DEVELOPMENT OF RURAL COMMERCIAL BANKING IN NIGERIA "AN EVALUATION"

BY

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PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE - REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF THE DEPARTMENT OF BUSINESS ADMINISTRATION, AHMADU BELLO UNIVERSITY, ZARIA.

SEPTEMBER, 1987

DEDICATION

This project is dedicated to my Mother, Mrs. E.U. Onyewuotu, my Sisters Cordy, and Kate, and to my Son Master Chisom Arinze Onyewuotu.

DECLARATION

I hereby declare that this project is a product of my own research work and that it has not been accepted in any previous application for a higher degree. All sources of information in this study, have been specifically acknowledged by means of references.

NAME: RAPHAEL CHIBUZO ONYEWUOTU

SIGNATURE: .....

DATE: 14th May .....1987...

CERTIFICATION

This Project report entitled "DEVELOPMENT OF RURAL COMMERCIAL BANKING IN NIGERIA "AN EVALUATION". meets the regulations governing the award of the degree of Master of Business Administration of Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

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ACKNOWLEDGEMENT

The attempt to carry out this study was conceived after reading the collection of essays by Oladele, Olashore in his book titled "Nigerian Banking and Economic Management" (1985). I was inspired after scanning through the book and felt I could take an indepth look on rural banking in-order to capture the realities of the banking system in Nigeria. For a vast and complex area like the banking industry a singular effort to produce a perfect write-up is far fetched. More especially where the system presents with inconsistent regulatory control mechanisms and decrees.

I am therefore indebted to my supervisors, Professor N.R. Chartegee and Dr. Helen Jekelle for their invaluable assistance all through the period of this work. I am highly indebted to Professor Uka Ezenwe and Dr. J.G. Donli for their invaluable advice throughout the course. I am therefore grateful for their wonderful contributions.

I am most grateful to Dr. and Mrs. I.I. Onyewuotu. I will ever remember their profound interest in me. I will also ever cherish their profused motivation, encouragement, moral and financial support which saw me through the study; particularly at times I felt like giving it up. Words are inadequate to express my profound gratitude to them.

My gratitude goes to my wife, Mrs. Philly Onyewuotu for her understanding and moral support. My greatest

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thanks go to the Almighty God for preserving my life and health throughout the tempting periods of the course.

I am also highly grateful to Mr. G. Ibegbu for supplying me with relevant data on this project; and all those too many to mention, who have in various ways contributed to the success of this project.

Needless to say that I am solely responsible for all errors and omissions contained in it.

SEPTEMBER, 1986

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A B S T R A C T

Commercial banks as financial institutions can and do contribute to economic growth and development of a nation. In Nigeria today, there is growing emphasis on the need for rapid development of the agricultural sector of the economy in order to break the vicious circle of poverty that is prevalent in the rural sector. This need can only be met if there is among ther things broader dispersal of bank offices for smooth integration of urban and rural development.

The objective of this study therefore is to evaluate the rural banking programme since its inception in 1976. An attempt also has been made to analyse the problems and shortcomings of the overall effectiveness of the scheme. The methodology employed in our study was mainly descriptive. We held oral interviews with some bank executives, the purpose of such interviews was to find out some vital or relevant information, since no questionnaires were administered.

Two phases of the programme have been completec with the banks recording 88 percent success rate in terms of number of branches opened. Based on the objectives of the economy and the specific goals of the policy instrument. The criteria for branch allocation under the two completed phases have been discovered to be idealistic or political and not strategic in meeting target goals.

The study also shows that apart from inculcating banking habits into not more than 140 percent of the

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under-banked population, the developmental strategy which should be the primary objective has been neglected due to the banks unsavourly attitudes.

Further findings show that the banks reactionary attitude in rural development was based on exigencies and problems inherent in investing in areas with divergent unsecured risks. Besides, inadequate public utilities and lack of credit guarantee scheme have also been found major draw-backs why banks reject ;the rural areas.

However, in the course of this study, we encountered the following limitations: First and foremost was the constraint due to inadequate financ-ing. The time constraint and the unco-operative, attitudes of some people interviewed also affected the work considerably.

In view of these findings, we have recommended the following:

(a) Active government participation in regulatory aspects of the rural banking programme$_0$

(b) We advocate intensive competition among the commercial banks in the provision of their services.

(c) That Government should embark on extensive campaign strategy to foster the programme.

All the same, the study though not exhaustive, has tried to bring out some important aspects of the subject matter.

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CHAPTER ONE

INTRODUCTION

1.1 The Role of Money and Financial Institutions in the Economic Development of Nigeria

Money and financial institutions are generally known to play important roles in the growth and development of any economy. There is therefore great need for them to be closely regulated and controlled in a manner capable of achieving a given set of objectives for the economy, more especially the development of the rural economy. It is actually on this premise that this study is based.

Economists have expressed a wide variety of views on the role of financial institutions in promoting and facilitating economic growth and development. The varying opinions of the economists therefore became controversial. There is the controversy arising on one hand whether the development of financial institutions is necessary for economic development and growth, particularly for developing countries including Nigeria. On the other, the controversy is as to which approach in the development of financial institutions would bring about a more effective financial system in general and banking system in particular.

The contention that financial institutions can and do contribute to the development of an economy is widely held.[1] Proponents argue that, "economic theory and economic development theory both assure us that the existence and develpment of a superstructure of financial institutions and financial instruments is a necessary, though not a sufficient

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condition of economic development".[2] They all therefore attribute a positive effect to financial institutions in the development process. This accord notwithstanding, they differ greatly as regards the relative magnitudes of impact attributed to banks and other financial institutions in developing economies like Nigeria.

The other side of the argument is closely associated with John G. Gurley[3] who expresses skepticism about the emphasis and prominence attached to financial development as seperate from other institutional choices a country makes to advance growth. It is worth mentioning here that he does not however doubt or question the effectiveness of the development of financial institutions as such. Rather, he insists on the existence of alternative techniques that may also prove feasible in a country's development efforts.

The second and, infact, the central issue in the controversy over the role of financial institutions in economic development is whether the development of financial institutions precedes and therefore plays an important role in economic development, or whether it passively adjusts to the growth of the economy. These two views form the major approaches to the development of financial institutions. If the development of financial institutions passively adjusts to growth of the economy then we have the "demand - following" approach. On the other hand, if financial institutions precede and therefore play an important role in economic growth and development, we have the case of the "supply - following" approach.

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The demand - following approach to the development of financial institutions is a situation whereby, "as the economy grows, it generates additional demand for financial services which bring about a supply response in the growth of the financial system". A major feature of this demand following approach is that its contribution to economic development is minimal and may even be an obstacle to economic development. In addition, bank operations in this approach are characterized by caution and lack of innovation, specializing in short-term commercial loans. The demand following approach therefore "explains the lack of financial institutions in most developing countries simply as an indication of the lack of demand for their services" which "implies that finance is essentially passive and permissive in the growth process".

The Supply-leading approach on the other hand is a situation whereby financial institutions are created before demand for their assets and Liabilities becomes evident; thus acting as a leading sector. They therefore play a more active role in the industrialization and overall economic development of the areas in which they operate. This is possible because "supply-leading finance transfers resources from the traditional non-growth producing Sectors to the modern Sectors of an economy with higher growth potential. Such a transfer of resources may be achieved by collecting the savings via new bank credits.[4] The supply-leading approach is also able to induce growth because of its ability to promote enterpreneurship.

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Therefore, in the supply-leading approach "Financial institutions and the supply of their financial assets, liabilities, and related financial services are created in advance of demand for them by entreprenours in the modern growth inducing Sectors. It has two functions, to transfer resources from non-growth sectors to modern sectors and to promote and stimulate an entrepreneurial response in these modern sectors". It stimulates and develops this entrepreneurial response (where it does not already exist) by extending non-financial services to economic units; and may even participate in the promotion and control of industrial as well as other types of entreprises.

It is pertinent to observe here that the supply-leading approach to the development of financial institutions is more applicable to the circumstances of Nigeria in particular and developing countries in general. This is because when economies develop and mature up to a certain stage, they tend to depend less on financial institutions for finance and entrepreneurship. In addition to this, innovation finance removes other major obstacles to economic development that are absent in mature economies.

It would seem plausible therefore to say that the supply-leading approach is more applicable in the early stages of economic growth and development, a situation in which Nigeria presently finds herself. Before the independence, Nigeria had operated under the British administration an aggressive demand leading approach. Which did not give adequate provision for mobilization and allocation of capital evenly. This approach came under serious

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criticism by many economists. Nwani A.O. (1982) who expressed skepticism about the demand approach explains that:-

> "The demand-following approach was utilized in the development of financial institutions in Nigeria during the British Colonial period. This contributed to the development of an enclave economy. Since independence, and with the use of the supply-leading approach, more dynamic monetary and financial institutions have been established for the purpose of aiding economic growth and development in a meaningful form".5

A note must however be made of the fact that the "mere existence" of a financial arrangement which is an important prerequisite for influencing the mobilization and allocation of Capital; and in changing savings into productive investment to stimulate the development process in Nigeria "does not guarantee" the achievement of economic growth and development in a meaningful form.

The way in which financial institutions perform these functions in the growth and development of the Nigerian economy will greatly determine not only their contribution but also the success of the development effort. In addition; whether or not they make a positive and substantial contribution to economic development will depend primarily on the structural characteristics of the system, and the law, regulations and the customs that govern their effectiveness.

The structural characteristics of the financial system may be regarded as the "essemble of ratios and relationships, quantitatives and others, that characterize the components of the system and tie it into the economy of which it is a part".

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Such relationships in Nigeria case may include: density, measured either as a ratio of the number of bank or non-bank offices to the entire population or to area; size of the financial institutions within the system; geographical concentration or dispersion of bank and non-bank institutions.

The Financial structure may also be determined by the strength and character of the demand for financial services, and the attitude of official policy of the government towards the system. Being an integral part of the economy, if there is no demand for its services, the Financial system will naturally not exist. However, "granted that it does not exist, its structure will be shaped very largely by the actions of the political authorities in the form of laws, decress, regulations and by more direct participation such as government ownership".

It is against this background and belief of what a well managed and virile financial system can contribute to the economic growth and development of Nigeria given the right stimulus and direction that the Central Bank of Nigeria was established in 1958. The Bank was charged with the responsibility of developing an effective institutional framework required of a modern financial system. It was thus hoped that the Bank would take steps to consolidate its position as an effective monetary authority responsible for the mobilization of funds for the growth and development of the Nigerian economy.

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1.2 Objectives of the Study

Rural banking can be conceived in terms of arrangements for mobilization and purveyance of finance for investment in the rural Sector. The weight to be attached to each of these functions at any given time de depends on the objectives of government policy, and this, in part depends on the level of economic development of the country and the structure of its rural economy.

The rural Sector in Nigeria is defined here in a broad sense as consisting of all economic activities outside the urban economy. In the Nigerian context, agriculture (including livestock, forestry and fishing) forms the bulk of economic activity like crafts (weaving, dyeing, pottery and so on), processing (particularly food processing) and other cottage or family-unit industries and trade form a line of activity second to agriculture. Thus defined, the size of the rural sector within the national economy can be gauged by the agricultural sector's contribution to incomes, productivity, employment and living standards. Evidence from the National Development Plans suggests that the contribution of agriculture to G.D.P. has been declining from 55.6 per cent in 1967 to 45 per cent in 1970/71 and 23.4 per cent in 1975. It is estimated that in 1966/67 agriculture accounted for 71.7 per cent of all gainfully employed persons.[6]

However, with rapid urbanisation and increasing opportunity for employment in the unban-based industrial expansion and consequent migration from rural to urban areas. These numbers have greatly diminished in recent years. From 64 per cent in 1975 and an estimated 61.2

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per cent of total employment by 1980. This development has led to declining productivity of the rural areas to the extent that less than 60 per cent of food consumed in the country is now produced by the agricultural Sector.

Furthermore, agricultural commodity export, which was the greatest foreign-exchange earner until the advent of petroleum export in the late 1960s, declined visibly to less than 30 per cent of total earnings.[7]

In spite of continued migration and the number of persons gainfully employed in agriculture, an estimated 85 per cent of Nigeria's population lived in the rural areas in 1972, although this rural population was concentrated unevenly among the various states.

The notable point here is that in an economy which is predominantly rural in settlement, occupational distribution and composition of output, the problem of economic growth and development hinges largely on raising the productivity and therefore the real income of the rural Sector. Conventional economics and experience suggest that by supplying food, labour and investible surplus, the rural areas help to generate urban incomes and employment. They also help to stabilize, if not reduce, production costs for industries and the cost of living for workers generally. Raising rural incomes and productivity thus appear to be pre-requisites for growth.

This strategy of development is, however, a function of improved technology, which in turn is a function of the Capital base.

The existing potential for increasing productivity can be realised only if there are improved crop varieties, more

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fertilisers and pesticides, improved land preparation, better storage and food processing facilities, more irrigation in the Sahelian regions, better water control, soil conservation and reclamation, additional infrastructures, such as access roads, market facilities and so on. These technological improvements depend on the amount of Capital the country can afford to expend. With careful planning and management these improvements could be brought within the reach of millions of farmers. To the extent that higher incomes must first be generated before any reasonable savings and investment can take place, the vicious circle of low level of output, low income, low s savings and investment, which is a common feature in underdeveloped areas, must first be broken, through massive injections of Credit assistance from outside the rural Sector.

Before 1977, successive governments had failed to persuade commercial banks to extend their facilities to the rural communities at a rate more than the banks were willing to do. One of the outstanding contributions of indigenous banks has been in their effort to develop potential depositors and banking habit by extending banking facilities to urban and outlying districts. To aggressively mobilize domestic savings through the use of innovations such as small and seasonal accounts. But these could not be effectively sustained due to the relative paucity of the resources of this group of local banks. However, their effort coupled with facilities provided by foreign banks tended to accelerate the decline of low banking density. But the rate of decline was

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unsatisfactory. Concentration of bank branches showed no tendency to improve significantly on the prevailing arrangement that dates back to the colonial era.

The long-standing public concern for broader dispersal of bank offices and the need for integration of rural development into the overall development of the Country found expression in the introduction of a Rural Banking Programme. The scheme represents a deliberate policy under which the Central Bank directs the banks to open branch offices in the rural communities.

This study is intended to evaluate the rural banking programme since its inception in 1977 to date. We hope to achieve the followings:

(a) Cultivation of Banking habits amongst the rural dwellers;

(b) Mobilization of savings from the rural areas for the purpose of channelling same to profitable ventures;

(c) Development of agriculture and agro-allied industries in the rural areas with a view to achieving the national objective of self-sufficiency in food production;

(d) Reducing to a comfortable extent, the drift of the youth from the rural areas to the urban centres.

1.2.1 Criteria for Evaluation

For the purpose of this evaluation, the following criteria have been used to assess the realities of the

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banks performances relevant to the above mentioned objectives

(a) Area Coverage: Whether the programme has covered significantly a sizeable proportion of the underbanked areas;

(b) Number of Branches: Whether it has successfully opened the stipulated number of branches earmarked in the Federal Government master plan for rural banking;

(c) The success and failures of the first and second phases of the programme;

(d) Problems associated with the programme.

1.3 Outline and Scope of Study

Studies on monetary theory and policy have shown the the relative effectiveness or ability of the Central Bank to Control and regulate commercial banks in order to achieve the desired goals of an economy. In Nigeria, the financial system has witnessed many legislations and government policies in the form of incentives, ownership or equity participation among others.

The Central Bank of Nigeria Ordinance enacted in 1958 experienced major amendments in 1962, 1968 and a highly comprehensive amendment in February, 1969. All these were with the hope of strengthening the Bank's control over the credit operations of the commercial banks, oblige them to hold certain amounts of government securities and to channel private sector credit to directly productive activities. The Central Bank also requires commencial banks to hold minimum cash reserves,

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special deposits and stabilization securities.

