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An Evaluation of the Financial Performance of Community Banks in Ogbomoso Area of Oyo State, Nigeria

[1]F.A. Ajagbe, [1]J.O. Adewoye and [2]J.O. Ajetomobi
[1]Department of Management Science, [2]Department of Agricultural Economics and Extension,
Ladoke Akintola University of Technology, Ogbomoso, Nigeria

Abstract: This study examines the performance of Community Banks in Ogbomoso Area of Oyo State, Nigeria. Sample size of 8 Community Banks were selected using purposive sampling technique and 200 loan beneficiaries were selected using stratified random sampling method with the help of well structured questionnaires and interviewed techniques. Financial ratio technique was used to analysis the compliance ratio. The result of the findings revealed that capital adequacy, liquidity reserve and cash reserve ratios were the significant factors in determining the performance of Community Banks in the study area. Finally, it was discovered that, the capital adequacy computation stood at 48.14% as against 8%, the liquidity reserve was 50.5 and 52.0% as against 30% minimum and 70% maximum respectively, while the cash reserve stood at 41.4% as against 8% showing that, the sampled banks were viable, solvent and their performances were health and sound enough to face future challenges.

Key words: Community banks, financial performance, Ogbomoso area, Nigeria

INTRODUCTION

Community Banks are self sustaining financial institutions owned by local communities to provide financial services to members of the communities. They are under the supervision of the Central Bank of Nigeria (CBN) and the National Board for Community Banks (NBCB). The first Community Bank commenced operation in December, 1990 and by the end of 1997, the number has increased to 1,015 with total assets, deposit liabilities and loans and advances of 145, 321.2, 2, 511.3 and 1,891.0 million, respectively (Onweagba, 2005).

Abdulkadir (1989) remarked that, Community Bank is established as a special financial economic sector and to improve credit facilities to the rural people. The credit facilities to be rendered are expected to be on basis of self-recognition and credit-worthness of their customers in contrast to the traditional banking practice of placing emphasis on negotiable collateral securities which has retarded rural development.

Ojo (2001) observed that, a properly set up community banking system represents a major category of financial institution that is closest to the grassroots and thus able to acquaint itself with the real problems of the local and rural poor people. By virtue of this closeness, it was considered a good avenue through which poverty alleviation programmes could be channeled to serve the target low-income groups.

Community Banks have succeeded in serving as credit mobilization and provision mechanisms to a people who have been marginalized by modern banking. With the emphasis on assets, collateral and security and promotion of trust, character witnessing and social mobilization; people at the grassroots have been brought into the wealth creation directed at improving the quality of lives and ultimately creating the bedrock for more sustainable development (Yunusa, 1998). This in consequence makes it possible for the government to regulate the money in circulation and to pay much attention to rural development.

Although primarily designed to deliver credit to the rural population, Nigeria's community banking program has been launched in urban areas with large numbers of poor persons whose livehoods depend on informal jobs as customers. More than 35% of Nigeria's community banks are in urban areas with one fifth of these in the Lagos metropolitan area. Most urban community banks are located close to urban markets, where they cater largely to the credit needs of market women, food sellers and whole sellers, drivers and road side mechanics, many of whom, are not well-to-do but own some small shares in the bank (Mabogunje, 2005). In consequence, Community

Corresponding Author: J.O. Ajetomobi, Department of Agricultural Economics and Extension, Ladoke Akintola University of Technology, Ogbomoso, Nigeria

Banks pay an important role in the lives of small scale economic status in both rural and urban centre.

In order to fill the growing gap in the banking industry, there is the need to improve the performance of Community Banks. It is on this note that this study attempts to examine the performance of Community Banks in Ogbomoso Area of Oyo State, Nigeria.

Since community bank is basically a financial institution, its performance and efficiency utilization of resources should be determined on the basis of its financial statements. The idea is that, if the bank is performing profitably and its investments are doing well in terms of income generated. Then, the profitability of the bank also depends on the efficiency of the bank itself (Okeahalam, 2004).

The performance of the economy at the national and regional levels directly affects the business strategies of individual financial institutions and may affect the industry's overall performance. For instance, the economic down turn could adversely have impact on the financial services industry and this may result to a slower asset growth, increased loan losses and diminished profitability (Yunusa, 1998).

World Bank (2000) highlighted that, the potential contribution of community-banking system to financial services is important, but its performance to date has been disappointing. This is because the collective importance of Community Banks is individually weak, under capitalized, too small and limited in outreach. Of the 1.368 community banks that were established, 354 had been closed, only about 200 are believed to be profitable and about 380 banks have not filed mandatory returns. This may be attributed to the fact that, their reports are probably insolvent.

Yunusa (1998) in his view believed that, community banks have succeeded in serving as a credit-mobilization and provision mechanism to a people who have been marginalized by modern banking. Petty traders, hawkers, artisans and small-scale processors have benefited and have improved living standard for individuals, families and even whole countries.

