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<td>AGU, Cletus Chike</td>
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CO-OPERATIVE BANKING: AN ALTERNATIVE TO RURAL BANKING SCHEME AS A STRATEGY FOR RURAL DEVELOPMENT IN NIGERIA

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CO-OPERATIVE BANKING: AN ALTERNATIVE TO RURAL BANKING SCHEME AS A STRATEGY FOR RURAL DEVELOPMENT IN NIGERIA

BY

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ABSTRACT

The key to sustained economic development in Nigeria is the reordering of the development efforts in favour of the rural areas. The "urban bias" development programmes adopted have constituted a major conflict between the rural and urban communities with the consequent underdevelopment of the rural areas and hence the economy at large. The fundamental problem of underdeveloped rural areas is the dearth of continuous and adequate flow of financial resources to these areas. The rural banking scheme which was hoped to solve this problem has been a failure to a great extent. A suggested alternative scheme is the co-operative banking.

I INTRODUCTION

There is a growing realization by policy makers and economists in most developing countries of Africa that a major factor retarding development efforts of their economies is the "urban bias" of their respective development programmes. As Paine (1978: 693) noted the
urban bias development rather than capitalism or unequal international relationships is now regarded by some as the most fundamental explanation for the poverty and inequality that rocks so many Third World countries today, and as the main contributing factor to the deterioration in the living standards of substantial numbers of rural inhabitants reported in many. In the developing countries the key to sustained economic development is the reordering of the development efforts in favour of the rural areas. In other words, underdeveloped and neglected rural economy will frustrate whatever impressive efforts to make any developing country achieve economic "take-off".

The problem of rural underdevelopment and hence general economic stagnation of the overall economies of the developing countries is inadequate flow of financial resources to the rural areas as well as the channelling of the available resources from the rural to the urban areas. Mobilization and utilization of own financial resources are the most important preconditions for modernizing the rural areas and improving the living standard of many.

In Nigeria the rural economy encompasses a substantial proportion of the country's human and natural resources and therefore requires large amounts of financial resources too in order to develop it. It is thus necessary to provide a channel for mobilizing and investing savings in the rural areas. It is the contention of this paper that co-operative banks, if re-organized can be the most relevant financial institutions which are designed and expected to encourage and mobilize savings for productive
Investment in the rural areas. It is our intention, therefore, to investigate alternative channels for encouraging rural savings and channelling the savings to finance rural development.

II STRUCTURE AND DEFINITION OF RURAL AREAS

The definition of rural areas poses problems in developing countries partly because of the degree of overlap between urban and rural communities and partly because of the degree of urbanization from country to country and even within a country. Attempts have been made to define rural areas in terms of population and existing infrastructures. For instance, the United Nations (1973: 14) stated that a rural community is one with a population of 10,000 persons and "characterised by a highly integrated social system, social values and attitudes, interpersonal relations and work habits". Bat (1982: 367) similarly defined rural areas as an area having a population of not more than 30,000 and where the major economic activity is farming at or a little above subsistence level. While these characteristics are necessary they are not sufficient criteria for grouping communities into rural or urban. Rural economy in Nigeria and in many developing African countries cannot be described than defined. A rural economy in Nigeria can be viewed as the sector of the economy where agriculture forms the main economic activity of the population irrespective of the population size, while other activities like handicrafts, petty trading and other small scale production units form a second line of activities undertaken usually to augment the meagre income from agriculture. In other words, a rural area is predominantly agricultural occupied by peasant farmers, artisans
and small-time occupational practitioners who live in close inter-
relationships within communities of varying populations. Thus the rural
inhabitants depend mainly upon agriculture for their sustenance and have
adapted their way of life to relative isolation and little access to
national resources and very low influence over their future. The farmers
operate uneconomic sizes of farm because of lack of resources, primitive
technology and fragmentation of land within the communities.

