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**INFLUENCE OF DWINDLING ECONOMY  
ON THE PERFORMANCE OF COMMUNITY  
BANKS IN AKWA IBOM STATE**

*BY*

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**ABSTRACT**

Various opinions have been expressed as to the possible cause(s) of Community Banks' failure in Nigeria and in Akwa Ibom State in particular. Some people have attributed it to greed, mismanagement, low capital, voodoo, witchcraft, etc, but opinions are not facts until proven by empirical studies and tests. Hence, this study intends to survey the impacts of community banks on rural dwellers and their possible cause(s) of failure.

**INTRODUCTION**

The concept of Community banking was born out of the inability of rural dwellers and small scale investors to get loan from commercial Banks to service their credit need. The institution evolved from two traditional institution known as adashi, etibe, barn, osusu in different dialect around the country, the other being town union or community development association. The necessary to bring these two institutions together in a modernizing context, became imperative when it was clear that government policies such as agriculture, credit guarantee scheme, conventional commercial banks and even development banking institutions faces serious constraints in attending to the credit needs of millions of small scale investors most of whom had no collateral.

The Decree promulgating the directorate food, Roads and Rural Infrastructure (DEFRI), defined its mandate as falling into three broad areas:

- (a) Community organization and social mobilization
- (b) Infrastructural development
- (c) Promotion of production activities

The first and second mandate of the Directorate was a success, but the third mandate namely, the production of productive activities was not easy to initiate. These activities

were in the areas of rural agriculture and food production, rural industrialization and rural transportation.

Over a period of three years (1987-1989) the Directorate held discussions with Commercial banks. Various useful suggestions came up as to what could be done. It was clear that the issue of collateral would always constitute a real hindrance to effective credit provisions for rural investors. It was as a result of exhausting the possibility of credit provision through commercial banks that DFFRI was constrained towards the end of 1989 to address a memorandum to the President and Commander in-chief of the Nigerian Armed Forces, proposing the critical need to establish a novel financial institution known as community Banks.

The approval of the proposal by the President was in the budget speech of January 1, 1990. In that speech the broad outline of what government had in mind was clearly spelt out thus:

he adjusted subsidizing level 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 programme 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... (Babangida, 1990:18).

Babangida also noted that the Community Bank will be substantially owned by Community Development Association (CDAS) co-operative societies, farmers groups, Patriotic Unions and trade groups within the community. In addition, individual members of the community will be encouraged to subscribe to the equity capital of the Community banks. The modality of the operations of the proposed community banks would be worked out.

He described Community Bank "as Commercial bank serving only one community and exploiting to the fullest, its advantageous position of local knowledge and trust". He further said that the survival of a community bank is ultimately connected with the development of the community which it serves. Babangida went on to say that by not getting involved in sophisticated banking services like foreign exchange transaction or international Commercial papers, corporate finance or equipment leasing, and by minimizing its operational cost through localization and superior arrangement for loans recovery, community banks should be able to operate at lower interest rates to its customers.

Each community bank, by serving its particular area, will also be contributing to the overall development of the banking system and of the economy as a whole. He concluded



that a national net work of community banks will greatly strengthen the massive programmes of government in rural development.

The Community Banking system came into being in Akwa Ibom in late 1993. By 1994, there were about thirty-nine registered and reporting banks. These banks recorded high rates of patronage from both the rural and urban dwellers. By 1995, due to the general down turn in the nations economy and distress in commercial banks and other financial institutions, the community banks, were also affected because Community banks used these financial institution on their correspondents Banks. Funds placed by Community Banks in these banks wee trapped, therefore, Community banks found it difficult to meet its obligation to its numerous customers. This led to mass withdrawal of money from Community Banks.

The attitude of most of the operators/owners of the Community Banks was appalling. Most of the owners of the Bank did not have the interest of the rural dwellers at heart coupled with inability to manage the bank properly by inexperienced managers, insiders lending, different political affiliations of some managers and directors and other problems have led many community banks in the State to close shop.

This has become imperative because the rate of failure of community Bank has generated serious concern among the operators, customers and the general public. However, between 1993-1997 this State had about 154 reporting Banks. Out of this number, there are about 15 reporting banks now. This represents the failure rate of 74%.

Professional bankers, entrepreneur and operators of this system have expressed deep fears about the future of this system in the state if the trend was allowed to continue. They have described the situation as unfortunate, a negation or government laudable intentions and expectations since Community Banks were seen as the bed rock of meaningful operation of strengthening rural growth and development, especially in the areas of rural industrialization, food production, rural transportation and rural art and craft.

The failure scare and the socio-economic problem associated with it have serious implication for the economic growth and development of the system in this state. The debilitating effect of the progressively downward slope in performance in the community banking system have been compounded by the lack of interest by the rural populace and urban poor who the system was supposedly meant for, hence the need for this research, to be able to pin-point the causative effect of the dwindling performance of the Community Banks.

## **Research Questions**

The roles of community banks in the economic growth of the rural dwellers in Akwa Ibom State is very important. In order to realize the main objectives of this study, therefore, answers to the following questions shall be sought.

1. To what extent does the economy affect the performance of Community banks in this State?
2. What are the problems community bank encounter in financing rural projects?
3. How do loans granted to small scale investors contribute to the growth of the communities?

## **Methodology**

The target population for the study consisted of ten community banks in the state. From these, 40 members of staff were randomly sampled.