In spite of the important role of the financial sector, banks have traditionally, albeit, unduly been heavily regulated by the monetary authorities. These controls and regulations lead developing countries' financial markets to be characterized by financial repression. Apart from this, the direct intervention in the banking sectors' operations leads, in some cases to highly concentrated market structures in the banking industry which in turns have implications on saving mobilization, intermediation and bank performance (Howard and Hayness, 2001).

By December 1993, community banks had mobilized more than ₦2billion nationwide and more than half of this came from saving deposits. Total assets had risen to more than ₦3.2 billion and loans and advances of nearly ₦750 million had been made. Some 40% of the loans and advances were for commercial activities. Manufacturing on the other hand accounted for more than 18% of loans, agriculture and forestry as well as transportation accounted for 17 and 18%, respectively. Most of the loans granted were under ₦5,000.00 (Mabogunje, 2005).

MATERIALS AND METHODS

This study was carried out in Ogbomoso Zone of Oyo State, Nigeria.

Purposive sampling technique was used to select eight operating Community Banks and stratified random sampling was used to select the customers.

In analyzing the data, financial ratios were used (i.e. capital adequacy, Cash reserve and liquidity reserve ratios). They were defined as:

Capital adequacy can be defined as the ratio of Total Qualifying Capital (TQC) to total amount weighted risk.

Cash Reserve Ratio (CRR): This is the ratio of cash deposit with

Central bank of Nigeria (CBN) to total deposit liability.

Liquidity is the amount of cash that a company can put its hands in order to quickly settle its debts and other unforeseen cash payment demands. There is always a prescribed minimum liquidity ratio for Banks within the industry. Currently, this is 30%. These can thus be measured into ways:

RESULTS AND DISCUSSION

Capital Adequacy Computation presents details of the banks capital ratio of 48.18% as against 8% minimum required standard. In effect, the surveyed banks were technically solvent and the performance is encouraged but if the banks capital ratio fall short of 8% then, the banks will face harsh economic challenges and the performance will considerably fall and if the situation is not forth with checked the surveyed banks may not be able to mobilize fund to pay depositors. Brown bridge (1998) remarked that, most of the failed banks were under capitalized. This is because the minimum capital requirements in force when they had been set up were very low.

The surveyed Community Banks liquidity ratio as measured by the ratio of cash and short-term fund to total

deposit stood at 50.5%. Another measure of liquidity is the ratio of loans and advances to total deposits, which was 52%. Both ratios were within the recommended levels of 30% minimum and 70% maximum respectively. With this, the surveyed banks were reliably solvent and their performance was healthy and sound enough to face future challenges but in a situation where liquidity ratio falls below 30% minimum requirement then the performance will affected and the banks will be advice to inject additional cash into its operation, intensify on its debt recovery efforts and explore new means of generation income to improve its liquidity position or witness distress. Bryan (1972) found that, the most important single factor explaining the operation efficiency in terms of profitability performance is the ratio of savings and time deposit to total deposits. The argument is that, the deposit mix, by determining the liquidity needs of the banking system affects the volume of the earning assets.

While the ratio of cash deposit with correspondent banks to total demand, savings and time deposit liabilities form 41.14%. This is highly encouraging as the CBN standard ratio is usually 8%. But if this ratio falls below 8%, the surveyed banks liquidity position will be unsatisfactory, it credit performance will be very poor and it will have a low earning capacity and this will eventually erode banks' capital (Table 1-4).

Based on the above findings, it was found that, there is a significant relationship between the level of performance and their involvement in distress, the higher the rate of performance, the lower their involvement in distress and vis-visa. Howard and Haynes (2001) maintain that, operational efficiency is determined by the market

Table 1: Component of assets and liabilities of community banks as at 31st December, 2000-31st December, 2004

	2000		2001		2002		2003		2004	
Parameter	₦ '000	(%)	₦ '000	(%)	₦ '000	(%)	₦ '000	(%)	₦ '000	(%)
Distribution by assets										
Cash and short-term funds	62.810	45.7	65.476	33.3	72.296	30.1	93.681	35.5	105.765	36.4
Loans and advances	41.860	30.5	84.460	43.0	92.884	38.7	95.426	36.1	100.142	34.4
Investment	14.943	10.9	22.032	11.2	42.802	17.8	45.467	17.2	40.900	14.1
Other assets	8.724	6.4	6.032	3.1	12.069	5.0	4.713	1.8	6.871	2.4
Fixed assets	9.012	6.5	18.479	9.4	19.832	8.4	24.937	9.4	37.030	12.7
Total	137.349	100	196.459	100	239.883	100	264.224	100	290.708	100
Distribution by liabilities										
Deposit and other accounts	99.823	72.7	135.078	68.8	165.994	69.2	181.805	68.8	209.920	72.2
Other liabilities	7.878	5.7	12.310	6.3	14.316	6.0	24.307	9.2	18.040	6.2
Paid-Up capital	31.136	22.7	41.047	20.9	47.596	19.8	44.989	17.0	47.831	16.5
Statutory reserve	2.239	1.6	5.241	2.7	6.778	2.8	9.105	3.5	9.826	3.4
General reserve	(3.727)	-2.7	2.783	1.3	5.199	2.2	4.018	1.5	5.091	1.7
Total	137.349	100	196.459	100	239.883	100	264.224	100	290.708	100

