Liquidity Management in the Banking System:

A case study of selected Community Banks

BY

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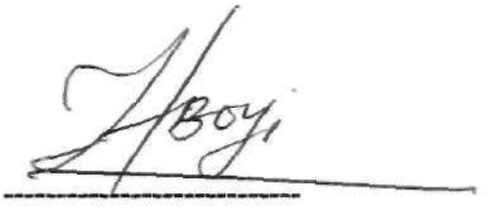
A project submitted to the postgraduate school, Ahmadu Bello University, Zaria. In partial fulfillment of the requirements for the award of the degree of Master in Business Administration (MBA)

AUGUST, 1998

DECLARATION

I hereby declare that this project, a partial requirement for the award of the degree of masters in Business Administration (MBA) of the Ahmadu Bello University, Zaria is a project of my findings.

All source of information collected for the write up are clearly acknowledge by means of references from various textbooks, articles, journals, seminars and information from the staff of Community Banks and Central Bank of Nigeria.



BOYI ALHAJI HAMISU

Date 19/3/99

CERTIFICATION

This Project "Liquidity management in the Banking System: A case study of selected Community Banks." By Boyi Alhaji Hamisu meets the regulations governing the award of the degree of masters in Business Administrator of Ahmadu Bello University Zaria, and is approved in its contribution to knowledge and literary presentation.

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DEDICATION

This project is dedicated to the following:

To my Parents

Late Alhaji Boyi Mohammed

and

Hajiya Rabi .A. Boyi

AHMADU BELLO U
KASHIM IBRAHI

To my Family

(MRS) HADIZA HAMISU BOYI - WIFE

and

RABI'ATU HAMISU BOYI - DAUGHTER

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ABSTRACT

Community banks, are relatively new concepts in the Nigerian financial system. They represent the second type of banking institutions in Nigeria. The incessant collapse of many banks in Nigeria had been caused by their failure to meet their maturing financial obligations, thus they become bankrupt and unavoidably closed up due to financial strangulation. This is disheartening!

the genesis of this occurrence is a poor management of liquidity of such banks. It is against this preposition that this research was undertaken.

The major aim of the research is to evaluate Liquidity management in the banking system with reference to some selected community banks. The project will seek to establish the appropriateness of these new banking institutions in meeting their objectives.

Principally it wants to asses whether or not Nigerian banks understand and appreciate the importance of prudent management of its cash and marketable securities and see the extent of such practice. It will equally pin point out problematic areas and suggest where appropriate solutions that will make the banks more viable, so as to enable them achieve the objectives for which they were established.

The sources and collection of data for the study was approached from different Angles. This includes the use of personal Interview, Questionnaires, Documentation as published in books, Journals, articles, magazines, financial reports and Business times, containing Relevant information on the problem under study.

At the end of the work it was discovered that majority of the community banks used for the study accorded less importance to liquidity management, lnfact, all the banks reported working without a standard cash and near cash policy. Rather, they keep their surplus cash in bank deposits than investing them in marketable securities and other profit yielding businesses.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND INTRODUCTION

Liquidity is the most important concept in corporate financial planning and control. Liquidity is the amount of cash or near cash assets that a company or Banking system has or can obtain to transact business with or finance its operations. In effect, it is the assets which can be readily converted to cash in case of need.
These include cash, debtors short-term marketable securities like commercial paper, treasury bills and treasury certificates, banker unit fund and long-term investments about to mature within the year, as well as stocks of goods that have a ready and immediate market.

Liquidity often determines the survival or failure of a banking operation. Companies or Banks go bankrupt and collapse, not because they are not profitable, but because they do not have enough cash or liquid assets to transact business with or honour their maturing obligations. Indeed, most of the Banks that fail are profitable but illiquid, most of their cash will be tied up in debtors yet to be collected, immobile stocks and in idle fixed asset. A company or an organisation might make a turn over of N1,000,000 per annum and a net profit of N250,000 - a handsome 25% return on sales, the company will have only N200,000 to finance a sales turnover of N1,000,000 or more clearly, this will be in-adequate unless the debts are collected or the company can borrow on its outstanding debt. If none of these happens quickly, the company will face liquidity crisis. That is why liquidity planning is so important.
A company must be able to monitor its cash flow - inflows and outflows time of these cashflows and plan for how it will deal with periods of cash shortage and how it will invest its cash surpluses.

This is the focus of the cash cycle, the cash budget and sources and uses of funds statement. But where problem crop up is in the inequality of cash inflows and cash outflows. Thus the crux of liquidity management revolves around non synchronization of cash receipts and cash disbursement. The problem was further compounded by the cost associated with cash shortage or cash surplus. Too little cash limits firms ability to meet its payment schedule, this can result in loosing cash and trade discount. persistent shortage of cash may impede firm's desire for obtaining credit and funds on advantageous terms. Holding excess cash may be a costly luxury, for excess cash is not earning any interest. Presumably excess cash should be placed in short term marketable securities. This submission is rested on the fact that marketable securities posses two advantageous Qualities;

One is their interest earning capacity, two is the high level of its liquidity.

In a nutshell cash management practice must aim at satisfying the requirement of the following axiom:

The axiom states that: Minimise delays in converting customers cheques into usable cash balances in banks; delay making cash payment as long as possible without loosing discounts, or damaging the firm credit standing: and invest excess cash in safe place that pay a reasonable return.

In pursuance of the above axiom a number of methods and techniques were designed by management scientist to reap the benefit available in a proper management of firm's cash and marketable securities. With efficient administration of firm's cash, more funds would be realised for investment as well as a reduction in float would be achieved.

It is against this background that this research is undertaken with a view of apprasing the extent of liquidity management practice in Nigeria with particular attention to community banks,so as to delineate diviation and provide corrective measures at the end of the work.

1.2 STATEMENT OF THE PROBLEM

Liquidity management is a broad area of study. Every financial institution must be very careful in the management of its liquidity, the problem statement of this study is to determine to what extent liquidity management is efficient and effective in the Banking systems with reference to Community Banks in Nigeria and also to know the modalities of operation of liquidity as a back bone of any Banking operation. Efficient and prudent management of liquidity is the survival of every Community Banking operation.

Community Banks go bankrupt and collapse, not because they are not profitable, but because they do not have enough and liquidity assets. Some of the research questions this project will try to address are as follows.

1.3 RESEARCH QUESTIONS

1. How can Community banks manage its liquidity efficiently & effectively?
2. What are the problems of Liquidity management?
3. How does the financial Regulation policies and Decrees affects the management of liquidity in Community Banks ?
4. What are the objectives of liquidity management ?
5. What are the effect of sound cash management on the overall business performance ?

1.4 OBJECTIVE OF THE STUDY

It is an established fact that business success can never come without a proper management of cash flows and cash balances.

Therefore the survival and growth of banking operation needs a regular flow of cash, in and out of what constitute a regular flow of funds and this depends on the bank or on the financial manager.

However, the proper functioning of cash flows can be enhanced by an application of some principles and models on its management.

The objective of this research therefore is:

1) To identify whether or not Nigerian banks, particularly community banks, use the modern techniques of liquidity (cash and marketable securities) management.
2) Identify how the techniques are applied in our community banking operations, with a view to identifying deviation so as to provide corrective measures.
3) To penetrate into the discipline and open-up the area for further research.

1.5 PURPOSE OF THE STUDY

The aim of this research is to determine the liquidity management of Community Banks and promoting rural development through provision of finance and banking services with successful and effective liquidity management, and enhancing the rapid development of productive activities especially in the rural areas.

The research result will be used to improve the economic status of small-scale producers both in the rural and urban areas. Another aim and objective of this research is that it will guide and regulate the Community Banks in operation of their Liquidity, i.e to reserve enough liquidity assets.

However, the objectives of this research can not be over emphazise or over assumed for the fact that it will try to guide the Community Banks and other financial institutions in the operation of their credit policies and granting loans to investors.

1.6 SCOPE OF THE STUDY

The research study the operation and implementation of liquidity management in Community Banks today. The area focus for the scope of this study is directed

toward creating a conducive and smooth way for the management of Community Banks liquidity. The scope of study will also focuses on modalities of operations of liquidity management and problems of liquidity management in our Community Banks, which I believe individuals, rural communities, and the entire populace, will benefit immensely from the research under study.

1.7 SIGNIFICANCE OF THE STUDY

Due to the smallness evidence of a scientific research in the area of liquidity with particulars reference to Community banking in Nigeria, it is apparent that there is enough background to warrant a study that will examine the management of liquidity among Nigerian Community banks. Since current study in the area of "Working capital management" or "Current asset management" has tended to give little analysis to liquidity management, the study will some what pioneer a search for it. It will be significant in that an efficient management of liquidity in any bank that record enormous excess of cash on its weekly operation, can be instrumental to its over all success or at least go a long way in enhancing its after tax profit.

Managers at corporate level who are concerned with long range plans need to know the predicture implications of over-holding or under-holding cash balance at any given time to the possible out come of business operation.
Owner's wealth maximisation, which is the bonus of business existence, can be achieved through an efficient management of cash and securities.

1.8 LIMITATION OF THE STUDY

One of the major limitation of this research, is the paucity of earlier research in the area which can be taken as a point of reference. Even though there is some research in working capital management and even current asset management. There has not been in

existence any intensive study in liquidity management among Nigerian banks particularly as regards community banks which are new in the banking industry.

Another problem lies with the subjects of the study. The research of this nature, involving human opinion is bound to have some problems, both natural and artificial. Due to competition many banks confronted may refuse response, in the fear of competitor discovering their weakness there from. Bureaucracy is another likely impediment in the way of this research. This particularly happened in bigger banks, with a developed organisational line of authority.

