THE EFFECTS OF RURAL BANKING ON DEVELOPMENT IN BORNO STATE

BY

KATIYA GAVS

A THESIS SUBMITTED TO THE POST-GRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, FOR THE DEGREE OF MASTER OF SCIENCE (ECONOMICS).

DEPARTMENT OF ECONOMICS
AHMADU BELLO UNIVERSITY, ZARIA.

JUNE 1988

D E C L A R A T I O N

I KATIYA, Gavs declare that to the best of my knowledge, the data contained in this Thesis are obtained from my own field work. The Thesis has not been submitted anywhere else for examination. All reference in this work have been duely acknowledged.

KATIYA G
Candidate

CERTIFICATION

This Thesis entitled THE EFFECTSOF RURAL BANKING ON DEVELOPMENT IN BORNO STATE by KATIYA, Gavs meets the regulations governing the award of the degree of M.Sc. (Economics) of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge.

Prof. Uka Ezenwe — 24/11/88
Chairman, Supervisory Committee — Date

Dr. A.L. AYODELE — —
Member, Supervisory Committee — Date

Dr. Mike Kwanashie — 4/1/89
Head of Economics Department — Date

— 11-4-89
Dean of Post-Graduate School — Date

— —
External Examiner — Date

D E D I C A T I O N

To Bab Gwaya and Late Dad Bulama

ACKNOWLEDGEMENTS

A number of people, many more than I can mention, have helped me both directly and indirectly in the process of writing this Thesis. First, to my supervisor, Prof. Uka Ezenwe of the Economics Department, Ahmadu Bello University, Zaria, who out of his tight schedule of academic engagement found time to direct me at the preparatory stages of the work and read through carefully, I owe a debt.

My profound gratitude also goes to Dr. Mike Kwanashie, Head of Economics Department and Dean of the Faculty of Arts and Social Science of Ahmadu Bello University, Zaria, who gave me an insight of what to do when I found myself confused at the preparatory stage of the work.

My deep appreciation also goes to my second supervisor, Dr. A.I.Ayodele of National Institute of Social and Economic Research (NISER) Ibadan who is on visiting appointment in the Department of Economics, A.B.U., Zaria for reading through the work.

Special thanks are also extended to Mr. James Silo Uba, the chief statistician, Borno State Ministry of Finance and Economic Planning, Statistics Division, who provided all the assistance needed during the research. Other members of staff of the statistics Division, specially the enumerators help in no small way. I thank them all.

To all academic and administrative staff of the Economics Department of A.B.U., Zaria, specially Mrs. R.T. Sanni who I always ran to to findout what the Dept. required of me and Mall. Y. Ahmed who typed the work, I, am indebted. I give a special note of thanks to my course colleagues - Lapai Mohammade, Arome Abdullahi, Adebisi Kehinde, Abdul-Ganiyu Garba and Musa Rabiu for discussions and conversations that helped me through the course work. To people like Naomi Yusuf, Hamidu S. Bwala, Adam Abdullahi and Angus Ndirpaya who gave me moral support throughout, I am also indebted.

My special gratitudes to the management of the Continental Merchant Bank (C.M.B.) who provided some financial assistance for the completion of the study.

Finally, and above all, glory and honour be to the Lord Jesus Christ for the great things He has done for me and through His special care made this work possible.

Katiya G.

1988

ABSTRACT

The rural sector which dominates the Nigerian economy has been stagnant of declining over the years. One of the major factors that account for the insalubrity is poor capital market which, largely inhibits the development efforts of rural entrepreneurs. One of the efforts made to overcome this obstacle by the Federal Government is the establishment of Rural Banking Scheme through the Central Bank of Nigeria in 1977.

To bridge the gap between demand and supply for rural credit, the Rural Banking Scheme was saddled with the role of harnessing the financial resources of the rural sector ana channel same to productive ventures of the sector. Using data obtained from constructed questionnaires responded to by bank branch managers, farmers and small scale entrepreneurs in rural areas of Borno State, this study examined the extent to which Rural Banking Scheme has achieved its set objectives. The main objective is mobilization of financial resources and the provision of same to the rural economy by the rural banks.

