**LOAN SYNDICATION: A SOURCE OF BUSINESS FINANCING IN NIGERIA**

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**ABSTRACT**

*This study was carried out to examine loan syndication: a source of business financing in Nigeria with special reference to GTBank and Access Bank. Specifically, the study aims to examine the general terms of the various issue involved in Loan syndication, find out whether Loan syndication is really a new approach to or another Loan syndication can help in industrial development of the country and examine the extent of penetration of syndicated loan financing among business organization in the country. The study employed the survey descriptive research design. A total of 35 responses were validated from the survey. From the responses obtained and analyzed, the findings revealed that the various issue involved in Loan syndication is the expensive nature of syndicated loan, time wasting, repayment schedule and additional long-term debt. Also, loan syndication really a new approach*

*loan syndication help in industrial development of the country and the extent of penetration of syndicated loan financing among business organization in the country is high. The study thereby recommends that Banks must search for avoidable dishonest borrowers, although credit depends on good faith, the amount of confidence that the parties have on each other, it does not reduce the importance of scrutiny of those occasions where good faith has been violated either deliberately or inadvertently. This is necessary to ensure that a borrower does not divert the fund to some other frivolous ventures such as taking fresh titles and/or increasing the numerical strength of his wives..*

****CHAPTER ONE****

****INTRODUCTION****

The relative insufficiency of funds for capital investment is a common factor in every economy especially in developing countries of the ward, like Nigeria.

Finding a solution to these problems of providing funds for capital investment has been a major pre-occupation of financial institutions in Nigeria one of the solution that come up is syndicated loan, which h is aimed at spreading risks and weakening the impact of restricting laws and regulations lending by financial institutions.

Loan syndication is basically defined as an agreement between two or more lending financial institution to provide a borrower with credit facility using common roan documentation.

The spectacular growth of Loan syndication as source of financial instruments for business organization occurred as response to several economic factors in Nigeria.  Notable among these were:

-  Restrictions on credit expansion of government and monitoring authorities to minimize.

-    The scraping of import licence requires which enables more users of imported equipment and machineries to source and warning some into the country.

-    Deregulation of interest rates made Loan syndication attractive to both business organization and financial institutions.

In addition there are/certain legal and regulatory limitations on lending activities of commercial and merchant banks such as the statutory lending limit as provided in banking Act of 1969 section 13 (1), the liquidity requirements etc.

In order to surmount these legal and regulation, limitations on lending activities of commercial and merchant banks.  Loan syndication has become an attractive credit delivery technique aimed at spending risks and reducing the impact of the restricting laws and regulations.

Currently, there exist a comprehensive enacted law on Loan syndication in the country as to regulate the activities of the financial, institution who lead and participate in the syndication.

What is not the rapid growth of financial institution involved in Loan syndication but their activities, which have been quite remarkable over the years.

**1.2    PROBLEMS IDENTIFICATION**

There are conflicting views as to whether business organization shold be financed by syndicate loan or not.  The opposition to theuse of alternative and involve much administrative work

Also, there is need to point out in very clear terms the advantages inherent in  syndicate loan as medium and long-term financing.

1.3    **ST**ATEMENT OF OBJECTIVE****

          The purpose of this study includes:

-    To examine the general terms of the various issue involved in Loan syndication

-     To find out whether Loan syndication is really a new approach to or another Loan syndication can help in industrial development of the country.

-    To examine the extent of penetration of syndicated loan financing among business organization in the country.

**1.4 RESEARCH QUESTIONS**

The following questions have been prepared for the study

What are the various issue involved in Loan syndication?

Is loan syndication really a new approach?

Can loan syndication help in industrial development of the country?

What is the extent of penetration of syndicated loan financing among business organization in the country.

**1.5    LIMITATION TO THE STUDY**

          This work would have been more comprehensive and perfect if not for the constrains imposed on the researcher by the following factors.

 Death of statistical data:

Lack of statistical data from our financial institutions like the central bank of Nigeria (CBN).

Ministry and Economic Development posed as constraints to the researcher.

Cost:  The researcher would have extended the survey but for the enormous cost of transportation, it was impossible.

**1.6   SIGNIFICANCE OF THE STUDY**

Lender:  The lender bank is appointed and it is called the agent bank it is an agent of the lender and its main duty is to monitor the syndicated growth loans.  This has contributed to the economic growth of the nation.

**1.7    SCOPE OF THE STUDY**

SCOPE:  The scope of the study dealt with Loan syndication as a source of business financing in Nigeria and its important to the industrialists and economy in Nigeria.

**1.8    DEFINITION OF TERMS**

  LOAN:  This is a credit facility granted to a customers which is install mentally repayable over a period of time.

 SYNDICATION:  This is an association of Industiralists or banking customer formed to carry out industrial project.

 LOAN SYNDICATION:  This is basically defined as an agreement between two or more lending financial institution to provide a borrower with credit facility utilizing loan documentation. utilizing loan documentation.

**CHAPTER TWO**

**REVIEW OF LITERATURE**

**INTRODUCTION**

Our focus in this chapter is to critically examine relevant literature that would assist in explaining the research problem and furthermore recognize the efforts of scholars who had previously contributed immensely to similar research. The chapter intends to deepen the understanding of the study and close the perceived gaps.

Precisely, the chapter will be considered in three sub-headings:

* Conceptual Framework
* Theoretical Framework

**2.1 CONCEPTUAL FRAMEWORK**

**Concept of Loan Syndication**

The word syndicate1 has acquired a sinister connotation in Nigeria because the term has generally been associated with nefarious activities by the press. Thus, one often reads of such things as 419 syndicates, car snatching syndicates, cocaine syndicates, hard drugs syndicates, bank fraud syndicates. However, in the field of finance, the meaning is quite different. Onwughara (1989)' used the term in the context of an agreement between two or more lending institutions to provide a borrower with credit facility utilizing cclnn~on loan documentaticln, Obanla (1989).defined loan syndication as the art and process whereby a group of financial institutions is raised to provide credit facility or facilities to a borrower under cclnunon agreement, terms, and a single loan documentation. Clemn (1971)"eferred to loan syndicate as consortium banks and they are formed in order to be able to put together large loan \packagesJ to meet the financial requirements of large multinational companies for long periods of time. They arrange syndicated loans, this means, sharing out large loans among syndicates of banks (Cox, 1988).

Okafor (1992) "efincd a syndicate as a group of banks (consortium) in a temporary association for such purposes as:

- raising large sized funds for government or firms.

- underwriting securities of very substantial amounts issued by firms. - underwriting an insurance of a very risky nature.

- hailing out or taking over a bankrupt organisation.

Generally, therefore, syndication has the following features (a) two or more lenders and at least one of them acts as the lead bank or syndicate manager (b) a borrower is commonly invol.ved and (c) credit accommodation of a very large amount. In deed, a syndicate could be formed for any type of banking operation deemed too substantial or too risky for one bank to handle. Since 1964 consortium banking has been coming on strong in the world of international finance. Even the IMF and the World Rank have become increasingly involved in co-financing (Hornstein, 1977)~.

**Historical Perspective to Loan Syndication**

The first syndicated loans could be traced to the hankers of the middle ages who often distributed financing risks amongst several houses to support trade flows. This system was more on a participatory basis than a formalised syndication as the lenders did not adopt one common loan documentation. However, the rapid growth of the Euro-currency business in London encouraged links between British banks and banks overseas designed to enable them jointly to meet the financial needs of large customers such as multinational companies. Thus the first consort.iun bank was formed in 1964 originated by the foundation of a bank called Maidland and International Banks Ltd, now universally referred to as "MAIBLEN. MAIBLEfs parents are Midland Bank Limited of Britain, the Toronto Dominion Bank of Canada, the Commercial Bank of Australia Limited and an Anglo-African Bank - the Standard Bank Limited (Clemn 1971)~. MAIBLE was established to extend credits mainly of a medium term, that is, three to eight years. Because London is the centre of Euro-dollar market, it is a favoured location for consortia, but others are established in Brussels, Zurich, Milan, Paris and Luxembourg (Revell, 1973) ' The rapid expansion of the number of consortium banks did not come until 1969 and 1970. By December 1970, there were ten consortium banks. By June 1974, the number grew to thirty-two (32). Most of the consortia members are commercial banks, merchant banks, investment houses and insurance companies. According to Whiting (197619 a great deal of the growth in the number of consortium banks can be attributed to Britain's accession of the European Economic and economic community.

