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**SCHOOL OF BUSINESS STUDIES  
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# ECONOMIC CONSIDERATIONS FOR THE ESTABLISHMENT OF STATE OWNED BANK: THE CASE OF ANAMBRA STATE

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## *Abstract*

Nigerian economy is underbanked. This is an all embracing terminology meaning that bank branches are few in relation to population, scope of bank services is limited, quality of services is poor, etc. These aspects of underbankization were shown in the paper to be linked to the paucity of bank branches in relation to population.

Further in this paper, Anambra State was shown to be relatively underbanked when compared to the national economy. The bank density is relatively higher for Anambra State than for the nation as a whole. When compared to other states which established state commercial banks, Anambra State was also shown to be underbanked. Many local government areas have one or no bank branch with the implication that people have to walk miles to seek for bank services. It was shown that for the mass of Anambra State Population to benefit from bank services, a State owned commercial bank should be established. The problems to be encountered by the new bank were surveyed and recommendations made for their mitigation.

## *1. Introduction*

Nigeria is said to be underbanked by virtue of the low density of bank branches in relation to population. But there are other aspects to the underbankization of the Nigerian economy, which aspects are no less true for Anambra State. An all embracing definition of the underbankization of the Nigerian economy should involve the following:

- i. The availability of banking offices to the population is inadequate.
- ii. The scope of services rendered by the Nigerian banks is very limited.
- iii. The quality of bank services in Nigeria is comparatively poor.
- iv. The average behaviour of a Nigerian banker is not encouraging if not deplorable.

Nigeria is highly underbanked as the number of banks and bank branches available per unit of population is inadequate. As at December 1981, there were only twenty commercial banks and six merchant banks with a total of 880 branch offices of commercial banks and 15 branch offices of merchant banks working out to a ratio of one branch office to 98,588 persons. In 1985 there were twenty nine commercial banks and twelve merchant banks and assuming a population of 95 million Nigerians, it would imply that each banking office would serve 80,000 Nigerians. If this is compared with situations in other countries of the world, Nigeria will be seen to be grossly underbanked. For

instance, in Britain there is one branch office for 4,000 persons, in U.S.A. one branch office for 6,000 persons and in India, one branch office for 30,000 persons.<sup>1</sup>

The scope of services rendered by Nigerian banks are very limited. Services like leasing, check card facilities, credit card facilities, travel arrangements, insurance brokerage, factorization of debts etc are still lacking. In Western Europe and America, these services are provided by their banks and these have no doubt broadened the base of consumer satisfaction and consequently, greater satisfaction of societal needs. <sup>2</sup> Another area that needs discussing is the quality of bank services. Although the range of banks services is limited, the quality is still poor. The normal daily banking transactions of withdrawals, lodgements, or obtaining bank drafts take hours. The low quality services would not be unconnected to the non-specialization and considerable pressure to provide all ranges of services simultaneously.

Further, the behaviour of a bank staff is not enviable. The bank staff is noted to regard himself more important than the customer. He accords himself the master's position and the customer the servant. He fails to realise that over 80% of the bank's resources is from the deposits of the customers and about 15% from the shareholders. Therefore the customer is the master deserving respect, courtesy and attention. Instead the reverse is the case in Nigeria. In consequence, some customers become fed up and prefers to stock their funds at home. The banks are thus handicapped in mobilizing private funds and channelling them to their most valued uses.

The above summarise the fact of the underbankization of the Nigerian economy and the consequent need to increase the number and range of services of commercial banks in the economy. Increased bank branches would reduced the present monopoly banking services and their undesirable effects. Bank density would fall and quality of services could also improve. Scope of services will increase as lowered activities on existing services will force banks to seek out for new lines of services as earlier itemised. The rude disposition of bank staff would change for the better as banks adopt marketing strategies to sell their services and win more clients. Thus all aspects of underbankization of the economy can be related to the paucity of bank branches per unit of population.