The findings of the study show that Rural Banking Scheme has not been very effective in achieving its main objective of developing the rural economy. It is discovered that the rural banks only transmit the funds generated within the rural cector to the urban economy. Another major finding of the study reveals that the little credits

made available to the rural producers, tended to be shared among those with substantial landed property and other securities. Other major findings of the study reveal that bank loan defaults are more of urban dwellers than rural and rural entrepreneurs appreciate the need for another credit source.

Finally, a multi-agency approach to rural banking is recommended because of the wide gap betwen demand and supply of rural lending facilities in the study area. To develop the rural economy, the present Rural Banking Scheme should be more effective, and in addition, Rural Community Banks (RCBs) model, with a potential of meeting the credit needs and aspirations of the rural economy, is suggested. In order to make the above recommendations more practicable for rural development, the nation's monetary policy and other legal clauses should be reviewed.

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SYMBOLS

₦	=	Naira
£	=	British Pound Sterling
Kms	=	Kilometres
Km^2	=	Square Kilometres
%	=	Percent

CHAPTER ONE

INTRODUTION

CHAPTER ONE

INTRODUCTION

Efforts made by successive Nigerian Governments so far have been more of propaganda than concise systematic measures to promote rural development. There were for instance, the Farm Settlements in the former eastern and Western Nigeria in early 1960s. Then came the "School Leavers Farm" in the former Mid-Western Nigeria. Farm institutes were also set up in the Northern part of the country. Between 1963 and 1964, about 16 "Integrated Rural Development Schemes" were up in the former Western Nigeria (Famoriyo, 1977). More recently, there is the Federal Government's Directorate of Food, Road and Rural Infrastructure(DFRRI).

More spirited efforts were also made towards stimulating rural development through research by Universities. The University of Ibadan had Badeku Pilot Project. There was the Uboma Project as well as the Isoya Rural Development Project teleguided by the University of Ife. There was also the Otta Project which was nutured by the International Labour Organisation (I.L.O.). There was the "Guided change" Project of the Ahmadu Bello University and the Rural Development Project of the University of Nigeria Nsukka. These studies were no more than indicators of what is achievable in the rural areas if there were coordinated and real attempts to promote rural development.

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Thousands of small farmers in Nigeria's rural areas produce cash crops which yield income both to them and the state. Rural producers have contributed and will contribute to Nigerian economic development in the following ways: through the provision of foreign exchange and savings; through the provision of food, particularly to the growing proportion of the population which lives in urban areas; through provision of labour for other "modern" sectors; through the provision of linkages with domestic manufacturing industry; through provision of markets for developing industry; and through external effects of roads and other infrastructures which are provided to serve agriculture.

Revenue obtained from agricultural produce through the agricultural export Marketing Boards were used to provide essential facilities mostly to urban areas. Each of the former three Regional Governments (Northern, Eastern and Western) relied heavily on money collected from taxes on agricultural products for the provision of roads, water supply and electricity in regional headquarters and other urban centres. High Institutions such as Ahmadu Bello University in the North, University of Nigeria Nsukka in the East and Ibadan University in the West were established with revenue from agricultural products.

Yet, for all the apparent growth and change brought about by rural producers, the benefits of such growth to the rural population have been negligible. The Government's effort of ploughing back some revenue to the rural sector took three main forms. Firstly, it took the form of Large Scale Plantations of Cocoa, Rubber, Oil palm, Groundnuts and food crops through various production companies as well as farm settlement schemes as stated above. But the performance of these projects have not been very satisfactory. The second strategy also used was the subsidy approach. This approach allows the public sector to provide highly subsidized infrastructures to the rural people in order to stimulate growth and development. These infrastructures included facilities such as irrigation, transport, fertilizer and storage. The third approach in the area of agrarian reform in Nigeria has involved the provision of farm inputs, extension services, agricultural research, crop and animal protection, soil conservation, roads and water supplies in a package called "Integrated Rural Development" (I.R.D). The intended objectives of these programmes are to raise the level of earnings of the rural dwellers so as to facilitate agrarian reform and rural development that would hopefully result in a rapid growth as well as a better quality of life for the ruralites.