In Nigeria, the first syndicated loan could be traced to the 60rs when a consortium of commercial banks and acceptance houses discounted trade for marketing boards under the Produce Bill Finance Scheme (Onwughara, 1989) lo. Formalised loan syndication came into being during the oil boom of 1970's when there was need for adequate capital to finance the industrialisation programmes and subsequent development plans adopted by the Fed-era1 GoV@rnItI~nt. Loan syndication assumed greater dimension since the coming of the Merchant banks in the 80rs. A structured and recorded loan syndication in the country was led by ICON Limited in 1976 and this N4 million loan facility was in f~vour of PAN OCEAN. In December 1386, Nigeria s first syndicated equipment Ic+asiny finance was put together by the continental Merchant Bank (CMB) with Nal Merchant Bank, 1 CON Ljmited (Merchant Rankers) and International Merchant Bank Limited (IMB) . The deal was worth W20 million. Also a N30 million syndi-cat& loan led by first City Merchant. Eank was packaGed' for H. E. P Engineering Eiigeria Limited. A HI0 million. syndicated loan was also raj-sed by banks for Onwuka Interbiz while Berec Kiqeria Limited similarly contracted the sum of H30 million.Also a syndicated loan of N9.4 million was planned for Obasanjo Farms Limited (Momoh, 1990)" Central to loan syndication is the fact that most companies are trapped for cash and are in dire need for capital to overcome the problem of high cost of plant and machinery brought about by the operation of Foreign Exchange Market (FEM) . Experts however, see loan syndication by banks in the country as a sign of competitive banking and a will to work together by banks to weather the financial storm that beclouds the Nigerian economy (Alabi, 1992)". The Central Bank cf Nigeria's bankersr tariff states three conditions that must be fulfilled before a loan can be qualified as a syndicated loan. The loan must be provided by a number of institutions- at least three lending institutions; the loan must be made to a sincjle borrower; and the facility governed by a single loan contract and the amount not less than W2 nillion (Osayameh, 1386) ".The process of loan syndication as a banking activity evolved generally when loan reqn~sts frcm clients became over-whelmingly large for banks to handle individual-ly. In Nigeria, the need for syndication arose as an aftermath of the oil boom which helped to increase the tempo of economic activities in the country. Banks began to receive large loan requests from customers for the establishment of new factories or the expansion of existing ones. The increased economic activities also affected the real estate market as the demand for office accommodation in big cities increased by many folds. The funds required for these projects were often in excess of what a single bank could reasonably provide and as a result banks began t-o pool their resources together in the form of loan syndication. Other factors that warranted loan syndication (before the promulgation of ROFID No. 25 of 1991) include the low capitalisation of Nigerian hanks which made lending of substantial amount to a single borrower very risky and financially imprudent. Besides, the &inking Acts of 1969 as amended sets the lending' limits for banks. Accordingly the Act stipulated that a commercial bank should not lend more than 33% percent of its adjusted capital (paid-up capital plus reserve) to a single borrower while a merchant bank is limited to 100 percent of its adjusted capital. Also the Central Bank of ~igeria through its credit policy guidelines stipulates each year the annual growth rate of loan portfolio of banks. This implies that loan requests in excess of the limits may either be rejected or syndicated (Nwosu, 1990).

**Loan SyndicationStrategy**

Loan syndication can be accomplished through the straight syndication method where the bank originating the syndication called lead bank or manager structures the package for the borrower without committing for itself the whole amount of the loan. In another method known in banking circles as club loan syndication, the borrower, who must be of great credit standing arranges the loan by inviting banks on his own to participate in the facility. The third known method of loan syndication is the participating method. Here, the originating bank structures the loan package and commits the total loan amount to the borrower. It then subsequently offers participation in the loan package to other banks. The fourth is the parallel method which refers to a co-financing operation in which the lead bank and the calenders finance different goods and services or parts of a project. Among these four methods, the most popular in Nigeria is the straight syndication. All known syndication to date in the country were arranged by this method. The syndication exercise is not carried out for the borrower free. The lead bank and the agent bank are paid fees for their services. The Central Bank of Nigeria bankersr tariff stipulates that the maximum amount payable by a client as management fee stands at half percent of the total fund raised. The beneficiary of a syndicated loan (the borrower) is also required to pay an annual agency fee. This is paid to compensate the agent bank for the administrative and technical work being done during the life span of the loan. his agency fee at present stands at W5,000. per annum. There is also commitment fee payable on the undrawn but committed portion of the loan. The borrower is required to reimburse the lead bank or manager of all expenses and costs incurred on his behalf in the handling of the syndication. Such expenses include cost of printing, legal, travel, advertising and other out-of- pocket expenses incurred by the lead bank (Adekanye, 1984) '' Syndication business done by consortia falls into three categories - programmed, ad hoc and broadcast (Clemn, 1971)16. The programmed approach is taken by a number of consortia with Rothchild International as the archetype. The syndicate is puttogether only after an exhaustive analysis of all the borrower's banking connections and possible future needs. The ad hoc approach combines some programming with the manager's 'feelf for the market at the moment. Thus, an ad hoc syndicate might include some of the borrowerst, existing bankers together with banks that happened to be looking for certain types of participation at that moment. The Broadcast approach is at the opposite end of the scale. This approach has been very successfully developed by Western American Bank (Europe) Limited. The Western American technique is to commit sums (often very sizable ones) to a borrower directly from the bank's own book. Having made the total loan, western American proceeds to offer participations by means of telex messages which are sent simultaneously to a list of hundreds of banks around the world. Even if only 5-10% of the telex offerings are accepted, the bank may have succeeded in turning most of the original loan into participations. There are however objections to this approach. First, the risk is that the bank will have to tswallowt an unpopular loan compounded by the facts that there is no prior . consultation among possible participants. Secondly the method of broadcasting the term of offering is objectionable to many shareholders (Hornstein, 1977). Apart from the formal loan syndication by financial institutions, there are other forms of syndicated credit. But the most impor.tant point to note is that the process of syndicating one facility does not differ remarkably from that of another. These forms are: (a) Syndicated lease: A syndicated lease financing is an arrangement with a number of lessors because the cost of the asset(s) or the potential risk is too high to be borne by one lessar. Many lessors come together to fund a single asset with each of such lessors credited with its investment in the acceptance certificate evidencing investment in the relative asset. Some big equipments that involved huge amount like Aeroplane, oil Drilling Rigs, and heavy industrial Machines cannot be financed by one lessor. The first syndicated lease contract in Nigeria was led by Continental Merchant Dank Limited in 1987 for Spintex Limited of asset worth 820 million (Ikpa, 1990)18. Others were led by ~nternational Merchant Bank for United spinners of asset worth N36.7m while City Merchant Bank and Merchant Bank of Africa provided 3420 million lease for Enpee Industries and H25 million lease for five Star Industries respectively in 1987. (b) Underwriting Syndicate: Underwriting is a process whereby a capital market operator usually an issuing house or merchant banker accepts part or total responsibility for market failure in security issues. In a firm commitment underwriting, the underwri.ter. assumes full risk for market failure. He stands by to absorb all unsold securities. In some special cases, the firm commitment underwriter makes funds available to the issuer even before the extent of subscription is determined. The standby underwriting arrangement on the other hand, implies that the underwriters contract to take up the unsold portion of an offer. The actual extent of cover to be provided is therefore not determined until subscription for the offer has closed. Underwriting is a risky business. To reduce the jnhercnt risk exposure, most banks would opt for syndicated arrangement whenever the value of the offer to be underwritten is substantial. Underwriting is something that invariably comes into any discussion of consortium lending, and almost always the individual informant provides his own shade of meaning for the term. One reason for th;.s. vagueness and confusion is that certain amount of medium term lending business has been developed on a basis that has. certain resemblances to classical underwriting (Clcmn, 1-971)19. Accordingly, Donaldson - (1979)~' classified loans into: fully underwritten, partly underwritten and best efforts.Fully Underwritten: The manager (s) undertake (s) to provide the full amount of t.he loan if necessary. However, each manager has a smaller figure in mind which he intends to keep; he hopes to 'sell down' the balance in the course of syndication. Partly underwritten: The manager(s) undertake(s) to provide substantial amount but less than the borrower requires; he only obtains the balance of syndication is successful. Best efforts: Mere, the managers are only prepared to take up their amount if syndication is successful, their total is substantially less than the borrower requires. If syndication is successful, the borrower gets nothing. The aim, in all cases, is to set terms which attracts large enough participations to make the loan a success. In deciding what terms are right, it may he necessary to tap a wide range of knowledge as to banksf interest in different types of borrower and deal. The nuances of the terms vary depending on whether the loan is underwritten, but the principles do not. The managers must be prepared to accept the maturity, amortisaticn, grace period; covenants etc. themselves as lenders and be satisfied that the market will agree, failing this they may have to keep a large share of underwritten loan than they wanted. A failure to complete a best efforts syndication is likely to damage a hank's reputation - quite apart from loss of fees. Failure may sometimes be redeemed by returning to the market with more generous terms, but this is generally poor practice. Frequent renegotiation damages a. bank's reputation and ability to syndicate (Chrystie and Fabozzi, 1983)''

