BANKING SYSTEMS IN SELECTED DEVELOPED AND DEVELOPING ECONOMIES: A COMPARATIVE ANALYSIS OF THE BANKING SYSTEMS IN NIGERIA, U. K. AND GABON

D, I. Mai-Lafia

Abstract

Banking systems all over the world is the same in consolidated and globalize sense. However, the organization and practice of banking systems differ depending on [he financial development within which the system operates. In addition, the historical development of banking system in each economy is different. Using an analytical approach, the paper compares banking systems in U. K., Gabon and Nigeria. The paper posits that in U. K., the token of appreciation for safe keeping to gold smiths developed what is called current account charges. Gradually, receipts were issued out to depositors and this marked the beginning of issuing of bank notes. Banking in Gabon is traced to the occupation of the present Franco-phone Equatorial African zone in the 19'" century by France. Until then, modern banking was not practiced in Gabon. By 1964, a joint central bank was established by the French Government to some five Franco-phone Equatorial Africa and Cameroon. Modern banking in Nigeria is traced back to the establishment of the West Africa Currency Board in 1912. The Board was established mainly to issue legal tenders to all the West African British colonies. In the operations the banking systems, the paper posits that the Bank of England is directly under the British Treasury. Thus, it is like the Central Bank of Nigeria which is directly under the Federal Ministry of Finance. In conclusion, banks in developed countries arc freer than their counterparts in less developed countries.

Introduction

A close look at the financial structures of a developed economy like Britain, a developing economy like Nigeria, and that of a less developed economy like Gabon is very important. This is because it will help us to determine the position of each country's central and commercial banks and the relationship that exists between them for the common purpose of:

1. Achieving the cardinal principles of banking. This cardinal principle is referred to as effective lending which is maximum profitability tot the shareholder and maximum liquidity to the depositor.
2. Mobilization of resources for the development of the economy.

These two reasons require a close and cardinal relationship between the central and commercial banks of every economy. This is because the two points can be said to represent the interest of commercial and central banks respectively.

Central banks in different economies are diverse set of institutions. Some are independent like most private banks. A typical example is the Federal Reserve of America, and the Bank of Germany, while others are an integral part of Government machinery, which must not conduct private businesses. However, some countries have no central banks, for example, Luxemburg and Hong Kong. They are both having only a close link with the banks of England and Belgium respectively (Hanson, 1983),

Considering operations of the banking industry, this topic is very broad such that, it may be unrealistic to cover all the activities of the banking system on a comparative basis between developed economies in a paper such as this. Because of this, the scope of the paper is reduced to covering the banking systems in Nigeria, U. K. and Gabon with particular attention to the composition and function of both the Central and Commercial banks in these countries. The aim is to enable the reader be in a position to judge the level of banking in Nigeria having considered it along side with a relatively more developed country (Britain) and relatively less- developed country (Gabon).

The paper is divided into four sections: First section deals with the introduction. Second section deals with a historical background o f banking in the countries of consideration on a

comparative basis. Section three deals with the structure and functions of banking systems in these countries (this section is the core of the paper). Then the last section is the conclusion under which some problems of banking in developing economies and possible suggestions are discussed.

Historical Background of Banking The **Concept of Banking**

The concept "banking" is easier explained than defined. That is why the respected Oxford Dictionary's definition as "an establishment for the custody of money, which it pays out on a customer's order" looks limited in the sense that only one side of the balance sheet of the banking system is implicitly considered by this definition; that is sources or the liabilities of the banking system. Hanson (1983), however, defines banking as "Dealers in Debt". This is because, a deposit is a debt, which the bank owes the depositor on the other hand a note, is an acknowledgment the issuing bank debt to who ever may be the bearer. This definition as short as it may be defines banking more precisely because; it takes into account the two sides of banking activities (liability and assets).

The practice of some aspects of banking has been in Africa fro time immemorial. For example, we have the "Adashe" among the Hausas and minor tribes of the Northern Nigeria. This traditional banking system is what is classified as Non Financial Institution. According to Hanson. everybody practices some aspects of banking in the sense that we store some of our valuables while others are professional custodians because they have the facilities for proper storage. On the basis of this therefore, we refer to the practice of banking in our society (today) as modern banking.