During the decade covering the second and third National Development Plans, 1970 - 1980, the Banking sector experienced more direct government participation and this was as a result of "the recognition of the increasing importance of the sector for the orderly growth and development of the economy".[8] The Federal Government acquired 60 per cent equity participation in the three major Commercial Banks namely, the First Bank, Union Bank and United Bank For Africa. In addition, while the Nigerian Enterprises Promotion Decree of 1972, further greatly affected the structure of ownership in the banking industry, the "small indigenous" banks have consolidated their position into "big" organisations comparing favourably with the long established "expatriate" banks.

It is hoped that this study will contribute by showing whether the change in the structure of ownership of commercial banks in Nigeria has significantly affected the behaviour of these banks. The study will also attempt to show their co-operation and adherence to the Central Bank's monetary policy guidelines; and their identification with the prescribed objectives of the Nigerian economy. It would also be interesting to find out if the above circumstances have in any way influenced or determined their participation in the rural banking programme. It is also hoped that the study will provide an insight towards a better appreciation of the nature of rural banking and its problems in other countries that share Nigeria's background and experience.

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The Second Chapter discusses commercial banking in Nigeria with special emphasis on its structure, operations and policies. The third Chapter examines the Central Bank of Nigeria pointing out the Legal Framework for the regulation of Commercial Banks in Nigeria. Chapter four explains the rural banking programme, the banking system and credit needs for rural development. It discusses the roles of Commercial and Co-operative banks, Financing of Agricultural sector, strategies and policies used. Chapter five evaluates the entire system in terms of area coverage, number of branches and an evaluation of the three phases of the programme. Conclusions and Summary of the study are summed up in chapter Six.

Financial Institutions are subdivided into Commercial banks and non-bank financial intermediaries. This study will restrict itself to the strategies, policies and evaluation of the rural commercial banking scheme. This is because, commercial banks through their demand-deposits are capable of circulating as a means of payment in the modern Sector of the economy. It is with this concept of money and ability to create it that Conventional theory of government control of commercial banks through a Central Bank is based; in-addition, commercial banks may not be restricted in their investment operations by limitations imposed by previous receipts of deposits as may be the case with the other category of financial institutions.

In the Nigerian context, it is the commercial banking system that is more developed and therefore more

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FOOTNOTES

1. Among those who held this view are: Minsky, H.P., (1957) "Central Banking and Money Market Change", Quarterly Journal of Economics, Vol. 71; Gerschenkron, A., (1962) Economic Backwardness in Historical Perspective: A Book of Essays, Harvard University Press, Mass., Patrick, H.; (1966), "Financial Development and Economic Growth in Under-developed Countries" Economic Development and Cultural Change, Vol. 14 No.2; Adelma, I., and C. Morris, (1967) Society, Politics and Economic Development: A Quantitative Approach; (John Hopkins Press, Baltimore); Goldsmith, R., (1972), Financial Structure and Development, (Oxford University Press, London).

2. Goldsmith R., Ibid., P. 408.

3. Gurley J.G., (1967), "Financial Structures in Developing Economics" in Fiscal and Monetary Problems in Developing States, (ed) D. Krivine, Preager, New York.

4. Abdi, A.I., (1977). Commercial Banks and Economic Development: The Experience of Eastern Africa, (Praeger Publishers, New York) p.19.

5. Nwani, A.O. (1972). The Role of Monetary and Financial Institutions in the Economic Development of Nigeria: 1800 - 1970, Unpublished Ph.D. Thesis, The Florida State University, P. 1.

6. Central Planning Office, Lagos, (1975-80). Third National Development Plan, Vol. 1.

7. Ibid, P. 12.

CHAPTER TWO

COMMERCIAL BANKING IN NIGERIA

2.1 Review of Relevant Literature

Throughout history, economists have expressed varying views about the importance and role of money in economic theory. There are at least three schools of thought on this subject, namely: the mercantilist, the classical and the Keynesian. These somewhat divergent views have however evolved into a common contention today where it is believed that money can only play a neutral and passive role in a primitive economic system serving as a means of facilitating exchange between members of a community in which there is little specialization. In a complex economic system, however, money "becomes a dynamic factor capable of influencing the size of national income, individual incomes, demand for both consumer goods and producers' goods as well as the volume of savings and investments".[1]

It is against this background that monetary policy which takes effect through variations in the volume of purchasing power has come to play important roles in an economy, namely, stabilizing the economy in the fact of inflation and deflation, through the growth and decline of money supply; stimulating the economy and thereby reducing unemployment, and bringing about overall economic growth. Wrightsman (1971) defines monetary policy as the "deliberate effort of the Central bank to control the money supply and credit conditions for the purpose of achieving certain broad economic objectives".[2]

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In Nigeria, the issue of rural banking problems go beyond attempts to control money supply and hence influence the real aspects of the economy. It encompasses attempts by the Central Bank of Nigeria to create a finamcial system and develop the people's confidence in the Financial Institutions; and overall legislation, particularly as it affects the banking system.

Various studies[3] have been conducted on the Nigerian Financial System and they all seem to accept this view and stand. However, attention has been focused on the structure and effectiveness of the system rather than the effectiveness of the specific regulatory instruments of the Central Bank as a sole monetary authority which obviously are necessary for achieving an effective financial system.

Early studies on the Nigerian Banking system divide commercial banks into four categories. These are the "expartriate banks, government-owned indigenous banks, private indigenous banks and mixed banks".[4] This division was mainly on the basis of the structure of ownership, that is equity participation, management and control. It is however apparent that this classification is no longer necessary today as the minimum Nigerian participation has been raised to 60% of equity. Nwankwo (1980) indicates a distinction between indigenous and mixed banks. The former are banks which are wholly owned and managed by indigenous Nigerian interests while the mixed banks, as the name implies, are owned and managed by Nigerian and foreign interests.[5]

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Both the indigenous and expiatriate categories however had more peculiar characteristics. Brown (1966) notes that the expatriate banks for example had a "low branch density in relation to population, the branches were concentrated at the commercial centres (one-half of all banking offices were allocated in seven towns) the expatriate banks also maintained close contacts with Europeans by whom the banks were extensively used. On the other hand, the banks had little contact with Nigerians, and the degree of mutual confidence was considerably less".[6] What this actually implies is a discrimination against Nigerians which reflected itself in the interest rates and other charges that were used for them by this category of commercial banks. There was thus need for changes in the system of bank charges by these banks which would help accomplish increased use of the banking system, and further increases in bank credit particularly to Nigerian businessmen.

The indigenous banks' category on the other hand was characterized by "inexperienced executives, their assets illiquid, their capital in short supply and many unsavourly features were noted".[7] This was infact in harmony with Newlyn and Rowan (1954), who had observed that "the benefits of the indigenous banks were still potential than actual; noting that their existing situation was unsatisfactory because of the various unsavourly and speculative features in some of their operations; the inexperience of many of their executives; the illiquidity of their asset portfolios; and their lack of Capital".[8] This situation infact gave rise to the

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massive bank failures of the 1950s.

To correct some of the adverse tendencies noted by Brown, the interests of the depositors were further protected through changes in the Central Bank's powers of supervision and control over banks through stiffer statutory requirements regarding share capital and reserve funds.

Between 1967 and 1969, the Federal Government reviewed both the Banking Act and the Central Bank of Nigeria Act[9] almost after a decade of their enactment. They were amended and subjected to a number of significant and rather far-reaching changes in their provisions. Teriba (1969) appraising these amendments concluded that "With the changes in the Nigerian Banking legislation between 1967 and 1969, the regulatory framework of the Banking system in Nigeria has been drastically over-hauled. Apart from strenghtening the banking system, the powers of the Central Bank over the economy have been considerably increased by widening both its control span and the opportunities for effective monetary policy".[10] He went on to remark, "it is important to remember that the permissiveness of the law is one thing, the attitude and actual administration of it by the Central Bank is another".[11]

Despite the almost drastic regulatory laws, the structure of the Nigerian Banking system appeared to have remained the same even in terms of contribution.. There were features of foreign domination, ineffective indigenous institutions, unnecessary direct government funding and interference in the operations of many of the institutions.

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Given the foreign domination, ownership and control of the system, it "had all the trappings of a modern system", these "features of its structure, ownership, management and control, and operations clearly needed to be reformed".

It was in the light of this report that the Federal Government with effect from 30 September 1976, acquired 60% participation in all the expatriate banks. In principle, therefore, there are no longer expatriate banks in the Country.

The indigenization of the Nigerian banking system cannot be said to have been without problems and set-backs. Nwankwo (1980) is of the opinion that the exercise has failed. He attributed this to the fact that the policy was not carefully thought out since the progenitors of indigenization believed that ownership was the root of the problem; and majority ownership of the system has not succeeded in ensuring the transfer of mind and management. Added to this is the fact that just as the institutions in the system have been set up haphazardly, so also have measures to improve their operations come haphazardly; and what is more, indigenization of the commercial banking sector is muddled and involves contradictory policies over the expatriate banks. Indigenization aims at ownership, control and management of the economy, but by a strange fallacy of composition, the Federal Government abandoned management and control to the minority equity share holders.

After noting that it may be wrong to conclude that the influence of the banking system is all-pervasive, although its direct influence is limited to the

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It is important to emphasize at this point that this development did not mean a lack of investment outlets for the surplus funds of the commercial banks. Indeed investment opportunities existed in the agricultural sector and small scale industries and businesses among others. But that these outlets were not utilized raises yet another question as to whether the Central Bank is infact capable of controlling and directing bank credit to those sectors of the economy that it is most needed.

Thus, all these monetary developments with their attendant problems posed for the Central Bank a challenging problem of how to control and manage a financial system and monetary expansion, the main source of which it had little direct control on. It is convenient to attribute this situation to the relationship between the Central Bank and the Federal Ministry of Finance whereby because of the latter's treasury function, it tends to influence the Central Bank's policy options to the extent that the Bank is often forced to abdicate some of its regulatory functions in pursuit of those policies that aim at meeting the government's treasure requirements in any financial year. However, it is on this note that it is considered proper to reiterate that it is how the Central Bank in the face of all problems has employed the tools at its disposal in regulating commercial banks; and how effective these tools have been, more especially in the control of rural banking scheme is the prime objective of this study.

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Any study that involves the application of policy instruments in an economy should first seek to capture the basic fundamental realities of such an economy. In this regard therefore, this study would examine commercial banking in Nigeria taking into account its structure, operations and policies, the economic environment and regulatory pressures. The Central Bank of Nigeria would also be considered with particular reference to its evolution and policy tools paying special attention to the Amendments to its Act and how they influence its regulatory capacity. It is only after establishing this framework that this study would critically evaluate the regulation of commercial banks in the Nigerian economy.

To adequately achieve its objective, this study will be theoretical, descriptive, analytical, and will use documentary data from the following sources:

(i) Central Bank of Nigeria:
  (a) Economic and Financial Reviews;
  (b) Annual Reports and Statements of Account;
  (c) Monthly Reports;

(ii) The Annual and Monthly reports of selected commercial banks; and

(iii) Federal Annual Budgets during the period studied.

2.2 Commercial Banking in Nigeria:

The history of Commercial Banking in Nigeria dates as far back as 1892 when the First Bank, the African Banking Corporation was established. Before this time however, the need for banks and their services did not

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arise as the economic environment which prevailed then was that of trade by barter or predominantly commodity currencies. It was therefore not until coins were regularly used for cash transactions that banking became feasible. In this regard therefore, it would be pertinent for us to describe commercial banking in Nigeria as a relatively recent development. Despite this, the banking system has grown rapidly both in terms of size and quality of banking services thus witnessing the establishment of many commercial banks since 1892. Some of these banks have however since failed but as at 30 December 1983 there were as many as 26 registered banks operating in the country with a total of 1,108 branches. The table that follows contains a list of such banks.

TABLE 2.1

COMMERCIAL BANKS REGISTERED IN NIGERIA UP TO 1983

S/No.	COMMERCIAL BANKS	DATE ESTABLISHED	REMARKS
1.	African Banking Corporation	1892	
2.	Bank of British West Africa	1894	Now 1st Bank Nig. Limited
3.	Anglo-African Bank	1899	Merged with BBWA in '12
4.	Barclays Bank DCO	1917	Now Union Bank Nig. Limited.
5.	The Industrial and Commercial Bank	1929	Failed 1930
6.	The Nigerian Mercantile Bank	1931	Failed 1936
7.	National Bank of Nigeria	1933	

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S/NO	COMMERCIAL BANKS	DATE ESTABLISHED	REMARKS
8.	Agbonmagbe Bank	1945	Now WEMA Bank
9.	The Nigerian Penny Bank	1945	Failed 1946
10.	African Continental Bank	1947	
11.	The Nigerian Farmers and Commercial Bank	1947	Failed 1952
12.	British and French Bank	1948	Now UBA Ltd
13.	Merchants Bank		Failed 1960
14.	Pan Nigerian Bank	1951	Failed 1954
15.	Standard Bank of Nigeria	1951	Failed 1954
16.	Nigerian Trust Bank	"	" "
17.	Agroseas Credit Bank	"	" "
18.	Onward Bank of Nigeria	"	" "
19.	Central Bank of Nigeria	"	" "
20.	Provincial Bank of Nigeria	1952	" "
21.	Metropolitan Bank of Nigeria	"	" "
22.	Union Bank of British Africa	"	" "
23.	United Commercial (Credit) Bank	"	" "
24.	Cosmopolitan Credit Bank	"	" "
25.	Mainland Bank	"	" "
26.	Group Credit and Agric Bank	"	" "
27.	Industrial Bank	"	" "
28.	West African Bank	"	" "
29.	Moslim Bank	"	" "
30.	Banque de L'Afrique Occidentale	1959	Now IBWA Ltd.
31.	Bank of Lagos	1959	
32.	Berini (Beirut-Riyad) Bank	"	
33.	Bank of the North	"	

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S/NO	COMMERCIAL BANKS	DATE ESTABLISHED	REMARKS
34.	Bank of America	1960	Now Savannah Bank Nig.Ltd.
35.	Chase Manhattan Bank	1961	Merged with IBWA in 1965
36.	Bank of India	1962	Now Allied Bank Ltd.
37.	Arab Bank		Now Nig. Arab Bank Ltd.
38.	Co-op. Bank of Western Bank	1962	Now Co-Op. Bank Ltd.
39.	Co-Op. Bank of Eastern Bank	1961	
40.	Kaduna Co-Op. Bank Limited	1972	
41.	Kano Co-Op. Bank Ltd	1976	
42.	Pan African Bank		
43.	Mercantile Bank (Nig.) Ltd.	1971	
44.	New Nigeria Bank	1970	
45.	Bank of Credit and Commerece International (Nig.) Limited		
46.	Progress Bank Limited		
47.	Habib Nigeria Bank Limited		
48.	Societe Generale Bank (Nig) Ltd		
40	Lobi Bank		

Source: Central Bank of Nigeria, Lagos, Various Publications.

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Indeed, Nigeria appears to be unique among colonial African Countries in having early experience of active indigenous commercial Banking. Historical evidence suggests that indigenous merchants realised quite early that the existing expatriate Banks would not give them the assistance they required to promote their trade. Hence the moving spirit behind the spate of indigenous "banking boom" of 1929 - 1933 and the monopoly of the few expatriate banks.

Successful indigenous banking in Nigeria began with the establishment of the National Bank of Nigeria Limited in February 1933, followed in 1945 by the Agbonmagbe Bank Limited (now Wema Bank) and the African Continental Bank Limited in 1948.

The period 1971 - 1983 witnessed a spate of state owned banks.

It should be mentioned in passing that ownership per se does not necessarily make an institution indigenous. Indeed, an institution may be pre-dominantly owned, managed and controlled by Nigerians and yet possess an operational orientation that is essentially foreign to the extent that it does not identify with the development objectives and aspirations of the indigenous economy. The three oldest indigenous banks - the National Bank of Nigeria Limited, Wema Bank and the African Continental Bank were established in protest against the alleged discriminatory attitude of existing expatriate banks against indigenous businesses. The operating policies of the indigenous banks have therefore been consistently in favour of indigenous

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enterprises over the years. To the extent that they have served to mobilise small savers and give loans and advances to small enterprises, these banks can be regarded as truly indigenous, albeit, at a great cost to their operational efficiency.

