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THE BANKING SECTOR AND NATIONAL ECONOMY

The banks are central elements of a market economy. In more than one way, they facilitate business transactions by acting as depositor and lender for many actors in the domestic and international economy. The banking industry in Nigeria has expanded in size in terms of assets in the last 60 years since the country's independence from British colonial rule and undergone large-scale reforms vis a vis transformation in the global economy. What are the dimensions of this growth? How has it affected market efficiency and economic wellbeing of the people? This article provides answers to these questions and argues that growth has indeed happened in the banking sector by a quantification of liquid assets, investment securities and loans. It also captured its transnational dimension and how that has boosted international transactions as well as repatriation of Diaspora transfers to the national economy. This article also focused on the contradictions of the economy arising from inconsistent policies of government and meddlesomeness of global financial institutions, and their impact on the banking sector. This article ends on a prescriptive note by suggesting ways to make the banking sector more relevant in promoting productive activities in the national economy.

1.0 INTRODUCTION

As money and finance play a vital role in the macro-economic affairs of nations – both advanced countries and less developed countries, the importance of money and finance brings the role and place of financial institutions as the main connecting link with the economy at large since they as intermediaries have remained an important medium of economic exchange (Fakiyesi, 1999). In the total banking operations, commercial banks notably have the biggest share amidst other industry players such as the microfinance banks, development banks, mortgage banks, etc. Though formerly the main function of the commercial banks was financing organized trade, commerce and industry, but now they provide finance to agriculture, small-case business and small borrowers also (Singh, 2011).

Banks existed as depositories and loan advancers from which banking practice originated. The business of banking made early bankers ever since the Gold Smith Era be recognized as moneylenders and cash collectors, and thereby the financial system serves as a framework or mechanism to link savers and borrowers either in the form of direct finance or indirect finance which imply the facilitation by a financial intermediary (Baye and Jansen, 2006). The banking sub-sector as a result is noted for its resource-generation, mobilization and channeling drive purposed to contribute to the development objective of a nation.

Thus, since finance is the key to investment and hence growth, financial institutions have always been important in any economy. As follows, this importance is predicted on firm convictions supported by empirical evidence that: money matters in economic development; there is a positive correlation between real growth of output, investment, bank assets and money supply; finance can retard economic development if it is repressed and can stimulate it if promoted i.e. liberalized; financial institutions, particularly banks, contribute significantly to real development through the role they play in the savings/investment process by stimulating savings, financialization of the savings and by their ability to ensure the most efficient transformation of savings into real output; and the way the financial institutions performs these functions may well determine the degree of success of the development effort – a passive armchair approach may decelerate it while a positive dynamic approach may accelerate it (Nwankwo, 2001).

2.0 THE NIGERIAN FINANCIAL SYSTEM TREND

2.1 THE NIGERIAN FINANCIAL SECTOR EXPERIENCE

Tracing the historic feat of the Nigerian financial system development basically in comparison with other countries of the world in a way may not reveal a significant variation or a very different banking experience. However, with a revolutionary or paradigm shift in the Nigerian financial industry players composition through the introduction of the tenets implied as part of the Structural Adjustment Programme (SAP) in the 1980s as well as other reforms in twenty-first century, the domestic industry has been perceived to have had a radical dimensional growth along its line with a lasting heritage.

2.1.1 BEFORE STRUCTRAL ADJUSTMENT PROGRAMME

From the early post-independence era and even until the late 1970s, Nigeria was noted to have tinkered the possibility of reforming or modeling the colonial financial structure through such instrument as indigenization and the creation of new institutions. The prevalence of government-based banking practice seemed or was largely evident. The mobilization or raising of capital was also more of the government domain. The participation of government was notable and highly dominant. The remodeling of the colonial financial system was focused on facing the challenges of rapid economic development. Varying restructuring measures were of high stake, in full swing and at glaring sway.

These measures included indigenization of existing financial institutions, creation of new institutions to provide funding at low interest rates to defined priority sectors and the establishment of special directive for banks to open rural branches in order to mobilize deposits and provide credit to widely dispersed small holders. Also, through credit guidelines, authoritative intervention ensured direct credit allocation to established priority sectors to accord with the country's development objectives and the government themselves borrowed heavily from the domestic financial systems and from abroad to finance budget deficits and the needs of state-owned enterprises (Nwankwo, 2001).

2.1.2 STRUCTURAL ADJUSTMENT PROGRAMME ERA

Unlike the 1960s and 1970s when government was seen as the engine of growth, the introduction of the Structural Adjustment Programme (SAP) in September 1986 led for a paradigm shift in the sector's key players composition as much emphasis was placed on the role of the private sector. The reform though focused for Developing Economies by the International Bank for Reconstruction and Development (IBRD) or World Bank but for Nigeria was aimed at revamping the ailing national economy following the financial shocks of the 1980s. The hope was for the modernization of the Nigerian financial system. The importance for such move was due to the financial sector's necessity to ensuring the success of the private sector; since while governments can raise funds through taxation, the private sector has as their last resort the financial system to raise resources which cannot be generated through retained earnings (Nwankwo, 2001).

The SAP in 1986 by the Babangida Administration brought to an end the kind of banking services rendered by the first generation of banks, which have been described as "Arm Chair Banking". It changed not only the structure but also the content of banking business. The reform notably facilitated the multiplicity of financial institutions as the number of banks grew tremendously from 40 in 1985 to 125 in 1991, thereby making possible the licensing of more banks. Thus, as the 1980s witnessed a remarkable expansion of the banking system with rapid increases in the number of commercial and merchant banks as de-regulation was largely at sway, competition was heightened in the 1990s and such posed more threat to existing ones and made their marketing techniques more aggressive i.e. they embarked on intensified marketing and public relations. The stiffness of the competition led for new product development, repackaging of traditional products, products realignment, and growth in investment banking. In the process of the intense competition, adoption of electronic banking was seen as a necessity to maintaining a good competitive position. However, Nigeria started her long and tortuous journey in November, 1990 when Societe Generate bank launched her first Automated Teller Machine (Adewuyi, 2011). This development was a historic departure from the past where raising of capital was dominated by the government.

2.1.3 BANKING IN THE NEW MILLENIUM

With the adoption of Universal Banking system (i.e. the Universal Banking Model) in the Nigerian financial industry in the year 2001, such allowed banks to diversify into non-bank financial businesses i.e. due to the model, the seeming notion of 'an unbundled financial system' was perceived to be popular amidst the existing financial institutions, particularly commercial banks, as they were characterized to be undertaking varying roles or tasks and providing diversified financial services - engaging even into non-banking practices. For example, bancassurrance, equity underwriting, and structured trade finance amidst others (Sanusi, 2010; Osamor, Akinlabi and Osamor, 2013). The period recorded an influx of a quantum number of financial industry players, rent seeking finance brokers, and financial sector players' operations overlap.

The unveiling of the guidelines thereof for the practice of universal banking in Nigeria in December 2000 notably enabled a bank to freely choose the activity or activities to undertake (clearing house activities, capital market activities, or insurance marketing services or a combination of any). However, a bank for example embarking on underwriting / issuing house activity is expected to comply in liaison with the Securities and Exchange Commission (SEC) regulation requirements while similarly a bank embarking on insurance marketing services is expected to comply with the regulation of the National Insurance Commission (NAICOM). Thus, in this era and within this framework, banking supervision was to be done based on functional approach (Arua, 2008).

2.1.4 BANK CONSOLIDATION / RECAPITALISATION ERA

Ever since the CBN statutory declarative mandate in 2004 for commercial banks to increase their capital base (or their minimum paid-up capital) from ₦2billion (USD$0.0166billion) in January 2004 to ₦25billion (USD$0.2billion) in July 2004 after having being initially ₦400,000 (USD$480,000) in 1958 and ₦500million (USD$5.88 million) in the ’90s, efforts have been on the part of these industry players i.e. the commercial banks to revamp their operation to world best practice. Such as well has seen the revocation of the license of some commercial banks, several mergers and acquisitions, and the fading out of some of these banks whom for whatever reason they could not acquaint themselves to the stated operational requirement, thereby reducing the number of operating banks in Nigeria from 45 between 1952 and 1978, and which increased to 54 between 1979 and 1987 and rose again to 112 between 1988 and 1996 but which later dropped to 110, and finally dropping to 25 in 2005 and 24 as of 2008 (Somoye, 2008; Sanusi, 2010; Osamor, Akinlabi and Osamor, 2013; Uddin, Monehin and Osuji, 2020).

Also amidst efforts notably by Multilateral Organizations such the International Monetary Fund (IMF) carrying out stress test on the 24 deposit money banks to ascertain the health of the financial industry, the World Bank and the African Development Bank (AfDB) providing lump sum injections amounting to US$500.0 million and US$1.0 million respectively, and liquidity supports/lines of credit granted to some the banks, namely US$150.0 million to United Bank for Africa; US$50.0 million to Zenith Bank; US$100.0 million to Intercontinental Bank of Nigeria and US$100.0 million to Guaranty Trust Bank in the wake of the global financial crisis, all in order to strengthen the Nigerian banking industry, the post-world financial crisis period saw selected banks reported as distressed, which therefore led for the existence of the Asset management Company of Nigeria (AMCON) to take over the administration of these banks notably referred onward from then as ‘abridged banks’ for the time period in order to ensure public confidence in the country’s financial system (Sanusi, 2010; Uddin, 2020; Uddin et al., 2020; Uddin, 2021). In addition, the year 2010 saw the withdrawal of the licence of 224 microfinance banks, thereby delimiting the number of microfinance institutions (Acha, 2012). Of course, this have somewhat damaged public confidence in these banks, and fostered the attendant stress on and expectancy of commercial banking to be the key drivers in meeting development objectives.