Total No. of community banks licenced = 8, Total No. of community banks operating = 8, Total No. of community banks reporting = 8, Source: Audited accounts for 2000, 2001, 2002, 2003 2004 and Field , Survey, 2005

Table 2: Total deposit liabilities for 5 year financial review,2000-2004

Type of deposits	2000 ₦ '000	2001 ₦ '000	2002 ₦ '000	2003 ₦ '000	2004 ₦ '000
No. of banks reporting	8	8	8	8	8
Current deposits	32.167	34.671	43.944	35.767	52.716
Savings deposits	61.827	95.123	111.373	128.924	135.035
Time deposits	5.829	5.284	10.677	17.114	22.169
Total	99.823	135.078	165.994	181.805	209.920

Source: Audited Accounts for 2000, 2001, 2002, 2003 and 2004

Table 3: Total specified liquid assets for 5 year financial review 2000-2004

Parameter	2000 ₦ '000	2001 ₦ '000	2002 ₦ '000	2003 ₦ '000	2004 ₦ '000
No. of banks reporting	8	8	8	8	8
Cash	11.951	15.218	24.588	11.634	10.590
Balance with Correspondent banks	50.859	50.258	47.708	82.047	95.175
Balance with discount houses	-	-	10.541	10.000	10.859
Money at call	-	-	-	1.000	1.400
Treasury bills and certificates	5.500	11.329	15.000	14.500	14.500
Fixed dep/stabilization security	1.108	6.000	13.000	19.110	20.000
Total	69.418	82.805	110.837	138.291	152.524

Source: Audited Accounts for 2000, 2001, 2002, 2003 and 2004

Table 4: Capital adequacy computation for sampled banks as at 31st December, 2004

Asset	Net value of asset ₦ '000	Weight of risk (%)	Amount weighted risk ₦'000
No. of banks reporting	(8)	(8)	(8)
Cash in hand	73.981	0	0
Balance held with:			
Central banks of Nigeria	-	0	0
Other banks in Nigeria	419.065	0	0
Other banks outside Nigeria	-	20	0
Federal government stock	-	0	0
Treasury bills	60.829	0	0
Treasury certificates	-	0	0
Negotiable certificates of deposit	-	0	0
Non-negotiable certificates	-	0	0
Industrial investment	-	50	0
Total loans and leases	414.772	100	414.772
Banker acceptance	-	20	0
Commercial paper and promissory notes	-	100	0
Fixed assets	109.290	100	109.290
Other assets	38.409	100	38.409
Contra items	-	20	0
Total value of weighted assets			562.471

Source: Audited accounts for 2000, 2001, 2002, 2003 and 2004

Second:	Computer 1st tier capital		-
	Paid up capital	-	212,599
	Statutory reserve	-	33,189
	Share premium	-	-
	General reserve	-	13,364
	Published profit and loss account	-	11,868
	Sub-total	-	N271,020
Less:			
	Goodwill and intangible assets	-	NIL
	Unpublished loss of current year	-	NIL
	Required loan loss reserve	-	NIL
	Total 1st tier capital	-	N271,020
Third:	Compute 2nd tier capital:		
	Debenture	-	NIL
	Loan less reserve	-	NIL/NIL
Less:	Investments in subsidiaries/associations	-	NIL
	Total 2nd tier capital	-	NIL

Total Qualifying Capital (TQC)

= 271,020 + 0

= 271, 020

Capital Adequacy Ratio (CAR) = 271,020/562,471×100

= 48.18%

structure and regulatory framework of financial intermediation. Intermediation cost can therefore be used as a measure of allocative efficiency. Operational efficiency can be measured by the ratio of total operating cost to average total assets. The lower the ratio the smaller the spreads between net returns to savers and gross cost to lender.

CONCLUSION

The Banks were technically solvent, the quality of their assets show that the sampled banks have a strong financial capability to affect their repayment system.

Moreso, the sampled banks were viable, solvent and their performances were healthy and sound enough to face future challenges.

It is therefore, pertinent to ensure stability in the performance of Community Banks in Nigeria, by increasing their share capital base, embark upon a progressive deposits mobilization and intensive debt recovery.

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