This description does not, however, obliterate the demographical,
social and cultural dimensions often given to the term "rural area" in
broader perspective in many texts. The other general characteristics
of rural economy include low standard of living, low level of productivity,
lack of medical facilities and widespread illiteracy. The people's
standard of living is low and often declining, their quality of life leaves
them severely disadvantaged and less able to improve their conditions
without outside help. The low standard of living is manifested in very
low incomes, poor housing and limited opportunities for education. The
rural community does not have access to modern health facilities within
their immediate environment. The wet season is the most critical
time of the year for the rural areas in Nigeria especially for the poor people,
women and children. On this Chambers (1982: 1) has argued thus: "Commonly
at (wet season) malnutrition, morbidity and mortality peak; the cost of
sickness - to society in lost agricultural production and to families
in food and income foregone - are at their highest; sickness is liable
to make people permanently poorer and health services are likely to be at
their least effective".
III. THE CONCEPT AND OBJECTIVES OF THE RURAL BANKING SCHEME

The rural banking scheme in Nigeria was the Federal Government's reaction to the realization of the problems posed by the dearth of rural credit in its efforts to solve the problem of rural underdevelopment. The main objective of the rural banking scheme, therefore, is to mobilize and allocate loanable funds in the rural areas in a continuous way and to ensure that such funds are employed productively. It is envisaged that the scheme should actively facilitate the transformation of the rural environment by promoting the rapid expansion of banking facilities and services and banking habits in the rural and near rural communities.\(^2\) The rural banks are thus expected to serve as vehicles for the creation of credit in the rural areas; this credit will take the form of equity and loans for small-scale farmers and entrepreneurs.

Rural banking scheme in Nigeria is not a creation of new types of financial institutions. The rural banks are commercial banks and are not separate entities but branches of the existing commercial banks operating within the economy. Generally these commercial banks concentrate their branches in the urban areas where there are industrial and commercial activities requiring their services and where profits are highest. Because the rural areas do not provide the necessary business environment of the lucrative ventures that can attract commercial banks, it required the exhortation of the monetary authorities - the Government and the Central Bank of Nigeria - to "force" the banks to establish branches in the rural areas.
To facilitate the execution of the rural banking programme, the CBN decided to phase the scheme. Currently there are three phases which embrace the periods July 1977-June 1980, 1980-Dec. 1983 and August 1 1985-31 July 1989. Commercial banks were expected to open 200, 266 and 300 rural branches in the identified rural centres during the First, second and third Phases respectively. Table 1 shows that by the end of June 1980, when the first phase was supposed to end, 188 rural branches were opened leaving a shortfall of only 12 from the target. The allocated 200 branches were not completed until December 1982. As at the end of December 1983, the number of rural branches opened under the Second Phase was 151 representing a shortfall of 85 from the target. As at December 1985 there was still a shortfall of 18 from target. The relatively poor performance of the banks in the second phase has been attributed to inadequate financial and human resources (CBN: Annual Report 1983: 39). As at December 1985, only three branches had been opened under the third phase. It is too early however, to assess the third phase.
<table>
<thead>
<tr>
<th>Table 1</th>
<th>Rural Banking Programme: Allocation of branches and compliance by commercial banks.</th>
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<tbody>
<tr>
<td><strong>Rural Banking Programme</strong></td>
<td><strong>Allocation under First phase</strong></td>
</tr>
<tr>
<td>1. African Continental Bank</td>
<td>16</td>
</tr>
<tr>
<td>2. Allied Bank of Nigeria</td>
<td>6</td>
</tr>
<tr>
<td>3. Bank of Credit and Commerce International</td>
<td>-</td>
</tr>
<tr>
<td>4. Bank of the North</td>
<td>6</td>
</tr>
<tr>
<td>5. Commercial Bank Credit Lyonnais*</td>
<td>-</td>
</tr>
<tr>
<td>6. Co-operative Bank</td>
<td>5</td>
</tr>
<tr>
<td>7. Cooperative and Commerce Bank</td>
<td>4</td>
</tr>
<tr>
<td>8. First Bank of Nigeria</td>
<td>40</td>
</tr>
<tr>
<td>9. United Bank Nigeria*</td>
<td>-</td>
</tr>
<tr>
<td>10. International Bank for West Africa</td>
<td>11</td>
</tr>
<tr>
<td>11. Kaduna Co-operative Bank</td>
<td>3</td>
</tr>
<tr>
<td>12. Kano Co-operative Bank</td>
<td>6</td>
</tr>
<tr>
<td>13. Lobi Bank Nigeria*</td>
<td>-</td>
</tr>
<tr>
<td>14. Mercantile Bank of Nigeria</td>
<td>3</td>
</tr>
<tr>
<td>15. National Bank of Nigeria</td>
<td>15</td>
</tr>
<tr>
<td>16. New Nigerian Bank</td>
<td>4</td>
</tr>
<tr>
<td>17. Nigeria-Arab Bank</td>
<td>7</td>
</tr>
<tr>
<td>18. Nigeria International Bank*</td>
<td>-</td>
</tr>
<tr>
<td>19. Omus Bank Nigeria*</td>
<td>-</td>
</tr>
<tr>
<td>20. Pan African Bank</td>
<td>5</td>
</tr>
<tr>
<td>21. Progress Bank of Nigeria*</td>
<td>-</td>
</tr>
<tr>
<td>22. Savannah Bank of Nigeria</td>
<td>7</td>
</tr>
<tr>
<td>23. Societe Generale Bank of Nigeria</td>
<td>-</td>
</tr>
<tr>
<td>24. Sokoto Cooperative Bank*</td>
<td>-</td>
</tr>
<tr>
<td>25. Union Bank of Nigeria</td>
<td>27</td>
</tr>
<tr>
<td>26. United Bank for Africa</td>
<td>27</td>
</tr>
<tr>
<td>27. Universal Trust Bank of Nigeria*</td>
<td>-</td>
</tr>
<tr>
<td>28. United Bank Nigeria*</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>200</td>
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</tbody>
</table>