2.2 THE NIGERIAN FINANCIAL SECTOR GROWTH

The growth of the Nigerian financial sector especially on the part of commercial banks, have over time being of a dramatic increase. Prior to the country’s independence in 1960, banking activities were very skeletal and there were few portfolio opportunities. Thus, the Nigerian financial system was very much undeveloped. The growth of commercial banking firms as well as other money and capital market institutions was remarkably evident even in recent years when their activities became increasingly sophisticated, responding to opportunities in the field of intermediation in a particularly innovative way. Though over time it may have lagged behind other fast-growing countries, its extent of asset size and coverage was greatly boosted by the astronomical growth in the number of industry players during the Structural Adjustment era. For instance, the number of commercial banks grew from 29 at the commencement of the Structural Adjustment Programme in 1986 and rose to 66 in 1993 before the SAP was terminated by the wind of political change which took place in the country that same year. This is growth of about 128 percent over a period of eight years. Correspondingly, the number of branches over the same period rose from 1367 to 2275 or by 66.4 percent (see table 1).

Table 1: Number of Commercial Bank Branches in Nigeria and Abroad 1970 - 2015

Year	No of Banks	Urban Branch	Rural Branch	Branches Abroad	Total Number of Branches
1970	14	n.a.	n.a.	n.a.	n.a.
1971	16	n.a.	n.a.	n.a.	n.a.
1972	16	n.a.	n.a.	n.a.	n.a.
1973	16	n.a.	n.a.	n.a.	n.a.
1974	17	n.a.	n.a.	n.a.	n.a.
1975	17	n.a.	n.a.	n.a.	n.a.
1976	18	n.a.	n.a.	n.a.	n.a.
1977	19	474	13	5	492
1978	19	511	98	5	614
1979	20	533	133	6	672
1980	20	565	168	7	740
1981	20	622	240	7	869
1982	22	676	308	7	991
1983	25	694	407	7	1408
1984	27	810	432	7	1249
1985	28	839	451	7	1297
1986	29	879	481	7	1367
1987	34	947	529	7	1483
1988	42	1057	602	6	1665
1989	47	1093	756	6	1855
1990	58	1169	765	5	1939
1991	65	1253	765	5	2023
1992	65	1495	774	6	2275
1993	66	1577	775	6	2253
1994	65	1634	763	6	2403
1995	64	1661	701	6	2368
1996	64	1661	701	6	2308
1997	64	1727	645	5	2407
1998	54	1466	714	5	2185
1999	54	1466	714	5	2185
2000	54	1466	722	5	2139
2001	90	1466	722	5	2139
2002	90	2283	722	5	3010
2003	90	2520	722	5	3247
2004	89	2765	722	5	3492
2005	25	n.a.	n.a.	n.a.	n.a.

2008	24	n.a.	n.a.	n.a.	5134
2009	24	n.a.	n.a.	n.a.	5565
2015	21	n.a.	n.a.	n.a.	n.a.

Source: Fakiyesi, 1999; Central Bank of Nigeria Statistical Bulletin, various issues
Central Bank of Nigeria 2009 Annual Reports and Statement of Account
Central Bank of Nigeria (2015) List of Financial Institutions: Commercial Banks

NB: Classification of Branches into Urban and Rural started in July 1977

Commercial banking started early in Nigeria, but the first set of banks were mainly expatriates while the establishment of banks by domestic enterprise came later. Several conflicting explanations for the growth of indigenous Nigerian banks are opined to be available (see Rowan, 1953; Nwankwo, 1980), but whichever view one subscribe to its opined also that its evident that the expatriate banks increased steadily over the years both in terms of size and number while in contrast the indigenous banks had a growth that was rather spasmodic and failure among them was frequent. For instance, 185 banks were registered in Nigeria between 1947 and 1952 but by 1960 there were only six survivors. The number of operating banks started to grow as did offices and branches. The number of banks operating in Nigeria was transformed from 12 in December 1960 with total branch offices of 160 to 20 in 1980 with total branch offices of 740. By 1982, there were 22 banks with 991 branch offices. The prudential reforms lasting till the late 90s though reduced the number of industry players to 54, but the introduction of the Universal Banking model fostered the growth to 90 banks. The compulsory recapitalization mandate issued by the apex bank as well as other reforms with effect from 2005 and evident even as at 2009 however had contracted the number of commercial banks in the system to 24 banks. As at 2015, the number of banks as well had further reduced to 21 commercial banks.

The implementation of the indigenization decree from 1973 onward and the government participation in the so-called foreign banks was another wind of change that increased the indigenization of the ownership structure of these expatriate banks that have dominated the Nigerian banking system for a long time. Though establishing a Central Bank and having a greater need for finance by the early 1960s, in 1973 the Federal Government acquired 40 percent equity participation in each of the three biggest expatriate banks and by 1976 participation was raised to 60 percent. However, by 1980, equity participation in the Nigerian banking industry average 66 percent government, 16.58 percent private and 17.42 percent foreign. The end of the civil war (January 1970) and the purposeful implementation of the 1970/74 and 1975/80 plans by the government led to the emergence of several development financing institutions both at the regional and federal level.

Though its contribution to national product may still be very low for instance 1.29 percent by 1973, rising to 2.49 percent by 1980 and with an average growth of about 7.62 per annum for the period, its total asset and liability holdings however became more than tripled, with being N1152.0 million in 1970 and N 4308.0 million in 1975 while at the same time period total shareholders' funds increased from N202.5 million in 1970 to N811.1 million in 1975 (see table 2). The banks however themselves grew again in terms of assets and liabilities (see tables 3a, 3b, 5a, 5b and 5c). The total assets of the banking system were N232 million in 1960 but by June 1980 they had risen to N12, 709 million, an increase of almost 55 times in twenty years (see table 2). Although prior to the implementation of the Structural

Adjustment programme in 1986 total assets stood at N31997million, but in 1995 - few years after the end period in 1993 - total assets in the banking sector had increased over 12 times amounting to N385141.8million (see table 2). After the prudential regulations until the late 1990s, the adoption of the Universal Banking practice as well as the recapitalization stance from 2004 and other reforms lasting till 2012, records show that total assets had increased tremendously to N21288144.4million (see table 2).

Table 2: Assets and Liabilities Growth of the Nigerian Financial System (N'Million)

Year	Assets	Liabilities
1960	232	238.5
1970	202.5	1152.0
1975	811.1	4308.0
1980	12709	16,340
1985	31997.9	21297.0
1990	82957.8	51790.8
1995	385141.8	245489.4
2000	1568838.7	904801.5
2005	4515117.6	2626587.8
2010	17331559.0	12880009.4
2012	21288144.4	17876920.7
2013	24301200.0	13767400.0
2014	27481500.0	21614300.0

Source: Fakiyesi, 1999; Central Bank of Nigeria Statistical Bulletin, various issues

The major issue of the Nigerian banking sector growth at different stages have centered on the banks' asset and liabilities portfolio. The greater capitalization of these banks over the years also had been duly emphasized, since the failure of many banks in Nigeria in the early fifties. Thus, prudential regulation concerned mainly with banks' capital adequacy and reserves. In 1952 for instance, foreign owned banks were required to have a paid-up capital of N400, 000 whereas Nigerian owned banks were required to have a paid-up capital of N25, 000. The level of equity capital varies among the banks. In 1974 for instance, one bank, the Union Bank had an equity capital of N12milliion while there were two banks with just N1.5million (see table 3a). Over the years however, the minimum paid-up capital had been expanded onwardly (see table 3b).

Table 3a: Equity Capital of Selected Commercial Banks (N'Million) from 1970 - 1996

Years	1971	1974	1978	1980	1985	1989	1996
Banks							
Union Bank of Nigeria	12.00	12.00	30.24	36.29	54.533	63.504	397.06
First Bank	7.75	9.70	61.14	70.00	86.136	105.699	336.20
United Bank for Africa	4.50	6.00	20.00	30.00	75.000	75.000	300.00
Afri Bank	1.50	2.10	10.00	20.00	70.000	100.000	552.00

National Bank	6.49	6.49	10.00	10.00	n.a.	n.a.	n.a.
Bank of the North	3.00	6.99	14.70	14.70	22.350	22.350	300.00
Savannah Bank	1.50	1.50	6.00	18.00	27.937	34.921	52.4
Mercantile Bank	1.10	1.10	4.50	6.10	13.466	13.466	n.a.
New Nigeria Bank Ltd	1.41	1.41	10.00	10.00	11.745	21.134	n.a.

Source: Fakiyesi, 1999; Central Bank of Nigeria Annual Reports and Statements of Accounts, various issues

Table 3b: Required Minimum Paid-Up Capital for Commercial Banks (N'Million) from 1958 - 2004

Years	1958*	1999	2004**	2004***
Required Minimum Paid-Up Capital	400,000	500	2000	2500

Source: Osamor, Akinlabi and Osamor (2013)

* In Thousand ** As at January 2004 *** As at July 2004

The size of a bank's capital varies usually according to its age and its size of operations. Thus, capital adequacy ratio was duly envisaged by regulation due to bank lending and the possibility of non-performing credits. With the introduction of new prudential rules by 1990, the minimum paid-up capital of commercial banks increased to N20million. Overall, just as there has been significant increase in the total assets of commercial banks since independence, the proportion of loans and advances to total assets had vary between 30 percent and 65 percent while investment securities (treasury bills and treasury certificates – short term money market instruments) had also increased over the years (see tables 4a to 4f).