**Purpose of Syndicatinq a Loan**

Generally, consortium lending is organised in order to be able to put together large loan packages to meet the financial requirements of large or medium-sized corporate bodies, government or parastatal and by so doing the calenders share the risk of credit exposure. However, some other reasons why banks enter into syndication in providing loans for their customers are as follows: - To conform with the Banking Act of 1969 as amended which prescribed the maximum amount to be lent to a single borrower. When the loan being requested is in excess of this naximum then a syndication would be undertaken to provide the entire amount. -- In order to comply with sectoral allocation of credit, banks could lend through syndication so as to meet the maximum prescribed for each s~ctor of economy particularly the preferred secters.

- When banks are facing liquidity problem, they could embark on syndication to provide loans for viable project(s) instead of declining such requests in their entirety.

- Since loans are the most profitable but at the same time the most risky asset, banks would like to protect themselves hy sharing the risk through syndication. It is a bad lending policy for a bank to put all its eggs in one basket. Sharing the risk reduces the level of bad debt a bank could carry.

- Banks like to identify themselves with the progress of viable projects. Through loan syndication many banks are associated with the progress and economic growth of corporate bodies and governments.

- Control, managemen.t and repayment procedures are better streamlined in a syndicated credit than when the same customer borrows the same amount from different banks on a participatory basis. In a syndication, conmon documentation is used by all the lenders and the lead bank is responsible in ensuring that the conditionsprecedent and covenants throughout the life of the loan are strictly adhered to (~yoola, 1987)~'.

**Eligibility in Loan Syndication**

Presently, in Nigeria, there is no loan syndication law stipulating the corporations/firms eligible to finance their projects with syndicated loan. However, the borrower of syndicated loan is usually a large or medium sized corporate body, government or parastatal with considerable technical and managerial expertise. The financial institutions that participate in loan syndication currently in Nigeria are: Merchant banks, Commercial banks, Development banks, and Insurance companies.

**Parties to Loan Syndication**

The typical loan syndication group also known as consortium comprises the following participants: the borrower, the lead banklmanager, the syndicate agent, and the syndicate members/participating banks.

1. **The Rorrower:**

When the borrower conceives the idea to embark on an investmentprogramme, he commissions a nanagement consultant to prepare a feasibility report on the proposed project. The report will among other information contain the status of the promoters, the type of project, location, management profile, sources of raw nmterials, type of technology t-o be adopted (machines), market for the products, project cost (equity and loan capital) and the projected financial information (Ezeanyagu, 1991)~~. It is common knowledge that profit is the major motivating factor for any business venture. Therefore, the promoters while conceiving the idea to embark on a new project or expand the existing one must have been convinced that the business will generate sufficient cashflow and profit for repayment of any borrowed funds and payment of dividend to the shareholders. Backed by this idea, the feasibility report must be seen to project the business as one that will he technically feasible and economically viable. The borrower submits the feasibility report together with other pertinent information such as Articles and Memorandum of Association, Certificate of Incorporation, audited accounts if the business has been in existence etc. to his banker to provide the loan. It is not a condition that the documents should be submitted to the borrower's existing bankers. The borrower is free to submit the docutnents to any hank of his choice (even where he has no account), if he is convinced that such bank would be in a position . to provide the entire loan singly or lead a successful syndication (Odogwu, 1988)''~. To protect the position of the hanks during the life of the loan, the loan agreement will usually contain provisions for the borrower to commit itself to various undertakings relating to its general business activities and to the loan itself. Such undertakings will generally include t.he following (Fiddler, 1982)

1. The obligation oi the burscwer to proddue regular financial reports to the banks
2. The inclusiurl of a 'negative pledgef provision to the effect that the borrower will not provide general or specific security to other loans such that those loans will rank senior to the loan being made by lending bank. In the event that other lenders require security the negative pledge clause wi1.Z require the borrower to give equal and rateable securlty to the hanks pa.rt.i.cipatiny fn the subject loan.
3. The loan agreement will, in the case of corporate borrowers, of ton contain financial covenants relating to debt/equity and other ratios which must be adhered to by the borrower during the life of the Loan.
4. The obligation of the borrower to notify the agent bank in writing of any event of default as soon as it occurs.
5. **The Lead Bank/Manager:**

The functions of the lead bank/manager and agent both important in syndication, are often performed by the same bank but are separate and will be separately discussed in this literature review. However, there is some overlap between them and it is not always clear in which capacity a bank is acting. In early syndications, it was common for even quite larye loans to have a single manager. However a group of managers is now standard for large loans with normally a lead manager. Thus, there may be a group of 'Co-managers' largely a prestige group taking a large participation and a commensurate fee but not actually managing. Moreover, for big country loan, there may he a group of 'lead managers\* of equal status who divide the functions am~ngst. them. This is sometimes called a \clubt. Syndicated lending has a history in several different domestic markets. As a result there is no generally acceptzd pattern although a number of domestic markets including the United Kingdom are now following the eurocurrency market (Donaldson, 1979)~'. Thus, the functions of the manager or agent are not -clearly identified in law or market practice. In United States, the borrower provides information and answers questions directly to lenders who then make up their own minds. This gives each bank a chance to influence the terms. This approach reflects the fragmented nature of the US banking system. Syndication among them is no real hardship and they probably receive almost as much information in normal course of business as they require for the syndicated loan. In most other countries there is no tradition of equality of information. Thus, the borrowers assume that some banks will have more information than others. Many European banks accept this position willingly, but they may take differing views as to the resulting obligations of the manager to the borrower and to other banks. According to Donaldson (3979)" there awe a number of corollaries to European approach. In the early days banks intended to look at the status of the manager rather than at the detailed assessment of the borrower. This was sometimes because this fitted their own banking tradition or sometimes because the American manager assume to have a full knowledge of his compatriots. Nowadays, agreements mostly require participants to warrant that they have each performed their own analysis of the borrower, received all the information they require and so are not relying on the manager's judgerent as a basis for their decision even though they may also absolve the manager/agent from passing on information acquired in other capacities. In practice, in most large syndicates this is demonstrably not true. Many banks are too unfamiliar with the borrower to be able to match the analysis done by major banks. In addition, the man3ger is often the lead bank to the borrower and inevitably in many casss has a more detailed kr~owlectge than most participants can possible have or than it is practicable to disclose. Thus, the 1-ead bank/nanager prepares the placement/confidential information memorandum for distribution to other banks which might be interested in participating in the syndication. The memorandum usually contains a disclaimer clause such as 'the information contained here-in has not been independently verified by the lead bank (name specified) with respect to its completeness, accuracy or as to other matters concerni~q it'. Each prospective participant in this syrldication should make its own independent evaluation of this borrowing and determine the amount of its participation based on such investigations as it deems necessary (OnrVrughara, 1989).

