of this paper is therefore to re-assess bank credit's contribution to capital formation in Nigeria.

2. Review of related Literature

Theory of Financial Intermediation

Credit is an important aspect of financial intermediation that provides funds to those economic entities that can put them to the most productive use. Theoretical studies have established the relationship that exists between financial intermediation and economic growth. For instance, Schumpeter (1934), Goldsmith (1969), McKinnon (1973) and Shaw (1973), in their studies, strongly emphasized the role of financial intermediation in economic growth. In the same vein, Greenwood and Jovanovich (1990) observed that financial development can lead to rapid growth. In a related study, Bencivenga and Smith (1991) explained that development of banks and efficient financial intermediation contribute to economic growth by channeling savings to high productive activities and reduction of liquidity risks. They therefore concluded that financial intermediation leads to growth. Based on this assertion, this study examines the extent to which intermediation or credit to various sectors of the economy has influenced economic growth in Nigeria.

Supply – Leading Hypothesis

The proponents of this hypothesis believe that the activities of the financial institutions serve as a useful tool for increasing the productive capacity of the economy. They opine that countries with better developed financial system tend to grow faster. As previously stated, early economists like Schumpeter (1934) have strongly supported the view of finance led causal relationship between finance and economic growth. Subsequently, several researchers have supported the findings. According to Mckinnon (1973), a farmer could provide his own savings to increase slightly the commercial fertiliser that he is now using and the return on the marginal new investment could be calculated. However, there is a virtual impossibility of a poor farmers' financing from his current savings, the total amount needed for investment in order to adopt the new technology. As such access to finance is likely to be necessary over the one or two years when the change takes place he concluded.

Empirical studies

Torbira and Ogbulu (2014) empirical investigation into the relationship between fund mobilization by insurance companies and gross fixed capital formation (GFCF) in Nigeria and specifically how the latter responds to stimuli emanating from the insurance companies. A five variable-predictor multivariate regression model was estimated and analyzed. The short run results reveal those four explanatory variables namely: premium from fire, accidents, motor vehicles and employee liabilities insurance policies positively and insignificantly correlate with Gross Fixed Capital

Formation while the relationship between premium from marine insurance policies and GFCF is both negative and insignificant. In the long run, the fund mobilization variables by insurance companies positively and significantly impact on the growth of gross fixed capital formation. In addition, the Granger causality test provides no evidence of causality among the variable.Pathania (2013) examined linkages between export, import and capital formation investigated by time series econometric techniques like Unit root test, Co-integration and ranger causality during the period of 1991 to 2010 for India. This study checked that whether there is uni-directional or bidirectional causality between export, import and capital formation in India. In this paper, the results reveal that there is bidirectional causality between gross domestic capital formation and export growth. The traditional Granger causality test also suggests that there is uni-directional causality between capital formation and import and export.

Ugwuegbe and Uruakpa, (2013) investigated the impact of capital formation on economic growth in Nigeria. To analyze the impact of capital formation, stock mar ket capitalization, inflation rate and interest rate on economic growth, the study employed Ordinary least square (OLS) technique. To test for the properties of time series, phillip-perron test was used to determine the stationarity of the variables and it was discovered that gross fixed capital formation and economic growth are integrated of order zero I(0), Johansen co integration test was employed to determine the order of integration while error correction model was employed to determine the speed of adjustment to equilibrium. The empirical findings suggested that capital formation has positive and significant impact on economic growth in Nigeria for the period under review.

Kanu & Ozurumba, (2014) examined the impact of capital formation on the economic growth of Nigeria using multiple regressions technique. It was ascertained that in the short run, gross fixed capital formation had no significant impact on economic growth; while in the long run; the VAR model estimate indicates that gross fixed capital formation, total exports and the lagged values of GDP had positive long run relationships with economic growth in Nigeria. It was equally ascertained that there exists an inverse relationship between imports (IMP), Total National Savings (TNSV) and economic growth; while GDP was seen to have a unidirectional causal relationship with export (EXP), Gross fixed capital formation (GFCF), Import (IMP) and Total national saving (TNSV).

Shuaib, Igbinosun and Ahmed, (2015) examined the impact of government agricultural expenditure on the growth of the Nigerian economy. The study employed secondary data sourced from National Bureau of Statistics, and Financial Review of Central Bank of Nigeria. The study employed E-view 7.2 statistical output as a window in exploring the possible links between government agricultural expenditure and economic growth. The results revealed that government agricultural expenditure has a direct relationship with economic growth which statistically significant at 5% level.