Table 4a: Commercial Banks Selected Portfolio Ratios from 1960 - 1969

Years	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Loans and Advances (% of Total Assets)	47.8	40.7	54.0	55.0	61.8	62.2	60.5	61.2	40.3	31.8
Investment Securities (% of Total Assets)	1.5	2.0	2.3	0.7	2.7	3.0	4.6	6.3	36.0	44.0

Source: Fakiyesi (1999)

Table 4b: Commercial Banks Selected Portfolio Ratios from 1970 - 1979

Years	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Loans and Advances (% of Total Assets)	30.5	39.34	43.07	42.58	33.37	35.69	33.32	36.04	45.13	41.10
Investment Securities (% of Total Assets)	43.4	22.8	26.2	21.5	26.9	18.4	16.5	13.5	10.5	19.1

Source: Fakiyesi (1999)

Table 4c: Commercial Banks Selected Portfolio Ratios from 1980 - 1989

Years	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Loans and Advances (% of Total Assets)	39.04	44.18	45.35	41.57	38.26	38.03	39.57	35.19	34.54	34.25
Investment Securities (% of Total Assets)	14.90	9.10	13.33	19.48	29.25	32.12	11.32	15.46	12.59	5.28

Source: Fakiyesi (1999)

Table 4d: Commercial Banks Selected Portfolio Ratios from 1990 - 1999

Years	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Loans and Advances (% of Total Assets)	31.44	27.02	22.87	19.65	27.84	37.54	38.19	41.20	39.27	33.00
Investment Securities (% of Total Assets)	10.49	6.80	3.03	11.78	12.33	4.67	10.20	6.48	6.80	17.43

Source: Fakiyesi , 1999 ; Central Bank of Nigeria Statistical Bulletin, various issues

Table 4e: Commercial Banks Selected Portfolio Ratios from 2000 - 2009

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Loans and Advances (% of Total Assets)	31.13	37.82	34.50	39.70	40.58	44.49	36.67	43.92	49.08	55.24
Investment Securities (% of Total Assets)	17.58	8.87	16.63	11.09	15.25	11.34	9.11	11.51	4.96	3.34

Source: Central Bank of Nigeria Statistical Bulletin, various issues

Table 4f: Commercial Banks Selected Portfolio Ratios from 2010 - 2014

Years	2010	2011	2012	2013	2014
Loans and Advances (% of Total Assets)	53.10	49.60	49.05	47.51	47.98
Investment Securities (% of Total Assets)	5.34	7.52	3.01	9.85	9.03

Source: Central Bank of Nigeria Statistical Bulletin, various issues

On the other hand, the liabilities of the banking system have also increased tremendously. Between 1960 and 1970, total liabilities increased from N238.5million to N1, 152million while in 1980 it increased to N16, 340million. Deposits which remain the most important component of bank liabilities have also grown dramatically, just as the ratio of loans and advances to deposits has been on the increase though fell slightly during the later years of SAP (see tables 5a to 5c).

Table 5a: Ratio of Loans and Advances to Deposits in Selected Commercial Banks from 1971 - 1980

Years	1971	1972	1973	1974	1976	1977	1978	1980
Banks								
Union Bank of Nigeria	0.41	0.45	0.38	0.36	0.42	0.52	0.80	0.57
First Bank	0.35	0.48	0.43	0.53	n.a.	0.35	0.45	0.52

United Bank for Africa	0.61	0.38	0.36	0.51	n.a.	0.48	0.57	0.55
National Bank	0.87	0.87	0.90	0.69	n.a.	0.29	0.35	n.a.
Bank of the North	0.67	0.68	0.74	0.46	n.a.	0.28	0.41	0.52
Nigerian Arab Bank	0.45	0.59	0.49	0.44	n.a.	0.47	0.40	0.31
Savannah Bank	0.68	0.71	6.00	n.a.	0.47	n.a.	1.06	n.a.
Mercantile Bank	n.a.	n.a.	n.a.	n.a.	0.27	0.51	0.60	0.73
IBWA	0.80	0.70	0.79	0.60	n.a.	0.58	n.a.	0.59
African Continental Bank	n.a	n.a	n.a	n.a	0.26	0.65	0.73	0.67
Allied Bank	n.a	n.a	n.a	n.a	0.61	0.37	0.44	n.a.

Source: Fakiyesi, 1999

Table 5b: Ratio of Loans and Advances to Deposits in Selected Commercial Banks from 1985 - 1993

Years	1985	1986	1987	1988	1989	1990	1991	1992	1993
Banks									
Union Bank of Nigeria	0.44	0.46	0.46	0.46	0.41	0.42	0.42	0.24	0.21
First Bank	0.36	0.42	0.41	0.40	0.30	0.40	0.20	0.20	0.18
United Bank for Africa	0.33	0.37	0.38	0.34	0.37	0.35	0.37	0.21	0.29
Afri Bank	0.46	0.70	0.58	0.61	0.67	0.44	0.44	0.41	0.26
Nigerian Arab Bank	0.46	0.57	0.45	0.47	0.53	n.a.	n.a.	n.a.	n.a.
Savannah Bank	0.58	0.64	0.50	0.49	0.42	0.51	0.24	0.25	0.26
Mercantile Bank	0.75	0.71	0.62	0.54	0.66	n.a.	n.a.	n.a.	n.a.
African Continental Bank	0.70	0.73	0.74	0.71	0.63	n.a.	n.a.	n.a.	n.a.
Allied Bank	0.49	0.75	0.56	0.44	0.54	0.12	0.02	0.33	0.26

Source: Fakiyesi, 1999

Table 5c: Ratio of Loans and Advances to Deposits in Commercial Banks from 1995 - 2014

Years	1995	2000	2005	2010	2012	2013	2014
Loans and Advances (% of Deposits)	0.59	0.56	0.75	0.60	0.46	0.73	0.60

Source: Central Bank of Nigeria Statistical Bulletin, various issues

Time and Savings deposits grew more than demand deposits. In 1960, Demand deposits accounted for 60 percent of total deposits compared to Time and Savings deposits with 17.9 and 26.9 respectively. But much later by second quarter of 1980, i.e. June 1980, the proportion of Demand deposits declined to 43.9 percent while Time and Savings deposits amounted to 38.2 and 17.9 percent of total deposits respectively. The fall in relative proportion would be inferred for a number of possible reasons. One would be the restrictive condition in opening current accounts. Another would be the inefficient communication system. The extensive opening of rural banks notably fostered the increase in Savings deposits collection. Also, the banking boom period (1986 – 1993) witnessed domination of Time deposits as such was an attractive source of investment for savers (Fakiyesi, 1999).

CASE STUDY: History of the United States of America Banking System

Banks are among the oldest businesses in American history—the Bank of New York, for example, was founded in 1784, and most adult Americans deal with banks often on a fairly regular basis. Nonetheless, one might be poised to ask: What do banks do? Why have they for so long been an integral part of the US economy? Banks have two important economic functions. First, they operate a payments system, and a modern economy cannot function well without an efficient payments system. Payments are notably made by writing cheques, swiping credit cards issued by banks, and by paying bills via online banking. Most of the money stock of the country is in fact bank money; the rest of the currency is "legal tender" issued by the government, namely Federal Reserve Notes and coins. There is confidence in bank money because such can be exchanged at the bank or an ATM for legal tender. Banks are obligated to hold reserves of legal tender in order to make these exchanges when request is made. The second key function of banks is financial intermediation, lending or investing the money deposited with them or creating credit to business enterprises, households, and governments. This is the business side of banking. Most banks are profit-seeking corporations with stockholders who provide the equity capital needed to start and maintain a banking business. Banks make their profits and cover their expenses by charging borrowers more for loans than they pay depositors for keeping money in the bank. The intermediation function of banks is extremely important because it helped to finance the many generations of entrepreneurs who built the American economy as well as the ordinary businesses that keep it going from year to year. But it is inherently a risky business. Will the borrower pay back the loan with interest? What if the borrower doesn't repay the loan? What happens to the banking system and the economy if a large number of borrowers can't or won't repay their loans? And what happens if, in the pursuit of profit, banks do not maintain levels of reserves and capital consistent with their own stability?

There were no modern banks in colonial America. Colonial Americans gave credit to each other, or relied on credit from merchants and banks in Great Britain. Money consisted of foreign coins and paper money issued by the governments of each colony. There were no American banks as late as 1781, when young Alexander Hamilton, who would become the most financially astute of the founding fathers, wrote to Robert Morris, Congress's superintendent of finance, that "Most commercial nations have found it necessary to institute banks and they have proved to be the happiest engines that ever were invented for advancing trade." Hamilton recommended that a bank be founded, and a few months later Morris persuaded Congress to charter the new nation's first bank, the Bank of North America located in Philadelphia. Three years later, Boston merchants founded the Massachusetts Bank and Hamilton became a founder of the Bank of New York. When George Washington became our first president under the Constitution in 1789, these were the only three banks in the United States. They were local institutions, not part of a banking system in which banks routinely receive and pay out one another's liabilities.

Washington tapped Hamilton to be the first Secretary of the Treasury. In his first two years in office Hamilton moved quickly, and often controversially, gave the United States a modern financial system. He implemented the federal revenue system, using its proceeds to restructure and fund the national debt into Treasury securities paying interest quarterly. He defined the US dollar in terms of gold and silver coins; these would serve as reserves backing bank money as banks proliferated. And Hamilton founded a national bank, the Bank of the United States (BUS), a large corporation capitalized at $10 million, with 20 percent of its shares owned by the federal government and with the power to open branch banks in US cities. Hamilton's policies induced others to fill out the other major components of a modern American financial system. The BUS prompted state legislatures to charter more banks—there were about 30 of these by 1800, more than 100 by 1810, 500–600 by the 1830s, and 1500–1600 on the eve of the Civil War. These banks were corporations, and the states also chartered many non-bank business corporations. Active securities markets emerged in the early 1790s when some $63 million of new US national debt securities and $10 million of BUS stock stimulated the development of trading markets in a number of cities and the establishment of stock exchanges in Philadelphia and New York. A distinctly modern US financial system did not exist in the 1780s but was firmly in place by the mid-1790s, after which it expanded rapidly to serve, even foster, the rapid growth of the US economy. The banking system was a key component of it.

Since most banks were business enterprises chartered by state legislatures, banking became highly politicized. A party in control of the legislature would grant bank charters to its backers and not those of the other parties. Banks also became sources of revenue: state governments invested in banks and earned dividends from them, they charged banks fees for granting charters of incorporation, and they taxed them. Individual legislators accepted bribes to help some banks get charters and to prevent other banks from getting them. By the 1830s, to get away from the politicization and corruption involved in legislative chartering, a few states began to enact "free banking" laws. These general incorporation laws made the granting of bank charters an administrative rather than a legislative function of government. This increased the access of Americans to banking. The result of free banking, according to banking historian Bray Hammond, was that "it might be found somewhat harder to become a banker than a brick-layer, but not much." The BUS, the national or central bank, also proved to be politically controversial. Some thought it was unconstitutional and a threat to states' rights. Many state bankers resented its ability to compete with them, to regulate their ability to make loans, to branch across state lines, and to have the federal government's banking business to itself. When the BUS's charter came up for renewal in 1811, it was defeated by the narrowest of margins when the vice president broke a tie vote in the Senate. That weakened the ability of the government to finance the War of 1812. In 1816 Congress therefore chartered a second BUS, an even larger corporation than the first.