While this study would not endeavour to examine the evolution and historical background of Nigerian commercial banks in greater detail for reasons of space, it is worth mentioning that over the years, the system appears to have gone through five major periods of change. These are, the free banking era (1890-1952); the pre-central banking era (1952-1959); the bank legislation era (1959-1970); the indigenization era (1970-1977) and lastly the Post-Okigbo era (Since 1977).[13]

It is pertinent too to observe that each of these periods possessed its own unique features which may largely be said to have affected the development of commercial banking in Nigeria. In sum, therefore, it is these features and factors perculiar to each of these periods that when meshed, have produced the kind of banking system we have today.

2.3 The Structure of the Commercial Banking System

The twenty-six Commercial Banks operating in Nigeria can be classified into two broad discernible categories - indigenous and mixed banks based on the structure of ownership. The indigenous banks are Nigerian dominated and consist of such banks as African Continental Bank Limited, Bank of the North Limited, Co-operative Bank Limited, National Bank of Nigeria Ltd., Mercantile Bank Limited, Kaduna Co-operative Bank Ltd.,

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New Nigeria Bank Limited, Pan African Bank Limited, and Wema Bank Limited.

Conversely, the mixed banks category is made up of the following commercial banks: Allied Bank (Nig) Ltd, Bank of Credit and Commerce International, First Bank (Nig.) Limited, International Bank for West Africa Ltd., Nigeria-Arab Bank, Savannah Bank of Nig. Ltd, Societe Generale Bank (Nig.) Ltd, Union Bank (Nig) Ltd, and United Bank for Africa Limited. On the basis of available evidence, it can be said that this category contains the largest commercial banks in the banking system by any creteria of size. The indigenous banks on the other hand are either single-state owned or inter-state owned with the latter being relatively larger in terms of branches, deposits and the volume of loans and advances.

The picture that emerges from the above is one of a predominance of indigenous ownership in the banking Sector of the Nigerian economy. For example, at the end of February 1976, the authorized and paid up capital of all Commercial Banks in the Country was ₦126.3 million and ₦93.1 million respectively. The mixed banks accounted for 47.9 per cent of the authorized and 49.2 per cent of the paid up Capital. The indigenous banks accounted for 52.1 per cent and 50.8 per cent respectively. It is important to note however that this ownership is mostly public than private with Federal and State governments collectively owning the bulk of the equity.

The development of Commercial Banking in Nigeria has not been accompanied by an even distribution of bank offices and services; and the lop-sided nature of

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Sources: 1. Adeniyi, O.A., Op. cit., P. 184.
2. 1963 Population Census Figures.

As can be seen, the Nigerian economy is underbanked. There are as many as 75,187 persons per bank office and the geographical area per office is as high as 1,21664 square kilometers. These ratios contrast very sharply with those of developed and other developing Countries. In the United Kingdom, it is 4000 persons per bank office, 6000 persons per office in the United States of America, one bank office to 14,500 persons in Japan, and 52,000 persons per bank office in India.

The distribution of bank offices among states in Nigeria reveals a heavy concentration in Lagos despite the fact that the population of Lagos State is only 2.5 per cent of that of Nigeria. The State has also an average density of 26.98 square kilometers per bank office. In contrast, some states are very worse off in the distribution of banking services; and in particular are the cases of Benue, Niger and Sokoto States. For Benue State, we have 144,818 persons per office and an office to 3,035.24 square kilometers. Sokoto State on the other hand, has 206309 persons per bank office. Equally revealing is the concentration of more than half of the total number of bank offices in the Country in the nine southern states of Lagos, Ondo, Oyo, Bendel, Imo and Anambra, Ogun, Cross River, Rivers who jointly share between them 409 branches.

This study notes lack of current official population figures; and the fact that the above analysis may not potray the true position as at the period studied.

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Projections of the 1963 census figures have however not revealed a radically different picture. But even within the above states, there are lop-sided developments. An analysis of the location of commercial bank offices in Nigeria at the end of December 1975, showed that out of the 93 bank offices in Lagos state, 35 are in Lagos city; out of the 50 offices in Oyo, 24 are in Ibadan; and and out of the 46 in Bendel state, 12 are in Benin City; and out of the 34 bank offices in Anambra State, 12 are in Enugu.[15]

The uneven distribution of banking services as demonstrated above may be accounted for by many factors, principle among which are the adoption of the 'demand-following approach' in the development of bank offices by Nigerian Commercial Banks, the concentration around regional capitals and commercial centres, and the lack of a conscious policy to direct and develop the interest of commercial banks in rural banking. The establishment of state owned banks also accounts for the banking disparity among states. Nevertheless, the above factors are plausible if we consider the expansion in bank offices after the creation of States and more local government in 1976.

The lop-sided banking development has many serious implications for the overall development of the Nigeria economy as it impedes the development of the banking habit and the mobilization of savings. Most people have to travel long distances to avail themselves of banking services; and in addition, because of the many persons per bank branch, services at most branches are poor. A

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common feature is long queues with people struggling to get served. The poor services also include vital bank transactions like mail transfers and cheque clearance which may take up to a month or more. This problem may however be explained by the poor communications system in the Country; (one expects that the Commercial Banks, in order to provide effective and efficient services to their customers, should have developed ways and means of solving this problem).

Another prominent feature of Commercial Banking in Nigeria is that of poor bank management. In the face of existing expatriate quotas consequent upon the indigenization of personnel, the banking industry like other industries in Nigeria is faced with the problems of recruiting and training the right calibre of staff. This situation has given rise to understaffing and inexperienced staff in most commercial banks. Even where banks spend time and resources to train their staff, these are very often lost to competitors who may offer higher salaries and better conditions of service. What is more, many a staff are known to be reluctant to work in rural areas and as such often refuse transfers and consequently withdraw their services.

A feature which is the direct consequence of the poor bank management problem is the high rate of fraud and irregularities that plague the commercial banking system. These have reached alarming proportions and range from cash shortages to forgeries and collusions. There are indications however that bank managers have not always been given a free hand to manage their

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branches. It is therefore not unusual for a branch manager to reject a loan application only to receive instructions from "above" to grant the factility. At times, pressures may come from the extended family set-up of our societies. Whichever of these cases apply, there is ample evidence that bank managers in Nigeria are often subjected to both family and political pressures and they often make decisions which do not depend solely on economic and banking principles, nor in accordance with prudent bank management.

Bank lending by commercial banks operating in Nigeria like in many other developing Countries is characterized by a heavy concentration in the financing of general commerce, short term maturity of loans and advances, and most important is the fact that only a small volume of bank loans are made to Nigerians. It has been shown that around 90 per cent of loans mature within 12 months and under 10 per cent within one to five years; and it is known that the highest proportion of total loans made by one expatriate bank to Nigerians in 1969, was 35 per cent with another expatriate bank recording a low proportion of 7 per cent. Explanations to this nature of bank lending are not difficult to find. In the first place, the concentration of bank lending in the financing of general commerce owes largely to the dominance of commercial banks with foreign origins those primary interest is to finance this type of activity since they were originally established for this purpose, apart from their operating on the bills-only principle which stipulates that a good loan is self-liquidating.

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Secondly, that Nigerians get a small amount of loans has often been explained by the insinuation that the expatriate (mixed) banks discriminate against them. Although Nigerians responded to this by establishing their own banks, these often lack capital and in most cases are unable to attract substantial private deposits and thus are not always in a position to adequately meet the Credit demands of Nigerians. The fault in this matter may however lie in Nigerians themselves. It is common knowledge that our businessmen hardly keep detailed and accurate records, and they are often prone to display total disregard towards their financial obligations. Most of them do not repay their loans and may even regard them as their share of the "national cake". Furthermore, some businessmen hardly spend their loans on the projects for which they are made. Such loans end up being used and spent on ceremonies and the marrying of more wives. All these, no doubt, make loans to Nigerians very risky and unattractive. Nevertheless, as the nature of business organization in the economy is gradually changing, it is hoped that commercial banks would also respond by changing their attitudes.

It is important to reiterate at this point that all the features of the commercial banking system highlighted above militate against the mobilization of savings and the cultivation of the banking habit. It is this realization, taking into account the imprtant role commercial banks are expected to play in the growth and development of the Nigerian economy, that has given rise to the involvement of government and the Central Bank in the banking system. Thus, the absence of a commercial

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banking system, predominantly indigenous which would ensure adequate attention to local businessmen in whatever Sector they belong as well as the absence of an adequate and flexible capital market, dictate that the Central Bank cannot stand aloof in the tasks of expanding capital formation demanded by the new plan.

The above background formed the basis of government intervention in the banking system which is yet another prominent feature of commercial banking in Nigeria today. Government intervention in the banking system has been in the form of establishing financial institutions with the sole objective of directly financing activities in real estate construction, agriculture and industrial sectors as a way of stimulating development in these sectors. The government also establishes certain schemes or programmes to be adopted by the commercial banks; an example of this is the Agricultural Credit Scheme being implemented on its behalf by the Central Bank of Nigeria. To further enhance its position in the banking system government also has embarked upon the indigenization of ownership of the system through direct participation in banking both in terms of share participation and the appointment of Directors. State governments on their part have embarked upon the establishment of their own banks and the decade covered by this study has witnessed many of such banks. This development has greatly increased the level of co-operative banking within the system.

The involvement of the Central Bank on the other hand, has been by controlling the volume and direction of finance to the private sector through the issuing

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of Annual Monetary Policy Circulars which set out Credit guidelines indicating the volume and distribution of commercial and merchant bank credit, including loans to indigenous persons and institutions.

FOOTNOTES

1. Hanson, J.L., (1970). Monetary Theory and Practice, MacDonald and Evans Ltd, London, P. 219.

2. D. Wrightsman; (1971) An Introduction to Monetary Theory, The Free Press, New York, P. 173.

3. Some of these are:
Iwuagwu, E.O., (1957); Capital Formation in Nigeria, Some Financial and Economic Implications; Ph.D. Thesis, University of Wisconsion;
W.O. Uzoaga; (1961), An Analysis of the Monetary and Banking System of Nigeria, Ph.D. Thesis Fordham University, D. Barry, Indigenous and Foreign, Bank Behaviour in Nigeria, and A.O. Nwani, Op. Cit.

4. See in particular, A.O. Nwani, P.62 and C.V. Brown, (1966); The Nigerian Banking System, George Allen and Unwin Ltd, London pp. 30-31.

5. Nwankwo G,O., (1980), The Nigerian Financial System, The Macmillan Press Ltd., London, p.64.

6. Brown C.V., Op. Cit., p. 184.

7. Ibid, P. 188.

8. Newlyn, W.T. and D.C. Rowan, (1954); Money and Banking in British Colonial Africa, The Clarendon Press, Oxford P. 213.

9. The most important of these Decrees are (i) The CBN Act (Amendment) Decrees 1967, Decree No. 35 of August 3, 1967 retroactive from April 1, 1967; (ii) The CBN Act (Amendments) No.3 Decree 1968 of September 18, 1969 retroactive from May 9, 1969; (iii) The Banking Decree 1969.

10. Teriba, O., (1969) "The 1967 - 69 Banking Amendments in Nigeria: An Appraisal of Financial Adaptation in an Underdeveloped War economy" Nigerian Journal of Economic and Social Studies, Vol. 11, No.1, p. 36.

11. Ibid, p. 36.

12. Okigbo, P.N.C., (1981), Nigeria's Financial System, Structure and Growth, Longman Group, Essex, p. 75.

13. Nwankwo, G.O., (1980) The Nigerian Financial System, Macmillan Press Ltd., London, p. 45-53.

14. Ibid, p. 64.

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CHAPTER THREE

ROLE OF THE CENTRAL BANK OF NIGERIA

3.1 Introduction

The Central Bank of Nigeria (C.B.N.), established by the Central Bank ordinance of 1958 did not start operations until July 1, 1959. Before its existence however, Nigeria had experienced a currency board system - the West African Currency Board (WACB). The WACB itself was established in 1912 by the colonial government following the recommendations of the Emott Committee for the purposes of issuing currency and legal tender. It was also to perform the following functions: "financing the needs of the export trade of expatriate firms operating in West Africa; and to eradicate the confused, inconvenient and unsatisfactory currency position in British West Africa".[1]

It is therefore evident that the WACB was established primarily to serve the interest of the colonial authorities and aid in their bid to exploit the West African colonies to the fullest.

With its kind of objectives and mode of operation, it did not take long for most Nigerian nationalists of that time to regard and see the WACB as being absolutely incapable of taking good care of Nigerian interests. Indeed, their major and strongest arguments against the Board were based on its weaknesses and defects which among others included the contention that it had no room for monetary management. It was thus believed that since the currency of the Board was not independent, the currency in circulation was directly linked to the

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balance of payments with automatic parity with sterling and therefore could not be managed. In essence, this meant that since the WACB had no control over money supply in the currency area, it apparently lacked the necessary power to initiate and execute monetary policy.

The above believe was further strenghtened by the fact that the WACB apart from not having any African on its board, did virtually nothing to train Africans in the art of monetary management or to develop indigenous banking and other financial institutions. It was also against this background that Nigerian nationalists profusely demanded for the establishment of a Central Bank for their country taking into account their political development, conditions of the Nigerian colonial economy and the agitations for independence. It could therefore be said that the major objective of these nationalists was thus not to break the monopoly of expatriate banks but to have their indigens develop the art of banking in readiness for further responsibilities in an independent Nigeria. The nationalists also saw a Central Bank as an important factor if the economic development of an independent Nigeria was to be vigorously pursued and achieved with every expediency. One important conclusion worth reaching at this point in the face of the above is the fact that nationalism from every indication was a major and crucial factor in the establishment of the Central Bank.

The above conclusion not withstanding, the background leading to the establishment of the Central Bank can best be described as highly controversial. This is in the sense that whereas the colonial administration

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was pushed into looking for ways and means of creating a Central Bank in Nigeria, the reports of the varios Committees on the issue held greatly varying conclusions. The first report was written by J.L. Fisher who was appointed to "inquire into the desirability and practicability of establishing a Central Bank in Nigeria as an instrument for promoting the economic development of the Country". In his report, Fisher unambiguously concluded that, "it would be inadvisable to contemplate the establishment of a Central Bank at the moment which could operate satisfactorily in such a narrow field. Moreover, it is hard to see how a central bank could function as an instrument to promote economic development of the Country".[2]

An important factor for this conclusion by Fisher was the absence of an indigenous banking system and other financial institutions that are necessary for the effectiveness of a Central Bank. It was in this regard that the report had hoped that with the development and growth of the above, the establishment of a Central Bank would be a logical and useful step. But given the nationalist feelings prevalent at that time, this recommendation by Fisher was met with strong resistance as the nationalists saw the Central Bank as the only hope for their objective of rapid economic development; and this acquired more significance as there were continued efforts towards independence.

The second report on the desirability and practicability of establishing a Central Bank in Nigeria was by a world Band mission which visited the Country in 1953. This report was of the view that the continued

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political and economic advancement of Nigeria is bound to lead to the establishment of a Central Bank. The mission therefore felt that if the management of foreign assets and issue of currency were delayed, this would amount to delaying that time when Nigerians would be able to perform these functions themselves. Needless to add that this report was good news to the nationalists.

It was on the basis of this world Bank Mission Report that Mr. J.B. Loynes was appointed to make recommendations on the establishment of a Nigerian Central Bank, the introduction of a Nigerian currency and other associated matters. In particular, Loynes was to advise on:

(a) the establishment of a Federal Institution to perform Central banking functions;

(b) the introduction of a Nigerian currency and the administration of such a currency so as to preserve its external value and its acceptability within the Country;

(c) the relationship of the Federal Institution to the Federal and Regional governments; to government institutions, to the commercial banks and to the public; and

(d) the role of such an institution in the development of a local money and capital market.

