COMMUNITY BANKING AND ITS EFFECT ON THE DEVELOPMENT OF BANKING HABIT AMONGST NIGERIANS - A STUDY OF SELECTED COMMUNITIES

BY

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DECLARATION

I hereby declare that this project is original and it is a product of my research findings. Same has not been previously presented in any application for a higher degree.

All sources of information utilised for this project have been acknowledged accordingly by means of footnotes and references. Therefore, it is needless mentioning that any error of omission and/or commission is mine.

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CERTIFICATION

This project report entitled "COMMUNITY BANKING AND ITS EFFECT ON THE DEVELOPMENT OF BANKING HABIT AMONG NIGERIANS - A STUDY OF SELECTED COMMUNITIES" by ALIYU ASGHAR SA'EED YAR'ADUA meets the requirement governing the award of the degree of MASTER OF BUSINESS ADMINISTRATION OF AHMADU BELLO UNIVERSITY, and is approved for its contribution to knowledge and literary presentation.

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LIST OF ABBREVIATIONS

Abbr.	Description
CBN	Central Bank of Nigeria
CB	Community Bank
CBs	Community Banks
CBS	Community Banking System
NBCB	National Board for Community Banks

ABSTRACT

For many years efforts were made to involve sub-urban and rural people in Nigeria in modern banking practice, so as to intergrate the rural community into the manstream financial system of the country. Apart from encouraging establishment of commercial and merchant banks, specialised development banks were created focusing on mortgage, agriculture, savings, industry and other specific areas. Beyond this, rural branches were made mandatory for the commercial banks so that the interest of the rural people could br attracted and held in the conventional banking system.

It is also a known fact that banking habit, particularly among semi-literate urban duellers and the illiterate rural populace is very low or even non-existent in some areas. The fact that people still prefer to carry-out their business transactions with cash and not through the banks testify to this, as business actuaties in the Nigerian local markets, with transactions running into hundreds of millions of Naira are being carried out daily purely on cash and cerry basis.

This problem persisted over the years and led the government to seeking acceptable solutions through its various agencies. The Central Bank of Nigeria's infuction that specific number of rural branches must be opened by commercial banks, before approval is given to them to open new urban branches, is the first major step. Today there are 756 rural bank branches all over the federation, but have not been able to make banking attractive to the people for whom they were established. The government through the Directorate of Food, Roads and Rural Infrastracture (DFRRI), come up with the idea of the Community Banking System (CBS)

with the aim of addressing the development and incalation of banking habit among the rural peasants and the low income urban duellers.

The question is how effective was the policy in calculating the desired banking habit among these classes of the citenzenry? That is to say has the introduction of the community banking system made any significant impact in this area?

Answer to the above questions is the primary concern of this research work.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF STUDY

One of the main functions of any financial institution in Nigeria, as in any other country, is to serve as intermediary between the owners of funds who do not have immediate need for them and borrowers who have immediate need for Financing. By acting in this capacity, commercial banks not only try to link up lenders with borrowers in an organised manner, but also try to allocate and mobilise funds within the economy. This is something that commercial banks in Nigeria do sparingly. Closer examination of the two aspects of the function, namely; savings and investment will determine the effectiveness of our banks in allocating and mobilising funds.

Savings is defined as, that part of a person's income that is not consumed. It is that part, that is either deposited in the bank, kept elsewhere or invested. The Nigerian commercial banks are able to generate savings, but not enough of it. In the early 1980s only few commercial banks in any given city were in existence coupled with prolonged delays at the counter. The average Nigerian nevertheless, still went there to keep his money not because of the absence of any other alternative, but due to the failure of the mass media and other market agencies to enlighten the public on the

alternatives to banking. However, the banks continued nonchalant attitude to customers has resulted in low deposits or savings in the country. Customers who can no longer wait for quite a considerable length of time before their deposits are accepted, have either kept their money in hidden corners in their houses, farmlands or acquire landed property. That notwithstanding is the fact that when you had no difficulty in depositing your money, getting it out becomes a problem. People have been known to be in the banking halls waiting for hours before they can cash their own cheques.

The aspect of the commercial banks function as financial intermediary leaves much to be desired. Investment is that part of a person's income that is neither saved nor used up for consumables, but used to generate more wealth through commercial or industrial activity. The commercial banks as well as other financial institutions in the country have been performing theses functions without adequate provisions in their lending policies for small businesses, petty traders, lower cadre civil servants, craftsmen and small scale or peasant farmers. Our financial houses believe in giving loans to only big established Companies and rich prominent individuals who often change bank indiscriminately. The reason usually advanced for such lending policy has been the lack of credit worthiness and collateral of these groups. In essence the religious following and belief of the commercial banks in the five cannons of lending viz; character, capacity, condition, capital and collateral is always brought to bear in processing applications for loans and advances of all their clients.

This is why the lending policies of the commercial banks have not only widened the gap between the rich and the poor but also created bad credit base, influx of people from rural to urban areas and continued absence of industrial establishments in our local communities. When one looks at our major cities and tries to compare their population as well as development in them with our local or rural populace, certainly one can clearly see the wide disparity between the two.

It was these shortcomings of our commercial banks and their neglect of rural areas that gave rise to the CBN policy of forcing commercial banks to open rural branches. Commercial banks were given specific number of rural branches in specific areas before they are allowed to open new urban branches. This policy also failed to achieve the desired result of providing banking services to the grassroots communities as many commercial banks see these rural branches as loss centres, hence most of the rural commercial bank branches are being maintained as a matter of necessity only in order to fulfill the requirement of the CBN and no effort was made to turn them round and make them work to achieve the desired result. The local communities on the other hand are made to feel that banking is for the affluent few, i.e. the educated and the very wealthy and hence shy away from it. Then came the period of deregulation, a process whereby control policies and measures viewed as impediments to the smooth running and efficiency of the entire banking system were systematically streamlined and relaxed. Hence more banks were licensed bringing about a sharp increase in the number of commercial and merchant banks in the country which

inevitably gave rise to intense competition and improved quality of services offered by the commercial banks, automation became the order of the day, private and personalized banking services emerged. However, this development was restricted only to the urban centers alone, as most of the new generation banks whose services are first class operate only in major commercial centres such as Lagos, Portharcourt, Kano and Kaduna with no interest or desire to go into rural areas. Therefore, the banking need of the grassroots communities was still far from being catered for.

In the national budget speech of 1990 community banking system was introduced with the hope that it would provide banking services to the local community and also act as an agent in the economic development of the community. Additionally in his address at the commissioning of the first community bank in Kaduna, President Ibrahim Babangida stated that "Among other things, it is envisaged that community banks will help to:-

a. Inculcate disciplined banking habits in the rural population;

b. Inspire in the communities the spirit of ownership and maintenance of facilities and organization;

c. Generate credit from within the communities for enhancing the development of productive activities and purposeful improvement of the economic status of the communities and their individual members;

d. Provide bridge loans during off-season as means of breaking the dependence on and the hold of local money lenders on the vast majority of rural dwellers;

e. Formalize the use of communities as effective vehicles of rural change and national development;

f. To generally promote rural agriculture, commerce, art & crafts, agro-allied and mineral based cottage and small scale industries, vocational and trade skills, rural transportation and other rural economic activities, particularly in support of small farmers micro-entrepreneurs, women, youths and cooperatives; and

g. Promote emergence of an effective and integrated national financial system that responds to the needs of the whole economy from the grassroots to the national level.

The concern of this study principally is to bring to light whether the first reason advanced by the president, (i.e. inculcation of disciplined banking habit in the rural population), for the establishment of community banks has been achieved.

It is interesting to know that almost all available information about the success or otherwise, of the community banking system in the development of banking habits in Nigeria is either supplied by the government, its agencies or the operators of the community banks. That is to say the information flow has been one way i.e. from the policy formulators, those who implement and the operators and never from the beneficiaries. This is what motivated the study and we shall attempt to find out from the people on whose lives the policy is expected to have direct impact on, how successful or otherwise the community banking system has been towards development of banking habit amongst the rural populace, petty traders and craftsmen by providing answers to questions, such as What is the level of acceptability of the community banks by the people? How often do they deposit their money with the Community Banks? Are their credit needs being met? What assistance do the community banks offer them in terms of advice on the viability and/or feasibility of their projects and ventures? It is against this background that the study shall be carried out.

1.2 STRUCTURE OF THE NIGERIAN BANKING SYSTEM

The Nigerian banking system consists of the central bank of Nigeria (CBN), the commercial banks, merchant banks, development banks, and lately the community banks. The CBN occupies the apex of the banking system and it is exclusively owned

by the Federal Government of Nigeria. The Central Bank of Nigeria was established in 1958 by the Central Bank of Nigeria Act, with the following principal objectives:-

i. To issue legal tender currency in Nigeria.

ii. To maintain external reserves.

iv. To promote monetary stability and sound financial structure in Nigeria and

v. To act as a banker and financial adviser to the Government

-CBN ACT 1958 (cap 30) (as amended 1962-1969).

Commercial banking business started in Nigeria with the establishment of the African Banking corporation in 1892 (the predecessor of the present day First Bank of Nigeria PLC). Commercial banks operate as bankers to the majority of the Nigerian banking populace by rendering a wide range of services which include but not limited to:-

a. -Receiving time and savings deposits and paying interest thereon;

b. -discounting commercial papers, acceptances and bill of exchange;

c. -receiving demand deposits and paying customers cheque on them;

d. -granting of credit to business firms and individuals;

e. -transfer of funds at home and abroad;

f. -bills collection

g. -granting of personal loans and encashment cards services to individuals;

h. -foreign exchange transactions, opening letters of credit on behalf of their clients.