History of Banking in U. K

The U. K. banking history can be traced back to the 14th and 15th century London "Gold Smith. Very few people other than gold smiths had safe storage facilities. Most of the activities of the modern banking such as current account charges, issuing of bank note, saving interest and cheque system are advancements and thus improvement on the practice of the London Gold Smith. For example, the token of appreciation for safe, keeping to gold smiths developed to what is called current account charges. Gradually, receipts were issued out to depositors and this marked the beginning of issuing of bank notes (Mai-Lafia, 1996).

As the business continued to be profitable the gold smith encouraged the depositors to bring their valuables, gold - for safe keeping by giving them sort of interest. This was how the idea of saving interest started. Because the gold smiths were known to have some gold, which they kept for long period, merchants came to borrow from them. The gold smiths charged some interest on investment on such loans. This practice developed into what is called in the modem banking as lending interest. Initially, only a depositor himself or herself could claim the deposited gold from the gold smith. But as time went on, depositors could write a note ordering the gold smith to pay some other person some specific amount. Thus, by 18th and 19th century the cheque system came into existence. All the same, the development of banking in Britain was very slow. Most of the development was concentrated in London. However, with the introduction of the British Industrial Revolution, the demand for banking assistance led to the expansion of banks to relatively rural areas. Thus, we can say that banking in Britain at this time was supply led.

Between 14th and 15th century there were two banks.-This increased to twelve by 1750 and 750 by 1821. All of the private banks in U. K. had increased to about 3000. Foreign Commercial, Central bank and Merchant bank branches inclusive (Hanson, 1983).

History of Modern Banking in Nigeria

Modern banking in Nigeria is traced back to the established of the West African Currency Board in 1912. It was established mainly to issue legal tenders to all West African British colonies. The W. A. C. B. religiously discharged its other functions such as its exchange of existing currencies, the repatriation of existing currencies, and the investment of its reserves. In the process of discharging these functions, the board's activities were characterized by the following elements. These were: (a) Fixed parity of local currency with sterling (b) automatic issues and (c) 100 percent sterling coverage. This 100 percent sterling coverage ensured-the exchange stability of the West African currency in terms of sterling while the automatic link with sterling ensured that in times of financial stress, Nigeria could look to London for help. In effect, London acted as Nigeria's money market. The

WACB invested ali its reserves in sterling overseas though there was no legal obligation on the part of the board to do so (Nwankwo, 1980). No local investment outlets were developed.

History of Banking in Gabon

The history of banking in Gabon is traced to the occupation of the present Franco-phone Equatorial African zone in the 19'" century by France. Until then, modern banking was not practiced in Gabon. By 1964, a joint central bank was established by the French Government to some; five France-phone Equatorial African and Cameroon. These countries were Gabon, Chad, Cameroon, Congo Brazzaville and the Republic of Central Africa. This bank is called Banque Central Des States de I'nfrique Equatorial el -du Cameroon. The starting capital of 250 million CFA franc (African guaranteed franc by France) was provided by France. It had branches in each member country and an administrative office as well as Head office in Paris. The currency issued by the institution is Franc (CFA) which as at 1969 was an equivalence of 0.0032 grammes of gold. Ownership of commercial banking system in Gabon, up to this day is dominated by foreigners (Lorenzo, 1984).

Looking at the historical background of banking in the countries, we will observe that, while the roots of banking in Nigeria and Gabon, are traced to Britain and France, Modern Banking is Britain developed right there in Britain. Also while the practice of modern banking started since in the 14th century in Britain, it was introduced in Nigeria, in 1892, with the establishment of the African Banking Corporation and in the late 1950's in Gabon. This can be explained as one of the main reasons why modern banking seems to have fitted naturally into the culture and system of Britain than in developing countries such as Nigeria and Gabon.

