ASSESSING THE IMPACT OF BANKING REFORMS ON THE PERFORMANCE OF THE BANKING INDUSTRY IN NIGERIA

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ABSTRACT

This work is concerned with the study of the impact of banking reforms and the performance of the banking industry in Nigeria. The choice of this topic is justified by the fact that the performance of the banking sector is fundamental to the maintenance of macroeconomic stability, which is sine qua non for sustainable growth and development. In conducting the research the authors used some performance indicators like CAMEL which is an acronym for capital adequacy, asset quality, management proficiency, earning and liquidity; bank assets to the gross domestic product (GDP), bank deposits to GDP, bank loans and advances to GDP; the distribution of commercial bank branches for a selected period; the distribution of loans and advances between the more productive and less productive sectors; the distribution of bank credit to small scale enterprises in order to know the changes in them arising from banking reform. It was also found that the challenges facing the regulatory authorities in promoting a sound, stable and efficient financial system are enormous and require the strengthening of each institution's regulatory framework and capacity as well as maintaining effective coordination of various regulatory efforts to avoid conflict of roles and duplication of efforts. Although the Nigerian financial system has undergone substantial changes over the last two decades in terms of the number and breadth of instruments in the money and capital markets which also holds good for the economic environment and the regulatory framework within which it operates, the system remains by and large under-developed since it is yet to achieve that degree of financial intermediation or financial deepening which the economy requires to foster growth and development. Going by our analysis the choice for future policy options for banking sector reforms would be to bolster the reforms towards a clearly neo-classical supply side economics beyond the ambivalence of Say's classical and Keynesian monetary stance.

***Keywords**: Banking, Performance, Reforms.*

Introduction:

In response to the country's development challenges arising from its social, political and economic decay the Federal Government of Nigeria came up with its home grown reform/development strategy, National Economic Empowerment and Development Strategy (NEEDS). The reform programme was intended to lay a solid foundation for sustainable poverty reduction, employment generation, wealth creation, and value re-orientation (National Planning Commission, 2004). NEEDS involves sectoral reforms, notable among which include the banking industry reforms. This government's reform agenda has identified the problems confronting the financial sector to include the inability of the sector to play a catalytic role in the real sector, shallowness of the capital market, dependence of the banking system on public sector funds as a significant source of deposits and foreign exchange trading, inaccurate information, non-harmonisation of fiscal and monetary policies, non-prompt repayment of bank loans (National Planning Commission, 2004).

Government policy trust under NEEDS centred around building and fostering a competitive and healthy financial system to aid development while at the same time avoid systemic distress by deepening in terms of asset volume and instrument diversity; drastically reducing and ultimately eliminating the financing of government deficits by the banking system such that resources are freed up for lending to the private sector; reviewing capitalisation of financial institutions in the system; and developing a structure of incentives to enable the financial system to play a developmental role by financing the real sector of the economy.

Hinging the success of NEEDS in part on effective financial intermediation in the economy, the following strategies were to be incorporated into the monetary policy framework and adopted by the regulatory authorities: comprehensive reform process aimed at substantially improving the financial infrastructure (legal codes, information system); restructuring, strengthening, and rationalizing the regulatory and supervisory framework in the financial sector; addressing low capitalisation and poor governance practices of financial intermediaries that submit inaccurate information to the regulatory authorities, and the consequent costs to the financial sector; collaborating with banks and other financial institutions, to work out a structured financing plan that ensures less expensive and more accessible credit to the real sector, and directing government policy towards financial deepening (establishing links between rural and urban, banking and non-banking, and formal and informal financial systems) and financial product diversification which requires filling the missing gap for commercial financial services for small and medium-size enterprises with new services based on best-practice technologies for cash flow financing, leasing and so on.

Regulatory and supervisory authorities have responsibility to promote a robust infrastructure for the financial sector stability. This has been addressed in most countries through the adoption of programmes of financial sector reform the banking sub-sector inclusive. In most developing and transition economies, the reform and development of the financial system has been slow, since it takes time to build skills and institutions as well as change the incentive structures for reform. Moreover, financial system does not function in a vacuum and, in large part, it responds mainly to developments in the non-financial sector. Since the transformation of the real economy takes time, it is most likely that the development of the financial system in these countries would be slow and prolonged. It is, therefore, not strange that financial sector development in Nigeria has taken considerable time.

Banking reforms generally have been undertaken in many countries especially those in Africa and Asia within the purview of guided deregulation and globalisation through some forms of financial liberalism. The objectives have been to improve the financial strength and lending capacity of banks through recapitalisation, promote real banking activities, protect depositors' funds, strengthen prudential regulations (that is, guidelines or rules/regulations designed to control/prevent banks from taking risks with depositors funds beyond their capacities), promote competition while avoiding market failures, check insider abuse, and evolve a sound banking industry and by extension, a more efficient financial system (Cameron, 1972).

Nigeria like most other countries in Sub-Saharan Africa adopted a myriad of reform policies in the 1980s as panacea to declining output, mounting unemployment, and growing dependence on the external sector as revealed by increased need for aid and crushing debt burdens. These reform policies were aimed at liberalizing various controls and other rigidities that had hitherto affected competition and efficiency in the financial system. In order to strengthen the reform policies, the Central Bank of Nigeria Decree Number 24 and Banks and Other Financial Institutions Decree (BOFID) Number 25 both of 1991, allowed for more flexibility in regulating and supervising the financial intermediaries including banks. This was with the ultimate goal of promoting the growth and deepening of the financial sector. Indeed, this development assigned a greater role to the financial sector in the allocation of resources particularly in areas of more efficient and productive use as launch pad for the overall growth of the economy (Adeoye, 2003).