1.2 STATEMENT OF PROBLEM

The subject of rural development is both wide and complex. Although there is no consensus about the meaning of the concept, the word rural has many dimensions, including economic, sociological, psychological, ethnic, racial and geographical (Famoriyc, 1982). Because of the poverty-dominant characterisitcs, Nigeria's rural population has been variously referred to as the "neglected rural majority" (Olatunbosun, 1975) or the "stagnant sector" (Anthanio, 1967) in the Nigerian economy. Ijere (1978) refers to ruralites as "victims of collective underdevelopment".

These are adequate descriptions, for the rural population collectively lacks purchasing power to enable them acquire the basic necessities of life. There is also a serious underdevelopment of Nigeria's rural sector with respect to infrastructure such as water supplies, transportation and electrification. Although rural lands are populated, little surpluses are produced because of problems of evacuation. Further there are great losses during harvests due to poor transport.

Response of rural youths to lack of amenities in their environment is rural-urban migration. The response of the rural adults to same is lack of interest in producing food beyond subsistence. Consequently food production in Nigeria has been growing at a rate of only 2.0 percent per annum vis-a-vis population growth rate

of 2.5 - 3.0 percent per annum (Famoriyo, op.cit).

One may conceive the process of rural development as involving efforts made to increase the level of per capita income in the rural areas and also increasing the standard of living of the rural population in general. Most of the programmes of the rural development in Nigeria are infact associated with the achievement of these twin objectives.

It may also be stated that the concept of rural develoment has spatial and occupational dimensions. For instance, the spatial index tells us the percentage of the number of people living in the rural areas while the occupational index is an indication of the number of people in the rural areas who depend upon agriculture for their livelihood. Both indices are usually approximated to each other as non-rural people usually engage in non-agricultural pursuits. Given that the economy is predominantly rural, the solution to the problem of economic development therefore depends largely on increasing the productive capacity of these areas. Increasing productive capacity of these areas amounts to giving a thrust to development through the main activity sector-agriculture.

The central issue in rural development is, or should be the development of the rural person both economically (increasing agricultural productivity and

hence per capita income) and socio-culturally (increasing the level of awareness of the rural persons, encouraging full participation in their affairs and increasing the standard of living of the rural population). In Nigeria, about 80 percent of the population live in the rural areas. (Famoriyo, op.cit)

There are problems facing increased productivity in the rural areas. These include traditional bottlenecks of ignorance, illiteracy, cultural and institutional rigidities, inadequate infrastructure, marketing facilities, price instability, and inefficient techniques of agriculture and craft (Teriba, 1972, P.146). Teriba argues that since increasing productivity in the rural economy is a function of improved techniques which is also a function of the capital base, the existence of a "credit Trap" militates against rural development. The vicious circle of low output which yields low income that in turn yields low savings and low investment, reduces productivity; hence the need for credit. Teriba also attributes low productivity in the rural areas to the improper mobilization and channelling of such resources in productive sectors. He concludes that the "... relatively low savings ratio in rural households is ... not exclusively due to inefficient production; it is also due to the absence of institutional agencies to mobilize savings" (Teriba, op.cit).

To this effect, Arthur Lewis (1955) emphasises the importance of savings among the peasants in view of the role agriculture plays in economic development. The required growth in agricultural productivity requires some capital investment and the government could set aside some money to lend to farmers through rural banks or credit societies. He asserts that this method is necessary especially where there is decreasing productivity in agriculture. Lewis (1955, P.229) further states that the amount of savings depends on how widespread savings institutions are; and that if the institutions are brought right to the doorsteps of individuals, people will save more than if the nearest savings institution is some distance away.

In recognition of the "Credit Trap" and financial constraints that impede development of rural areas, the Federal Government of Nigeria established the "Agricultural Credit Guarantee Scheme" (ACGS) and the Rural Banking Programme (RBP) within its framework of the Integrated Rural Development Programme (Oguzo, 1987). The ACGS is to provide loans for investment in agriculture while the RBP aims at providing banking facilities in the rural areas. The RBP is aimed at mobilizing the rural savings through the established commercial banks, and rechannelling same to the productive sector - especially agriculture. The programme aims to promote saving habits and remove

financial constraints in the rural areas. It is hoped that the increase in savings and investment levels would lead to increased productivity and transformation of the rural areas.

In short, the twin problems are basically that of mobilizing savings and redirecting same for productive purposes in the rural sector. However, it has been noticed that the banks have failed in this bid. This is shown by the existence of local money lenders who according to Griffin (1979, P.27) lend at high interest rates in the rural areas. As a result there has been continued decrease in the production of the rural sector.