The Structure and Functions of the Banking System in Britain, Nigeria and Gabon

As shown in figure 1, the Bank of England is directly under the British Treasury. Thus, it is like the Central Bank of Nigeria, which is directly under the Federal Ministry of Finance. As can be seen in figure 1, all other financial institutions in Britain arc under the Bank of England. The bank as we will sec later is less involved in the activities of the banks down the ladder. The nature-or relationship between the central bank and the other banks can be described as side by side, as located on the structure by the direction of the arrow that extend from the Bank of England.

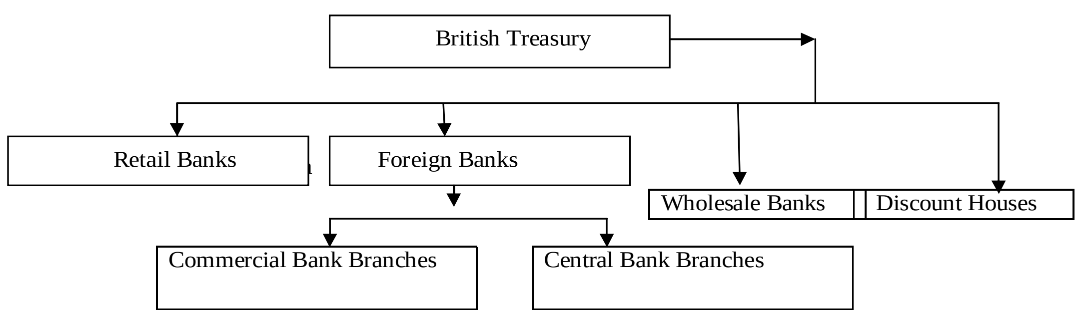

Figure 1; Structure of Banking System in Britain. Adopted from; Hanson, J. L. (1983): Monetary Theory and Practice. (The English Language Book society and Macdonald and Evans Ltd) 7lh Editions.

Because of the nature of relationship between the Bank of England and other banks, private banks in Britain are freer to conduct their activities in accordance with the cardinal principles of Banking. The major obligation of the other banks (commercial banks) to the Bank of England is in the area of carrying out some monetary policies. For a more detailed understanding of how the Bank of England operates in relation to the other financial institutions in Britain, it may be better to study the bank more closely in the following sub-topics.

Bank of England

It was started in 1694 as a private bank by some 1,268 merchants and was called the "The Bank." It developed along side with Bank of France and Germany. It became a government bank in 1946 and the name changed from "The Bank" to Bank of England in 1946. The organization of the bank is made of a Governor who is usually appointed from within the bank. A Deputy Governor must be someone who has spent a substantial part of his career in the bank, and four full-time executive directors who are usually men of substantial banking experience and finally twelve part-time non-executive directors. This set of people (the part-time), are appointed on the basis of their experience in commerce, industry, banking, trade union and civil service. The puipose is to widen the amount of experience available to the bank in its deliberation. Its governing body is called the "Court of Directors."

Comparing the composition and the caliber of people on the Court of Directors of the Central Bank of Nigeria, we will notice a lot of differences. For example, while the twelve part-time non-executive directors are representatives of various sectors of economy, it is constitutionally wrong for any member of the CBN Board of directors to be a representative of any organization or group of individuals.

> Neither the Governor, nor his Deputy or any other director shall be a civil servant, a director, salaried official or shareholder of any licensed bank in Nigeria or member of the Federal State legislature... He shall not be regarded or act as a delegate on the board from any commercial, financial, agricultural, industrial or other interest with which he may have been connected (Nwankwo, 1980: 44).

The bank of England has five standing Committees. The most important among them is the Committee of Treasury, which meets every week to consider reports coming from committees. This committee is also referred to as "The Senior Committee." The other Committees are: Corporate Service Committee, which deals with the allocation of resources within the bank (e.g. staff welfare), Finance and Industry Committee which surveys the developments in the industrial and commercial sector and also developments in goods and money markets, the banking supervision Committee mainly keeps contact between the Bank of England and all other banks and non-bank Financial Institutions. Then, there is Policy-making Committee which is mainly in charge of internal and external monetary policies, government foreign exchange, formulation of development policies as well as contact with the press and the general public.