Head office are often hardly accessible while branch can refer the researcher back to the head office.

Geographical spread of Community banks to be analysed is another problem to this research, as it is intended to cover a reasonable proportion of community banks. But due to time constrained and large number of Community Banks in Nigeria only some community banks in Kaduna will be used for the study.

1.9 PRESENTATION OF THE STUDY

This project is divided into five chapters. The chapter one of this project is the introductory part. Chapter two is literature review and Chapter three is research methodology while Chapter four is the data presentation, analysis and discussion. The chapter five is the concluding part of the project, consisting of the summary, conclusion and recommendation.

CHAPTER TWO

LITERATURE REVIEW

2.1 HISTORICAL DEVELOPMENT OF BANKS IN NIGERIA

What is a Bank ?

Funk and Wagnantt' new Encyclopaedia define a bank as "a term applied to describe a variety of Institutions established for one or more purposes. The purpose according to them include, making Loans, and extending credit to facilitate the transmission of funds by cheque and by Bills of Exchange and hold money on deposit and to disburse it, to exchange the currency of one country for that of another and to issue money. Banks also act in fiduciary capacities, provide vaults for the safe-keeping of valuables, buy and sell bonds and share and stocks for their customers and in general, perform a variety of activities entailed in banking.

2.2 HISTORY OF BANKING

Banking comprised principally of money-lending among the pastoral peoples of antiquity. It was known as early as 2000B.C. that a banking system, comparable in significant respect to modern banking systems, existed. It was known that a banking system flourished in Babylon, where it was a monopoly of the temples while in other countries the banking systems of antiquity were religious monopolies. The first evidence of privately - owned banking business was that of the Igibi Bank of Babylon (6th century B.C).

The private bank at that time also made loans on objects deposited with it and on crops which it attached as security.

It also received deposits of money on which it paid interest and acted as a buying agent for its customers.

In Greece, two centuries later, banking operations were conducted by the government of the city states and by private bankers who specialised in money lending. The assaying and changing of coins.

The receipt of interest paying deposits and issuance of letters of credit. In Rome, there was no state banks but banking was almost entirely a private enterprise carefully regulated by law.

After the fall of the Roman Empire and decentralisation of temporal power in the major parts of the civilised world, banking was confined to the illegal money lending activities of private individuals. These individuals organised institutions which were then known as poverty banks and lasted until about the 8th century.
From about 8th to the 13th century, banking services were performed by monastries and churches.
With the expansion of trade in the later part of the middle ages, and following the break up of the feudal societies, banking business became large - scale private enterprises. The bank of Grogio was established in Genoa in 1148 and the Bank of Venice in 1157. It was specifically established to assist the government of
Venice with loans. In the 4th century banks were established in Deft, Geneva, Florence, and other cities. The bank of Bacelonia in the kingdom of Aragon (1401) minted coins and handled the accounts of ecclesiastical and military orders, including those of St. James, the Golden Fleece and St. George.

The spate of discoveries in the 15th and 16th centuries and the colonization of the new world led to a further expansion of world trade and resulted in the Expansion

of Banks and banking Institutions. The banks accepted money on deposits and made loans on commercial papers and bonds.

The Industrial revolution in Great Britain and subsequent industrialisation of Europe and other countries created favourable conditions for the development of banks. Banks became essential and dominant institutions in the circulation of currency, the efficient operation of the industry, and the movement of capital monopoly since December 1917. After world war II, the governments of Czechoslavakia and Finland in 1945 nationalised the banking system of their countries and the government of Great Britain and France also nationalise their Central Banks.

However, the evolution of Banking was introduced into Nigeria in 1892 by the African Banking Corporation which open its first office in Lagos during that year. The Establishment was made possible by Messrs. Elder Dempster and Company, a shipping firm based in Liverpool. The bank was found to be essential for the trade that was at the time flourishing between Nigeria and Great Britain.

By this time the banking had its origin in the finance of foreign trade. The period when banking was introduced was that period when International trade was scheduled and seasonal. It was highly scheduled and seasoned because of the navigational dictates.

As in the great medieval trading states of Venice, Genoa, and Florence, there was the need to exchange one currency with another, requiring the need for money changers who eventually accepted deposits of cash and valuables for safe-keeping.

Consequently, the practice of Banking in Great Britain as it is known today, that is the acceptance of deposits, the granting of loans, and the transfer of funds, evolved

during the 17th century with the growth of the business of the gold-smith bankers. They collected deposits from their customers and issued receipts to them. In the beginning, these receipt were only warehouse receipts from the deposit, entitling a holder to a refund on the actual deposits. These receipts later became promisory notes, giving the holder a promise of withdrawal on demand. Gradually, these notes, instead of being redeemed for gold each time a debt was to be paid, themselves began to circulate amomg the merchants of London in settlement of their debts. Over time, the receipts assumed the characteristic of bills of exchange and were given legal backing.

Before the turn of the 17th century, the practice of placing money with the goldsmith, with a given notice of required replacement, had emerged culminating into what is now known as deposit accounts.
The gold-smiths had started to lend money both to the government and to private merchants to enable them carry out their business and expand them. They received surplus cash on deposit, redeemable either on demand or after a period of notice.

They transferred these balances between one account holder and another, and on-lead cash in excess of that which was likely to be drawn upon, to borrowers. The borrowers use such money for the development of their business.

There were a number of restrictions on the operations of the private banks in the United Kingdom and these tended to limit the degree of expansion. The banks were small and fragmentary, although they were large in number. Between 1809 and 1930, commission on bankruptcy were issued against more than 300 country banks, including 80 in two years - 1825 and 1826. As a response to this deplorable state of commercial banking, an act of 1926 allowed the establishment of note - issuing joint stock bank outside London.



This lead to the streamlining of commercial and deposit banking in England.

The pre-occupation of legislation in Britain throughout the 1830's was on note issue, because people over-issued notes and created instability in the system. This had brought about economic woes as it led to distrust, consequent to incessant bank failures.

The evolution of the corporation structure for banks led to an era of amalgamation of private banks to become joint stock banks and this development cause a reduction in the number of private note-issuing banks to extensive note in circulation, creating instability in the financial system.

In Nigeria, the African Banking Corporation was established in Lagos in 1892. The bank was short-lived and replaced by the Bank of British West Africa in 1894 commenting on the performance of the bank, Adekonye (1986) stated that;

"the bank experienced some initial difficulties and eventually decided to transfer its interest to Elder Dempster and Co. In 1893. This led to the formation of a new bank known as Bank of British West Africa (BBWA)" By 1892 when the branches of British Commercial Banks extended their activities to Nigeria, Commercial banking has become strongly entrenched. The establishment of banks followed the need to finance the trade between multinational companies and the Nigeria Economy. It was also needed to aid the effective operations of the colonial Civil service which had also been established. The customer of the commercial banks were the civil servants and multinational companies. The first period between 1892 and 1952 was describe as free banking era.

Between 1894 and 1916, no new banks were established in Nigeria but in 1917. Barclays Bank (D.C.O) was established. There after nine new banks were opened which were completely foreign-owned, without any Nigerian interest. Indigenous banking however experienced rapid expansion between 1892 and 1952. According to alalusi (1981).

"The period was characterised by initial implanting of banking services to correct the unorganised and multi-unit monetary system, cut-throat competition between foreign-owned banks and indigenous banks and the uncontrolled establishment of banking institutions especially indigenous ones".

However, community Banks in Nigeria were fully introduce in 1992 through Decree No 46 by the Federal Military Government. A Community or group of communities desiring to establish a bank shall apply, in writing through the National Board for Community Banks, to the Governor of the Central Bank of Nigeria for the grant of a licence.

2.3 COMMUNITY BANK: ITS MEANING:-

"Community Bank" as contained in the revised Community Bank Prospects of 1992," is a self-sustaining financial institution, owned and managed by a community or group of communities, for the purpose of providing credit, deposit, banking and other financial services, to its members, largely on the basis of their self-recognition and credit worthiness. In contrast to near-total reliance by the orthodox banks on viable and negotiable collateral as the basis for giving credit.

The financial performance of the reporting 1,132 community banks, out of the 1,355 licenced showed deceleration as measured by their performance indicators, compared with 1994. In 1995 capital and reserves grew by 7.3 percent compared with the growth of 29.2 percent. In 1994. At N4 448.1 million in 1995, total assets/liabilities of the reporting banks rose by 8.0 percent, compared with 26.6 percent recorded in 1994.

Aggregate deposit liabilities, loans and advances and investments increased by 22.9, 19.0 and 3.8 percent, respectively.

The rates were far below their growth performance of 24.4, 62.1 and 37.3 percent, respectively, in 1994.

The financial position of this sub-sector of the banking system remained weak as their operations continued to be adversely affected by the continued distress in the banking system, poor management, unstable macroeconomic environment and negative real interest rates.

The Community Banks are found in every part of the country inNigeria today. Community banks were establish for the following purpose:

a) promoting rural development through the provision of finance and banking services;

b) enhancing the rapid development of productive activities especially in the rural areas; and

c) Improving the economic status of small scale producer both in the rural and urban areas.

2.4 OBJECTIVES AND FUNCTIONS OF COMMUNITY BANKS IN NIGERIA.

The Community Banks in Nigeria without prejudise to the provisions of section 1 of Decree No. 46 of Community Banks. A community bank licensed under this Decree performed the following functions.