* These banks were not operating under the First and Second Phases.
It is clear from the foregoing that rural banks are the extension of commercial banks branch network in the rural areas. Considering the background of the rural economy in Nigeria, it becomes doubtful whether commercial banks alone can cope with the rural banking policy and objectives without creating and accumulating adverse effects on the banks themselves and on the economy at large. For instance considering the low capital base, the quality and quantity of human and material resources available to commercial banks, the rate at which the banks are expected to expand into the rural areas is likely to overstretch their resources and could lead to a failure of a bank. The failure of a bank could in turn lead to a run on the other banks and that could spell economic doom for the country.

Furthermore, the strong resistance put up by the commercial banks to the monetary authorities’ persuasion, coercion and directives to make them open up branches in the rural areas is a good enough indication that they are not prepared to undertake the type of risk being “forced” on them. Consequently, they are not prepared to operate towards the achievement of the objectives for which they were established. Even if commercial banks have comparatively sizeable resources and trained staff at their disposal their pattern of business and procedures are not attuned to dealing with the rural and small scattered savers and borrowers who engage in various activities and small production units.

In Nigeria commercial banks tenaciously continue to adhere to the form of banking that became prevalent after the industrialisation of the United Kingdom in the eighteenth and early nineteenth centuries
which was "commercial" with the sole accent on short-term credit to trade and industry, the underlying theory being that credit should be self-liquidating. The implications of this are that rural banks, like their parent urban commercial banks, refrain from explicitly financing fixed capital formation because it would lock up bank funds contrary to the tenets of "sound" commercial banking as reflected in the unjustifiable "golden rule of banking"; and also because it would reduce borrowers' interest in the prosperity of their enterprises. This in particular makes rural banking unsuitable for rural financing of any development programme. Commercial banks' credit cannot, therefore, be used as equity capital for small-scale farmers and rural entrepreneurs.