The two institutions that commenced merchant banking business in Nigeria were both registered in 1960. These institutions - The Nigerian Acceptances Limited (NAL) and Phillips Hill (Nigeria) Limited - dominated the scene until 1969 when they merged to *form the present day NAL Merchant Bank Limited.*

Unlike commercial banks offering retail banking services, merchant banks provide wholesale banking services. They mobilise deposits in large amounts and also lend in large amounts to institutional investors and firms. They therefore deal with relatively small number of large specialized accounts compared to Commercial banks. Merchant banks deposits are usually fixed and interest bearing and they grant more of long and medium term loans than overdrafts. Apart from these traditional banking services, merchant banks also render specialized services which include:

a. -stockbroking services

b. -corporate finance

c. -equipment leasing

d. -debt financing

e. -investment management

f. -loan syndication

g. -issue and acceptance of bills and the management of unit trust.

Development banking started in Nigeria with the establishment of the Nigerian Industrial Development bank Limited (NIDB) in 1959. Other development oriented

banks which followed subsequently are Nigerian Agricultural and Cooperative Bank Limited (NACB), the Nigerian Bank for Commerce and Industry (NBCI) and the Federal Mortgage Bank of Nigeria (FMBN). "The rationale for development banking are threefold, to fill the financial gap created by the operations of commercial and merchant banks which are mainly on short and medium term basis respectively; to conform to an international trend started off by the establishment of the International Bank for Reconstruction and development (IBRD) otherwise known as WORLD BANK; and to act as catalyst for development"- Nwanko, (1980). Development banks lend mainly on long-term basis. They engage in equity participation in other companies and perform promotional functions like project identification, appraisal and market survey.

The latest addition to the Nigerian banking system are peoples' and community banks. The peoples' bank was established and owned by the Federal Government of Nigeria with the sole aim of lending money to the rural dwellers and the less privileged in lower strata of the society with little or no collateral to offer.

The fundamental concept of community banking is "of a self sustaining financial institution, owned and managed by a community, for the purpose of providing credit, banking and other financial services to its members, largely on the basis of self recognition and credit worthiness. (Babangida, 1990). The community banks are to be substantially owned by community development associations as well as by local cooperative societies, farmers' unions, trade groups, individuals resident in the

community as well as sons and daughters of the community resident outside the community. The community banks render all the usual banking services being carried out by commercial and merchant banks, with the exception of such sophisticated and complex services like foreign exchange transactions, letters of credit corporate financing, equipment leasing, loan syndication etc.

1.3 PERFORMANCE OF THE NIGERIAN BANKING SECTOR

The banking industry in Nigeria has witnessed a tremendous growth over the past years. This fact is testified by the number of bank branches, their total deposits, total investments, total loans and advances and the profitability of the industry. The number of banks in Nigeria increased from 11 in 1960 to 45 at the end of 1986 and between 1986 and 1990 a total of 46 new commercial and 16 merchant banks were licensed adding up to a total of 107 banks. As at end of March 1993 at least 125 banks were in operation excluding mortgage banks and finance houses.

Being by-products of the deregulation of the economy started in 1986 themselves, new banks were hatched into a highly competitive economic environment. Quite naturally, the promoters of such banks realized that only the fittest can survive. They had two uphill tasks; First how to compete effectively with well established banks and secondly to secure for themselves the confidence of customers who had become so

loyal to the old generation banks that they were reluctant to look elsewhere for their financial needs. The emergence of more banks has increased the choice open to the customer and forced the banking system to be more responsive and efficient, it has also resulted in price competition. More flexible banks have responded to this change by improving efficiency and offering more value-added service to their customers, thus offering wide options to the Nigerian businessman, he is now in position to effectively shop around and strike the best deal.

Despite the proliferation of banks and the increase in volume of transactions which has led to the banking system making better use of technology with the resultant faster service and efficiency, certain section of the Nigerian society were left-out of the scheme of things. This is because many of the new banks have single offices in the major commercial centers, otherwise you will find them having about four to five branches in the same city. This has only inadvertently led to a boost in commercial activities at the expense of manufacturing, agricultural and small scale industrial activities. No meaningful development has been achieved as a result of the growth in the banking sector. In fact as if in defiance, other sectors of the economy were only experiencing decline in growth and development.

1.4 STATEMENT OF THE PROBLEM

For many years efforts were made to involve sub-urban and rural people in Nigeria in modern banking practice. Apart from encouraging establishment of commercial and merchant banks, specialized development banks were created focusing on mortgages, agriculture, savings, cooperatives and other specific areas. Beyond this, rural branches were made mandatory for the commercial banks so that the interest of the rural people could be attracted and held in the conventional banking system. But the rural people could not fit into this system as they are required to fill several forms, obey certain rules and are generally made to feel lost as their request for credit facilities are turned down.

It is also a known fact that banking habit in Nigeria, particularly among semi-literate urban dwellers and illiterate rural populace is very low or even non-existent in some areas. The fact that people still prefer to carry-out their business transactions with cash and not through the Banks could testify to this. A close observation and monitoring of business activities in the Nigerian Local Markets will reveal that people carry huge sums of money (in cash) in order to transact their businesses. This is not restricted to markets in rural areas alone but include markets even in most modern cities of the Country. In popular markets like Alaba and Balogun markets in Lagos, Kantin Kwari and Sabon gari markets in Kano, Kaduna Central Market in Kaduna and the famous Onitsha and Aba Markets, where transactions running into hundreds of

millions of naira are being carried out daily, purely on "Cash and Carry" basis. This fact can be corroborated with report of incidences of Armed Robbery involving huge amount of cash at the markets, the traders' houses or en-route. As it is not unusual to read reports of robbers carting away cash running from hundreds of thousands to millions of Naira from a single victim, in the national dailies.

A visit to local courts (area and customary courts) will reveal a large number of cases involving disputes and defaults of inter-personal borrowing. In a chart with the Deputy Chief Registrar of Sharia Court of Appeal Kaduna, it was reliably gathered that over 60% of cases being tried at the Sharia Courts involves disputes concerning trade. Interpersonal borrowing and inheritance. Whereas the other 40% involve marital disputes, land disputes and other family issues.

This problem persisted over the years and has led the government and some of its agencies to seek acceptable solutions to the problem. The Central Bank of Nigeria's injunction that specific number of rural branches be opened was the first major step. Today there are 756 rural bank branches across the country but they have not been able to make banking attractive to the people for whom they were created. Banking operations have continued to be complex, sophisticated and often times cumbersome to the extent that the low level education and outright illiteracy of the rural people have made participation difficult if not impossible. The government believed that by the introduction of the community banking system it is addressing itself to developing

and inculcating banking habit among the rural peasants and the low income urban dwellers. Now the question is how effective was the policy in cultivating the desired banking habit among these classes of people? Has the introduction of the community banking system made any significant impact in this area? This however, remain to be seen, as the Community Banking System (CBS) is not without its own problems. The restriction of their own area of operations to their immediate location, the non acceptability of their instruments such as cheques, drafts and Bankers payment beyond their immediate surroundings are some of the problems that are militating against the CBS effective influence on the financial dealings of the people. Furthermore, the inability of the CBS to attract and employ qualified manpower, due to its inability to afford payment of the perks and salaries of such qualified professionals or unwillingness of the professionals to relocate and settle down in rural areas, and many more other similar problems inhibit the achievement of objectives set-out for the CBS.

1.5 OBJECTIVE OF THE STUDY

Principally the objective of this research project is to examine the impact of community banking system on the development of Banking habit among Nigerians in general and in particular to:-

i evaluate the Nigerian community banking system as regards its influence on the financial dealings of the rural populace and sub-urban petty traders and small-scale entrepreneurs.

ii evaluate whether the community banking system has any influence on the pattern of these financial dealings i.e. does the pattern change from what it used to be or not?

iii to identify the factors responsible for the success or otherwise of the community banking system in imbibing banking habit amongst the rural dwellers and the urban poor.

Generally the study will seek to assess and determine the level of the achievement of the CBS towards developing the banking habit of the rural populace, the low income group and small entrepreneurs.

1.6 SCOPE OF THE STUDY

As at 31st March 1994, about 991 Community banks have commenced operations in various communities nationwide. However the study will be restricted to about fifteen communities in Kaduna, Katsina and Kano States. This is due to the constraints in the area of transportation, time, limited financial resources, and of

course the limitation of being single-handed with no extra hands to assist in data collection.

In each of the three states covered five communities were sampled for the purpose of investigation and evaluation. Out of the five communities chosen in each state one is selected from the state capital, (with the exception of Katsina State where no community bank exists in the capital city as at the time of this research), to represent the urban petty traders, craftsmen and small scale entrepreneurs. As it is assumed that this class of people in the urban centres of Nigeria have common needs and aspirations, behaviour and response, level of awareness and literacy. They are therefore of the same characteristics and are expected to behave in the same manner to particular policy or programme of this nature under normal circumstances. The remaining four communities are chosen from the far Southern and Northern corners of each state, so as to have a fair assessment and to take cognisance of differences in socio-cultural settings and religious beliefs. More communities were selected in the "supposedly" rural areas for the simple reason that the policy of the community banking system itself lay more emphasis on rural communities than the urban dwellers. This can be verified from the speech of the former President of the Federal Republic of Nigeria at the commissioning of the first Community Bank in Kaduna State earlier quoted.

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CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

It has become very common, when reading literature about underdeveloped countries, to find such views that to develop, these countries require higher amounts of investible funds and an increase in the ability to distribute or allocate their financial resources effectively and effficiently. However since these countries are unable to generate the necessary capital either locally or externally, it is argued that the affected nations lack savings to invest in various sectors of their economies. Thus, investment, in agriculture, business and industry to mention just a few, suffer serious setbacks (Merer, 1970). Furthermore, some economists argue that the third world countries lack domestic capital because of low per capital income and as a result of the unreadiness of the population to save a portion of the income that exists. These countries have also been accused of lacking in institutions and mechanisms necessary for facilitating capital formation and distribution.

There exists three ways of capital formation, these ways include formation:

i through an increase in the volume of savings;

ii through a finance and credit mechanism

iii through the act of investment itself. (Delancey 1978) and (Arderner 1964).

In the crusade of capital accumulation, economists advocate for a change in the propensity to save on the part of individual members of the third world populations. Since one of the recognised institutions that facilitate and develop savings is the banking institution, and principally what this study will focus on, we shall now examine the functions of a bank in an economy.