1. accept from persons various types of deposits including saving and time and target deposits;
2) issue for the purpose of raising funds, redeemable debentures to interested parties

3) Community Banks receive or collect on behalf of its customers, moneys or proceeds of banking instruments.

4) Provide for its customers, ancillary banking services;

5) Community Banks maintain and operate various types of accounts with other banks in Nigeria.

6) Community Banks invest its surplus funds in suitable instruments, including the placing of such funds with other banks;

7) Community Banks provides credit facility to its customers;

8) Some Community Banks operate equipment leasing facilities designed to ensure the access of its customers to farm inputs.

The main objective of most Community Banks in Nigeria are as follows:

a) Promote rural development through provision of finance and banking services to the rural sectoral development, such as farmers, Traders and individuals e.t.c

b) To assist the small-scale producers economic status both in the rural and urban areas.

c) enhancing the rapid development of productive activities especially within the Communities that established the Community Bank.

d) To promote economic development in Nigeria through investing surplus funds in suitable instruments, including the placing of such funds with other banks.

2.5 ESTABLISHMENT OF COMMUNITY BANKS IN NIGERIA.

A Community or group of Communities desiring to establish a bank shall apply in writing through the National Board for Community Banks to the Governor of the Central Bank of Nigeria for the grant of a licence.

The board for Community banks was establish for promotion, development, monitoring and general supervision of Community Banks in Nigeria. National

Board for Community Banks shall be a body that is corporate with perpetual succession and a common seal and may sue and be sued in its corporate name.

EQUITY SHARE CAPITAL

The approval given to establish a Community Bank goes with it the requirement of minimum share capital of N250,000.00 to be raised by the approved owners.
To raise the required Equity Share Capital, the Community Bank should offer its shares as per the stipulated ownership structure on the application form for equity shares. Prospective shareholders should complete the forms in triplicate, as they make their payments to the company's accounts.

WORKING CAPITAL

Government shall not own shares in any Community Bank, but can grant a low interest loan of a minimum of N250,000.00 with a maximium ceiling of N500,000.00 to improve the working capital of the Community Bank.
This is subject to:

(a) The availability of funds
(b) The bank's record of satisfactory performance
(c) The bank's satsifactory operation for at least three months.

LICENCING

A Community Bank must be licenced before it can carry out banking and other related functions. The National Board for Community Bank would give the Bank a provisional license to last for one year.
Therefore, based on the recommendation of the NBCB (National Board for Community Banks), the Central Bank of Nigeria (CBN) could issue a formal operating license to the Bank.

SUITABLE ACCOMMODATION

The Community Bank must be housed in a secure and accessible building to be used as office for reasonable duration. The building should not be isolated, should be built with cement blocks, be fenced, and be roofed with iron sheets or similar materials.

PERSONNEL REQUIREMENT

For a community bank to succeed, the operators at both Board and Management level must be competent, knowledgeable about banking.

The Manager, must have had at least 8 years experience in banking, accounting and/or related jobs. The personnel should also be supported with satisfactory quarantees as to character and integrity. Preference should be given to indigenes of the community who actually reside in, and know the community very well.

REQUIRED BANKING EQUIPMENT

The community bank will require the following equipment to work with:

(a) Two safes of satisfactory sizes (one at least 200 litres inside capacity and a smaller one for storing valuables.

The two safes, which should have a provision for a minimum of dual control, should be built into a re-inforced wall.

(b) Ultra violet rays for detecting forged notes.

(c) Two deed boxes.

(d) One fire proof filling cabinet and a regular one.

INSURANCE

The Community Bank should provide suitable insurance cover for the bank against each of the following:

(a) Cash in safe

(b) Cash in transit

(c) Fire

(d) Burglary

BOARD MEMBERSHIP

Members of the board of the community bank shall not be more than seven (7) and not fewer than five (5). The shareholders and the board membership must be representative of the broad spectrum of the community. Board membership must not be drawn from one section of the community.

2.6 ORGANIZATION OF THE NATIONAL BOARD FOR COMMUNITY BANKS (NBCB)

The National Board for Community Banks, (NBCB) is under the Community Banks Decree 1992, established as a body corporate, consisting of a Chairman, Secretary and the following other members:

(a) A representative of each of:

(i) Federal Ministry of Finance

(ii) Directorate of Foods, Road and Rural Infrastructure (DFRRI).

(iii) The Presidency;

All of whom are ex-officio members.

(b) Four other persons appointed by the President Commander-in-chief of the Armed Forces.

The Board is saddle with the responsibility of promoting, supervision, monitoring and general supervision of a bank under the decree. The specific task and role of the NBCB are:

(i) The establishment, licensing and promotion of community banks.

(ii) Training of staff of community banks

(iii) Monitoring and supervision of community banks.

The Board has a Head Office in Abuja and four (4) Zonal Offices, covering the whole country.

A person appointed as a member of the Board, other than an Ex-officio member shall hold office for a period of three years from the date of his appointment.

2.7 PROCEDURES FOR ESTABLISHING A COMMUNITY BANK:

When all the requirements for establishing a community bank have been met as stipulated above, the community or group of communities should formally apply to the National Board for Community Banks (NBCB) indicating their intention and capability to establish a community Bank. The Community Bank must make sure that all supporting documents or evidences such as Insurance, Statement of Account, Particulars of the Board Members and staff, photographs of building and infrastructure provided are attached to the application for community Bank licence. There are at present four zonal offices of the NBCB, located in Bauchi, Enugu, Kaduna and Lagos covering various states of the Federation. And application could be routed to the Zonal Office serving the Community's area.

An application for a licence by a Community Bank must forward and presents the following documents before the grant of a licence.

a) a draft copy of the memorandum and articles of association of the proposed Community Bank;

b) documentary evidence that

i) the applicants are able to raise minimum equity share capital,

ii) the premises sought to be use are constructed and equipped to such a standard as the National Board for Community Banks may prescribe.

c) List of the shareholders, directors and principal officers of the bank and their particulars.

d) the prescribe application fees; and

e) such other information and document as the National Board for Community Banks and the Central Bank of Nigeria may from time to time specify, where an application is made through the National Board for Community Banks in accordance with the provisions of subsection (2) of Decree No. 46 of Community banks 1992 and is accompanied by such information and documents as are required under that subsection. The National Board for Community Banks shall, if satisfied.

a) as to the adequacy and suitability of the premises sought to be used;

b) that the applicants are :

i) Capable of complying with such conditions as may be imposed or attached to the licence.

ii) In all other respects suitable persons to be granted a licence are recommended to the Governor for the granting of a licence, subject to such conditions as may be imposed or as may be attached thereto.

If the Community bank is able to meet the requirement the lience will be granted.

2.8 PERFORMANCE OF THE COMMUNITY BANKS SO FAR

The idea of Community Banks was first announced to the nation by the President during the presentation of the 1990 budget speech.

This noble idea came to fruition that same year when the President opened the first Community Bank in the country, the Alheri Community Bank in Kaduna Local Government Area. Since then many community banks have been licenced and have started operation. As at December, 31 1991 the number was 61 and has a total deposits of N76.7 million naira of which saving and time deposits amounted to N31.3 million and N34.4 million respectively while demand deposit stood at N11.0 million. The table below gives the summary and liabilities of all the Community Banks in Nigeria as at 31st December, 1991.

TABLE I

Summary of Assets and Liabilities of all the Community Banks in Nigeria As At 31st December, 1991

LIABILITIES	(N000)	ASSETS	(N000)
1 Capital	31,351.0	1 Cash in hand	10,356.0
2 Reserve fund	2,689.0	2 Balances held	37,941.0
3 Balances held	4,829.0	(a) CBN	2,524.0
(a) for other banks		(b) with other	
in Nigeria	3,448.0	banks	35,417.0
(b) for offices &		3 Money at call in	
branches abroad	1,381.0	Nig.	14,534.0
		4 Bills discounted	116.0
		5 Loans & Advances	15,877.0
4 Money at call from			
other banks	237.0	(a) to other banks	
		in Nigeria	11,407.0
5 Deposits	76,728.0	(b) to other	
Payable on demand	31,286.0	customers	4,470.0
Savings Account	34,454.0	6 Investment	16,779.0
Time	10,988.0	7 Equipment on Lease	3.0
6 Loans & Advances			
from other creditors	2,556.0	8 Fixed Assets	16,612.0
7 Other liabilities	8,508.0	9 Other assets	14,680.0
	126,898.0		126,898.0

SOURCE : NATIONAL BOARD FOR COMMUNITY BANKS

Since December, 1991, the number of Incorporated Community banks rose from 61 to 8,890 and were all approved, commissioned as at the end of August, 1997. Deposits also increased to the tune of N95.0 million and loans and advances of over N89.2 million were disbursed to Community bank customers as at the end of August, 1997.

The loans are mostly provided without physical or liquidable securities, in line with its unorthodox nature of operation.

2.9 CONCLUSION

There is no doubt, from the record shown above, that Community banks have been accepted in the society and have performed very well within the shortest time after their establishment. Their successful operation now will begin to change the life of millions of Nigerians who hitherto lived in abject poverty. They will also contribute immensely to the economic growth of the nation.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

The major aim of this research is to evaluate Liquidity management in the Banking system with reference to some selected Community Banks in Nigeria. The main purpose of this chapter is to describe the procedures and approach adopted for conducting this research.

It will clearly bring out the sources of data and methods used.

Effort has also been made to discuss the techniques applied in the analysis of the data obtained.

3.2 RESEARCH METHODS.

There are three major types of Research methods, viz-a-viz historical, Descriptives and Exprimental research methods.

