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# COMMUNITY BANKING AND RURAL DEVELOPMENT

BY

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Community banking plays an important role in promoting sustainable development in rural areas of low-income countries. This paper examines the role of community banking in promoting banking culture, entrepreneurial development investment and rural growth in Nigeria. The modalities, operations and challenges of community banking are highlighted as well as optional pathways for resolving constraints to their growth and development. The contributions of community banking to sustainable economic development of Nigeria were revealed.

## INTRODUCTION

Rural communities feel their development is flawed. They fear their income is not increasing. They have difficulties with full employment and rural infrastructures. They may suffer from the absence of their economic capacities, disadvantageous shifts in product markets, or from a lack of natural advantage, either spatial or biophysical. These factors can operate in either diversified local economies, but attention to them is usually greater in the former. The cause may be sudden and easily identifiable.

Rural communities have responded in many ways, including enhanced marketing, tourism promotion, promotion of local entrepreneurship and business cooperation, infrastructure projects, land reclamation, subsidized land provision, financial subsidies, training programmes and extension services (Skelly, 1995) (as cited in Walter, 2003).

The unwillingness of the Banks to meet the need of the rural community for banking services after the introduction of the rural banking scheme by the CBN in 1977 and the failure of the rural bank established in 1989 to perform in meeting credit need of the rural and urban communities and artisans prompted the federal government to introduce Community Banking in Nigeria.

Community Banking (CB) was conceived to answer some of the observed weaknesses in the conventional banking system to the grass roots. The Community bank is a unit bank intended to be a self-financing 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. This is based largely on the basis of their mutual group responsibility, self recognition and merit. The first Community Bank in Nigeria in Tundun Wada in Kaduna State on 1st, 1990. The then president Ibrahim Babangida explained that: "in order to bridge the gap between the conventional banking system and the people's bank the idea of a community bank was conceived". (Ehigiamusoe 2000).

The aim is to fully involve the rural people in their own development and to aim at an equitable distribution of the national output had, hitherto not been seriously considered. The main barrier to rural development had been the exclusion of the masses in their own development.

The wrong approach was adopted in solving the problems of rural development. The neglect of the vast resources which the full and effective participation of the people would yield, these resources were neglected in favour of bureaucratic inputs. (Idode 1989).

The Idode Mobilisation approach to rural development would recognise the people as partners in the development process. Where they become a part of the decision-making process they would be committed towards ensuring that such decisions are fully executed. The Idode approach would also enable the government to easily elicit the support of the people in development efforts.

However, where the people's participation yield fruitful results they would be encouraged to ensure the further success of their collective endeavours. The initial success of

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### **LOW CAPITAL BASE:**

Most of the banks have low capital to effectively carry out their operations. Hence their impact positively on the community is low.

### **LOCATION AND INFRASTRUCTURE:**

Most of the communities where these banks are located lack basic infrastructure like good water supply, health care system and electricity. These tend to hinder their operations.

### **AUDIT**

Though this is a general problem in the banking industry we expected to see less of it in community banks since the banks are owned and operated by the communities. However this is not the case.

### **INSURANCE OF COMMUNITY BANKS DEPOSIT LIABILITIES**

Presently the Nigeria Deposit Insurance Corporation does not insure deposits in community banks. Because of this some people are afraid to lodge money with them.

### **COMPETITION FROM OTHER BANKS**

Previously most banks were reluctant to open new branches in rural areas but presently there is an increase in the number of bank branches being opened in rural areas. This has now led to strong competition which these community banks may not be able to withstand. These branches of banks in these communities are technologically advanced and have the best of equipment to manage these branches, unlike the community banks which cannot acquire these branches nor employ these well trained staff.

### **BOARDROOM WRANGLING**

Many of these Community Banks suffer from bad interpersonal relationship among board members. As a result the banks suffer under such situations.

### **GRANTING OF LOANS NOT BACKED BY COLLATERAL**

Many of these banks grant credit not backed by any collateral especially to board members. This has led to financial squeeze and gradual erosion of the banks' capital base.

### **RELATIONSHIP WITH CORRESPONDENT BANKS**

Community banks are not clearing banks; they therefore must attach themselves to banks that issue money instruments. These banks that serve as correspondent banks will presently be settlement banks or be attached to settlement banks. This is a big problem. They depend on interest and commission charges and have delays in clearing cheques through correspondent banks.

### **MANAGEMENT**

In all human endeavours where money is involved, the personal integrity of the management staff is paramount. Top management staff must be professionally qualified and of good character and be vigilant at all times to be able to manage the banks effectively and efficiently. This is presently lacking in many of the Community banks.

### **REGULATORY AUTHORITY**

Presently the National Board for Community Banks (NBCB) was supervising these banks, but the Central Bank of Nigeria is involved in their supervision. These create a conflicting situation.

### **EXPOSURE TO THE CRISIS IN THE FINANCIAL SECTORS**

Community banks are affected those community banks that placed their fund in distressed banks and are exposed to the crisis.

### **CONSTRAINTS TO THEIR GROWTH AND DEVELOPMENT**

The challenges facing these community banks, the ways to resolving these constraints and their growth and development are explained below.

In a study (1998) the Central Bank of Nigeria (CBN) should promptly establish the Apex Bank as the clearing house for the community banks. This will save them the

that they presently face in dealing with the commercial banks. For the full integration of community banks into the financial and non-financial system of Nigeria, the CBN and the Federal Reserve Bank of Nigeria should design policies that will embrace all the relevant finance and non-finance aspects to make provision for the Community Banks in their operations. There should be adequate monitoring of credit granted so that these credits are used by the borrowers for only businesses that the credits are approved for. Moreover much emphasis should be placed on employing qualified and honest staff to manage these banks in order to reduce the incidence of mismanagement and fraud. In addition, the Central Bank of Nigeria (CBN) should devise a way to bring the Community Banks to a clearing system even if they are not to have a special clearing house. A law should be enacted by the government to make all deposits in community banks to be insured by NDIC to encourage customers to lodge their money with these banks.