Such a disclaimer clause is an indication that the information in the placement memorardum has been provided by the borrower and the lead bank is not to be held responsible. However, the clause does not absolve the lead bank from any act of gross negligence during the life of the loan. The information memorandum also contains the fees being paid to the lead bank, the terms, conditions and covenants governing the credit facility. Syndication fee is charged in accordance with the Bankers Tariff and is as follows (Onwughara,1987)~~ : Agency fee # 5,000 per annum Managenlent fee 4% of el1 monies raised commitment fee 4% chargeable on late drauihg on all loan drawdown. These rates are as applicable to Nigeria. In the Euromarkets, Donaldson (1979)'" noted that the management and commitment fees are not constant but varies form one facility to the other while for agency fee, $10,000 per annum seems to be the minimum level. Generally, Okafor (1992)" summarised the functions of the lead hank/manayer as including the following among others:

1. Getting or securing the business
2. Feeling out the market to determine what could be raised under what conditions
3. Preparation and circulation of jnformation memorandvm to syndicate members
4. Management of syndicate meetings
5. Acting as syndicate agent
6. Undelwriting - which function appears to be unpcpular among syndicate members in Nigeria.
7. **The Agent:**

In view of the historic development of the syndicated bank credit mar

ket and the underlying concept of a group of banks joining together to lend on the basis of one common loan agreement with all payments being made through one agent bank, it can be appreciated that the responsibilities of the agent bank could be considerable. The loan agreement must therefore contain provisions defining the relationship of the participating banks both between themselves and with the agent bank, Fidler (1982)" stated that the latest trend in Euro-currency documentation are to include extensive protective clauses relieving the agent bank from responsibility for loses incurred by the banks as a result of their participating. Generally, the agent bank is only required to perform in a reasonable manner specific duties delegated to it within the framework of the loan agreement and the agent is not responsible to the banks for losses incurred unless it fails to perform its designated functions as a result of its gross negligence or wilful misconduct. While he consults closely with the other managers on the agreement, in the euro-currency and most european domestic markets, the participants have little say on the matter of substance, although changes of details can be negotiated and banks can, and occasionally do drop out of the loan if the agreement does not meet their requirements. The agent's function is to operate the agreement once it is signed and in this respect its duties are clearcut in principle even if often complex in detail. ~nnaldson'~ outlined them as follows:

1. The agent checks the conditions precedent to the signinq and to drawdown c?r rollover, where appropriate are met.
2. and then issues notices of drawdown and collects fzznds from the syndicate for payment to the borrower; sets the interest rate by the agreed method; calculates and collects the interest and repayments of principal for distribution to the participants. The agent checks the provision of the original collateral; updates valuations and procures the delivery of any additional collateral necessary to maintain cover; and ensures full insurance in which the syndicate's interest is noted. The agent also monitors appropriate items in the loan ap-eemellt. These include delivery of annual and interim reports or other information;the receipt of certificates of compliances from the borrower or an independent arrc1itor;the receipt of inSormation necessary to check compliances with covenants. The agefit either distributes this inforn~ation or advises the syndicate of compliance based on any necessary calculations or both. There are a number- of minor judgements often left to the agentfs discretion such as whether a particular auditor, valuer or insurer is acceptable or whether specific collateral is in accord with the loan agreemmt. At 5ne. stage it was quite common for the agent to have a fair amount of discretion on items such as substitute collateral or even whether to enforce events of default, but the tendency has been to reduce discretion, and make the agent little more than a post box for advising the syndicate, calling meetings and carrying out of the syndicatet s instructions (Lees, 1974).

**Stages in Loan Syndication**

The entire process of syndicating a facility may be delineated into three main phases namely; the contact/mandate stage, the contractual/documentation stage, and the post signing/credit administration stage.

1. **The contract/Mandate Staqe:**

This is the stage where the basic groundwork and infrastructure for the successful pros~cution of the syndication are initiated. A prospective loan customer establishes its basic credit requirements and the most suitable package that would meet the organisation's requirements. It then presents a proposal to a bank to produce the required credit. The borrower-organisation actually may not initiate syndicaticn of the facility. Many times, it is the bank which put.s it to the borrower, rather than commit itself to the total. amount or reject the application outright for portfolio constr3inta, that randate be givcn for the required amount to be raised through a syndicate.Of course, the bank will state the terms and conditions under which the loans will be syndicated having satisfied itself that the project is feasible and economically viable and as to other important lending co~siderations. The express acceptance of this bid by the borrower constitute the mandate to syndicate the facility and lead manage it. The mandate, in the form of a board resolution in the case of limited liability companies, must indicate among others, the acceptance of the proposed interest rate structure, the repayment terms, security or securities and the consortium lending charges. Obtaining that mandate, the lead then initiates a program-ne for actuating the syndication proper. The programme will usually include a marketing plan or strategy for ensuring effective favourable response to the syndicate as well as a time-plan which sequence out all important actions/events for the successful consummation of the entire process of syndication. The most important instrument for selling the facility to other financial institutions is the information memorandum which is prepared at this stage by the lead bank in collaboration with the borrower. The information memorandum will state among others, the terms and conditians under which the lead bank has been mandated by the customer to raise the credit, a brief description of the borrower, the main shareholder(s)/promoter(s) of the company, the directors and management team. It will also incorporate cogent technical, financial and market information about the company, its product(s) and its prospects which will facilitate independent analysis of the credit by other prospective l.enders, though it is not unusual for the memorandum to carry a disclaimer clause which urges other lenders to ohtain independent or additional information from the borrower if desired. The next step in the mandate stage is the extension by the lead bank of invitation coupled with the information memorandum to other financial institutions to participate in the syndicate by making provisional commitments up to a given amount and sending in their approval-in-principle before some specified date. On receipt of favourable response from other institutions, the lead bank then prepares the most crucial stage in the syndication process. A meeting of the participating lenders is often arranged shortly after the receipt of response to review the mandate obtained by the lead bank and the technical information relating to the credit. If the borrower gives his go-ahead, the process then enters the contractual/docum~n.tation state (Obanla, 1989) ".

1. **Contractual/~Documentation Staqe:**

This is basically concerned with giving legal effect to the synciication and the various agreements/consensus reached. The lead bank arranges the drafting of the necessary legal documents to bind all the parties. The prepared documentations must be vetted by all the parties concerned before they are executed. Essentially, documentation focuses on and includes the lozn documentation, offer/commitment letter, security documentation, interbank agreement and loan agreement.