The main instrument for the study was a structured questionnaire. The questionnaire for the staff was made up of twenty (20) items comprising of questions and statements that reflected the impact of the economy of the performance of Community Banks. The questionnaire was divided into two sections: A and B. Section a sought information on staff personal data. While section B asked questions that concerned the issue understudy, the extent to which Community banks grant loans to small scale investors, problems community banks encounter in financing small scale investors and the impact these loans have in the growth of these communities.

The instrument was validated by experts who certified it valid for the purpose of this survey.

The contents of the instrument were also scrutinized by an appraisal officer, an inspection officer and a chief training officer of National Board for Community Banks who all confirmed that the items achieve high content validity.



To what extent does the economy affect the performance of Community banks in Akwa Ibom State?

**TABLE 1**

**MEAN RESPONSES TO THE EXTENT TO WHICH THE ECONOMY AFFECTS THE PERFORMANCE OF COMMUNITY BANKS IN THE STATE.**

Research Items	SA(4)		A(3)		D(2)		EFX	Mean Rating	SD(1)	
	F	FX	F	FX	F	FX			FX	FX
1.	4 (11.11%)	16	9 (25%)	27	18 (50%)	36	94	2.5	5 (13.8)	5
2	15 (41.7%)	60	11 (30.5%)	33	7 (19.5%)	14	110	3.1	3 (8.3%)	3
3.	12 (33.33%)	48	16 (44.44%)	48	4 (11.11%)	8	108	3.0	4 (11.11%)	4
4.	11 (30.5%)	44	18 (50%)	54	3 (8.3%)	6	105	3.0	4 (11.11%)	4
5.	4 (11.11%)	16	(25%)	27	13 (36.11%)	26	79	2.1	10 (27.7%)	
								13.7		

In table 1 above, research items 1,2,3 and 4 confirm that the dwindling economy influences the performance of the community banks with mean scores of 2.5,3,1, 3.0.3.0. which are above the cut off point of 2.5. Except for research item 5 which strongly disagree that failure of community banks is mainly because the state is a civil service state.

From the data presented, it has been discovered that government policies can affect the performance of community banks. To further ascertain this decision the various mean scores were computed into weighted mean and the result was 2.74 which is higher than the standard mean of 2.5 which further accepts that the economy influences the performance of the community banks positively.

**Research Question 2**

What are the problems Community bank encounter in financing rural projects?

Problems encountered by community Banks in financing rural projects.

Research Item	SA(4)		A(3)		D(2)		SD(1)		EFX	MEAN RATING
	F	FX	F	FX	F	FX	F	FX		
11.	2 (5.55%)	8	3 (8.3%)	9	13 (36.11%)	26	18 (50%)	18	61	1.7
12	15 (4.78%)	60	11 (30.5%)	33	7 (19.5%)	14	3 (8.3%)	3	110	3.1
13.	16 (14.44%)	64	12 (33.33%)	36	4 (11.11%)	8	4 (11.11%)	4	108	3.0
14.	13 (36.11%)	52	13 (36.11%)	39	6 (16.66%)	12	4 (11.11%)	4	91	2.5
15	11 (36.11%)	44	15 (41.6%)	45	8 (16.66%)	16	2 (5.55%)	2	107	3.0
Weighted mean $\frac{13.5}{5} = \frac{27}{5}$										13.5

In the table above, with 1.9 points on research question 11. It indicated that most community banks would not write off loans should the customers default in repayment. With 3.1, 3.0, 2.5 and 3.0 in research items 11,12, 13, 14 and 15 and weighted means of 2.7, it has indicated that in financing small scale rural and urban investors, community banks encounter the problems of low capital, inadequate collateral by loan seekers, sectoral allocation and inflationary measures.

**Research Question 3**

How do loans granted to small scale investors contribute to the growth of the communities?

**Table 3:**

**CONTRIBUTIONS TO COMMUNITY GROWTH**

Research Item	SA(4)		A(3)		D(2)		SD(1)		EFX	MEAN RATING
	F	FX	F	FX	F	FX	F	FX		
16.	18 (50%)	72	9 (25%)	27	3 (8.3%)	6	5 (13.30%)	5	110	3.1
17	16 (44.44%)	64	9 (25%)	27	7 (9.44%)	16	4 (11.11%)	4	111	3.1
18.	11 (30.5%)	44	18 (50%)	54	3 (8.36%)	6	4 (11.11%)	4	105	$\frac{3.0}{9.2}$
Weighted Mean $\frac{9.2}{3} = 3.1$										

Items 16 and 17 with mean score of 3.1 and 3.1 respectively it was indicated that loans granted to small scale investors contribute to the growth of the communities and that there have been marked improvement in the economic development of



these communities since the introduction of these banks as loans granted by these banks have aided in the development of more cottage industries in the communities.

While item 18 agrees that community banks have been a catalyst to the development of small scale urban and rural investors.

According to the data analysed and discussion, the following findings were made:

1. The dwindling economy and government policies affect the performance of community banks in Akwa Ibom State.
2. Community Banks in the State grant loans to small scale business and at the same time finances sectors, like agriculture and commerce.
3. Problems of non-repayment of loans, sectoral allocation, lack of adequate collateral security are amongst the problems faced by community banks in financing small scale urban and rural investors.
4. This shows that communities where banks are situated develop more or rather that loans granted to rural dwellers contribute to growth of the community in that there would be increased economic activities than there was before the siting of these banks in these communities.

## RECOMMENDATION

The National Board for community Banks should strengthen the monitoring and supervision of community banks to detect an ailing situation.

Community banks should insist for and collect collateral before approving loans to the customers.

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