In brief, the main issues this research seeks to address are:

What accounts for the failure of commercial banks to mobilize adequate savings and rechannel same for rural development in Borno state; and since the establishment of RBP, has the solution to the basic problem of credit trap and financial constraints in the rural areas of the state been obtained? Do rural dwellers really benefit from this process of financial reallocation? This study intends to address these issues.

1.3 OBJECTIVE OF THE STUDY

Determinig the extent to which rural banks contribute in generating and supplying financial resources for rural development in Borno State is the objective of this reaearch. This objective thus focuses on the

following:

(i) examining the extent to which the Rural Banking Scheme has achieved the goals for which it was set-up in Borno State;

(ii) analysing the extent to which the rural population in Borno State are utilising the facilities of the rural banks at their disposal;

(iii) identifying and assessing the main operational difficulties facing the rural banks in Borno State; and

(iv) studying the possibility of introducing entirely new rural banking system in the state.

1.4 HYPOTHESES

For the purpose of this research we posit the following hypotheses: Firstly, that the financial credit gap between rural and urban economies continues to widen in favour of the latter. This is because one of the broad objectives of rural banking system is the creation of credit for the transformation of rural economy. Secondly, that the traditional credit institutions still survive as the most important sources of financial capital in the rural areas even after the establishment of Rural Banking Scheme. And thirdly, that adoption of a new rural bank model is possible and acceptable.

The research sets out to test only the preceding hypotheses leaving the rest of the objectives of the Rural Banking Scheme because of the simplicity of the method employed.

1.5 JUSTIFICATION OF THE STUDY

It is generally believed that the banking system plays an important role in economic development. It is therefore hoped that the expansion of the level of financial intermediation will lead to increase in the productive capacity of rural economy through the saving-investment process. But after a decade of implementing the Rural Banking Programme in Nigeria, the level of economic activities in the rural sector is yet to record the desired growth. It is therefore justifiable to investigate those conditions within the system that hinder the achievement of the desired objectives in Borno State.

1.6 SCOPE AND AREA OF THE STUDY

Because the topic is so wide, the focus of the study is limited to mobilization of savings and supply of credits within the rural sector by rural banks for the development of agriculture and cottage industries in the area of study.

The study is conducted in Borno state. Borno state is one of the most northerly states in the Federal Republic of Nigeria. It lies approximately between latitudes 10.02'N and 13.04'N and longitude 9.08'E and 14.04'E. It has the largest physical land area among the twenty-one states of Nigeria, covering an area approximately 116,589 square kilometres which is about 13 percent of the total land area of Nigeria (Borno State, 1983, P.3) This vast land area is bounded to the North by Republic of Niger and to the North-East and East by the Republics of Chad and Cameroon respectively. It also shares common boundary with Gongola, Bauchi and Kano states (See fig.1). Maiduguri the state capital lies 11'N and 13'E.

The geographical location of Borno state has placed it at a disadvantage climate wise. Generally, for the greate part of the year the climate is hot and dry, with a short spell of rainfall from the months of June to September. The period of rainy season varies within the state. While in areas to the northern part of the state rainy season lasts for less than three months, areas like Biu and Uba in the southern part enjoy rainfall which starts as early as April and ends October.

Generally, the climate of Borno state allows the cultivation of crops like Millet, Guineacorn, Maize, Cotton, Beans and Groundnuts. Farmers in the state are engaged in the cultivation of these crops and raring of animals as dictated to them by their physical conditions.

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ing in the Lake Chad also forms part of the occupation of Borno state people.