Historical research deals with determination, evaluation and Explanation of past events especially for the purpose of gathering a better and clear understanding of the present and making more reliable prediction of the future.

Descriptive research is concerned with the collection of data for the purpose of describing and interpreting existing conditions. The three ways of presenting descriptive research are; analysis and classification.

There are fives types of descriptives research namely:

(a) a case study

(b) Sample survey study

(c) Correlation study

(d) Cross - sectional and

(e) Longitudinal study.

- Case study is the detailed description and analysis of everything that is in the history or development of a single person, Communicating event or institution for the purpose of understanding the life cycle of each or a particular unit.
- Sample survey involves large number of persons and the description of population characteristics, through the selection of unbiased sample.
- Correlation study is concerned with measuring the degrees of relationships between two or more variables for the purpose of making predictions about variable.
- Cross-sectional is concerned with gathering data about different sub-groups; at one point in time.
- Longitudinal is concerned with gathering data on the same person or group at different point in time.

The third method of research, is the experimental research. This is a systematic and logical procedure of indentifying and evaluating the relationship between variables that creates a particular state of affairs under controlled conditions.

This study therefore, is basically a descriptive research. It is descriptive because it is concerned with the collection of data for the purpose of describing and interpreting existing Role of liquidity management in our banking system. The study is conducted in such a manner as to obtain necessary information or data essential for arriving at meaningful conclusion as regards liquidity management in the Banking system with reference to some selected Community Banks.

3.3 SOURCES AND METHODS OF DATA COLLECTION

The source and collection of data was approached from different Angles. Sources of data are primary and secondary, such methods used include the use of interview, Questionnaires, Documentation as published in books, Journals, articles, magazine, financial Reports and Business times, containing Relevant information on the problem under study.

3.4 RESEARCH TECHNIQUES

Community banking is a new phenomenon in the Nigerian financial system as such relevant information about them can only be obtained from Federal Government publications and Central Bank of Nigeria reports. I have therefore made extensive use of the CBN annual reports, bullion publications and monthly reports. I have also made use of the National Board for Community Banks Publications in addition to personal interview.

3.5 JUSTIFICATION OF THE METHOD USED

Personal interview conducted with some of the Community Banks staff in Kaduna (Mutunchi Community Bank and Fintha Community Bank) failed to give some detailed information. Some documents related to the topic under study given, when asked for, were not current and up-to-date in liquidity management and activities of the Community Banks itself. Perhaps due to the secretive nature of the banking industry. Hence the use of descriptive research as a method.

3.6 SUMMARY

There are three major types of Research methods. And the method of collecting data used in this project include primary and secondary data such as interview, Documentation and newspapers, with relevant information on the problem under study.

Personal interview was used to allow the respondents talk freely and fully on the topic. Documentation is secondary data gathered from libraries, published books, Journals, articles, magazines and Newspapers, containing relevant information on the problem under study.

The research also made use of records of money market (Financial Institutions Reports) activities released monthly and annually by the Central Bank of Nigeria which is vested with the responsibility of controlling, regulating and monitoring the Community Banks through the National Board for Community Banks.

Bulletings,and annual reports of Central Bank of Nigeria were looked over also.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSIONS

4.1 INTRODUCTION

The banking Industry in Nigeria has become one of the critical issues in the management of the economy. Nothing has so far demonstrated the role of the Industry in the economy more than the role assigned to it under the Structural Adjustment Programme (SAP). Under SAP, the banking Industry was expected to help to correct a perceived imbalance in the foreign exchange value of the naira, assist in controlling credit supply and allocation in the economy, and help in easing the debt burden and attract a net inflow of foreign capital.

In 1992, modern banking clocked one hundred years in the country. This coincides with the end of a historical cycle for mankind, as scholars believe that the social, economic and political changes mark the end of an era and the beginning of another.

Money and banking, being the barometers for measuring these changes, appear to have been affected most by these changes.

Various governments in Nigeria, in reaction to these changes, institute various policies. Since the 1952 banking ordinance, there has been a string of banking legislations in the Country, culminating in the central Decree and Banks and other financial institutions Decree (BOFID) in 1991. These legislations have achieved some degree of success in shaping the nature of reforms in the banking industry.

But monumental errors have also been continuously committed, and these changes, because they stopped too short or went too far became new errors.

The degree of success is evident in the present structure of the banking industry. The banking industry in Nigeria which started with the branch of a South Africa - based commercial bank in Lagos has since grown in sophistication to parade a host of specialised banks, merchant Banks, Commercial Banks, Development Banks, the Mortgage Banks, Community Banks, Agricultural Bank and Import and export Banks.

There were 66 Commercial banks and 54 merchant banks, operating a network of 2107 branches as at 1992, boosted significantly by a rural banking programmes forced on commercial banks by the Federal Government in 1977 in a bid to make the rural populance imbibe banking habit. Growth in the assets of these banks has been tremendous, especially since the Structural Adjustment Programme, making the industry highly attractive to local investors.

The commercial banks have essentially been engaged in retail banking, while the merchant banks, whose coming into the local banking industry was pioneered by Philip Hills (Nigeria) Limited in 1960, have secured for themselves the wholesale (Investment) banking end of the industry. But the line of demarcation between the two has blurred signigicantly over the years, with some Commercial banks now engaging in merchant banking operations, for which they introduce themselves as "Wholesale Commercial banks.

By the end of 1992, there were strong indications that the thin line of demarcation would be made thinner as the merchant banks embarked on a lobby for reduction of the minimum statutory deposit allowed them from N50,000.00 arguing that this was necessary to enable them attract deposits at cheaper cost and form a wider population thereby contributing to the effort to check the cost of funds in the money market.

The Community banks, which some analyst see as a government's way of admitting the failure of its rural banking programme, were brought into existence in a bid by

the government to promote the banking habit among the rural population and by that mobilize a substantial sum of money long suspected to be outside the banking industry. The People's Bank, more of a populist programme, was established by government as a conduct for credit to artisans and petty traders. The competition in the banking industry gave rise to a plethora of investment products and saving schemes like never before; it endangered a general increase in the service efficiency in the industry as many banks went computer and generally sought to improve on their cross-the counter service, among others. But there was an Ironic twist to the way the banking industry fared, especially during the last few years of its first century: while SAP could be credited with growth in the industry, it also expose many of the banks to a lot of risks and thereby generally endangered the industry. Bad and doubtful loans ballooned with SAP, as the harsh side effect of the economic reform programme which crippled the ability of many borrowers from the banking industry to meet their debt obligations. There was little the banks could do about this, and their problem in this regard was worsened by the introduction of the CBN Prudential Guidelines on accounting for bad and doubtful debts.

One observation could nonetheless be made on the issue of bad and doubtful debts, inspite of the explanation profered above. It is that the industry never really learnt from its history. The lending disposition in the early years of the industry which caused an alarming rate of bank failures never left the industry, leading to the accumulation of bad and doubtful debts and causing the Nigerian Deposit Insurance Corporation (NDIC) to classify some banks as technically bankrupt. NDIC (Nigerian Deposit Insurance Corperation) is the specialised institution set up by the Federal Government of Nigeria under CBN in 1989 to insure bank deposit and thereby mitigate losses to Depositors in the event of bank failure.

With computerisation in the later years, the risk of bank frauds and occurrence of the risks rose significantly. Automation caused bank managers to warn that "all

these will no doubt create an environment for fraudulent activities, particularly when viewed against current economic difficulties. "Evidently, however, Nigeria has been better off with banking in the country: banking has facilitated business transaction in the economy, created employment directly and indirectly, amongst others, but it had it problems
some of which have refused to go with the years: threat of bank failures has remained as a result of poor management disposition.
However, in fighting, poor internal control system, in the banking industry in Nigeria. Attention will be focused on Liquidity management in the Banking system, a case study of some selected Community Banks. Five Community banks located in Kaduna South and North respectively are going to be used for the analysis.

Liquidity Management is an important aspect of monetary policy implementation and control, it is to seek and ensure the attainment of the short-term objectives of monetary police i.e maintaining desired monetary aggregates - a money stock target and or desired interest rate. Banks create money everyday, but when the quantum of money created is incompatible with the absorptive capacity of the economy, macroeconomic instability may result. In order to maintain relative macroeconomic stability, much reliance is placed on liquidity management to even out the swings in liquidity growth in the banking system.

Liquidity management by Central Bank of Nigeria includes the provision of the short-run reserve needs of the banking system for purposes of meeting short-term liquidity obligations.
Before the introduction of open market operation on 30th June, 1993, the CBN employed the direct techniques of liquidity management, which involved the setting of credit ceilings, discount rates, liquidity and cash ratios, the Bank also occasionally called for special deposits from the banking system as well as issued stabilization securities. Since June 1993, open market operations have become the dominant

instrument of liquidity managment while the use of stabilization securities exists only as a fall-back position to augment other instruments as the need arises. The use of credit ceilings is being phased out, while the application of the discount rate, liquidity and cash ratios is still in force as the main adjustment instruments. The application of liquidity management by the Central bank affects Commercial Banks operation of their liquidity management which is indirectly and directly affecting the Commercial Banks in the operation of their liquidity or cash, most Community Banks use Commercial Banks as their Bankers they are not directly operating with Central Bank of Nigeria.

Community Banks needs to manage their liquidity or treasury efficiently so as avoid cash squeeze or shortage. Liquidity in Community Banks consist of cash of the Bank that is deposited by the customers, Community Banks have to control and manage their liquidity by saving or conserving excess cash or surplus with their Bankers.