In the case of Nigeria, as shown in figure 2, the bank has only three departments. However, the bank of England has similar functions with the Central Bank of Nigeria. The only difference is that it receives deposits from private individuals and brokers.

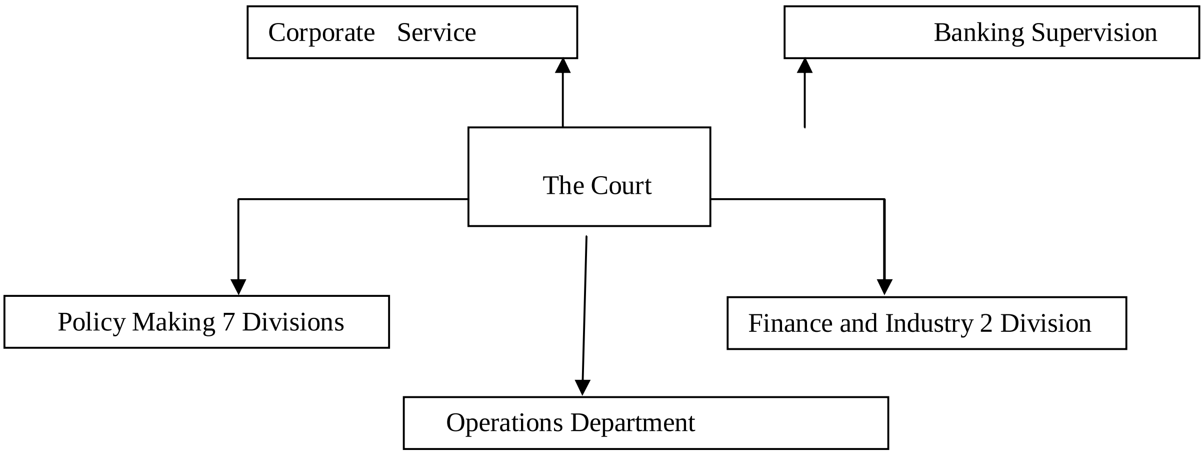

Figure 2; The Structure of the Banking of England.
Adopted from: Nwankwo, G. O. (1980): The Nigerian Financial System. (McMillan Int., College Edition).

The Bank of England and Monetary Policy

The main objective of policy making division of the Bank of England are for the maintenance of (1) full employment level, (2) elimination of deficit balance of payment, (3) fostering economic growth and most recently, (4) reduction of the rate of inflation.

Between 1945 and 1970, fiscal policy was the main tool of economic adjustment, especially internal economic situation. From 1979, the role of monetary policy between 1964 and 1970 was greatly influenced by the Keynesian prescription and the expectation of a slump similar to the one of the 1920s after the First World War.

The Bank of England ensures that interest rates are as low as possible so as to achieve the objective of maintaining full-employment level. This policy of low interest rate is called" cheap money', some of the tools of the government through the Bank of England are, *(\)* Liquidity ratio, which has been between 7 $l/_2$ % to 8% since 1964, (2) quantitative and qualitative restriction on request on bank lending, (3) open market operation, (which is the most popular tool in the developing countries, especially Nigeria), (4) the special funding scheme in 1960 and funding the national debt (i.e. selling long dated government stock to reduce the liquidity positions of banks) (5) the hire-purchase credit policy is also a tool specially to regulate spending on consumer durables.

On a comparative basis, the major monetary policy tool of the Central Bank of Nigeria is the .Open Market Operation, Liquidity ratio, interest rate regulation and determination, and withdrawal and issuing or printing of old and new currencies. As a matter of fact, the Bank of England has more monetary tools, which she implements directly without having to go through the commercial banks because of its direct involvement with the general public.