Having introduced the study the remaining parts contain the following: Statement of the problem is the next sub-head to the introduction. Following this are the objectives of the study. The scope of the study follows before the significance of the study. The nature of banking industry reforms in Nigeria is also addressed. Next to this is the history of banking reforms in Nigeria. A synthesis of the structural breakdown of banking sector reforms regimes in Nigeria was also analysed before coming to assess the impact of banking reforms on the performance of the banking industry in Nigeria, using selected performance indicators. The development implications of current reforms in Nigeria were also addressed. Finally the findings, recommendations and conclusion form the last aspects of the work.

Statement of the problem:

Over the years banks have not been able to effectively service the so-called "high priority sectors" which are known to be growth drivers in Nigeria. Not only was industrial finance appalling, the cost of borrowing for productive investment was incredibly prohibitive. Evidently, this tenuous link between the real and financial sectors has been a serious hindrance to growth in Nigeria. Clearly, financial institutions in Nigeria largely ignored their expected role of resourcefully and creatively mobilising domestic resources and attracting foreign capital while allocating credit, monitoring and supervising their borrowers effectively and pricing their products and services to reflect more appropriately the perceived net benefits and risks to the institution.

The seemingly lack-lustre performance of banks in lubricating the economy was the precursor to the emergence of widespread banking crisis in the early 1990s. Indeed, it has been argued that banking crisis is often preceded by deterioration in various indices of macroeconomic performance. Factors such insider abuse, mismanagement and outright fraud (Ebhodaghe, 1996; Sobodu and Sobodu, 1999), excessive competition which erodes franchise value, policy sequencing and instability (Sobodu and Akiode, 1996), capital inadequacy, portfolio structure and composition and economic downturn (Soyibo, Alashi and Ahmedl, 1998) have sparked the deterioration in the financial condition of banks which in turn affect the space of growth of the economy. The distressed banks have also been found to be more managerially and technically inefficient compared with the healthy ones (Sobodu and Akiode, 1996 and Soyibo *et al*, 1997). These provided the breeding ground for festering financial problems in the banking sector. Accordingly, the sector was further hamstrung and incapacitated in mobilizing and allocating financial resources for growth of the economy.

An interesting dimension to banking practice in Nigeria is banks' predilection for engaging in the less risky short-term end of financial system, raising overdrafts and trading in foreign exchange, and avoiding financial commitments for long-term borrowing which should form the bedrock of robust economic transformation. Clearly their impact on the real sector was modest. Naturally, the task of providing micro-credit fell largely on the unorganized operators in the informal sector that is incapable of providing the enormous financial resources needed to service the sprawling economy.

Evidently, the impact of financial sector reform designed to provide the institutional framework and "process mechanism" for creating and channeling loanable funds and domestic credit to the private sector has also been little. While banks continue to flaunt and declare obscene figures as profits, the productive sector of the economy lies comatose either from loan-starvation or loans given out at a stifling thirty-to-forty per cent interest rates (whereas interest on saving deposit was pegged at two or five per cent). In addition, the slow growth of the economy has been critical to the failure of the Nigerian economy to develop faster and attract more foreign capital.

In many countries, semi-formal channels such as microfinance institutions also play a role in providing financial services to the poor. However, these institutions generally cannot mobilise funds on a large scale and pool risks over very large areas in the way that the traditional formal financial institutions can. Other closely related types of institutions such as money lenders and credit unions are reaching only a minority of the population. So these types of institutions cannot adequately fill the gap in financial services provision. A widening of financial services provision by formal private sector institutions (such as deposit money banks) is necessary to tackle this problem on an adequate scale, and the barriers to achieving this must therefore be identified and addressed where possible. The question that follows is since the funds provided by banks are mostly short-term in nature and the informal sector cannot provide the needed funds for growth, what action must be taken to address this situation? Will reform in the banking sector be a panacea?

Apart from the fact that the contribution of the banking industry to Nigeria's economic growth is controversial, the debate is still inconclusive. In the intermediation process, banks engage mainly in matching lenders and borrowers. Of course, the lending-borrowing process could take place without intermediation. Thus, intermediation is an operation not merely of being a middleman but of actually generating a new type of asset–securities. The securities are then held by the banks in exchange for lending. The point of emphasis, therefore, is that financial intermediaries use their own liabilities to create additional assets, mobilize funds and minimize risks to the investor (Omoruyi, 1991). However, the additional assets generated and the funds mobilised have not transformed into the expected growth in the economy.

It is to ensure its soundness that the financial sector appears to be the most regulated and controlled by the government and its agencies. An understanding of banking reforms will help to ameliorate the weakness in the banking sector at properly addressing the much needed growth.

Comparing Nigeria with other countries (advanced countries of USA where there had been over 7,000 cases of bank mergers since 1980 and the UK which followed similar trends of 203 mergers and acquisitions between 1997 and 1998; developing countries of Korea, which was left with only 8 commercial banks after consolidation, and Malaysia that reduced bank size from 80 to 20 banks within one year and so on) both in terms of capitalisation, total assets and global competitiveness and so on, the Central Bank of Nigeria felt the banking industry needed an overhaul in order to become globally competitive and aid development of the domestic economy, hence the reforms.

