AGRICULTURAL FINANCING IN NIGERIA:

AN ASSESSMENT OF CENTRAL BANK OF NIGERIA CREDIT

PORTFOLIO IN THE 80'S

BY

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DECLARATION

I hereby declare that this project, a partial requirement for the award of the Degree Master of Business Administration of Ahmadu Bello University, Zaria, is a product of my findings.

All sources of information collected for the purpose of this write up are clearly acknowledged by means of references.

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CERTIFICATION

This project report entitled, "A DECADE OF AGRICULTURAL FINANCING IN NIGERIA: AN ASSESSMENT OF CENTRAL BANK OF NIGERIA CREDIT PORTFOLIO IN THE 80'S"

meets the regulations governing the award of the Degree of Master of Business Administration of Ahmadu Bello University, Zaria and is hereby approved for its contribution to knowledge literature presentation.

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DEDICATION

To the Nigerian Farmer

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ABSTRACT

Undoubtedly, one of the major and important sectors of the Nigerian economy is agriculture, lnspite of the importance of the oil sector, agriculture continues to supply the bulk of employment, income, food and raw materials required for the country's agro-allied industries. Therefore, no meaningful national economic development and improvement in the standard of living of the generality of the citizenry can take place without developing the agricultural sector.

This sector has continued to deteriorate over the years, its importance notwithstanding, to the extent that the country had to resort to importing agricultural produce including food items.

The pathetic agricultural situation has led concerned authorities to examine closely the problems confronting agricultural development. And of primary importance amongst the multiplicity of problems facing the sector is the inadequacy of credit to said productivity.

In an effort to check to check this situation, the Federal Government, through the Central Bank of Nigeria, has taken several steps to boost agricultural production in the country. These policy instruments range from monetary to fiscal in nature. The aim has always been to skew total bank lending in favour of the agricultural sector.

There are, consequently, so many challenges ahead of CBN in the next decade some of which are highlighted in this paper, solutions to some of the problems posing to agricultural development have been pro founded. The apex bank therefore needs to adopt the fastest and safest means of reaching these solutions for the derivation of all the advantages of the sector

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ABBREVIATIONS

ACGSF	-	Agricultural Credit Guarantee Scheme Fund.
CBN	-	Central Bank of Nigeria
GRP	-	Green Revolution Programme
IBRD	-	International Bank of Reconstruction and Development
IMF	-	International Monetary Fund
NACB	-	Nigeria Agricultural Cooperative Bank
NAFPP	-	National Accelerated Food Production Programme
NAIC	-	Nigerian Agricultural Insurance corporation
NBCI	-	Nigerian Bank for Commerce & Industry
NAIS	-	Nigerian Agricultural Insurance Scheme
NDIC	-	Nigerian Deposit Insurance Corporation
NIDB	-	Nigerian Industrial Development Bank
OFN	-	Operation Feed The Nation.

CHAPTER ONE

INTRODUCTION

1.1 GENERAL BACKGROUND OF STUDY

Traditionally, agriculture is the basic economic activity in Nigeria. It remained the largest employer of labour, a major source of food, National Income and Export earnings. From 1960 when Nigeria attained independence to the early 1970s when oil became the dominant factor in the Nigerian economy more than 85 percent of Nigerian population engaged in peasant agriculture which was the mainstay of the Nigerian economy in the 1960s suffered severe neglect since the 1970s during the period of the so-called oil boom. As a result, the nation started to import food and other agricultural products that were, hitherto, produced in the country.

Although average annual growth rates of agriculture and food production were estimated at 0.9, 4.2 and 5.7 per cent, respectively in the 1970-75, 1975-80, periods, per capital food production was stagnant recording marginal growth rates of 0.3 per cent in the period under review.

In variably, the value of food imports rose from ₦819 million in 1970 to ₦ 7577 in 1981 - 85. A raise of ₦ 825.4 per cent. (See table 1.1) below.

Table 1.1

BASIC INDICATORS OF AGRIC PERFORMANCE IN NIGERIA

	1970-75	1976-80	1981-85	1985-88
PRODUCTION GROWTH RATES;				
Agric	0.09	0.42	5.7	0.8
Food	0.80	4.50	5.7	0.7
Per caput Agric.	0.30	0.60	0.30	-2.7
Per caput Agric.	0.30	0.70	0.30	-2.8
FOOD CONSUMPTION;				
Per caput calorie intake	1896	1761	1863	n.a.
Per caput calorie requirement	2420	2420	2420	n.a
Deficit/Surplus	-21.6	-27.2	-25.0	n.a
GROSS DOMESTIC PRODUCTION;				
Total Annual Average	24407.6	29879	26819	
Agriculture	7494	6689	6706	
Share of Agric. (%)	30.6	22.4	25.0	
IMPORTS (N' MILLION);				
Total	-	34810.6	39276	
Annual Growth Rates of food	43.6	40.7	-0.70	0.90

TERMS OF TRADE;				
Agric Export-Import (Value)	1.43	0.38	0.15	0.96

Source: Derived from Statistic compiled by

1. C.B.N.
2. FEDERAL OFFICE OF STATISTICS
3. I.M.F. (4) FOOD & AGRIC. ORGANISATION.

The recent World Bank reports states that Nigeria is the 13th poorest country in the world along with Liberia and Ethiopia. And that growth rate in agriculture have fallen further from 1.7 per cent in 1989 to 1,3 per cent in 1990 against increasing population of 3.2 per annum.

Many factors combined to cause this decline. Important amongst these factors according to Olalokun are "the Low yielding variety of crops and planting materials used by a large proportion of the farming populace, inadequate extension services, the poor condition of feeder roads and other transport facilities, inadequate supplies of agricultural inputs, the problem of diseases and pests, obsolete or inappropriate technology and at the centre of them all, is inadequate credit facilities".[2]

in order to reverse this unsavory situation, successive government in Nigeria have taken

several steps to boost agricultural production in the country. Most notable among these efforts were the National Accelerated Food Production Programme (NAFPP) which started in 1973, Operation Feed the Nation (OFN) of 1976, the Green Revolution Programme (GRP) that was launched in 1960 and the Directorate of Food, roads and Rural Infrastructure (DFFRI) of the Ibrahim B. Babangida regime.

Special projects were also embarked upon to enhance agricultural production such as World Bank assisted Agricultural Development Projects, river Basin and Rural Development Authorities to mention a few.

Mass enlightenment campaign, introduction of technology package and provision of fertilizers and improved seedlings to farmers were also some of the attempts made to raising agricultural production. In addition, various measures are being implemented by both the Federal and State Government to enhance agricultural productivity.

Inspite of all these laudable attempts, agricultural production, in Nigeria has remained inadequate in meeting the food requirements of the Nation.

Inspite of all these laudable attempts, agriculture production, in Nigeria has remained inadequate in meeting the food requirements of the Nations.

1.2 STATEMENT OF THE PROBLEM

One of the major constrain identified as confronting higher agricultural productivity is inadequate capital and credit facilities to farmers.

And in order to ameliorate the funding problems being encountered by farmers, the government directed all the financial institutions, through the Central Bank of Nigeria, to

allocate yearly, a certain percentage of their total lending to the agricultural sector.

This attempt at sectoral allocation failed to achieve the desired objective as trading banks were reluctant to lend to agriculture because of the high rate of defaults resulting from the uncertainty and task inherent in agricultural production and marketing. The farmers are also confronted with inability to provide the needed collateral securities.

To stem this tide of dearth of loans to farmers, the government took a major step by introducing the Agricultural Credit Guarantee Scheme Fund by Decree No. 20 of 1977, to shoulder 75 per cent of risk default by farmers. The Decree provides for a fund of ₦160 million, subscribed to by the Federal Government (60 per cent) and the Central Bank of Nigeria (40 per cent).

Since the inception of the fund, the Central Bank of Nigeria through the Agricultural Finance Department has been its Managing Agent.

There is also the dual problem of Moratorium on agricultural loans and interest rates on such loans. The former is predicated on the need to make loan repayment easy for farmer-borrowers, while the latter is on lending to farmers at concessionary rates.

Therefore, the problem facing agricultural production either as a foreign exchange earner and more importantly as a subsistent means of feeding the teaming population of this country should engage the attention of all and sundry. "A nation that can not afford to feed itself and has to rely on importation (more so in the era of scarce foreign exchange) is on a suicidal route".[3]

1.3 OBJECTIVE OF THE STUDY

Agricultural credit to farmers is an important instrument in improving farm productivity and marketing. Therefore, the major theme of this study is the evaluation of the role of Central Bank of Nigeria in credit supply for agricultural purposes.

However, specific objectives of the study include:

1. To show the extent to which the Central Bank has played a significant role towards influencing agricultural credit purveyance through its monetary policies over the years.
2. To examine the implications of each of these instruments.
3. To identify the problems hindering the achievement of desired objectives of the Central Bank within the stated period.
4. To recommend solutions were possible to some of the problem faced by both farmer and institutions providing the credits.

1.4 JUSTIFICATION OF THE STUDY

Recent development efforts in low-income countries and Nigeria in particular, have emphasized agricultural production. A number of techniques have been included in these efforts but one of the most common project elements used has been agricultural credits. As with most development efforts, some of these have worked reasonably well, but many have not. A few agricultural credit programmed have not expanded past the pilot-project phase, many have run into serious loan repayment problems and still others ultimately have served people not included in the original target group. All too many of these programmes go through life cycles in which they rapidly expand later, these subsidies are reduced or eliminated and finally the schemes run into financial difficulties.

The Central Bank of Nigeria, has been playing a motivating role in all politics and strategies aimed at rejuvenating agriculture; but I hasten to say that the Bank is not alone in this role as both the Federal, State and Local Governments as well as are international organisations have been playing complementary roles.

"Inspite of these financing measures in Nigeria, the contribution of agriculture to the National development has not been encouraging because of the continuing apathy of financial institutions in giving loans to agricultural ventures. Agriculture which used to be a dominant sector in terms of its contribution to gross domestic product in the 60's is currently the least contribution to Nigerian economic development."[4]

1.5 SCOPE OF THE STUDY

In this study, emphasis is placed on appraising the various policy instruments used by the

Central Bank of Nigeria towards enhancing increased credit supply to the agricultural sector from 1980 to 1990.

These instruments in the order in which they are examined are the sectoral prescription, direct financing of agricultural marketing. The Agricultural Credit Guarantee Scheme Fund, Moratorium on agricultural loans, concessionary interest rates, the Rural banking and lending programmes.

This study is therefore; divided into five chapters. Chapter one states the general background of the study, statement of the problems, objectives justification and scope of the study. It also includes the research methodology and limitations of the study.

Chapter two reviews related literature on agricultural credit while chapter three examines the operating roles and regulations of the central Bank of Nigeria.

Chapter four evaluates the role of the Central Bank of Nigeria in enhancing credit supply to the agricultural sector.- Summary, Conclusion and recommendations are the thrust of chapter five.

1.6 LIMITATIONS OF THE STUDY

It will be naive to assume that a study such as this is devoid of problems and or limitations. The major constraints were therefore.

1. The exorbitant and almost prohibitive cost of travelling to Lagos for data gathering at the central Bank headquarters.
2. The security arrangement at the CBN's Office which prevented me from having exhaustive discussion with personnel of the Agriculture finance Department.

3. There was also a problem of collating data from the Annual Reports of the C.B.N. with the period reviewed.

All these limitations have in one way or the other affected the final result of this study. Therefore, any conclusions (s) that might be drawn or opinion expressed about the final outcome of this study should take into cognisance these constraints.

1.7 RESEARCH METHODOLOGY

The case study method of research is used in this study; as involves examining the trend of events overtime. Here, it is used in appraising the role of the Central Bank of Nigeria in credit supply to agriculture from 1980 to 1990.