It is often contended that had Loynes not been given specific terms as to the fact that there would be a central bank and he should advice as to how best it should look like, he too like Fisher would have certainly seen no need for it. Nevertheless, the recommendations of Mr. Loynes finally culminated in the establishment of

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commercial banks to maintain any given ratio between certain specified liquid assets and demand deposits and between this liquid assets and time savings deposits".[3] The CBN Amendment Act 1962, further strenghtened the control of the CBN over other banks by linking rates of interest charged on advances and other credit facilities by licensed banks to a minimum rediscount rate of the CBN subject to a stated minimum rate of interest in addition to further requiring other banks to hold specific liquid assets which were to include notes and coins, balances at CBN, net balances at other banks in Nigeria, treasury bills, in-land bills of exchange, promissary notes rediscounted at the Central bank and money at call. Furthermore, the regulatory powers of the CBN were further increased by the 1967-69 Amendments which laid emphasis on the direct method of controlling bank liquidity. In addition to strenghtening the variable liquid asset ratio technique, the CBN has been given new additions to its amoury of direct techniques of controlling bank liquidity.

It is important to mention here that the statutory position of the CBN is not restricted to powers to regulate and control but also includes the power to compel compliance with its requests and regualtions. There is also a provision for penalties for non-compliance. Thus, "each bank is statutorily required to furnish the CBN with information to ensure compliance with liquidity ratios for example. Also each bank is subject to penalties for non-compliance with various

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aspects of the regulations: for example, the indigenous loan requirement is ₦2,000".[4]

3.3 CBN Relationship with the Government

Like other Central banks in developing Countries, the CBN did not evolve from a major commercial bank like the bank of England but rather was established by government. Despite this background, the ordinance establishing the CBN is rather explicit on what is its expected relationship with government. This relationship is one whereby, the CBN is conceived as an independent arm of government. Thus, the ordinance completely excludes government representation on the Board of the Bank; and even civil servants from the civil service of the Federal and State governments are excluded. In addition, the Ordinance empowers the CBN to independently pursue monetary and banking policies and other duties with little interferrence. In precise terms, the ordinance provides that the Board of Directors of the Bank shall be responsible for the policy and general administration of the affairs and business of the Bank. What this means in effect is that the law does not recognize any direct relationship between the government and the Board of Directors of the C.B.N.

But from the practice of Central Banking, the CBN, is both banker and financial adviser to government; statutorily responsible for the banking and foreign exchange transactions of the Federal government both internally and externally. It is empowered to receive and disburse federal government monies and keep accounts thereof without remuneration for its services. The

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Bank may also make temporary advances to the Federal government in-respect of temporary deficiencies of the budget revenue. However, the amount of such advances outstanding at any time should not exceed 25% of the estimated recurrent budget revenue approved by the National Assembly for the fiscal year in which the advances are made. All such advances should be retired by the end of the fiscal year in which they are granted; otherwise the Bank is not allowed to grant further advances in any subsequent financial year until the outstanding obligations have been made good. The CBN is also entrusted with the issue and management of Federal government loans publicly issued in Nigeria upon such terms and conditions as may be agreed between the federal government and the Bank.

All the above responsibilities of the CBN imply an indirect and/or direct relationship with the government and its other agencies particularly the Federal Ministry of Finance. The constitutional functions of the Ministry of Finance is responsible for the collection and disbursement of all monies of Government; and the formulation of mainly short-term fiscal and financial policies. The primary preoccupation of the Ministry therefore is to meet government financial requirements for a given financial year. The Central Bank in contrast, has to reconcile its obligations to government with its major long-term policies which are aimed at the overall long-term growth and development of the economy. These policies include the promotion of monetary stability, management of reserves, promotion

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of sound financial structure and the development of a money and Capital Market.

From every indication, this relationship between the CBN and the Ministry of finance does possess in-built possibilities for conflict. Much as the divergence of opinion on monetary policy between the CBN and government began to emerge as far back as 1966, an atmosphere of seemingly quiet co-operation still exits and there has hardly been any glaring dispute between the two for the supreme authority over monetary matters. This is not dis-regarding the fact that the CBN has come out on several occassions to say that while it is committed to policies that will promote the overall economic objectives of the Country, it does not intend to abdicate its responsibility for monetary policy and the pursuit of its overall objectives.

Of particular interest in the CBN -Government relationship is the role of the Federal Minister of Finance. It is not clear whether federal Ministers of Finance do adequately perceive their responsibilities as political heads of the Ministry and its relationship to the CBN. But what is clear is for the Minister to refer to the CBN as if it were just another arm of the Ministry of Finance, and as if it operated on his instructions. The impression thus Created in budget speeches (at least before 1966) was that the CBN operated on the instruction of the Minister of Finance. It was in attempt to clarify the position that the 1968 CBN Amendment Decree specified that;

(1) The Board (of directors of the Bank) shall keep the commissioner of Finance imformed of

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the monetary and banking policy pursued or intended to be pursued by the Central Bank.

(2) The Commissioner shall from time to time if he disagrees with the Board on the monetary and banking policy pursued or intended to be pursued by the Central Bank, so inform the Board of his disagreement thereto, and the Commissioner may submit his representation and that of the Central Bank on the disagreement to the Federal Executive Council.

(3) The Federal Executive Council may in writing, after considering the representation, direct the Central Bank and to the monetary and Banking policy to be pursued and the direction shall be binding on the Board which shall forthwith take all steps necessary or expedient to give effect thereto.[5]

The 1968 Amendment Decree also empowered the Minister of Finance to approve the opening of accounts for other persons in Nigeria, the holding and selling of shares/debentures of any Corporation/Company. The Minister may also require the Federal Director of Audit to examine the accounts of CBN. The Act also requires the CBN to submit returns to the ministry of finance, in form of annual and monthly reports. All these provisions, it must be added, create avenues for an ambitious Minister of Finance to usurp the position of the Board of the CBN by attempting to dictate monetary policy pursued or intended to be pursued.

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The possibility of this development with all its inherent dangers not-withstanding, this study subscribes to the belief that:

> "If the relationship between the Commissioner and the Governor and between their advisers is cordial and close, there would be room for conflict. But conflict is bound to arise if the CBN reads and interprets its role and powers under the Decree in complete isolation or without reference to the powers equally Conferred on the Commissioner not only under the same decree but also under other equally binding laws and decrees. Both are dealing with the same variables, but one is more under pressures that are not only economic and monetary, but even moreso, are also political and social, whereas the Central Bank, in its splendid 'cork-lined' structure, can afford to contemplate the longer term consequences of politically and socially inspired policies of the Commissioner".6

There is no gainsaying that the circumstances of th relationship between the CBN and the Federal Ministry of Finance has greatly influenced the type of policies currently embarked upon by the Bank. The extent of this influence would however be examined in the next Sections when we consider the various factors underlying the overall effectiveness of the C.B.N.

3.4 The Regulation of Commercial Banks

It is often argued that banking generally is one of the most closely regulated and price controlled industries in the world; capital structure, sectoral allocation of loans, liquidity ratio, and a host of othe regulations which relate to prudential and credit contro requirements are imposed by the monetary authorities.. In Nigeria, the history of commercial bank regulation is no doubt a recent phenomenon. The evolution of commercial banking was not immediately accompanied by regulation until the several unsavoury effects and

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tendencies capable of creating instability in the banking habit were noticed. Regulation was therefore only introduced in 1952 following the paton Report of 1948. Thus the 1952 Ordinance for the regulation of the business of Banking was enacted as a direct result of bank failures and irregularities; and the need for further guidance and support for African banking as was recommended by a world bank report in 1948.

The regulation, control and supervision of the banking industry in Nigeria is the responsibility of the CBN in as much as it is statutorily required to work in close consultation with the federal Ministry of Finance. The principal areas of control have been establishment conditions, capital, licensing, reserves and liquidity requirements.

The establishment of a commercial bank in Nigeria is itself regulated and controlled. Both the Companies Act (1968) and the Banking Act(1969) impose strict government regulations on the activities of Nigerian Commercial Banks. The Companies Act makes a distinction between a Nigerian and a foreign owned company including banks. All banks operating in Nigeria must be locally incorporated and hence be Nigerian Companies. Even foreign Banking Companies which before the Act were incorporated outside Nigeria were in respect of their Nigerian operations deemed to have become incorporated under the Act as a separate entity from the parent company incorporated overseas, and in whose name a place of Business was established in Nigeria. "With the passing of the Banking Act in 1969 and the securities and exchange commission Act in 1979, the conditions

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governing the establishment and operations of Banking business became more clearly stated. Strict controls were imposed on granting of license, opening and closing of branches, amalgamation, requirements on minimum paid-up capital, maintenance of reserve fund and certain other activities of the bank".[7]

The 1952 Ordiance allowed banking only by a Company which in order to be registered must have a nominal capital of ₦50,000 and paid-up capital of at least half of that amount. Applications were made to the Financial Secretary who was empowered to pay special attention to the bank's liquidity ratio, paid-up Capital and reserves. He was further authorized to withdraw the licence of any bank if its affairs were conducted contrary to depositors' interests. The requirements were amended in the 1958 ordinance which required the Federal Ministry of Finance to consider application in Public interest while also classifying capital requirement into ₦25,000 for indigenous banks and ₦400,000 for the expatriate banks. Redreence to nominal capital was also dropped. But with the 1967/69 Amendments.

"Instead of the former minimum paid-up Capital ₦400,000, an indigenous bank was to have a minimum of ₦700,000. Similarly, an expatriate bank is to have a minimum paid-up share Capital of ₦1.5 million instead of merely giving the Minister as provided under the old law, a satisfactory undertaking to keep assets worth at least ₦500,~~000~~ within Nigeria at all times". Only a transitional period of six months was allowed to existing banks to comply with the new capital requirements.

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The CBN is also statutorily empowered to control the reserves of commercial banks. The 1952 Ordinance required Commercial Banks to pay 20% of profits into a reserve fund before the payment of dividend and until the amount in reserve fund equal paid-up capital. Payment of dividend was also prohibited until capitalized expenditure had been written-off. The 1958 Ordinance later increased this ratio to 25%. The 1967/69 Amendments in addition, required a transfer of 12½% of net profits to be made where the amount of reserve funds is equal or is in excess of the paid-up share capital. The CBN also has power to require commercial banks to maintain a ratio of 10-30% between paid-up capital and statutory reserves on one hand and total deposits on the other.

Just as the CBN plays an important role in the licensing of Commercial Bank's, it is also of significant importance in the revocation of such licences. It is provided that the Federal Minister of finance, on the recommendation of the and with the approval of the Federal Executive Council, may revoke any licence granted to a bank as a separate authority to operate. The affected Commercial Bank is however entitled to notice so that it may make representations as to why its licence may not be revoked. In the same view, the CBN may take over the management of a Commercial bank and in cases of bankruptcy, "where a licensed bank becomes unable to meet its obligations or suspends payments, the assets of such bank in the federation shall be available to meet all deposit liabilities of the bank in the federation and such deposit liabilities shall have priority over

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all other liabilities of the bank".

The effects of the above conditions on the formation and operations of commercial banks in Nigeria are quite obvious. In particular, it has become increasingly difficult for Nigeria to establish banks without some soft of government assistance or enter the banking industry. These conditions have however greatly reduced the possibility of banks failing due to under-capitalization and thus developed more public confidence in the banking system. They have also ensured the safety of bank deposits in addition to protecting the interest of depositors. The liquidity of Commercial Banks is another area that is closely regulated and controlled. The 1952 Ordinance required commercial banks to maintain an adequate degree of liquidity. Proof of this was to be furnished to the financial secretary on request. Although the liquidity positions of banks were notclearly defined, a bank's licence could be revoked. The 1958 Ordinance however was more precise. Section 8 of the Ordinance required banks to maintain a holding of specified liquid assests not less than such amount as may be specified by the CBN from time to time. It was an offence if a bank did not furnish inofrmation to the CBN about its liquidity position, or allow its liquid asset ratio to fall below the minimum rate specified, or grant advances without the CBN's prior approval if the liquid asset ratio is below the minimum specified. This definition of liquid assets was however changed by the 1962 Amendment which went further to give the CBN discretion in applying the liquid assets requirement and

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those assets that may be used by commercial banks in meeting this requirement. Of particular importance in this regard was the treatment of balances at other banks, Overseas assets and CBN specification of what foreign assets could be treated as liquid assets. The 1967/69 Banking Amendments in Nigeria further increased the scope of CBN Control of bank liquidity. The changes introduced affected mainly the variable liquid assets ratio, variable cash reserve ratio, and supplementary reserve requirements such as special deposits and stabilization securities. The possible range of liquid assets was increased to include a new type of public debt instrument, the treasury certificate; and all externally-held foreign assets were excluded from the portfolio of reserve-eligible assets. In addition, the CBN was empowered to vary both the composition of any specified liquid asset and the proportion of the different categories of assets that may from time to time be held by a commercial bank. The cash reserve ratio was a new development and for the first time, the CBN was empowered to require Commercial banks to maintain a given ratio between cash reserves and specified classes of deposit liabilities. The application of this tool was discriminatory as the banking system was for this purpose classified into three categories in terms of size of deposits and higher cash reserve ratios were to be maintained in that order.

The new amendments also made provision for the CBN to require commercial banks to maintain, over and above the legal minimum cash and/or liquid assets, some additional reserves in the form of special deposits

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and stabilization securities special deposits were to be maintained by the commercial banks at the CBN Head Office and were expressed as a percentage of the total of any specified deposit liabilities or increase in deposit liabilities. Such deposits could not be treated as specified liquid assets for the purpose of satisfying the requirements of either the liquid asset ratio or the cash reserve ratio. The CBN has the discretion to charge interest which should not be more than one per cent below the Treasury Bill issue rate. Stabilization securities on the other hand, are issued at such rate of interest and under such conditions of sale, amortization, negotiability and redemption as the Bank may deem appropriate for the purpose of maintaining monetary stability of the economy in Nigeria. In particular, the bank is given the power to sell or place any such securities with banks by allocation, reserving the right to levy fines against recalcitrants and to prohibit such institutions from extending new loans and advances or from undertaking new investments.

It must be observed at this juncture that the control of commercial bank liquidity represents an indirect method of controlling bank credit which of course is always the aim of monetary policy. Thus all things being equal, "a reduction in the volume of commercial bank liquid assets is expected to force these banks into curtailing their Credit operations while an increase is expected to produce the opposite effect". Apart from this, commercial banks in Nigeria are also subjected to direct control of their Credit Opeations by the CBN. This is done through the fixing of the

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annual rate of expansion of commercial bank credit, sectoral allocation of bank Credit, and fixing of the indigenous credit quota. Thus, the CBN is "empowered to fix ceilings not only on the volume of loans, advances and discounts outstanding at a Commercial bank but also for the different categories of such loans, advances and discount". The Bank can also fix ceilings on increases in such loans, advances and credits with a specified future period of time.

It can be seen from the above that the control and regulation of each of the above areas of commercial bank operations in Nigeria requires a specific tool or combination of tools; and these have been used over the years. Furthermore, as can be seen, the regulation of Commercial Banks in Nigeria also involves government regulation particularly in terms of legislation as witnessed by the several amendments to the original Central Bank of Nigeria Ordinance, the 1968 Companies Act, and the Banking Act (1969); and the imposition of several other conditions that govern the banking business. In conjunction and supplementary to government regulation, the CBN also employs monetary policy tools at its disposal in the control of the behaviour of commercial banks operating in Nigeria.

The Bank has the following tools in its armoury:

(i) Variable discount rate, interest rate structure and bank charges;

(ii) Open market operations;

(iii) Variable liquid assets and Liquidity ratio;

(iv) Moral suasion;

(v) Selective credit control;

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(vi) Cash reserve requirements;

(vii) Special deposits; and

(viii)Stabilization Securities.[8]

To complement these tools, the CBN also issues annual credit guidelines or monetary policy circulars to commercial banks which contain specific directives to the banks in respect of their general operations as they affect the Nigeria economy.