Aim and objectives of the study:

The overall aim of this study is to assess the impact of banking reforms on the performance of banking industry in Nigeria. Having highlighted the overall aim, the specific objectives are to examine:

a) The rating of licensed banks by Central Bank of Nigeria (CBN) using the capital adequacy, asset quality, management proficiency, earning and liquidity(CAMEL) parameters;
b) The impact of each reform regime on the performance of the banking industry using such performance indicators as bank assets to the gross domestic product(GDP), bank deposits to GDP, bank loans and advances to GDP;
c) The distribution of commercial bank branches for a selected period;
d) The distribution of loans and advances between the more productive and less productive sectors;
e) The distribution of bank credit to small scale enterprises;

Also to be addressed is the examination of existing policies and formulating strategies for enhancing banking sector development in Nigeria.

In terms of scope the deposit money banks (DMBs) in Nigeria will constitute the case study. The reason for focusing on DMBs is that they dominate the financial sector. This supports the assertion of Mordi (2004) and Adeoye (2007) that in any economy, be it advanced or developing economies, the financial sector comprises an impressive network of banks and other financial institutions and a wide range of financial instruments but the most visible of these institutions particularly in a developing country like Nigeria are the banks because of the unique nature of their operations when compared with the other institutions in the sector. Also, most Nigerians source their business credit from DMBs rather than other financial institutions (Soyibo, 1996).

The time frame for the study is 1960 to 2009 the choice of which was informed by the availability of data.

The performance indicators to address include bank assets to the gross domestic product (GDP), bank deposits to GDP, bank loans and advances (LAD) to GDP. The scope will also capture the distribution of commercial bank branches for a selected period; the distribution of loans and advances between the more productive and less productive sectors; the distribution of bank credit to small scale enterprises (SSEs) and some discussions of indices of bank assets quality.

Significance of the study:

This study is significant in that it attempts to assess the performance of the banking industry arising from banking sector reforms. It is hoped that the result from the study will be useful to policy makers especially in the area of policy formulation in banking. In general the significance of the study stems from the fact that the analysis includes 1986, the year that marked a watershed in financial sector reform in Nigeria. This study would contribute to knowledge by helping to strengthen existing understanding of the possible effects of banking reforms on the performance of the Nigerian economy. The intellectual gaps that still exist in this area will encourage further research into the study.

It is hoped that the processes and outcome of this study along with its expected findings are significant in that they will serve as a reference document to determine whether the performance indicators of banking would have impact on the Nigerian economy.

The history of banking reforms in Nigeria:

Banking especially commercial banking which is a large component of the Nigerian financial sector started in 1892 with the establishment of the first banking firm, Standard Bank Nigeria Ltd. (now First Bank Plc). Since then, the number of commercial banks in Nigeria has changed overtime. The banking industry is effectively dominated by a few banks. Moreover, the rash of financial distress resolution options including outright liquidation, mergers and holding action had profound consequences on competition in the commercial banking market.

For ease of exposition, major elements of banking reforms then can be bifurcated into credit and interest rate. Indirect measures to reduce the ability of banks to extend loans and the adjustment of credit ceiling to deal with received credit were the credit policy measures put in place. These measures include mopping up excess liquidity by the re-introduction and modification of stabilisation securities, increase in commercial banks reserve ratio and introduction of cash reserve ratio for merchant banks. Banks were compelled to maintain 5 per cent points between average cost of funds and their maximum lending rates as a performance criterion. Other financial sector reform measures included raising the capital base of banks, improving the structure of regulations and supervision, adoption of mandatory uniform accounting standards and prudential guidelines, identification of ailing banks and adoption of programmes for resolution of their problems, adoption of the auction system for issuing treasury securities, and the establishment of discount houses. These measures were put in place to encourage and foster the growth of banks and other financial institutions so that they could play their expected roles in an economy. Further, foreign exchange management policy was put in place to maintain adequate level of foreign exchange reserves and appropriate naira exchange rate by subjecting the determination of the naira exchange rate to market forces (Ojo, 1993).

A synthesis of the structural breakdown of banking sector reforms regimes in Nigeria:

The period 1958-1970 was characterised by the establishment of the Central Bank of Nigeria (CBN). Under the 1958 Ordinance (Amended) while £12,500 was retained as paid-up capital for indigenous banks, it was raised for expatriate banks. Profit transferable to reserve fund was increased from 20 per cent to 25 per cent and banks were restricted from owning real estates except where absolutely necessary. Notable achievements of this period included the promulgation of the Treasury Bills Ordinance in 1959 and the establishment of more commercial banks, the development of the money and capital markets, the establishment of the Lagos Stock Exchange in 1961.

The 1961 Amendment concentrated mainly on the liquidation of banks by providing for the appointment of a receiver and liquidator. Under the 1962 Amendment the minimum paid-up capital was raised for existing indigenous banks from £12,500 to £25,000 and they were given seven years to comply. Expatriate banks were also to keep within Nigeria, assets valued for at least £25,000. Banks were allowed to write off losses before effecting the transfer of 25 per cent of profits to reserve fund. The CBN was empowered to adopt some flexibility in applying the definition of liquidity when computing liquidity ratio. Banks were also allowed for expansionary reasons to own real estates. The 1968 Companies Act provided that foreign banks operating in the country should be required to be incorporated in Nigeria. Banking regulations were largely prudential in order to ensure sound banking practices/customer protection. The 1969 Banking Act provided that adjusted capital requirements (minimum paid-up capital) for indigenous banks be £300,000 and £750,000 for expatriate banks. For the first time provision was made for capital deposit ratio of between 10 and 30 per cent and capital loan ratio of between 25 and 33.3 per cent. CBN was empowered to monitor and vet advertisement by banks, authorise bank amalgamations, determine the opening or closure of bank branches.