The concept of rural banking in Nigeria seems thus absurd. The banks may be rural in structure in the sense that a number of them are located in the rural areas but in operation they are not rural and handicraft banks. A rural bank is a bank located in a predominantly subsistence agricultural community for the purpose of mobilizing and relending idle funds within the community with the ultimate aim of developing modernizing and uplifting the standard of living of the rural inhabitants as a preliminary step to economic take-off of the national economy. It is not sufficient to have the banks located in the rural areas if they must be interested in providing the financial needs of the rural areas in their quest to develop.

Unfortunately, in Nigeria rural banks are not separate entities but are branches of the old established commercial banks subject to the
rules, traditions and policies of their individual parent headquarters. The implication therefore, is that like any other branch office, the rural branches are going to be guided in their operations by the profit maximization motive. The development of the rural areas are not going to be their concern as such since such banks follow business instead of leading business and since they do not depend on the economic environment of the rural areas to exist as a business concern but rather on the speculative and flourishing industrial and commercial businesses of the urban areas. In the rural areas there are no businesses to follow. It is possible to have these banks in the rural areas concentrating their energies in bringing, as much as possible, the savings already mobilized by various traditional credit associations under their control for onward transmission and investment in the urban centres instead of really mobilizing dispersed individual unit funds into a large volume of savings and relending such savings to the communities for which they are established to serve. This will be unfortunate because it will make poor rural communities permanently poorer and consequently the anticipated modernization of the rural areas remains elusive. The observed operations of the rural banks so far seems to suggest that they act as profit centres for their individual parent banks, mobilizing resources and transferring them to the urban areas for investments in more profitable less risky commercial and industrial ventures.

A major obstacle which the rural banking scheme has not overcome and is not likely to overcome is the question of banking collateral syndrome which discriminate against the small saver and borrower and hence against the majority of the rural population. Rural banks in Nigeria pursue unrealistic collateral policy in the sense that their policy does not take
into account the social and economic environment peculiar to the communities in which they operate. A realistic collateral policy should serve to improve credit worthiness and should not be used to restrict credit (Crossee and Hempel, 1980: 222). The collateral securities demanded by the rural banks are title to goods, negotiable securities and life insurance policies. These are not only foreign to the Nigerian economy but are unknown and unavailable in the rural areas. The type of collateral securities available in the rural areas are crops and in rare cases real estate particularly arable land, but unfortunately these are "unsatisfactory" collateral securities for bank loans and advances.

V. CO-OPERATIVE BANKING AS AN ALTERNATIVE SCHEME

The provision of banking services in the rural areas is long overdue but the identification of the type of bank to be involved is very important in order to ensure a continuous flow of credit at every stage in a way that will suit the financial needs of the rural economy in its quest to develop. A relevant question is: must commercial banks alone be involved in rural financing or should other banks be established to serve the rural areas? It is the view of the writer that the commercial banks branches in the rural areas are inadequate and infact should not be the main channel for mobilising and investing rural savings in the rural areas. The only institutions that can successfully do the trick are those financial institutions which are completely rural based and not outposts of profit maximising financial institutions; those financial
Institutions which understand the development needs and problems of the rural community and are prepared to assist in the solution of the problems not necessarily for monetary profit reason but more importantly because they affect the very basis of their existence and growth as business organizations. It is against this understanding that co-operative banking is considered a better alternative to rural banking and should be accorded priority attention by the monetary authorities.

This lends us to consider what a co-operative bank is and to investigate whether there is any co-operative bank operating in Nigeria at present. A co-operative bank can be simply defined as a financial institution specially set up to offer greater access to saving and borrowing facilities for the co-operative societies and their members at relatively cheaper costs than those provided by the traditional commercial banking institutions (Ojo and Adeyemi, 1980: 1). A co-operative bank is meant to derive its strength from the co-operative movement and therefore to obtain its principal financial support from co-operative societies. Since the co-operative societies are expected to constitute the pattern of economic and financial organisation in the rural areas, a co-operative bank tends to be identified with rural development and to be expected to serve as the main vehicle of institutional credit to farmers and other small scale production units.
Structure of Co-operative Banking in Nigeria

Experience has shown that co-operative banks as defined above and as known in some other countries such as India, United Kingdom (where it is known as 'Consumers' Bank'), Canada, France and Germany where it is respectively known as the "People's Bank" does not exist in Nigeria. This is because the so-called co-operative banks in Nigeria have lost their rural orientation and consequently their understanding of the special problems of rural agricultural farming and of the requirements of the small scale trade and industries in the rural areas. The structure of co-operative banking in Nigeria will confirm this assertion.