History repeated itself in the early 1830s when, after both houses of Congress voted to re-charter the BUS, President Andrew Jackson vetoed the bill and his veto could not be overridden. The second BUS, like the first, did a good job of regulating American banking and promoting financial stability. But Jackson thought it had too many privileges and was too friendly to his political opponents. The BUS federal charter expired in 1836. The United States would not again have a central bank until 1914 when the Federal Reserve Act went into effect. Without a central bank to provide oversight of banking and finance, the expanding banking system of the 1830s, 1840s, and 1850s suffered from some major problems, even as it supplied the country with ample loans to finance economic growth. One problem was financial instability. Banking crises occurred in 1837, 1839–1842, and 1857, years when many banks had to suspend convertibility of their bank notes and deposits into coin because their coin reserves were insufficient. A good number of these banks failed or became insolvent when borrowers defaulted on their loan payments. The banking crises led to business depressions with high unemployment.

Another problem was a chaotic currency. In those days, the government provided only coins. Paper money—bank notes—was issued by just about every individual bank. By 1860 there were 1,500–1,600 such banks, most of which issued several denominations of notes. Hence, throughout the United States there circulated about eight to nine thousand different-looking pieces of paper, each with the name of a bank on it and a number of dollars which the named bank promised to pay in coin if the note were presented to it. It was costly, of course, to return a note of, say, a Georgia bank received in New York to the bank in Georgia, so such notes circulated at discounts the farther they were from the issuing bank. Note brokers earned a living by buying bank notes at a discount, and returning them en masse to the issuing banks for payment in coin. This was not an efficient payments system for an expanding economy. Moreover, it was one in which counterfeiting of bank notes thrived because with so many different-looking notes in circulation, it was hard to tell a real one from a fake. Abraham Lincoln's Union government during the Civil War solved the problem of a chaotic currency and at the same time the more pressing problem of how to finance the war. The solution, introduced in 1863, was to get the federal government back into the business of chartering banks. The new national banks, like free banks under earlier state laws, would issue a uniform national currency printed by the government and backed by US bonds. National banks had to purchase the bonds to back bank notes they issued, making it easier for the Lincoln administration to sell bonds and finance the war against the Southern confederacy. National bank currency would be safer than state bank notes—if a bank defaulted or failed, the US bonds backing them could be sold to pay off holders of the failed bank's notes. In effect, national bank notes were a liability of the federal government, not the bank. Discounts on bank notes, a problem of the previous era, disappeared, improving the national payments system. The intent of the National Bank law was that the old state banks would convert to national charters. But not all of them did, so Congress in 1865 passed a prohibitive tax on state bank notes. That ended the issue of state bank notes. But it did not end state-chartered banking because many state banks could continue as deposit-taking banks without issuing notes. Shortly after the Civil War most US banks were national banks. But by the end of the nineteenth century, state banking had recovered sufficiently to rival national banking. The United States had what came to be called a "dual banking system" of national and state banks, and the system persisted into the twenty-first century. National bank notes, however, disappeared in the 1930s, replaced by today's national currency, Federal Reserve Notes.

During the half century from 1863 to 1913, the country continued to be without a central bank. It had a uniform national currency and a better banking system than the one before 1863, but it was still prone to financial instability. Banking panics occurred in 1873, 1884, 1893, and 1907. The last was especially embarrassing because by 1907 the US economy was the largest in the world, as was the US banking system. There were about 20,000 banks in 1907, and there would be 30,000 by the all-time peak in the early 1920s. US bank deposits were more than a third of the total world deposits, and approximately the same as the combined deposits of German, British, and French banks, the next three largest systems. The European countries had central banks—bankers' banks—that could lend to banks under stress, and as a result they had fewer banking crises than did the United States. So in 1913, after three-quarters of a century without a central bank and a period punctuated by a number of banking crises, Congress created a new central bank, the Federal Reserve System (the Fed). The Fed was organized in 1914, and by the end of the year the twelve regional Reserve Banks, coordinated by the Federal Reserve Board in Washington, DC, were open for business. The new system was a decentralized central bank in keeping with the long American tradition of not wishing to have concentrated financial power in either Wall Street or Washington, DC. The Fed further improved the payments system by operating a national check-clearing system. It also introduced Federal Reserve Notes, which gradually replaced national bank notes and Treasury-issued currency, making the national currency still more uniform. The Fed also had the power to expand and contract its currency and credit, which served to reduce seasonal fluctuations in interest rates, enhancing economic stability.

The Fed, however, rather infamously did little to prevent the failure of thousands of US banks in the period 1930–1933, a lapse that contributed to making the Great Depression of the same years the worst economic slump in American history. The reasons for the lapse are still not clear. Some historians contend that decisive action to prevent the contagious failure of so many banks was impossible because the leadership of the Fed was weak and divided. The Board in Washington disagreed with some of the regional Reserve Banks on what actions to take, and the regional banks disagreed with one another. Others say that the Fed thought it had to defend the convertibility of the dollar to gold, which led it to contract rather than expand credit during critical periods of the slide into the Great Depression. In the wake of the Depression, President Franklin Roosevelt's "New Deal" administration sponsored a number of important banking reforms. Roosevelt's first action in March 1933 was to close all of the nation's banks, the so-called Bank Holiday, and then he assured the nation that when banks re-opened the public would not have to worry about their solvency. The Banking Act of June 1933, often called the Glass-Steagall Act because of its chief congressional sponsors, introduced federal deposit insurance, federal regulation of interest rates on deposits, and the separation of commercial banking from investment banking. The Banking Act of 1935 essentially created the Fed as we know it today. It strengthened the central bank's powers and made them less decentralized than they had been during the Fed's first two decades.

New Deal banking reforms ushered in a long period of banking stability lasting from the 1930s to the 1980s, but it became increasingly clear by the 1960s and 1970s that heavily regulated commercial banking was losing market share in finance to the less regulated and more innovative institutions and markets of Wall Street. Banks and their political supporters responded by calling for deregulation. The New Deal's ceilings on deposit interest rates were repealed in the 1980s. So were some of the regulations that prevented the savings-and-loan (S&L) from competing with banks. Congress removed long-standing restrictions on interstate banking in 1994. Bank mergers, once suspect for reducing competition, were increasingly allowed. Today the country has far few independent banks than in the past, about 8,000. But many of the remaining banks have a large number of branches and even more ATMs. Americans now are never very far from a banking facility.

In 1999, Congress repealed the Glass-Steagall Act that had effectively separated commercial and investment banking. The business of banking, long stifled by regulation, suddenly became more exciting. Increasingly, banks were not limited in their lending by the size of their deposit bases. They could obtain more funding to make more loans and purchase new forms of securities by accessing the Wall Street and international money markets. In retrospect deregulation may have led banking to become too exciting for its own good and that of the country. In the early 2000s, cheap credit led to a housing and commercial real estate boom that turned into a bubble. Assuming—contrary to historical experience—that home prices could not go down, banks and other lenders made numerous mortgage loans on liberal and increasingly innovative terms. They also increased their investments in mortgage-backed securities created by Wall Street banks. When, in the middle of the decade, house prices stopped rising and began to fall, increasing numbers of borrowers defaulted on their mortgage loans, causing steep drops in the values of mortgage-backed securities. Banks holding mortgage loans and mortgage-backed securities were in trouble. The decline in the value of the assets—the loans and securities on their balance sheets—threatened to wipe out their capital and make them insolvent. Unlike the 1930s, depositors did not panic and rush to withdraw their funds from banks because now they were protected by federal deposit insurance. But money market lenders had no such insurance, and they began to refuse to lend to the banks. In 2007, and even more in 2008, market funding for banks dried up. Only massive interventions by the Fed and the US Treasury prevented a catastrophic banking and financial crisis on the order of that of the early 1930s. As we know, the crisis has been a bad one. But it could have been a lot worse if the Fed and other financial authorities had acted as they did in the Great Depression.

Source: Sylla (2015)

3.0 EFFECT OF THE FINANCIAL SECTOR ON WELLBEING

3.1 THE CASE OF RURAL FINANCING

Since the advent of microfinance banking in Bangladesh in the mid 1970's, several countries have copied this financing model. The seeming popularity of this model among developing countries is predicated on poverty reduction prospect it offers. The Nigerian government cued into this popular thinking in 2005 when it inaugurated the microfinance banking scheme. This was founded to provide finance to economically active poor excluded from financing by conventional banks, provide employment, engender rural development and reduce poverty.

One of Nigeria's economic peculiarities is financial dualism. There is a formal financial sector made up of the ministry of finance, the Central Bank of Nigeria (CBN), banks, other financial institutions, Nigerian Stock Exchange (NSE), etc. Beside this formal sector exists an informal financial sector with people lending and borrowing directly from each other through methods like esusu, daily contributions and through cooperatives. Some of the programmes tailored to address the problems of financial dualism, poverty and unemployment by successive Nigerian governments are; rural banking scheme, Peoples Bank, operation feed the nation (OFN), green revolution, Nigerian Bank of Commerce and Industry (NBCI), Nigerian Agricultural and Cooperative Bank, Nigerian Economic Reconstruction Fund (NERFUND), Nigerian Directorate of Employment (NDE), Family Economic Advancement Programme (FEAP), Poverty Alleviation Programme (PAP), Nigerian Industrial Development Bank (NIDB), Bank of Industry (BOI), Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB), community banking and microfinance banking. Many of these programmes however failed to achieve the objectives for which they were established and were scrapped even the very last of these programmes which suffer this same fate was community banking and in its place the microfinance banking scheme was instituted.

Microfinance is the provision of financial services to the poor who are traditionally not served by the conventional banks. These financial services include credit, savings, micro-leasing and money transfer and payment services. The features that distinguish microfinance from other forms of formal financial products are; smallness of loans advanced and savings collected, near absence of assets–based collateral and simplicity of operations. It can be deduced from the foregoing that microfinance is a poverty alleviation strategy which operates by providing credit and other financial services to economically active and low-income households and their businesses. To achieve this poverty alleviation objective, microfinance helps the poor increase their income, build viable business, reduce vulnerability to shocks and create employment.