Uremadu (2006) investigated possible determinants of capital formation using Nigerian data covering 1980-2004 studied. Time-series estimates are obtained using an OLS methodology which included tests for stationarity and cointegration. Empirical results showed a positive influence of cumulative foreign private investment (CFPI), index of energy consumption (INDEXEC) and total banking system credit to the domestic economy (BSTCr), and a negative influence of gross national savings (GNS), domestic inflation rate (INFR), maximum lending rate (MLR), foreign exchange rate EXCHR) and debt service ratio (DSR) on capital formation. We discovered that foreign exchange rate leads capital formation in Nigeria, followed by index of energy consumption and then, debt service ratio.

Ajao (2011) in his study concludes that long-term capital formation in Nigeria were not majorly sourced from the capital market as the above result shows the marginal contribution of Market Capitalization and New Issues to Gross Fixed Capital Formation. Though, it is unarguable that when investors take position for profit, it can affect the level of wealth which can then be used to build private capital. This result is in line with the findings of Sarkar (2006) where he concludes that there exist no meaningful relationship between stock market capitalization and gross fixed capital formation.

Orji and Mba (2011) in their study looked at relationship between FPI, Capital Formation and Growth, in Nigeria using the two-stage least squares (2SLS) method of estimation. The study finds that the long run impact of capital formation and foreign private investment on economic growth is larger than their short-run impact. There is thus, a long-run equilibrium relationship among the variables as the error correction term is significant, but the speed of adjustment is small in both models. In their result, the two stage least squares estimates are very close to the OLS estimates suggesting that OLS estimates are consistent and unbiased. Hence, endogeneity was not a problem in the estimated models. There is therefore no simultaneity between GDP growth and capital formation model. These findings therefore have some policy implications as discussed in the work.

Adekunle and Aderemi (2012) examined the relationship between Domestic Investment, Capital Formation and Population Growth in Nigeria he used Secondary data from the Central Bank of Nigerian, for capacity utilization, capital expenditure bank credit and capital formation while growth and investment rates from World Economic Information database were used. Their result shows that the rate of investment does not assist the rate of growth of per capital GDP in Nigeria. The paper tests on the curve estimation regression models confirm that growth is in existence but is found to be insignificant. The linear result indicates the importance of government expenditure, capacity utilization and bank credit in increasing the income of Nigerians. The results also show that there is negative relationship between growth rates of the population and capital formation. With the curve estimation method results, investment rate can engender growth in the economy though slowly, on a linear path.

Akujuobi (2008) writing on the topic "Foreign Direct Investments and Capital Formation in Nigeria, posits that, FDI, is a significant positive contributor to the overall capital formation efforts in Nigeria. However, the gains of FDI do not come so automatically. He therefore, recommended that efforts must be directed at removal of such impediments as poor transparency in laws, especially in the areas of property rights, patent rights, copy right protection and commitment to enforcement of contracts.

Donwa and Odia (2009) considered the impact of globalization on the gross fixed capital formation in Nigeria from 1980 to 2006.Using the ordinary least square, it was found that globalization proxy by openness was negatively and insignificantly related to gross fixed capital formation. In other words, globalization has not helped in assisting fixed capital formation. Foreign Direct Investment and Gross Domestic Product were positive and significant while exchange rate had a negative impact on GFCF. Interest rate had positive and insignificant relationship with GFCF. Suggestions on how Nigerian could benefit from globalization and improve on her gross fixed capital formation were proffered.

Aiyedogbon (2011), tried to explore the relationship between military expenditure and capital formation in Nigeria. The study spanned a period of 1980–2010. It employed the econometric methodology of vector error correction model and testing the results using stationarity test, co-integration and variance decomposition. Findings reveal that military expenditure (Milex) and lending rate have negative impact on gross capital formation (GCF) in Nigeria in both the short-

and long-run. The GDP is positively significant in the long run while it is positive and insignificant in the short run. The study recommends that the present funding of the military should be cut to release more funds for other sectors. The military authority should utilize the available resources and discharge their role in creating investment-friendly environment in order to enhance economic development in Nigeria.

Orji and Mba (2012) studied the relationship between foreign private investment, capital formation and economic growth in Nigeria using a two-stage least squares (2SLS) method of estimation. The study finds that the long run impact of capital formation and foreign private investment on economic growth is larger than their short-run impact. There is thus, a long-run equilibrium relationship among the variables as the error correction term was significant, but the speed of adjustment was found to be small in both models. The two stage least squares estimates were very close to the OLS estimates suggesting that OLS estimates are consistent and unbiased. Hence, endogeneity was not a problem in the estimated models. There was therefore no simultaneity between GDP growth and capital formation model. Policy implications of study were highlighted and remedies proffered. Kanu, Ozurumba and Anyanwu (2014), writing on "Capital expenditures and capital formation in Nigeria posits that Capital Expenditures (CAPEX) had a negative significant relationship with Gross Fixed Capital Formation (GFCF) in Nigeria at both 1% and 5% Alpha levels, while other macro economic variables such as Imports, National Savings and Gross Domestic Product formation of human capital. By investing this capital in workers, their efficiency is increased.