There are four state Government owned co-operative banks and one Federal Government owned quasi-co-operative bank. Co-operative banking in Nigeria started with the establishment of Co-operative Bank Limited in 1953. In the following year, 1954, the Co-operative Bank of Eastern Nigeria was established. The two banks constituted the co-operative banking system until 1974 when the Kaduna Co-operative Bank was founded. In 1976, Kano Co-operative Bank was added to the existing three. In addition to these four, the Federal Government realising, though belatedly, the importance of co-operative financing to rural development accepted the recommendation of the Committee on the Nigerian Financial System that the Nigerian Agricultural Bank should be renamed National Bank for Agriculture and Co-operative (Federal Republic of Nigeria, 1977). Consequently the bank was renamed the Nigerian Agricultural and
Co-operative Bank Limited has been directed to be responsible for financing viable co-operative projects of various kinds in addition to its traditional function of financing agriculture (Mutallah, 1974: 28).

It is important to note that the Co-operative Bank Limited and the Co-operative Bank of Eastern Nigeria were established with the objective to function as truly co-operative financial institutions drawing their resources from co-operative societies and granting the bulk of their loans to the members. For instance the intention of the Western Nigerian Government in establishing the Co-operative Bank Limited was stated in its "Policy Paper on Co-operative Societies 1952" as follows:

Since most of the developments envisaged for the movement will benefit the overall economy of the Region and concern persons of low income who are scarcely touched by the operations of the Commercial Banks and for whom it is the responsibility of the Government to provide some form of aid, it is expected that Government will use the bank as an instrument for rural finance and pay for the services rendered in this regard.

Similarly in the address delivered at the opening ceremony of the co-operative Bank of Eastern Nigeria it was stated that "the aim and objective of the Bank is to spread all over Eastern Nigeria and to encourage and finance all registered co-operative organisations."

The two banks were forced to abandon their objectives and responsibilities to the rural areas and go commercial by the requirements of the 1952 Banking Ordinance. The Banking Ordinance 1952, restricts the use of title "bank" to institutions registered under the ordinance.
But the two co-operative banks without being registered as a bank continued to use the word "bank" until they were pressurised to take commercial banking licence in 1962 by registering under the Ordinance as commercial banks.

Unlike the first two banks, the Kaduna and Kano Co-operative Banks were registered to play a dual role viz as a commercial bank and as a co-operative bank. For instance it was stated at the opening ceremony of the Kaduna Co-operative Bank that while the bank would give assistance to co-operative movement in all its activities which go beyond agriculture, "it is intended that the bank should operate fully as a commercial bank, establishing branches and correspondents, and as it develops carrying out all and every type of banking business''. Similarly, the objective of the Kano Co-operative Bank is not only to assist co-operative societies it is also obliged to undertake other commercial banking business. The two different and distinct roles which the two banks are expected to play are conflicting and unreasonable because a truly co-operative bank can never be an efficient commercial bank and in the same way a commercial bank cannot be an efficient co-operative bank.

It is thus clear that the name co-operative bank in Nigeria is misleading. The banks are co-operative only in name. They are in conception and operations commercial banks. This can be illustrated further by a cursory examination of the ownership and direction of loans and advances of some of the co-operative banks. Table 2 shows the ownership of the Co-operative Bank of Eastern Nigeria Ltd, which
has since 1982 changed its name to the Co-operative and Commerce Bank (Nig.) Ltd. As at March 31 1985, the bank was owned by four groups of shareholders viz. the Governments of Anambra and Imo States, Co-operative Societies, individuals and firms and companies. The dominant shareholder is the States Governments whose share amounted to 88.15 per cent of the total paid up capital.