The methods mentioned above have been applied singly or jointly at different times to achieve the prevailing objectives of the economy at such times. Some of them have however never been applied or are yet to be used. The question then that readily comes to mind is to what extent have these methods been effective in achieving the set targets and specific objectives of the Nigerian economy?

Finally, it is apposite to state that the rural banks have been most successful in Nigeria precisel because they are backed by regulatory tools. The need for a seperate department in the Central Bank to cater for the interest of rural banks cannot be overemphasized. The need for the Central Bank in conjunction with the Government, to encourage and redirect the system of branch banking and public agricultural credit institutions in order to achieve the objectives of increasing rural productivity is more urgent now than ever.

FOOTNOTES

1. See the appendix for the full text of the regulations defining the duties of the West African Currency Board.

2. Fisher J.L., (1966) The Desirability and Practicability of Establishing a Central Bank in Nigeria as an Instrument for Promoting the Economic Development of the Country, Government Printer, Lagos, 1956, P.18.

3. Brown, C.V., Op. Cit., P.147.

4. Nwankwo, G.O., Op. Cit., P.17.

5. C.B.N. Act (Amendment) (No.3) Decree, 1968, Clause 3.

6. Okigbo, P.W.C., Op. Cit., P.254.

7. Adeniyi, O.A., Op. Cit., p.19.

8. Central Bank of Nigeria (1976), "Memo to the Financial System Review Committee" (Mimeograph), 1st June, p.91.

CHAPTER FOUR

THE RURAL BANKING PROGRAMME

4.1 Background Information

Economic indicators show that about 75 per cent of the population of Nigeria live in the rural areas and most of them have been denied access to banking facilities. The significance of this lack of access to banking facilities is better appreciated when one realises that the bulk of the rural population is engaged in agriculture, handicraft and other basic, small-scale enterprises. Apart from the lack of access to bank credit to promote these essential sectors of the economy in which the rural population engages, the stock of money in their hands is kept outside the banking system. It was estimated that such funds accounted for about 50.4 percent of the total money supply in 1975. This compared poorly with ratios of 21 per cent for the United States.

With the above picture of the total neglect of the rural Communities in the scheme of bank expansion and the inadequacies of banking services generally relative to the size of Nigeria's territory and population, it is easy to appreciate the concern which the monetary authorities and, indeed, the Government as a whole expressed for the establishment of a diffused branch network of banks to all parts of the Country in a bid to develop banking habits among the people and build up a banking system that could sustain rapid and balanced development of the economy.

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Relevant to above, the Rural Banking Programme was introduced following the reluctance of the banks, notably the erstwhile foreign banks to extend banking services to the rural areas of the country. The scheme came into being in July 1977 after many years of Planning and research. This was sequal to the Okigbo Committee Report of 1976 on the programme. The Federal Government on the strenght of the recommendation of the Committee implemented papers on it; the Central Bank therefore made it mandatory for all commercial banks to open rural branches in selected areas throughout the country.

"This scheme was set up by Decree No.20 in March 1977 with the following objectives.

(a) Cultivation of banking habits amongst the rural dwellers;

(b) Mobilization of savings from the rural areas for the purposes of channelling same to profitable ventures;

(c) Creation of Credit by way of equity and loans for small scale industries;

(d) Development of agriculture and agro-allied industries in the rural areas with a view to achieving the national objective of self-sufficiency in food production;

(e) Reducing to a comfortably extent, the drift of young men and women from the rural areas to the urban areas".[2] Under .

Under the scheme a fund of ₦100 million was subscribed by the Federal Military Government (60%) and the Central Bank of Nigeria (40%). The modus operandi is that the Commercial banks will lend to farmers at the stipulated

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rate of 4 - 6 per cent but the agricultural Sector being a risky business, the fund guarantees whatever loss results from such lending.

The programme was broken down into three phases for smooth management and control and also to enable the banks pursue with vigour the tenets of the scheme. Two hundred centres were identified in the first phase, 1977 - 1980 and for the second phase 1980 - 1983, Two hundred and sixty-six branches were allocated to commercial banks. Because of poor performance, the second phase was extended for another one year from January 1984; this time supplement was given to enable the banks consolidate their positions. This period it was assumed would also enable the Central Bank assess fully the impact of the rural banking programme on the operations of the banks. In the next Chapter we shall discuss in details the phases of the programme.

4.2 The Nigerian Banking System and Credit Needs for Rural Development

In Nigeria today, there is growing emphasis on the need for rapid development of the agricultural sector of the economy in order to break the vicious circle of poverty that is prevalent in the rural sector. Unfortunately, the various Nigerian governments have initiated laudable objectives and grandiose programmes for agricultural development, the implementation of which has not always been realised in practice. Consequently, Nigeria's agricultural system has continued to be plagued by a number of problems.

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Among these are

(i) a low level of technology and very limited application of yield-increasing inputs such as improved seeds, fertilisers, insecticides and fungicides;

(ii) the use of archaic farming implements;

(iii) a lack of storage and poor transportation facilities, resulting in poor distribution and utilisation of perishable items;

(iv) a poor marketing structure, under which the farmers receive very poor prices for their produce;

(v) a conservative land tenure system which discourages rapid adoption of available agricultural innovations by the farmers; and

(vi) a lack of effective credit facilities.

One effective way of tackling these problems is by improving the financial base of the agricultural sector. Traditionally, capital for investment in agriculture comes from two potential sources: personal savings of the farmers and farm credits.
Because of low yield, farmers are faced with very low levels of farm income and thus there is a severe limitation on their saving capacity. Thus farm Credit appears to be the only means of improving farm capital investment, and without it there can be no progress in the country's agricultural development.

There are two broad categories of sources of credit in Nigeria: firstly, non-institutional sources;

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and secondly, institutional sources of Credit.

The non-institutional sources comprise mainly friends and relatives, merchant middlemen and professional money-lenders, while the institutional sources consist of farmers' Co-operative societies, state agricultural credit corporations, the Nigerian Agricultural and Co-operative Bank and the Commercial banks.

Because the non-institutional sources are not formal they are free from the bureaucratic red tape which characterises the institutional sources, even though the size of individual loan receivable from this source is extremely limited. It has, however, the largest coverage despite the fact that interest rates wherever they apply are high and exploitative interest rates range from nothing up to 200 per cent per annum.

Most institutional sources of farm credits were specially instituted to save farmers from the exploitation of the private money-lenders and merchant middlemen. Credit from institutional sources comes in cash and in kind, and each loan is generally larger. Interest rate is fixed, generally known and, in fact, much lower than rates charged by the non-institutional credit sources, but the formal procedure for borrowing and repayment results in undue delay in granting the loans. Even though the size of an individual loan is a little bigger than those from non-institutional sources, security coverage has been traditionally poor. It is perhaps as a result of this poor coverage that the Federal Government has given a directive to commercial banks

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to grant more agricultural credit to farmers since it is now prepared under the new Agricultural Credit Guarantee Scheme to guarantee part of such loans.

This development leads us to the subject of this subheading, which is an attempt to evaluate the suitability or otherwise of commercial banks as suppliers of farm credit. This I have done by reviewing briefly in the first Section the banking principles under which commercial banks operate and their modus operandi in Nigeria, and by investigating (by means of structured questionnaire administered in the Zaria branches of major commercial banks) the new policies of the banks to the agricultural sector since the Federal Government directives and the effect of these directives on traditional commercial banking operations. The result of this survey is presented in the second section.

Commercial banks are organised as private, profit-making businesses and operate within the same framework of competition as other commercial enterprises, although they are regulated in somewhat greater detail than most businesses. The Central Bank has broad supervisory powers over the banking system. This fact has an important bearing on bank operations and loan and investment policy that is sometimes overlooked by the public.

Commercial banks obtain the major part of their funds from suppliers as demand deposits and time deposits. Since deposits show wide seasonal or other temporary variations, banks use a major part of their

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funds for short-and intermediate-term loans and investments. At the longer term end of their loan portfolios one real-estate mortgage loans that are made for a number of years. Instalment loans and some other loans to business and individuals are for an intermediate term of from one to about three years. Their short-term loans, the major part of their loans to business including farmers, consumers and others, are for comparatively short periods generally ranging from a few days to a few months with few, if any, exceeding one year. Banks investments in Securities are largely in treasury securities and state and local government bonds. They hold relatively few corporate bonds or corporate shares. Treasury securities are important in commercial bank portfolios due to their liquidity.

In contrast to all other lenders, who can lend only their own capital or money entrusted to them by others, commercial banks create most of the funds that they lend-subject, of course to the reserve requirements, cash needed for day-to-day transactions and the policies of the various banks, The money-creating power of the Commercial banking system affects the credit supply available to agriculture both directly and indirectly. It influences commercial bank loans to farmers as well as bank financing of merchants, dealers, processors and the like, through which farmers obtain considerable credit. At the same time, it influences investment policies of commercial banks and thereby the flow of credit to farmers through other lending institutions.

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Since banks are independent corporations organised by individuals, their policies naturally vary greatly. Two banks may look alike to the public, but in reality they may be very different institutions. One bank may have a progressive farm policy and be interested in making loans, whereas another bank may invest the bulk of its assets in non-farm loans and securities. Some banks maintain a flexible policy designed to meet the needs of the community, while others make few changes. From the point of view of Credit extension, two of the more important policy considerations pertain firstly to the distribution of the bank's earning assets, and secondly to the policy followed in making and servicing loans.

Policy with regard to the bank's earning assets determine the amount of funds put into loans, and loan policy indicates the way in which or the terms upon which those funds are made available to borrowers. Assets of banks often are grouped on the balance sheet as cash, loans, investments and other assests. Of these, loans and investments generally are the largest items. These two groups Comprise the major earning assets of banks, and the allocation of funds between them indicates the relative importance of the bank's loan programme. While traditional theory of commercial banking holds that the banking system should adjust its earning assets to the needs of the business world. The commercial banking system is considered merely an adjunct to the productive process. In practic,

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there have been periods when investments of commercial banks in securities grew much faster than loan volume. Investments in securities give commercial banks flexibility to adjust to changing conditions. They provide secondary reserves for deposits to supplement required reserves, enabling a bank to adjust readily to a run-off in deposits if such could occur. They can also be liquidated to provide funds for loans should a favourable opportunity arise; at such periods of strong demand. Consequently, a high level of loans to deposits generally becomes a constraining factor in bank lending.

In Nigeria, before the Federal Government Agricultural Credit Guarantee Scheme, the commercial banks were supposed to be some of the institutions granting credit to farmers. In practice, they had not always been ready to grant loans to farmers for many reasons. Because they are profit making organisations, most of their lending activities are concentrated in non-farm investments where there is relatively less risk and fewer uncertainties and where returns on capital appear to be high. Besides, farmers are often scattered over wide and inaccessible rural areas, and commercial banks are understandably unwilling to employ touring staff to maintain a constant contact with the farmers. Moreover, the banks can easily ascertain the creditworthiness of a non-farm investor who by the nature of his business keeps a bank account and lives in an urban centre where his activities are well known to members of the business community of which the bank officials are members.

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The majority of farmers have no access to commercial banks because of the lack of acceptable collateral. Land, which constitutes one of the most important assets of a traditional farmer, is not an acceptable security because the customary tenure system makes it inalienable by individuals. One may as well point out here that, with the exception of the Co-operative Bank of Nigeria (which is supposed to be a farmers' bank) most or all others would insist on suitable collaterals. Farm lending by the Co-operative Bank is done mainly through the various farmers co-operatives. Banks in Nigeria look on agricultural business as an unstable and unpredictable venture. This is because most of the factors controlling the farm enterprise are largely beyond the control of the farmer himself. Banks therefore, are generally not interested in granting loans for ventures on which they are not sure of claiming back their principal and interest. Infact, a primary consideration of commercial banks as well as of all lenders, is the risk involved in making a loan. Lenders make only those loans which they feel are sure to be repaid.

4.3 Rural Banking Development: the Role of Commercial and Co-operative Banks

The Section is concerned with analysing and identifying the role of co-operative banks as part of the effort for rural development in Nigeria. Our task is made considerably more difficult, however, by the problem of a precise and generally acceptable definition

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of the core phrase in the title of this write up rural area of a country than to define it. To compound the problem further, what is a rural Community in one country may not be so in another country. Even in our large country, we find that because some States are simply more urbanised than others, what will be a rural urbanised States. Activities identified with such communities, such as rural banking, can therefore be defined in relation only to a given part of a country or a given territorial boundary, where more parts are homogeneous in terms of rural-urban setting.

As a rough guide, the United Nations describes a rural community as one with a population of less than 10000 and 'characterised by highly integrated social systems: social values, attitudes, interpersonal relations and work habits'.[1] Because these characteristics are necessary but not sufficient for grouping communities into urban and rural categories, planners have sought to refine this definition by the addition of more criteria of identification. For its rural banking programme the central bank of Nigeria has not attempted the difficult task of defining precisely a rural branch. Under its rural banking development programme it has simply designated some points as rural on the basis of their being local government headquarters, or on the basis of population (50,000 persons), on their level of economic activities and on other established institutions. For example, schools, hospital, government institutions and so on.

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Admittedly, the problem of defining a rural community is a real one. More real and demanding our urgent attention, however, is the problem of developing these areas, because the much-discussed exodus to the urban areas of the country has not led to any satisfactory resolution of the problem. For one thing, the rate of reduction in population in this sector, as evidenced in Table 4:1, has not been such as will suggest a diminution of the problem. As this table clearly shows, rural population as a percentage of total population in Nigeria has remained significantly high, and in the sixteen years between 1960 and 1975 only a reduction of 7.02 percentage points has been effected by the so-called rural-urban exodus.

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Table 4:1

Nigeria: estimated population by Class Distribution

Year	Urban Population Number (Million)	Urban Population Percentate of Total	Rural Population Number (Million)	Rural Population Percentage of Total
1966	9.321	18.06	42.297	81.94
1961	9.760	18.44	43.161	81.56
1962	10.220	18.83	44.058	81.17
1963	10.702	19.22	44.968	80.78
1964	11.184	19.60	45.878	80.40
1965	11.687	19.98	46.802	80.02
1966	12.213	20.37	47.738	79.63
1967	12.763	20.77	48.667	79.23
1968	13.397	21.27	49.589	78.73
1969	14.122	21.87	50.439	78.13
1970	14.881	22.49	51.294	77.51
1971	15.672	22.99	52.496	77.01
1972	16.496	23.50	53.709	76.50
1973	17.321	23.95	54.990	76.05
1974	18.187	24.42	56.293	75.58
1975	19.237	25.08	57.477	74.92

Source: S.O. Olayide, Economic Survey of Nigeria - 1960 - 65, Aromolaran Publishing Co. Ltd, Ibadan, 1976, p.17, Table 2.2

The creation of states and the establishment of local governments have tended in the recent past to assist the urbanisation of more towns and villages, but these have amounted to no more than a scratch on the surface of the rural development proble. In view

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of this, efforts are being made on national and supra-national levels to make the rural areas of our countries more comfortable to live in and thus, in the process, stem the drift to urban areas, which leads to the over-taxing of the inadequate social amenities in the cities.

It is the thesis of this paper that the co-operative banks are by their business philosophy and orientation well-placed to play a significant role in this national effort. Unfortunately, rural and community development and co-operatives, as a major approach to rural transformation of the economy, have not been given their due attention in our national economic development plans.

To achieve the objective of this study as stated above, we shall in the next section briefly discuss the evolution, structure and operations of co-operative banks in Nigeria. This we consider necessary in view of our assertion that this group of banks can be transformed into a useful tool of rural development in Nigeria. If we are going to assign such an important task to these institutions, it is important for us first to understand and fully appreciate their strengths, weaknesses, objectives, and working. Next, in the third part of the study, we attempt to survey the problems of these banks in setting themselves up in the rural areas of the country. As banks with dual roles and responsibilities as Commercial as well as co-operative banks, the different problems posed in each case need to be noted separately so that approaches to their solution can be objectively oriented.