The practice of microfinance is not new in Nigeria. Nigerians have always tried to provide themselves with needed finances through informal microfinance approaches like self-help groups (SHGs), rotating savings and credit associations, (ROSCAs), accumulating credit and savings associations (ASCAs) and direct borrowings from friends and relations. Microfinance banks were therefore established purposely to adequately address the financing needs of the poor and low-income groups. The need for such institution was implied by the CBN when she pointed out that only 35% of Nigerians had access to financial services and that most of those without access to financial services dwell in the rural areas and more so attested that over 95% of the businesses in Nigeria are small and that conventional banks choose not to finance such businesses. This is attributed to the high risks inherent in them and their inability to provide asset-based collateral. It was therefore imperative to make up for the shortfall in the financing of the entrepreneurial poor and their small businesses.

Upon their founding, they were licensed to begin operations in 2007 with paid-up capital from N5m to N20m. However the purpose of their establishment which was the supply of microcredit was not lose sight of, as unlike the community banking policy framework which compulsorily confined all community banks to unit banking there was almost no delimitation to situating a microfinance bank and in terms of ownership microfinance banks accommodated also foreign investors and commercial banks as well as individuals, group of individuals, community development associations, private corporate entities whom could own community banks (Acha, I.A. (2012).

However, microfinance banking had not been without its own challenges. Adeyemi (2008) identified some of the challenges which microfinance institutions face that impinge on their ability to perform to include; undercapitalization, inefficient management and regulatory and supervisory loopholes. To these, Mohammed and Hassan (2009) added usurious interest rates and poor outreach. Further buttressing the challenges facing microfinance banks, Nwanyanwu (2011) identified diversion of funds, inadequate finance, and frequent changes in government policies, heavy transaction costs, huge loan losses, low capacity and low technical skill in the industry as impediments limiting the impact of this subsector in fostering especially rural poor welfare in the Nigerian economy. These challenges many of which contributed to the failure of previous microfinance schemes are noted as still bedevilling the microfinance banking scheme in Nigeria.

3.2 THE CASE OF E-BANKING IN NIGERIA

Electronic banking is a subject receiving great attention in the banking industry and the regulation agencies. It is a driving force that is changing the landscape of the banking industry. It has blurred the boundaries between different financial institutions, enabled new financial, products and services and made existing financial services available in different packages. Its adoption and increased application have been noted as a function of improvement in information and communications technology (ICT) and such holds enormous potentials for the banking industry in Nigeria.

The origin of E-Banking in Nigeria notably could be traced to the SAP era whereby as a result of intense competition among the ever-increasing number of commercial banks especially saw the adoption of electronic banking as a necessity to maintaining a good competitive position. Nigeria however started her long and tortuous journey in November, 1990 when Societe Generate bank launched their first Automated Teller Machine (ATM).

The use of ATM according to Idowu (2005) blossomed because basically the ATM is a cash dispenser but this is not all, and that it has a unique 24/7 service facility, that is, the machine unattended to i.e. "stand alone" or "wall mounted" (outside or inside the banking hall) which allows one to transact limited business without referring to any bank staff except in case of problem and difficulty round the clock. E-banking since its inception has come to be appreciated and renowned to have contributed greatly to improving welfare as an ATM allows a customer to withdraw cash from his or bank account by entering a Personal Identification Number (PIN) after the insertion of a card into the machine and having the amount of the withdrawal immediately debit to the account of the customer. Notably, recent developments in this regard have provided several Automated Delivery Channels: Home link banking/interactive television banking allows bank customers to transact business right inside their rooms, On-line banking allows a customer to transact business in any branch, irrespective of the branch his/her account is domiciled, and internet banking enables communication with other entities and individual around the world (Adewuyi, 2011).

As though some analysis may argue that electronic banking is revolutionizing the banking industry, and some others may see it as simply complementing the physical banking branches irrespective of its own merits, there are diverse challenges and problems associated with this form of banking in Nigeria. Its regulation however by the apex bank i.e. the CBN is poised to be inadequate due to the possibility of highly sophisticated form of money laundering through the use of electronic medium, the high exposure of the IT system to fraud, and the absence of statutory or regulatory provisions to protect the consumer of the products/services. Also, IT deployments into core banking functions especially in developing economies usually comes with massive job cut; there is the possibility of Core Business being swallowed i.e. there is the risk of IT taking precedence over core business of banking in the long-run; and high vulnerability to Systems Operational Risks i.e.as bank IT rests on computers and telecommunications, such are susceptible to system failure and internal manipulations (Adewuyi, 2011).

CASE STUDY: The Role of Microfinance Banks: The Mohammed Yunus Story

The non-availability of as well as the non-accessibility to credit has been duly considered as one of the major obstacles facing the rural poor, as credit for a poor rural peasant can mean a chance to purchase tools, a draft animal, and small capital goods that can enable him to greatly improve his productivity, diversify crops and move towards commercial by producing some cash crops for the market, and eventually move from marginal peasant to established commercial farmer while access to credit for the poor rural landless labourer can mean a chance to learn skills, purchase raw materials (such as cloths) and tools (such as a sewing machine), and eventually become an established business person. The Grameen Bank of Bangladesh is an excellent illustration of how credit can be provided to the poor while minimizing the risk that the resources will be wasted. Microfinance Institutions (MFIs) targeting the poor such as Grameen have expanded rapidly throughout the developing world since the 1980s, but nowhere has this expansion been more striking than in Bangladesh because it has transformed itself from a symbol of famine to a symbol of hope, due in part to the success of its MFIs.

Muhammed Yunus conceived of the Grameen Bank in the mid-1970s when he was a Chittagong University economics professor. Yunus has become convinced from his research that the lack of credit on the part of the poor was one of the key constraints on their economic progress, a conclusion that has been supported by later studies from around developing world. Also, he wanted to demonstrate that it was possible to lend to the poor without collateral. Today, Grameen is a chartered financial institution with over 6 million borrowers among the poor and formerly poor. Yunus began the operation in 1976 after convincing the Bangladesh Agricultural Development Bank to provide initial loan money, the first loan guaranteed personally by Yunus. After series of expansions, the Grameen Bank was formally chartered as a financial institution in 1983.

As a public cooperative bank today having grown rapidly with over 2400 branch offices throughout the country, the Grameen Bank now finances all its outstanding loans from borrower deposits and such manner of operation has enabled several million poor Bangladeshis to start or upgrade their own small businesses. Fully 97% of the borrowers are women. Borrowers generally limited to those who own less than half an acre, and this seem to hold for 96% of the borrowers. Representatives of Grameen Branches often go door to door in the villages they cover to inform people, who are often illiterate and very reticent about dealing with banks, about Grameen services. Before a branch, the new branch manager is assigned to prepare as socio-economic report covering the economy, geography, demographics, transportation and communication infrastructure, and politics of the area.

Grameen which means ‘rural’ in Bengali is incorporated as a publicly supported credit union, with borrowers owning 94% of the bank stock, and the government owning the remainder. Once borrowers reach a certain borrowing level, they are entitled to purchase one share of Grameen stock. To qualify for the uncollateralized loans, potential borrowers form five-member groups relying on what could be called the ‘collateral of peer pressure’. Hence, strong social pressure is placed on members to repay their loans. Peer oversight has contributed to Grameen’s high repayment rate, reported to be 98%. Though also there are additional financial incentives to repay the loan in a timely manner. A member who is unable to repay is allowed to restructure her loan, repaying at a slower rate, with some limited refinancing as needed. Group members as well trained in such practical matters as bank procedures, on the role of the Center Chief and the Chairperson of the five-member group, more so on the bank’s 16 principles known as ’16 decisions’.

Though a major debate in the microfinance community concerns whether microcredit institutions should limit themselves to making loans or also engaging in other social development activities, Grameen technically is a type of bank rather than an NGO and the 16 decisions show that there is a much broader social component at Grameen as well.

Grameen’s emphasis on serving poor women has especially been impressive, as the working capital of borrowers are recorded to have tripled on average within 27 months. A survey by Mahmoub Hossain revealed half the women said they were unemployed at the time they became Grameen members since 46% of the loans went for livestock and poultry raising, 25% for processing and light manufacturing and 23% for trading and shop keeping; thus almost no loans went to finance farm crop activities because in Bangladesh most labourers own a small plot of land for their house but too little to form a basis for a viable farm and this 60% of the Bangladeshis are extremely hard to reach for any development program as they also tend to be the least educated and are probably the least well prepared to move into viable entrepreneurial activities. More so, an impact evaluation carried out by Mark Pitt and Shahidur Khandker concluded that the availability of microcredit also helps households to smooth consumption over time so that family members can reduce during lean period.

Grameen does face some challenges. Bangladesh remains a subject to environmental shocks such as severe flooding that will continue to test the resilience of Grameen’s borrowers and Grameen itself. Cultural challenges are also important. Rising women’s incomes, self-esteem, and business clout have begun to cause some backlash in the conservative Islamic culture of rural Bangladesh, in which women are expected to be secluded from social activities. Grameen is seen as a challenge to this traditional status quo. Schools have been burned, and women have been driven out of their villages or even harmed for challenging traditional cultural norms, including participating market activities. Yunus has once stated that some husbands have viewed Grameen as a threat to their authority. However, Grameen has proved flexible and responsive to the borrowing need of its members with establishing higher education loans amidst others such as life insurance program, loan insurance scheme, and Grameen housing program, which has helped increasing number of parents witness the first members of their families to ever go to college and graduate in fields such as computer science and accounting. This is a remarkable transformation.

Source: Todaro and Smith (2009)

4.0 NIGERIAN BANKS AND THE INTERNATIONAL COMMUNITY

4.1 FINANCIAL GLOBALIZATION IN THE NIGERIAN CONTEXT

Globalization has been duly opined as the integration of national economies through trade, capital flows and such notably have been evident in varied forms of multinational trading and investments arrangements opening up trade, liberalizing countries financial sector and enabling financial integration for the free flow of loanable funds. With it been argued that the world is increasingly becoming a global village especially as result of the advancement in information and communication technology, the recent trend in the volume of international mobility of capital remains a notion not of a surprise but of institutions and enterprises bidding up their edge to ensure their relevance in contemporary times. Thus, international capital flows which emerge as cross-border capital flow result due to the integration of world economies in recent times (Rupali, 2008; Osamor, Akinlabi and Osamor, 2013; Hassan, 2013).