Liquidity management and operation from the following Community Banks are going to be used for the analysis:

(a) Mutunchi Community Bank located in Kaduna South (Kakuri)

(b) Fahimta Community Bank in Kaduna North

(c) Jama'a Community Bank located at Kaduna Central Market.

(d) Nilma Community Bank located in Kaduna South

(e) Doka Community Bank located in Kaduna North

4.2 LIQUIDITY POSITIONS OF THE FIVE COMMUNITY BANKS STUDIED

MUTUNCHI COMMUNITY BANK

The above Community Bank is located in Kaduna South, Kakuri. The bank started its operation in 1991 with the purpose of carrying out Banking services to small - scale industries and the Community of Kakuri in general. The mutunchi community bank organisational chart comprises the follwoings:

The chairman and 4 deputy executive directors who are the founding fathers of the Bank. The manager is the head of the bank controlling the day to day operation of the bank, and the other team are the Accountants, credit officers, cashiers (recieving and paying) and other staff such as Bank clerks, secretary, e.t.c .

Mutunchi Community Bank Liquidity from Customer Deposit from 1993 - 1997, takes this pattern.As the bank grow in operation, the liquidity also Increased. In 1993 Customer Deposit was N30 million but it increases to N55 million, fall to N45.3 million due to inflation and High rate of interest, introduced in 1991 by the Central Bank of Nigerian prudential guidelines on accounting for bad and doubtful debts which have harsh side effect on the economic reform programme. This crippled the ability of many borrowers from the banking industry, which has indirectly affect the liquidity of customer deposit. Customers can no longer save because of high inflationary rate which make the liquidity to fall, this led mutunchi community Bank to make as standing order not to borrow money to customers for long period of time so as to aviod tying down their liquidity. Repayment period of loans in Mutunchi Community Bank is a maximum of 3 months in order to stabilise their liquidity.

TABLE 2

MUTUNCHI COMMUNITY BANK

SUMMARY OF CUSTOMERS DEPOSIT (LIQUIDITY) FROM 1993 - 1997

YEAR	NO. OF CUSTOMER	LIQUIDITY (CASH) IN MILLION (N)
1993	1,846	N30 Million
1994	2,309	N47 Million
1995	2,846	N55 Million
1996	3,458	N51.2 Million
1997	4,258	N45.3 Million

SOURCE : MUTUNCHI COMMUNITY BANK

TABLE 3

MUTUNCHI COMMUNITY BANK

SUMMARY OF SHORT TERM LOANS GRANTED TO CUSTOMERS FROM 1993 - 1997

YEAR	NO. OF CUSTOMERS WHO BENEFITED FROM SHORT-TERM LOANS (MAXIMUM OF 3 MONTHS FOR REPAYMENT)	AMOUNT (TOTAL)
1993	80	N1,600,000
1994	106	N2,334,000
1995	136	N4,345,000
1996	200	N7,234,000
1997	176	N6,352,000

SOURCE : MUTUNCHI COMMUNITY BANK

FAHIMTA COMMUNITY BANK

Fahimta Community bank liquidity deposits from customers rose from N32.6 million in 1994 to N52.3 million in 1996 and fall back to N42.4 million in 1997.

TABLE 4

FAHIMTA COMMUNITY BANK

SUMMARY OF CUSTOMER DEPOSIT (LIQUIDITY) FROM 1992 - 1997

YEAR	NO. OF CUSTOMERS	LIQUIDITY (CASH) IN MILLION N
1992	2,306	N15,256,000
1993	3,204	N22,548,000
1994	4,107	N32,629,000
1995	5,203	N45,769,000
1996	6,469	N42,306,000
1997	7,208	N59,425,000

SOURCE : FAHIMTA COMMUNITY BANK

JAMA'A COMMUNITY BANK

JAMA'A Community Bank is located in Kaduna Central Market. Because of its location, has its liquidity from Customer Deposit increasing every year since 1992. In 1992 the number of customers was 2,063 with liquidity (Cash) from customers deposits of N15,266,000. With the increase of 7,308 in the number of customers, the liquidity also steadily increased to N89,485,000. by 1997.

The Jama'a Community Bank was able to maintained its liquidity position due to large number of Deposit from customers, perhaps due to the Community Banks location at the Central Market, where many traders and Businessmen can deposits their cash. As can be seen, a Community Bank location in a good Business environment, has the tendency to create an avenue for such a Bank to have more cash (Liquidity generated from customers).

TABLE 5

JAMA'A COMMUNITY BANK

SUMMARY OF CUSTOMERS DEPOSIT (LIQUIDITY) FROM 1992 - 1997

YEAR	NO. OF CUSTOMERS	LIQUIDITY (CASH) IN MILLION (N)
1992	2,063	N15,266,000
1993	3,940	N22,848,000
1994	4,702	N30,689,000
1995	5,803	N48,969,000
1996	6,524	N62,306,000
1997	7,308	N89,485,000

SOURCE : JAMA'A COMMUNITY BANK

NILMA COMMUNITY BANK

NILMA Community Bank liquidity generated from customers in 1992 was N1,255,000 and this increased to N22,526,000 and then fall to N12,469,000 in 1997.

TABLE 6

NILMA COMMUNITY BANK

SUMMARY OF CUSTOMER DEPOSIT (LIQUIDITY) FROM 1992 - 1997

YEAR	NO. OF DEPOSITORS	LIQUIDITY (CASH) IN MILLION (N)
1992	1,240	N1,255,000
1993	1,728	N16,579,000
1994	2,342	N22,526,000
1995	3,255	N18,346,000
1996	3,789	N15,426,000
1997	3,592	N12,469,000

SOURCE : NILMA COMMUNITY BANK

DOKA COMMUNITY BANK

Doka Community Bank liquidity rose from N8,535,000 in 1992 to N29,635,000 in 1995 and then fall to N24,435,000. in 1997.

TABLE 7

DOKA COMMUNITY BANK

SUMMARY OF CUSTOMER DEPOSIT (LIQUIDITY) FROM 1992 - 1997

YEAR	NO. OF CUSTOMER	LIQUIDITY (CASH) IN MILLION (N)
1992	1,050	N 8,535,000
1993	1,896	N15,678,000
1994	2,556	N25,624,000
1995	2,899	N29,635,000
1996	2,929	N27,524,000
1997	3,246	N24,435,000

SOURCE : DOKA COMMUNITY BANK

4.3 DUTIES AND RESPONSIBILITIES OF LIQUIDITY MANAGERS

The liquidity managers performed similar duties and responsibilities in every banking system. They are sometime called Treasury managers. Their roles and duties is very sensetive to any banking management. Liquidity managers mostly performed the following duties.

(a) He give out money or cash to the paying cashiers on daily basis for the banking operations, from the treasury.

(b) Supervision of the cashiers (Receiving cashier and paying cashier) i.e receiving all the deposit from the customers through receiving cashiers and issuing cash to paying cashier when the need arise.

(c) He is the one that takes care of the balancing and control of the cashier accounts and Registers on daily basis

(d) He control the physical cash and treasury cash book account by comparison of the total physical cash with Treasury cash book accounts.

(e) Received cash from their corresponding Banks/Banker when the need arise or if there is shortage of cash.

(f) Lodgement of cash to their Bankers or when there is shortage of cash, he raises cheque when authorized by the Bank manager.

(g) He also advises the management and customers when there is problem of liquidity. Liquidity managers play a very vital role in every banking operations. Hence their duties and responsibilities need not be over emphasized.

4.4 OPERATION OF LIQUIDITY MANAGEMENT IN THE FIVE COMMUNITY BANKS STUDIED

Liquidity relate to speed with which a security can be converted into cash. Liquidity depends upon the depth and breadth of the secondary market in which outstanding securities are traded. By depth is meant the amount of securities that the market can absorb without materially affecting the price obtained. Breadth refers to how many active buyers and sellers are trading the security. One way to assure liquidity is to hold securities, with a very short maturity date. Another way is to match the maturity dates of securities with date that cash is needed.

An objective of making any investment is to earn a return. However,yield is not as important as safety of principal and liquidity. Yet every effort should be made to assure that the yield on a portfolio holding is as high as possible, given safety and liquidity constraints. Safety and liquidity are inversely related to yield or return. Therefore one can hardly expect to find a bargain in a marketable security if high liquidity is a prerequisite. Rate of return from temporary investment in marketable securities is secondary to the main objectives. Therefore liquidity and safety criteria must predominate, while greater return are important only when they can be achieved without materially sacrificing these criteria.

The liquidity officer is in charge of the day to day operation of liquidity or treasury management in the Community Banks.

The liquidity / credit officer issued Treasury outslip for issuing out of cash from the treasury to the paying cashiers, which the paying cashiers use to pay customers on daily basis of the banking operations. He receive cash to the treasury through Treasury IN SLIP, normally from customers deposits from the receiving

cashiers.During the day's banking operations, when there is shortage of cash to pay the customers, the paying cashier apply for more cash through the credit officer (Treasury or liquidity officer). while when there is excess cash at hand, the receiving cashier deposit the excess cash to the treasury, through treasury In Slip, through the credit officer of the bank.

The treasury operation continued ,until such a time when the excess cash becomes so much that it can no longer be left idle in the bank. Then the liquidity officer now calls the attention of the management with a view to investing the idle cash in order to get a return. An effective way in the operation of liquidity management is very necessary to avoid cash sequeez and Bank failure.

INVESTING IDLE CASH

In business life, boom and slump is a certain phenomenon. During peak periods, banks experience surplus cash balance. With good management this excess cash can enhance banks profitability.