1. **Loan Documentrttion :**

Subsequent syndicate meetings are held to discuss the offer letter to the bcrrower. The legal officers of the lenders hold separate meetings to discuss the offer letter to the borrower. Also the legal officers of the lenders hold separate meeting to discuss and agree on the security documents, loan agreement and inter-bank agreement. The lead bank provides for vetting and returning the final copies to be prepared. The final copies of these documents are thereafter executed by the borrower and the lenders and this is however done after the borrower has in writing accepted the offer letter. The documents are later perfected and copies distributed to all the lenders for retention. Occasionally, a separate trustee other than the lead bank is appointed to be responsible for perfecting the

doc~irnents and enforcing the conditions in the agreements when the borrower defaults.

1. **Offer-/Commitment Letter:**

This 1-etter can be cf two types. It can be siqnod by the lead bank on behalf of the oth~r lenders or signed jointly by al-1 the lenders. The letter spells out the terms and conditions governing the credit. Such terms and conditions must have been agreed upon by the lenders and the borrower during earlier meeting. The borrower has to accept the terms and conditions by signing a copy of the letter which is returned to the lead bank for retention.

1. **Inter-bank Aqreement:**

This shows the agreed relationship between the lenders, the powers, duties and obligations of the lead bank/manager, the agent bank and other participating banks. The arrangement relating to sharing of interest income and other fees is also clearly stated. All the lenders must sign this agreement. The borrower does not sign this document as he is not a party to . it, but it is nor:.nally annexed to the loan agreement. Hence the borrower cannot claim ignorance of its subsistence during the tenure of the credit.

1. **The Loan Agreement;-**

This is the document that commits the borrower and thesyndicate of lenders to the terms and conditions of the loan. The contract governs the disbursement of funds, the repayment of principal, the payment of interest and fees, and serves as a basis for monitoring the financial well being of the borrower until the loan is finally repaid. The followings are common features in the loan agreement (Ohanla, 1389): - The desire of the borrower to obtain credit facilities from the lenders. Rorrow~r's board of directors passes a resolution to that effect.

- The amount and type of faci-lity.

- The appointment of the lead bank.

- The security offered and how it is shared by the lenders.

-- Purpose of the fazility eg. acquisition of fixed assets, working capital etc. Also the type of industry is stated.

- Sites of the lead hank to ment.ion; managing the lending on behalf of the lenders; disbursement of the facility; repayment of lenders; notificztion of any material infomation regarding to the 1 ending.

- Lenders ratify a~d identify the actions of the lead bank in the management of the cr~dlt.

- Remunerations due to the lead bank eg agel?cy fee, management fee, commitment fee .

-- Conditions precedent to the disbursement of the loan amount eq borrower to bear any cost over-run.

- Interest chargeable and mode of payment.

- Prepayment, repayment ancl cancellation of the facility.

- The borrower covenants to provide financial information to the Lead bank; to ensure no material change in management structure during the life of the loan; not to borrow additional funds without the consent of the syndicate.

-- In the event of default by borrower with regard to repayment- of the loan and inf~rest, break of covenants, cessation of business etc, the facility will be deemed as being due and the syndicate will call in the facility and commence with realisation process.

- All costs and expenses including stamp duties, taxes and charges to be borne by the bor-rover.

- Description of tl~e security offered and the amounts.

1. **Security Documentation:**

This depends on the type of security/securities provided or taken in respect of the facility. Usually, a fixed and floating charge on the borrower companyfs assets and personal guarantee of major directors of the cowpany are taken. A debenture could also be taken to cover specific company plants and machinery to be financed by the syndicated facility. since the security provided is towards protecting the interest of all the lenders,a trllstee is often appointed normally the agent bank, to have the security in trust for all the lenders until the facility is fully recovered. Apart from the normal enabl-ing documentation for the perfection of the security, a trust deed is also prepared to legally safeguard this arrangement. A deed of guarantee is required to be executed to obtain the guarantee of the directors of the company jointly and severally. When the documentation has been vetted and agreed upon by all the concerned parties, the stage is then set for the signing ceremony. A date is fixed when the parties will formally execute the documents. Publicity is arranged if need be and on the appointed date, all the document-s with sufficient copies will be signed by the company secretary and one director of each of the lending institution and the borrower company (Obanla, 1989) ".

1. **Post Signing/Creit Administration Stage**

After the signing ceremony, the lead/agent hank assumes the active role in the credit administration. The lead bank ensures compliance of the borrower with all conditions precedent stipulatec'in the loan agreement and gives effect to the disbursement plan and the borrower's drawdown requests. It sees to proper utilization of disbursed funds and monitors the progress on the financed project, keeping other participants duly informed. Prompt payment of interest, the syndication charges agreed and the scheduled repayment of the principal by the borrower must also be seen to by the lead bank. So~netj-mes, special condition may be imposed relating to changes in organisational and financial structures of the borrowing company subsequent to the first and second drawdown. For example, it may be a condition that the borrower company establishes a reserve fund towards ultimately retiring the facility and ensllring regular repayments. Such \ conditions subsequent- must also be fulfilled by the borrower otherwise subsequent drawdown may be hampered. Hence the lead manager has the responsibility to liaise closely with both the borrower and other lenders to avoid any bottlenecks. Problems arising in respect of the facility will he highlighted by the administering bank and sometimes visits to the . compmy/factory premises or project site(s) may be arranged for onthe-spot assessment by the lenders representatives. Meetings may also he scheduled for period reviews and management feedback. In essence, the administration of the syndication starts from the dateof signing the agreement until the facility is totally liquidated (Adedej i, 1990).

**Management of Syndicated Loan**

When all the documentations have been put in place, duly executed by all parties and all conditions met, the lenders can then start disbursing the loan arrount in accordance with the disbursement schedule. In the case of a term loan, the other lenders will create loan accounts in their books and forward cheques to the lead bank for on-disbursement to the borrower. The lend bank establ-ishes memo accounts for each of the banks that have provided the term loan. The memo account serves the purpose of determining date of disbursement by each bank, amount, interest rate and calculations, loan repayments to the lenders etc. It is the responsibil-ity of the lead bank to collect the interest and principal from the borrow~r when due and distribute to all the lenders. The memo account has to be updated always. In effect, the information in thz memo account should at all times agree with the . individual lender's loan account. The lead bank also advises the other lenders of any change in interest rate.The lead bank also ensures that all documentary information listed in the loan agreements are obtained periodically from the borrower and diskributed to the lenders. Such inIormation assists the lenders in assessing the performance of the borrower and for renewing the facility when due. The lead bank also has the responsibility of ca.lling for syndicate meeting whenever it is necessary and arranges for periodic visits to the project to assess its performance. In the event of default by the borrower, the lead bank after agreeing with ot-her lenders during syndicate meetings would take necessary steps as outlined in the loan agreements to recover the debt. Such processes may include calling in the facility, fore-closure and realisation of securities. Any amount realised is distributed to the lenders in relation to the amount lent (Adeniyi, 1990).

THE IMPACT OF LOAN SYNDICATION IN THE GROWTH OF NIGERIAN ECONOMY

Through loan syndication, financial institutions have continued to support the industrialization policy of the government including economic growth and reduction in the level of unemployment. Syndicated facilities are often medium to long-term end.

Loan syndication is an economically beneficial method of transforming mobilized funds into real capital because without it, some viable investment opportunities might be lost for lack of preparation on the part of any one bank or financier to finance the investment alone.

Hence, loan syndication enhances the investment and the economy’s productive capacity by promoting the flow of funds into the industry and other priority sectors of the economy. This has reduced the rate of project failures and mitigated the number of abandoned projects in Nigeria.

We have seen how the regulations in the Banking Act and Central Bank credit guidelines make it difficult for a single bank to grant loans of certain amounts to single borrower.

Loan syndication saves the borrower the pains of raising independently from different institutions having to prepare costly separate documentations for each little credit and negotiating one to one the different lender’s terms and conditions. Thus, it helps in saving precious time and allocation of the scarce resources with a little waste.