It's no longer news of Nigerian banks operating now in the diaspora through having expanded their scale of operation. The wider coverage which they seek in penetrating the global financial world justifies the attendant benefit which financial globalization has portended to bring for the Nigerian financial system. Though, the disadvantages to such new development or measure cannot be overruled especially in terms of exposure to financial management risks i.e. international capital flows could be very volatile and thereby pass serious threat to financial and macroeconomic stability. Financial globalization notably accentuates a country's domestic financial industry players' capability to access for themselves capital funds for both domestic and foreign sources more cheaply and on better terms. This is because financial sector liberalization and product innovations have in many countries been helped by technological advances, and of which in turn enhances financial intermediation and creates a more competitive market environment for financial institutions. Globalization duly has brought about a rapid change in the Nigerian economy, as the domestic financial players now could aggressively seek to increase their share of financial and direct investment in the international market. Geographical barriers, mostly exemplified in terms of distance, are no longer in consideration or become no more as part of the limitations to fulfilling financial-related objectives (Obaseki, 2000).

Cases that could be put forth include recent operations of selected Nigerian banks such as Zenith Bank, Access Bank Plc, United Bank for Africa Plc, First Bank Nigeria Ltd and Guaranty Trust Bank Plc, to mention but a few and of whom are now expanding globally. Striking to note, several of these banks domiciled within the Nigerian financial hemisphere now have branches operating concurrently either as full-fledged institutions or as subsidiaries of the home country. Many of which are seen across selected African countries and OECD countries. From AnswersAfrica.com (2015) List of Largest Commercial Banks in Nigeria by Alexander Moore Partners Limited, Zenith Bank with branches in the Gambia, Ghana, Sierra Leone, South Africa and the United Kingdom has an asset volume of over 7 billion US dollars, Access Bank Plc with over 5.5 million customers and 300 business branches spread worldwide records total assets worth over 12 billion US dollars, United Bank for Africa Plc headquartered in Lagos and born after a merger between Standard Trust Bank and the old UBA now has more than 7 million customers with over 700 offices serving these people across 19 countries in Africa, First Bank Nigeria Ltd reputed for having been long standing among the first generation banks in Nigeria and notable for a wide coverage both in terms of her number of branches in Nigeria and Abroad (in Accra, Ghana; Banjul, Gambia; Conakry, Guinea; Dakar, Senegal; Freetown, Sierra Leone; Kinshasa, Democratic Republic of the Congo; Johannesburg, South Africa; Abu Dhabi, United Arab Emirates; Beijing, China; London, United Kingdom; and Paris, France) and her number of customers accounts her total assets to be worth over 18 billion US dollars, and Guaranty Trust Bank Plc with a network of about 200 offices spread across Nigeria, other Anglophone West African countries and the UK is known to be the first sub-Saharan bank to be listed on London Stock Exchange and alongside rated B+ by Standard and Poor's and AA- by Fitch Ratings. Instances such as these have promoted the acquisition of large volume of asset and local banks spreading abroad indirectly brings in foreign capital into the domestic economy whereby these banks operate as a Group since globalization facilitated by trade openness allows exports to result to asset acquisition while imports can but only lead to liabilities.

Also, the recent intrusion of foreign-based banks such as Stanbic IBTC Bank - whom goes by the name Standard Bank in some African Locations and Stanbic bank in other African locations and is a South African based bank and a member of Standard bank Group, Standard Chartered Bank – a British bank headquartered in London with a global presence and her parent company listed on the London Stock Exchange is well capitalized with total assets worth more than 600 billion dollars, JP Morgan offering Corporate Banking Services in Nigeria, and Citibank – a multinational bank that has its origin in the United States of America but has expanded to Nigeria to offer consumer banking services attests evidently to the prevalence of an integrated global financial system experience in Nigeria.

4.2 THE ISSUE OF CURRENCY SUBSTITUTION OR DOLLARIZATION

With exchange rate targeting involving the fixing of the value of the domestic currency to another called the anchor currency, dollarization takes place in a country when a 'sound' currency such as the United States dollars is adopted as a country's legal tender currency. Such is an indication of a strong commitment to fixed exchange rate mechanism than a currency board – whereby a country's currency is backed by a foreign currency 100 percent. Whereas, a currency board can be abandoned by allowing a change in the value of the domestic currency, a change in value is impossible under a system of dollarization. The greatest selling point of dollarization is its total avoidance of possibility of a speculative attack on the domestic currency, which could still be possible under a currency board arrangement (Bamidele, 2008).

Currency Substitution or Dollarization occurs when residents of a country extensively use foreign currency alongside or instead of the domestic currency. Dollarization notably can occur unofficially, without formal legal approval, or it can be official, as when a country ceases to issue a domestic currency and uses only foreign currency. The idea of currency substitution has gained prominence during the last year of the twentieth century because several countries have considered official dollarization. As of late January 2000, Ecuador was seriously considering it. Unofficial dollarization occurs when individuals hold foreign-currency bank deposits or notes (paper money) to protect against high inflation in the domestic currency while official dollarization occurs when a government adopts foreign currency as the predominant or exclusive legal tender.

Unofficial dollarization has existed in many countries for years. It has attracted much study by economists, but far less political attention because it is to a certain extent beyond the control of governments. Dollarization makes the news lately because of interest in official dollarization. In early 1999, the government of Argentina stated that it sought a formal agreement with the United States to become officially dollarized. Argentina or any other country can become officially dollarized even without a formal agreement, but there could have been some economic and political benefits to a formal agreement. Argentina's action sparked discussion of official dollarization in other Latin American countries, including Ecuador. On January 9, 2000, Ecuador's then substantive president proposed dollarization as a way of helping his country out of a deep recession and political turmoil but on January 21 political unrest forced him out of office. However, his successor expressed support for dollarization. Just like on January 24 2000 when administrators of the United Nations announced that for the time being the dollar will be the official currency of East Timor as by then she recently regained independence from Indonesia, the announcement of President Jamil Mahuad on January 9, 2000 that the US dollar would be adopted as Ecuador's official currency foretold the later emergence of the US dollar becoming the legal tender in Ecuador on March 13, 2000 and the sucre notes (the country's currency since 1884) ceasing to be the legal tender on September 11, 2000.

The largest independent country that currently has official dollarization is Panama. However, dollarization potentially has widespread application in developing countries because few have currencies that have performed as well as the U.S. dollar. Not until 1999, official dollarization received practically no attention because it was considered a political impossibility.

As currency substitution can be full or partial, in the same vein Dollarization has three main varieties: unofficial dollarization; semiofficial dollarization; and official dollarization. Unofficial dollarization occurs when people hold much of their financial wealth in foreign assets even though foreign currency is not legal tender. The term "unofficial dollarization" covers both cases where holding foreign assets is legal and cases where it is illegal. In some countries it is legal to hold some kinds of foreign assets, such as dollar accounts with a domestic bank, but illegal to hold other kinds of foreign assets, such as bank accounts abroad, unless special permission has been granted. Measuring the extent of unofficial dollarization is difficult. Accurate statistics on how much people hold in foreign bonds, bank deposits, or notes and coins are usually unavailable. However, estimates of the extent to which notes of the U.S. dollar and a few other currencies circulate outside their countries of origin give a rough idea of how widespread unofficial dollarization is. Another way to measure unofficial dollarization is by the proportion of foreign-currency deposits in the domestic banking system. In most unofficially dollarized countries, the U.S. dollar is the foreign currency of choice. That is particularly true in Latin America and the Caribbean, where the United States is the largest or second-largest trading partner and the largest source of foreign investment for almost every country. Russia is also dollarized unofficially to a large extent. A stronger rival to the dollar as the foreign currency of choice in the former Soviet Union, Africa, and the Middle East however is The Euro. Under semiofficial dollarization, foreign currency is legal tender and may even dominate bank deposits, but plays a secondary role to domestic currency in paying wages, taxes, and everyday expenses such as grocery and electric bills. Unlike officially dollarized countries, semiofficially dollarized ones retain a domestic central bank or other monetary authority and have corresponding latitude to conduct their own monetary policy. Official dollarization, also called full dollarization, occurs when foreign currency has exclusive or predominant status as full legal tender. That means not only is foreign currency legal for use in contracts between private parties, but the government uses it in payments. If domestic currency exists, it is confined to a secondary role, such as being issued only in the form of coins having small value. Official dollarization need not mean that just one or two foreign currencies are the only full legal tenders; freedom of choice can provide some protection from being stuck using a foreign currency that becomes unstable. Most officially dollarized countries give only one foreign currency status as full legal tender, but Andorra gives it to both the French franc and the Spanish peseta. In most dollarized countries, private parties are permitted to make contracts in any mutually agreeable currency. Some dollarized countries do not issue domestic currency at all, while others, such as Panama, issue it in a secondary role. Panama has a unit of account called the balboa equal to the dollar and issues coins but not notes. In practice, there is no difference between the balboa and the dollar; the balboa is simply the Panamanian name for the dollar.