The period, 1970–1985 was guided by the passion (as was then fashionable) for self-reliance. The government took actions that altered the banking industry landscape. There was the promulgation of the Indigenisation Decree of 1972 which was later amended in 1977 and required Nigerians to dominate the ownership, management and control of all sectors of the economy. Pursuant to this policy, the Federal Government of Nigeria acquired controlling interests in the then existing three expatriate banks (First Bank, Union Bank and United Bank for Africa); set up Financial System Review Commission by the Okigbo Committee in order to strengthen the operational efficiency of the financial system; established Federal Government wholly owned banks in order to accelerate the pace of economic development, the Nigerian Agricultural and Co-operative Bank and so on and the reconstitution of the Nigerian Building Society as the Federal Mortgage Bank of Nigeria; established State Government owned banks; intensified public sector intervention by way of direct credit, and selective credit controls imposed on the size of lending to the private sector, sustained increase in paid-up capital of new banks and strict control of interest rates; gave preferential treatment to certain priority sectors such as agriculture and manufacturing in terms of allocation of credit and interest rates on deposits and loans.

The era of de-regulation (1986-1995) marked the Structural Adjustment Programme (SAP) era. Notable regulatory reform measure in the banking industry, in line with SAP was de-regulation. With this, the number of entrants into the industry increased significantly such that by 1993, the number of commercial banks was 66 as against 28 operating in Nigeria in 1985. Other measures included the promulgation of the CBN Decree No. 24 of 1991 (which had to be amended in 1993, giving more teeth to the CBN to bite harder), and the Banks and Other Financial Institutions Decree (BOFID) No.25 (also of 1991) was meant to effectively control the industry and ensure soundness; the promulgation of the Nigeria Deposit Insurance Corporation (NDIC) Decree No. 22 in 1988 though the Corporation commenced operations in 1989 with functions such as insuring deposit liabilities of licensed banks, providing technical and financial assistance to the banks and assisting in the quest for a healthy banking environment and initial rationalization and eventual removal of credit ceilings for sound banks and shift to indirect approach to monetary management with Open Market Operations (OMO) as main instrument.

During this deregulation period all controls on interest rates were removed with CBN fixing only its minimum rediscount rate (MRR) to indicate its desired direction of interest rates. In 1990 prudential regulations (Prudential Guidelines) were introduced and there was prescription of a maximum margin between each bank's average cost of funds and its maximum lending rates with a later prescription of savings deposit rate and maximum lending rate. In 1992 partial deregulation was restored and banks were required to maintain a specified spread between their average cost of funds and their maximum lending rates. In 1993 the maximum lending rate ceiling was removed and direct interest rates controls were restored in 1994. The improvement in payment system started with the implementation of the magnetic ink character recognition (MICR) technology for processing inter-bank transfers and in-house cheques and promotion of automation of payment system by banks. This has been described by many as significantly sanitising banking operations in Nigeria and has been very useful in stemming financial distress.

The guided de-regulation and globalisation era (1996-2004) was a period attempts were made to meet Nigeria development challenges. Some of the major reforms of this period were to ensure that Nigerian banks became globally competitive. The implementation of many past reform measures were put in place with a view to ensuring that stability in the system was continued. Major tenets of the new reforms included total de-regulation of interest rates in October 1996; upward review of minimum paid up capital of banks in 1997 to N500 million and later to N2 billion; the adoption of universal banking in 2001; the re-introduction of Dutch Auction System (DAS) in July 2002 with a view to realigning the naira exchange rate, enhancing transparency and curbing capital flight from the country. Under the system, there was intervention by the CBN twice weekly and end-users bought foreign-exchange at their bid rates through authorised dealers. Guidelines were rolled out by the CBN in 2004 on electronic banking (e-banking) practice in Nigeria in line with international best practices and banks were encouraged to install automated teller machine (ATM) for cash withdrawals. Specific guidelines were also put in place on standards and use of electronic money (e-money) products such as credit cards, debit cards; digital cash and so on also in line with international best practices. CBN promoted automated payment system in order to reduce delays in clearing of payment instruments, reduce cash transactions and enhance monetary policy's transmission mechanism. Real time gross settlement (RTGS) system was implemented in order to eliminate risk in large-value payments and increase efficiency of the payment system. Seven banks that met CBN's requirements were appointed as Settlement Banks to perform clearing and settlement functions for other banks. National Savings Certificate and variations of cash reserve requirement (CRR) and the minimum rediscount rate (MRR) were introduced to enhance liquidity management.

In addition to the above, the Central Bank of Nigeria on 6th July, 2004 addressed a special meeting of the Committee of Bankers outlining such elements of banking reforms with their associated main complements as: Minimum capitalisation for banks of N25 billion with full compliance by 31st December, 2005; phased withdrawal of public sector funds from banks starting in July, 2004; consolidation of banking institutions through mergers and acquisitions; adoption of a risk-focused, and rule-based regulatory framework; adoption of zero tolerance in the regulatory framework, especially in the area of data/information rendition/reporting; automating the process for the rendition of return by banks and other financial institutions through the enhanced Financial Analysis and Surveillance System (e-FASS); establishment of a hotline, confidential internet address (Governor cenbank.org) for all those wishing to share any confidential information with the Governor of the Central Bank on the operations of the banks or the financial system; strict enforcement of the contingency planning framework for systemic bank distress; establishment of an Assets Management Company as an important element of distress resolution; promotion of the enforcement of dormant laws, especially those relating to the issuance of dud cheques, and the law relating to the various liabilities of the board members of banks in cases of failings of the banks; revision and updating of relevant laws, and the drafting of new ones relating to the effective operations of the banking system. collaborating closely with the Economic and Financial Crimes Commission (EFCC) in the establishment of the Financial Intelligence Unit (FIU) and the enforcement of the anti-money laundering and other economic crime measures; and rehabilitating and effectively managing the Nigerian Security Printing and Minting (NSPM) Plc to meet the security printing needs of Nigeria, including the banking system which constitutes over 90 per cent of the NSPM's business (Central Bank of Nigeria, 2004).