Arcand et al. (2012) examined whether there is a threshold above which financial development stops contributing to growth. This paper posits that in countries with a very large financial sector the relationship between financial depth and economic growth disappears. Credit to the private sector above 80-100% of GDP has a negative impact on economic growth. Arcand et al., (2012) suggest two possible reasons for this negative impact: i) excessive credit growth could lead to high economic volatility and probability of financial crisis and ii) high credit volume is generally related to potential resource misallocation. Cecchetti and Kharroubi (2012), examined the impact of size and growth of the financial system on productivity growth and economic level using a sample of 50 countries observed over the period 1980-2009. The paper finds that financial sector size has an inverted U-shaped effect on productivity growth and a further increase in the size of the financial system contributes negatively to TFP growth. This suggests that more finance is not always better. Sanusi and Salleh (2007) examined the relationship between financial development and economic growth in Malaysia covering the period 1960-2002. Three measures of financial development were used, namely, ratio of broad money to GDP, credit provided by the banking system, and deposit money banks to GDP. By employing the autoregressive distributed lag approach, the study found that ratio of broad money to GDP, and credit provided by the banking system have positive and statistically significant impact on economic growth in the long-run. The results further indicated that a rise in investment will enhance economic growth in the long-run. Using panel analysis and Fully Modified OLS (FMOLS) methods Kiran, et al., (2009) investigated the relationship between financial development and economic growth for ten emerging countries over the period 1968–2007. Three measures of financial development (ratio of liquid liabilities to GDP, bank credit to GDP, and private sector credit to GDP) were used to quantify the impact of financial development on economic growth. The results concluded that financial development has a positive and statistically significant effect on economic growth.

3. Research Method

Data covering the period: 1980 to 2014 were employed. These series were sourced from Central Bank of Nigeria Statistical (2014) bulletin and World Bank African Development Indicator (2014). To fully explore the data generating process, we first examined the time series properties of the model variables using Augmented Dickey-Fuller test in a regression with a drift. The ADF test regression equations with constant are:

$$\Delta GFCF_1 = \alpha_0 + \alpha_1 GFCF_{T-1} + \sum_{J=1}^{K} a_j \Delta GFCF_{T-1} + \Sigma_T \ldots \quad (1)$$

$$\Delta BC_1 = \beta_0 + \beta_1 BC_{T-1} \sum_{J=1}^{K} b_j \Delta BC_{T-1} + \Sigma_T \ldots \quad (2)$$

$$\Delta INT_1 = y_0 + y_1 INT_{T-1} + \sum_{J=1}^{K} \Phi_j \Delta INT_{T-1} + \Sigma_T \ldots \quad (3)$$

$$\Delta EX1 = \lambda_0 + \lambda_1 EX_{T-1} + \sum_{J=1}^{K} \sigma_j \Delta EX_{T-1} + \Sigma_T \ldots \quad (4)$$

$$\Delta GEXP1 = \ell_0 + \ell_1 GEXP_{T-1} + \sum_{J=1}^{K} \psi_j \Delta GEXP_{T-1} + \Sigma_T \ldots \quad (5)$$

$$\Delta M2GDP = \eta_0 + \eta_1 M2GDP_{T-1} + \sum_{J=1}^{K} \mu_j \Delta M2GDP_{T-1} + \Sigma_T \ldots (6)$$

Where Δ is the first difference operator, Σ_T is random error term that is iid k = no of lagged differences. In equations (1) through (4), the null hypothesis holds as: Ho: $\alpha_1 = \beta_1 = \gamma_1 = \lambda_1 = \ell_1 = \eta_1 = I$ (unit root) HI: $\propto_1 \neq \beta_1 \neq \gamma 1 \neq \lambda_1 \neq \ell_1 \neq \eta_1 < 1$ (level stationary). The long run equilibrium relationship between bank credit and agricultural export performance was investigated using Engle and Granger co-integration test. The Engle and Granger co-integration test is given as

$$Y_t = A_1 Y_{t-1} + \ldots + A_p Y_{t-p} + BX_t + \varepsilon_T \quad \ldots. \quad (7)$$

Where Y_t is a vector of non stationary 1(1) variables; X_t is a vector of deterministic variables and ε_T is a vector of innovations. The individual influence of the co integrated variables can only be separated with an error correction mechanism through an error correction model as shown below.