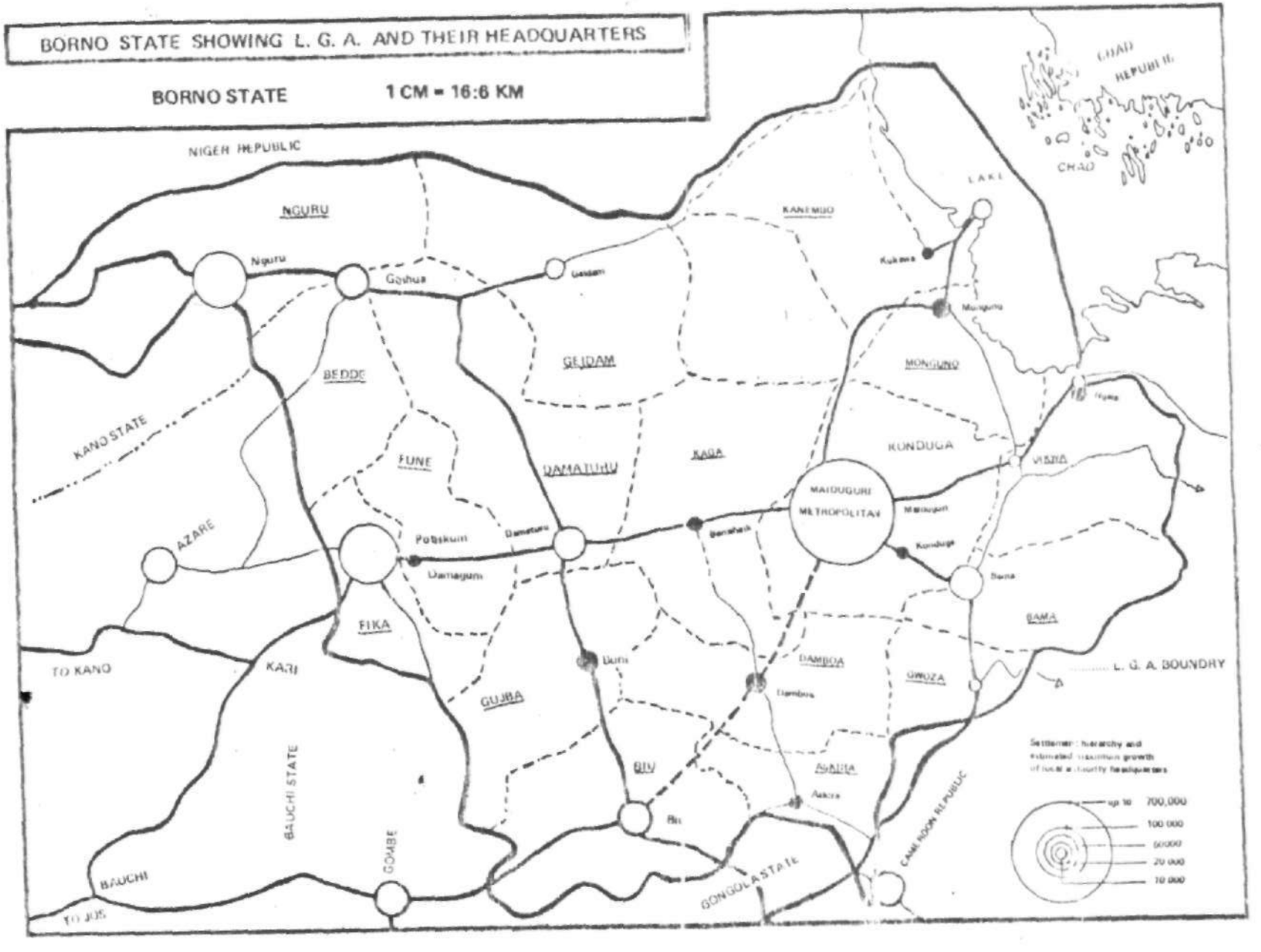
Borno state is made up of 18 Local Government Areas created in 1976.

Beside farming, petty trading is also an important occupation in the state. Small business establishments are found in every nook and corner of the state. The total number of business establishments in the state in the state in 1985 was 2,589 (Borno state, 1985). The most predominant business activity is retail trade which constitutes about 30 percent of the business establishments enumerated by Borno state Statistics Office in 1985. Next in size is restaurants/cafes while wooden fixtures and furniture come third, followed by grain mills and bakeries.

The state Government has been promoting the growth of industries in the state, particularly the small scale industries through the Small Scale Industry Scheme by granting loans to individuals and industries.