Assessing the impact of the structural breakdown of banking reforms on the performance of the banking industry in Nigeria:

The tables of assessment of the impact of banking reforms on the performance of the banking industry in Nigeria is presented in the appendix to this paper. The appendices range from I to VIII. Appendix I shows a table of the rating of Nigerian banks using capital adequacy, asset quality, management proficiency, earning and liquidity (CAMEL) parameters in absolute values while appendix II is the percentage equivalent. Before the 2005 banking reform in Nigeria a total of 34 of 86 banks representing 39% were marginal and unsound in performance. Marginal and unsound banks are not expected to play any meaningful roles in meeting the country's development challenges. Between 2006 and 2008 this figure decreased to 3 banks.

In terms of the ratio of bank assets, bank deposits and loans and advances to GDP respectively, the best performance indicator is bank assets to GDP. For example, the ratio of bank assets to GDP ranges from 14.93 in 1974 to 70.9 in 2009, 0 to 15.03 between 1974 and 2009. The bank loans and advances (LAD) to GDP ratios range from 4.98 to 39.12. This phenomenon is contained in appendix III. The best performance indicator is bank assets to GDP ratio. Bank deposits to GDP ratio performed less than the others. Each indicator revealed fluctuating trend. A look at appendix IV reveals that the number of banks decreased from 25 to 24 between 2006 and 2009. The branches abroad rose from 2 in 2006 to 7 and 8 in 2007 and 2008 respectively but dropped to 2 in 2009. The table shows the distribution of banks by state. A critical study of the figures shows an increasing trend in the number of banks across states between 2006 and 2009. For example the number of banks which stood at 1,038 in 2006 for Lagos state rose to 1,680 in 2009. In the same period the number of banks in Ebonyi rose from 15 to 32. From the foregoing we can say that banking services were expanded for the time period. In addition to most parts of the North East comprising Bauchi, Adamawa, Gombe, Borno, Yobe and Taraba and North Central geopolitical zone made up of Kwara, Kogi, Benue, Plateau, Niger, Nassarawa and Abuja other zones have witnessed remarkable increase in the distribution of commercial banks. Appendix V shows the distribution of commercial bank by density per state in Nigeria. In this appendix the ratio of total bank to population is used to proxy banking density. The density for Lagos in 2006 was 0.000115 (1038/9013534), 0.00015 (1407/9013534) in 2007 and 0.00017 (1551/9013534) in the fourth quarter of 2008 and 1680/9013534 in the fourth quarter of 2009. In 2010 it was 0.00018 (1647/9013534). In the case of Ebonyi with inadequate banking spread the density is different from those of Lagos. In 2006 for instance, it was 0.0000069(15/2173501), 0.000010 (22/2173501) in 2007, 0.000012 (28/2173501) in the fourth quarter of 2008 and 0.00020 (35/2173501) in the fourth quarter of 2009. The foregoing density is a reflection of the distribution. Altogether between 2009 and 2010 there were 5,574 branches/offices of the 24 insured commercial banks in the system (NDIC, 2010). This figure shows an increase of 3.63% over the total of 5379 branches /offices reported in 2009. In 2010 Lagos state accounted for the highest number of bank branches/offices with 1,647 branches, about 29.47% of the total. Abuja (FCT) came a distant second with 387 branches/offices (6.9%) while rivers state came third with 287 branches/offices (5.12%). As shown in the table, Anambra state occupied the fourth position with a total of 229 branches/offices (4.1%). Other leading states during the year under review were Oyo (226 or 4.10%), Delta (199 or 3.6%), Kano and Edo with (184 or 3.3% each). Appendix VI shows the distribution of loans and advances (LAD) among the more productive sector (MPS) and the less productive sector (LPS) both in absolute and percentage values. The MPS is the driver of growth in the economy.

Between 1960 and 1975 the distribution of loans and advances was in favour of the LPS. Subsequently the trend witnessed a reversal with the MPS getting more as revealed by the LAD figures presented from 1975 to 1999. This is a mark of good performance in terms of the distribution of loans and advances in this period. However, between 2000 and 2009 loans and advances to LPS took the lead compared to loans and advances to the MPS. There are four columns to appendix VII. The second column comprising savings deposit rates range from 2.8% to 18.8% between 1960 and 2009. The average lending rate has a range of between 6.0 and 30.5% while the spread between savings deposit and lending rates falls within 1.0% to 23.3. The implication is that the interest on loans has not encouraged enough investment. The low savings rate is a pointer to the poor banking habit among majority of Nigerians. Given the global recognition of the role of small scale enterprises (SSEs) in industrial and economic development of a nation like Nigeria one would expect a progressive increase in credit allocation to SSEs. Appendix VIII shows the distribution of credit to SSEs between 1960 and 2009. The percentage distribution of bank credit to SSEs ranges from 3% to 18.8% in the period. However, the percentage of rural credit to rural deposit ranges between 6% and 27.5%.

