

Berichte aus der Volkswirtschaft

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**Finance for the Poor: Community Banking as an
Approach to Institution Building**

The Example of the Nigerian Community Banks
A Theoretical and Empirical Analysis

D 38 (Diss. Universität Köln)

Shaker Verlag
Aachen 2000

Die Deutsche Bibliothek - CIP-Einheitsaufnahme

Michell-Auli, Peter:

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Building : The Example of the Nigerian Community Banks
A Theoretical and Empirical Analysis / Peter Michell-Auli.

Aachen : Shaker, 2000

(Berichte aus der Volkswirtschaft)

Zugl.: Köln, Univ., Diss., 2000

ISBN 3-8265-7806-6

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Printed in Germany.

ISBN 3-8265-7806-6

ISSN 0945-1048

Shaker Verlag GmbH • P.O. BOX 1290 • D-52013 Aachen

Phone: 0049/2407/9596-0 • Telefax: 0049/2407/9596-9

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The study explores community banking as an approach to provide the poor with financial services. As shown by the examination of the Nigerian community banks and the historical analysis of the German credit cooperatives in the 19th century, establishing a financial institution based upon an existing community is a valuable concept – and applicable more to rural than to urban areas. Community banks delineate a special type of promoting enterprise, where a community is, or is perceived to be, the owner of the financial institution in order to provide financial services to themselves, i.e. the financial institution is perceived to be 'community property'. While in the Nigerian (Mabogunje's) community banking approach the community is basically involved through the shareholding of a community institution, the community banking concept of the rural German credit cooperatives of the 19th century is, properly speaking, founded on a broad-based ownership and involvement of (important) community members. When comparing both approaches, the Nigerian concept of community banking generally allows the involvement of communities in a wider sense, i.e. a group of people residing in the same area and having a deep sense of common belonging, while the German cooperative approach is restricted to communities in the more narrow sense, i.e. a group of people residing in the same place and having frequent interactions in pursuit of economic and social goals, leading to a dependence on each other. Hence, the Nigerian approach allows a larger geographical area, containing a higher number of dwellers, to be involved. Both approaches appear to enable the utilisation of informal control as a stabilising element for credit repayment, and as a corporate governance mechanism – a unique advantage over other organisational forms. The term 'informal control' is used in preference to 'peer pressure' (although these terms are almost synonymous) in order to illustrate that this type of mechanism is effective for a community and not solely for tight-knit groups.

The empirical data, both qualitative and quantitative, for analysing the Nigerian community banks have been provided by a seven-month period of field research in Nigeria, dating from February to September 1996. The analysis of the performance of the Nigerian community banks in reality provides the basis for formulating first approaches to solutions for improvements in the performance of community banking in Nigeria. This includes conceptual changes where the defined preconditions for community banking do not exist. The study may also provide the groundwork for further analyses into whether the outlined approach to community banking could be applied in other developing countries, though such research is beyond the scope of this study.