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4.3.1 Co-Operative Banking in Nigeria

Unlike rural banking activities, those of co-operative banking can be easily defined since we know what a co-operative bank is: 'A Co-operative bank can be simply defined as a financial institution specially set up to offer greater access to saving and borrowing facilities for co-operative societies and their members at relatively cheaper costs than those provided by the traditional/commercial banking institutions'.

The first Co-operative bank was not established in Nigeria until 1953, but the idea of establishing a Co-operative farmer's or people's bank had been mooted as early as 1907 when the first move to establish a co-operative society or union in Nigeria was made at Agege, Lagos.[2] Soon after the establishment of the first co-operative bank in Nigeria - the co-operative Bank Ltd. (Formerly the Co-operative Bank of Western Nigeria Ltd.), the Co-operative Bank of Eastern Nigeria was launched in 1954. For the next two decades, no new co-operative bank was established. By November 1974, the Kaduna State Co-operative Bank Ltd. (Licensed in October 1973 as the North Central Co-operative Bank) was established, and was followed nearly two years later by the youngest of Nigeria's Co-operative banks, the Kano Co-operative Bank Ltd. The two older banks between the time of their establishment and 1962 had acted purely as Co-operative banks in the sense that they served their members only. By 1962, however, these two institutions were forced to take up a Commercial

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banking licence. The 'Commercialising' of the activities of these banks marked an important milestone in their history with significant implications and repercussions for the orientation of their business. We shall return to this issue many times later in the paper in view of its effects, both positive and negative, on the activities of Co-operative banks.

A notable feature of these banks, as their names imply, is that they are all state banks, established to serve primarily the interests and development of Co-operatives in their States of Origin. State governments' prominent roles in the establishment of these banks is also a feature common to all, albeit with slightly different dimensions. The first two banks got substantial initial establishment grants from their respective state governments. Thereafter, however, the new institution were put entirely in the care and service of the Co-operative movements. In the case of the newer banks, the story is different most probably because the Co-operative movement in these states are not as developed as in the states of origin of the older banks.

Common to all the Banks, however, is a singular goal or objective. Explicitly, consciously and expressly, all the banks were established to function as a Central Financing agency for co-operative movements in their states. It is for this reason that these banks are variously called farmers' bank, People's Bank and such names that tend to identify the institutions with the rural community.

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branches of Kano Co-operative Bank are urban. The banks being first and foremost, now, Commercial banks, the reasons for their bias towards urban banking should not be difficult to assess.

The Co-operative banking sub-sector of the Commercial banking sector is led by the co-operative bank Ltd., which, as at the end of March 1977, accounted for 60 percent of all the sub-sector's asset/Liabilities, 69 per cent of loans and advances, and 58 per cent of all deposits. The Co-operative Bank of Eastern Nigeria Ltd., was very badly affected by the thirty month war between 1967 and 1970, and the other two Co-operative banks have yet to make their impact felt on the scene. It is probably a combination of these factors that account for this dominant position of the Co-operative Bank Ltd. Comparatively, this Sub-sector is, however, very small. The sub-sector's total assets/liabilities for example, accounts for only 4 per cent of the Commercial banking system's total assets/liabilities, and 5 per cent each of the system's deposits and loans and advances.

With the addition of responsibility for co-operative, recently, to the original functions of the Nigerian Agricultural and Co-operative Bank, a new dimension seems to have been introduced into the structure of Co-operative banking in Nigeria. The position of the Nigerian Agricultural and Co-operative Bank in the structure of the banks is, however, difficult to ascertain now. This is principally because it partially

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operates partly in the same way as other Co-operative Banks, and at the same time like a development Bank, were it to complement the activities of the state co-operatives in the capacity of an apex institution, it would have been easier to place in the sub-sector's scheme of things. This situation has some implications for activities in the sub-sector and to this we shall return below.

Table 4:2 Branch network of Co-operative Banks, July, 1983

A	B
Co-operative Bank Ltd Oyo State, 9 Branches Ondo State 6 Branches Ogun State 2 Branches Lagos State 2 Branches Bendel State 1 Branch	Co-operative Bank of Eastern Nigeria Limited Anambra State 9 Branches Imo State 10 Branches Lagos State 11 Branches
C	**D**
Kaduna Co-operative Kaduna State 5 Branches	Kano Co-operative Bank Ltd Kano State 1 Branch

E

Nigerian Agricultural & Co-operative Bank

Kaduna State - 1 Branch, Kaduna (Head Office).

Anambra State - 1 Branch (Enugu)

Oyo State - 1 Branch (Ibadan)

Bauchi State - 1 Branch (Bauchi)

Sokoto State - 1 Branch (Sokoto)

Rivers State - 1 Branch (Port-Harcourt)

Bendel State - 1 Branch (Benin).

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Source: Ade T. Ojo and Wole Adewunmi, 'Co-operative Banking in Nigeria, evolution, structure and operations; mimeogrophed, University of Lagos, July, 1983.

4.3.2 Activities of Co-operative Banks

Deposits in all the banks have grown tremendously over the years. In the case of the older banks, these increases in volume of deposits shot up significantly after going commercial in 1962 and opening their doors to non-co-operator depositors. In both the Kaduna Co-operative Bank and Kano Co-operative Bank, deposits constituted more than 80 per cent of the liabilities of the banks. At the Co-operative Bank Ltd., deposits amounted to only ₦56,000 in 1954, ₦1 million in 1964, ₦25 million in 1974 and ₦129 million in 1977. 'Since this Bank became a commercial bank in 1962, it has continued to recieve very encouraging patronage from the private sector and it is the deposits from this sector more than anything else that has saved the bank from great finamcial embarrasment'. The rapidly rising ratio of deposits to total liabilities of this bank over the years is also indicative of the importance of the non-co-operators' contribution to total deposits. From forming 18 per cent of total liabilities in 1961, deposits have recorded 41 per cent in 1964, 66 per cent in 1971 and 78 per cent in 1977.

The effect of the civil war on the activities of the co-operative Bank of Eastern Nigeria and the consequent loss of data make the measurement of the impact of Commercialisation less easy. Just before

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the war in 1965 and 1966, total deposits in the institution were respectively ₦669,000 and ₦860,000. In the first year of operation after the war, total deposits were ₦28 million, and by 1977 had increase to ₦57.9 million, representing respectively 45 and 84 per cent of all liabilities of the Institution.

It is in the loans and advances of the Co-operative banks more than in any other areas of their activities that one is best able to measure their contribution to the movements that they were originally supposedly established to serve. To be fair to the older banks, however, one must in analysing their lending activities distinguish between the period before and that after the bank acquired the commercial banking licence. Before 1962, these older banks gave 100 per cent of their loans and advances to co-operative organisations and individuals. Even years after 'going public' these institutions still operated with considerable bias for the movement. The fact that over 90 per cent of the loans of and advances of the co-operative Bank Ltd., for example, went to Co-Operative Apex Institution and other co-operators in 1966, four years after taking commercial bank licence, is a clear testimony to this. Realistically this is not a situation that could be maintained indefinitely. Consequently, by March 1976 this bias had been reversed in favour of general commercial bank lending, which accounted for 87 per cent of the bank's total lending, leaving the movement borrowers with a paltry balance of 13 per cent. By way of lower interest rates on loans, less insistence

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on collateral securities in support of advances to members of the movement, the banks generally continue to render desirable assistance.

It is a matter of great relief that the Federal Government is showing some concern for this depature in the business orientation of Co-operative banks." A recent pronouncement which states that 'Government holds the view that Co-operative Banks should encourage and deal with primary Co-operative Societies, and that co-operative Banks should be compelled to do most of their business with the Co-operative Organisations they were established to serve whether or not they are owned, controlled and managed by co-operators' amply reflects this concern, which is most welcome, however belated.[3]

FOOTNOTES

1. United Nations, Africa's Strategy for Development in the 1970s, U.N. Economic Commission for Africa, 1973, P. 14.

2. Oladele Adeyeye, (1969), Co-operative Banking in Western Nigeria; Yesterday, Today and Tomorrow, Review of International Co-operation, International Co-operative Alliance, Vol. 62, No.6.

3. Federal Republic of Nigeria, (1978). Government Views on the Report of the Review Panel on Co-operative Principles, Laws and Regulations in Nigeria, Federal Ministry of Information, printing Division, Lagos.

4.4 Commercial Banks and the Financing of the Agricultural Sector

4.4.1 The State of Nigerian Agriculture

An assessment of the over-all performance of the Nigerian agricultural sector during 1960s and the present period shows that it lagged behind relative to the other sectors of the economy. For example, its relative contribution to the Gross Domestic Product fell from 63.4 per cent in 1975.[1] This decline is due largely to the increase in the relative contribution of the non-agricultural sector, especially of petroleum. Even then, when the relative contributions of various sectors to the Gross Domestic Product excluding petroleum are considered, the agricultural sector's share at current prices amounts to 53 and 49 per cent for 1970/71 and 1973/74 respectively.

With its annual growth rate of about 3 per cent, it is the slowest - growing sector of the national economy and a major drag on over-all economic performance. Available information so far indicates that agricultural production has fallen short of expectation. For instance, in 1977, the level of food imports increased substantially whereas the output of major agricultural export commodities declined by 22.7 per cent.

On the average, the annual growth in the rate of food production has been estimated to be about 2 per cent in the last ten years whereas the domestic demand for food has been estimated to have been growing at an annual rate of 5 per cent.[2] One of the direct

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consequences of this situation is inflation in food prices. Another result of the food deficit is the increase in the importation of food. The value of food imports increased from ₦57.8 million in 1970 to ₦439.4 million in 1976. The volume of food imports was more than double during the same period. In 1977, the value of food imports was estimated to have increased to ₦790.3 million.[3] This situation has far-reaching implications for the country's economic development. Heavy dependence on food imports constitutes a drain on the scarce foreign-exchange earnings of the country. In addition, such a situation has far reaching political implications.

A number of constraints contributed to the poor performance of Nigerian agriculture. Some of these include the traditional techniques of production, inadequate supply of agricultural inputs, the problem posed by labour shortage in the rural areas as a result of rural-urban migration, inadequate extension service, poor condition of feeder roads and other transport facilities, and until recently, before the promulgation of the land use Decree - the problem of land ownership imposed by the Land-tenure system. Other constraints include inadequate effective supporting services such as farm credit, marketing and storage facilities, the civil war of 1967 to 1970. Moreover, the Sahelian drought adversely affected agricultural productivity in some parts of the Country.

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Viewed against its expected role in the socio-economic development of the Country, the above analysis of the performance of the nation's agricultural sector clearly underlines the need for greater mobilisation of resources at all levels of the economy, especially the banking sector, than has hitherto been done. This is of crucial importance, since agriculture and its related activities will continue to be the mainstay of Nigeria's economy in the foreseeable future. The sector is expected to furnish the bulk of the nation's employment opportunities. With a population growth rate of about 2.5 per cent annually, urbanisation and real incomes projected to rise sharply, the demand for more and better staple food as well as for animal products is expected to grow at the rate of about 5 per cent and 7 per cent per annum respectively. Also, agriculture will provide most of the country's raw material requirements for local industry and for export, which will continue to be important earner of foreign exchange.

It is clear that the acceleration of Nigeria's agricultural growth is essential for the Country's economy's development. The realisation of this goal requires the implementation of policies geared towards the removal of the bottlenecks that we have enumerated above. In addition, the situation calls for more involvement of the banking sector in the provision of funds for the Country's agricultural development. This need arises from the fact that, in general, most of the alternative sources for financing agriculture in Nigeria have not been effective when judged both in terms of loan volume

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as well as the coverage of the producers whom they reach. Apart from the provision of loans for agriculture production, the direct involvement of banks in funding agriculture could also help the development of banking habits among rural dwellers. Their presence alone in rural areas would promote the mobilisation of savings.

4.4.2 Analysis of Agricultural Lending by Commercial Banks

An analysis of the operations of commercial banks shows that, over the years, very little priority was placed on financing the country's agriculture. For instance, between 1966 and 1977, there was no period when the agricultural credit of commercial banks accounted for up to 4 per cent of the total bank loans and advances (see table 4:3).

Table 4:3

Analysis of Loans and Advances by Commercial Banks to the Nigerian Agricultural Sector, 1966 - 1977

Year	Value of Total Loan and Advances(₦ Thousand)	Value of Credit Made to Agricultural Sector (₦ Thousand)	Agricultural Credit as % of Total Loans Commercial Banks
1966	1541352	29012	1.7
1967	2749770	45476	1.7
1968	2641958	42068	1.6
1969	2443602	43726	1.8
1970	3179106	68462	2.2
1971	5240168	120250	2.3
1972	6502636	151466	2.3
1973	7671262	230728	3.0
1974	9785280	305607	3.1
1975	13146066	365087	2.8
1976	23120107	763586	3.3
1977	30927123	1211528	3.9

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Source: Central Bank of Nigeria, Economic and Financial Review, various issues.

While the performance of Banks improved with respect to the distribution of their loans to most of the other sectors of the economy, their performance with respect to the loans to the agricultural sector was not impressive. In no year did the commercial banks attain the limits set for funding the agricultural sector by the Central Bank of Nigeria Credit Guidelines. The Guidelines were designed, among other reasons, to ensure an adequate supply of Credit to the productive sectors of the economy, in which agriculture was included. Between 1972 and 1974, the prescribed minimum credit to agriculture, according to the Central Bank Guidelines, was 4 per cent per annum. The deviation of commercial banks' lending to agriculture from the prescribed minimum during the period amounted to - 1.7, - 1.0 and - 0.9 per cent in 1972, 1973 and 1974 respectively. From 1975 to 1977 the prescribed minimum credit to the sector was changed to 6 per cent per annum. The deviation of the Commercial Banks' lending to agriculture was - 3.2, -2.7 and - 2.1 per cent during 1975, 1976 and 1977 respectively.

Even though the amount of loans and advances made by the commercial banks to the agricultural sector increased from about ₦29.0 million in 1960 to about ₦1212 million in 1977, none the less most of the loans were commercial credit which were intended for the financing of purchases and exports of marketing boards' controlled produce. Only a very small proportion of

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the loan (less than 1 per cent) was advanced for direct agricultural production.

Another major characteristic of the Nigerian banking system is the concentration of banking offices in the main urban areas. Although there were nineteen commercial banks in Nigeria with a total of 492 branch offices at the end of 1977, less than 8 per cent of the branch office were located in rural areas. As a result of the absence of commercial banking facilities in the rural areas, banking contact becomes difficult for a large section of the population, and commercial bank credit does not constitute an important aspect of rural credit.

In order to correct the anomaly in the location of commercial banks' branch offices and also to extend banking services to majority of the people, especially those in the rural areas, the Central Bank of Nigeria drew up a master plan which directed commercial banks to establish a total of 200 branches in designated areas of the country between 1977 and 1980. Under this arrangement, at least one commercial bank branch was to be established in each of the local government head-quarters, and the Central Bank took in consideration the population, the level of economic activities and the number of established institutions such as hospital, schools and other private and public institutions, within the designated areas. In addition, the major commercial banks, which had so for concentrated their operations in the urban centres of the country, were allocated more branches in the rural areas. Between

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October and December 1977 five of the proposed branches were established.[4]

4.4.3 The New Agricultural Credit Policy - The Agricultural Credit Guarantee Scheme

Another major policy that was implemented by the government in order to promote commercial bank loans to agriculture is the Agricultural Credit Guarantee Scheme. The law establishing the scheme was promulgated in March 1977. Under the scheme, loans and advances by commercial banks to agriculture are guaranteed up to 75 per cent by the Government and the Central bank of Nigeria. Towards this end, a sum of ₦100 million has b been subscribed to the fund, of which 60 per cent is contributed by the Federal Government, while the Central Bank is responsible for providing 40 per cent.

The purpose for which loans can be guaranteed under the scheme centres mainly on direct agricultural production such as plantation agriculture, crop production and animal husbandry.