SOURCES OF DATA:

The study made extensive use of secondary data. The main source of data is Research Department, Central Bank of Nigeria (CBN), Lagos. Other sources of secondary data include CBN's Annual Reports and Statement of Accounts (various issues), CBN's Economic and Financial Reviews (various issues), Journals, Newspapers, Bullions of the CBN and unpublished works.

1.8 FOOTNOTES

1. Business Concord of Tuesday October 1, 1991 on Nigeria Growing Food Insecurity by Dr. Emmanuel Onuecheyo.

2. Olaloku, et al: Structure of Nigerian Economy. Macmillan publishers, 1984 Page19.

3. Gbola Bola - Central Bank of Nigeria Bullion Vol. 9 No.4 of Oct/Dec. 1985 Page 2.

4. Business Times, Monday December 31, 1980 on Financing Agriculture Investment by Olademiji Akinwumi.

CHAPTER TWO

LITERATURE REVIEW

2.1 DEFINITION OF AGRICULTURAL CREDIT

According to Baker (1968), "Credit is an asset or a financial reserve, and loan is any portion of this that is used and on which the user incures an interest charge."

Abe (1981), also defined agricultural credit as "that which encompasses all loans and advances granted to borrowers whether beneficiaries of agricultural reforms or some other one to finance and service production activities relating to agriculture, fisheries, and forestry and also for processing, marketing, storage and distribution of products resulting from these activities.

However, for small scale farm operators in Nigeria, it is not uncommon for all approved credits to be fully disbursed, thus equating credit and loan. The few exceptions are in large-scale agricultural projects where approved credits are of large sizes and are therefore drawn-down in tranches of loans.

It is pertinent to note that agriculture itself is no longer a homogenous industry, as it is made up of several distinct groups with unique characteristics. Nigerian farming, though still far from the level attained in developed countries, is gradually assuming modern characteristics. Whether the farmer is an individual or a family unit or a cooperative group or "suitcase" farmers, the types of finances required are conditioned by certain factors, some of them are:

(I) Identification and accessibility to appropriate finance;

(ii) Availability of loanable funds from the identified source;

(iii) Satisfaction by the borrowing farmer of the lender's criteria which are noted in sound principles of lending, and

(iv) Accommodation of such credits within the law of the land and in accordance with the economic political, monetary, fiscal and social policies of the government.

2.2 TYPES OF AGRICULTURAL CREDIT

There is a general consensus in the literature that agricultural credit can be divided into three categories as follows:

1. Short Term Finance:- This required to cover annual (seasonal) working capital needs for growing crops, wages, purchase of feeders and other short-term assets that are completely used up during production.

2. Medium-Term Finance:- This consists of funds tied up from two to five years in assets that are eventually used up in the production process. These assets are partly fixed like vehicles, tractors and growing of livestock.

3. Long-Term Finance:- This is usually required to finance fixed assets such as land, land rights, construction of farm buildings, purchase of machinery, plants and equipments, etc. for developmental purpose. The period normally range as from ten years upward.

The above classification is based on the usage and duration of the credit. However, makings (1987)3, while accepting the above categorization as tenable, based his on the

type of farmer using the loan. According to him there are distinct categories of need in agriculture for which credit is required. These are:

1. Emergent farmer credit
2. Commercial farmer credit
3. Group development credit.

Emergent farmers are those land users who are little more than subsistence producers seeking to establish a foothold in the market economy. They constitute a majority of the farming population.

Commercial farmers, on the other hand, are the important but smaller class. Lastly, group development credit is an essential category of need for use at the group or community level.

2.3 SOURCES OF AGRICULTURAL CREDIT

There are a variety of sources of funds for agricultural purposes, which some analysts have classified in a number of ways formal and informal; non-institutional and institutional; private and public; internal and external, etc. These classifications are based on certain features.

But when we talk of institutional vis-à-vis non-institutional sources of funds, we are trying to draw a line between funds obtained from banks and non-bank government sponsored agencies and those obtained from unorganised private money lenders/unrecognised groups on the other.

Also, classification of fund sources into internal and external implies distinguishing

between funds provided by sponsors of a project and unallocated funds (re-invested funds) generated by the project from previous operations on one hand, and funds sourced from outside the project on the other hand.

In Nigeria, one can identify four broad categories- of bank that are involved directly or indirectly in providing credit to farmers; they are

(I) The Central Bank of Nigeria which by its peculiarities is unique, being also the apex of Nigerian banking system,

(ii) The commercial banks which supply a substantial portion of total agricultural credit in the economy; especially on short and medium-terms,

(iii) The merchant banks which are required to give medium to long-term credits to Nigerian farmers,

(iv) The Development banks which are specialised financial institutions expected to play significant roles by their long-term financing of agro-allied industries. The Nigerian Agricultural Development Bank (NACB) is entirely required to finance farmers directly or through other bodies all over the country.

It is also important to note the role played by foreign institutional sources, notably International Bank for Reconstruction and Development (IBRD) otherwise known as the World Bank. Its mode of operation is to extend lines of credit to national governments for the purpose of financing development projects thus sparing itself the task of dealing directly with numerous investors. In this way the bank has made substantial loans to the Federal and State Governments for Agricultural Development projects in which a large

number of Nigerian rural dwellers are actively engaged.

2.4 ROLE OF AGRICULTURAL CREDIT

Although there are divergent views as to the exact causes of the poor state of the sector, various scholars seem to have arrived at a consensus that the potent factor that has tended to inhibit any meaningful improvement is the inadequacy of credit facilities. Because modern agriculture apart from being capital-intensive and mechanised, is also carried out on a large scale basis.

Given the predominantly subsistent nature of the sector, the average agriculturist relies mainly on his own capital or and borrowings from friends, local money lenders and traders, which apart from their inadequacy carry with them exorbitant interest charges.

Miller (1954), observed that "lack of credit is generally recognised as an important constraint in expanding food production and modernising agriculture. Adopting new technology he believed ordinarily requires the use of some inputs which are not available on the farms and hence must be purchased from others.

Thus, while lack of credit may not prevent the adoption of new technology by some financially abled individuals and organisations, experience in Nigeria and elsewhere has demonstrated that unless agricultural credit is made available on suitable terms, majority of small scale farmers will be seriously handicapped. And it is to Millions of small-scale farmers and not large producers that Nigeria must look for most of its expanded food production.

The Food and Agricultural Organisation (FAO) 1965 asserts that "agricultural credit make

a substantial contribution to the increase in agricultural production, and ultimately to raising the standard of living of the rural population, in as much as it provides the farmer with a means of improving his land, of using modern tools and machinery, and of introducing better methods of cultivation.

One can therefore sum-up the assumptions behind conventional credit programme as being:

(I) That farmers need credit to adopt new technology.

(ii) That they cannot get credit economically (if at all) from unscheduled private sources outside the programme.

(iii) That the provision of credit breaks the most important constraint of small farmers' progress.

Infact, many research studies have demonstrated the potential effect of increased level of capital in agricultural production, (example, Ogun forwara, 1972). They tend to show that "when increased capital base is combined with improved technology, greater opportunities exist for larger volume of production and higher levels of farm income.

The purpose of agricultural credit, as already noted, is to enable the farmer to purchase productive equipment and supplies. Credit is therefore less important to agricultural development that the ready availability of such supplies and equipments at convenient markets. But where these productive supplies and equipments are readily available, and farmers have facilities for learning how to use them, production credit can accelerate the adoption of improved techniques.

It is pertinent, however, to warn against the dangerous tendency to overrate the importance of agricultural credit as if it were a panacea to low productivity. FAO, (1965) observed that "Agricultural credit is only one of the many factors playing a part in the complicated process of stepping up agricultural production. It is stressed that far from being a panacea, credit is not even the harmless patent medicine which it is often thought to be.

For agricultural credit to perform its functional role of raising farm productivity, it has to be properly utilised and this is dependent on the provision of certain pre-conditions among which are extension service, technology and education and training. The FAO (1965)[8] summaries these prerequisites necessary for successful implementation of agricultural credit as follows:

(I) The existence of adequate and efficient socio-economic planning and the desire of all parties and groups concerned to implement it. Effective planning presupposes the existence of adequate statistical material and an effective administration at all levels.

(ii) An adequate rural infrastructure (roads, rail-roads, storage, etc.)

(iii) An efficient system for stabilising fluctuations in prices for agricultural produce.

(iv) A proper system of land tenure.

(v) Adequate and effective arrangements for marketing and supply.

(vi) A well-organised and satisfactorily operated agricultural extension service, and

(vii) Continuity in government policies.

Invariably, agricultural credit schemes are like any other economic venture and from that

perspective it is important that it has to balance its total costs against total returns. In other words, the need for adequate feasibility studies and investment appraisal is imperative if the success of the credit programme which depends on the success of the individual farms is envisage.

Technology:

Agricultural credit will be ineffective without a technology that is profitable . Technology in farming implies the way things are done i.e. a given set of inputs of factors of production. Thus, traditional technology means the particular way the traditional inputs of land, labor, seeds, organic fertilisers, land implements, oxen, e t c. are combined and used. On the other hand, 'new technology' refers to a new set of inputs or factors of production which are different and often better than the traditional set.

Some studies [Miller, 1966, Meyer et al, 1972] have concluded that it is not profitable to further expand the use of traditional technology through credit. This is primarily due to the very low production functions that exist for traditional practices. It is thus argued that further expansion of the traditional technology will not increase the small farmers' net income commensurate with the added costs and risks involved in borrowing capital to finance such expansion. Thus, emphasis is supposed to be on relevant and viable new technology.

It is, however, presumptuous to say that new technology is available or can be readily available desired. Even when it is available, it may not be profitable having not been tested and adapted under conditions similar to those faced by Nigerian farmers.

Therefore, it should not be surprising to find slower rate or adoption of new technique less profitable. Another cause for non-adoption could be the unavailability of technical and economic information as was the case when Nitrogenous fertilizers were introduced in the early 1960s in Nigeria [Bamman, et al 1966].

In conclusion, one can say that when a new technology is available and has been understood by farmers, perceived appropriate and most importantly proved profitable in their situation, then credit requirement assumes importance. In this circumstance, the lack of capital and credit pose a serious limitation to the adoption of the new technology.

Extension Services;

Agricultural extension could be seen as the mechanism by which the new technology is developed, modified, carried and translated to the farmer in coordination with the provision of credit when needed. 'Agricultural extension has the log long term objective of securing improvements in the efficiency of the production and distribution of all food and agricultural products, bettering the conditions of the rural populations and, thus playing the central role of raising standards of living and the level of the national economy.'[9]

Extension credit and other relevant services all aim at one particular purpose; to help the farmers increase their production and income in order to improve their living standards. Therefore, the approach to a successful credit programme aimed at attaining the above objective should be integrated with the provision of extension services to farmers.

FAO [1965] believes that to have an adequate impact on agricultural production, the provision of credit should be accompanied by, and coordinated with, sufficient of technical advice. Particularly in the early stages of agricultural development, supervised credit, to be understood here in the sense of a well-balanced mixture of credit proper and extension education, should compensate for the greater part of extension education.

Belshaw [1959] says that 'supervised credit is a technical term to describe a particular system or credit provision aiming at improving both production family living which coordinates credit provision with extension services and aims at effective supervision, but usually goes further, for example, in making improved provision for marketing and other auxiliary services."[10]

Stressing the importance of the complimentary role of extension to agricultural credit, Johnson [1982] states that 'no agricultural credit programme can be effective unless it is combined with satisfactory extension services and other forms of support .... Production credit given together with technical advice and help is called 'supervised credit.'[11]

In spite of this complementary nature of credit and extension service, FAO (1965) notes that little initiative has been shown from the side of agricultural credit institutions, or from that of extension services, to bring about the essential coordination between credit and extension educations. It warns that expansion of agricultural credit institutions, or that of extension services, to bring about the essential coordination between credit and extension education. It warns that expansion of agricultural credit without the provision

of an adequate amount of extension education is a medicine which may be worse than the disease. It concludes that agricultural extension, in its way, exercise in the rural areas of developed countries when a high level of education and `know-how' is needed. But in the newly developing countries, they should be properly coordinated, so as to render credit and effective instruments for promoting economic and social progress.