Contrary to that, most of the Central Bank of Nigeria's monetary policies are channeled down through the commercial banks and other private financial institutions. The use of both monetary and fiscal policies in advanced countries like Britain may be relatively more successful than in developing economies because the policies are propounded out of the experience of the countries. In U. K. and U.S.A for example, Keynesian theory developed purely on the basis of what was happening in Britain around the Great Depression period. On the other hand, the theories are just adopted into the system of the developing economies like Nigeria, which have different economic and cultural backgrounds from the origins of the theories.

Commercial Banking in Britain

Commercial banks in Britain are classified into two. These are Retail and Secondary banks. Apart from the Bank of England any other bank foreign or indigenous falls into any of these two categories. The ownership of these banks are private individuals. The classification of private banks into Retail and Secondary is purely on the basis of their volume of operation. Retail banks, which are also called Primary Banks, operate like the commercial banks in developing countries. By 1983, there were 3,000 retail banks in Britain and other parts of the United Kingdom. They usually lend on high interest rates and grant short terms loans.

The secondary banks on the other hand came into the banking industry much later than the Primary Banks. Soresive big banks dominate it. These are: (1) Lynd's Bank (2) National Westminster-Bank, (3) Barclays Bank, (4) Midland Bank and (5) National Bank (Nwankwo, 1980). Since the introduction of the Euro markets, there has been a proliferation of this class of private banks.

On a comparative basis, these banks may be the ones referred to as Merchant Banks in Nigeria considering them on the basis of their operations. For example, most of the deposits these banks receive are anything in excess of £50,000 directly from customers or brokers. However, their small branches in other countries operate on small scales like any retail or commercial bank.

As mentioned earlier, private banks in Britain are freer than their counterparts in developing economies. For example, interest rate to a great extent, are determined by direct negotiation between the bankers and the prospective creditors. Interest rates are determined by central banks in most developing economies. Even in countries like Nigerian where CBN unambiguously determines them.

The way the Bank of England influenced the interest rate is indirect. This is the interest rate the Bank of England charges the discount houses. The discount houses normally charge the other banks about the same rate of interest charged on them by the Bank of England, as a matter of policy, encourages lower interest rates in an attempt to maintain full-employment level.

Although the Bank of England, like the Central Bank of Nigeria, is banker of other banks, the relationship is indirect. In actual sense, the discount houses (which are private) are the bankers to other banks where they can borrow and settle bills. The relationship is indirect because the Bank of England on the other hand is the clearing house and banker of the discount houses.

The sources of the other banks - Retail and Secondary are three. These are (1) the starting capital from the shareholders, (2) deposit which accounts to every bank is about 10% and (3) returns I from other non-banking investment of the banks. For example, some British private banks are owners I of multinational industrial and commercial companies. This accounts to the 90% of the banks assets I (the starting capital inclusive).

This is contrary to the sources of most indigenous commercial banks in developing I economies: their sources are: (1) the starting capitals and 92) deposits from customers. In fact, commercial banks in Gabon, in addition to the above depend on loans from other foreign banks and organizations. Apart from direct investment in other non-banking businesses by the commercial banks in Britain, the other reasons why they could generate up to 90% of their assets are: (1) High level of business activities, (2) lesser cases of loan defaulting, (3) direct participation of loaning banks in seeing that the purpose for which loans are give become realistic and successful. This is most contrary in developing countries where loans are left at the mercy of the borrower and sometimes diverted to various private social activities ranging from marriage to buying pleasurable items such as cars and the like, and (4) supply of collateral securities. These are items of near money that borrowers hand over to the banks, which the bank is ready to hold against the loan. These automatically become asset? I of the bank.

Finally the level of liquidity ratio in Britain is very much lower than it is in Nigeria .and! Gabon. Since 1964 it has been within the range of 8 - 9% while it is within the ranges of 58 - 60% m I Nigeria and 80% in Gabon. Some of the reasons why the level of liquidity rations are low in Britain .are as follows: (1) Low demand for cash balance because the use of cheques and credit cards *for* settlements and payments of transaction has become part and parcel of the society. The use of cheque[1] I freely is at its infant stage in developing economics and thus, a non-existence of credit card. (2) There I are two main seasons when the demand for cash balances is high in U. K. These are July and December to finance summer and Christmas travels and expenses respectively. On the other hand. there are functions and festivities round the year in developing economies. For example, in Nigeria I there are activities ranging from Christmas, Sallah, burial ceremonies, new yam festivals and so on.