As far as cash and marketable securities management are concerned, determinant of cash holding are very important for their proper administration. Objects are demanded for a purpose. In the same wise cash are needed for their capacity of satisfying wants. In other words cash are held not for their own sake, as their instrinsit value is zero or near zero, but for what they can do.

To this point we have succeeded in identifying and discussing ways of managing cash, controlling cash inflow and outflow is an important and essential aspect of cash management. The objective of which is to maximise banks investment in idle cash. When these methods or ways are applied judiciously, what will result is good management of funds.

Once a sound cash receipts and disbursement have been achieved, what faces the liquidity officer is the selection of appropriate financial assets. Since the liquidity officer is in the ocean of liquidity management, the selected asset must satisfy some condition. He is primarily concerned with asset that can stand a substitute for cash and satisfy a temporary investment requirement of the bank.

Substitute for Cash:

Here what a financial office is after is that type of marketable security that can be easily liquidated into cash, when cash out-flow exceed in-flow. If the firms net cash flows are highly volatile, it may hold short term marketable securities that can be quickly converted into cash.

Temporary Investment:

This arise when a bank experienced temporary excess cash which can be invested in marketable securities for a very short period of time. This situation is typical of banks with seasonal operation runs. Such banks may purchase marketable securities during their surplus period and liquidate them when cash deficit occur.
A case for such reason are funds required to make future payment. Even if the funds are at hand now, such fund can be invested in marketable securities that mature when the payment is due.

ALTERNATIVE MARKETABLE SECURITIES

A variety of marketable securities are available for investment. These securities can be classified into those issued by government, its agencies and big corporate bodies. Now we shall analyse them one by one in terms of their Quality and Quantity.

Treasury Bill:

This is a direct obligation of the government sold on a regular basis by the government treasury. At present the bill are offered with maturities of 91, 182 and 365 days. They are sold at a discount in denomination of N1000 in Nigeria. In effect, an investor does not receive an actual interest payment but earn through differences of purchase and selling price.
This kind of security has an established market where it is traded. Due to the high level activity in the market of this security, the spread between bid and asking price of them is reduced.

The major Qualities of a treasury bill is that it offer's the highest available liquidity, the lowest interest risk because of their near-term maturity date, and being a direct obligation of the government treasury, there is a complete absence of default. Income to treasury bills is subject to Federal Income Tax but not to state and local government income tax. Because the bills are marked the 'bearer' it is easily transferable from one person to another.

COMMERCIAL PAPERS:

This refer to short-term unsecured promissory notes issued by finance companies and large industrial firms, in order to raise fund. Maturity of commercial papers ranges from three to 270 days.

Denominations rages from #5000 to #5m. As they are bearer papers, the notes are readily negotiable if the secondary market is sufficiently broad. Interest on this papers are normally same as those of certificates of deposits.

Trading of commercial papers is being done either by a direct placement or through a secondary market. The degrees of risk is related to the credit standing of its issuer. Return on commercial papers is fully taxable across all levels of government.

CERTIFICATE OF DEPOSIT (CD):

Certificate of Deposit is a marketable receipts for funds that have been deposited in a bank for a fixed period of time. Maturity on Certificate of Deposits ranges from 30 days to 1 year. In recent years the secondary market for certificate of Deposits has become very active, and consequently, certificate of Deposits have good liquidity. Unlike treasury securities, when certificate of deposit matures, the holder receive full amount plus interest. Income from this investment is also subject to tax.

REPURCHASE AGREEMENT:

Is a legal agreement that involve actual sale of securities by a borrower to the lender with commitment on the part of the borrower to repurchase the security at a contract price plus stated interest rate. These agreement are usually executed in a size of #1m or more. Return that investor receive are taxed. Yield from this security is reached by a negotiation between the lenders and borrowers.

PORTFOLIO POLICY:

Whether to follow conservative or aggressive policy in securities management, the question depend on management taste for risk. Some firms are risk levers while some are risk avert and yet others are the moderate. On a balance however, when the general level of interest rates were relative, liquidity managers engage in aggressive securities management. Most banks bought Treasury Bills and sold them when cash was needed.

An aggressive policy requires that continual attention be given to rapidly changing conditions in the money market. In a tight market or money crunch, short-term rates will rise rapidly.

Thus interest differential between Treasury Bills and say commercial papers or Certificate of Deposit may increase substantially. This of course will call for switching out Treasury Bills into one of the other investment media. At another time, when the money market is soft and short term interest rate are declining, these differential may narrow greatly. This would make it attractive to switch back to Treasury Bills.

4.5 THE ROLE OF LIQUIDITY MANAGEMENT IN COMMUNITY BANKS

Effective and proper liquidity management has improved the performance and success of some of our Community banks today.

Liquidity management developed some of our Community banks in the following way:

1. Efficiency in the Community banking operation made some of our Community banks to perform better because of Good liquidity management operations, which boast the image of the Community Banks in Nigeria and outside Nigeria. For example, According to information from mutunchi Community Bank, some foreigners who visited the bank in 1997, from three African Countries namely Central Africa, Uganda and Kenya, has this to say. Because of the highly impressive performance of the bank, the foreigners were highly encouraged by the performance to which they promise to develop similar Community Banks in their respective countries.
2. The role of good liquidity management has prevented Community banks from experiencing constant cash surplus or shortages for normal banking operation.
3. Through the role of effective liquidity management, the Community Banks are able to maintain good liquidity from numerous customers, especially from large number of customers operating fixed deposit accounts.
4. The role of liquidity management has also help in regulating the treasury operation of most Community Banks.

5. Positive and highly impressive liquidity management give room for more customers, because of good banking services that is going to be render to the customers.

6. Effective role of liquidity management in our Community Banks encouraged and assist small-scale entrepreneurs financially, giving room for the acceptance of deposits from the small-scale enterprise. The Community banks in turn give them (small scale investors) expert advise on financial matters, and provide the small-scale investors with loan facilities.

Community banks savings and lending rates were reportedly maintained at 15.0 and 21.0 percent, respectively. The loan/deposit ratio of the banks were at 40.9 percent in 1995, in compliance with the required aggregate prudential ratio of 70.0 percent.

TABLE 8

SUMMARY OF COMMUNITY BANKS ACTIVITIES END -DECEMBER, 1991 - 1995

	1991 (1)	1992 (2)	1993 (3)	1994 (4)	1995 (5)
Number of Reporting Banks..	60	250	611	813	1,132.0
Capital Reserves	34.0	166.5	625.3	808.0	866.7
Total Assets	126.9	774.4	3,252.5	4,117.2	4448.1
Deposit Liabilities	76.7	474.6	2,188.2	2,721.2	3,344.6
Loans and Advances	15.9	132.2	708.2	1,247.8	1,366.4
Investments	16.8	78.9	326.6	448.4	465.5
Average Loan/Deposit Ratio (%)	20.7	27.8	32.4	42.2	40.9
Sectoral Distribution of Loans and Advances:					
i) Agric. and Forestry	N/A	23.7	123.2	123.3	141.2
ii Mining and Quarrying	N/A	N/A	5.7	23.8	60.7
iii Manfacturing & Food process	N/A	20.1	69.6	82.7	70.7
iv Manufacturing & Others	N/A	6.6	60.0	86.0	77.3
v Real Estate & Constr.	N/A	N/A	47.5	117.1	107.0
vi Commerce	N/A	43.7	280.0	461.5	626.7
vii Transportation/communi.	N/A	9.3	53.7	101.0	108.7
viii Others	N/A	28.8	68.4	152.3	173.9
Deposit and Lending Rates (average %):					
i) Savings Deposits	N/A	15.6	19.0	150.0	15.0
ii Time/Term Deposits	N/A	19.4	25.0	Negotiable	Neg.
iii Interest Rate on Loans & Advances	N/A	29.9	36.0	21.0	21.0
% change over preceding December.					
Number of Reporting banks	-	316.7	144.4	33.1	39.2
Capital and Reserves	-	389.7	275.6	29.2	7.3
Total Assets	-	510.2	320.1	26.6	8.0
Deposit Liabilities	-	518.8	361.1	24.4	22.9
Loans and Advances	-	731.4	435.7	62.1	19.0
Investments.	-	369.6	313.9	37.3	3.8
Average loan/Deposit Ratio(%)	-	16.5	16.5	30.2	3.1

N/A = Not Available

Source: National Board for Community Banks (NBCB).

4.6 OPERATIONAL PROBLEMS OF LIQUIDITY MANAGEMENT IN COMMUNITY BANKS IN NIGERIA.

Community Bank financial performance of the reporting 1,132 Community banks, out of the 1,355 licenced showed a deceleration as measured by their performance indicators, compared with 1994. In 1995, capital and reserves grew by 7.3 percent compared with the growth of 29.2 per cent in 1994. At N4,448.1 million in 1995, total assets and liabilities of the reporting banks rose by 8.0 percent, compared with 26.6 percent recorded in 1994.

Aggregate deposit liabilities, loans and advances and investments increased by 22.9, 19.0 and 3.8 per cent, respectively. The rates were far below their growth performance of 24.4, 62.1 and 37.3 per cent, respectively, in 1994. The financial position of the sub-sector of the banking system remained weak as their operations continue to be adversely affected by the continued distress in the banking system, poor management, unstable macro-economic environment and negative real interest rates.

The sectoral analysis of the banks' loans and advances showed that commerce continued to account for the largest share of their total loans and Advances. Loans and advances to commercial sector share of 40.2 and 39.5 percent in the preceding two years. Allocations to agriculture and forestry, real estate and construction, transport/communications and other sub-sectors jointly accounted for N422.1 million or 30.9 percent of the outstanding loans and advances of the economy which went to the manufacturing, mining/quarrying activities, in line with the current interest rate policy.