These banks should be encouraged to increase their capital in order to be able to increase their operations. In fact a grant should be given to them to increase their capital and the use of these funds should be highly monitored.

The CBN should organise seminars, workshops and training geared toward increasing the awareness on good corporate governance and inculcating banking ethics and professionalism in senior officials of Community banks. In the area of supervision there should be a clear demarcation between the role of CBN and NBCB in monitoring and supervising the Community banks. It is our suggestion that the National Board for Community Banks should be strengthened for it to continue operation and strengthened for it to succeed. Finally, the Community Development Associations should have at least two members in an audit committee setup for these banks so that the reports that will come out of the audit will give a true and fair view of actual financial position of the bank.

### PROBLEM OF RURAL DEVELOPMENT IN NIGERIA

In recent years the development policies of many African countries have shown increasing emphasis on the agricultural sector and rural development. In Nigeria the Third National Development Plan, 1975-80 also ranked rural development high in its policy objectives. According to the plan, it is necessary to recognise that about 70 percent of the Nigerian population live in the rural areas and have benefited relatively little from the rapid economic growth of the past few years. Improvement in the welfare of the average Nigerian will therefore require a substantial increase in rural income. Accordingly, in the allocation of scarce resources in the course of plan implementation, priority will be given to programmes and projects directly benefiting the rural population, particularly projects to increase the income of small holder farmers and to improve the economic and social infrastructure in the rural areas. Third National Development Plan 1975-1980 (as cited in Idode 1989).

There is therefore, reason to believe that the question of how to accelerate expansion in the rural sector and how best to improve welfare for the masses of the people in the rural areas is the focus of considerable attention. But a great disparity exists between the promulgated policies of rural development and the actual results of implementation efforts.

The main reasons why attention should be paid to rural development in Nigeria are:

Firstly, the majority of the people live and find their livelihood in the rural areas. Secondly, the level of rural-urban migration is increasing everyday and this is increasing the level of urban unemployment, housing problems, increasing crime rates and other attendant social

Thirdly, it is in the rural areas that the most disadvantaged people are to be found.

Fourthly, there is a general agreement that priority should be given to rural development especially agricultural development. The reasons for this agreement include the need to have continuous production of raw materials for industries and the feeding of our population.

Finally, to encourage the siting of industries in the rural areas where the raw materials exist. According to Igbozurike (1976) (as cited by Idode, 1989) Nigeria's development financing has been derived mainly from direct and indirect taxation of rural people who have benefited little or nothing from economic development activities. The author argues for a radical change in priorities and attitudes towards the rural sector as an economic and social necessity. There is need for

improved social amenities, emphasis on agriculture and increased income and agro-based industries.

All past efforts by government to improve the pace of rural development in Nigeria especially through such agencies as Directorate of Food, Road and Rural Infrastructure (DFFRI), Peoples' Bank of Nigeria Limited, National Land Development Agency (NALDA), and Better Life for Rural Dwellers were not completely successful.

### CONTRIBUTIONS OF COMMUNITY BANKING TO RURAL DEVELOPMENT

The search for a development strategy, which could lead to significant improvement in the socio-economic condition of members of poor households, led to the focus on credit. The underlying assumption of credit for development is that availability of capital is critical to the effort of enhancing income-generating capacity especially of the poor. It is assumed that the poor know what to do to enhance their socio-economic condition and that they remain poor because they operate from a slim economic base. This base, according to the proponents, and they are now many, could be strengthened by funds borrowed on affordable conditions. (Ehigiamusoe 2000)

According to Ehigiamusoe the enthusiasm over the coming of Community Banking in Nigeria has not be complete disappointment. Barely seven months after the opening of the first community bank in 1990 in Tudun Wada in Kaduna State, 1055 applications for the establishment of Community Banks were processed while 10 community banks had their doors opened for business operations. Within three years some 879 community banks had been established throughout the country. By 1996, 1052 community banks were in operation in Nigeria.

By June 2002 N6b has been given as loans and advances. Total assets stood at N18.43b while total share capital was N4.02b with paid up capital amounting to N2.57b. The total deposit is N10.62b, with demand deposit accounting for N3.1b, savings N5.7b and time deposit N1.879b. (ECB 2002).

These Community Banks have been able to encourage savings which hitherto was not common in rural areas. The savings are used in providing micro finance to small borrowers. The borrowers are regarded as partners rather than as faceless customer of the formal financial sector since they reside in the community.

Also some Community Banks are fully involved in managing community corporative apart from holding the deposit of such corporative societies. They provide financial and business advisory service to the rural dwellers. This was a service that was not available in the rural areas. The financial and business advisory services they provide have improved the way the rural dwellers manage their finances and operate their businesses.

### CONCLUSION:

Community banking has been able to reduce rural poverty and contribute much to rural development than it was expected. Though a lot still need to be done; their capital need to be increased to make them have more funds to make impact in these rural areas. It has succeeded in mobilising savings hitherto kept under pillows and other unsafe places. This savings are now available for lending in the banks.

### RECOMMENDATIONS

It is our honest opinion that this banks to be allowed to participate in clearing system to enable people to accept their cheques for business transactions. Also the CBN should find a way of increasing their capital if it will amount to granting them soft-loans. Seminars, training conferences should be regularly organised for the staff to help them in performing their duties their by impacting positively on the rural areas.

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