The security which may be offered to a bank for the purpose of any loan under the scheme includes any or a combination of the following; a charge on land or on moveable property of the borrower, a life assurance policy, stocks and shares and a personal guarantee. The rate of interest chargeable by banks on credit facilities provided under the scheme will be prescribed, from time to time, by the Federal Commissioner For Finance. At present, the interest rate charged on loans to lending institutions like the co-operatives and other farmers' group is 4 per cent per annum. For direct

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loans, the interest rate is 6 per cent. During the current Financial Year (1979), Commercial Banks are required to grant 6 per cent of their total loans to agriculture under the Agricultural Credit Guarantee Scheme. Any short-fall is to be deposited with the Central Bank at no interest.

Between April 1977, when the Scheme came into operation, and October 1978 a total of 153 loans, worth about ₦6.226 million, had been disbursed under the Agricultural Credit Guarantee Scheme. The amount loaned out is not very encouraging, for it accounted for just about 0.02 per cent of the total loans and advances of the Commercial banks for the period under discussion.[5] A number of problems are encountered in the operation of the Scheme. Some of these include lack of funds, shortage of personnel and lack of Co-operation by some Commercial banks. A lukeworm attitude was reported of some of the Commercial Banks with regard to the scheme's implementation.

It was also reported that some banks claimed that they were not sufficiently liquid to lend to agriculture, and that they had reached the limit of Credit growth allowed for the financial year and the ratio prescribed for adjusted capital to loans and advances. Under these pretexts, viable agricultural proposals have been turned down. In view of this, the Central Bank has directed all Commercial banks to treat credit facilities extended to the agricultural sector over and above the 6 per cent prescribed under the sectoral distribution of loans and advances in the same way as

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banks' credits for the purchase of share under the indigenisation scheme; in other words, credit to the agricultural sector should be excluded from other loans and advances in compliance with the Central Bank's directives on the limit to credit growth and also in determining the ratio of adjusted capital to loans and advances.

We shall now discusss some of the factors that hinder more serious involvement of commercial banks in lending for direct agricultural production.

4.4.4 Factors Militating Against Involvement By Commercial Banks in Funding Agriculture

The problems of agricultural credit administration include those of assessment of applicant and project. The grounds on which a loan application is assessed often include the applicant's personal qualities - such as honesty and the ability to manage a business well. His credit-worthiness and repayment capacity as well as the availability of security for the loan are also important. Most of these yard-sticks are at the present time difficult to measure in the Nigeria small scale farming sector, relative to the other sectors of the economy. For instance, it is now far more difficult for a commercial bank manager to assess the personal qualities of an average Nigerian small-scale farmer who is normally resident in the rural area, than that of a businessman who is based in an urban area. This is especially so because most bank branch offices are located in the urban areas.

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FOOTNOTES

1. Adeniyi Osuntogun, (1977) The Nigerian Agricultural Sector: Problems and Potentials in the Development of the Co-operative Movement in Nigeria. Federal Ministry of Co-operative and supply, Lagos.

2. Central Bank of Nigeria, Annual Report 1977.

3. Federal Republic of Nigeria Third National Development Plan, 1975 - 1980, Federal Ministry of Information, Lagos, 1975.

4. Central Bank of Nigeria, (1977) Guidelines for the Agricultural Credit Scheme.

5. Ibid.

The following criteria are used to evaluate the rural banking scheme in Nigeria

(1) Cultivation of Banking habits;

(2) Number of branches opened;

(3) Success and failure of the two Phases;

(4) Rural Credit;

(5) Mobilization of savings for rural Development.

5.2 Cultivation of Banking Habits

The scheme has significantly improved the banking habits of the rural dwellers. Before the establishment of the rural banking programme and the fact that no banks were established in the rural areas, banking habit was limited to urbanites. The need for banking services was at the lowest ebb, with the rural communities practicing the old traditional banking methods and fund generation like the 'Esusu' system etc. In almost all the rural banks visited, a daily surge of rural dwellers were seen opening new accounts with the banks. At the end of 1977 most banks recorded less than six hundred customers. By 1983 the number of people to each branch of these banks had risen to over five thousand. Part of these accounts constituted old accounts previously held with banks in the urban centres closed and transfered to the local areas by their respective holders. Some new customers interviewed, were of the opinion that the level of insecurity was higher than in the past, so that the need to keep their earnings and cash reserves in the bank was necessary. It is of interest to not that the

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awareness of banking services is being felt among the rural communities. This is evidenced from the fact that the greater part of the rural branch managers' tasks have shifted from internal branch management to consultation and marketing. Some of the branch managers interviewed said the shift on emphasis was necessary so as to meet the rapid growth of the scheme. Each of the banks recorded on the average four new accounts daily, resulting in 900 - 1000 new accounts yearly; beween 1977 - 1983.

The deposit levels of these banks have risen astrounomically following high response from the rural communities. As at 1977 deposits classified as rural accounted for only 0.1 percent of total commercial bank deposits. As at 30th September, 1983 it rose to 3 per cent, amounting to N350 million, an increase that can be regarded as commendable over the short period of time. Table 5.3 shows the analysis of deposits as at 30th September, 1983.

Another significant discovery that typifies the inculcation of the banking habits into the rural dwellers is the high level of cash turnover in the rural banks. Bank managers interviewed confirmed few dud accounts. Most customers' accounts recorded high level of transactions over the months to meet business set targets. The level of rural customers' loan demand also witnessed a commensurate rise over the years between 1977 - 1983. In the rural communities, typical loan requests could be categorized into (1) Personal loans for general purposes such as children's education,

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medical care, travel, marriage, burial ceremonies, home reconstruction and for petty trading. (II) Merchants or small-scale traders may apply to borrow to buy distributorships or inventory of merchandise that could be sold in a few months for enough money to retire the loans. This also follows the emergence of some big firms locating their depots in rural areas due to the new rural banking scheme.

(III) Small scale fabricator or manufacturer may borrow to buy raw material inputs and components and to meet pay-rolls inorder to produce a product that can be sold and the proceeds used to pay off the loan.

(IV) A farmer may request a loan to Finance the planting, tending and marketing of his crop that would be sold in a few months.

This awareness of the banking services or what services banks could render to the rural dwellers typifies the extent to which the banking habit has been cultivated.

5.3 Number of branches opened

Under the programme, areas are identified and banks are required to open branches in those communities. In 1976, the Central Bank prepared a master plan for rural branch banking. The period of 1977 - 1980 was designated the first phase. Two hundred centres were identified and each bank was allocated a number of branches to be opened in those areas within the three year period. A percent of the total number was opened indicating a huge success with

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managers interviewed said that the Goverument introduced the establishment of rural banking in 1977 when its policy was geared towards an expanded economy. However, a year later the Government started its crusade against inflation by tightening up the economy. Generally the bank managers said that in a tight money period banks become illiquid. Deposits dwindle, and unless there are other sources of fund like non-deposit sources, banks will resort to cut-throat competition for deposits. While this goes on the no-cost (demand) deposits also decline because money supply declines. All of these factors according to the interviewed branch managers increase the commercial banks' cost while their income remains constant. In such a situation no profit-making institution would want to expand. Expanding during a contracting economy, the managers explained, is unwise in most cases, but it is especially so when the expansion is into a geographic area where profit is unlikely in the next ten years.

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Table 5.2

ALLOCATION AND ESTABLISHMENT OF RURAL BANK BRANCHES

	1st Phase		2nd Phase Completed at the end of		Total no. of branches (excluding H.O.) at the end of	
	No. of rural brahches allocated under 1st phase (completed by Dec.'82)	No allocated	Dec. '84	March '85	Dec. '84	March '85
African Cont. Bank Limited	16	19	16	16	94	94
Allied Bank of Nigeria Ltd.	6	7	7	m7	28	28
Bank of Credit & Comm. Intern.Ltd	-	6	6	4	24	24
Bank of the North Limited	6	19	19	19	70	71
Commercial Bank (Credit Lyonnis Nigeria) Ltd.	-	-	-	-	1	1
Co-op. Bank Ltd.	5	8	6	6	35	35
Co-op. & Comm. Bank of Nig. Ltd	7	8	4	4	36	36
1st Bank of Nig.Ltd	40	37	37	37	219	219
Habib Nig.Bank Ltd	-	-	-	-	4	4
International Bank for West Africa Ltd	11	13	13	13	59	60
Kad. Co-op. Bank Limited.	3	6	3	3	12	13
Kano Co-op. Bank Ltd	6	6	3	3	10	10
Lobi Bank Nig LTd.	-	-	-	-	3	3
Mercantile Bank of Nigeria Ltd	3	6	6	6	25	25
National Bank of Nigeria Ltd	15	19	6	6	85	85
New Nig. Bank Ltd	4	9	4	4	34	34
Nig.-Arab Bank Ltd	7	6	5	5	23	23
Nig. Intern.Bank Ltd	-	-	-	-	1	1
Owena Bank Nig. Ltd	-	-	-	-	10	11

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Table 5.3

ANALYSIS OF DEPOSIT AND LOANS AND ADVANCES OF RURAL BRANCHES AS AT 30TH SEPTEMBER, 1983

Names of Banks	No. of Branches	Deposits	Loans And Advances	%	Average Deposits	Average Loans and Advances
A.C.B. Limited	33	75,772,055	27,643,710	36	2,296,123	837,688
Bank of the North Ltd	14	5,171,461	1,862,948	36	369,390	133,068
National Bank Limited	19	19,504,245	11,502,024	59	1,026,539	605,370
First Bank Limited	49	60,884,268	17,795,409	29	1,242,536	363,172
Union Bank Limited	51	35,944,827	15,716,321	44	704,801	308,163
U. B. A. Limited	50	30,156,567	6,012,948	20	603,131	120,259
Savannah Bank Limited	13	69,476,299	62,059,833	89	5,344,331	4,733,833
New Nig. Bank Limited	11	34,374,476	4,373,557	13	3,124,952	397,596
Pan African Bank Ltd.	7	17,009,412	6,274,479	37	2,429,916	896,354
Mercantile Bank Ltd.	5	9,470,301	1,772,436	19	1,894,060	354,487
Coop. Bank Nig. Ltd.	6	10,817,852	581,223	5	1,802,975	96,871
Coop. & Comm. Bank Ltd.	7	9,491,676	728,194	7	1,355,954	104,027
I. B. W. A. Limited	17	27,415,197	9,028,686	17	1,612,659	531,099
Kaduna Coop. Limited	4	2,926,160	850,144	4	731,540	212,536
Nigeria-Arab Bank	10	5,949,840	2,754,272	10	594,984	275,427
TOTAL (RURAL)	15	350,863,863	110,029,650	31	23,390,924	7,335,310
Total (All Commercial and Merchant Banks)	1,142	3,475,600,000	9,877,241,521	13	11,904,240	8,725,478
% of Rural to Total		3%	1%			

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5.5. Rural Credit

Rural Credit can be defined as the bulk of lending or borrowing facilities extended to the rural areas for development purposes. It is made with the belief that the borrowers will in-turn pay back borrowed sums to make good their deficit balances. Rural Credit has been in existence before the rural banking programme but rather in a crude form; where lenders are predominantly a few affluent individuals. These individuals exploited their borrowers until the emergence of Commercial Banks.

Most commercial banks attempt to be "going concerns" with prospects for a profitable future. It was discovered that they are therefore concerned (in their operations whether rural or urban) with the problems of safety and liquidity.

In respect of safety, there are at least two types of risks, relating to debt obligation. One is the market risk - the risk that the price will decline because of a rise in market rates of interest. The other is the Default risk, - the risk that the debtor may not be able to meet his obligations at maturity and repay the capital and pay the interest. "Thus a banker has a continuing problem" said one of the interviewed managers. That is the problem of determing the type and amounts of risks to assume. If he decides to purchase and hold the safest, his earnings are likely to decline. Moreover he may fail to meet his customer's reasonable demands for loans and his earn the reputation of being an unreliable source

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of Credit. The effect would be loss of customers and their deposits to other banks.

On the other hand, there are real problems in assuming too much risk. In such situations, the banks may suffer such large losses on risky assets that their net returns will be less than that on safer assets. Moreover, large losses can endanger the future of the bank and generate a run on the banking system.

Thus commercial banks are severally limited in their ability to assume risks because of the very high ratio of their fixed - naira liabilities to their total assets. The net-worth of a bank constitutes insignificant proportion of its total assets as evidenced by table 5.4. Claims against a bank are largely deposit liabilities that are fixed in terms of naira. As the net worth shrinks, depositors may become distrustful fna the bank may experience serious problems in attracting deposits or retaining existing deposits with serious implications for the banks lending power.

Thus, in determining the composition of his portfolio, a banker faces continously the difficult problem of balancing safety against earnings. He must estimate the amounts of possible risks inherent in the various available assets, compare estimated risk differentials against interest differentials, consider both short-run and long-run consequences and strikes a balance. If he leans heavily toward safety, the result would be inadequate profits, and impressions of aversion to risk and inability to serve adequately the

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Table 5.4

BANK OF THE NORTH LIMITED

BALANCE SHEET AS AT 31ST DECEMBER, 1982

EMPLOYMENT OF FUNDS	1982 N'000	1981 N'000
Cash and short term funds	207,556	219,015
Bills Discounted	65,380	66,151
Loans and Advances	608,745	539,018
Other Assets	11,477	6,892
Fixed Assets	28,511	25,065
TOTAL ASSETS	921,669	856,141
Less: Taxation, Dividends and other Liabilities	100,635	121,574
SOURCE OF FUNDS	821,033	734,567
Share Capital	14,700	14,700
Statutory Reserve	37,000	30,000
Capital Reserve	4,000	3,000
General Reserve	2,000	1,500
Profit and Loss Account	1,091	1,363
Shareholders' Fund	58,791	50,563
Current Deposits and other Accounts	761,301	683,066
Deferred Taxation	941	938
	821,033	734,567
Acceptances, guarantees and other obligations for account of customers (and customers' liabilities thereof)	57,725	85,553

Source: Annual Report December 31, 1982

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needs of his customers and the economy. Conversely, if he assumes reckless risks, he would impair his ability to maintain the required liquidity position and thereby erode public onfidence in his operations.

The liquidity of a bank means its capability to meet all reasonable demands that may be made upon it to pay its obligations. Commercial banks are therefore required to pay more attention to liquidity than any other financial institution. This is because of their debt liabilities to their total assets, and also because of the short-term character of their liabilities. Demand deposits are payable on demand; and Time and savings deposits, on short-notice.

Modern Commercial banks operate on the assumption that neither all their deposits nor a large proportion of them would be withdrawn at any one time or even over any short period. However, each bank must be prepared to meet two types of net payment namely:

(i) Net withdrawals of coins and notes in circulation,

(ii) Adverse inter-bank clearing balances.

Some of these net payments are regular and so they can be predicted and provided for. Others are erratic and less predictable. But inability to meet these net payments promptly constitutes failure on the part of the bank. Most managers interviewed were strongly of the view that relaxation of the liquidity ceilling of 25 per cent would give them (banks) freer management of the rural Credit. They strongly see the fact that banks are independent corporations organised

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by individuals, their policies naturally vary greatly. No two banks are alike. One bank may take to a progressive farm policy while the other may not. According to them (the bank managers) to maintain a flexible need for community development, consideration must be shown to pertain firstly to the distribution of the banks earning assets, and secondly to the policy followed in making and servicing loans.

Policy with regard to the banks' earning assets determines the amount of funds put into loans, and loan policy indicates the way in which or the terms upon which those funds are made available to borrowers. Assets of banks often are grouped on the balance sheet as cash, loans, investments and other assets. Of these, loans and investments generally are the largest items. These two groups comprise the major earning assets of banks, and the allocation of funds between them indicates the relative importance of the banks' loan programme.

In-addition to the above, the operations of the banks are regulated under the provisions of the bank ACT (1969) on required ratio. The first of these influences - the Banking Act - is a replica of the philosophy of commercial loan theorists. Notice the list of specified liquid Assets above required of commercial banks to maintain inorder to achieve liquidity and for safety, the legal restrictions on bank investments. The theory has no place for Rural Credit or the credit needs of a developing economy.