However, the Community banks suffers from the following problems, despite their contribution to the development of small scale industries and rural activities.

1. **One of the major problem of Community Banks is that they are prevented from operating directly with Central Bank of Nigeria.**

Where the Community Banks can source funds on a lower rate than Commercial Banks where the interest rate and charges are high.

2. **The Community banks minium capital base of N250,000 in an economy with about 30% inflation rate is not adequate. A capital base of N250,000 for commercial outfit like community bank is too small for it, to meet its commitment to the customers. Only those with higher capital base might be viable in the long-run.**

It was realiably learnt while conducting personal interview with some executives of the community banks that in an apparent desire to ensure the universal acceptability of the community banking system, many of the operational stipulations were either deliberately waived or ignored by the board to facilitate these banks take off. Some of these are the stipulation of the 30% Community Development Association shareholding 5% shareholding by individuals and corporations and so on.

This laxity has made it possible for some affluent people in the community to hijack the shares of the community banks, at least two of the community banks studied in Kaduna, were alleged to have been sponsored by two individuals with interest in sponsored by two individuals with the conivence of their families who posed as different individuals with interest in sponsoring the banks. This being the case, the purpose for which the banks were established, that is the communities within which they operate may not be realised.

3. **Office location of the community banks still follow the old pattern, for example of all the five community banks being studied, four are located in urban centers. And only one out of the five was located in a localised area of Kaduna, that is at the central market. It was not suprising, therefore that only small portion of their loan disbursement went to farming and other small scale business. The aim of bringing banks facilities to the rural populace is, therefore, defeated.**

4. In terms of personnel engaged by the banks, except for the management positions, the quality is low. The junior staff of the community banks, are ill-equiped to handle savings and loan disbursement in the system. Since the condition of service of the community banks is not attractive. It is therefore not likely to attract experienced banking personnel from the financial system. Though the community banks are commercial concerned, but lack of well articulated condition of services, at the moment, militates against securing right calibre of personnel.

5. The problems of the community banks relationship with their correspondence commercial banks is sourced mainly from clearing of the Latters' cheques. There is this problem of acceptance of the community banks cheques by other institution and individuals, due either to lack of awareness of the activities of the community banks or out right mischief. As a result therefore, the orthodox commercial banks - tend to give less attention to the community banks. The manager of one of the community bank, in Kaduna complained bitterly against his correspondent commercial bank, Savannah bank, also in kaduna, for lack of enthusiasm in transacting business with his bank. As a result of this attitude, it takes unexpected long period of time to get their cheques cleared in the system.

6. Some Community Banks can not meet up their cash requirement, this is because there is always the problem of cash shortage to run the banks due to lower deposit from their customers.

7. Government aid to increase the liquidity of Community bank was not encouraged, most of the Community Banks are financed by their owners, there is no government share which can increase the liquidity of the bank.

8. Economic versus political crises seriously affects the financial institutions as a whole. Most of the stringent prudential guideline for banks, increases in Banks minimum capital requirement, up-grading and standardization of accounting procedures, the strengthening of the regulatory framework through the promulgation of the Central Bank Decree No. 24 of 1991 and Banks and other financial institution Decree 25 of 1991, directed at creating a vibrant market

environment for money market instruments, coupled with the Political crisis since the annulment of June 12, 1993 election, makes the banking institution regulation unstable, this discourage investors in the money and capital market from investing in the banking industry.

9. Government policies and Taxation:

Taxations is affecting the profit of most Community banks, since the Community Banks are taxed heavyly. High interest and high Banking service charges from the Commercial Banks who are Bankers to Community Banks is affecting usually majority of the Community banks liquidiity in Nigeria.

CHAPTER FIVE

5.1 SUMMARY, RECOMMENDATION AND CONCLUSION

SUMMARY

This chapter being the concluding one, will attempt to give a summary of all the preceding chapters, after which a conclusion would be drawn. Based on the conclusion suggestion and recommendation would be provided for the improvement of cash management practice in the country as well as suggestion of areas for further research.

Chapter one introduced what is liquidity management in community bank ? Liquidity is the most important concept in corporate financial, planning and control.

Liquidity is the amount of cash or near cash assets that a Company or Banking system has or can obtained to transact business with or finance its operations. In effect, it is the assets which can be readily converted to cash incase of needs. The chapter further mentioned the statement of problem of the project which are:

How can Community Banks manage its liquidity efficiently and effectively? What are the problems of liquidity management? How does the financial Regulation policies and Banking Decrees affects management of liquidity in Community Banks? And the purpose and objective of study briefly mentioned how to promote rural and Community development through provision of finance and banking service to small-scale industries. The chapter one further discuss the scope and the presentation of the project/study which is divdided into five chapters.

The chapter two which is where literature on related aspect of the project was reviewed, discusses the history of banking from 1892 up to the advent of community

banking operations in Nigeria in 1992. It is the chapter where respect was given to whom it is due. The chapter also introduce when Community Banks commence its operations in Nigeria in the year 1992 through Decree No. 46 by the Federal Military Government. A Community or group of Communities desiring to establish a bank shall apply in writing through the National Board for Community Banks, to the Governor of Central Bank of Nigeria for the grant of a licence for Community banking operation. The chapter further discuss the objectives and functions of Community Banks and establishment of the Bank in Nigeria.

The chapter Three contained Research methodology which describe the procedures and approach adopted for conducting the research and sources and methods used in data collection.Research techniques and justification of method used were also discuss.

Chapter four is the data presentation and analysis of the project. Five Community Banks in Kaduna were used for the study. They are Mutunchi Community Bank, Fahimta Community Bank, Jama'a Community Bank, Doka Community Bank, and Nilma Community Bank. One major discovery in this chapter is that, the operation of liquidity management is similar in all the five Community Banks studied. And the absence of efficient Liquidity management is also discovered.

The liquidity or cash of every Community bank is affected by CBN Banking regulations and monetary policies. Mostly all Community Banks deposit the excess liquidity or cash with Commercial Banks which are Bankers to Community Banks. Duties and Responsibilities of Liquidity Managers were also discuss in chapter four which is similar in all the five community banks.

Chapter four further summarise and explain the role of liquidity management in Community Banks. Also discussed are the major factors affecting Banking Business in Nigeria such as ownership structure in the banking industry, Legislation and Nigerian Banking system, National and International Economy and the Banking

industry. Quality of Banks management and staff. The Central Bank of Nigeria Decree No. 24 and banks and other financial institutions Decree No. 25 (BOFID) Establishment of NDIC (Nigeria Deposit Insurance Corporation).The chapter four also mentioned the significant developments in the banking sector since the introduction of Structural Adjustment Programme in Nigeria.

5.2. RECOMMENDATION AND FUTURE PROSPECTS

Since the establishment and commencement of Community banks in place of rural banking system in 1992 through Decree No. 46 by Federal Military Government, The challenges ahead of the Community banks are those of survival, continuity and growth. To be able to meet these challenges the Community banks must adapt certain strategies as regards the management of their liquidity that fits each challenge. The following steps are therefore recommended:

1. Customer relations are those attitudes that would make your customers always want to come back to patronize as well as recommend you and your services to others.

The nature of banking business makes it mandatory that operatives in banks must create and maintain good customer relationship, because banking transactions whether with individual or corporate bodies are people based. It would not be too much, therefore, if the community banks establish public relation outfits in their banks. Public relation outfits does not require too many staff and should not be costly; in any case it is worth the trouble, since the volume of customers retained by any bank determines its liquidity level.

2. All the community banks studied are located within the urban centres. This is in negation of the aims and objectives of establishing the banks. It is recommended that preference should be given to those who intend to open community banks to

locate the Community banks in rural areas. So that the actual peasant farmers, rural women and rural entrepreneurs could benefit from their services.

3. Also, this study reveals that, inability by the Community banks to mobilize the community for credit has resulted in surplus deposit, which it took to different financial institutions for investment purposes. Others utilized their surplus funds in creative credit. In addition to the above technique, the community banks should start thinking seriously in establishing joint ventures more especially to rural areas, where the local entrepreneurs might not be able to establish certain businesses on their on. They could go into transportation; providing bus transport, taxis, well equipped mechanic workshops, etc. They could also start small business like providing grinding machines to village development associations. Or even organize farmers on cooperative basis and provide them with capital and enough inputs as credit. One of the community bank has actually done this, and is happy with the outcome this harvesting season.

4. Recommended also is, Good and viable Banking Investment. The Community banks should place more priority on viable projects which can generate constant flow of cash or liquidity. Community Banks should not invest on long-term projects they should invest in short-term projects so as to avoid tying down its cash or liquidity for a long period of time.

5. Government Incentives: The government should give aids to the Community Banks such as allowing community Bank to use Central Bank of Nigeria directly to serve as their banker, as well as their clearing house, rather than going through other commercial banks to clear their cheques, or lodging their excess cash.

6. Training and development of Community bank's staff in experience banks to acquire more practical knowledge and sound education training in liquidity management should be put in place. Some Community Banks are distress not because they are not viable, but due to lack of competent staff to manage the Community Banks liquidity effectively.

7. Proper internal management control system on liquidity management should be put in place in the community banks to enhance their efficiency.
8. Full computerization of the Community Banks for efficient operation should be employed.

FUTURE PROSPECTS:

The idea of setting up Community banks came up, about 8 years ago, in December, 1990. However, by June, 1998 the number of the Community banks witnesses rapid expansion, from Bank Branch in December, 1990 to several hundreds by June, 1998. That was the scenario at the national level.