2.2 FUNCTION OF BANKS

Before we delve into serious discussion of the literature on Community Banking System and Banking habit, it is pertinent to have a view of what are the functions of Banks in any financial system. What services are Banks, generally expected to provide to the banking public.

Every bank perform three basic functions, which are:-

i Accepts and safeguard deposits of money from clients;

ii Allow withdrawal of money or transfer the funds from one account to another within the same bank or to another bank;

iii *Advances the excess of its deposits to customers who wish to borrow.*

A sound banking system therefore depends to a large extent, on trust, that is the depositor's trust that his money will be adequately safeguarded in the best possible way and when he needs it, made available to him. A good banking system also partly depends on the control exercised by the regulatory authority (in case of Nigeria the CBN).

Having seen the basic functions of any bank Viz:- acceptance and safeguarding deposits, permitting withdrawals of funds or their transfer and lending the surplus funds of depositors to borrowing clients, we are now going to have a look at the range of services offered by Banks. While some banks specialise in meeting the needs of particular group of customers, such as Companies, or small savers, the commercial banks, nowadays, provide a wide range of services to satisfy the financial needs of all types of customers; from the smallest personal account holder to the largest Company. For ease of understanding and purpose of our study these services can be grouped under the following headings:-

a. Deposits and Savings

b. Advances

c. Transmission of money

d. Financial and advisory services

e. Foreign services.

These services shall now be considered briefly so as to enhance a fair understanding of them.

a. **Deposit:** These are monies kept with banks by customers which may either be on demand (in current accounts), meaning that such funds could be drawn on at any time the depositor so wishes through the use of a cheque or any other form of instruction acceptable to the bank, or deposit ie savings accounts in which money that will not be required immediately is kept. While clients with current accounts are usually issued with a cheque-book that enables them to draw cheques instructing the bank to pay a specified amount of money from the account to other people/firms. Deposit and savings account holders are issued with a Receipt acknowledging the deposit (in case of Fixed Time Deposit) or passbook to keep record of all transactions in case of a Savings Deposit Account. However, interest is paid, at an agreed rate, on Fixed Deposit and Savings Account. Though interest payment is no longer a distinction between current and other accounts, as presently in Nigeria interest is being paid on current deposits, subject to certain terms and conditions. Nevertheless the rate of interest is still higher in the case of savings and fixed time deposits.

b. **Advances:** Monies lent by a bank are generally referred to as Advances. The lending may be in the form of an overdraft on a current account, by which a customer is allowed to draw more money than he has deposited in the account or in a form of a loan, whereby a separate loan account is opened in the name of the client and then the approved amount disbursed through the account. Other forms of advances include Warehousing facility. Lease finance, Trade Finance, Commercial Papers, LPO financing and Loan Syndication, where a number of Banks jointly lend to a single client. Interest is charged on all Advances, the rate varying with the method of granting the advance, the credit worthiness of the client and the duration for which the funds are borrowed. Advances represent that part of customers' deposits which the bank considers safe to be lent out, while the remaining is retained in the form of cash and other liquid assets. It is worth noting that the ratio of deposits to advances of any particular bank depends on requirement of the regulatory authorities and the exigencies of the operating environment.

c. **Money Transmission:** This enables customers to make payments without having to carry cash. The cheque is a convenient method of settling debts. Equally a customer can pay in money at any branch of his bank for the credit of an account at another branch of the bank, or merely instruct his bank to effect the transfer of money from his account to another account in the same branch, bank or even another bank entirely within the same locality or in other

locations. The client may also instruct his bank to make regular payments by debiting his account to meet recurring debts such as club subscription, mortgage payments, insurance premiums etc by way of standing instruction.

Besides enabling customers, and to some extent non-customers to transfer funds quickly and easily by means of a piece of paper such as demand drafts, Bankers Payments, Mail Transfer, Banks move huge sums of money from branch to branch, bank to bank, town to town each day either through physical movement of notes and coins or through the inter-bank clearing system.

d. **Financial Advisory Services:** Banks do come-up with a wide range of financial and advisory services that can be tailored to suit individual needs of their customers. These services vary and take many forms such as Guarantees, Bonds and Debt Factoring, in which the bank administers a client's sales ledger and allows the customer to obtain an advance against debts due to him. Banks are always willing to give advice, from suggesting suitable investment options to customers with a few hundreds of Naira, to advising a private Limited Company of the best time to "go public", that is to have its shares quoted in the stock exchange.

e. **Foreign Services:** Transactions involving Foreign Currencies are handled by Banks. These include issuance of travellers' cheques, Foreign notes and coins

and effecting International Payments through opening and negotiating of letters of Credit on behalf of their clients. All big Banks usually have links with overseas Banks, by way of having correspondent banking relationships, so that payments of this kind can easily be made. Some banks have linked more formally with a number of overseas banks to form consortia which are able to provide large-scale finance to suit the needs of large corperations, multi-national corporations and nations, eg. Paris Club, London Club, etc.

2.3 ECONOMIC IMPORTANCE OF BANKS

The Banks are important economically because they act as intermediaries between large number of depositors and those who wish to borrow. In other words banks draw a large pool of small savers together to provide sufficient funds, for lending to business concerns, which will otherwise not be available. In this way, they encourage savings by providing the means of attracting and collecting funds through the various types of account earlier discussed, while at the same time they put such funds to effective use by financing commerce and industry that is so important to the economic development and well being of any nation. The provision of finance to businesses encourage enterprise and leads to the creation of extra jobs, increased production and less reliance on imports of foreign goods and services. Personal

lending, on the other hand stimulates demand for goods and services which again helps to increase production, and hence produce wealth.

Banks are able to "create" money by granting loan or overdraft facilities to a customer to buy goods, since paying for these goods effectively produces new money as soon as the borrower cheque is paid into the seller's bank account. Thus by allowing an advance, a bank deposit has been created. This process is known as the credit-creation multiplier.

A developed banking system permits payment by one person to another to be made safely at reasonable cost and eliminates the need and the risk of carrying around huge amounts of physical cash. Such payments enable trade and industry to function more efficiently. The role of banks in facilitating international trade by assisting importers and exporters with the financial side of their business is also a considerable contribution to the economy of a Nation.

2.4 NATURE OF NIGERIA'S COMMUNITY AND ITS ECONOMIC ACTIVITY

The term community can be seen in geographical and natural terms, as those who share a common residence. It can also be seen as all those who are united by a

common bond such as occupational group, ethnic or tribal lineage etc. (Ayo 1993) For the Purpose of this study, a community is viewed in terms of place of residence.

It is a widely accepted fact, that a greater percentage of Nigeria's community live in the rural area. In spite of continued migration with rapid urbanisation and increasing opportunity for employment in the urban-based industrial expansion with the advent of petroleum in the late 1960s, still a sizeable part of Nigeria's population are gainfully employed in agriculture. Hence, the notable point here is that in an economy which is predominantly rural in settlement, occupational distribution and composition of output, the problem of economic growth and development hinges largely on raising the productivity and therefore the real income of the rural sector. (Awosika and Nwoko 1979). Conventional economics and experience suggests that by supplying food, labour and investible surplus, the rural areas help to generate urban incomes and employment. They also help to stabilise, if not reduce production costs for industries and the cost of living generally. Raising rural incomes and productivity therefore appear to be a pre-requisite to growth. Albeit, the rural sector has been neglected for too long particularly during the era of the oil boom.

In the Nigerian context, agriculture (including livestock, forestry and fishing) forms the bulk of economic activity of the rural population; in contrast, all other activities like crafts, weaving, dying, pottery, woodwork, metalwork and processing (particularly food processing) and other forms of trades, forms a line of economic activity second

to agriculture. In most instances, those engaged in these trades still partake in agriculture at least at subsistence level. Therefore, the size of the rural sector within the national economy can be gauged by the agricultural sector's contribution to incomes, productivity, employment and living standards. All available evidence suggests that the contribution of agriculture to Gross Domestic product (GDP) has been declining from 55.6% in 1967, 45% in 1970/71, 23.4% in 1975 and consistently less than 20% from 1980. Furthermore, agricultural produce export, which was the greatest foreign exchange earner hitherto the advent of petroleum export in the late 1960s, declined visibly to less than 30% of total earnings. This invariably lead to decline in the real income of the rural populace and a galloping inflation induced by mass importation of consumables, which virtually stagnated savings.

Therefore, the relatively low savings ratio of the rural household is not entirely caused by low productivity, but may also be attributed to the neglect of the agricultural sector and the absence of institutional agencies which could mobilise savings and channel same into productive investment. Until recently, institutional arrangements for mobilising and channeling of funds in the rural sector was entirely outside the banking system. This is in spite of the long history of Banking in Nigeria - the first bank was established in 1892, Barclays Bank now First Bank. Banks in the country tended to concentrate in a few large towns and have little contact with or impact on the rural population.

Similarly, in terms of meeting the needs of rural credit, until recently, the banks had made little contribution. In fact, even in recent years when under government directives and persuasion, banks were enjoined to direct a sizeable proportion of their loans and advances to the rural area, by way of agricultural loans, the response was poor in relation to other sectors. Hence the credit needs of the rural sector have been met largely outside the organised institutional arrangement. Sources of credit include loans from neighbors, associates, friends, relatives, produce-buyers, money lenders and drawings from group savings (the "asusu" or "adashe" system).

2.5 NIGERIAN BANKING SYSTEM

The word "system" implies the existence of an ordered and orderly structure of organization with definite, known and orderly objectives and operational practice" - AYAGI (1993). The Nigerian banking system has its roots from the monetisation policy of the British government during the colonial period. The British system of branch-banking, first emerged, a system whereby a number of limited liability banks are in existence with single headquarters but a large network of branches in various parts of the country. "The major foreign-owned banks of Standard Bank (now Union Bank of Nigeria Plc.), Barclays Bank (now First Bank Plc.) and the British and French Bank (now United Bank for Africa, UBA Plc.) came into Nigeria within the first quarter

of this century and established over 200 branches each by 1985. "The number of banks in Nigeria by that time was very small but their branch network had spread to the various nooks and corners of Nigeria". - (Ayagi 1993.)