Table 2
Ownership Structure of the Co-operative and Commerce Bank Nigeria Ltd. as at 31 March 1985.

<table>
<thead>
<tr>
<th>Owners</th>
<th>Shares</th>
<th>Percentage</th>
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<tr>
<td>Governments of Anambra and Imo</td>
<td>9,175,000</td>
<td>88.15</td>
</tr>
<tr>
<td>Co-operative Societies</td>
<td>746,500</td>
<td>7.17</td>
</tr>
<tr>
<td>Individuals</td>
<td>447,190</td>
<td>4.26</td>
</tr>
<tr>
<td>Firms and Companies</td>
<td>38,632</td>
<td>0.36</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10,408,322</td>
<td><strong>100.00</strong></td>
</tr>
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</table>


The ownership structure matters very much in influencing the mode of operations and objectives of the bank. Since the shares of individuals, firms and companies are substantial relative to those of the co-operative societies, the bank is bound to operate as a profit-maximising enterprise i.e. as a commercial bank rather than as a co-operative bank because it has to make enough profits to satisfy the interest of the majority of shareholders. It is not surprising then that the name of the bank was changed in 1982 to reflect its increasing commercial banking activities.
Furthermore, if the direction of loans and advances of the Co-operative Bank Limited is examined it will be seen in Table 3 that 87.3 per cent of the loans and advances went to general commercial bank lending while Co-operative Apex Institutions received only 8.98 per cent. Other co-operative societies received 3.72 per cent. This means that a total of less than 13 per cent of the bank loans and advances went to co-operative societies.

Table 3
Direction of loans and advances of the Co-operative Bank Limited as at the end of March 1976

<table>
<thead>
<tr>
<th>Recipients</th>
<th>Amount (₦)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-operative apex institutions</td>
<td>2,623,341</td>
<td>8.98</td>
</tr>
<tr>
<td>Other co-operatives</td>
<td>1,084,937</td>
<td>3.72</td>
</tr>
<tr>
<td>General commercial bank lending</td>
<td>25,493,568</td>
<td>87.30</td>
</tr>
<tr>
<td>Total</td>
<td>29,201,846</td>
<td>100.00</td>
</tr>
</tbody>
</table>


Ojo and Adewunmi (1980: 44-5) in their study noted that co-operative banks could not provide data in respect of the extent to which they have assisted the co-operative societies. The main reason given by the co-operative banks was that 'the banks function in the same way as the other commercial banks, placing little or no emphasis on financing the co-operative societies and their members as such. Loans were given to all customers on more or less the same basis with little preferential treatment for and no special attention paid to the need of co-operatives'.
Another reason for not financing the co-operative societies is the fact that the banks' resource base is built around deposits from the general public just as the commercial banks. They have also tended to concentrate their branch network in the urban areas to the utter neglect of the rural communities which they are supposed to serve. Consequently there is no distinction between the co-operative and commercial banks as to lending operations, investment of surplus funds, interest rates and so on.

Why Co-operative Bank then?

Attempts have been made to show that co-operative banks in Nigeria leave much to be desired in the performance of their functions vis-à-vis dealing with primary co-operative societies and doing most of their business with the co-operative organisations and hence contributing to the development of the rural areas. It is nevertheless the belief of the writer that if the Federal and State Governments re-organise the co-operative banking, ensuring that the banks are co-operators' or people's banks and no longer commercial banks, and if the monetary authorities pursue co-operative banking schemes (as they do with the rural banking scheme) as a strategy for rural development, the scheme is likely to succeed where the rural banking has failed in modernizing the rural areas and uplifting the standard of living of the rural inhabitants. Such a scheme should involve truly co-operative banks which are widely scattered credit institutions usually medium sized designed specifically to suit the needs of the respective communities.
A number of reasons can be adduced to show why co-operative banking scheme is likely to succeed in transforming the rural areas faster and in a more desirable way than the rural banking scheme. First, co-operative banks are rural based. The earliest co-operative credit unions started in Germany and Canada in very poor conditions and, as such were concerned with people who seemed to have been missed out of the development process. They started in poor agricultural areas, among poor labourers, tradesmen and part-time farmers (Songare, 1982: 3). Since the co-operative banks are meant to obtain their major financial support from the co-operative societies, and since these societies constitute the pattern of economic and financial organization in the rural areas, co-operative banks tend to be identified with rural development and to be expected to serve as the vehicle of bank credit to farmers and associated units. With their rural orientation co-operative banks are in a better position than rural banks to understand the special peculiar problems of savings and credit in the rural areas and hence the development needs of the rural community.