The industrialization policy of the government demands large capital outlay and such funds can only be made available either government grants or syndicated loans from the financial institutions.

**HIGHLIGHTS ON NOTABLE LOAN SYNDICATIONS CARRIED OUT BY CURRENT OPERATING BANKS.**

Based on the fact that all merchant banks are presently involved in commercial banking activities, below are a few highlights on current bank operations in line with their syndication activities.

First City Monument Bank (FCMB): An identification of banks that have and still participate in loan syndication will be incomplete without special reference to this bank. This is due to the fact that it led the first public loan syndication of #70m ($75m) for the then National Fertilizer Company of Nigeria. This landmark achievement was in 1986 when the bank was First City Merchant Bank. Till date FCMB still participate in loan syndication for economic development.

**Afri Bank Plc**: Within the years 2000 and 2005, Afri Bank Plc led a syndication involving seven (7) banks for a sum of #14b ($100m).The negotiation requires contribution of 20% of the money to fund 250,000 lines expansion for the general restructuring of NITEL (Nigerian Telecommunication Limited), with major emphasis on the Lagos region.

**First Bank of Nigeria Plc:** First Bank of Nigeria is known for its consistent participation/leading of loan syndication in Nigeria. In 2001, the bank led a syndication of #15m to overall development of the marine and oil sector of the economy. Between 2004 and 2005, First Bank led a syndication of $185m for the acquisition of GSM license by NITEL $72m for NITEL expansion.

In 2005, it led a syndication of #60b to Dangote Group. In addition to the bank’s consistent role as a lead bank, it also acts as a participating bank in some syndication, a few of which referred to in consequent highlights.

**OTHER BANK INTERVENTIONS IN LOAN SYNDICATIONS**

In 2005, eight (8) Nigerian Banks teamed with twenty (20) other International Banks to provide $600m for NNPC/EXXON mobile satellite oil field programme, where the Nigerian Banks raised $160m (about 70% of the total).

* The eight (8) local banks that participated are:
* Investment Banking and Trust Company Plc
* Union Bank of Nigeria Plc
* United Bank of Africa Plc
* Access Bank Plc
* Zenith Bank Plc
* Guarantee Trust Bank Plc
* Standard Chartered Bank Nigeria Limited
* First Bank of Nigeria Plc

V Mobile completed a $1.1b medium term debt finance agreement with leading International Banks and a consortium of sixteen (16) top Nigerian Banks for a coverage expansion programme.

The foreign banks provided $650m while the local banks provided $450m.

It was the largest club lending by size and until then the maiden medium-term financing in the local market.

Furthermore, 50% of Nigerian banks intervened in 2007 by raising over $200m to aid VISAVONE’s smooth rollout and operation. Thirteen (13) banks participated and are listed below:

* First Bank of Nigeria Plc
* Guarantee Trust Bank
* Oceanic Bank Plc
* Zenith Bank Plc
* Intercontinental Bank Plc
* Eco Bank Plc
* Platinum Habib Bank Plc
* Fidelity Bank Plc
* First Inland Bank Plc
* Afri Bank Plc
* Sterling Bank Plc
* Access Bank Plc
* First City Monument Bank
* Afro Financial Corporation (the only non-banking institution involved).

The significance of this lies in the fact that this may well be the largest syndicated loan facility by Nigerian Banks for a wholly owned Nigerian Phone Mobile Company. The above highlights go a long way to prove that loan syndication as a variable financing tool is an

**PROS AND CONS OF SYNDICATED LOAN AS A VARIABLE FINANCING TOOL**

From the point of view of the borrower, this section examines the merits and demerits of syndicated loan financing as compared to other sources of medium and long-term financing.

# ADVANTAGES

1. The principal advantage of loan syndication is FLEXIBILITY, the borrower deals directly with the lender and the loan can be tailored to the borrower’s need through direct negotiation.
2. Syndicated loan is also beneficial to corporations that need jumbo loans to finance their project, and do not have access to the capital market, as well as not being able to readily float a public issue.
3. It lowers the cost of capital to the firm, because of tax deductibility of interest payments.
4. It saves the borrower the pains of raising equivalent loan independently from different financial institutions.
5. The repayment schedule is usually geared to the borrower’s cash flow ability to service the debt, since syndicated loan is usually amortized.

# DISADVANTAGES

Despite the numerous advantages of syndicated loan financing, it has the following disadvantages:

The expensive nature of syndicated loan is the principal disadvantage of this method of financing. The effective cost of capital exceeds the interest paid. This is as a result of other charges, such as management, agency and commitment fees.

Time wasting: Syndicating a loan is time consuming, documentation requirements often present problems as each party has to vet the documentation and where there are disagreements, the documents may have to be redrafted over and over again, resulting in unnecessary delays.

Repayment schedule also poses a problem to the using firm. Most syndicated loans are repayable in equal instalments, such that the firm does not make full use of the amount syndicated throughout the period of the loan. The borrower may also be facing liquidity problem during repayment period.

Secondly, certain disbursement criteria and consideration do apply. The lead/agent bank may cease to disburse the loan to the borrower for non-compliance of any of the criteria.

Additional long-term debt: These are provisions against incurring additional long-term indebtedness except with the permission of the lender. The loan agreement also prohibits the borrower from assuming any contingent liabilities such as guaranteed indebtedness of the subsidiary firm.

# FACTORS MILITATING AGAINST EFFICIENT LOAN SYNDICATION

Various reasons can be adduced as constraints against efficient loan syndication. These include but are not restricted to

**Time:** time factor has often been cited as one of the variables that militate against efficient loan syndication. There are various requirements that must be put in place before the conclusion of the documentation process and it usually takes several months to satisfy those requirements. Consequent on this, by the time approval is given to the borrower, the projections made may have been over taken by other cost elements and this hinders the success of the loan facility.

**Delays in packaging the loan:** there is also delay in packaging and putting the credit in place before disbursement of the funds to the borrower. As a result of the various interest groups that must be satisfied, too many stringent conditions and covenants are attached. Hence prospective borrowers prefer direct loans from a bank than syndicated loans. There are instances where the borrower is barred from restructuring the management even if glaring ineptitude is obvious. The borrower may even be prohibited from paying dividend during the duration of the loan and may not even be allowed to obtain further credit without prior approval form the syndication group.

**Dilatory behaviour of the Borrower:** there are instances where the borrower is very unwilling or uncooperative as regards providing the necessary documents demanded after the loan has been approved and the draw down started. All sorts of delays and reasons for the delays are advanced. Also the borrower may be facing liquidity problems, low sales turnover, high carrying cost, industrial crisis etc. the cumulative effect of these is inability to meet the prior obligations or commitments entered into. These problems and indeed more if not addressed promptly and expeditiously may lead to, rescheduling restructuring, refinancing of the loan or outright failure of the loan.

**Rates and other charges:** there is yet another problem with syndicated loans. This is the interest rate and other fees payable. Banks a times charge prohibitive interest rates on syndicated loans as a way of maximizing their returns. There are instances where they adopt floating interest rates thus quickening up the interest rate on the facility every year. In addition to this the borrower is compelled to pay the management fees, legal fees, penalty for default in draw down arrangements, commitment fees and out of pocket expenses of the managers of the loan facility. The cumulative effect of all these payments is that the facility may become very sticky.

**Loan Duration:** there is the problem of duration of the loan. Banks due to the character of their liability prefer to lend short. Syndicated loans run into several years and this has severe implication on the liquidity of banks. Banks therefore undertake extensive self re-examination of their liquidity needs before venturing into the arena of syndicated lending.