Although the Community banks are experiencing some problems right now, the problems are not insurmountable. They are problems that could be solved with time, and more exposure in the banking operations.

Despite the problems, already listed above, the banks performance in Kaduna is most impressive and encouraging. If they keep up and possibly improve upon it, sky is their limit; they have bright prospects. This optimism is backed by the fact that, within the span of 8 years, the five community banks have already opened 81,808 various types of accounts for their customers.

It could be deduced from the above therefore that, these community banks are creating awareness among the people. Since majority of the account holders are opening account with a bank or are utilizing banking facilities for the first time in their lives. So the twin objective of the Community banks of inculcating banking habit and savings mobilization is, afterall, being achieved by these banks.

The prospect for survival, continuity and growth for the community bank is very bright, so long as, they would be able to maintain and improve upon their present standard of operation.

I believe with the above recommendations, and future prospects our Community Banks will be able to maintain and stablize the operation of their liquidity in the future years ahead.

5.3 CONCLUSIONS

The idea of establishing the Community bank is noble, as it is laudable and infact a credit to the authorities concerned. When the federal government established the Community bank in January, 1990, many Nigerians dismissed the idea as merely another expensive publicity gimmick. The fear was that the bank, though it had been successfully operated in other third world countries such as Bangladesh and Indonesia, would however, degenerate into another public funds wastage without the commensurate social returns.

The federal government decided in January, 1990 that about half a billion naira, adjusted subsidy levels of domestic prices of petroleum products be used for the establishment of the Community banks. Yet, over the years for which the banks have been in operation, they have emerged as authentic success story.

Providing the much-needed bridge between the legitimate but cash-starved business aspirations of the poor and their perennial need for start-up funds. Long shunned by the conventional banking sector's stringent demands for collateral. Today, Community banks are established in a very large segment of our communities.

Thousands of artisans, small-scale businessmen and women, peasants farmers, have received loans and advances from them, and have thus been able to make more meaningful contributions to the National Economy.

The successful operation of the Community banks has began to change the cheerless scenario of the less privileged but determined rural individuals and business people

which hitherto were shuned by the conventional commercial banks, for necessary assistance to start-up or expand their business, as well as what to do with their excess cash which is generated through farming and other rural economic activities.

While, I commend the efforts of the community banks, they should be reminded that their effort in liquidity management should be improved upon, possibly by establishing a special liquidity management monitoring unit.

Emphasis should also be placed on locating the banks' in rural areas rather than the present situation, whereby all the Community banks were located in urban or semi - urban centres.

In line with what obtains in other sectors of the economy, the government should give serious thought to increasing the capital base of the Community banks so as to enable them meet the challenges of the deregulated economy. The Community banks are no doubt achieving the objectives for which they were established.

Appendix A

Department of Business Admin.
Institute of Administration.
Ahmadu Bello University,
Zaria.

Date----------

The Branch Manager.

Dear Sir.

LETTER OF INTRODUCTION

I wish to introduce myself as a Postgraduate Student of Business Administration in ABU, Zaria.

I am in the process of writing my project paper which is one of the requirements for the award of the degree of MASTERS IN BUSINESS ADMINISTRATION (MBA).My project area is :

LIQUIDITY MANAGEMENT IN THE BANKING SYSTEM:
A CASE STUDY OF SOME SELECTED COMMUNITY BANKS.

I should be very grateful, therefore, if you would help me with the necessary information I might need in the course of carrying out this project.

Please find attached herewith a Questionnaire for completion and return. I wish to also stress that any information so released will be kept secret and confidential and no part thereof will be leaked to anybody. Also the identity of the respondent will be kept secret.

Thank you for the co-operation.

Yours faithfully,

Alhaji Hamisu Boyi

Appendix B

DEPARTMENT OF BUSINESS ADMINISTRATION
AHMADU BELLO UNIVERSITY, ZARIA.

TOPIC: "LIQUIDITY MANAGEMENT IN THE BANKING SYSTEM"
A CASE STUDY OF SOME COMMUNITY BANKS.

QUESTIONNAIRE FOR COMMUNITY BANK MANAGERS

1. Educational Qualification of the Manager (Specify)

2. AGE: Below 30 years ☐ Above 30 years ☐

3. Working Experience in Banking or related fields

   Below one year ☐ one year - five years ☐ Nil ☐

   Five years and above ☐

4. No of customers in your bank with:

   a) Saving Accounts .....

   b) Current Account .....

   c) Time Account .....

5. How often do customers approach you with request for loan

   a) Frequently ☐

   b) Not Frequently ☐

   c) None ☐

6. Average monthly deposit

   a) Repayable on Demand N .....

   b) Time N .....

   c) Saving N .....

7. What are the aims and objective of your Community Bank

.....

.....

.....

8. What in your opinion is Liquidity management in the Banking System.

.....

.....

.....

.....

9. What are the roles and duties of Liquidity Manager/Treasury Manager in your Community Bank.

.....

.....

.....

10. Project usually finance by your bank:

a) Small project ☐ N1,000 - 5,000

b) Medium " ☐ 5,000 - 50,000

c) Large " ☐ 50,000 and above

11. Do you ever re-invested surplus fund Yes ☐ No ☐

12. How:

a) In Treasury Bills/Certificates ☐ Government Stock ☐

b) Others (Specify) .....

.....

13. What are the method of granting loans or advances in your Community Bank.

.....

.....

.....

14. Do you find it difficult to attract customers Yes ☐ No ☐

15. What is the importance of Liquidity Management to your Community bank.

.....

.....

.....

16. What are the advantages of Liquidity management in your Community Bank.

.....

.....

.....

17. What are the disadvantages of Liquidity management in your Community Bank.

.....

.....

.....

18. What are the achievements of Liquidity management in your Community Bank.

.....

.....

.....

19. Briefly enumerate the operational problems on Liquidity management in your Community Bank.

.....

.....

.....

20. What are the effects of monetary policies on Liquidity management in your Community Banking System.

.....

.....

.....

21. How can Government Encourage Community Banking in Nigeria ?

.....

.....

22. Do you find it difficult to attract qualified/experienced bankers to work for the bank ? Yes [ ] No [ ]

23. Any Business relationship with Commercial and or Merchant Banks (specify).

    .....

    .....

24. Total amount of loan granted to customers from inception to date:

    .....

25. Date Bank was opened for business: .....

NATIONAL BOARD FOR COMMUNITY BANKS

APPLICATION FORM FOR

THE ESTABLISHMENT OF

COMMUNITY BANKS

APPLICATION FORM

THE COMMUNITY BANK COMPANY.

Proposed Name and address of the Community Bank/Project: (P.O. Box is NOT enough)

(a) Proposed Name of the Community Bank: .....

.....

(b) Village / Ward / Neighbourhood: .....
(Delete whichever is inappropriate)

(c) Town: .....

(d) Local Govt. Area: .....

(e) State: .....

What is the population of the Community / communities, (Suggest approximate number of users of the banking service).

.....

.....

How many markets are there in your community?

.....

.....

.....

.....

.....

Type of economic activities in the community/communities

.....

.....

.....

FINANCES AND OWNERSHIP STRUCTURE

(a) How much share capital do you hope to raise for your bank?

(___) N250,000.00 - N500,000.00

(___) N500,000.00 - N1,000,000.00

(___) More than N1,000,000.00 (Indicate).....

(b) List all the subscribers, the amount and the percentage share desired. Note that all the undermentioned categories must be fully represented in the ownership structure of the bank.

CATEGORY A: COMMUNITY DEVELOPMENT ASSOCIATION(S)

CDA NAME	AMOUNT	% OF SHARE HOLDING
.....		
.....		
.....		
.....		

RECORD OF COMMUNITY ACTIVITIES / PROJECTS.

DESCRIPTION OF PROJECTS	NUMBER	VALUE	SOURCE OF FUNDING

CATEGORY B: COOPERATIVES, TRADE GROUPS, AGE GRADES, CORPORATE BODIES, ETC.

NAME	AMOUNT	% OF SHARE HOLDING

CATEGORY C: INDIVIDUALS

* (Attach a list of no fewer than 50 individuals indicating their Names and Residential Addresses.
Please note that no single individual shall hold more than 5% of the total Share Capital of a Community Bank.

At present, our community's (communities') money is lodged at the following bank(s). Name the bank(s) and give its (their) Account Number(s).

(a) Bank..... Account No.....

(b) Bank..... Account No.....

(c) Bank..... Account No.....

==========

Protem Chairman of the proposed CBC:

Name:.....

Signature..... Date:.....

==========

Protem Secretary of the proposed CBC:

Name:.....

Signature:..... Date:.....

DECLARATION

1. We the undersigned are the elected leaders of the ..... Community Development Association. We hereby confirm that we resolved at our General Meeting held on ..... to:

   (i) Promote and eventually participate in the establishment of a Community Bank in our community as a major share holder of the Bank.

   (ii) Generate enough funds to pay for the authorised share capital of the Bank and meet other expenses.

   (iii) Ensure that other interest groups, trade associations, farmers' unions and women organisations within the Community also purchase various percentages of the share capital.

   (iv) Ensure that no single individual owns more than 5% of the share capital but that such individuals as may be willing shall have the right to donate to the CDA.

   (v) Open, a TRUST ACCOUNT immediately, in the name of our CDA or the proposed CBC.

We further confirm that

(i) The attached list of prospective subscribers to the Capital of the Bank include such details as Full Name, Residential Address, Number of share to be purchased and Percentage and that our Association endorses the appointment of ..... and .....as Protem Chairman and Protem Secretary of the proposed CBC respectively.

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