The Structure of (lie Banking System in Nigeria

Much that needs to be said about banking system in Nigeria and Gabon has already been said on comparative basis in the previous sections. However, it is still important to analyze the structure of the banking system of these countries. This is to male some point mentioned and discussed earlier on a clearer.' For example, -we may consider the direct* Control relationship between the Central Bank of Nigeria and the commercial banks as against the side-by-side relationship between the bank of England and other private banks in Britain. As shown in Figure 3, the Central Bank of Nigeria is directly under the Federal Ministry of Finance. Ail other banks are under the Central Bank of Nigeria.

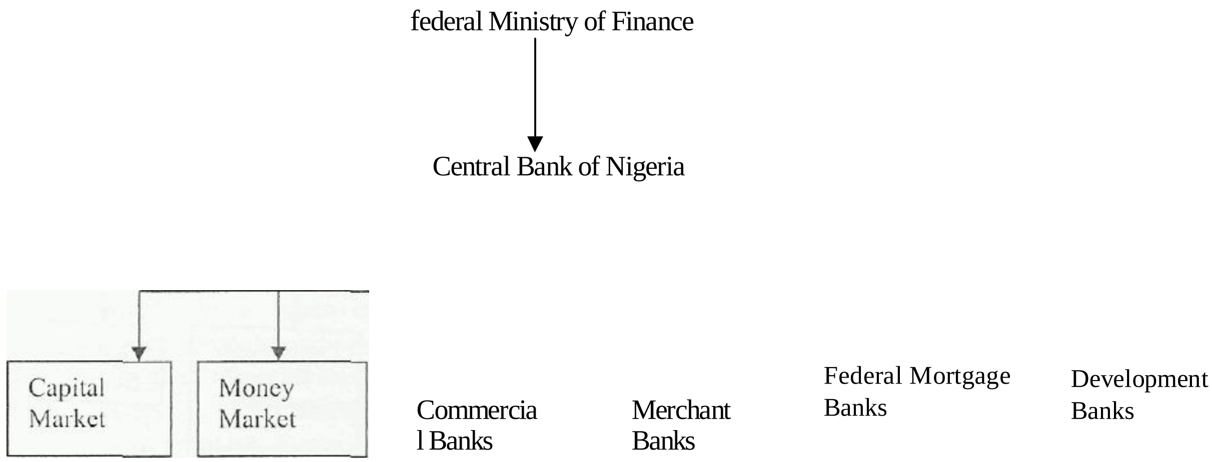

Figure 3: Banking Structure in Nigeria. Adopted from: Nwankwo, G. O. (1980): The Nigerian Financial System. (Macmilian Int., College Edition).

We may also notice that down the banking structures in Nigeria are Development Banks. Such is not found on the U. K. banking structure. These Development Banks are government owned. Absent as we can see on the British banking structure are state commercial banks. They are mainly set up in Nigeria, and Gabon to cater for some resources untapped by both the central and private commercial banks.

Unlike the case of Britain and Nigeria, the Central Bank of Gabon as little or no control over the Gabonese banking system. As shown in figure 4, all banks are under the reasons for the less influence or control by the Central Bank of Gabon is the relationship between the bank and Finance. The ownership of the bank is not completely the government of Gabon like the case of CBN and BOE. The compositions of banking structure in all the three countries are similar (between three groups of individuals). They are government, private indigenous individuals and private foreign individuals. The presence of government development banks on both the Gabonese and Nigerian structure is typical of most developing economies. They are used by the countries as tools for resource mobilization for economic and social development.