As shown in Table I below, the number of banks has risen from 16 in 1975 to 29 in 1985 while the bank branches have increased within the same period from 436 to 1,197. Correspondingly, the bank density\* per unit of population has increased as one bank served 151,078 persons in 1975 while in 1985 one bank now serves 72,153 persons. This is still a high bank density in comparative terms and the consequences of underbankization are not likely to attenuate unless more banks are opened. The establishment of state banks is seen as one of the ways of reducing pressure on existing banking facilities and helping towards proper mobilization of financial resources and chennelling same towards their highest valued uses. The Anambra State situation will now be discussed.

\* Bank density is defined as the number of persons served by one bank branch (office).

Table I

*Commercial Banks Branches From 1975 – 1985*

Year	Number of Banks	Number of Branches	Persons per Bank
1975	16	436	151,078
1976	16	445	148,235
1977	18	507	142,135
1978	19	585	137,714
1979	20	629	127,186
1980	20	740	108,108
1981	20	881	90,806
1982	22	1,012	81,027
1983	25	1,108	75,857
1984	27	1,158	74,387
1985	29	1,197	72,153

Source: Central Bank of Nigeria.

2. *The Concentration, Bank Density in Anambra State.*

The banking concentration will estimate the proportion of the total banks and banking offices in the Nigerian Federation located in Anambra State.

Anambra State has about 7.03% of the total bank branches in the country and about 7.8% of the population. This means that the state has less proportion of the total banks in the Federation considering the size of its population as a component of the total population of the Federation. Thus compared to the Federation, Anambra State is relatively underbanked. The banking density of Anambra State will to a large extent determine whether there is need for a state owned commercial bank in the state when compared to other countries and the national average. The banking density will be computed in terms of persons (population) per branch.

Table 2

*Banking Concentration in Anambra State as at September, 1984*

S/No	Banks	No in Anambra State	% of total in Anambra State	Total in the country
1.	African Continental Bank Ltd	23	25	91
2.	Co-operative and Commerce Bank Ltd.	14	41	34
3	First Bank Nigeria Ltd.	14	6.5	217
4.	Union Bank Nigeria Ltd.	9	4.5	190
5.	United Bank of Africa Ltd.	7	5.7	123
6.	International Bank for W.A. Ltd.	2	3.6	55
7.	Bank of Credit and Commerce Int. Ltd.	2	9.0	22
8.	Progress Bank of Nigeria Ltd.	1	9.0	11
9.	Savannah Bank Ltd	1	3.7	27
10.	Mercantile Bank	1	4.6	22
11.	Pan African Bank	2	7.4	27
12.	National Bank of Nigeria	1	1.2	82
13.	Allied Bank	6	26.0	23
		83	100.00	1180

Sources: Central Bank of Nigeria and the various banks above.

From Table 3 below, it is evident that the urban areas to wit: Enugu and Onitsha are not as underbanked as the rural areas. The banking densities for the two urban cities are 24,780 and 24,282 persons per branch respectively. Ten local governments have just one bank per local government while Aguata, Ezza, Igboeze, Ihiala and Njikoka Local Governments have banking densities of more than 200,000 persons per bank branch. When the data for the local governments and the state average are compared with what obtains in Britain and U.S.A. for instance, there is no doubt that Anambra State is highly underbanked.

The State has a banking density of 78,511 persons to one bank office as against the national average of 72,153 persons per bank office. This shows that, compared to the national average, Anambra State is relatively underbanked. There is inadequate banking services in the state and the few available banks concentrate their branches in the urban cities leaving some local governments or rural areas with no bank at all and in many cases with few branches that do not solve the problem of inadequate banking services.