2.5 PROBLEMS IN AGRICULTURAL CREDIT

The agriculture credit system is generally faced by some organisational and operational problems which include the following:

1. Structural:

This has two aspect namely,

a) Bureaucracy and b) top-down implementation.

(a) Bureaucracy:- There is excess paper work one hand multiple levels of decision - making on other hand before credits are granted. Any unnecessary diffusion of decision - making process definitely leads to insufficiency, creates room for abuse and political meddling in purposes and procedures of the agricultural credit system.

(b) Top-down Implementation System: Usually Boards and committees of the institutions set the policies. Hardly, then, are clients represented in theses committees. One adverse effect of the `top-down' implementation of the credit programme so that the institutions' employees look up to the top of for support and reward rather than on the clientele for services.

2. Loan Supply Shortages:

One major defect in the credit programme of most developing countries and Nigeria in particular is the inability of organisations to meet all or a significant proportion of the credit needs of farmers.

This even calls to question the arbitrary manner in which amounts applied for are cut and approved by lending institutions without thorough assessment and appraisal of the implication of such actions on the cashflow position and subsequent viability of the project.

3. Personnel:

In Nigeria little time and money is spent to train specialist to run an efficient credit programmes. In most cases, top officials are appointed on ethnic, religious and other parochial considerations. Ugoh (1977) in the criticism of the approach where people without the requisite expertise are posted to manage these institutions stated that a successful civil servant is one who can muster the good reasons why no action should be taken on a matter.

4. Poor Supervision of Loans:

There are instances where the credit institutions do not provide complementary input and or supervision - (in the form of farm input, technical assistance and supervision itself). Extension workers are supposed to supervise the introduction of innovations to farmers as well as monitor and evaluate credit programmes on a continuous basis. But there has

been lack of interest, poor supervision and unsatisfactory record keeping of the detailed information on loan beneficiaries. These retard the efficient and effective operation of agricultural credit system.

The extension workers are not entirely to be blamed. Lack of funds and inadequate facilities which have become prevalent in recent times, have tended to constrain the performance of these task are expected.

5. Delay in Time of Loan Delivery:

Timelessness of loan disbursement is very vital in farming, since most farm operations are seasonal and time specific (such as planting, weeding, harvesting) labour inputs have to be paid - for promptly. But what is obtainable in practice is that it takes a longer time for funds to be released to users even where they have been approved accordingly. This suggests that timeliness of loan delivery may facilitate proper utilisation and thus enhance repayment of such loans.

6. Cost of Credit:

The cost of providing credit is measured by the interest rate charged. Adelegey et al (1982), contended that "the cost of providing credits which is measured by interest rate, is therefore not only the basic cost of capital (i.e. The next best use of money) but also the cost of supervising the loan (administrative charge) and a risk premium for the possibility of default in repayment as well as a charge for possible inflation [12] All these contribute to make the cost of institutional lending quite high as charging interest rates below that needed to cover the cost of lending means subsidization which few less-developed

countries, in reality, can afford.

7. Defaults:

In Loan Payment:

Loan default can be defined as, "The inability of a borrower to fulfil his or her own loan obligation as and when due. An over-due loan obligation usually includes that part of the principal (unpaid) and accrued interest payment stipulated in the loan agreement schedules which were entered into during loan negotiations".[13]

Various factors have been identified as major determinants of loans delinquency. Empirical evidence from Okorie (1986), showed that "the nature, time of disbursement, supervision and profitability of enterprises which benefited from such loans....., contributed to the payment ability and consequent default rates"[14]

Sacay (1985), identified some mutually related factors which influence loans delinquency in farmers credit programmes to include "low income, due to poor prices, which might in-turn be related to misuse of loan proceeds, lack of technical supervision, inefficient government policies and small size farms".[15] In particular, Sacay identified sheer poverty due to poor farm incomes as being the primary root of delinquency and that the level of indebtedness, misallocation of loans, low sales proceeds, low educational attainment, misallocation of loans, low sales proceeds, low educational attainment and tenurial status might be associated with the low level of incomes. Sacay's study also showed that "about 30 per cent of farmers surveyed, for example, admitted using the loans for family expenses and only 41 per cent of the 71 per cent of those who reported applying the size,

costs, yields, other family expenses and creditworthiness."16

In all, high default rates in credit programmes should be a major concern of policy makers in developing countries, and Nigeria in particular. This is because of its unintended negative impact on agricultural financing and out-put. According to Von Pischke (1980), some default include, "inability to recycle funds to other borrowers; detriment of other financial intermediaries from serving the needs of farmers, and the creation of distrust."17

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CHAPTER THREE

THE ESTABLISHMENT AND OBJECTIVE OF THE CENTRAL BANK OF NIGERIA

3.1 INTRODUCTION

Mr. Loyne's recommendation in the establishment of the CBN in 1958 by the Central Bank Ordinance of that year. The CBN effectively came into existence and commenced operations on July, 1, 1959.

The background to the establishment of the CBN lies in the characteristics and deficiencies of the monetary system (the WEST AFRICAN MONETARY SYSTEM - WACB), which preceded it. WACB was itself charged with four main functions; the issue of West African Currency; repatriation of existing currencies; and the investment of its reserves.

WACB religiously discharged these functions. In the process, however, it was characterised by three elements; fixed parity of local currency with the sterling; automatic issues; and 100 per cent sterling coverage.

The defect of WACB were; that the currency which it issued was not an independent currency unit - "it was essentially no more than an expatriate sterling, a dependent currency, in all but name and form the British pound. In particular, the system was operationally rigid and institutionally limited. Rigidly was the inevitable outcome of full

coverage and automatic parity with sterling".1

Other shortcomings of WACB as observed by the World Bank Mission in the latter's recommendation for the establishment of a State Bank in Nigeria were that "it did not train Africans in the art of monetary management or to develop indigenous banking and other financial institutions".2 Invariably, early banking habit and system in the country were not developed.

Finally, there were no money and capital markets in the country - because WACB invested all its reserves in sterling overseas in London, even where there were no legal obligations to do so. The result was that no Local investment outlets were developed.

It is pertinent to note the fact that in the evolution and establishment of Central Banks, it *is not economics but nationalism and politics which has usually been the major* determinants. This evident in the establishment of the mother of Central Banks, the Bank of England and the history of Central banking in United States. "The Bank in England, for instance, was established to provide machinery to enable william III to wage the European ware successfully in circumstance when private individuals refused to continue lending to a defaulting crown".3

African is no exception, as Central banks were demanded by nationalist as a brake on the monopoly power of commercial and expatriate banks, and as an escape from domination of foreign money markets and from the rigidly and automatism of the currency board money system.

In Nigeria, the opening shot was fired and the ball set rolling in the private member

motion of 1952. Fisher was kicking against the goads when he vehemently opposed its recommendation by briskly asserting its negativity. It was predominantly on nationalistic ground that the world bank supported the proposal; and by the time loynes was invited, the decision to establish the Central Bank of Nigeria had already been taken by at Federal Cabinet which had just won internal autonomy in 1957.

It is therefore significant to note that Mr. Loynes unlike Mr. Fisher never had a choice; as he was significantly required to consider the desirability and advisability of establishing a Central Bank in Nigeria. Loynes reported in 1958, the ordinance of that year established the CBN and it started operations on 1st July, 1959.

OBJECTIVES

Under the 1958 Ordinance, the CBN had an authorised capital of ₦5 million, which was fully paid-up by the Federal Government of Nigeria. This was in accordance with the provision of the ordinance which stipulated that "all the paid-up capital shall be subscribed and held only be the Federal Government".[4] There is thus no provision for the participation of State Governments or that of the private sector in the ownership of the Bank.

As a publicly owned institution, the CBN was not expected to be governed primarily by profit motivation in the discharge of its duties. Overall public interest was to be the primary consideration. But it was not expected to run at a loss either. Indeed, it was expected to run to a profit from which it was to meet all its current expenditure plus provision for bad and doubtful debts, depreciation and other contingencies. The balance

would therefore be the net profit of its operation; from where a reserve fund is maintained.

Section 4 of the 1958 ordinance spelt out the principal objectives of the Bank as follows;

1. To issue legal tender currency in Nigeria;
2. To maintain reserves in order to safeguard the international value of the currency;
3. To promote monetary stability and a sound financial structure in Nigeria; and
4. To act as banker and financial adviser to the Federal Government.

These objectives have remained unchanged in all later statutes of the bank. And all but the last one-acting as banker and financial adviser to the Federal Government, were essentially the functions and objectives of WACB which the CBN replaced.

It should be noted too that all these objectives remained very limited in scope. They do not, for instance, include the more important functions of a modern central bank such as;

1. The organisation and provision of development finance;
2. The development and control of the financial system;
3. The development of research and procurement of monetary data and statistics on the economy;
4. Acting as an agent of the government.

Although these objectives may be subsumed under the third objective above - the promotion of monetary stability and a sound financial structure in Nigeria, there is

evidence to show that the failure to mention them specifically was deliberate. This is because of the prejudices and misconceptions against central banks in developing economies by the then colonial masters.

It is however, necessary to mention that although the promotional and developmental roles of the CBN were not spelled out in the statutory objectives, it does not mean that they were not implied or that the CBN, when finally established, was oblivious of these roles.

Indeed, a more meaningful understanding of the objectives of the CBN, like any central bank, must go further than the statute and look at its interpretation and application.

3.2 ORGANIZATION AND MANAGEMENT OF THE BANK

On inception, the Bank had a board or seven members; the Governor, Deputy Governor and five part-time Directors. But when it was reconstituted in 1988 its membership increased to ten: the Governor, four Deputy Governors and five part-time Directors with a Secretary.

THE MANAGEMENT OF THE BANK

The management of the Bank is the responsibility of the Board of Directors, the Executive Committee and the Governor's Committee.

The Board is statutorily charged with the responsibility for the policy and general administration of the affairs of the Bank. The Board lays down the broad outlines of policy: These include:

1. Consideration of the monetary policy and the formulation and execution of

the credit policy of the Bank;

2. Fixing the rate(s) of discount(s) and the rate(s) or interest on advances to the government and to other customers of the Bank;
3. Determining the rate of exchange at which the Bank shall buy and sell foreign currencies under sections 28 and 29 of the Act;
4. The establishment and closing of Bank branches; and
5. The appointment of currency agents, auditors and officials and other employees.

The actual policy formulation, is however, done by the Executive Committee. This is made up of the Governor who is the Chief Executive of the Bank and the four Deputy Governors and five other Directors. For this purpose, the Bank is divided into three broad divisions; Monetary and Banking operations, Operations and Staff services.

More fundamentally policy decisions or issues are examined again at the Governor's Committee. This Committee is made up of the Governor and his four Deputies. This affords the Committee an opportunity to have second look at the major issues arising from the Executive Committee and even fresh issues may be raised. And as with the Executive Committee, policy decisions that do not require special approval by the Board are passed down for implementation in the divisions and departments, while broad policy issues are tabled for discussion and approval of Board of Directors. Decisions of the Board, to the extent that they are within its jurisdiction, become binding on management for implementation.

While the channel of communication is from the Departmental Director to the Executive Director to the Executive Committee and from there to the Board of Directors via the Governor's Committee, policy proposals can and do emanate from any section of management or from the Board.

THE OPERATIONS OF THE BANK

While the Board lays down the broad outline of policy, the day-to-day operations of the Bank rests with the Executive Committee. The Governor and, in his absence, any of the Deputy Governors, has the overall responsibility as the Chief Executive but actual operations are the responsibility of the Executive Directors, and through them the Department Directors. For this purpose figure (I) shows the organizational chart of the Bank.

The Bank is divided into three main divisions and departments. Each division is headed by an Executive Director and each department by a Director.