Development implications of current banking reforms in Nigeria:

Development implications of current banking reforms in Nigeria include improved lending to various sectors of the economy due to enhanced capital base of the consolidated banks; reduction in the number of banks which are now stronger, thereby helping to restore confidence in the industry; innovations in banking products/service delivery; improvement in technology and globalisation of operations in the industry thereby aiding modernisation of the Nigerian economy; employment generation especially at the middle and lower levels of the industry in the short and long runs; increased branch network thereby aiding employment of both capital and labour; more challenges on the supervisory authorities especially in terms of capacity and capability thereby aiding better management of the banking/financial aspect of the economy; probable return to the era of preferential treatment (by policy direction) to certain priority sectors, notably agriculture and manufacturing in order for the banking industry to play a catalytic role in the real sector developing the real sector of any economy is not a matter that should be left to chance variables; more of CBN's interventions in the economy to ensure that the objectives of monetary policy are consistently achieved; punishing chronic debtors in banks through legislation may be pursued by the apex bank in order not only to ensure that public funds are not subjected to waste but also to instill discipline in the behaviour of borrowers; enhance economic growth and development of the economy as more funds are channelled into productive investments with increased vibrancy of the money and capital markets.

Findings, Recommendations and Conclusion:

There is the rapid expansion in the number of banks branches which has created more employment opportunities, raised the scope of financial services and spurred innovations in the financial industry. However, the financing of productive enterprises is seen as unattractive and non-profitable. This reflects chronic mal-adaptation in banks' structure and orientation, which often makes them preoccupied more with the pursuit of narrow profit maximization objective to the neglect of the more important social responsibility and economic development imperatives.

Astronomically high lending rates coupled with depreciating naira exchange rate have negative repercussions on the economy by discouraging long-term investment especially in new projects and those risky but productive and desirable ventures, and fuelling inflation as a result of low capacity utilization by firms. However, monetary authorities are not entirely insulated from blame in the manner certain monetary measures have been applied which have produced significant unintended destabilizing effects. One example is the defective mode of allocating foreign exchange that allows banks to outrageously inflate foreign exchange demand and, the tying down with the CBN in sterilized unproductive idle funds, the bulk of their funds earmarked for the highly lucrative foreign exchange business. This practice stultifies production by starving entrepreneurs of finance while exerting pressure on the cost of funds, the naira exchange rate and inflation.

From the foregoing analysis of the banking institutions in Nigeria, it is clear that developments in the sub-sector of the Nigerian financial system have contributed to some extent in promoting economic growth and development in Nigeria. However, the operations of some of these institutions were characterised by inefficiency and ineffectiveness. Although the Nigerian financial system has undergone substantial changes over the last two decades in terms of the number and breadth of instruments in the money and capital markets which also holds good for the economic environment and the regulatory framework within which it operates, the system remains by and large under-developed since it is yet to achieve that degree of financial intermediation or financial deepening which the economy requires to foster growth and development.

Indeed, the adoption of financial sector reform as an element of the Structural Adjustment Programme (SAP) in 1986 has to a considerable extent, helped to reduce or eliminate most of the institutional rigidities and administrative controls that had hindered the efficiency and effectiveness of the system, in achieving the nation's growth and development objectives. In particular, the deregulation of the financial sector stimulated competition and enhanced efficiency in resource allocation. Moreover, financial services have improved in terms of speed of response to customers' needs, the quality of services rendered, the number and variety of institutions.

From the foregoing, the challenges facing the regulatory authorities in promoting a sound, stable and efficient financial system are enormous and require the strengthening of each institution's regulatory framework and capacity as well as maintaining effective coordination of various regulatory efforts to avoid conflict of roles and duplication of efforts. The achievement of financial sector stability is fundamental to the maintenance of macroeconomic stability, which is *sine qua non* for sustainable growth and development. They go hand in hand and you cannot have one without the other.

Going by our analysis so far, the choice for future policy options for banking sector reforms would be to bolster the reforms towards a clearly neo-classical supply-side economics beyond the ambivalence of Say's classical and Keynesian monetary stance. This choice is imperative if we are to reconcile monetary and fiscal policies for the purpose of attaining the twin objectives of growth and inflationary controls.

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Appendices

Appendix I: A table of the rating of Nigerian banks using CAMEL parameters in absolute terms

CATEGORY	2001	2002	2003	2004	2005	2006	2007	2008	2009
Sound	10	13	11	10	5	10	4	3	1
Satisfactory	63	54	53	51	47	12	17	18	11
Marginal	8	13	14	16	16	3	2	2	3
Unsound	9	10	9	10	18	-	1	1	9
Total	**90**	**90**	**87**	**87**	**86**	**25**	**24**	**24**	**24**

Sources: 1 Central Bank of Nigeria: Annual Report and Statement of Accounts (2009). 2. Nigeria Deposit and Insurance Corporation (NDIC).

Appendix II: A table of the rating of Nigerian banks using CAMEL parameters in percentage

CATEGORY	2001	2002	2003	2004	2005	2006	2007	2008	2009
Sound	11	14.4	13	12	6	40	17	13	4
Satisfactory	70	60	61	58	55	48	71	75	45
Marginal	9	14.4	16	18	18	12	8	8	13
Unsound	10	11	10	12	21	0	4	4	38
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: The percentage values were derived from the absolute value table above by the authors.