On the other hand American banking system is based on unit banking in which banks are licensed to operate within their states only. They may have a few branches within the state but are generally not allowed to establish branches in other states. With the introduction of community banking the unit banking system is being introduced into the Nigerian banking system. As the Chairman of National Board For Community Banks put it "Every Community Bank is a unit bank, committed to exploring and exploiting intensely and in depth the economic potentials of the catchment area that constitutes the territory of the community which it is licensed to serve." - Mabogunje 1993). With the above analysis it could be clearly seen that the Nigerian banking system is moving from the British system towards being a combination of the American unit banking system and British branch banking system.

2.6 CONCEPTS OF COMMUNITY BANKING

Perhaps the view has been lost that before the advent of the modern banking system (that is the European banking system) third world countries developed self-oriented organised institutions which made and still make significant contributions to capital

accumulation and redistribution as well. Even with the advent of the modern banking system these institutions tagged "informal" have been more effective than the modern banking institutions christened formal banking organisations. In addition, there are occasions when the efforts of the "informal" institutions in capital accumulation and redistribution have served as complimenters to those of the "formal" institutions (Amogu 1956) (Baeck 1957) (Moore 1948).

Apart from the internal problems that plague the western style banks, it is pertinent to note that deep-rooted customs, such as prevailing in African societies hardly yield to government policies and officially sponsored exhortations to dislodge them all in the name of progress and growth. Furthermore, the impersonality and complexity of the modus operandi of western style banks aggravate the suspicion which the traditionalistic peasants, small or petty traders have already developed as regards these modern banking institutions.

One institution which the local people and to some extent some of the elite (or rather the middle class) have developed to raise capital and to facilitate capital redistribution is the Rotating Credit Associations. (Delancy 1978; Gaertz 1962) (Arderner 1964; Wilham 1952; Miracle et. al. 1980). This institution is found in South East Asia, India, Vietnam, Africa etc. The institution is called under different names. For example, in Nigeria, it is referred to as "asusu" among the Yorubas, "adashi" among the Hausa and "agu" in Igboland. This institution assumes a remarkably similar form

in many areas though with local adaptations and variations depending on each society's socio-cultural set-up. But the fundamental principle upon which the credit association is founded is the same all over.

What is immediately relevant to our study here is that these and many other institutions set-up by the people themselves have existed side by side with the European style banking institutions. But unfortunately, no fruitful efforts have been made to bring the two sets of institutions together to work for the benefit of the rural population to credit facilities. With reference to Nigeria, what one observed for quite a long time was efforts being directed towards universalising the modern banking practices and making them more or less, the only recognised banking system in the country. (Ayo 1993). Consequently, efforts were made to force the rural populace to fit into the "conventional banking system". In this perspective commercial, merchant, and specialised banks were proliferated all over the country. Rural branches of commercial banks were directed to be established to cater for the interest of the rural population (Ademolekun 1993). As mentioned earlier, the operators of the modern banking institutions seem to have forgotten the impact of the socio-cultural environments, within which their banks are situated, have on the success or otherwise of their operations. Hence, they could not find solutions to the problems of making credit facilities available to the rural poor as well as small farm holders and entrepreneurs. The only meaningful achievement which the rural banking institutions

could be said to have recorded was their number. As at 1990 there were 765 rural bank branches located all over Nigeria.

The Babangida administration claimed to be aware of these problems mentioned above as well as others which bear relevance to enhancing credit facilities at the grassroots level. The latest attempt made by the administration to deal with the problems under review was the inauguration of the community banking system. The regime claimed to be addressing itself to developing and inculcating disciplined banking habit at the grass roots level which in effect will determine how effective and efficient capital redistribution can be carried out at that level.

A community bank is a bank which has no branches and serves only its immediate community and is also referred to as a unit bank. The introduction of community banks in Nigeria is meant to marry the indigenous financial institutions and the western-style or conventional banking system so as to come-up with an institution that will inculcate banking habit into the people at the grassroots level. It is designed to encourage savings and accumulation of investible funds by the citizens of a given community and also provide the local economy with liquidity, thereby making the local economy quite resilient. The community banking system is expected to liberate the vast rural populace from the vicious circle of poverty and neglect. It could be remembered that in the rural areas, as earlier mentioned, poverty arises partly from the lack of access to relevant societal resources, for example credit. "It is common

knowledge that availability of credit at the correct time as well as in the right quantum should be at the heart of all developmental efforts, more so, in a highly monetized economy like that of Nigeria". (AYO 1993)

Community Banks are to operate as commercial entities in order to ensure their viability, and should provide basic financial services as demanded by the communities. Such financial services should of course, be at affordable and competitive rates. It is part of the responsibilities of the community banks to mobilise the financial savings in the affected communities and deploy these savings in the service of development, and are also to serve as potent sources of unification in the localities.

The structure of community bank in Nigeria is uniquely Nigerian, but the concept itself was influenced by the operation of community banking system in Bangladesh and Malaysia. The system in Bangladesh is referred to as the "Grameen Bank" and that of Malaysia is referred to as "Ikhtiar" (Ayo 1993). The "Grameen Bank" aims at setting up a viable nation-wide rural credit scheme, which implies that the Bank wherever set-up, will be adapted to the needs and limitation of the local community and will also provide its own financial equilibrium. The "Grameen Bank" system is also defined in such a way that the use of credit will not serve as the instrument of a state defined project, but will serve to provide leverage for a rural development strategy based on freedom of choice as well as resourcefulness of individuals in the rural community. (Delancey 1978). This more or less reflects the objectives of the

community Banking system in Nigeria. As in the same perspective, community banks in Nigeria must be funded by the People and should be people centered. The strength of a community Bank will come from the ultimate knowledge of the people, Community spirit and the threat of community sanction.

Apart from the Bangladesh and the Malaysian examples, community banking system in Nigeria was also influenced by the same banking system in the United States of America, both in its objectives, structure and management strategies. (Ayo 1993). In the United States of America, Community banks have been credited for the rapid economic development of virtually all of the mid-western and western states in the 19th Century. Today, community banks have remained as a major source of credit provision for most of the little town and sub-urban neighbourhood, of the economy of the United States, to the extent they were described as the engines that make the economy hum in thousands of cites and towns in every corner of that country. As at present, there are well over 11,000 small and medium size community banks in the USA which are independently owned and operated within their communities of location. (Adamolekun 1993.)

2.7 BRIEF HISTORY OF COMMUNITY BANKING IN NIGERIA

The establishment of the Directorate of Food Roads and Rural Infrastructure (DFRRI) by the Babangida Administration in 1987 gave the impetus to the development of community Banking in Nigeria. The Directorate had been established by Decree 4 of 1987. According to the Decree, one of the primary tasks of the Directorate is "to identify, involve and support viable local community organisations in effective mobilisation of the rural population for sustained rural development activities, bearing in mind the need for promoting greater community participation and economic self-reliance of the rural community."

On the basis of this and other functions defined in the decree, the Directorate defined its mandate as falling into three broad areas:

a. Community organisation and social mobilisation
b. Infrastructure Development
c. Promotion of productive activities

However, conventional commercial Banks and even development Banking institutions face serious constraints in attending to the credit needs of millions of small producers, most of whom have no collateral to put down as security. More than this, the enormous paperwork involved in administering the credit needs of so many small

borrowers constituted a real dis-incentive. As one Commercial Bank Executive puts it, you spend as much energy giving a loan of N5,000 as that of N5,000,000.00 This difficulty of getting the commercial Banks to service the needs of the small scale farmers was beginning to paralyse the programs of the Directorate of Food, Roads and Rural Infrastructure (DFRRI).

It was as a result of exhausting the possibility of credit provision through commercial Banks that "DFRRI was constrained, towards the end of 1989, to address a memorandum to the President and Commander-in-Chief of the Armed Forces proposing the critical need to establish a nobel financial institution to be known as Community Bank. In the subsequent hearing at the Presidential Advisory Committee, it was gratifying that the CBN came out strongly in support of the proposal. Indeed, the CBN has been advocating the need for a rural banking system of this type as far back as the 1970s" - (Mabogunje 1991).

The proposal received the blessings of the President, which was evident in his budget speech of January 1, 1990. In the speech, the President gave out a broad outline of what government had in mind. It will not be out of place here to quote the relevant section of the speech, thus

> "The adjusted subsidy levels of domestic prices of petroleum products have been estimated to yield an implied saving of N503 million in fiscal 1990. Government has, however decided that this sum be put back into

strengthening its program of grassroots economic development. Accordingly, the sum of N453 million will accrue to a special account with the Central Bank for the purpose of establishing Community Banks and strengthening the Peoples' Bank....." - (Babangida 1990).

Eventually, in July 1990, the Community Bank Implementation Committee (CBIC) was established with the Secretary to the Government of the Federation, Alhaji Aliyu Muhammad, as Chairman. The committee was charged with working out the modalities of implementation of the community banking system. The committee subsequently designed various document needed to provide the various communities with the requisite information about community banks and the steps they should take to have the banks established. The community banks prospectus spelt out the objectives of the community banking system, the functions and ownership structure of community banks, the requirements and procedures for establishing community banks, the manner of applying for matching loan and a suggested management structure for the bank. Within a relatively short time, "more than 200 applications had come in from all states of the Federation" - (Mabogunje 1991). However it was not until December 31, 1990 that the first community Bank licensed was commissioned by the President Commander-in-Chief of the Armed Forces, General Ibrahim Babangida. This was the Alheri Community Bank at Tudun Wada, Kaduna Local Government Area, Kaduna State. By May, 1991[1] nine additional Community

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[1] NBCB Annual Report 1992

Banks had been licensed and commissioned in different part of the country. On Tuesday July 16, 1991 the National Board for Community Banks was inaugurated, which was as a result of the realisation that a more executive agency must be established to regulate, monitor and supervise the establishment and operations of the Community Banks. Which was later given a legal backing by decree 46 of 1992.