Second, co-operative banking tends to combine loan extensions with savings mobilization, a policy very much desired in financing the rural areas. This is because overtime savings-credit linkage should put rural credit programmes on a productive self-sustaining basis. In addition, the linkage of credit extension with savings mobilization by co-operative banks provides an incentive for participating co-operative societies and an avenue for local employment of funds harmonising with perception of self or small group interest.
Third, one reason usually offered to defend the commercial operations of co-operative banks in Nigeria is that co-operative movement is not strong enough to offer the size of financial backing that will make the banks permanently solvent (Okigbo, 1981: 96). This reason stems from the equally less plausible argument that since the rural economy operates at near subsistence level there is very little that can be squeezed out of income and consumption. The notion that because people are poor they are incapable or unwilling to save did not seem to be supported by evidence. Unfortunately because of this notion it has not been realised that a large volume of idle funds exists in the rural economy of many African countries. For instance Roberts (1973) found a surprising high savings capacity in a study of 239 rural families in Zambia. His study showed that farmers in the sample saved, over a two year period, more than 30 per cent of their income on the average. Bauman and Harteveld, (1977: 14) in their study of Indian states of Tamil, Nadu and Kerala showed that the deposit made through credit and savings associations were equal to 20 per cent of total commercial banks deposits. In Ethiopia, the 1966-73 Development Plan estimated the annual savings volume through rotating savings credit associations to be 8 to 10 per cent of the country's GDP (Bauman and Harteveld, 1977: 13). Similarly the review of small holder credit in Kenya undertaken by the Rural Development Study points out that the deposit by small farmers under the co-operative thrift scheme reached the quite unanticipated figure of US $2 million by 1973 which was the schemes third year (World Bank, 1975: 18).
These studies suggest that there could exist large volumes of reserves of financial resources in the rural areas of Nigeria as well seeking to be productively mobilized; the prime problem of development is to gather them and utilize them productively. What is required then are rural based financial institutions to mobilize and channel these financial resources to the desired projects in the rural areas.

Co-operative banking provides suitable rural based financial institutions. Co-operative banks being the co-operators' or peoples' bank enjoy depositors' confidence more than commercial banks. Consequently, the establishment of co-operative banks in the rural areas will pave the way for the creation of more credit unions and multi-purpose co-operative societies that may be better placed to participate fully in the development of the rural areas.

Co-operative banks like the rural commercial banks are operated by established organisation capable of undertaking planning, promotion, implementation and control functions. But unlike rural banks which obtain their deposits from the general public and apply the deposits wherever they are needed depending on commercial profitability, the application of resources by co-operative banks is localized by geographical source of resources. The localization and stratification of resources and loans by co-operative banks is supposed to ensure proper control by the societies and hence the communities on which the banks depend. In addition such localization of resources will tend to compel the co-operative banks to devise a wide range of services to deal with the
needs of the rural communities in which they operate and depend for continued existence as a business concern. In other words co-operative banks will be more prepared to play the role of a counsel as well as financier and act as real partners of enterprises.

