The Community Banking System in Nigeria

By Mariam Ladi YUNUSA

Publication: 1998
82 pages

Executive Summary

Breaking the circle of poverty and attaining sustainable development has eluded the developing countries for several decades due to the continued failure to integrate all segments of the society, especially the low-income people, into the production process. The system has not provided the majority of poor people with secure access to credit for investment in economically productive ventures.

Successive government efforts to solve the problem, through several rural finance and development programmes, have met with unsatisfactory results. This was due to the lack of a mechanism which would encourage the mobilization of savings among people at the grassroots level and at the same time simplify the disbursement of funds through loans and advances. The Rural Banking Scheme, instituted by the Central Bank in 1977, took off rather slowly. Even when the numerical target of at least one branch in every Local Government Area was met in 1991, these rural branches failed to meet the credit needs of the people and remained mere deposit takers. The People's Bank (PB) was set up in 1989 to meet the credit needs of the rural and urban poor, artisans, farmers, petty traders, vehicle mechanics, etc. However, because it is supply-led and heavily dependent on subventions from the Federal Government for its operations, the recovery of loans has not been very efficient and it is facing problems of decapitalization due to heavy overheads that outstrip earnings. The Community Bank (CB) was conceived to answer some of the observed weaknesses in credit delivery to the grassroots.

“The CB is a unit bank, "a self-sustaining financial institution owned and managed by a community or group of communities for the purpose of providing credit, deposit banking and other financial services to its members largely on the basis of their mutual group responsibility, self-recognition and merit."

Informal forms of rural finance schemes exist in most parts of Africa and these have provided some basis for linkage with formal banking. CBs in Nigeria are established using the already existing rotating savings and credit associations (ROSCAs). The Bank is designed and modified to meet the needs of the small-scale entrepreneur who dominates the informal sector where many economic activities are carried out within a largely peasant mode of production. The National Board for Community Banks (NBCB), set up by decree 46 of 1992, is charged with the responsibility of promoting, developing, monitoring, and generally supervising the CBs. The Management and Board of each CB bears the responsibility for proper and sound operation, according to laid down
provisions, and to ensure its profitability and viability in the prevailing economic climate. Since the first CB was commissioned in December 1990, they have grown to over 1000 units and are scattered all over the country, operating in both urban and rural areas.

The primary objective of any CB is to mobilize funds for deposit and disbursement as loans and advances to members of the community. They also provide trade (and export) development advisory information services, and they work with, and through commercial banks as their correspondent banks.

The CBs have been conceived to fill a gap within the financial system of Nigeria. Whereas there is a 'boom' of commercial, merchant and development banks in the formal credit delivery system, the operations of these banks are restricted to the elite urban population who constitute a very small proportion of the country's total population. The lives of the majority of Nigerians - the rural people and the sub-urban poor – remain unaffected by the activities of these modern banks.

The CBs, as unit banks owned by individual communities, have succeeded in serving as a credit mobilization and provision mechanism to a people who have hitherto been marginalized by modern banking. With the de-emphasis on assets, collateral and security, and the promotion of trust, character witnessing and social mobilization, people at the grassroots have been brought into the ambit of wealth creation directed at improving the quality of lives and ultimately creating the bedrock for more sustainable development. Petty traders, hawkers, artisans and small scale processors have benefited from the CBs and several hitherto insignificant businesses have been turned around resulting in improved living standard for individuals, families and even whole communities.

The CBs have had their share of the turmoil in the banking industry. Several of them were hard bit by the prevailing downturn when the financial houses, or commercial banks, in which they placed their funds became distressed. Those that have managed to avoid this problem are trading cautiously by lending only for short-term investments thus restraining, to some degree, their wealth creating capacity at the grassroots. On the whole, given that they have existed for only four years, the CBs have demonstrated the potential of being a veritable tool for transforming the rural economy by promoting a banking culture and inculcating healthy investment habits.

The urban-based CBs have recorded fewer successes than those in rural areas due to differences in the nature of rural and urban communities. Community ownership and sense of proprietary pride in the CBs are not so strong in urban areas. Moreover, the strong presence of other commercial banks means that the CBs face stiffer competition for deposits from big clients. In order for the urban-based CBs to meet the credit needs of the petty traders and artisans that swell the informal sector, the NBCB will need to package a different set of guidelines for their establishment. They have the potential to arrest the social drifts into the cities and provide a rallying point for community cohesion other than kinship ties as in the rural areas. Such social stability within the urban areas will be the basis for, and a natural consequence of, neighbourhood improvement through self-help. As the disposable income level of beneficiaries of the CB riges, they
will gradually get to be in a position to afford to pay for basic amenities, thereby improving their productivity and a general sense of well being for the city. The main challenge for the UMP would be to package assistance programmes that would support the initiatives of non-governmental and community based organizations to mobilize resources for urban environmental management such as would clearly hold the promise of personal growth and improvement for the residents. Whatever can be done to build a sense of pride and ownership in people for their city (neighbourhood) of residence, should be done.

The one attribute that gives the CB system its strength viz a viz all other grassroots-based financial efforts hitherto embarked upon by government is that, whereas the latter were "enterprises run for the poor", the CBs are "enterprises run by the poor". Everything must be done to keep it that way.

As the Central Bank of Nigeria (CBN) prepares to take over the licensing of the Banks, it must resist the temptation to stifling community initiative. The CBN must keep its role purely supervisory and regulatory while much of the co-ordination and promotion should be left to the National Association of CBs as a self-regulating organization (SRO). This means that each CB has to face the challenge of operating as a profitable entity and at the same time avoiding political undertones and patronage, if it is to survive. The association must be equipped to play the role of standardization and training.

To play its role more effectively, the CBN should promptly establish the Apex Community Bank as the clearinghouse for the CBs, thereby saving them the heartaches that they presently face in dealing with the commercial banks. For the full integration of CBs into the financial and non-financial system of Nigeria, the CBN and the Federal Ministry of Finance should design policies that will entice all the relevant finance and non-finance agencies to make provision for the CBs in their operations. The benefits of expanded business turnovers, increased productivity and improved earnings that will result from this will be secured and sustained if it is backed by a land re-organization programme for both urban and rural areas. This will ensure that people own the land on which they do their business and will enable them to plan their growth with greater profit.

The CB system holds much promise for turning around the economy of Nigeria and making its development truly people-oriented, and a strong catalyst for democratization, but the government at the centre needs to downsize its operations and allow the communities to plan and develop their local economies using their initiatives.

Contact:

Urban Management Programme (UMP)
UNDP Regional Office for Africa
Dakar - Senegal