One division is monetary and Banking policy. This comprises two departments - Research and Banking Supervision. The first has responsibilities for research and collation of national and international financial data with continuous systems analysis to provide information for management and policy decisions on which the Bank's advisory functions depend. It monitors the progress of national and international economic developments and liases very closely for this purpose with financial institutions in Nigeria and abroad, including international financial institutions such as IMF, IBRD and ADB and many foreign central banks.

Under the Central Bank Act, 1958, the CBN was given powers to supervise and control the operations of all banks in the country. The Bank Examination Department discharges this responsibility for the Bank. It undertakes periodic examination of the books and supervision of the banks to ensure to compliance with the law and acceptable principles of sound banking. It monitors the adherence of banks to the guidelines set by the CBN; especially to minimise malpractices in the industry.

The second division is operations. This comprises foreign operations, exchange control, domestic operations and agricultural credit; which perform assigned duties accordingly. The Agriculture Credit Department, for instance, was created in 1977 in recognition of the increasing role of the Bank in agricultural development. It manages the ACGSF, which was established in 1977 by the Federal Government and the Bank with a capital of N100 million to guarantee up to 75% loans given by any bank to farmers and corporate institutions for agricultural a purposes.

Management and Staff services Division performs a purely administrative function. This consist of four departments; Financial System and Control, Personnel, Administration and Governor's office. The Financial Systems Department is in charge of introducing Computer facilities covering pay roll. Research, Exchange Control, Ledgers and Public Debt. While the Personnel Department undertakes recruitment, training, personnel, administration and development and the Department of Administration is in charge of security, maintenance and services and premises and supply, the Governor's office has Internal Audit Division, the secretary and Legal offices that provide services directly to

management.

3.3 FUNCTIONS OF THE CENTRAL BANK OF NIGERIA

The CBN performs all function which Central Banks normally perform. The functions are set out in the Bank's statue and can be classified under two main headings: The traditional functions and the developmental functions.

(a) Traditional functions:

The traditional function of CBN can further be classified into three main headings; The inside function, The outside function and Monetary policy functions. The first aspect covers the traditional functions which the Bank performs outside the commercial banking system, while outside functions cover those carried out within the commercial banking sector. Monetary policy functions are those wnich CBN performs as the Chief executive in the Monetary field of the current economic policy of the government.

It is pertinent to state that this classification is merely for analytical convenience. This is because CBN, as the apex bank in the financial system, affects the monetary unit in all its operations and therefore affects every part of the economy. It is therefore not possible to draw a clear out line of demarcation between the Bank's outside, inside and monetary policies.

The Outside functions: The five aspects of this functions are; banking, advisory, agency, financial and promotional.

As a banking institution, the CBN is the sole issuer of the Naira currency and the banker to the Federal Government, and at its discretion, to the State governments. It is also a

banker to commercial banks for whom it acts as a lender of last resort and runs a cheque clearing system. It is a banker to foreign central banks and international monetary institutions with respect to their official transaction within the country.

CBN is also acting as the financial adviser to the Federal Government. Through its various contacts with the economy generally, the financial system in particular and international monetary institutions at large, the Bank acquires much expertise and reinforces its competence and experience to fore such advise, particularly with respect to economic development, the control of inflation and exchange rate control, etc. The most direct way in which the Bank offers its advice to the Government is through the Bank's monetary proposals during the preparation of Annual budgets.

The CBN is an agent of the Federal Government. In this capacity, it administers the foreign exchange control regulations, manages the nation's debt, and is the chief executant of monetary policy. Also, in some of the Government's dealing with the international financial institutions such as the IBRD, IMF, etc. CBN acts as the Government agent.

Another function of the Central Bank of Nigeria is development finance. Inspite what orthodox central bankers may say, it is certainly erroneous to argue that the CBN can not create savings or promote the flow of savings which are essential for development capital. Some central banks have done so by providing and ensuring an environment conducive for effective savings and investments. In whatever form, the general principles has been that a central bank should be prepared to fill in whatever gaps existing in the financial

system.

It is suffice to state that the CBN provides and mobilises development finances for the public and private sectors, by issuing and underwriting government stocks, borrowing from the money markets through call money funds and special deposits - which are then lent to the government through Treasury Bills or Treasury Certificates.

Finally, the CBN has a promotional function through the establishment of the money and capital markets, the Rural banking scheme, Peoples Bank, and the Community banking programmes to mention a few.

The Inside Function:- These roles which CBN performs specifically to commercial banks can also be subdivided into; regulatory, promotional, financial and discreational functions.

Commercial banking, especially indigenous banking was in a chaotic state for more than a decade before the CBN was established in 1959. It became inevitable that the first task confronting the Bank was the regulation of the banking system. This ithas continued to do through banking legislation, examination and supervision - all with the intention of eradicating malpractices in the banking system and to improve the banking system as a whole.

Building on the foundation laid in the banking ordinance of 1952 and 1958, the CBN has since proposed amendments enshrined in the 1961 and 1969 banking acts or decrees. These provided for minimum capital and licensing requirements. Currently, the minimum capital is ₦30 million for a commercial bank and ₦50 million for a merchant bank.

The legislature also requires all banks to maintain a liquidity rate of 30% of their liquid assets with CBN in 1989. "Furthermore, for instance, to strengthen the capital bases of banks, capital fund ratio was reviewed up from 1:12 to 1:10 in 1990. In addition, by May 1989, the Federal Government transferred all government accounts and Those of parastatals from Merchant and Commercial Banks". 5

While the regulatory role in primarily to make the banks behave and conform to sound banking principles, the promotional role facilitates compliance. Methods used include: the provision of local investment outlets in the money market assets such as unit Trust Fund, and the promotion of banking habit by insisting and authorising branch expansion, the establishment of new bank, etc.

The financial role on the other hand, relates to CBN's function in the provision of tender - of last - resort facilities to banks in difficulties, rediscount and refinance facilities and consortia finance arrangement. For example, (Okeya 1991) stated that during the mopping-up exercise carried out between 1989/90, "about ten banks were granted accommodation by the NDIC/CBN up to the tune of ₦2.5 billion. The facility however, enabled the banks to regularise their accounts with the CBN".6

(b) The CBN's Monetary Policy Functions:

Although the statue charges the CBN with the responsibility for formulating and executing monetary policy, there is no single document which stipulates what have come to be called CBN's monetary policy.

In general, however, the policies pursued by the CBN can be said to be said to be geared

towards the attainment of five national goals enunciated in the second, third and fourth National Development plans. There are "to establish Nigeria firmly as a united strong and self-reliant nation, a great dynamic economy, a just and egalitarian society, a land of bright and full opportunities for all citizens and a free and democratic soceity".7

In other to achieve the above five national long-term objectives, seven short-term objectives were prescribed thus: Increase in per capital income; more even distribution of income; reduction in the level of unemployment; increase in the supply of high level manpower; diversification of economy; balanced development; and indigenization of economy.

In pursuance of the above, the CBN formulated the below three-point monetary plan:

1. Maintenance of confidence in the Nigerian currency and the maintenance of reasonable stability in wages and prices;
2. Support for increasing levels of agricultural and industries output;
3. Provision and organisation of development finance.

Although, some achievement have been recorded in areas of credit and monetary management, for instance the disappearance of the excess liquidity position in the financial system, monetary and credit policy nevertheless remained impotent. Even in conjunction with fiscal measures, policy objective still remained unachieved.

3.4 CRITICAL EXAMINATION OF THE DEVELOPMENT FUNCTION AND OPERATIONS

Understand the evolution of the development functions and operations of the Bank, it is necessary to consider the financial system of the country before the CBN was established. For one there was absence of an independent currency and machinery for monetary management in the country. The currency then was that issued by WACB, which acted as the monetary authority in Nigeria.

There was also an absence of any dynamic banking policy and banking legislation. The 1952 Ordinance was concerned primarily with ensuring reasonable operations by the commercial banks. While as the second National Development Plan highlighted, "the banking policy of the government up to 1952 was either non-existent or bordered on extreme laisses-faire". 8

The third feature of the Nigerian financial system on the eve of the establishment of the Central Bank of Nigeria was domination by expatriate banks. By this it is meant that the banking system was predominantly foreign owned and controlled. Furthermore, the operations of these bank were governed by financial conditions and interest rate structures outside the country. Little or no cognition was given to financial and economic condition in Nigeria.

Another feature was that, apart from unsatisfactory interbank arrangement outlets were almost non-existent. Accordingly, funds in excess of immediate requirements in Nigeria were expatriated for investment overseas. A corollary to this practice was the absence of any effective machinery for mobilising development finance both for the Government and the private sector. There were therefore no stock exchange and no development banking institutions.

Invariably, there was also the absence of a developed banking habit. There were too few banks and very few offices, all of which were localised in the capital cities, while the hinterland was characterised by the absence of banking facilities.

Finally, bank credit was inaccessible to a large mass of indigenous Nigerians and their businesses. Infact, even the operating criteria for provision of bank credit appeared to discriminate against indigenous customers and interests.

OBJECTIVES OF BANKING POLICY

It is against the above background that the banking policies of the monetary authorities were formulated and were aimed at developing the financial system and eradicating the defects in the WACB currency system.

Specifically, the objectives could be summarised to include the following:

1. Securing an independent, indigenous and stable currency with an adequate international reputation;
2. Providing effective machinery for monetary management and for the regulation and development of the financial system.

3. Localization of the credit base to take into account the Nigerian environment;

4. Ensuring a system of allocation of bank credit to all sectors of the economy;

5. Speeding of indigenisation of the economy;

6. Provision of development finance for government and private sector;

7. Development of banking habit;

8. Eradication of malpractices in Nigerian banking system

9. Mobilisation of domestic savings; and

10. Offering leadership in training and manpower development in the banking industry.

IMPLEMENTATION OF THE DEVELOPMENT OBJECTIVES

The overriding preoccupation of the CBN during its early stage of operation was securing and independent and indigenous currency for the country. And an important aspect of this was the decimatisation of the currency with the Naira as a major unit and the kobo as the minor unit. This replaced the Nigerian pound which had denominations of pound, shilling and penny. The exercise was aimed at achieving the following:

1. "Harmonise the currency system with those of the majority of the currencies; and

2. Derive the benefits associated with the decimal currency system. These include simplifying trade transactions, increased access to wider, and hence relatively cheaper, range of the office machine and equipment, and arithmetical simplicity in monetary and related calculations".9

This independence of currency enabled the CBN to refuse "to devalue the Naira

following the devaluation of the pound sterling in 1967"11 The fact is that there was no internal reasons within the Nigerian financial system for such a devaluation. But in 1973, the Naira was devalued by 10 per cent in February 1973. As the CBN itself categorically stated: "The Federal Government decided to devalue the Naira in order to present the currency's import bills from rising to unmanageable proportions, to ensure that the local currency value of exports did not fall, to protect the products of local industries from excessive competition from imports, and to discourage increased outflow of capital". 10 But there was a steady appreciation of the external value of the Naira since the beginning of the 1974/75 fiscal year. The then Governor of the CBN, Dr. C.N. Isong, stated that the appreciation "is a deliberate policy to reflect the changed circumstances of our external position. He pointed out that between 31 March, 1974 and 5 March, 1975, the Naira appreciated by 7.2, 5.4 and 10.7 per cent vis-à-vis the US dollar, the pound sterling and the Japanese Yen respectively".11 These demonstrated some degree of independence by the CBN.

In the area of provision of effective machinery for monetary management and for the regulation and development of the financial system, it was only as from 1962 when the CBN began to break loose from being a mere exchange authority without monetary controls. It then sought amendments to its powers and regulations to enable it perform its developmental and monetary functions. Relevant amendments include:

1. The gradual enlargement of the fiduciary issues;
2. the extension of the size of the loan which CBN can give to the Federal

Government.

3. the realisation of the inefficacy of the traditional techniques of control and acquisition of powers for direct action such as

a) Credit guidelines

b) Special deposits and variable reserve ratios

d) Stabilisation of securities.