**2.2 THEORETICAL FRAMEWORK**

**Pecking OrderTheory**

The pecking order theoryserved as the underlyingtheory that I used to reflect on the sourcing of funds by SMEs in Nigeria. Proponents of the pecking order theory contend that managers prefer financing from retained earnings, followed by debt, and then equity (Serrasqueiro, Nunes, & Armada, 2016). The proponents of the pecking order theory specified funding demands are within the limits of the accessibility of funds because the accessibility of funds is governed by differentamount of information asymmetry and related agency costs included in the varioussources of finance (Serrasqueiro et al., 2016). Pecking order theory became one of the most influential theories of corporate capital structure, followed by agency theory, information asymmetry, and signaling theory (Degryse, Goeij, & Kappert, 2013; Serrasqueiro et al., 2016). SMEs seem to adjust their investment plans to the principles of the pecking order approach and could use a form of borrowing ratio to achieve their funding policy, as maintained by the trade-off theory (Chimucheka & Mandipaka, 2015). Variations in debt are not the immediate goal of firms to reach an optimal level of debt (Serrasqueiro et al., 2016). The desire to reach an optimal standard of debt is the outcome of external inancing requirements because when private funds are insufficient, firms prefer debt to external equity (Serrasqueiro et al., 2016).

**Capital Structure Theory**

Modigliani and Miller (1958), propounded the capital structure theory, in the field of investment, where the capital structure represents the mix of debt and equity used by firms to finance long-term investment. Debt is the component of capital loaned by other parties or investors and subject to repayment(Serrasqueiro et al., 2016). Serrasqueiro et al. (2016) examined the capital structure decisions of high-tech SMEs and non-high-tech SMEs in Portugal.The outcome of the study revealed that information asymmetry has an impact on the relationships between SMEs and creditors on capital structure decisions of service and manufacturing SMEs (Serrasqueiro et al., 2016).Small businesses rely on internal sources for financing business projects (Daskalakis et al., 2014; Foo, Jamal, Karim, & Ulum, 2015; Serrasqueiro et al., 2016). The internal sources of funding constrain SMEs’ ability to financebig projects (Daskalakis et al., 2014). The capital structure theory led the most dominantdiscourse in corporate finance (Foo et al., 2015; Serrasqueiro et al., 2016). Modigliani and Miller (1958) set the stage for succeeding scholars on investment choices where currentmarkets are immaterial (Serrasqueiro et al., 2016).The capital structure theory led to vigorousdebates in areas of corporate finance and academics (Serrasqueiro et al., 2016).Despite the diversity of the capital structure literature, relatively few scholars have explored the financing decisions of SMEs (Foo et al., 2015; Serrasqueiro et al.,

162016). Most of these researchers have ignored the uniqueness of SMEs, which represent most of activities contributing to gross domestic product (GDP) and employment in most countries(Foo et al., 2015). One possible explanation for the limited research is that SME data are often insufficient and sometimes inaccurate because of private ownership, and owners may not disclose information (Foo et al., 2015; Serrasqueiro et al., 2016). The proponents of the capital structure theory simplified the procedure for companies but did not adequately describe the opportunities available to small businesses, thereby offering limited advice on capital choices to small enterprises (Foo et al., 2015; Serrasqueiro et al., 2016).

**Tradeoff Theory**

Scholars who developed the tradeofftheory (TOT) have proposed that firms supported by both equities and debts deal with two fundamental concepts of financial and agency costs (Aabi, 2014; Serrasqueiro et al., 2016). According to the TOT, financialleadership consists mainly of maximizing investors’ equity by increasing the market value of the company (Aabi, 2014; Serrasqueiro et al., 2016). Proponents of the TOT have suggested that an optimal capital structure maximizesthe value of the firm by balancing the prices and benefits of an additional unit ofdebt (Ghazouani, 2013; Serrasqueiro et al., 2016). In tradeoff theory, the interests of agents are dependable and valuable to the leader (Aabi, 2014). Firms achieve an optimal level of debt by balancing the benefits and costs of debt (Serrasqueiro et al., 2016).

17The problems of lack of access to resources by SMEs are mainly the effect of lack of informational transparency (Aabi, 2014). The lack of information transparency on the part of SMEs creates difficulty for external agents to identify their financial circumstances(Aabi, 2014). The informationdistortion, which characterizes the relationship between banks and SMEs, leads to exposure to credit control (Aabi, 2014). There are conflicts of interest between the various parties involved in financing and borrowing (Aabi, 2014). SMEs have difficulty accessing credit, and the key constraint players are credit institutions (Aabi, 2014)

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 RESEARCH DESIGN**

Research designs are perceived to be an overall strategy adopted by the researcher whereby different components of the study are integrated in a logical manner to effectively address a research problem. In this study, the researcher employed the survey research design. This is due to the nature of the study whereby the opinion and views of people are sampled. According to Singleton & Straits, (2009), Survey research can use quantitative research strategies (e.g., using questionnaires with numerically rated items), qualitative research strategies (e.g., using open-ended questions), or both strategies (i.e., mixed methods). As it is often used to describe and explore human behaviour, surveys are therefore frequently used in social and psychological research.

**3.2 POPULATION OF THE STUDY**

According to Udoyen (2019), a study population is a group of elements or individuals as the case may be, who share similar characteristics. These similar features can include location, gender, age, sex or specific interest. The emphasis on study population is that it constitute of individuals or elements that are homogeneous in description.

This study was carried out on the loan syndication: a source of business financing in Nigeria using GTbank and Access Banks as a case study. Staff of GTbank and Access Bank form the population of the study.

**3.3 SAMPLE SIZE DETERMINATION**

A study sample is simply a systematic selected part of a population that infers its result on the population. In essence, it is that part of a whole that represents the whole and its members share characteristics in like similitude (Udoyen, 2019). In this study, the researcher adopted the convenient sampling method to determine the sample size.

**3.4 SAMPLE SIZE SELECTION TECHNIQUE AND PROCEDURE**

According to Nwana (2005), sampling techniques are procedures adopted to systematically select the chosen sample in a specified away under controls. This research work adopted the convenience sampling technique in selecting the respondents from the total population.

In this study, the researcher adopted the convenient sampling method to determine the sample size. Out of all the entire population of staff of GTbank and Access Bank, the researcher conveniently selected 41 out of the overall population as the sample size for this study. According to Torty (2021), a sample of convenience is the terminology used to describe a sample in which elements have been selected from the target population on the basis of their accessibility or convenience to the researcher.

**3.5 RESEARCH INSTRUMENT AND ADMINISTRATION**

The research instrument used in this study is the questionnaire. A survey containing series of questions were administered to the enrolled participants. The questionnaire was divided into two sections, the first section enquired about the responses demographic or personal data while the second sections were in line with the study objectives, aimed at providing answers to the research questions. Participants were required to respond by placing a tick at the appropriate column. The questionnaire was personally administered by the researcher.

**3.6 METHOD OF DATA COLLECTION**

Two methods of data collection which are primary source and secondary source were used to collect data. The primary sources was the use of questionnaires, while the secondary sources include textbooks, internet, journals, published and unpublished articles and government publications. The reason for using both primary and secondary source of data is, so that the researcher will have concrete and more valid answers to the research questions

**3.7 METHOD OF DATA ANALYSIS**

The responses were analyzed using the frequency percentage tables, which provided answers to the research questions.

**3.8 VALIDITY OF THE STUDY**

Validity referred here is the degree or extent to which an instrument actually measures what is intended to measure. An instrument is valid to the extent that is tailored to achieve the research objectives. The researcher constructed the questionnaire for the study and submitted to the project supervisor who used his intellectual knowledge to critically, analytically and logically examine the instruments relevance of the contents and statements and then made the instrument valid for the study.

**3.9 RELIABILITY OF THE STUDY**

The reliability of the research instrument was determined. The Pearson Correlation Coefficient was used to determine the reliability of the instrument. A co-efficient value of 0.68 indicated that the research instrument was relatively reliable. According to (Taber, 2017) the range of a reasonable reliability is between 0.67 and 0.87.