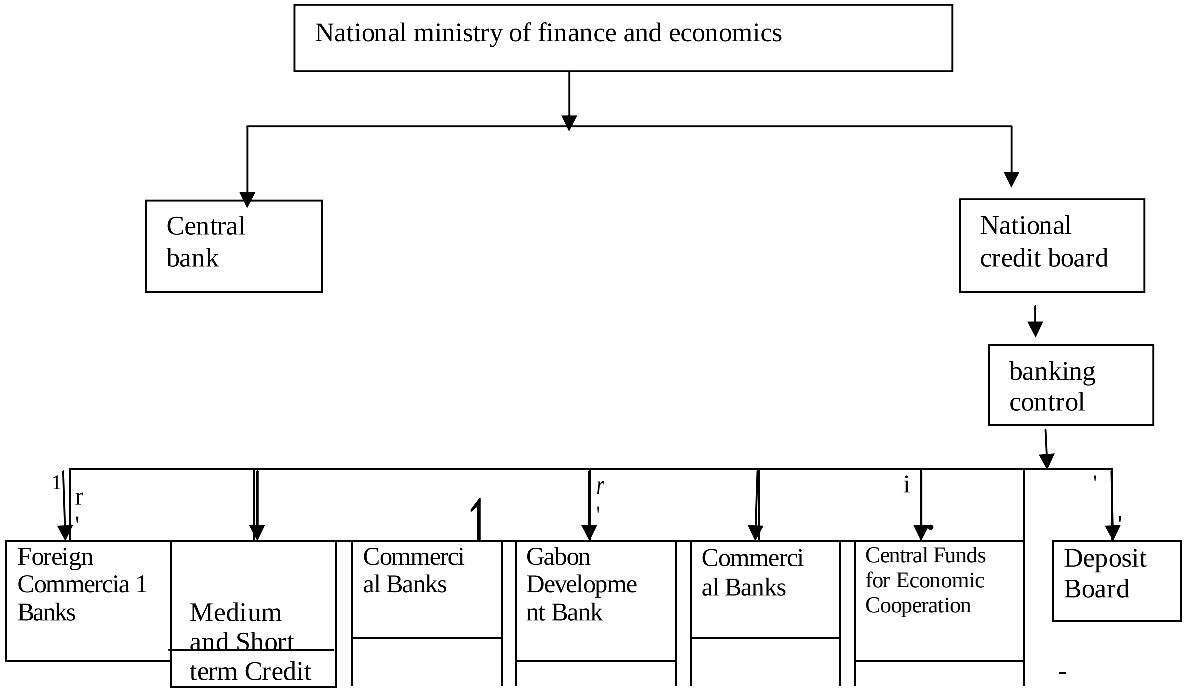

Figure 4: Gabonese Banking Structure. Adopted from: Lorenzo, F. (1974): The Banking System of Gabon and the Central Bank of Equatorial Africa and Cameroon. (Macmillan, London).

While private banks are counting in thousands in Britain, there are just less than two thousand in Nigeria, Merchant banks inclusive and about 500 in Gabon. **Some** banks in Gabon, perform only one aspect of the banking activities and these are either deposit banks or medium and short term credit banks. This implies that these banks either specialize in keeping deposits or giving credit to people. While the Central Bank of Nigeria and Bank of England formulate and implement government monetary policies, the Gabonese bank is not used by the Government to achieve that. This is due to the banks little or lack of control over the financial system. In Britain, the secondary banks, (equivalence of merchant banks in Nigeria) have separate clearing house in the British money markets. It is important that they have separate houses because more of the economies like Nigeria need to take note in view of the rate at which merchant banks are getting established. A review of their participation at "foreign exchange bidding may serve as signals.

Problems and Prospects of the Banking Systems

Having considered the historical development, structure, composition, ownership and operation of the banking system, in these three counties we can conclude, unambiguously, that there is a great disparity between banking system generally in developed and developing economies, with the former far much sophisticated and highly integrated into the system and culture. However, it took Britain hundreds of years (1st century to present) to reach the present relatively organized banking system. Based on this time period therefore, developing economies have hope in the sense that society is not static. Moreover, the world is greatly and very fast becoming a global village. This means, the other countries may soon adopt some of the formulae used in these developed economies. Meanwhile, banking in developed economies has many problems militating against its progress. Some of these problems are external to the system while some are internal. We shall consider them accordingly:

1. **Subsistence Economic Basis**

   About 70% of the population in developing economies are subsistence farmers. While the agricultural sector is yet to be substantially commercialized, the industrial sector manufactures few things.