The next objective was the Nigerialization of the credit base. In order to implement this, the authorities adopted two main measures. One was the centralisation of the country's foreign exchange reserves within CBN. The Federal Minister of finance in 1962, stated that "this Nigerialisation of our credit base will enable our economy to expand or contract according to our needs rather than to be forced to accept change dictated by the needs of some money markets".12 Consequently, Statutory Corporations and their institutions holding foreign exchange reserves outside the country were therefore urged to repatriate them for investment in Nigeria.

To facilitate local investment of these and other resources, the authorities took a second policy decision to provide local investment outlets. These outlets were provided through the issue of Federal Government Loan stocks, the first of which was issued in 1959, and of Treasury Bills first issued in 1960. These provided the basis for embryo capital and money markets. In June 1961 the establishment of a local capital market was taken a step further by the establishment of the Lagos Stock Exchange (and was renamed the Nigerian stock Exchange in 1977) and money market by the establishment of a call money scheme

in 1962, and the Treasury certificate in 1968. To these were added the various liquidity requirements calling for maintenance of funds in prescribed assets and ratios in Nigeria. The point to make at this juncture, is that all these policies contributed to the achievement of the Nigerialisation of credit base.

Another development objective of the CBN's banking policy is to foster and ensure a system of distribution or allocation of bank credit such that prescribed sectors in the economy are not starved of funds and that Nigerians have an improved access to bank credit. Accordingly, various measures have been taken to implement this, like supplementation of the Liquid funds of the banks to induce them to lend more to prescribed economy sectors. This supplementation was sought through rediscount of bills and repurchase of mobilisation securities, direct loans to indigenous bank, etc.

Another policy measure to this effect was the establishment of development finance institutions. Significant among these are the Nigeria Industrial Development Bank (NIDB) established in 1964, the Nigerian Agricultural and Co-operative Bank (NACB) 1973, The Nigerian Bank of Commerce and Industries (NBCI) 1973.

For the private sector, the CBN organised and provided development financing through other channels other than the above. These include moral suasion, directives and credit guidelines, sponsoring and arranging consortia of banks for the finance of specific projects, for example, agriculture, and direct loans and advances to institutions as in the case of export market crop financing.

An ideal example, at this juncture, of the organisation of development finance is the

Agricultural Credit Guarantee Scheme Fund. This is a N100 million guarantee scheme established jointly by the CBN and the Federal Government, designed to spur banks into greater activity in the finance of agriculture. Under the Scheme, the CBN insures banks up to a maximum of 75% of any losses they incur on credits for agriculture in pursuance of the Scheme.

The Federal Government also set up the Nigerian Agricultural Insurance Company (NAIC) in 1987 to benefit the small, medium, and larger-scale farmers as part of its organizational finance policies. The broad objectives of the Nigerian Agricultural Insurance Scheme (NAIC) is to offer protection to the farmer from the effects of natural disasters and to ensure payment of appropriate compensation sufficient to keep the farmer in business after suffering a loss.

The Scheme is designed specifically to

1. Promote agricultural production since it would enhance greater confidence in adopting new and improved farming practices and in making greater investments in the sector, thereby increasing the total production;
2. Provide financial support to farmers in the event of losses arising from market disasters;
3. Increase the flow of agricultural credit from lending institutions to the farmers;
4. Minimise or eliminate the need for emergency assistance provided by Government during period of agricultural disasters.

The next important objective is the development of banking habit. The banking system.

This meant that banking facilities in the country were inadequate, inaccessible and inconvenient for the masses of people. Furthermore, the inadequate reserves, under-capitalisation and illiquidity of the banks meant that banks often defaulted in their obligations, particularly before the 1952 Ordinance.

One measure adopted to tackle this problem of lopsided banking was through encouraging more banking institutions and engendering competition in banking. Specifically, following the Report of the Committee on the financial system, the Federal Government directed the CBN to draw up a master plan for commercial banks to set up more branches through out the country in order to extend banking services and habits to the majority of the people particularly the rural areas. These are the Rural Banking and Lending programmes of 1977, Peoples Bank of 1988 and the Community Banks Programme of 1990. Thus at the end of 1990 the total number of licensed banks operating in the country was 107 with 2001 branches all over the country.

Allied to the development of the banking habit is the eradication of malpractices in banking. To this effect, the Bank examination and supervision Department and of recent the Nigerian Deposit Insurance Company, undertake Periodic examination and continuous study of the operations of banks with a view to ensuring their compliance with statutory requirements and other regulations such as monetary guidelines. For example, "available statistics show that 417 staff were involved in frauds in 1990 compared to 313 staff were involved in frauds in 1989. The total amount involved increased even more dramatically from N105 million in 1989 to N804 million in 1990, an increase of about

666%."13

Fundamentally, monetary policy itself deals with discretionary control of money supply by monetary authorities in order to achieve stated or desired macro-economic goals. The economic objectives of monetary policies in itself are specified in the various credit guidelines of the CBN as it is issued from time to time for effective grip of the overall economy. Generally, the objective are the same and usually include, the attainment of a particular level of output reduction in the unemployment level, price stability, economic growth and favourable balance of payment.

Suffice it to state here that the DCBN has substantial measure of independence from Government indischarging its functions effectively. Such is the position in theory. In practice, the position is totally different. For instance, although the Board of the Bank is charged with the responsibility of formulation and execution of monetary policy, the Federal Minister of Finance in many Budget Speeches use to refer to "I" when stipulation the policy intended to be pursued by the CBN.

The relationship between the CBN and the Government is interesting to note here. Nwankwo (1977), noted that, for instance, the CBN advised against precipitate dismantling of import restrictions and controls too soon after the end of the civil war in 1970. The Government considered the economy strong enough and rejected the advise. Although the Bank obliged to defend the measure before the IMF, the resulting balance of payment difficulties were relieved fortuitously by the oil boom of the early 1970s.

It is also on record that contrary to advise form the Bank, the Government paid the huge

salary and wages arrears under the Public Service Review exercise in 1977. Similarly, despite their obvious nightly inflationary implications, of which the Government was advised, monetisation of Government oil revenue continued unabated during the oil euphoria. Infact, contrary to advise, the Government since 1976 resorted to heavy deficit financing of its operations.

The oil boom of the early 1970s introduced a new dimension into the situation by the increased Government revenues resulting in export and prices of oil. 'The Government found itself so rich, with excess liquidity that it no longer borrowed from or relied on the banking system. Flushed with more money than they could effectively manage, successive Governments, and at all levels, embarked on huge and expensive project, many of which were doubtful utility and viability.

It was, therefore, not surprising that with the collapse of world oil prices in mid 1981, an economic crisis emerged in Nigeria. The policy response included the imposition of stringent and comprehensive trade and exchange controls under the a economic stabilisation measure of 1982 and the intensifications of those in 1984. These measures proved grossly inadequate in dealing with the intractable of the economy.

After all these, a state of economic emergency for a period of 15 months was proclaimed effective from October 1985. The key policy measures were:

1. The achievement of fiscal and balance of payments viability over short and medium terms;
2. Laying the basis for sustainable non inflationary growth; and

3. Improving the efficiency of the public and private sector.

During this period of emergency and economic crisis, both the government and the CBN have unison purpose and interest to pursue; in giving the maintenance of monetary stability an over-riding consideration to which other objectives of policy are subordinate. Between 1989 and 1990, the micro economic objectives of the monetary policies introduced according to CBN credit guidelines were basically, the moderation of inflation rate, reduction of pressure on the balance of payment, stabilisation of the exchange rate of Naira, increase in financial savings, investments employment and growth.

In January 1989, the monetary policy circular 23 of 1989 was issued to the financial system, but before the end of the year about ten amendments were introduced to the same circular and each of these amendments greatly destabilised the Nigerian macro-economy. The abolition of bank guarantee, the use of domicilliary account balances at collaterals for bank loans and other facilities in Nigeria, review of capital fund ratio from 1:12 to 1:10, the Federal Government's transfer of all government accounts and those of parastatal from Merchant and Commercial bank's vaults to the CBN, were measures taken to that effect.

It is necessary to note that to date, all the measures are aimed at mopping-up liquidity in the system in order to reduce the rate of inflation and stabilise the over-decreasing exchange rate of the Naira. It is disappointing that these monetary measures led to astronomical increase in the money market interest rates and consequently the deposit and lending rates of both Merchant and Commercial banks rose sharply in such a way that

buy December 1990, the margin between the lending and deposit has widened to between 17.5 per cent and 32 per cent.

The most important liquidity mopping-up exercise in 1990, however, was the stabilisation securities which were issued by the CBN. The rate of interest on the stabilisation account was the prevailing 17.5 per cent which has 90 - day maturity.

It is imperative at this point to comment on the appropriateness and the effectiveness of these monetary policies. The mopping-up exercises of the past two years (1989/90) have destabilised the economy rather than stabilise it. According to available government statistics, in 1989, the policy measures introduced then culminated in the reduction of inflation rate from existing 15.5 per cent in June to about 40.9 per cent in December 1989. This was made at the expense of low capacity utilisation in the manufacturing sector of the economy and this resulted in full blown inflation in the early 1990. Government's aim of increasing the exchange rate of Naira in relation to other currencies was never realised despite a catalogue of policy measures introduced.

This is because the value of the Naira in the foreign exchange market is determined by the forces of demand and supply. There was pressure on the available foreign exchange because supply was almost constant while demand kept on increasing thereby escalating the value of other currencies in relation to the Naira. One expected that the monetary authorities should have increased the supply of foreign exchange to ensure a proper value for the Naira.

Contractionary monetary policy introduced did not achieve the desired macro-economic

objectives due to the incessant fir and start measures coupled with the expansionary fiscal policy as a result of government ambitious programmes. The fact is that a government that is committed to curbing inflation should not draw up deficit budgets at the first instance, since they could be used for productive and job creation investments.

In conclusion, over the years the Central Bank of Nigeria has not been replying on traditional kinds of control. In otherwords, the CBN has avoided a completely passive attitude and waiting for opportunities to wield the conventional weapons. Infact, the CBN has been innovative in the kind of business it has been willing to handle, even at the cost of making mistakes, instead of being a glorified currency board.

FOOTNOTES

1. G.O. Nwanko - The Nigerian Financial system Macmillan Low Cost Edition, 1987.
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4. Sub-S. 3 of Article 6 of the Ordinance.
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6. IBID p. 15.
7. The National Development Plan, p.29.
8. Second National Development Plan, 1970-4 (Lagos, Government Printer), p.227.
9. Stet.
10. CBN Annual Report 1968 p.11.
11. Dr. C.N. Isong, Governor CBN, Address to the 1975 Annual Dinner of the Nigerian Institute of Bankers 1975, p.8.
12. Mobilisation Budget: Six Budget Speeches p.125.
13. NDIC-Annual Report and Statement of Account for the Year Ended 1990. P. Viii.

CHAPTER FOUR

AN EVALUATION OF THE CENTRAL BANK OF NIGERIA'S PERFORMANCE TOWARDS ENHANCING AGRICULTURAL CREDIT SUPPLY

4.1 INTRODUCTION

In this chapter, an attempt is made to critically examine the various policies and institutions that have been initiated and created, by the Central Bank, respectively towards enhancing the flow of finance to agricultural investments.

The policies include Direct Financing, Sectoral Prescription, Moratorium and Loans and Concessionary Interest Rates on Agricultural Credits. While Agricultural Financing Institutions include Nigerian Agricultural & Co-operative Bank (NACB), Agricultural Credit Guarantee Scheme Fund (ACGSF), the Rural Banking Programme (RBP) and Nigerian Agricultural Insurance Scheme in that order.