**3.10 ETHICAL CONSIDERATION**

The study was approved by the Project Committee of the Department. Informed consent was obtained from all study participants before they were enrolled in the study. Permission was sought from the relevant authorities to carry out the study. Date to visit the place of study for questionnaire distribution was put in place in advance.

**CHAPTER FOUR**

**DATA PRESENTATION AND ANALYSIS**

1. **1 INTRODUCTION**

This chapter presents the analysis of data derived through the questionnaire and key informant interview administered on the respondents in the study area. The analysis and interpretation were derived from the findings of the study. The data analysis depicts the simple frequency and percentage of the respondents as well as interpretation of the information gathered. A total of forty-one (41) questionnaires were administered to respondents of which thirty eight (38) were returned while 35 were validated. This was due to irregular, incomplete and inappropriate responses to some questionnaire. For this study a total of 35 was validated for the analysis.

**4.2 DATA PRESENTATION**

The table below shows the summary of the survey. A sample of 41 was calculated for this study. A total of 38 responses were received whiles 35 was validated. For this study a total of 35 was used for the analysis.

**Table 4.1: Distribution of Questionnaire**

|  |  |  |
| --- | --- | --- |
| **Questionnaire** | **Frequency** | **Percentage** |
| Sample size | 41 | 100 |
| Received | 38 | 97 |
| Validated | 35 | 90 |

**Source: Field Survey, 2022**

**4.3 Demographic Profile of the Respondents**

**Table 4.2: Demographic profile of the respondents**

|  |  |  |
| --- | --- | --- |
| **Demographic information** | **Frequency** | **percent** |
| **Gender**  Male |  |  |
| 10 | 29% |
| Female | 25 | 71% |
| Age |  |  |
| 20-25 | 03 | 20% |
| 26-30 | 08 | 23% |
| 31-35 | 07 | 49% |
| 36+ | 17 | 8% |
| **Education** |  |  |
| HND/BSC | 12 | 34% |
| MASTERS | 12 | 34% |
| PHD | 11 | 32% |
| **Marital Status** |  |  |
| Single | 20 | 57% |
| Married | 15 | 43% |
| Divorced | 0 | 0% |
| Widowed | 0 | 0% |
| **Work experience** |  |  |
| Below 3yrs | 06 | 17% |
| 3-6years | 19 | 54% |
| 7 years, above | 10 | 29% |

**Source: Field Survey, 2022**

**Question 1:** What are the various issue involved in Loan syndication?

**Table 4.2: Respondents on question 1**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **S/N** | **ITEM STATEMENT** | **SA**  **4** | **A 3** | **D 2** | **SD 1** | **X** | **S.D** | **DECISION** |
| 1 | The expensive nature of syndicated loan | 16 | 12 | 04 | 03 | 3.2 | 2.55 | Accepted |
| 2 | Time wasting: | 13 | 17 | 05 | 0 | 3.2 | 2.57 | Accepted |
| 3 | Repayment schedule | 16 | 11 | 05 | 03 | 3.1 | 2.55 | Accepted |
| 4 | Additional long-term debt | 12 | 16 | 07 | 0 | 3.1 | 2.41 | Accepted |

**Source: Field Survey, 2022**

In table 4.3 above, on the various issue involved in Loan syndication, the table shows that all the items (item1-item5) are accepted. This is proven as the respective items (item1-item5) have mean scores above 2.50.

**Question2:  Is loan syndication really a new approach?**

**Table 4.3:** Respondent onquestion 2

|  |  |  |
| --- | --- | --- |
| **Options** | **Frequency** | **Percentage** |
| Yes | 20 | 46 |
| No | 5 | 26 |
| Undecided | 10 | 28 |
| **Total** | **35** | **100** |

**Field Survey, 2022**

From the responses obtained as expressed in the table above, 46% of the respondents said yes, 26% said no, while 28% were undecided.

**Question 3: Can loan syndication help in industrial development of the country?**

**Table 4.4:** Respondents on question 3

|  |  |  |
| --- | --- | --- |
| **Options** | **Frequency** | **Percentage** |
| Yes | 25 | 48 |
| No | 4 | 24 |
| Undecided | 6 | 28 |
| **Total** | **35** | **100** |

**Field Survey, 2022**

From the responses obtained as expressed in the table above, 48% of the respondents said yes, 24% said no, while 28% were undecided.

**Question4:  What is the extent of penetration of syndicated loan financing among business organization in the country?**

**Table 4.5:** Respondent on question 4

|  |  |  |
| --- | --- | --- |
| **Options** | **Frequency** | **Percentage** |
| High | 19 | 53 |
| Low | 6 | 21 |
| Undecided | 10 | 26 |
| **Total** | **35** | **100** |

**Field Survey, 2022**

From the responses obtained as expressed in the table above,53% of the respondents said high, 21% said low, while 26% were undecided.

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 SUMMARY**

In this study, our focus was on the loan syndication: a source of business financing in Nigeria using GTbank and Access Bank as a case study**.** The study specifically was aimed at highlighting the general terms of the various issue involved in Loan syndication, find out whether Loan syndication is really a new approach to or another Loan syndication can help in industrial development of the country and examine the extent of penetration of syndicated loan financing among business organization in the country. A total of 35 responses were validated from the enrolled participants where all respondent are drawn from staff of GTBank and Access Bank.

**5.2 CONCLUSION**

Based on the finding of this study, the following conclusions were made:

1. The various issue involved in Loan syndication is the expensive nature of syndicated loan, time wasting, repayment schedule and additional long-term debt.
2. Loan syndication really a new approach
3. Loan syndication help in industrial development of the country
4. The extent of penetration of syndicated loan financing among business organization in the country is high

**5.3 RECOMMENDATION**

Based on the responses obtained, the researcher proffers the following

Banks must search for avoidable dishonest borrowers. Emekwekwue (2005:443) believes that although credit depends on good faith, the amount of confidence that the parties have on each other, it does not reduce the importance of scrutiny of those occasions where good faith has been violated either deliberately or inadvertently.

This is necessary to ensure that a borrower does not divert the fund to some other frivolous ventures such as taking fresh titles and/or increasing the numerical strength of his wives.

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**QUESTIONNAIRE**

**PLEASE TICK [√] YOUR MOST PREFERRED CHOICE AND AVOID TICKING TWICE ON A QUESTION**

**SECTION A**

**PERSONAL INFORMATION**

Gender

Male ( )

Female ( )

Age

20-25( )

25-30( )

30-40( )

40+ ( )

Marital status

Single ( )

Married ( )

Widow ( )

Separated ( )

Education Level

WAEC ( )

BS.c( )

MS.c( )

PH.d( )

**Section B**

**Question 1:** What are the various issue involved in Loan syndication?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **S/N** | **ITEM STATEMENT** | **Strpngly Agree** | **Agree** | **Disagree** | **Strongly Disagree** |
| 1 | The expensive nature of syndicated loan |  |  |  |  |
| 2 | Time wasting: |  |  |  |  |
| 3 | Repayment schedule |  |  |  |  |
| 4 | Additional long-term debt |  |  |  |  |

**Is loan syndication really a new approach?**

|  |  |
| --- | --- |
| **Options** | **Please tick** |
| Yes |  |
| No |  |
| Undecided |  |

**Can loan syndication help in industrial development of the country?**

|  |  |
| --- | --- |
| **Options** | **Please tick** |
| Yes |  |
| No |  |
| Undecided |  |

**What is the extent of penetration of syndicated loan financing among business organization in the country?**

|  |  |
| --- | --- |
| **Options** | **Please tick** |
| High |  |
| Low |  |
| Undecided | 1 |