3.1 The Error Correction Model

$$Equation\left[\eta_m \log GFCF_t = \alpha_1 + \sum_{i=2}^{p} \alpha_i \eta_m Z_t - (\lambda ECM_{t-i} + v_{4t})\right] \ldots\ldots\ldots\ldots\ldots (8)$$

Where $-\lambda ecm$ is the error correction mechanism, $-\lambda$ is the magnitude of error corrected each period specified in its a priori form so as to restore $\eta_m logKF_t$ to equilibrium

Also the optimum lag length of the was determined using the multivariate versions of information criteria of Akaike's Information Criteria (AIC) and Schwarz's Bayesian Information Criteria (SBIC).

The model estimated can be stated thus:

GFCF = F (BC, INT, EX, GEXP, M2GDP) …… (9)

Where GFCF = Gross Fixed Capital Formation

BC = Bank Credit

INT = Interest Rate

EX = Exchange Rate

GEXP= Government Expenditure

M2GDP=Money supply

A priori expectation is outlined in Table1 below.

Table 1: *a priori* Expectation

Dependent Variable: Gross Fixed Capital Formation

Variable	*Direction of Effect*
Bank Credit	*Positive*
Interest Rate	*Negative*
Exchange rate	*Negative*
Government Expenditure	*Positive*
Money Supply	*Positive*

4. Data Analysis and Discussions

4.1 Unit Roots Test Result

In this study, the Augmented Dickey Fuller (ADF) unit roots test was employed to test for the time series properties of model variables. The null hypothesis is that the variable under investigation has a unit root against the alternative that it does not. The choice of lag length was based on Akaike and Schwartz-Bayesian information criteria. Thus, the optimum lag length was 1. The decision rule is to reject the null hypothesis if the ADF statistic value exceeds the critical value at a chosen level of significance (in absolute term). These results are presented in table 2 below.

Table 2: Unit Root Test Result

Variables	ADF/PP Test Statistic	Mackinnon at 5% critical value	Prob – value	Integrated
D(AGP) at level D(AGP) at 1st Diff	0.873507- 3.473194	-2.9527 -2.9558	0.5129 0.0005	I (1)
D(BC) at level D(BC) at 1st Diff	0.055411 -4.192502	-2.9527 -2.9558	0.9562 0.0002	I (1)
D(INT) at level D(INT) at 1st Diff	-2.404077 -6.405763	-2.9527 -2.9558	0.0226 0.0000	I (1)

D(EX) at level D(EX) at 1st Diff	-0.198447 -3.697190	-2.9527 -2.9558	0.8440 0.0009	I (I)
D(GEXP) at level D(GEXP) at 1st Diff	1.305339 -4.387603	-2.9527 -2.9558	0.2017 0.0002	I (I)
D(M2GDP) at level D(M2GDP) at 1st Diff	-2.248454 -4.770815	-2.9527 -2.9558	0.0320 0.0000	I (I)

Source: output from data analysis

At 5% level, the results in Table 1 above show that all the variables are non-stationary at level but they are all stationary at 1st difference. We examine their long run relationship using Engle-Granger co-integration procedure.

4.2 Results from Co-Integration Test

Table 3: Co-Integration Tests

ADF Test Statistic	-3.469335	1% Critical Value*	-3.6422
		5% Critical Value	-2.9527
		10% Critical Value	-2.6148

*MacKinnon critical values for rejection of hypothesis of a unit root.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(RESID01)
Method: Least Squares
Date: 06/06/16 Time: 03:27
Sample(adjusted): 1982 2014
Included observations: 33 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RESID01(-1)	-0.697414	0.201022	-3.469335	0.0016
D(RESID01(-1))	0.193701	0.200225	0.967416	0.3411
C	-1.55E+08	1.07E+09	-0.145440	0.8853
R-squared	0.313872	Mean dependent var		-39680061
Adjusted R-squared	0.268130	S.D. dependent var		7.13E+09
S.E. of regression	6.10E+09	Akaike info criterion		47.98751
Sum squared resid	1.12E+21	Schwarz criterion		48.12355
Log likelihood	-788.7939	F-statistic		6.861816

Durbin-Watson stat	1.978018	Prob(F-statistic)	0.003516

Source: output from data analysis

Engle and Granger co-integration test was used to test the long run relationship between the variables. From our result above there is a robust long run equilibrium relationship between the dependent and independent variables. We test the speed of adjustment using the Error Correction Mechanism.