2 High Level of Illiteracy

The percentage of educated compared to the entire population of these countries is very low which combined-with the subsistence nature of these economies hinders the progress of the banking system.

3. High Degree of Government Influence

In developing economies, there is a high degree of government influence through the activities of the central banks thus, rendering banks unable to perform to the standard of the cardinal principles of banking.

4. Concentration of Banks in Major Cities

In most developing countries, commercial banking has continued to hang around in the big cities. The only modern banking systems in the rural areas are the post office saving banks. This problem has become less in Nigeria since the commencement of the rural banking policy of the CBN.

5. Personnel Training and Manpower Problem

Most bankers in developing economies rely on training their staff on the job. This method does not offer adequate facilities for training large number of bank personnel. The situation is made worst when only a few universities offer course in banking that leads to senior management positions in the banks.

6. Neglect of small Savers

Deposit banks show little concern for the small saver and more to bigger depositors like Government, Firms and big business tycoons. The small savers constitute a greater percentage of the population. Some do fix minimum amount to open savings account which is usually beyond the reach of the common man. Where the minimum is affordable, the process is hindered by unnecessary procedures.

7. Delay in Withdrawals and Money Transfer

On the side of the Current account there is the general problem of delay in withdrawals. Intercity cheques may take weeks or months before being cleared. 21 working days in Nigeria. This problem is compounded by a high degree of discriminating attitude of some banks officials.

8. Rigid Loan Conditions

Despite government and private banks seemingly much efforts in creating and setting development banks and schemes respectively, loaning conditions are so difficult to meet that only a few make it. In most cases, only the privileged who know their ways or who can press the right buttons are able to secure a loan. In addition to this, the required collateral is not favourable to a majority of those who want to patronize the banking services in form of loans.

From the above there, we can see that the problems posing hindrances to the growth of the banking industries are both external as the case with No. 1, 2, 3, and internal as the case with 4, 5, 6, 7 and 8.

Recommendations

There are many suggestions that can help the banking system in developing economies. Among them are:

1. Governments of developing economies who regard the banking sector generally as tools or vehicles of development should educate the masses to take advantage of the opportunities provided by banks.

It is not very fair on the side of the banks to just push them to the grassroots through the programmes such as the rural banking scheme of Nigeria only to go and meet people performance of the scheme in Nigeria will show that the scheme in general is an unnecessary cost on the side of the banks.

2. The banking industry should be more organized so that recruitment of staff may be based on the combination of qualification, courtesy and moral dignity.

3. Commercial banks should not be regarded as just subordinate of the Central Bank that works on directives but should be regarded as partners in progress, each with some degree of freedom to accept or reject.
4. Banks should be allowed to expand freely, also, prospective bankers to establish without unnecessary conditionality. This will bring about healthy competition among banks where customers are respected regardless of their financial strengths. This is one of the magic behind the comparatively successful banking system in developing economies.
5. There should be more clearing houses so that smaller banks are not left bankrupt by the activities of bigger or merchant banks.
6. Proliferation of state government commercial banks in recent years (in Nigeria for example), their "good" motive notwithstanding, has made a bad impact on the banking industry. The reason is that the ownership of such banks being government, thus the general public, staff and workers' attitude in such banks differs very much from that in private profit oriented commercial banks. The private banks are affected because prospective customers expect them to conduct themselves like the state government commercial banks who in real sense are not profit oriented, rather resources mobilization for development.

In view of this therefore, it is important for governments (state) to take off their hands in business like banking because of their nature; and concentrate on other programmes for resource mobilizations. The role of government in banking at best should be that of investors like any other shareholders, and provision of protectionist measures and security.

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