Other common business activities in the state are banking and insurance. The following banks exist in Maiduguri the state capital only: Premier Bank, Allied Bank, Federal Mortgage Bank, Nigerian Agricultural Bank, Savannah Bank, African Continental Bank and Nigerian Bank for Commerce and Industry. Also the following banks are found in Maiduguri and their branches in some rural areas of the state:

United Bank for Africa - branches at Askira, Mallumfatori, Yusufari, Kukawa and Gadaka;


BORNO STATE SHOWING L. G. A. AND THEIR HEADQUARTERS
BORNO STATE
1 CM = 16:6 KM
NIGER REPUBLIC
CHAD
LAKE
NGURU
Nguru
Gashua
KANEMO
Kukawa
Monguno
GEIDAM
BEDDE
MONGUNO
KANO STATE
FUNE
DAMATURU
KAGA
KONDUGA
Potiskum
Damaturu
Damagum
MAIDUGURI METROPOLITAN
Maiduguri
Konduga
Bama
AZARE
FIKA
BAMA
TO KANO
KARI
Buni
DAMBOA
GWOZA
Damboa
L. G. A. BOUNDRY
GUJBA
BIU
ASKIRA
Askira
BAUCHI STATE
GOMBE
BAUCHI
TO JOS
GONGOLA STATE
CAMEROON REPUBLIC
Settlement hierarchy and estimated maximum growth of local authority headquarters
up to 700,000
100 000
50000
20 000
10 000

Bank of the North - branches at Lassa, Goniri, New Marte, Benesheik and Dapci;
Union Bank - branches at Chibok, Talala and Gamboru;
International Bank for West Africa - branches at Gwoza and Banki;
First Bank - branches at Damboa, Konduga, Damagum, Damaturu, Geidam and Ngamdu;
National Bank of Nigeria - branch at Manguno; and
Bank of Credit and Commerce International with a branch at Ngelzarma.

Insurance companies like Leadway, British American and so on are found in Maiduguri and their branch offices in most Local Government headquarters.

1.7.1 METHODOLOGY AND DATA COLLECTION:

Primary and Secondary sources of data are used for this research. The research relies heavily on primary data collected through the administration of questionnaires. Two sets of questinnaires (appendices A and B) were prepared and addressed to the relevant rural banks, individual farmers and Local businessmen in twenty-three rural areas of Borno state. The twenty-three bank branches considered to be rural are those listed in section 1.6 above.

The task of this research is made considerably more difficult by the problem of the areas which should be considered rural so that a precise and generally acceptable definition of the key phrase in the title of the work-'Rural Banking' is applicable. Adewunmi noted the difficulty of defining a rural area and asserted, "it is easier to decribe a rural area of a country than to define it" (Osuntogun, et al. 1983, P.32). Compounding the problem further, what is a rural community in Borno State may not be so in other states of the federation because some states are more or less urbanised than Borno state. However, this research considers rural areas in Borno state to be those areas which have less social amenities such as NEPA - supplied electricity and less or no high institutions such as Colleges of Education, Universities, Polytechnics and so on. This brief description of what a rural area is in the state excludes only six out of eighteen Local Goverment headquarters. The six local government headquarters are Bama, Biu, Gashua Maiduguri Metropolitan, Potiskum and Nguru. The research covers the remaining areas of the state where there are bank branches.

The research is made relatively easier by the existence of Borno state Ministry of Finance, Statistics branch Offices in each Local Government headquarters of the state. Trained enumerators of the Statistics branch Offices were used in administering the questionnaires to rural bank branch Managers and interviewing farmers and Local businessmen. Farmers and Local businessmen interviewed are randomly

selected. At least 5 farmers/or businessmen in each rural area where there is bank branch were interviewed.

Secondly, data such as government publication and publications of Central Bank of Nigeria, Commercial, Merchant and Development banks are used. The data obtained are computed into percentages, from which descriptions and inferences are made to reflect the whole area of study. This is more appropriate since data generated spread spatially over the study area. Other statistical measures in form of tables and charts are also used.

1.7.2 SAMPLING PROCEDURE

The rural bank branches are scattered all over the State. As at the time of the research, there were 23 bank branches in the rural areas of Borno state. The total projected population of the areas according to Borno State Statistics Office is 1,160,584.