In terms of its pros and cons, an officially dollarized country cannot respond to economic shocks, such as an increase in the price of oil, by altering the exchange rate of its currency. It would have to utilize other methods of adjustment at its disposal: flows of capital into or out of the country to offset the shock, changes in the government budget, and changes in prices and (less often) wages. Altering the exchange rate can perhaps soften but not avoid the need for real adjustment. If official dollarization goes no further than using a foreign currency, it does not achieve its full potential benefits. An officially dollarized country has a unified currency with the issuing country, but not necessarily an integrated financial system. To achieve financial integration, a country must allow foreign financial institutions to compete with domestic financial institutions. Full financial integration occurs when the law allows financial institutions extensive freedom of action to compete and does not discriminate against foreign institutions. In particular, it means that foreign financial institutions can establish branches, accept deposits and make loans, buy up to 100 percent of domestic institutions, and move funds freely into and out of the country. Financial integration plus official dollarization using a leading international currency (the dollar, euro, or yen) makes a country part of a large and liquid international pool of funds. Consequently, the location of loans need not be closely linked to the location of deposits. Citibank, for example, does not need to balance its loans and deposits in Panama any more than it needs to balance its loans and deposits in Pennsylvania. It can borrow where the cost of funds is lowest and lend where the risk-adjusted potential for profit is highest anywhere in the dollar zone. The ability of the financial system to switch funds without exchange risk between an officially dollarized country and the issuing country reduces the booms and busts of foreign capital that often arise in countries having independent monetary policies and financial systems not well integrated into the world system. Besides helping to stabilize the economy, financial integration improves the quality of the financial system by allowing consumers access to financial institutions that have proved their competence internationally. That forces domestic financial institutions to be high quality to compete with foreign institutions. Moreover, foreign financial institutions can lend funds to domestic institutions when domestic institutions lack liquidity. Ready access to foreign funds offers a dollarized country a substitute for the central bank function of a lender of last resort.

In less than a year, official dollarization has changed from an obscure idea to one debated daily in a growing number of countries. Because interest in official dollarization is so recent, basic information about it has been lacking. Although many details remain to be investigated, this work serves to promote in a way more informed discussion in countries considering official dollarization. The twentieth century even till now has been a time of increasing currency fragmentation unlike at the beginning of the century when fewer countries were independent compared to those existing today. Official dollarization can be an important option in making the international monetary system more solid and less prone to crises as it has benefits that make it worthy of consideration in developing countries (Schuler, 2000).

However, just as Boamah et al (2012) had noted that increased currency substitution may have several spill effects such as weakening the autonomy of monetary policy, increasing vulnerability to economic shocks, and susceptibility to deteriorating balance of payments accounts and/or exchange rate volatility, Doguwa (2014) emphasized that currency substitution has the potential to negatively impact overall economic growth, especially for small open economies and in the Nigerian case the relevance of the currency substitution problem is not so much related to the choice of fixed versus floating exchange rates but to the potential problems of short-run monetary instability that currency substitution can create. Hence, the recent move by the country's Apex Bank i.e. the CBN to bar the counter or teller deposits of foreign currencies within the domestic economy in the interim is a move in the right direction but more need to be done in ameliorating the domestic financial hemisphere from foreign currency intrusion if the country's stance remains distant away from official dollarization.

5.0 CONTRADICTIONS IN THE NIGERIAN FINANCIAL ECONOMY

5.1 DEVELOPMENT BANKING IN NIGERIA

Much has been argued on the need for financing for development. That in order for such to come into light, would it be government outrightly also engaging in financial business or banking business i.e. having state-owned banks? Such however may not be the case since it is opined that government establishment of varied forms of development financial institutions (DFIs) is to bridge the gap not covered by conventional banking in the development objective.

Nigeria notably has a long history of development finance institutions establishments. Since the first republic, there have been several such as the Nigerian Industrial Development Bank (NIDB) established in 1964, Nigerian Bank for Commerce and Industry (NBCI) established in 1973, Nigerian Agricultural Cooperative Bank (NACB) established also in 1973, Federal Mortgage Bank of Nigeria (FMBN) established in 1977, People's Bank of Nigeria (PBN) established in 1989, Community Banks (CBs) established in 1990 until the most recent, the Bank of Industry (BOI) purposed for financing entrepreneurial activities (Akinboyo, 2008).

After the long existence of several DFIs and the fading out of some over the years, the need to aggressively explore their potentials in contributing to realizing development objectives in the 1990s up until the mid-2000s motivated their expansion in operational coverage. The case of mortgage banks was vivid. Their mobilization of deposits for mortgage financing later was noticed to have an economy wide liquidity contractionary effect which as a result made the Apex Bank at the period emphasize that development financing is never an alternative to conventional banking and so the money market rent seekers need to be cautioned.

Also due to the peculiarity in terms of the Nigerian demography whereby the wide prevalence of a low-banked northern population as a result of their aversion towards the collection of interest, called 'usury' or 'riba' inherent in conventional banking, the federal government took the bull head-on to approve the licensing for Islamic Banking – to enable banking operations in the northern part of the country based on the tenets or widely accepted cultural norms of the northern people but such initiative was not allowed to pass without several interest groups questioning the federal government decision and raising criticisms. Most prominent was the implied assertion to promote the Islamization of the country starting from the northern part and through the financial sector. Amidst the contention, the first Islamic Bank – Jaiz Bank Plc was established with license approved in November 2011 by the immediate past Central Bank of Nigeria Governor and recently ousted Emir of Kano, Sanusi Lamido Sanusi but the debate accessing its necessity and a plethora of criticisms which the existence of such institution has created is still on-going.

CASE STUDY: The Case of Islamic Banking: A Brief Highlight

The evolution of modern banking, we know, has been the outcome of expansion of economic activity in the modern economy. Bank is the intermediary between the savers and the investors. The savers deposit the amounts saved into these institutions and these in turn advance the same to the parties that have talents to invest and utilize the savings of others. The bank, thus, reconciles the two ends and creates the opportunities of better utilization of natural resources as a whole. There are however many secondary functions that the banks perform, and all of these services inclusive of their role of intermediary between the savers and the investors are important for the economic organization of a country.

This first function however which exemplifies the framework upon which the technique of modern banking is built on shows that, the present-day technique for this intermediation is the 'loan basis' i.e. the bank thereof interplay in a relationship in a relationship on two ends whereby the money lent to her by savers of deposits on a certain rate of interest for a certain of period of time are then lent to certain other parties who want to invest it in the field, again on a certain rate of interest and for a definite period of time. Conversely to the foregoing, Islamic Banking practice emphasize the need for present-day banking to switch-over from 'interest' to 'profit' as a link between the savers and the investors. The principle of sharing the 'profit' with the actual investor (the saver) is called Mudarabah in Islamic Law. This in effect is of such a manner that the party having some money which it cannot perhaps use hands over the same to another party that can invest (the ultimate investor), then as a business proposition both parties share the profit in an agreed proportion. Thus, the bank runs on the basis of Mudarabah, a system of interest-less commercial banking (Khan, 2014).

The central tenet of Islamic banking, the prohibition of interest (riba), stems from the following Qur'anic quotation:

S. 275. Those who eat riba will not stand (on the Day of resurrection) except like the standing of a person beaten by Shaitan (Satan) leading him to insanity. That is because they say: 'Trading is only like riba', whereas Allah has permitted trading and forbidden riba. So, whosoever receives an admonition from his Lord and stops eating riba shall not be punished for the past; his case is for Allah (to judge); but whoever returns (to riba), such as the dwellers of the Fire – they will abide therein.

The Qur'an – Al-Baqarah S. 275 – 281

The prohibition of interest (riba) is in fact mentioned in four different revelations in the Qurán. The first revelation emphasizes that interest deprives wealth from God's blessings. The second revelation condemns it, placing interest in juxtaposition with wrongful appropriation of property belonging to others. The third revelation enjoins Muslims to stay clear of interest for the sake of their own welfare. The fourth revelation establishes a clear distinction between interest and trade, urging Muslims to take only the principal sum and forgo even this sum if the borrower is unable to repay. It is further declared in the Qur'an that those who disregard the prohibition of interest are at war with God and His Prophet.

Islamic banking is therefore in fact about banking based on Islamically-ethical principles which are, in many ways, very different indeed from conventional banking principles. Islamic financial institutions are those based, in their objectives and in their operations, on Qur'anic principles. They are thus set apart from conventional institutions, which have no such religious preoccupations. Islamic banks provide commercial services that comply with the religious injunctions of Islam. Islamic banks provide services to their customers free of interest (the Arabic term for which is riba). The giving and taking of interest is prohibited in all transactions. This prohibition makes an Islamic banking system differ fundamentally from a conventional banking system.

Technically, riba refers to the addition in the amount of the principal of a loan according to time for which it is loaned and the amount of the loan. In earlier historical times there was a fierce debate as to whether relates to interest or usury, although there now appears to be a consensus of opinion among Islamic scholars that the term extends to all forms of interest. The term riba, in Islamic law (the Sharia'a) means an addition, however slight, over and above the principal. Therefore, the Islamic injunction is not only against exorbitant or excessive interest, but also against a minimal rate of interest. Financial systems based on Islamic tenets are therefore dedicated to the elimination of the payment and receipt of interest in all forms. This taboo makes Islamic banks and other financial institutions differ, in principle, from their conventional counterparts.

This rejection of interest thus poses the central question as to what replaces the interest rate mechanism in an Islamic framework. Since financial intermediation is at the heart of modern financial system, the operations of Islamic financial institutions primarily are based on a Profit and Loss Sharing (PLS) principle. An Islamic bank does not charge interest but rather participates in the yield resulting from the use of funds. The depositors also share in the profits of the bank according to a predetermined ratio. There is thus a partnership between the Islamic bank and its depositors, on one side, and between the bank and its investment clients, on the other side, hereby acting as a manager of depositors' resources in productive uses. This is in contrast with a conventional bank, which mainly borrows funds paying on one side of the balance sheet and lends funds, charging interest, on the other (Kettell, 2011).