By December, 1992 there were 402[2] licensed and operational Community Banks across the country and by the end of April 1994 the number has risen astronomically to 991[3]. A new phenomenon in the Nigerian Banking system that is attempting to reach the toiling masses of the people, who have not been able to cope with modern banking system with its attendant complex and sophisticated operations and emphasis on collateral, is fast emerging.

The establishment, Functions, Operations, share capital etc. of Community Banks is guided and regulated by Decree 46 of 1994 known as "Community Banks Decree 1992." The Decree allows a Community or group of communities to establish a community Bank for the purpose of"promoting rural development through the provision of Finance and Banking Services, enhancing the rapid development of productive activities especially in rural areas and improving the economic status of

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2 NBCB Annual Report 1992

3 Address of the Chief Executive NBCB at the Community Banks Chief Executives' Seminar, April 1994 (held at Durbar Hotel Kaduna).

small scale producers both in the rural and urban areas." Any community or group of communities desiring to establish a bank shall apply in writing through the National Board for Community Banks (NBCB) to the Governor of the Central Bank of Nigeria.

The decree established the NBCB for the promotion, development, monitoring and general supervision of community banks. NBCB is a corporate entity with perpetual succession and a common seal and may sue or be sued in its corporate name. The Governing Board shall consist of a Chairman, a Secretary and a representative each from the Federal Ministry of Finance, the Directorate of Food, Roads and Rural Infrastructures, the Presidency and four others appointed by the President. Each Board member is eligible to hold office for a period of three years and can be re-appointed for another three year term. The Decree provides that a bank licensed as a Community Bank shall perform the following functions: Accept various types of deposits, (savings time and target deposits) issue for the purpose of raising funds redeemable debentures to interested parties; receive or collect on behalf of its customers, moneys or proceeds of banking instruments, including the placing of such funds with other banks, provide credit facility to its customers; operate equipment leasing facilities designed to ensure access of its customers to farm inputs, perform such non-banking functions as may promote grassroots development within the banks' geographical area and do anything in connection with or incidental to the Decree. However, the following restrictions were provided by the Decree: A community bank shall not without the prior approval of the Board and the Central

Bank of Nigeria open or close any cash office within its geographical area in Nigeria, or engage in any foreign exchange transaction. No bank shall enter into agreement or arrangement which results in:

a. a change in control of the bank
b. the sale, disposal or transfer of the whole or any part of the business of the bank;
c. the amalgamation or merger of the bank with any other person or body;
d. the reconstruction of the bank
e. the employment of a management agent or to transfer its business to any such agent.

The minimum paid-up share capital is pegged at N250,000.00. Nevertheless the Board shall subject to the approval of the CBN, have the power from time to time to vary the minimum paid-up share capital. Upon application to the board, request for a matching loan or advance not exceeding N500,000.00 can be granted. This is for the purpose of improving the working capital of the bank. The loan shall be payable within a period of five years. It cannot be written off and shall for winding up purposes, rank in priority to wages or tax. No bank is allowed by the Decree to pay any dividend on its shares until the matching loan is fully repaid.

Each community bank shall submit to the Board, not later than 28 days after the last day of each month or such other interval as the Board or the CBN may specify, a statement showing the assets and liabilities of the bank; an analysis of advances and other assets of the bank and any other information that may be required by the Board and the CBN. In case of defaults a bank shall be liable to pay a fine N100.00 every day the offence is committed after the due date for submission of the returns. The license of any community bank may be revoked if the type of banking business for which the license is issued for any continuous period of six month during a continuous period of twelve month is not being carried out or:-

(a) gone into liquidation or been wound-up or otherwise dissolved.

(b) Failed to comply with any condition subject to which the license was granted;

(c) In sufficient assets to meet its liability or that its premises are no longer fit to be used as a bank;

(d) Failed to comply with any obligation imposed upon it by or under the decree, the board may, after giving the bank the opportunity of being heard or making representation by notice to remedy, to the satisfaction of the board, the defects or observations specified in the notice.

If the bank fails to comply with the requirement of a notice before the date specified therein, the board may after calling on the bank to show cause why its license should

not be cancelled, and is not satisfied with the explanation offered, recommend to the C.B.N Governor the revocation of its license.

No bank shall employ or continue the employment of a person who at any time has been adjudged bankrupt or has suspended payment or has compounded with his creditors or has been convicted by a court for an offence involving fraud, dishonesty, or professional misconduct. The decree also prohibits any bank having as a Director a person who is a Director of any other Bank, companies which among themselves are entitled to exercise voting rights in excess of five percent of the total voting rights of all the shareholders of the bank except with the approval of the board and CBN. Every Director, Secretary or Officer of a Community Bank shall sign a code of conduct in such a form as the Board may, from time to time prescribe.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This study, Community Banking and its effect on the development of Banking habit amongst Nigerians, was to principally examine the impact of CBS on the development of Banking habit among the rural populace and the suburban low income class and to evaluate its (CBS) influence on the financial dealings of the rural community, petty traders and small-scale entrepreneurs.

Additionally, the study sought to evaluate whether the CBs had any influence on the pattern of the financial dealings of the communities studied, that is to find out if the pattern has changed from what it used to be. The factors responsible for the success or failure of the CBs in imbibing the desired level of Banking habit among the rural dwellers and the urban class shall be identified.

3.2 RESEARCH METHOD

The nature of the research topic is investigative, in that the study sought to uncover and assess the characteristics of whole population of people through study of samples

drawn from these populations. Hence, it is the nature of the topic that influenced the choice of the research method to be used and is what informed the decision to choose the Survey Research Method.

Under the Survey Research Method, we have various methods of obtaining data. These include personal interview, mail questionnaire, panel, telephone and controlled observation. Of these the personal interview was selected for conducting this study, this is because it over shadows the others as the most powerful and useful tool of social scientific survey research. Personal interview has the following advantages:-

1. It allows the investigator to note apparent reluctance or evasiveness of his respondent.
2. Permits the interviewer to follow up on misunderstood questions and/or evasive answers.
3. The chances of misinterpretation of questions is minimised as questions could be further explained.
4. The face to face discussion allows the researcher to develop the interest of his respondents through the use of skills in interpersonal relations.
5. Once the investigator creates the rapport necessary between him and the respondents it affords him the opportunity to ask questions of a personal or even embarrassing nature.

6. Affords the researcher the opportunity to evaluate and assess the reliability or otherwise of the responses he got due to the physical contact with the respondents.

More so, the level of educational background of the majority of the respondents favours this method more than the others.

This method, however is not without disadvantages, it is chosen because it is considered that most of the disadvantages are outweighed by the advantages, for the purpose of this study. Some of its disadvantages include:-

1. Not permitting wide courage due to time and cost constraints.

2. Some people are difficult to be contacted while others might not be willing to be identified as source of information, still others may be unwilling to respond candidly and objectively due to the physical contact.

3. In an interview, the respondent may still venture to give an answer, in spite of his ignorance on the subject matter, just to impress the interviewer.

These disadvantages can be neutralised by the other methods of data collections ie Telephone interview, postal questionnaire, controlled observation etc.

3.3 THE STUDY AREA

Kaduna, Katsina and Kano States are located in the North Central Part of Nigeria and predominantly Hausa with the exception of Kaduna where there are number of minority tribes in the Southern part of the state that constitute a sizeable part of the population. These tribes include Kaje, Jaba, Kataf, Kurama, Gwari and many other smaller tribes. In terms of religious affiliation almost 99% of the population in Katsina and Kano States are muslims whereas in Kaduna State a greater percentage of the minority tribes in the Southern part of the State are predominantly Christians. The survey on the effect of the Community banking system on the development of banking habit in Nigeria was supposed to have been nationwide. However, due to the constraint of time and funds coupled with the language barrier the study area was restricted to only the above mentioned three Northern States. Nevertheless, it is expected that the result of the research work can be safely used to make certain generalisations in the area of the cultural and religious beliefs of the tribes in other parts of the Country. For, save the cultural and religious angle, which is believed to have significant impact in shaping the attitudes and behaviour of a people, the Nigerian rural populace are believed to be in the same class economically lacking capital and access to credit facilities, which gave rise to the stagnation in the economic development of the rural areas and chain the populace to the vicious circle of poverty and illiteracy. It is therefore very clearly evident that the rural populace live under similar conditions and share the same needs and aspirations in terms of

economic development. As at 31st March 1994, about 991 community banks have commenced operations in various communities nationwide. However, the study will be restricted to about fifteen communities in Kaduna, Katsina and Kano States. This is due to the constraints in the area of transportation, time limitation, financial resources, and of course the limitation of being single handed with no extra hands to assist in data collection.

In each of the three states covered, five communities were sampled for the purpose of investigation and evaluation. Out of the five communities chosen in each state, one is selected from the State Capital, (with the exception of Katsina State where no *community bank exists in the capital city as at the time of this research,) to represent* the urban petty traders, craftsmen and small scale entrepreneurs, as it is assumed that this class of people in the urban centres of Nigeria have common needs and aspirations, behaviour and response, level of awareness and literacy. They are therefore of the same characteristics and are expected to behave in the same manner to a particular policy or programme of this nature under normal circumstances. The remaining four communities are chosen from the four corners of each state, so as to have a fair assessment and to take cognisance of differences in socio-cultural settings and religious beliefs. More communities were selected in the "supposedly" rural areas for the simple reason that the policy of the community banking system itself lay more emphasis on rural communities than the urban dwellers. This can be verified from the

speech of the former president of the Federal Republic of Nigeria at the commissioning of the first community bank, in Kaduna as earlier quoted.

3.4 SOURCES OF DATA

Since inception of the community banking system, almost all available information about the community banking system, its performance, and effect on the economic development of the rural areas and the influence it had on the banking habit of the rural populace and the lower suburban class, is either supplied by the government through its agencies (policy makers) or obtained from the operators of community banking system and never from the beneficiaries i.e. rural dwellers and the urban lower class for whom the policy was meant. The focus of this study is therefore to find out from the side of the people on whose lives the programme of community banking system was intended to have effect directly. Hence data was obtained primarily from a cross section of the rural peasantry and the low income urban dwellers within communities that have or are close to community banks, with supporting data obtained from the Managers and other Officials of the Community Banks.