4.2 DIRECT FINANCING OF AGRICULTURAL MARKETING

"The involvement of the Central Bank of Nigeria in agricultural financing can be traced back to 1962 when it initiated a Commercial bill financing scheme for agricultural

(export) marketing. This was a refinancing facility for a consortium of banks which would have, Produce Marketing Company Limited by discounting the Company's bills".1 There were however, two hitches in 1964 and 1967 respectively, and the approach gave way to direct financing system in 1968; which was also abolished in 1968. According to Adebeyi (1989), "as at December 1987, a total of ₦1077 million was outstanding against the six Commodity Boards".2

The following features of the direct financing arrangement are worth being mentioned. First, it that "the sum of money provided by the Central Bank of Nigeria for agricultural Marketing Boards substantially more than the total loans and advances provided by Commercial, Merchant and NACB during the same period for production and agricultural purposes...."3

The other point is that the loans provided for agricultural marketing by the Central Bank of Nigeria were mere "Printing Press" monies which expanded money supply and induced inflation other than increase agricultural production.

The third point is perhaps because of the generosity of the Bank with this measure, it contributed to financial indiscipline among the boards, because of the fact that most of their seasonal operations resulted in substantial deficits.

With the abolition of the Commodity Boards system, the financing of agricultural exports has now reverted to the banks - Commercial and Merchant in a situation similar in principle to the pre 1986 era. The subtle differences are the absence of syndications and the Nigerian Prodcue Marketing Company Limited.

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Through a Refinancing and Rediscounting facility, Central Bank of Nigeria now provides support for banks is also bringing on a stream of number of other facilities to support export - especially through the banking system. A notable example is the foreign input facility which is covered under Export Stimulation Loan (STL) from African Development Bank (ADB).

4.3 SECTORAL PRESCRIPTION FOR AGRICULTURAL CREDIT

This measure involves the imposition of quantitative ceilings on non-priority sectors, and setting of floors for priority lending. Because agriculture has always belonged to the priority sector, it has always had a stipulated minimum level. Details of specifications and actual levels reached are given in table 4.1 below.

Table 4.1: SECTORAL STIPULATIONS AND ACHIEVEMENTS FOR AGRICULTURAL CREDITS:

YEAR PERCENTAGE SHARE OF AGRIC. LOANS TO TOTAL OUTSTANDING AT END OF YEAR.

YEAR	STIPULATED MINIMUM LEVEL	ACHIEVED LEVEL	DIFFERENCE + FOR EXCESS
1980	8	7.3	-0.70
1981	8	6.9	-1.10
1982	8	7.7	-0.3
1983	10	8.5	-1.50
1984	10	9.1	-0.90

1985	12	10.0	-2.0
1986	15	11.8	-3.20
1987	15	12.9	-2.10
1988	15	15.3	+0.30
1989	15	15.9	+0.90
1990	15	15.9	+0.90

Sources: CBN Annual Reports (Various Issues)

Suffice it to say here that the stipulated minimum level for agriculture grew from 8.0 per cent in 1980 to 15.0 in 1990, whereas achievements grew from 7.3 in 1980 to 15.90 in 1990.

The consistent increase in the minimum specification for agricultural loans relative to total Bank loans is an additional indication of the emphasis of the Bank on the development of agriculture which, giving our natural endowment, should occupy a prominent position in the Nation's basket of economic activities.

Bank consistently increased their lending towards achieving the stipulated minimum targets because:

(i). The increased awareness and access to bank credit must have stimulated increasing demand for agricultural credit.

(ii) The introduction of measures capable of minimising the looses of bank when they lend for agriculture can not be ignored. Among such measures are ACGSF and the National Agricultural Insurance Scheme.

(iii) The third reason is penalty which banks pay when they lend short of prescribed minimum (i.e depositing the amount in the shortfall with the CBN without such amount having any interest yield).

However, deposit the general increase in outstanding loans to agriculture, a cursory look at Table 4.1 will reveal that except 1988 and 1990, Commercial banks lending were generally less than the prescribed minimum levels.

Secondly, the figures presented in the table are based on outstanding loans to agriculture

and not actual disbursement in each of the years. Thus the figures may have exaggerated the amount of actual loans and advances to agriculture because outstanding figures will include interests due but not paid by borrowers.

Thirdly, the policy of sectoral prescription only addresses the volume of credit. It is silent on the beneficiaries or targets. Thus, in a country where 95 per cent of total food production are from small farmers whose benefits from the bank credit are very minimal, this policy appears not to have gone for enough.

4.4 MORATORIUM ON AGRICULTURE LOANS

The Central Bank of Nigeria, for the first time in its 1977/78 monetary policy guidelines made a provision which required banks to build into their agricultural loan portfolio a moratorium programme. This directive implicitly required that medium to long-term finance be provided to agriculture. Prior to that time and apparently because most of the resources at the disposal of banks are of short-term too was also considered rational. However, this policy requirement fell into disuse until in 1985 when it reappeared in the monetary policy guidelines. The grace period specified for small - scale peasant farmers and producers of seasonal cash crops was one year: Whereas for livestock farmers and those engaged in then production of crops like Cocoa, Rubber and palm oil, the period was for four years; while for medium and large scale mechanised agriculture and ranching the period is for five and seven years respectively.

These specifications were not altered in both the 1989 and 1990 CBN new monetary policy directives on grace period for agricultural purposes in all cases, however, the

Central Bank of Nigeria always include a clause which states that borrowers could repay part or all of their outstanding loans within a shorter period if it become feasible to do so. The moratorium policy is predicted on the need to make loan repayment easy for farmer-borrowers, by synchronising loans with patterns of production and cash flows. However, in the form in which the Credit Policy Guidelines specify moratorium, there is considerable scope for improvement. One, with regards to staples for which the policy specifies one year, it is known that there are a large number of crops that are semi-annuals.

Secondly, depending on the point at which actual loan disbursement takes place and when such crops are eventually harvested and sold, it would be difficult for a stipulation of the credit guideline to be given a particular meaning. For example, the planting of yam takes place in November, credit disbursement may take place in January, (Three months after planting) and harvesting takes place in July/August, when then should repayment start? The provision that repayment could start earlier than the specified moratorium time is not strong enough to protect a bank as long as the farmers have not violated the Central Bank of Nigeria's one year specification. This is just an example with crops. It is worse for others (Large Scale Farmers and ranching) to which five (and above) years moratorium is specified.

4.5 CONCESSIONARY INTEREST RATES PON AGRIC LOANS

By section 31 of the CBN Act 1958 and section 14 of the Banking Act 1969, the CBN is empowered to set and publish the minimum rediscount rate and to approve a maximum

deposit and lend rates.

However, the first attempt by the Central Bank of Nigeria at controlling interest rates was in March 1970 when it directed Commercial banks to link their interest rates with the rediscount rate. In other to stimulate the demand for agricultural credit from banks, the Central Bank of Nigeria introduced a policy of cheap interest rates in 1978, when in contrast to the general minimum and maximum lending rates of 7 and 11 per cents respectively, it prescribed a rate of 6 per cent for agricultural lending. In that year, a range of 4 to 6 per cent was specified for loans guaranteed by ACGSF.

The emphasis of this policy was to encourage the demand for credit, but unfortunately the supply side of the equation was not given strong consideration. Details of rates to agriculture are given in Table 4.2

TABLE 4.2

INTEREST (LENDING) RATES ON LOANS 1980-90

YEAR	AGRIC LENDING RATE		MAXIMUM LENDING RATE	MINIMUM LENDING RATES
	GENERAL	ACGSF		
1980	6	5-6	11.50	6
1981	6	5-6	12.00	7
1982	7	6-7	13.00	8
1983	7	6-7	13.00	8
1984	9	8-9	13.00	10
1985	9	8-9	13.00	10
1986	9*	8-9*	13.00*	11

1987	free	free	15**	15***
1988	free	free	free	12.75
1989	free	free	free	15
1990	free	free	21	15

* - Change in October

** - Valid up to August when rates were liberalised.

*** - Valid for August

Source: CBN.

The Central Bank of Nigeria however terminated the policy of concessinary interest rate in October 1986 and by August 1987, administrative system of fixing rates was discontinued. From this time, banks (Commercial and Merchant) started to fix their interest rates depending on the way the assess individual customers and their project proposals.

On otherwords, agricultural project proponents now have to compete with other borrowers. Technically speaking (Adebiyi 1989) says, "All loans decisions become predicted on the marginal efficiency of investment and the cost of procuring funds".4

Putting the interest rates in perspective, proponents of concessionary rates usually argue a low capital base or crude operating tools like the use of modern implements and the adoption of high interest rate is considered potent enough to damage a disadvantaged sector like agriculture since it would discourage investment and growth.

Two, cheap farm credit is capable of attracting farmers, thus saving them from the exploitation of money lenders.

Three, a cheap interest policy could be a useful mechanism for income transfer.

Four, it might be anti-inflationary either directly or indirectly through its effects on expectations. The IMF (1983) also argue, "that some countries pursue a policy of interest rates repression out of the suspicion - that since their financial markets are oligopolistic, lending rates might be beyond small borrowers.5 Some or all of the foreign together with the introduction of the ACGSF might have influenced the decision to introduce interest concession on agricultural lending.

On the other side of the coin, it is often argued firstly that concessionary interest rates do not represent an efficient and equitable income transfer mechanism because farmers do not have equal access to banks. Secondly, since farmers borrow from other sources various rates, there could be other strong determinant of demand for credit apart from cost. The third argument against concessionary rates is "that the relevant credit demand schedule for small farmers is relatively inelastic and therefore, the quantity of credit demanded schedule for small farmers is relatively inelastic and therefore, the quantity of credit demanded by individual small-farmers may not decline appreciably if interest rates are increased."6 Fourthly, cheap interest rate has the potential for exaggerating the demand for credit. Fifthly, for an unattractive sector like agriculture, it amounts to an 'over kill' to compel banks whose funds have more remunerative alternative uses to lend cheaply to agriculture. Finally, a concessionary interest rate has a tendency for encouraging corrupt practices among bank staff who would regard credit disbursement as a big favour to beneficiaries.

4.6 AGRICULTURAL CREDIT GUARANTEE SCHEME FUND (ACGSF)

In assessing their customers' request for loans and advances banks usually apply a popular acronym called PARTS; where P stands for purpose of loan, A for Amount, R for Repayment, T for Terms and S for Security). The case of lending for agricultural purposes is no exception.

However, prior to the Mid-seventies, available statistics showed that banks were more favourably disposed towards lending for manufacturing and general services than to

agriculture for a number of obvious reasons. One of these was the fact that the majority of promoters of agricultural projects were usually unable to provide adequate and acceptable collaterals to banks.

A veritable device for this purpose was found in the ACGSF which was established by the Federal Government in 1977 by Decree No. 20. The Decree provides for a fund of N100 million subscribed to by the Federal Government (60 percent) and Central Bank of Nigeria (40 percent).

Actual operations under the scheme commenced in April 1978 and bank loans under this scheme are guaranteed up to 75 percent of the amount if default. Maximum loan to an individual was originally fixed at N50,000 but Decree No. 18 of 1988 amended it to N100,000. The maximum loan that the fund can guarantee for a co-operative society or a registered company is N1 million. Ventures for which loans could be guaranteed by the fund include Crop production (both food, fibres and industrial raw materials) and Animal husbandry, fisheries, Agro-allied industries and Agricultural plant-line. Since the inception of the Fund, it has been under the management of the ACGSF Board, with the Central Bank of Nigeria as the Managing Agent for its day-to-day administration. In other to avoid delay, much of the work of guaranteeing loans under the scheme is done at the CBN branch in the state in which a transaction under the scheme takes place. The Agricultural Finance Department of the Head Office of CBN co-ordinates the branches and serves as the secretariat of the Fund.