Appendix III: A table of the impact of banking reform using such performance indicators as bank assets (BA) to the gross domestic product (GDP), bank deposits (BD) to GDP, bank loans and advances (LAD) to GDP

Years/Ratios	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
BA/GDP	19.19	20.17	20.51	14.93	20.06	23.90	27.07	26.36	26.77	32.92	40.90	46.18	50.28
BD/GDP	4.29	4.69	4.99	3.83	5.90	8.20	9.45	7.82	7.78	9.76	10.25	10.56	11.03
LAD/GDP	7.55	8.62	8.73	4.98	6.69	7.96	13.68	11.91	11.03	12.79	18.02	20.94	20.89
Years/Ratios	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
BA/GDP	50.43	47.12	57.38	47.36	41.72	47.12	57.38	47.36	41.72	33.07	32.79	19.92	16.97
BD/GDP	10.64	10.38	9.62	7.60	7.67	10.38	9.62	7.60	7.67	7.30	7.26	4.11	3.55
LAD/GDP	19.29	17.92	22.71	16.66	14.06	10.15	9.72	10.02	8.02	9.60	10.47	7.48	6.27
Years/Ratios	97	98	99	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
BA/GDP	20.86	25.65	33.50	34.24	47.56	40.03	35.91	32.89	30.98	38.64	53.16	65.52	70.91
BD/GDP	4.57	5.25	6.33	7.53	9.48	7.29	6.81	6.37	6.49	8.07	11.17	15.03	0
LAD/GDP	13.76	10.08	10.11	11.09	16.85	13.81	14.26	13.31	13.56	13.60	23.30	32.10	39.12

Source: Central Bank of Nigeria: Annual Report and Statement of Accounts (2009).

Appendix IV: Distribution of commercial banks by selected states in Nigeria

Periods	2006	2007	2008Q1	2008Q2	2008Q3	2009Q4	2009Q1	2009Q2	2009Q3	2009Q4
Number of banks	25	24	24	24	24	24	24	24	24	24
Branches abroad	2	7	8	8	8	8	2	2	2	2
Abuja(FCT)	163	219	255	261	275	283	281	345	356	361
Adamawa	39	52	58	60	61	58	65	60	62	63
Bauchi	35	45	44	47	50	50	50	25	52	51
Bayelsa	28	31	36	34	35	37	39	39	39	38
Benue	39	53	57	56	59	61	68	68	73	71
Borno	61	57	66	69	70	68	87	70	71	72
Ebonyi	15	22	26	28	25	28	32	32	32	32
Gombe	25	29	30	32	31	33	38	40	40	40
Kogi	27	64	67	66	65	68	71	82	82	81
Kwara	39	70	68	67	64	67	70	70	71	72
Lagos	1038	1407	1491	1512	1547	1551	1591	1628	1686	1680
Nasarawa	19	27	32	35	36	40	44	47	46	48
Niger	46	51	68	59	68	69	74	72	75	75
Oyo	112	163	178	187	188	191	201	205	207	220
Plateau	77	65	71	70	78	73	78	75	77	76
Rivers	179	197	229	234	242	248	262	266	275	273
Taraba	16	27	28	26	29	30	32	34	34	35
Yobe	22	32	32	33	34	33	36	32	32	32

Source: Central Bank of Nigeria: Annual Report and Statement of Accounts (2010).

Appendix V: A table of the distribution of commercial bank by density for selected state in Nigeria

Period		2006	2007	2008				2009				2010
		Annual	Annual	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Annual
Number of banks		25	24	24	24	24	24	24	24	24	24	24
Branches Abroad		2	7	8	8	8	8	2	2	2	2	2
	Population	**Branches within Nigeria**										
Abuja(FCT)	1,405,201	163	219	255	261	275	283	281	345	356	361	387
Anambra	4,182,032	121	174	202	207	208	212	217	221	217	217	229
Delta	4,098,391	98	129	152	157	166	174	180	190	196	193	199
Ebonyi	2,173,501	15	22	26	28	25	28	32	32	32	32	35
Edo	3,218,332	109	118	136	143	152	163	168	176	181	175	184
Kano	9,383,682	130	130	141	153	157	160	178	176	176	183	184
Lagos	9,013,534	1038	1407	1491	1512	1547	1551	1591	1628	1686	1680	1647
Oyo	5,591,589	112	163	178	187	188	191	201	205	207	220	226
Rivers	5,185,400	179	197	229	234	242	248	262	266	275	273	287

Source: Bank Returns to NDIC 2010.

Appendix VI: A table of the distribution of loans and advances (LAD) between the more productive sector (MPS) and less productive sector (LPS)

Year		1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Total LAD (in Nm)		113.8	120.0	154.2	178.9	244.4	270.0	298.1	274.9	225.6	219.7	351.5	502.0	619.5	753.5	938.1	2123.0
Distribution of LAD (in Nm)	MPS	35.6	43.8	59.3	71.3	99.4	11.5	70.9	67.7	61.7	67.0	116.0	178.0	222.6	286.7	395.7	677.2
	LPS	78.2	76.2	94.9	107.6	145.5	158.5	227.2	207.2	163.9	152.7	235.5	324.0	396.9	466.8	542.4	760.3
% Distribution of LAD	MPS	31.3	36.5	38.5	39.9	40.6	41.3	23.8	24.6	27.3	30.5	33.0	35.5	35.9	38.0	42.2	47.1
	LPS	68.7	63.5	61.5	60.1	59.4	58.7	76.2	75.4	72.7	69.5	67.0	64.5	64.1	62.0	57.8	52.9