In order to have easy access to the people interviewed in all the communities covered by the study, Community Leaders, Village or Ward Heads were first approached with,

as much as possible, detailed explanation of our mission and their assistance sought most politely. This approach particularly in the rural areas, proved immensely useful as the respondents usually co-operate satisfactorily with introduction from the community leaders.

Secondary data was deduced from similar studies conducted and from the zonal office of the National Board of Community Banks in Kaduna and the National Headquarters of the Board in Abuja; such materials like the publications of the board, reports submitted by the community banks, papers presented at annual conferences organised by the board, inspection reports and many other relevant materials available were used extensively including newspaper articles and write-ups. However not much was obtained from this source to warrant making an authoritative and categorical assertions since the Community Banking System is relatively new - merely four years old in Nigeria and not much has been written on it yet.

3.5 METHOD OF DATA COLLECTION

Considering the level of education of the greater part of the subject matter of the study, that is the rural populace and the urban low income group, petty traders and craftsmen, which is very low, the method of data collection chosen is verbal interview in the common language of the study area, the Hausa language. By low level of

education here it is meant low level of western education or what is usually referred to as "formal education", this is what made the use of questionnaire impossible, since one can hardly get the people to read and understand the contents of the questionnaire talk-less of providing the desired information. In the selected communities, information was obtained from representative samples of the people cutting across skills, profession, vocation and trade.

In all discussions and interviews held, an attempt was made to explore the community's kind of financial system i.e. the way and manner they usually carry out their financial business. Furthermore, an attempt was made to discover their knowledge and perception of what a Bank is? Then gradually move to find out the level of their understanding of the newly introduced CBs. Has the CBs influenced a change in the community's financial system? If yes, to what extent? and if no, why?

In all about 250 people were interviewed, sometimes individually, but mostly in groups of 5 to 10. The line of questioning was unstructured and questions asked include, but not restricted to:

1. What is your profession?
2. How did you finance your business when you first started?
3. Do you have any idea what a Bank is?
4. Have you ever transacted business with a Bank?

5. If yes, what kind of business and in what capacity?
6. If no, why? Was it out of choice or you have never even had the chance to?
7. Are you aware of the existence of a Community Bank in your locality.
8. What is your understanding of Community Banking?
9. Do you maintain an account with the Community Bank? If yes, what benefits do you think you will derive/and if no, why?
10. Do you maintain an account with any Bank before the introduction of the Community Bank?
11. How can you compare the services of the two Banks.
12. In your opinion, has the CB influenced the pattern of the financial transactions of the Community?
13. What role is the Bank playing in the financial life of the Community?
14. Has it changed anything in respect of their financial dealings? if yes, how far and if no why?
15. Have you ever sought any financial assistance from the Community Bank? If yes, was your request granted or rejected? If no why?

The above mentioned was used in conjunction with secondary data obtained from documents, statistics, reports and records of the Community Banks, NBCB and the CBN.

3.5 METHOD OF DATA ANALYSIS

General descriptive method of data analysis is used. As it is usual with research activities that entail face to face interview, a lot of difficulties were faced, particularly due to its tedious nature. Many of my field trips were fruitful as discussions were held under conducive and relaxed atmosphere with the rural populace who were always eager to offer any assistance. However, little co-operation was received from the community banks officials as the study was viewed with suspicion and therefore answers to the questions were non-committal, inconclusive or contradicting when they come, whereas in some cases questions were completely avoided.

Nevertheless the attitude of the officials of community Banks did not present any serious hinderance to the achievement of the purpose of the study as much of the information required from them were obtained without much difficulty from the zonal office of NBCB in Kaduna and the National Headquarters of the Board in Abuja, which was merely corroborative.

Survey research principally focuses on people. The vital facts about people, their beliefs, opinion attitudes, behaviour, motivations and achievements are analysed and a pattern established. Surveys are particularly versatile and practical, in that they identify present conditions and point to present needs as they synthesis and integrate data collected and point implications and inter-relationships. As a research method

it represents a step of intermediate scientific sophistication by which semi-crude relationships among phenomena are explored. Osuola (1982). It is against this background that the data collected shall be analysed and inferences drawn. To achieve this, simple percentages are going to be used in conjunction with simple statistical method of data analysis.

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CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

In a country where banking culture simply would not gather momentum even after hundred years of the advent of monetised economy, mobilising idle cash from the grassroots and communities in urban centres through community banks sounds brilliant. At least in principle, everyone would know everyone else, bankers and customers alike. Collateral would be a thing of the past. Ability to sign a regular signature would become optional. Almost every customer would double as a shareholder. Even the annual general meetings (AGM) could be held at the village square.

However, shortly after the introduction of the CBS the financial sector experienced a trauma. A situation whereby the sector was beset by distress and crises of confidence between customers and their banks. This coupled with a degree of mismanagement and fraud resulted in several banks and finance houses becoming unhealthy while few others had their licenses revoked. These problems of the financial sector were further compounded by high level of default in credit repayment which along with low revenue generation resulted in lower profitability of the sector, in comparison to the results of the immediate past years. It is against this background

that the performance of the CBS, towards achieving its aim of imbibing and developing banking habits among rural and suburban populace, was investigated, considered and analysed. In this section our major findings are highlighted.

4.2 DATA PRESENTATION

Investigation carried out, revealed that in most areas - (communities studied) the awareness of the existence of a community Bank in their immediate surrounding does not pass the pomp and pageantry with which the CB was commissioned. It was discovered that no sooner than the official opening ceremony is over than they forget the existence of the CB. This is clearly indicative of the lack of proper enlightenment about the aims and objectives of the CBS. For instance, in an interview with a group in Faskari, Faskari Local Government Area of Katsina State, it was confirmed by the respondents that after the opening ceremony of the Garewa Community Bank, in the Village, none of them ever visited the Bank nor were they visited by any official of the Bank, talk less of establishing any business relation between them.

According to about 75% of those interviewed at Dawanau Community, in Kano State, the Model Loan bracket of N4,001 - N6,000, usually advanced by the Dawanau Community Bank was considered inadequate though useful to some extent in

increasing investment capabilities, of their business, most of them are looking forward to receiving greater amounts as soon as they could return current loans.

In all the areas covered by the study almost all the Community Banks are located in local government headquarters of the area, save for Kurama Community Bank in Garin Kurama village of Lere Local Government Area, Kaduna State, and few others. By spatial distribution locations nearest to market settings were most favoured. In a predominantly agrarian society, farm settlements are yet to have any community bank, whose existence would not have only facilitate the commercialisation of farm operations but also promote farm produce export. At the time of conducting this study 63% of community banks are situated in urban and semi-urban centres, contrary to the initial hope of utilising community banking to encourage sub-urban and rural people to develop modern banking practice and gain greater accessibility to investment capital.

When asked to comment on what organisation they relied upon for initial investment capital, 64% of the respondents in Malumfashi and Kafur towns in Malumfashi and Kafur Local Government Area of Katsina State, mentioned personal means and semi-official sources of funds. They however affirm that they do receive assistance from HINNACHE and KAFUR Community Banks respectively, but with reservations, that the assistance is not sufficient. Business starters in Kwoi in Southern part of Kaduna State, were of the opinion that the Kwoi Community Bank has tried a lot to assist

them in starting-up new business. The pattern exhibited in Zonkwa, Kafanchan, Kagoro, Kachia and Kwoi is that community banks are more responsive to business starters in that area than in other areas covered by the study and are probably more accessible than other financial institutions which often insist on long periods of sustainable turnovers before they assist investors.

One interesting thing that came out clearly in all the area covered by the study is that average waiting time between loan application and loan disbursement is only two weeks, or even less, a factor which enhances the income generating capability of local investors especially those whose operations are time specific such as farmers. In a number of the rural and sub-urban areas visited, the community bank is the first and only bank in existence. Few of the people, particularly in the southern part of Kaduna State and some parts of Kano State applauded the idea and seems optimistic that the community banks will meet their financial requirements. However, in most of the areas there is a feeling of apprehension about the control and ownership of the community Banks. Some of the people interviewed, especially those interviewed individually, confided that some community leaders see community banks as their personal property hence always try to wield undue influence on the Managers, while some community members are still reluctant to use banking facilities for savings and loan procurement services.

A number of the communities surveyed did not possess adequate infrastructural facilities such as transport, electricity, postal services and proper accommodation that can enable the staff of the CB to cope with tasking banking assignments. This may be responsible as to why community banks could not attract qualified professionals. In many of the banks, there does not seem to be clear-cut division into three categories of Banking, general services and credit administration each with its own sectional head as advised by the NBCB. The Manager and the assistant Manager/Accountant form the Management team, at times will specialised knowledge in banking, finance, business administration or accountancy only, with little or no appreciation of community development procedures. No wonder therefore that in our study area no community bank was found to have invested in any community development project.

While perusing the records of some of the few co-operating community banks it was observed that while some banks were willing to support community members with loans, many others merely took their funds and had them invested in income generating assets in the cities. There was a particular bank (CB), that invested, in the neighbouring big city, the sum of N3.5 million with a finance house out of the N7.5 million deposits it generated from its own community; meanwhile, only 1.86 million was given out as advances, N500,000.00 loans and N1.31 million overdrafts, to members of the community. To support this point, a recent newspaper report (Business Times) has it that a community bank in Anambra State ignored agriculture,

transportation and commerce to invest N80 million in a distress finance house. Misapplication of funds and faulty portfolio management was found to be very common among the CBs.

Few of the community bank managers interviewed, on what impediments they face towards achieving their goals, complained of poor salary and allowances, improper accommodation, lack of proper understanding of their functions by the community, 25% opined that some of the community members see the CB as a government organisation set-up to distribute to them "their share of the national cake." Still, though no definite relationship could be established between the CB studied and other credit or financial institutions, except in the area of correspondent banking relationships, some of the managers complained of long delay often experienced in clearing their cheques. According to a respondent community banks see commercial banks as partners in progress while commercial banks see community banks as competitors, indeed rivals, who "try to snatch their customers" by offering longer hours of operation and Saturday banking hours. The Manager respondent felt that increased charges and commission on turnover resulting from the un-cooperative attitude of their correspondent banks have incapacitated the effective performance of certain services performed by the community banks and are therefore forced to invest their money elsewhere so as to recoup their losses.