4.6.1 Achievements of the ACGSF

(a) Size of the Fund:-

"The funds paid-up capital grew rapidly from N15 million in 1978 to N85.5 million in 1982, but has remained at that level since the need for further subscription had not arisen. Closely related to the issue of a fully paid capital is the value of the total resources at the disposal of the Fund. As at December 1988, resources at the disposal of the Fund was N160.60 million or N75.10 million (87.8 percent) above the paid up capital."7

"The capital of the ACGSF which stood at N855 million was invested mainly on Government securities. The investment led to a further appreciation of the Fund by N194.3 million as at the end of 1990."8

This gives an indication of good management of the Fund's resources - especially in the investment securities. It also gives a sign of good matching of guarantee issues, claims and claims settlement.

(b) Aggregate Number and Amount of Loans Guaranteed:-

From a paltry 341 loans amounting to N11.28 million in 1978, guaranteed loans increased to 704 loans amounting to N98.50 million in 1990. The cumulative number and amount of loans guaranteed from the inception of the Scheme in 1978 stood at 122,246 and N765.4 million respectively. (See table 4.3)

Table 4.3

Number of Loans and Amount of Loans Guaranteed

By ACGSF From 1978 - 90

YEAR	NUMBER OF LOANS	AMOUNT OF LOANS (₦)
1978	341	11,284.40
1979	1015	33,596.70
1980	945	30,945.00
1981	1295	25,642.40
1982	1076	31,763.90
1983	1333	36.307.00

1984	1642	24,654.90
1985	3337	44,243.60
1986	5203	68,417.40
1987	16209	102,152.50
1988	24538	118,611.00
1989	34081	121,940.00
1990	30704	98,500.00

Source: ACGSF Annual Reports.

Since 1980 in particular, there has been a consistent increase in the number and amount of loans guaranteed by ACGSF. This trend can be attributed to the improved awareness amongst the farming population especially the small-scale operators who were the most disadvantaged in terms of meeting bank requirement for collaterals. It is imperative to note the leap in the number and amount of loans guaranteed between 1986 and 1990 - as contained in table 4.3.

This dramatic increases, observed Adebiyi (1989), was as "a direct response to the introduction of N5,000 loans which banks could grant without obtaining collateral from borrowers."9 It does appear the at the active participation of most banks in the disbursement of security - free loans is an endorsement of the economic relevance of the ACGSF.

(c) Loans Guaranteed by Purpose

As earlier stated, livestock, food and cash crops, mixed farming, etc are eligible for finance under the ACGSF. (See table 4.4 for details.

Between 1978 and 1990, a total of 122275 loans amounting to N765,375.8 million has been guaranteed by the Fund. Livestock got N252,115.10 million (or above 32.94%); mixed farming - 21,031.60 million (or about 2.75%); food crops - N40486.20 million (or about 52.90%) cash crops - N42,294.50 (or about 5.33%); and others - N45,070.40 million (or about 5.89%).

(d) Loans Guaranteed By Category of Borrowers:

Out of the total number of 57,024 guaranteed loans between 1978 and 1988, 55,721 or

TABLE 4.4:

NUMBER AND AMOUNT OF LOANS GUARANTEED BY ACGSF BY PURPOSE 1978-1990

Year	LIVESTOCK		MIXED FARMING		FOOD CROPS		CASH CROPS		OTHERS	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1978	137	6040	35	1555.50	116	2868.20	-	-	53	820.70
1979	339	21442.8	27	2220.00	391	7456.10	97	737.60	251	1749.20
1980	263	21064.8	12	2761.30	472	5176.30	123	965.60	75	977.00
1981	275	25147.50	30	1128.40	702	7444.70	107	1032.70	181	889.10
1982	322	21875.50	5	77.70	658	5706.40	22	580.50	69	3528.30
1983	362	23364.70	20	1998.60	736	8202.60	50	334.00	165	2407.60
1984	541	12642.50	5	227.50	808	4784.80	30	280.00	258	6720.10
1985	768	14876.60	18	2180.20	1909	13569.20	36	2081.00	606	11536.40
1986	731	27449.10	20	2353.60	4204	34953.90	190	2112.30	58	1548.50
1987	1108	33914.20	14	2102.00	13674	56906.60	1027	7162.00	386	2067.70
1988	1128	23017.20	415	3199.10	21426	77979.00	1307	12150.20	263	2294.60
1989	1005	12423.30	19	227.70	29669	100013.10	2475	10772.80	1352	5873.40
1990	1252	18866.90	1	1000.00	27224	79832.40	1020	4085.60	1234	4671.30
TOTAL	8231	252115.10	621	21031.60	101989	404864.20	6483	42294.50	4951	45070.40

SOURCE: ACGSF Annual Reports

Table 4.2

NUMBER AND AMOUNT OF LOANS SANCTIONED BY CATEGORY OF BORROWERS (1978 - 1990)

	INDIVIDUALS		COOP. SOCIETIES		BODIES	
	NO.	AMOUNT	NO.	AMOUNT	NO.	AMOUNT
1978	500	4,[illegible]-70	12	1,080.00	29	4,[illegible]2y.00
1979	1,008	13,0[illegible].80	30	1,920.30	61	10,034.50
1980	825	13,522.30	22	626.90	71	16,795.80
1981	11,205	17,813.40	20	795.10	62	17,032.90
1982	1,013	16,117.70	10	474.00	53	15,172.80
1983	1,248	14,179.80	12	509.90	73	21,499.80
1984	1,[illegible]03	9,853.90	9	377.00	70	14,424.00
1985	2,319	19,40[illegible].70	15	702.00	103	24,133.90
1986	3,001	25,643.30	33	1,099.10	160	41,875.00
1987	15,960	54,897.20	113	4,37[illegible].00	136	42,07[illegible].30
1988	24,352	80,07[illegible].90	90	4,160.30	96	34,365.80
1989	N.A	N.A	N.A	N.A	N.A	N.A
1990	N.A	N.A	N.A	N.A	N.A	N.A
Total	55,121	[illegible]2[illegible],44[illegible].1	374	11,037.30	929	251,139.70

Source: ADMP Annual Reports

97.71% were individuals and only 374 (.66%) were co-operatives. The remaining 929 (1.63%) were companies.

With regards to amounts; N269.44 (or 50,.20%) was guaranteed to individuals, in contrast to N17.04 (3.70%); to co-operatives and Companies - N254.4 (46%) was guaranteed.

Some discernible observations are certain from the above presentation. The first is the almost negligible proportion of loans guaranteed to co-operatives despite the fact that they remain a cheap and efficient channel for reaching a large number of farmers. This is also indicative of the poor level of co-operative development in Nigeria.

The second point has to do with the fact that slightly more than half of guaranteed loans went to individuals.

From the foregoing, it could be seen that in terms of number and amounts of loans guaranteed, food crops was first followed by others. Mixed farming trailed last, coming after livestock and cash crops.

The domineering position of food crops in terms of number of loans should be seen as an indication of the Federal Government's drive towards self sufficiency in food production. It should also be stated that in the last half of the review period, guaranteed loans to food crops increased at a faster rate than that of livestock, partly because of the obvious implications of the structural Adjustment Programme (SAP) which appears to have favoured enterprises that fully source their inputs locally.

Small scale food crops producers, who are in the majority in Nigeria, source most if not

all their inputs locally, an act that is practically difficult for livestock growers. This explanation (of SAP effect) is also true of farmers in cash crops, who in the quest to capitalise on the price advantage provided by exchange rate adjustments, have had to borrow more money from banks to expand and maintain their farms. The result is the leap in both the number and amount of loans guaranteed by ACGSF as from 1986 when SAP was introduced.

4.6.2 Impact of the Scheme on Bank Lending

The objective of the scheme has been to increase bank lending to agriculture. How then can the impact of the scheme on bank lending be judged? One way of doing this is by comparing the share of agriculture in total bank lending before and after the scheme. Based on this, there has been some relative improvement in the share of agriculture since the scheme came into operation.

In the six year of its operation from 1979 to 1984, the share average of 7.5 per cent, and 3.9 per cent points to improvement over years 1973 to 1978. Thus hardly substantial. However, the 7.5 per cent is still regarded as small, compared with the shares of some of the other sectors like manufacturing (30%), real estate and construction (22%), general commerce (15%) and services (11%), considering the financial needs of agriculture and the fact that agriculture currently accounts for about 14 per cent of the gross domestic product (GDP). Manufacturing and real estate and construction for example; currently account 8 and 9 percent of

the GDP, respectively.

The question is whether the relative improvement can be attributed solely to the impact of the Scheme. This can not be so for a number of reasons. One, the fact that 7.5% of the amount of bank lending to agriculture occurred outside the Scheme, makes attributing the improvement wholly or to a large extent to the Scheme unadvisables

Two, attributing the improvement to the scheme would mean discounting the influence of other factors. These factors include the Rural banking programme, which came into effect in 1977, and raising of the percentage of banks total loans stipulated for agriculture in 1980 from 6.0 to8.0 per cent and even to 15 percent in 1988,which might have prompted banks to strive to comply with the stipulation by increasing lending.

Three, some of the loans made under the scheme might still have been made in the absence of the Scheme. The Scheme, at best, can be said to have increased lending only if its results in loans being made that would not normally have been made.

Another parameter of judging the impact of the Scheme on bank lending, which is really a variant of the above one, is the extent to which banks have achieved the percentage of their total loans stipulated for agriculture in the period under review. And as we earlier stated, since the measure was introduced, bank lending has consistently fallen short of the prescribed levels. Inspite of the penalty for non- compliance.

The penalty for non- compliance is a forfeiture of the short-fall to the CBN at no interest for transfer to the Nigeria Agricultural and Co-operative Bank (NACB) for on-lending to farmers.

Based on the two criteria above, it is evident that the Scheme has not resulted in any

substantial increase in lending to agriculture. The share of agriculture in total bank lending has not been substantial and the banks have failed to meet the stipulated leading to agriculture all over the years.

4.6.3 Problems Encountered In The Operations Of ACGSF

In the course of the Funds operations, a number of problems have been identified as militating against a smooth performance. The first problem derived from a rapid expansion in the scope of operation. The substantial increase in loans from 945 in 1980 to 30704 in 1990 suggested the need for increased men and materials for effective supervision. It also implied the need for improved sophistication in the funds' administrative machinery since only 8989 (or 15. 76 per cent of total) loans had been fully paid. Unfortunately this was not the case. While conceding that the Central Bank of Nigeria had adopted a number of measures to enhance the discharge of its functions, it still has room for improvement in the areas of man-power and equipments-especially the computerisation of records of the Fund's operation which have gradually become more difficult to handle manually.

The second problem was the increase in the number and amount of delinquent loans. The Scheme has recorded remarkable incidence of defaults which could be traced to a number of factors. Some of these factors include deliberate attempts by borrowers to default, natural disasters, poor project management by farmers, poor project appraisal by banks, inadequate or total lack of project monitoring by banks. Untimely disbursement of funds by banks which, at times, encourage loan diversion, etc. There are good indications that

apart from natural disasters over which man has no control, all other causes of default could be controlled by both the banks and the borrowers. What is required is just for all the interested parties to recognise the negative impact of defaults on both the scheme and the society at large. And for default due to natural disasters, the new National Agricultural Insurance policy under the management of the Nigeria Agricultural Insurance policy under the management of the Nigeria Agricultural Insurance Company (NAIC).

Closely related to the above is the delay of the Fund in settling bank's default claims. Though the problem is partly administrative and also partly due to the failure of some of the claims banks to file their claims in accordance with the ACGSF guidelines. The delay of the Fund, in settling claims was more pronounced in 1983/84 and 1986, when the Board of the Fund was dissolved without an immediate reconstitution. Since the creditability of the Fund depends, to a large extent, on an efficient settlement of claims, it becomes imperative for both managers of the fund and the lending banks to work in consent towards removing all obstacles on the path of a full realisation of the Fund's objectives.

A fourth problem confronting the ACGSF is the delay by banks in processing, approving and disbursing loans to farmers. This delay could be due to inadequacy of trained personnel, administrative lapses including an over-concentration of decision making at bank head offices, unacceptable project packaging and presentation by potential borrowers etc. The adverse consequence of untimely credit delivery can not be over-

emphasised here. It could however suffice to say that if allowed to persist for a long time, this problem could reduce aggregate farm output; encouraging loan diversion and trigger massive defaults. In particular banks need to remember that it is part of their responsibilities under the ACGSF to help (farm) project promoters to comply with all conventional requirements for bank credit.