The most important reason why co-operative banking scheme will provide an alternative scheme for rural financing and a strategy for rural development is the fact that unlike the rural banking scheme, it does not merely duplicate facilities already offered by the mainstream financial institutions such as commercial banks and other savings institutions. Co-operative banks are therefore expected to fill the financial gap created by the conservative practices of commercial banks and their rural branches resulting in the neglect of certain sectors of the economy, smallholder agriculture and related production units in the provision of financial resources. In doing this co-operative banks offer new opportunities for small rural savers by expanding the range of financial services available to the community, and small credit borrowers by granting loans for projects which benefit the immediate community.

In dealing with the rural commercial banks, the small farmer and other rural borrowers face a number of hindrances such as complicated, cumbersome and time-consuming loan processing procedures; ineffective supervision, inadequate or complete absence of financial projection/planning and misdirected conception of the nature of farm credit (Oladipo, 1983: 241). Added to this is the high rates of interest charged by rural
banks on loans and low rates paid on savings. The adoption by 
co-operative banks of personal, non-rigid non-involved procedures will 
be more appealing to the needs of the rural farmers and other 
small-scale borrowers and savers. To the average rural entrepreneur 
it is more important that his loan is adequate for its purpose and 
given without delay. The problem of financing rural development should 
not be confined to meeting the needs for credit and other inputs at 
a particular time but should be extended to meeting these needs 
adequately at every stage of the sector's development.

On the question of high interest cost of borrowing, it should 
be emphasised that the main objective of a co-operative bank is to 
offer greater access to saving and borrowing facilities to co-operative 
societies and their members at relatively cheaper costs than those 
provided by commercial banks. Therefore, the rural small farmers 
and other small borrowers would prefer co-operative banks with simple 
and low cost credit delivery system to the commercial banks. It is, 
however, a mistake to assume that as long as interest rates are low 
rural farmers will borrow. What matters for rural development and 
small borrowers in the rural areas is not necessarily the rate of 
interest but whether or not credit is available. On this Ragazzi 
(1981: 57) rightly observed that the popularity of informal money 
market despite the usurious rates of interest underlines the 
importance of availability rather than cost in determining the 
demand for and supply of rural credit.
Finally, co-operative banking is very well suited to deal with the problem of commercial banking collateral syndrome which inhibits lending to customers who do not have "acceptable" collaterals to pledge. With co-operative banking collective guarantee arrangement for rural loans will be possible. In addition, as partners in rural enterprises, co-operative banks will be better disposed to accept collateral securities available in the rural areas such as crops or cattle and real estate.

IV. CONCLUSION

It is pointed out that for any meaningful economic development to take place in Nigeria, the rural areas which comprise a greater proportion of the economy should be modernised and developed, and that lack of financial resources has been one of the greatest obstacles to rural development. The rural banking scheme which was devised as a channel for supplying credit to the rural areas is not suited to perform the function because of the nature and operation of commercial banks for which the rural banks are branch offices. An alternative scheme should be devised and co-operative banking should provide the alternative scheme because it embraces the sort of financial institutions that are suited to the financial and other promotional needs of the rural areas.

The Federal and States Governments should be aware that at present there are no co-operative banks operating in the country. A reorganisation and establishment of co-operative banking is necessary. The monetary authorities should pursue with great vigour co-operative banking scheme
as a strategy for development. This does not imply abandoning the rural
banking scheme. Rural banking scheme should rather be a complement to a
well developed co-operative banking scheme.
1. For a more rigorous definition of the terms "Rural Areas" and "Urban Areas" see L. Akin Sobugunje (1974), *Cities and Social Order*, Ibadan University Press.


4. This was stated at the opening ceremony of the bank in November, 1974 by the then State Commissioner of Trade, Industry and Co-operatives, Miss D. M. Miller, who took up speculation that the Kaduna Co-operative Bank would be a specialised bank dealing only with the Co-operative Movement and its members and also specialised in dealing only on matters relating to agriculture.


Olusore, O., 1979, Rural Banking: Strategies and Policies of Government and the Central Bank, (A paper presented at a rural banking seminar at the University of Ife from 29 March to 1 April).