Table 3

*Commercial Bank Branches per Local Government in Anambra State as at Sept., 1984*

S/No	Local Government	Population		Banks		Banking Density
		No	%	No	%	Persons per Branch
1.	Abakaliki	385,061	5.98	3	3.66	128,354
2.	Aguata	419,915	6.52	2	2.44	209,958
3.	Anambra	333,915	5.19	3	3.66	11,305
4.	Awgu	286,616	4.45	1	1.22	286,616
5.	Awka	295,840	4.60	4	4.88	73,960
6.	Enugu	446,039	6.93	18	21.95	24,780
7.	Ezeagu	185,061	2.88	2	2.44	92,531
8.	Ezza	234,361	3.64	1	1.22	234,361
9.	Idemili	183,232	2.85	1	1.22	183,232
10.	Igbo-Etiti	200,261	3.11	1	1.22	200,261
11.	Igbo-Eze	265,568	4.13	1	1.22	265,568
12.	Ihiala	230,062	3.57	1	1.22	230,062
13.	Ikwo	147,106	2.29	1	1.22	147,106
14.	Ishielu	322,051	5.00	4	4.88	80,513
15.	Isi-Uzo	235,369	3.66	3	3.66	78,456
16.	Njikoka	422,344	6.56	2	2.44	211,172
17.	Nkanu	260,179	4.04	—	—	—
18.	Nnewi	305,457	4.75	5	6.10	61,091
19.	Nsukka	287,704	4.67	4	4.88	71,926
20.	Onitsha	509,914	7.92	21	25.61	24,282
21.	Oji-River	102,695	1.60	1	1.22	102,695
22.	Udi	181,219	2.82	1	1.22	181,219
23.	Uzo-Uwani	197,918	3.07	1	1.22	197,918
Total		6,437,887	100%	82	100%	78,511

Sources: Population figures are from the 1983 projected population of the State updated to 1984 at 2.5% rate of growth. The number of banks are from individual bank records.

As Okigbo notes, the answer to the problem of inadequacy of banking services is through the rural banking programme.<sup>3</sup> Since established banks loathe at opening more rural branches because of its high cost, the state banks when established would help fill the vacuum and more adequately extend banking services to the rural areas. As the Governor of Anambra State declared inter alia: "The Government of Anambra State proposes to establish a commercial bank for the state within the year (1985) and the arrangement to this effect has reached advanced stage."<sup>4</sup> It is noteworthy that the Anambra State Government has taken the bull by the horn by planning to more adequately extend bank services to the mass of the erstwhile underbanked population.

### 3. *Comparative Analysis With Other States Which Have Established State Banks.*

The position of other states of the Federation that have established state owned commercial banks will be used to compare the Anambra State situation. The findings will enable a reasonable conclusion on the need for a state owned commercial bank in Anambra State. It is pertinent to note that Anambra State is the only state out of the states in joint ownership of the African Continental Bank (ACB) which has not established a state owned bank. The other states are Rivers States (with Pan African Bank) and Imo State (with Progress Bank).

Some of the states that have established state banks and their population, bank branches and branches per population are as contained in Table 4 below. The banking densities of all the states (except Sokoto, Benue and Cross River) show that they have more adequate banking services than Anambra State, yet they have established their own state owned commercial banks. For instance, Imo State has one bank per 77,625 persons and Rivers State one bank per 51,429 persons as against the Anambra State datum of one bank per 78,511 persons. On the other hand, the other states with fewer banks per unit of population may have established State banks in order to more adequately provide banking services in their various states.

Section 39 (ii) of the Central Bank Act requires the Central Bank to "promote and maintain reasonable banking services for the public."<sup>5</sup> The emphasis is on the adequacy of banking services. This can only exist if the customers encounter no difficulties and pains in obtaining these services. The adequacy is achieved if the customer does not have to travel great distance to find a banking facility and the bank cannot rely on other institutions to provide ancillary services giving them room to render services in their area of specialization. This situation is missing in the Anambra State case hence the need for a state owned commercial bank and its spatial location in branches to cover the local governments and reduce the high banking density.