The poor performance of co-operatives under the ACGSF operations is another problem. A sizeable proportion of individual loans made between 1980 to 1990 under the Scheme would have been cheaper and easier to administer - both by the banks and the Managing Agent if they had been made through co-operatives. Co-operatives remain a very good device for credit delivery to small farmers who currently produce bulk of the available food in Nigeria. Therefore, any measure undertaken to ensure the development of strong and viable co-operatives in Nigeria would also be a measure in support of improved credit purveyance for agricultural purposes.

Another constraint has to do with the specified maximum sizes of loans to individuals and accompanies. A recent review of the size of maximum loan to individuals from N50,000 to N100,000 should be applaused, since this would help farmers to face the challenges of soaring input prices and other production costs. However, the failure to similarly review the size of maximum loan to co-operatives and companies deserves a second look. The reasons are obvious. If on one hand there is a clamour for rapid development of co-operatives and on the other there is an upward review of maximum individual entitlements or loans, the net effect would be a reduction in the number of individuals

that would benefit from any loan guaranteed to the co-operative society. Also, since the cost profiles of all farm operations have gone up, there has been a general increase in the size of loans requested by companies. Presently, it is not uncommon to find a company borrowing more than one million Naira from the bank, out of which the Fund would guarantee only a million. There may be no obvious problem with this arrangement until when there is partial default. The solution to this type of problem lies either in an expansion of the scope of coverage of the Fund's guarantee - to cover more than one million Naira, or alternatively to explicitly amend the Decree establishing the Fund to cater for this type of problem.

Finally, ACGSF has a problem of publicity. The obvious level of disparity in the level of operation in various states may not be wholly due to unawareness, however, concerted efforts should be made to further arouse the awareness of Nigerians on the activities of the Scheme.

4.7 RURAL BANKING AND LENDING PROGRAMME

The Central Bank of Nigeria through powers conferred to it by the Banking degree of 1969, drew up a Rural Banking Programme in 1977. This was in a spirited move to encourage banking habit amongst the rural population; mobilise savings in the rural areas for rural development; and to transform the rural economy through modern agricultural practices and establishment of rural based agro-allied industries.

This Programme was to be implemented in phases. A total of 280 rural bank branches were expected to be opened between 1st July 1977 and December 31st, 1988. The second

phase ran between 1980 and December 1983 and 266 branches were slated to be opened; while the third phase commenced in August 1985 and was to last up to July 1989 with 300 branches to be opened.

However, records (CBN Annual Reports) indicate that 100% compliance level was attained for the first phase. In the second phase 260 of the 266 branches allocated to the then 20 existing commercial banks were opened representing about 98% success. In the third phase compliance level was very low. Only 72 of the 300 allocated branches were opened to business before the Programme itself was terminated by the Government.

One clear implication of the above trend is that the banks are already were getting tired with the Scheme. One reason for the feeble impact of the Scheme is that it emphasised only on the number of branches that must be opened without considering the costs of operating them. Bankers had always evaded opening rural branches on the grounds that they were not profitable.

Although the implementation of the Scheme had often proved a Herculean task for the CBN as banks were reluctant to penetrate the rural communities with their services for obvious, at the end of December 1990 the total number of licensed banks operating in the country was 107 with 2001 branches all over the country.

Understandably and according to CBN Annual Report (1990), the CBN scrapped the Scheme in January this year on the grounds that the Peoples Bank and Community Banks would now serve the rural communities."10

The Programme for the Community banks was announced in the Budget for fiscal year

TABLE 4.6

BANK EXPANSION IN NIGERIA

1980 - 1990

END OF YEAR	COMMERCIAL NO. OF BANKS	COMMERCIAL NO. OF BRANCHES	MERCHANTS NO. OF BANK	MERCHANTS No. OF BRANCHES	TOTAL NUMBER OF: NO. OF BANKS	TOTAL NUMBER OF: NO. OF BRANCHES
1980	29	740	6	12	26	746
1981	20	869	6	15	26	884
1982	22	991	8	19	30	1010
1983	25	N/A	N/A	N/A	N/A	N/A
1984	27	1242	11	25	38	1267
1985	28	1297	12	26	40	13250
1986	29	1367	12	27	41	1394
1987	33	1485	16	33	49	1516
1988	40	1655	24	46	64	1171
1989	47	1844	34	60	81	1904
1990	58	1921	49	80	107	2001

Source: CBN Economic and Financial Review
& Annual Reports (various issues)

N/A = Not available.

1990 and was to take off in December. The banks are to carry out most regular banking services to at purely local levels and their roles in the financial system would be to provide effective banking services for the economies of the rural areas as well as micro-enterprises in the urban centres. Community banks would be privately owned although the Federal Government had undertaken to provide loanable funds and technical support services.

FOOTNOTES

1. S.O. Adebiyi: The Contribution of CBN towards Enhance Agric Suppy from 1959 to 1989. CBN Bollion Vol. 13 No. 3 & 4.
2. IBID p. 13.
3. CBN: National Agric Supply Report, 1986.
4. IBID p. 16
5. IMF - Interest Rate Repression in Developing Countries, Research Department (IMF 1983).
6. E.E.E. EYO - Evaluation of Agric Credit Guarantee Scheme; CBN Bullion Vol. 9 No. 4, 1985.
7. C.S. Ezugoh, Ten Years of ACGSF 1978 - 1988, Achievements, Problems and Prospects. CBN Bullion Vol. 13 No. 3 & 4.
8. CBN - Annual Reports and Statement of Accounts for the Year Ended December 31, 1990.
9. IBID p. 15.
10. CBN - IBID.

CHAPTER FIVE

5.1 SUMMARY AND CONCLUSION

A fact to reckon with is the importance of the agricultural sector to the Nigerian economy since independence as a provider of employment and food amongst others. Unfortunately agricultural production has not been able to keep pace with the growth in population rate. A major factor responsible for this sad situation is inadequate credit facilities. In order to salvage the situation successive governments have initiated various agricultural programme like OFN GRP ACGSF without achieving the desired results.

The various Policies employed by the Central Bank of Nigeria towards achieving higher agricultural growth include directing other banks to allocate a given percentage for loans to agricultural production; concessional interest rates for such loans; special moratorium on them and issuing part of the loans through ACGSF and NAIC.

The focus of this study has been to examine how effective all policy measures undertaken by the Central Bank of Nigeria between 1980 and 199. It defines what Agricultural credit is, types of credit (short medium and long-term) and the various sources of such credit facilities.

The importance of agricultural credit in enhancing production is stated in the study. And it was noted that there is the need for it to be complimented by appropriate technology as well as extension services. Problems of Agricultural credit Administration like organisational and operational; loan supply shortages; personnel; poor supervision; timelessness in disbursement; the cost of credit; and defaults were discussed.

Chapter three specifically looked into the establishment, objectives, organisation management operation, functions and critically examined some of its fiscal and monetary policies within the period under review. It was stated that the Central Bank of Nigeria has not relied on traditional functions as it has been innovative in its various guidelines meant to meet the various situations in the Country

In appraising the performance of the Central Bank of Nigeria towards enhancing Agricultural credit supply; various policies and institutions that has been initiated and created by the Bank were examined. These include Direct Financing, Sectoral Prescription moratorium on loans and Concessionary interest rates on such loans. The institutions includes; Nigerian Agricultural Credit Guarantee Scheme Nigeria Agricultural Bank, and the Rural Banking Programme. Mention was also made of the Peoples Bank, Community Banks and the Nigeria Agricultural Insurance Scheme

The study particularly noted the problems confronting the operations of the Credit system like inadequate staff; increased number and amount of delinquent loans; delay in settling banks' default claims; delay in processing approving and disbursement of loans; poor

performance of Cooperative Societies; specified maximum size of loans to individuals and companies; and the problem of inadequate publicity.

5.2 RECOMMENDATIONS

(I) There is the actual need to look at agricultural credit policy again. Practicing formers should be involved in policy formulation and implementation, not theoreticians who sit in their offices and look at statistical figures. We need professionals who will look beyond to the life of the people. A three-tier policy system will be effective at Federal, State, and local Government. This is because the National policy can not cover every state adequately.

(ii) The policy of sectoral prescriptions should be five-timed to ensure compliance by banks and also ensure that increase agricultural credit purveyance by banks benefit small farm holders and disadvantaged agricultural enterprises (e.g. Tree Crops and at the moment Livestock).

The usual criticism of this policy measure that it distorts the free allocation process in the money market does not appear strong enough to make the Central Bank of Nigeria abandoned it - the liberation of the money market under Structural Adjustment Programme (SAP) notwithstanding. Because of the need to maximise the benefit of all our natural endowments it would be necessary to skew the supply of loans in favour of potentially viable but less developed sectors.

reviewed as well, from its present level of N1 million. This level was also fixed in 1977 after which there has been appreciable changes in general price levels and structure. However an upward review of this maximum of N1 million might require a simultaneous review of the capital of the Fund which is currently fixed at N100 million.

(v) On the issue of moratorium on loans, the Central Bank of Nigeria needs to give considerable room to individual Banks to determine moratorium on a loan by loan basis. This will not only be in line with the on-going liberalization (from excessive control) of the financial system, but would also go along way to remove the present effect of an unrealistic across-the-board moratorium specification. With the establishment of a public compliant desk at the Central Bank of Nigeria, it would be possible to identify Banks that are usually stringent to agricultural projects. This is in addition to the role of Bank's Banking Supervision Department to check abuses within the banking system.

(vi) In the area of getting money down to the ultimate farmers, I recommend a deliberate policy measure of intensifying the cooperative movements. These movement will continue to receive the loans from the commercial Banks for onward disbursement to farmers.

The advantage of such arrangement is that it will remove the problem of dealing with individual farmers by Banks. This will also enable them to pool their collaterals together into meeting the requirements of Commercial Banks for granting Agricultural credits.

(vii) To recover the loans farmers benefiting from the scheme should be made to sell their

produce through the Cooperative Movements and the money paid back to the Commercial Banks. This will minimise the problem of default that is normally the case with repayments.

(viii) Furthermore, the documentation and processing of applications under the Scheme is too cumbersome and complicated for the ordinary farmers to understand and benefits. The Banks will be further aiding the Scheme by relaxing these procedures. This becomes very necessary when it is realised that majority of the small farmers in the area can neither read nor write.

(ix) As a long term measure of making sure that the real farmers benefit from the Scheme, the Federal Ministry of Agriculture in conjunction with its State counterparts should embark on mass enlightenment and the creation of awareness all geared towards drawing the attention of the farmer to the benefits they could derive from the Scheme.

(x) The present minimum lending rate of 21 percent as contained in the 1990 Central Bank of Nigeria's monetary and credit guidelines is considered too high to be born by these farmers. Above 15 percent will be alright considering the occasional bad harvests.

(xi) There is the urgent need for the Federal Government through the Central Bank, to take a political decision on the value of the Naira. The present so-called realistic value is definitely not realistic looking at the life of Nigerians. Markets forces will not give us a realistic exchange for the Naira vis-a-vis convertable currencies. Even decreases in tariffs

and duties on farm machineries are domestic and not helpful against the background of the present value of the Naira. A realistic value will be helpful by making all farm inputs cheaper.

Finally, therefore, I recommend that there should be improved funding of Foreign Exchange Market (FEM) and the establishment of an intervention fund to ensure that the Naira exchange rate stabilises. The primary considerations that should guide the Central Bank of Nigeria are availability of and accessibility to FOREX both of which are crucial to the stability and predictability of the exchange rate. In the alternative, the official rate used by the Government should be applicable for all agricultural inputs to be imported up to a time when a single exchange rate is attained and stability in exchange rate sustained.

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