We do well know that commercial banks maintain three kinds of deposits namely Fixed Deposits, Current Deposits and Savings Deposit, these categories continue even as in Islamic Banking where an interest-free economy is maintained but with the technique changed. The Fixed Deposits are converted into Investment Deposits, that is, only these deposits will be used for investment purpose. The depositors in this category have the investment motive and the amount will be advanced to the investors, and so the depositors will thus get the share in the profit. Islamic Banks then will have 'profit received' and 'profit allowed' instead of 'interest received' and 'interest allowed'. In case of loss of in any period, it will be deducted from the balance. The Current Account Deposits are maintained on behalf of the depositors as facility of transfer of accounts, disbursements and in brief to have money liquid that could be used any moment and in any way the depositors choose. The amounts in this category are neither deposited for investment purposes and business motives nor can these be used by the bank for profit and business motives. There does not arise therefore, any question of either receiving any reward or allowing any. So rather than the money lying idle, it can be used for advancing short-term credits or allowing overdrawals for very short periods. These services will be rendered by the bank as a privilege and not as 'interest-bearing loans'. These services however involve some expenditure on stationery and the establishments which are regarded as overhead cost, and so clients seeking such services may be required to pay in a sort of service charge to cover the cost. The service charge will be quite different from interest on the following grounds: first, such will not be calculated on the basis of time but rather a specific payment to be made once without any reference to time and secondly, there will be similarly no reference to the amount in question but a charge to cover the cost involved in stationery, establishment and additional botheration. As for Savings Bank Deposits, these involve a service from the bank and the deposits are made for the sake of safe custody, so there does not arise any question of allowing interest to these depositors. These deposits are moreover, not invested by the bank and there is no ground for the profit, even from this point of view. But this money lying idle can be used in giving non-business loans (or non-commercial loans) to the general public whom are clients in the Savings Bank Category or persons who fulfill conditions such as: the loan requested shall not exceed five times the average monthly income of the person; the loan shall be repayable within specified time limit, considered suitable and convenient, and the person will have to convince the bank about the soundness of the purpose for which the loan is sought – these purposes may be two kinds, either to meet some emergency (a short-term loan) or to take up some constructive effort for improving one's standard of efficiency and general living like studies, house-building or other constructive purposes (a long-term loan). The bank will realize some service charges even from these Savings Bank Account deposits. The service charge for granting the loan will be specific while for the general service of safe custody will be obviously periodical. This is how the three categories of Accounts in interest-less banking take shape.

These three categories of Accounts are maintained quite separately and independent of each other, since the intermingling of the accounts would create opportunities for confusion and misuse. The depositors in the Investment Account Category will have a more vital interest in the business of the bank, and the savers and the investors will thus have a closer relationship and a more vital interest in the affairs of each other. This will not only ensure the smooth and successful running of the bank, but also enable the country to avoid the frequent fluctuations of cyclical nature caused by the maladjustment between Savings and Investment and Consumption and Production (Khan, 2014).

Fundamental differences between Islamic and Conventional

	Islamic banking	**Conventional banking**
1.	An advance step toward achievement of Islamic economics.	Part of the capitalistic interest-based financial system.
2.	Try to ensure social justice/welfare or the objectives of *shari'a*.	Not concerned.
3.	Flow of financial resources is in favour of the poor and disadvantage sections of society.	Not concerned.
4.	Prepare and implement investment plans to reduce the income inequality and wealth disparity between the rich and poor.	Increase the gap.
5.	Make arrangement for investment funds for assetless, poor but physically fit people.	All plans are taken out for the rich.
6.	Observe the legitimate and illegitimate criteria fixed by the *shari'a* in the case if production and investment.	No such rule and regulation.
7.	Implement investment plans on *mudaraba* and *musharaka* to stimulate the income of the people below the poverty line.	No such programme.
8.	Interest usury is avoided at all levels of financial transactions.	The basis of all financial transactions is interest and high-level usury.
9.	Depositors bear the risk, no need for deposit insurance.	Depositors do not bear any risk, moreover the bank is inclined to pay back principal with a guaranteed interest amount.
10.	The relationship between depositors and entrepreneurs is friendly and cooperative.	Creditor-debtor relationship.
11.	Socially needed investment projects are considered.	Project below the fixed level are not considered.
12.	Elimination of the exploitation of interest and its hegemony.	Helps to increase capital of the capitalist.
13.	Islamic bank becomes partner in the business of the client after sanctioning the credit and bear loss.	Do not bear any loss of client.
14.	Islamic bank can absorb any endogenous or exogenous shock.	Cannot absorb any shock because of the extent commitment.
15.	Islamic banking is committed to implementing welfare-oriented principles of financing.	No such commitment; extend oppression and exploitation.
16.	Inter-bank transactions are on a profit and loss sharing basis.	On interest basis and create unusual bubble in the market, i.e. exorbitant increase in the c all money rate.
17.	Islamic banks work under the surveillance if the *shari'a* supervisory Boards.	No such surveillance.

18. Lower rate of moral hazard problem because of the brotherhood relationship between the bank and customers.	High moral hazard problem because relation is based only on monetary transaction.
19. Avoids speculation-related financial activities.	Main functions are speculation-related.
20. Bank pays *zakat* on income and inspires clients to pay *zakat*, which ensures redistribution of income in favour of the poor.	Not *zakat* system for the benefit of the poor.
21. The basis of business policy is socioeconomic uplifting of the disadvantaged groups of the society.	Profit is the main target of business, or the prime duty is to maximize the shareholders' value.
22. Dual target: implementation of the objectives of *shari'a* and profit.	Profit making is the sole objective.
23. Islamic banks sell and purchase foreign currency on a spot basis, not on forward looking or future basis.	Spot and forward and both used.

Source: Ahmad and Hassan (2005), Brown, Hassan and Skully (2007)

In terms of the problems and prospects of Islamic Banking, a number of aspects add to the dilemma of Islamic banks (Ahmad and Hassan, 2005). First, many people do not understand Islamic Banking; this includes both Muslims and non-Muslims. The fact that shari'a boards, which oversee the transactions in relation to the Qur'an, are often at the individual bank level, can lead to many interpretations of what is and what is not a suitable 'Islamic' transaction. Also, the nomenclature is often not consistent. Islamic bankers have often modified the Islamic transaction to suit the requirements of the current transaction. Islamic investments are not always palatable to investors, but this may be related to their limited knowledge of Islamic finance. Second, although Islamic Banking was able to develop rapidly in the Middle East oil-rich countries in the 1980s, many people, companies and government in that region still use only conventional banks. Third, it is difficult for Islamic Bank to manage liquidity risk with Islamic products where interest-free capital markets do not exist. This is also related to the shortage of Islamic investment instruments.

Next there is a conflict of interest within Islamic banks to balance achievement of a high ROE, but also to meet customers' needs in an Islamic and 'social' manner by perhaps providing qard hasan in a low-value contract, which may not lead to maximizing ROE. In addition, the social aspect of Islamic banking such as making zakat donations to charities is seen as an important aspect to maintain.

Other problems include a lack of suitable trained staff able to perform adequate credit analysis on projects, as well as suitable managers, rather than just the owner. Latest technologies as used in conventional banks are often not used by Islamic banks. Under conventional banking systems, risk is priced according to interest rates, whereas Islamic finance often requires a mark-up or profit-sharing amount to be determined before the transaction begins. Often Islamic banks do not fall under the lender of last resort facility, where the central bank can lend money to the bank in times of low liquidity, except in Malaysia. Another is the issue of regulation. Islamic banks came into existence when conventional banks, which charged interest, were well established. Some regulations need to be amended before an Islamic bank can operate within a particular economy. In the non-Muslim world, new banks also need to meet economic requirements such as a certain size requirement and may be limited as regards areas of the economy in which they can operate. Sudanese Islamic banks, for instance, are so restricted (Brown, Hassan and Skully, 2007).

Islamic banks are in a privileged position to gain access to customers from large Muslim population around the world, thanks to the philosophy of the Qur'an. However, they also have a social obligation to finance via equity, or profit or loss mode, projects that may initially lack capital funds. This could also see the emergence of countries with large Muslim populations financially expanding at a more rapid rate. Perhaps then the social equity of an Islamic bank is best supported through finding a good project that does not have sufficient equity or capital for a conventional bank to lend to. Emphasis is thereby made that more profit and loss-sharing lending, such as mudaraba and musharaka, should ethically be undertaken by more Islamic banks in a manner that could include further investments with people with new ideas but limited capital (Brown, Hassan and Skully, 2007). So as consumers and investors need further education in Islamic finance, Islamic banks need to ensure also high-quality services for customer (Ahmad and Hassan, 2005). For the banks to operate efficiently, and hence help economic growth of an economy, banks need to be trusted by both the general public and regulators alike. More so as Islamic banks are now competing with conventional banks offering Islamic windows or services, it is important for Islamic banks to develop common reporting standards which could include following International Financial Reporting Standards (IFRS) and employing International Accounting Standards (IAS). With continued globalization of financial services, the outlook is for continued growth of Islamic banks (Brown, Hassan and Skully, 2007).

6.0 CONCLUSION AND RECOMMENDATIONS

6.1 CONCLUSION

As the banking system remains a veritable mechanism for the development of an economy, its relevance in ensuring adequate financial intermediation from economy exchange thus cannot be overemphasized. Tracing the growth of any country's financial sector shows inherently the factors propelling its advancement, and in the case of Nigeria such factors notably amidst many include the governance stance at varied moments, the need for a wider coverage or wide dispersal of banking facilities, and the Apex Bank i.e. the CBN regulative mandate and or implemented reforms.

The benefits evidently accrued from contemporary e-banking, rural or grassroot fund mobilization and SME financing shows the aligning positive impact or effect of development in the banking sector. Duly over the years and despite the possibility of an exposure to risks or fluctuations in the international monetary system, the extension of domestic banking services to other or foreign countries or engaging in Diaspora Banking seemingly would be a test of these industry players' value, a yardstick to benchmark their competitiveness and a strive to ensure their continual relevance.

Though it has always been argued in classical perspective or free-market or capitalist approach that government has no business in doing business, however their participative role in establishing other financial institutions divergent from operations attributable to core banking goes a long way to offer or provide liquid funds for every sect in the economy, especially the informal sector not served by conventional banking operations.

6.2 RECOMMENDATIONS

Hence in line with the foregoing, necessary considerations that need to be heeded or adhered to in ensuring the banking sector play a proper role for sustainable development especially as part of the Post 2015 Development Agenda and even by policy makers would include:

a. The situation of any financial institution in an economy need be appropriate and accessible to the local or intended beneficiaries.

b. The economy wide regulation by the Apex Bank towards foreign currency intrusion need to be supported by an exchange rate management process that will further strengthen the domestic currency.

c. Exploring further the potentials of Diaspora Banking by domestic banks especially by the Nigerian government should help foster the declining reliance on external fund sources in order to meet expenditure demands due to its aligning higher servicing cost.

d. Despite the on-going debate on the relevance of Islamic Banking, its potentials in ensuring that financial deepening leads for real sector development need to be utilized.

These recommendations however are in no manner exhaustive.

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