Year		1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Total LAD (in Nm)		2123.0	4313.5	4114.9	4630.4	6349.1	8582.9	10275.3	11093.9	11503.6	12170.2	15701.6	17531.9	19561.2	22008.0	26000.1	31306.2
Distribution of LAD (in Nm)	MPS	1115.5	1676.6	2289.3	2788.4	3795.3	5088.9	6003.5	6372.4	6674.9	7272.2	9353.9	10527.0	12379.9	13640.5	15689.3	20039.0
	LPS	1007.5	2636.9	1825.6	1842.0	2553.8	3494.0	4271.8	4721.5	4828.7	4898.0	6347.7	7004.9	7181.3	8367.5	10321.8	11267.2
% Distribution of LAD	MPS	52.5	38.9	55.6	60.2	59.8	59.3	58.4	57.4	58.0	59.8	59.6	60.0	63.3	62.0	60.3	64.0
	LPS	47.5	61.1	44.4	39.8	40.2	40.7	41.6	42.6	42.0	40.2	40.4	40.0	36.7	38.0	39.7	36.0

Year		1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total LAD (in Nm)		42736.8	65665.3	94183.9	144569.6	169437.1	385550.5	272895.5	322764.9	508302.2	796164.8	954628.8	1210033.1	1519242.7	1976711.2	2524297.9	4813488.8
Distribution of LAD (in Nm)	MPS	27201.9	40692.9	52580.9	95441.0	120551.7	131373.4	146761.6	171489.2	214612.3	333212.2	363494.4	452388.8	530907.9	573131.9	748663.1	127867.8
	LPS	15534.9	24972.4	41603.0	49128.6	48885.4	254177.1	126133.9	151275.7	293689.9	462952.6	591134.4	757644.3	988334.8	1403579.3	1775634.8	3685621.0
% Distribution of LAD	MPS	63.6	62.0	55.8	66.0	71.1	34.1	53.8	53.1	42.2	41.9	38.1	37.4	34.9	29.0	29.7	23.4
	LPS	36.4	38.0	44.2	34.0	28.9	65.9	46.2	46.9	57.8	58.1	61.9	62.6	65.1	71.0	70.3	76.6

Year		2008	2009
Total LAD (in Nm)		7799400.1	966786.7
Distribution of LAD (in Nm)	**MPS**	2352896.8	2319889.9
	LPS	5446503.3	7347986.8
% Distribution of LAD	**MPS**	30.2	24.0
	LPS	69.8	76.0

Source: Central Bank of Nigeria: Annual Report and Statement of Accounts (2009).

Appendix VII: A table of savings and deposit rates in Nigeria

Year	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1975	1976	1977
Savings deposit rate	-	4.0	3.0	3.0	3.5	3.5	3.5	3.5	3.0	3.0	3.0	3.0	3.0	3.0	4.0	4.0	4.0
Average lending rate	-	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	8.5	8.5	8.5	7.5	8.0	6.0
Interest rate spread (row 3 minus row 2)	-	3.5	4.5	4.5	4.0	4.0	4.0	4.0	4.0	4.0	4.5	5.5	5.5	5.5	3.5	4.0	2.0
Year	**1978**	**1979**	**1980**	**1981**	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1993**	**1994**	**1995**
Savings deposit rate	5.0	5.0	6.0	6.0	7.5	7.5	9.5	9.5	9.5	14.0	14.5	16.4	18.8	14.3	16.7	13.5	12.6
Average lending rate	9.0	9.3	8.5	8.9	11.0	10.8	12.8	10.5	11.3	18.4	17.1	26.6	26.6	20.5	27.2	21.0	20.5
Interest rate spread (row 3 minus row 2)	4.0	4.3	2.5	2.9	3.5	3.3	3.3	1.0	1.8	4.4	2.6	10.2	7.8	6.2	10.5	7.5	7.9
Year	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**			
Savings deposit rate	11.7	4.8	5.5	5.3	5.3	5.5	4.2	4.1	4.2	3.8	3.1	2.8	2.9	2.9			
Average lending rate	20.3	18.4	19.7	24.3	19.8	19.8	27.5	21.8	20.0	18.7	18.0	16.9	20.6	20.6			
Interest rate spread (row 3 minus row 2)	8.6	13.6	14.2	19.0	14.5	14.3	23.3	17.7	15.8	14.9	14.9	14.1	17.7	17.7			

Source: Central Bank of Nigeria: Annual Report and Statement of Accounts (2009).

Appendix VIII: A table of the distribution of bank credit to small scale enterprises (SSEs)

Year	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1975	1976	1977
% distribution to SSEs	-	4.0	3.0	3.0	3.5	3.5	3.5	3.5	3.0	3.0	3.0	3.0	3.0	3.0	4.0	4.0	4.0
% of rural credit to rural deposit	-	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	8.5	8.5	8.5	7.5	8.0	6.0
Year	**1978**	**1979**	**1980**	**1981**	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1993**	**1994**	**1995**
% distribution to SSEs	5.0	5.0	6.0	6.0	7.5	7.5	9.5	9.5	9.5	14.0	14.5	16.4	18.8	14.3	16.7	13.5	12.6
% of rural credit to rural deposit	9.0	9.3	8.5	8.9	11.0	10.8	12.8	10.5	11.3	18.4	17.1	26.6	26.6	20.5	27.2	21.0	20.5
Year	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**			
% distribution to SSEs	11.7	4.8	5.5	5.3	5.3	5.5	4.2	4.1	4.2	3.8	3.1	2.8	2.9	2.9			
% of rural credit to rural deposit	20.3	18.4	19.7	24.3	19.8	19.8	27.5	21.8	20.0	18.7	18.0	16.9	20.6	20.6			

Source: Central Bank of Nigeria: Annual Report and Statement of Accounts (2009)

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