Table 4

*Banking Densities of Some States in Nigeria*

Names of State	Population		Banks		Banking Density	Name of State Bank
	No. in Million	Percentage %	No of Banks	Percentage %		
Imo	6.21	6.37	80	6.83	77,625	Progress Bank
Benue	4.14	4.25	33	2.75	125,455	Lobi Bank
Cross River	5.87	6.03	50	4.18	117,400	Mercantile Bank
Bendel	4.14	4.25	75	6.27	55,200	New Nigerian Bank
Rivers	2.88	3.00	56	4.68	51,429	Pan African Bank
Ondo	4.60	4.72	77	6.43	59,740	Owena Bank
Sokoto	7.71	7.91	41	3.43	188,048	Sokoto Co-operative Bank

Sources: Projected 1985 population figures from Federal Office of statistics, while number of banks in each state from C.B.N. 1985 Diary.

4. *Likely Problems and Constraints*

Among the problems the new bank is likely to encounter are the competition from older banks, Government interference, recruitment and retainment of qualified staff, undercapitalisation, over expansion and incompetent management amongst others; Competition is a problem especially at the onset. Due to long and wide experience of the older banks and their established contacts both at national and international levels they can always use these to their advantage.<sup>6</sup> In matters like status enquiries, cheque clearings, the older banks are unlikely to co-operate purposely to frustrate customers of the new bank to drop it and search for better services. This will pose serious problem for the new bank.

There exists the possibility of Government trying to control the new bank and run it as an extension of the Ministry of Finance. This will constitute a big handicap for the new bank and a threat to its success. Minimization of interference and control is the correct prescription for its success. Recruitment and retainment of qualified staff is a function of many factors which includes the physical work environment, recruitment policy, incentive scheme and other motivational factors. In addition, recruitment and retainment of qualified staff entails extra cost for their special skill. This implies an



adverse effect on the profitability of the new bank in the early stages when resources are yet meagre and returns insufficient to cover costs.

Undercapitalisation is said to be a problem of most state banks. This would serve to reduce the performance of the banks and hinder their competitive advantage. The balance sheet of most state banks show that most of them are under-capitalised because these banks add barely little to the minimum requirements for setting up a commercial bank while the private banks bring in much more than the minimum requirement. The low performance of state banks vis - a - vis private banks can be attributed to the former's undercapitalisation.

Incompetent management is the result of making appointments on political rather than rational, objective basis. People not qualified in banking and allied subjects are often emplaced in high positions in state banks. This results in poor management. Also related to this is the fact that management changes in state banks have been observed to be more frequent than necessary often following changes in governments. This reduces continuity, morale of staff and affects profits as well. Over expansion could also be a problem as new bank tries to expand and provide services to all and sundry. As bank expands to remote rural areas, it encounters costs due to problems of accessibility, low business volume, accommodation and lack of infrastructural facilities. These problems increase costs and reduce profits.

#### *5. Recommendations and Conclusion*

The initial problem of competition can be erased after sometime if the bank is properly managed and gains experience like the older banks. Thus competent management is recommended for the bank to help her compete effectively with the older banks. The bank should be responsible for the recruitment and training of staff. Well ordered comprehensive and co-ordinated recruitment programme should be designed and the recruitment department should be able to project manpower needs of the bank and to structure its recruitment policy to meet them. Piecemeal recruitment is not recommended.

The bank should have an autonomous Board of Directors with independent power to administer the operations of the bank for the benefit of the state. If the Government interferes so often, then the bank could run into problems. For instance, if Government fails to repay its borrowings from the bank, this could cripple the bank, given also that advances to governments attract little or no interest.

The appointment to top management positions of the bank should be strictly on merit. Qualified and professional candidates should be employed and correctly motivated. In addition, there must be continuity in management, because frequent changes in management have adverse effects on performance and morale of workers. The new bank should also avoid the danger of overexpansion to nooks and corners of the state, not considering whether there will be market for their services. Over-expansion will expose the bank to high costs of operation and lower returns since volume of business will fall as more rural areas are covered.

In conclusion, it has been shown that Anambra State is relatively underbanked when compared to both the national bank density and those of other states with established state banks. Since the bank density is still very high, banking services in all their ramifications are still very poor. Establishment of Anambra State owned bank will more adequately provide for these services in the state.

## NOTES

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