4.3 Results from ECM Test

Table 4: ECM Tests

Dependent Variable: D(GFCF)
Method: Least Squares
Date: 06/06/16 Time: 03:33
Sample(adjusted): 1981 2014
Included observations: 34 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.04E+08	1.20E+09	0.753998	0.4574
D(BC)	687.0692	808.8217	0.849469	0.4031
D(INT)	25705901	2.53E+08	0.101660	0.9198
D(EX)	-1.45E+08	79970078	-1.815100	0.0806
D(GEXP)	9179.943	5286.783	1.736395	0.0939
D(MS)	6.814024	4.736440	1.438638	0.1617
RESID01(-1)	-0.636784	0.184217	-3.456707	0.0018

R-squared	0.525277	Mean dependent var	1.98E+09
Adjusted R-squared	0.419783	S.D. dependent var	7.41E+09
S.E. of regression	5.65E+09	Akaike info criterion	47.92824
Sum squared resid	8.61E+20	Schwarz criterion	48.24249
Log likelihood	-807.7801	F-statistic	4.979207
Durbin-Watson stat	1.738422	Prob(F-statistic)	0.001504

Source: output from data analysis

The error correction model in Table 4 above reveals that the coefficient of the error correction term is rightly signed and significant at 5% level.

Table 5: Multiple Regression Result.

Dependent Variable: GFCF
Method: Least Squares
Date: 06/06/16 Time: 03:35
Sample: 1980 2014
Included observations: 35

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.32E+09	4.27E+09	1.946537	0.0613
BC	2146.247	1180.585	1.817952	0.0794

INT	-2.92E+08	3.16E+08	-0.924608	0.3628
EX	-2.08E+08	44332901	-4.695134	0.0001
GEXP	13317.52	3110.994	4.280791	0.0002
MS	11.66502	5.699865	2.046543	0.0499
R-squared	0.922810	Mean dependent var		1.50E+10
Adjusted R-squared	0.909501	S.D. dependent var		2.31E+10
S.E. of regression	6.94E+09	Akaike info criterion		48.31430
Sum squared resid	1.40E+21	Schwarz criterion		48.58093
Log likelihood	-839.5003	F-statistic		69.33931
Durbin-Watson stat	1.164312	Prob(F-statistic)		0.000000

The estimated model can be shown in equation form as follows:

GFCF = 8.32E+09 + 2146.247BC – 2.92E+08INT – 2.08E+08EX + 13317.52GEXP + 11.7MS ……..(10)

4.4 Discussion of findings

From the result in Table 5 and in equation 10, the estimated model shows that Bank Credit has positive impact on Capital Formation. This implies that an increase in Bank Credit will lead to increase in Capital Formation in Nigeria. This is consistent with the a priori expectation. However, the variable is significant only at 10% level. The lack of significance at 5% level may be attributed to the bottlenecks or stringent rules put in place by banks, which govern, if not impede resource allocation in the financial system.

Interest rate has negative impact on Capital Formation. This also conforms to a priori expectation. Theory predicts a shift away from borrowing, and hence decrease in Capital Formation, when interest rate is high. Interest rate also has no significant impact on Capital Formation in Nigeria, an indication of how little bank credit matters for real movements in capital formation in the economy

Exchange rate shows a significant, if negative impact on Capital Formation in Nigeria, as expected, while Government expenditure shows a highly significant and positive effect as equally expected, a priori. As for Money supply the effect is positive, if not significant.

5.0 Conclusions and Policy Recommendations

This paper investigated the impact of bank credit on capital formation in Nigeria between the period 1980 and 2014, and found a positive but no significant impact of bank credit on capital formation in Nigeria. The lack of significance of bank credit may be attributed to the bottlenecks or stringent rules surrounding credit allocation by banks, which frustrate the efforts of monetary and federal authorities in Nigeria to let funding get to where they are most urgently needed. CBN (2014) had already complained that banks would rather be active at the short-end of the money and foreign exchange markets than lend to those who need funds for real production.

We recommend the revitalization and substantial capital enhancement of the only infrastructure bank –former Urban Development Bank. Since banks hardly find it convenient to play the role expected, indeed enjoined upon them by their basic nature as financial intermediators, government should require Deposit Money Banks to take substantial equity in the upgraded infrastructure bank. This should give the infrastructure bank the capacity to take on its mandate as the sole player in the nation. An alternative would be to take the Discount House approach and float or instigate the floating of many infrastructure banks. Domestic Money Banks would then be required to invest a

specified portion of their pre-tax profit, which portion would become tax free. The present Infrastructure bank's preoccupation with the financing of the passenger type, motor vehicles should also be curbed.

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