From discussions held with two different groups in Danja village in Katsina State. It was gathered that to date the same old system is being used by them for savings and financing businesses in the locality. The system is the rotating group contribution system referred to as "ADASHE". A system whereby a group of ten to fifteen people, or less, contribute fixed amount per week, fortnightly or monthly and the total amount collected will be given to one of them, then the next period it will be another person's turn, then another and another, until it goes around all of them. Usually a trusted person referred to as "MAIADASHE" goes round to collect the fixed amount from all of the contributors and then gives the total amount collected to the person whose turn it is. Of course he takes a percentage of the total amount collected for his services, the percentage usually ranges from 1 to 10% subject to the agreement entered at the initial stage.

In Saminaka, Lere Local Government Area, Kaduna State, I discussed the impact of the activities of CBs on the businesses of the traders, who are principal patronisers of the CBs, it was confirmed by the clients that the CBs have influenced their business positively. This is to say that solutions have been found to some of the problems being encountered by them in terms of finance. However, one problem still remain a serious hindrance to their business, in the area of transportation. the complaint of the respondents it is that is quite difficult for them to transport the raw materials needed for their small scale industries, particularly from the rural areas, hence the assistance they receive, in terms of credit facilities from the CBs is usually

eaten-up by cost of transportation and other incidental charges. This coupled with the charges of the CBs leave them with very little or nothing for their efforts.

4.3 DATA ANALYSIS

The concept of community banking is an interesting one, it has however, in practice *proved to be challenging. And making it work appear to be a more challenging task* for the Country's monetary authorities as the programme saunters into its fourth year, with stories of success and failure being told side by side. The stark reality however remained that of establishing and running a community Bank successfully in a traumatised economy, as the whole system itself came on the threshold of the distress syndrome in the Banking sector, a fact that is beginning to dawn on the communities themselves.

The CBs received various kinds of support from the NBCB state government and the owner communities, as some of them (CBs) made effort to distinguish themselves. The public have equally demonstrated significant faith in the system, or how else would one interpret the patronage revealed by the expanding deposit and asset base which stood at N2.271 billion and N4.117 billion respectively as at 31st December, 1994.

However, beneath these flashes of progress and success, the question that this study is set to address is that has the CBs been able to record success in the area of inculcating banking habit among the rural populace and the urban lower class? In order to fairly assess this, it is considered pertinent to recount the objectives set for the CBS to achieve. Principally the expectation of the government is that the CBS will among other things help to:-

1. Inculcate disciplined banking habits in the rural population.
2. Inspire in the communities the spirit of ownership and maintenance of facilities and organisations.
3. Generate credit from within the communities for enhancing the development of productive activities and purposeful improvement of the economic status of the communities and their individual members.
4. Provide bridge loans during off-season as means of breaking the dependence on, and the hold of local money lenders on the vast majority of rural dwellers.
5. Formalise the use of communities as effective vehicles of rural change and national development.
6. Generally promote rural agriculture, commerce, art and crafts. Agro-allied and mineral based, cottage and small scale industries, vocational and trade skills, rural transportation and other rural economic activities, particularly in support of small farmers, micro-entrepreneurs, women, youths and co-operatives.

7. Promote emergence of an effective and integrated national financial system that responds to the needs of the whole economy from the grassroots to the national level.

In line with the Government expectations, CBs have beside mobilising funds, ventured into agriculture, building, transportation, small-scale manufacturing and general commerce. Their operations were also seen to be in alignment with changes in economic and monetary policies of the Country. For instance in 1993 CBs operated in an average savings and lending rates of 19% and 30% respectively, by 1994, following the changes in policy, these came down 15% and 21%. As at the end of the year 1994, total deposit liability of the CBs has hit N2.721 billion, their loans and advances amounted to N1.148 billion, while their assets, capital and reserves stood at N4.148 billion and N808 million respectively. The CBs loans/deposit ratio rose from 32.4% in 1993 to 42.2% in 1994.

Assessing the performance of th Banks, in its 1994 Annual Report, the CBN revealed that as in previous years commerce accounted for the largest share of the CBs loans and advances, 40.20%, whereas agriculture, real estate, forestry, construction and transportation received 43%, with the balance of 16.80% going to the manufacturing, mining/quarrying sectors of the economy. The Apex bank, however, failed to assess the CBS, as to how far it has achieved its objectives, particularly in the area of

inculcating disciplined banking habit in the rural population, which is the main concern of this study.

One important point worth noting here, before delving into assessment of the achievement of the CBs towards imbibing banking habits in the rural populace, is that save one, Kurama Community Bank in Lere Local Government Area of Kaduna State, all community banks in our study area are either located in the Local Government Headquarter of the area or in urban centres.

Of the total 250 people interviewed, 112 (44.80%) confirmed to have operated an account with a Commercial or co-operative bank before the coming of the CBs 93 indicated that they needed a savings account and explained why they did not have one and the remaining 45 had never had any relationship with a Bank and never even given it a thought. Majority of those interviewed (72%) mentioned that they did not have enough money to open and maintain an account, or that the amount of money they could save was small and therefore feel they will not be accepted by the banks. Other reasons given were: illiteracy, lack of knowledge about operating an account, fear of bank liquidation and a preference for borrowing rather than saving. A greater percentage of those interviewed (64%) did not explain why they had never applied for a bank loan. In fact the idea seemed laughable to them. However, 56 people representing 22.40% did offer reasons, 22 mentioned that they were farmers and did not have any enterprises warranting bank loans, 17 said that they have no accounts

and were therefore unknown to bankers, 11 mentioned the problem of security, stating that by taking their money to the bank everybody will get to know how much they are worth, while 9 responded that they do not know how to apply for loans.

All of these reasons, one would say indicate a feeling of estrangement from existing banks and lack of adequate awareness of the functions of a bank. It also point to the fact that proper information and enlightenment campaigns have not been provided prior and during the establishment of the CBS. From the foregoing it could be ascertained that the single most important problem hindering the success of the system is illiteracy, and a significant consequence of illiteracy is lack of confidence in written records. The importance of being able to read records is that it allows people to see the results of what they are doing through observation. Observability, or the degree to which results can be seen, has been found to be an important factor in encouraging the adoption of innovations. In an area where banking is an innovation, observability will be an important factor affecting participation. Observability will be low where all the records are written and most of the potential customers are illiterate. - ladipo (1979).

Another serious impediment to the success of the CBs discovered is lack of basic infrastructures which are indispensable in banking, such as telephone and other communication facilities, good roads and security, consequent upon which cash movement to and from the CB becomes extremely risky and hazardous. The

dominance of peasants in farming (the mainstay of our rural community), and agriculture being seasonal in nature attracts seasonal businesses thereby given rise to fluctuation in income from trades in farm products, and hence affects the general purchasing power and savings propensity of the rural community.

This infrequent business transactions results in a low volume of business in most rural areas.

Apart from the above impediments, frauds have also crept into the management of the CBs. In one instance, a manager, his accountant and four others were reportedly arrested for alleged fraudulent activities in one of CBs under our study area. Recently there was a newspaper report that millions of Naira were lost to fraudstars in Adamawa and Ondo States, there were also reports of CBs closing shop without any explanation to either the public or the regulatory authorities; a particular CB within Kaduna metropolis provide a typical example of this anomaly. Some of the CBs studied were beset with internal wrangling among their Board members which inevitably hinders their smooth operation.

From the foregoing, it appears that the nation's community banking sub-sector is in need of some kind of salvation as facts and figures from the sub-sector now paint the picture of a miserable beggar calling for a lease of life in the midst of deaf mutes, as inflation has made nonsense of the maximum paid up share capital of N250,000/=

thereby resulting in under-capitalisation. Also the widespread distress in the entire finance sector has also affected the CBs in many ways. For example, a study of the returns of the CBs to the NBCB, revealed that some of the 57 distressed commercial banks in the Country are acting as correspondent banks to many CBs. This implies that the CBs might not have access to their money trapped, or already lost in some of the banks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

The study of Community Banking and its effect on the development of Banking habit amongst Nigerians was undertaken to assess and evaluate the performance of the CBs toward inculcating disciplined banking habit among rural dwellers and semi-urban small scale entrepreneurs and petty traders. Few Communities were selected in Kaduna, Kano and Katsina States for the purpose of undertaking the study. More so the study attempted to evaluate the financial dealings of the communities in order to find out whether there is change from what is used to be prior to the introduction of the CBs. Factors responsible for the success or failure of the CBs in achieving its aims were also sought to be identified.

In order to effectively establish clearly the framework of the study and to facilitate its easy understanding we first, in our introductory chapter, give the background of study by highlighting the main functions of any financial institution which include serving as intermediary between owners of funds and borrowers; mobilisation of idle funds; investment of the funds mobilised; allocation of financial resources. We also tried to evaluate how effectively financial institutions carry out these functions, which led us

to discovering the shortcomings of the financial institutions and the need to introduce the CBS to remedy the situation.

The structure of the Nigeria Banking System was briefly reviewed to have a clear understanding of the financial sector's operations, and the functions expected of the various financial institutions, that made up the Banking sub-sector of the financial system, to discharge. This led us to highlight the various types of services offered, or expected of Commercial Banks, Merchant Banks, Development Banks, Peoples and Community Banks. Having gone through this, we proceed to assess the performance of the Nigeria Banking sector, in order to bring to light its successes and failures in carrying out the functions and roles expected of it towards the economic development of the Nation.