Hence rigid adherence to it by commercial banks has forestalled an important source of finance from the role of providing funds for acquisition of livestock, land, plants and equipment.

Unfortunately, the banks have devised evasive measures of their own to achieve the required ratios by lending to Agriculture related activities but not for agricultural production. They also contend that the Guarantee scheme lacks adequate coverage for their protection. On the whole the rural Credit still thrives on paper; no actual semblance of credit was exhibited by the rural banks. In all the banks visited, actual credit extended to the rural dwellers constitute less than one third of total credit facilities so far extended to customers, while the bulk of Credit extension goes to the urban elites. Rural credit so far has not achieved the intended goal of loan facility extensions. No success therefore has been recorded in its operations.

5.6 Mobilization of Savings for Rural Development

The rate of rural development is rather slow. It is suggestive of the fact that not much is made in-terms of deposits which could be re-cycled into various projects and ventures in the rural areas. Unfortunately deposit retention in the rural banks is the easiest to evade. In application, it has proved to be an additional source of credit for urban elites. Indeed these urban elites are the visible financial forces in their communities. Therefore, their credit rating in the eye of the commercial loan theorist isimpecable.

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Lending to these urbanites with fixed address in the Rural Community to expand their distributorships in breweries and cement industries; to increase the number of subsidiary companies in their group of Companies is certainly safer, and more rewarding to the management of the Rural branch bank and their banks but certainly not the community and the national objective of Rural-Urban integration and development. These can be easily assessed by the lists of unapproved loan prospects from the rural Communities.

The yawning peasant farmer struggling to set up a small-scale poultry farm in response to the national call for involvement in agriculture; the Small-scale industrious fabricator in the community; the petty trader - all these must first arm themselves with sound collateral securities of reputable companies; treasury obligations; bank deposit and property Deed of a house in an urban centre before the Rural bank Manager would condescend to listen to their credit demand. This unsavoury behaviour of banks in the rural areas suggests their unwillingness to salvage the already handicaped economy of the rural areas. No doubt the type of loans and credits granted to urban prospects for loans indicate the co-operations of the communities to make useful deposits with the banks in their respective areas.

Indeed Nigerian commercial banks are struggling, aided by public critism and persuasions by public policy to dilute their addiction to commercial - loan theory in their liquidity management. Hence evidence of injections of "shiftability anticipated income",

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and liability management theories in their liquidity management exists. But the trend is still strongly in the direction of self - liquidating commercial lending principle as table 5.5 clearly indicates. As a result, the dearth of medium and long-term credit persists.

The unwillingness of the Federal Government to remove some of the inhibiting provisions in the Bank Act is not made clearer than in the establishment of investment Banks and specified credit institutions. These institutions are urban-based with branches in state capitals. They provide long-term loans for specific sectors such as housing, agriculture and industries. True, the rural Communities have benefited from Agricultural loans disbursed by the Nigerian Agricultural and Co-operative Bank. But the bank and its facilities are yet to be fully accessible to individual small-scale farmers in the Rural areas who are not members of Co-operative Societies. This could be also said of the Nigerian Industrial Development Bank, where the project being financed is located in a rural community. The Community in this case would benefit not directly from the loan but indirectly from infrastructural facilities attracted by the establishment of an industrial project and job opportunities, the earnings which, could improve their creditability at their Rural Bank. The impact of Rural Credit is severally limited, since most of the beneficiaries and the projects financed are normally urban-based. From all indications, there is a

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Table 5.5

Commercial Bank's Loans and Advances by Maturity
1976-1982

Maturity	Accounts in ₦ Million						
	1976	1977	1978	1979	1980	1981	1982
On Call	1,175.6	1,650.4	2,140.0	2,284.0	3,248.0	4,372.4	5,154.3
Within 3 Months	181.3	243.8	390.0	428.0	393.0	452.0	685.0
Between 3 and 6 Months	149.6	252.4	348.0	392.0	432.1	459.4	856.3
Between 6 and 12 Months	226.0	341.4	473.0	558.1	729.0	1,063.2	995.5
Total	1,730.5	2,488.0	3,351.0	3,762.2	4,802.1	6,347.0	7,691.1
Between 1 and 3 years	196.6	299.0	355.0	439.3	667.6	731.0	856.5
Between 3 and 5 Years	100.3	115.2	183.2	250.2	406.7	649.3	754.6
After 5 Years	43.0	102.0	107.0	180.0	304.7	517.2	580.9
	339.9	516.2	645.2	869.5	1,379.0	1,897.5	2,192.0

Source: Central Bank of Nigeria

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includes costs of procurement of land, survey costs, consultancy services etc, expended by the bank on a rural branch. Secondly rural bank credits were excluded in the calculation of a bank's total loans and advances; thirdly a reasonable monopoly period of 3 years in a rural branch location was allowed; and finally 5 percent investment allowance in excess of what is normally allowed in industrial companies. These incentives are sound but inadequate for the banks during this period of serious economic crunch.

5.8 The Third Phase

Recently, in 1985, a 4-year Third Phase of the banking scheme was started, lasting from August 1, 1985 to July 31, 1989. The third phase is aimed at achieving the goal of establishing 300 rural bank branches with 28 Commercial Banks participating.[2] Unlike the first phase which directed that banks should establish a branch at each of the local government headquarters. The second phase was directed to consider the population of a place, and the industrial and commercial importance of that place before citing a branch. The third phase has no such instructions.

A poser at this juncture is whether or not the third phase is necessary at this stage of our economic hardship. There is no doubt that branch allocations pattern in the third phase towed the lines of the previous phases - according to viability of banks - which implies that those "big" banks will continue to grow "big".

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Moreover, when the authorities have involved the newly established banks in this phase in a period when the economy is undergoing serious economic adjustments, we are indirectly being told that these new banks should be absorbed by the old ones - integration.

The response to the poser above might be in the affirmative, in considering the fact that it would further enhance the mobilization of funds, help achieve the banking habit objective, make for continuity of the programme, create employment opportunities, and further encourage rural development. The phase, as in the past, would facilitate rapid development of the financial system.

However, based on the reasons that the economic crunch in the Country now is more severe now than in 1983 or rather throughout the duration of the second phase when economic crunch was given as one of the reasons for non-performance of banks; one stands to argue against the third phase of Rural Banking Programme.

Iresently, it is obvious that the monopoly period incentive granted to rural banks is threatened. It is also clear that construction cost is high so that the 5 per cent investment allowance is grossly inadequate. A situation where corporate bodies would share their earnings with the government doest not call for expansion because other interest groups would have to be satisfied accordingly.

This would jeopardize the early realization of the 300 target set for this phase. Furthermore, lack

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of adequate moratoruim between the previous phases and the third phase might be counter-productive.

In conclusion, the above criteria used in evaluating the programme show that the rural banking scheme has only gone half way in the realization of the Federal Government objectives. Although with the associated problems of the scheme which are not uncommon in any developing economy, the government on its part believes it is a huge success. The banks on their part feel induced to take up the scheme unprepared. They look at the scheme as a run-down on capital investment. Their attitude to rural development is peripherially realized, also their profound bias about the scheme is deeply-rooted in the fact that the long-term investment approach in the rural community reduces profitability. This is also coupled with huge unsecured risks prevalent in the rural venture.

It will therefore, take a combination of extra effort and dexterity on the part of the Central Bank as the apex financial and monetary institution to resolve the above mentioned complexities. This will be based on the objectives of the economy and specific goals of the policy instruments applied.

FOOTNOTES

1. Central Bank of Nigeria, Annual Report, 1984.
2. Ibid.

CHAPTER SIX

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 Summary

In this study, an attempt has been made to capture the realities of the Nigerian commercial banking, touching on some of the historical circumstances that established the banks. Some of the characteristics of the role of money and financial institutions in economic development were highlighted. It was established that economists expressed a wide variety of views on the role of financial institutions in promoting and facilitating economic growth and development. The contention that financial institutions can and do contribute to the development of an economy is widely held. Our review shows that conventional economics and experience suggest that by supplying food, labour and investible surplus, the rural areas help to generate urban incomes and employment. Raising rural incomes and productivity thus appear to be prerequisites for growth. This strategy of development is however according to our analysis, a function of improved technology, which in turn is a function of the capital base. In a complex economic system, however, money "becomes a dynamic factor capable of influencing the size of national income, individual incomes, demand for both consumer goods and producers' goods as well as the volume of savings and investments".

InNigeria, the issue of rural banking problems go beyond attempts to control money supply and hence

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influence the real aspects of the economy. It emcompasses attempts by the Central Bank to create a financial system and develop the people's confidence in the financial institutions. A study of the structural framework of the commercial banking in Nigeria shows that the banking industry is characterized by poor management. A feature which is the direct consequence of the poor bank management problem, is the high rate of fraud and irregularities that plague the commercial banking system.

A review of the roles of the Central Bank as empowered by the ordinance establishing it, as an apex independent financial institution does not in practical terms show a synchrony with its overall objective. The inability to really specify areas of control and decision by the Central Bank due to its dual role as banker to the government and as a bankers bank leaves much to be desired. The extremist tendencies which has led to many regulations now and then, is the cause of ineffective or watered-down control of the commercial banks and the entire monetary system. The Central Bank controls through it regulations the liquidity of Commercial Banks. This prepresents an indirect method of controlling bank credits which of course is always the aim of monetary policy. At this juncture, the Credit restriction policy of commercial banks can be traced to the Central Bank policy instrument. This contradicts the rural banking regulation even though exemptions have been given for rural credits, commercial banks adhere inherently to the liquidity theory. Our

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views on co-operative banks are common to all similar banks. The singular goal or objective centres around financing of co-operative movements. Their role in the rural banking scheme is not unfounded in credit extension services and general facilities provided at grassroot level. But the general contention is that these banks are state banks, finance entirely from state budget and allocation. It's control also is characterized by bureaucracy and red-tappism. It is against this background that the belief in co-operative banks to mobilize the rural sector for an even distribution of capital resources and development is feared.

The Rural banking scheme has succeeded in increasing the number of banking offices in this country. However, the increase has not relieved the commercial banking system of certain of its maladies namely:

(i) Addition to commercial loan theory in their lending policies;

(ii) Repulsive procedure in Opening bank accounts;

(iii) Unfriendly bank-customer relationship;

(iv) Inflation of contracts and Rentals by premises managers.

Consequently, the Rural banking scheme has come to be regarded as an induced branch banking arrangement through which inadequacies and malpractices in the urban banks are being transmitted to the Rural areas.

Clearly, some Nigerian Commercial Banks are in the Rural areas against their will. The concessional

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monopoly granted to them has merely worsened their complacency and indifference to the credit needs of the communities in which they operate similar to the disposition of colonial commercial banks. Savers and investors must now go to them to beg for opening of saving account. They are not aggressively mobilising savings because of the alleged high interest rate payable on time accounts.

Like their parent-institutions in the urban centres, Rural branch banks are committed to agricultural production, in principle. In practice, however, they are scared by risks.inherent in farm credit inspite of the guarantee against losses provided under the Agricultural credit Guarantee Scheme. Thus credit for agriculture related activities is preferred and provided, rather then credit for agricultural production. Meantime the required ratio for agricultural lending is achieved by the parent-institution in its report to the Central Bank.

Similarly, the requirement for retention of at least 40 percent of primary deposits in the Rural Area of generation, for loans to the residents, has ineffect meant concentration of available credit on urban dwellers. This concentration of credit in the urban centres has been made hitherto the detriment of rural communities for whose development the policy was evolved. Thus, Rural Credit has become urban credit extended by a rural branch bank, from a rural setting, for investment in an urban area.

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The generality of Small-scale farmers, petty contractors and traders, skilled mechanics and fabricators - who organized masquerade rallies and dances to sing praises of the Central Bank and the Federal Government for approving a bank office for their Community, are now disillusioned by the unadjusted collateral securities being required of them for credit accommodation.

6.2 Conclusion

Rural banking has come to stay in Nigeria. This can be seen from the number of rural branches already opened by the different banks at the end of the second phase of the scheme. (See Table 5.1)

Besides, relevant to the level of this country's economic development the scheme can be said to be a huge success. On the other extreme, over concentration of banks in the rural areas will also water down the objectives of the scheme, by overproviding services not immediately needed by the rural sector. This will result in the banks on their side, recording huge sums of irrecoverable contigencies which has been their reason for not investing in the rural sector of the economy.

From every indication the pace of number of accounts opened daily in rural branches is likely going to lead to the emergence of even development trend that will in due course, over time, meet set goals of the Scheme.

The commercial banks need incentives and favourable economic conditions in order to pursue

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vigorously the objectives of rural banking. It is observed that rural commercial banking has not been successful in most developing countries - for instance, in Bolivia or Brazil - because rural commercial banks subsist nearly exclusively on business from farmers who are generally small.

Therefore, for a successful rural banking programme a combination of farming, and commerce should be the goal of the different governments.

6.3 Recommendations

The Following recommendations have been suggested to help mitigate against the problems inherent in the programme.

1. Encouragement of private non-bank financial institutions such as investment companies, savings and loan Associations, Mutual funds and Finance Companies to establish and operate in rural areas. They should be made to perform intermediation functions and save the mass of excluded small enterprise from credit starvation. Enabling legislation would be required to exempt such institutions from the definition of banking in the Bank Act. Their capitalization, reserve, zones of operation, supervision should be spelt out.
2. There should be competition in rural banking and financing. Competition not monopoly is what rural Bank offices require to address themselves to the important task of

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aggressive mobilization or rural savings and investment required to contribute to the national objectives of rural-urban integration and development. Thus the abolition of the existing monopoly concession would be in banks and public interest.

3. Development of additional eligible securities accessible to residents of rural communities would improve consideration of their loan demands and perhaps reduce the confusion into which they have been thrown by requirements for unfamiliar collateral securities for bank credit.

4. Banks which have not completed there quota of allocated branches should be given the mandate to do so.

5. The commercial banks should be made to negate any act of repulsive procedure in opening bank accounts by sending inspectors regularly to review rural branch procedures.

6. The third phase should be controlled in terms of number and quality of centres selected.

In view of the fact that the programme is relatively young, this project has only taken a critical look on the programme based on the performance of the commercial banks and other Financial Institutions involved in the scheme. It has superficially evaluated the scheme in terms of what the illiterate dwellers conceive of the scheme. This is due to the fact that the scheme

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at the second phase has not reached the grass-root of its intended target. Other limitations were time and language barriers which kept me at-arms-lenght with the rural dwellers who could not communicate with me sufficiently.

I have therefore, tried to evaluate the programme based on the following criteria; cultivation of banking habit by the rural dwellers, number of branches and area coverage, success and failures of the first and second phases. I also took a quick step accross problems associated with the programme, incentives, rural credits and mobilization of savings for rural development.

I therefore recommend that further researches may be conducted by interesting candidates in the following areas. Suggestively at the end of the third phase in view.

(1) The level of reduction of rural youth migration to urban centres as a result of the scheme.

(2) Development of agriculture and agroallied industries.

6.4 Limitations of the Study

This study however is not without some limitations. It notes for example lack of current official population figures; and the fact that the above analysis may not potray the true position as at the period studied. Projections have been based on estimated figures. It is therefore not easy to ascertain for

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example the number or overall percent of the unemployed youths in a particular area of study. This state of affairs can impede an evaluation of "migration rate of youths" of a given area.

Data collection and up-to-date information from operators of the programme (e.g. Bank officials and Top Business Barons) in the rural areas for fear of intimidation also posed some limitations. It was for instance discovered that most of the managers of the rural branches are mere supervisors who cannot by their status take solid decisions without reference to the main branch in the urban centre. In most cases, vague generalizations were made.

It is also generally limited to some objectives of the study not yet met or realized at this stage due to the age of the programme. To this effect, objectives "C & D", mentioned in chapter one above have not been considerably evaluated.

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