Notwithstanding all the policies, designed and implemented to attract the interest of rural community towards cultivating a Banking culture, it is a well known fact that banking habit in Nigeria among the illiterate rural populace and semi-urban dwellers - craftsmen, petty-traders and small-scale entrepreneurs still remain low or even non-existent in some areas. As even today a significant percentage of this class of people transact their business purely on cash basis and rely on personal savings and borrowing in financing their businesses. Banking operations have continued to be complex, Sophisticated and often times cumbersome to the extent that low level of education and outright illiteracy could not allow active participation of the vast

majority of the Nigerian Community. This is the problem the Government believed to be addressing by introducing the CBs, and it is the statement of the problem in our study. Four objectives were expected to be achieved through the study, with the principal objective being examination of the impact of CBs on the development of Banking habit among the Country's rural dwellers. Other objectives include:-

1. Evaluating the Nigeria CBS as regards its influence on the financial dealings of the rural community and sub-urban petty traders, craftsmen and small-scale entrepreneurs.

2. Assess the influence of the CBs on the pattern of the financial dealings of the communities i.e. does the pattern change from what it used to be or not? and then.

3. Identify the factors responsible for the success or otherwise of the CBs in imbibing Banking habit among the communities.

The scope of the study was restricted to about fifteen communities in Kaduna, Katsina and Kano States due to logistic and resources constraints.

Relevant literature was presented and reviewed in the second chapter, pertaining to function of Banks i.e. what services are Banks generally expected to provide to the banking public, which we saw the basic ones as:-

(a) Acceptance of deposits of money from clients.

(b) Allowing withdrawal of such monies accepted as deposits or transfer them from one account to another within the same or other Bank, upon the instruction of the depositor.

(c) Giving advances to customers who wish to borrow.

The economic importance of Banks was also discussed to enable us appreciate fully what effect a developed banking system can have on the overall economic development of a nation. Some literature on the nature of Nigeria's community and its economic activity was also reviewed to enable the reader have a basic understanding of the community which forms the framework of the study. The Nigeria Banking system was also briefly discussed and its roots traced to the monetisation policy of the British Government during the Colonial period. this gave birth to the British System of Branch-banking, and recently with the addition of the Peoples Bank and the CBs, which was defined as a "Unit Bank" we saw that Nigerian Banking system has moved towards being a combination of the American Unit banking system and the British Branch-banking system.

The concept and history of the CBs in Nigeria was also reviewed through the presentation and analysis of literature on the third World Countries' developed, self-oriented and organised institutions tagged "informal" financial institutions. One of such institutions being the rotating credit association which is known under different

names in the native languages of the various communities e.g. "Adashe" in Hausa, "Asusu" in Yoruba and "Agu" in Igbo language. We saw that the history of Community Banking in Nigeria started with the establishment of the Directorate of Food, Roads and Rural Infrastructures (DFRRI) by the Babangida Administration in 1987 whose primary task is "to identify, involve and support viable local community organisations in effective mobilisation of the rural population for sustained rural development activities, bearing in mind the need for promoting greater community participation and economic self reliance of the rural community. And lastly, in this chapter, we had a look at various relevant sections of Decree 46 of 1994, known as "Community Banks Decree 1992" as it affects establishment, functions, operations, share capital and other legal and regulatory requirements of community banks.

Chapter three of the project dealt with the research methodology employed while undertaking the study. The method employed was survey research method, which was considered most appropriate considering the nature of the research topic itself, being investigative. Personal interview was employed as a means of obtaining data, this was chosen taking into cognizance the low level of education of the respondents, on which administering questionnaire or other media of data collection will be futile. Secondly, data was also sought and obtained from the CBs, NBCB Zonal Office, Kaduna and the National headquarters of the Board in Abuja, which was used in conjunction with the primary data gathered.

In chapter four, data collected as a result of the research activity conducted was presented as obtained and analysed by means of simple descriptive method of data analysis by using percentages and actual numbers of respondents.

5.2 CONCLUSION

This study set four objectives for itself as listed in chapter one (1.5). These objectives are briefly recapitulated here:-

(a) To examine the impact of CBs on the development of Banking habit within Nigeria's local community.

(b) Evaluate the Nigeria CBS as regards its influence on the financial dealings of the rural populace and sub-urban petty-traders and small-scale entrepreneurs.

(c) Evaluate whether the CBs had any influence on the pattern of the financial dealings, of the rural community and the urban low class, i.e. does the pattern change from what it used to be or not?

(d) To identify the factors responsible for the success or otherwise of the CBs on imbibing Banking habits within the local communities.

The study has been able to confirm that the CBS is yet to have any significant impact on the development of Banking habit of Nigeria's Local Community. It has been established that to date huge cash transactions are still being carried out even in the

urban centres not to talk of the rural communities where Bank instruments (i.e. cheques, drafts and pay orders) are viewed with suspicion and considered worthless. People still prefer to keep their money at home rather than deposit it with a Bank, and greater percentage of the rural populace still depend on personal borrowing and savings to finance their business. It is therefore, evident that if Banking habit means making and accepting payments through a Bank, depositing with and borrowing money from a Bank, then one can safely conclude that no significant success has been recorded in this area.

The question of the CBs having influence on the financial dealings of the rural community, and the pattern of such financial dealings can therefore be answered in the negative, since we have been able to establish the fact that greater percentage of the rural populace and the urban low-class still depend on the same old system in their financial dealings.

The factors responsible for the failure of the CBs to imbibe the desired banking habit within Nigeria's local community include:-

1. Failure of the implementors and operators of the CBs to generate and acquire the confidence and trust of the local community on the system through proper enlightenment campaign, as the institution of banking itself rest on trust and

confidence of the banking public, and where such trust and confidence is non-existent, means the system can never be a success.

2. To compound the problem, the CBS was introduced on the threshold of the distress syndrome in the Banking sector, where crises of confidence has erupted between customers and their banks, with so many banks declared distressed and a few others had their licenses revoked. Even among the urban educated, the trust and confidence in the banking sector was seriously eroded.

3. Poor perception of the CBs by many people (especially in the major Cities), as some view CBs as "Low-level" localised institution probably for the down trodden. On the other hand, some community leaders see CBs as their own for any use and thus try to wield undue influence on Managers and engaged in unnecessary interference in their day to day running.

4. So many CBs were allowed to be located in urban areas, which has worsened the situation, as many of them went down with some of the distressed Commercial and Merchant Banks, since they have their money in them either by way of investment or correspondent relationship. The few healthy CBs in the urban centres faced stiff competition from established well equipped and sophisticated Commercial and Merchant Banks.

5. The inability of the CBs to attract and retain qualified personnel hampers their performance in promoting investment. Qualified staff in project formulation, monitoring and evaluation are needed for enhancing the investment promoter capabilities of the community banks, lack of which inadvertently will lead to misapplication of funds and faulty portfolio management.

6. Dominance of commerce in the investment coverage of many CBs also limits the influence of the system to only one sector. However, this is usually explained by the nature of the deposit liabilities of the CBs which are mainly savings of short-term duration and not investment-encouraging.

7. That bye and large CBs have not established effective linkages with other financial institutions in their localities. This limits the level of positive impact that the CBs make on their communities.

8. Limiting CBs to particular areas of operation and banning them from opening cash offices and the like, caused CBs to usually seek out locations near to market places where they believe financial transactions can be most rapid. the consequence is the neglect of other areas, e.g. farm settlements, that may be in dire need of the services of the CBs.

9. A number of the communities surveyed did not possess adequate infrastructural facilities, such as roads, electricity, transport, postal services, telecommunication facilities and proper accommodation, that can enable the CBs staff cope with the tasking banking assignments.

From the foregoing, it must be clear to all that the Nation's community banking sub-sector is in need of some kind of salvation.

5.3 RECOMMENDATION

Based on the above presentation, analysis and conclusion the following recommendation are made:-

1. An intensive enlightenment campaign be organised and carried out by the NBCB and the National Association for Community Banks with the active assistance and participation of the CBN.

2. The skill profile of CBs should be examined and emphasis placed on attracting qualified staff with requisite knowledge and experience not only in banking and finance but also in community development.

3. Fund mobilisation and utilisation of CBs should be made to take active interest in community development in their catchment area.

4. CBs should be encouraged to establish linkages with other financial institutions in their localities. This is to say that the CBs should link-up with informal credit organisation such as asusu, bam, adashe etc so as to encourage them channel their credit and other development support services to grass-root economic activities through the CBs. Thus, the CBs will assume the position of the trusted person to collect and disburse the contributions, thereby truly localising the operations of the CBs and strengthening the beneficial linkages between the various groups, the CBs and the community at large. The CBs should be required to make conscious effort to create and nurture such linkages.

5. NBCB or the CBN should provide a guideline on appropriate sectoral allocations of CBs credit. Also communities should be guided and encouraged to identify non-commerce oriented but bankable projects relevant to its socio-economic environment for the CBs to finance and encourage their members to invest in such projects.

6. Members of the Board of Directors of CBs should desist from interfering unnecessarily in the operations of their banks and where such occurs the NBCB should take stern action on them.

7. Training programmes should be organised for the Chairmen and Directors of community banks on their role as policy makers as distinct from those of executors of policies and programmes of their banks.

8. The NBCB should hasten action on the establishment of a clearing House for the CBs. This, is believed will enhance acceptability of CBs instruments and hence generate confidence and trust on them.

The problems of the CBs, as at present, are all pervading. They require all embracing solutions that must be geared towards a total overhaul of the structures already in place so as to generate sufficient interest, trust and confidence on the CBS as a whole, thereby developing the desired banking culture amongst and within the entire Nigerian community. It is indeed, believed that a developed banking habit and/or culture will provide an effective springboard for the Country's economic development.

5.4 PROSPECTS

Notwithstanding the challenges of the times, some CBs in the Country have been able to withstand their teething problems and cope with the storm of the past few years in the financial sector of the economy. The prospects for such CBs continuing to do well, and others to follow suit, look bright and encouraging. It is our considered

opinion that the CBs is a sound idea and requires only a surgical operation to rejuvenate and invigorate the system towards achieving the desired objectives. Succinctly put, regarding CBS, by Ajala (1992) "The challenge of our time, the duty of our policy makers, the task of the NBCB and the resolve of community banking operators nationwide should be to make the experiment work."

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