The descriptive Statistics used in this study is the interveiw type. This method is generally regarded as the 'Par excellence' of social sciences (Oguzo, op.cit). It is the case for behavioural sciences that the best way to findout things about people is by asking them or their friends. The structured interviews took the form of questionnaires. All the rural bank branches were given the questionnaires although three of them did not respond. Samples of individual farmers and or businessmen had to be taken since everyone of them could not be interviewed. Ten persons in each area of rural bank operation were

interviewed. Deciding on equal number of persons in each area of rural bank operation, irrespective of its population size was considered more appropriate to ensure even spread of sampling units. Simple Random sampling technique was used to obtain the ten persons in each area. Thus, a total of 200 persons were interviewed.

1.8 ORGANISATION OF WORK

This thesis is presented in five chapters. The first chapter introduces the work and specifies its focus. Chapter two examines rural banking as a strategy for rural development. In this chapter, a review of evolution of modern banking system in Nigeria will be attempted and also see the working of rural banking in some Asian countries. Rural Banking Programme in Nigeria and the phases of the scheme will be highlighted in this chapter.

Chapter three looks at modern banking and rural banking attitudes. Rural banking objectives; Customers and Utilization of rural bank facilities; and deposits generation and granting of lending facilities will also be analysed.

Chapter four analyses main occupation of the respondents, landownership and size of family, rural credit sources, banking habits of the rural communities, and rural entrepreneurs' view of the proposed pilot model while chapter five summarises the study and makes some policy suggestions.

CHAPTER TWO

RURAL BANKING AS A STRATEGY OF RURAL DEVELOPMENT

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2.1 EVOLUTION OF MODERN BANKING SYSTEM IN NIGERIA

The historical trends and analysis of the banking industry in Nigeria is discussed to assist the researcher in the understanding of the philosophies that guided the early entrants into the nation's banking industry and to appreciate the trends of quantitative growth in the number of banks and their branches, and their concentration patterns in terms of location and distribution of their services, all of which have wider implications in the overall economic development of the country.

Modern banking in Nigeria dates back to the early colonial period. This was the period when the activities of transnational corporations, the financial transactions of the colonial Government, the decline of the barter system of trade and the increasing acceptance of British silver coins, created the need for an institution in the form of commercial banks for safety and transmission of funds, the importation and distribution of British coins, and provision of credit to the government and the trading companies (Uzoaga, 1981, P.65).

It was for the above purpose, in 1892 that the African Banking Corporate of England was invited to open a branch office in Lagos by the Elder Dempster and company, a shipping firm based in Liverpool, offering passenger and freight services between Liverpool and West African

ports. But due to some difficulties, the bank was taken over in 1894 by Elder Dempster and company, with a new name as Bank of British West Africa (later changed to Bank of West Africa, then Standard Bank and now First Bank). Registered in London, the bank started with an authorised capital of £100,000. Due to the success of the Bank of British West Africa, other organisations soon began to interest themselves in banking opportunities in the country. This led to the establishment of the Anglo-African Bank later known as Bank of Nigeria, which soon collapsed. Others were the colonial Bank (which changed its name to Barclays Bank DCO and now Union Bank; the United Bank for Africa (UBA); International Bank for West Africa (IBWA); Indo-Nigerian Merchant Bank (formerly Bank of India); Bank of America (now Savannah Bank) and the French Societe General Bank.

The role of financial institutions, particularly commercial banks in promoting economic development of a nation can not be over-emphasised. Nwani(1972) on the role of financial institutions in economic development of Nigeria has the view that "such major importance as pooling of financial resources through surplus savings for the purpose of lending to deficit sectors, dissemination of financial education and employment of Nigerians, are some of the major attributes of the commercial banks in the country". Though the single most vital role of banking system is mediating between those who have surplus

savings to lend and those who need to borrow funds, however, the crucial issue worth discussing is the efficiency of the commercial banks to effectively implement this function, especially in a developing economy like Nigeria's.

The establishment of foreign commercial banks in Nigeria before independence had very limited relevance to the economic realities of the country's colonial economy, because the banks serviced mostly the interest of the metropolitan based entrepreneurs and their agencies. In other words, the development of the commercial banks served only as instruments of exploitation and expropriation of resources from the Nigerian economy and, as such were inconsistent with the local needs, interests and aspirations for economic development. In fact, Adekunle (1979) argued that "the banks served as a clear channel for the economic retardation of the economy. They exported savings from Nigeria to the United Kingdom. Part of the mobilized funds was only brought back on a seasonal bases to finance the export trade".

This assertion depicts the fact that no conscious effort was made by the colonial authorities and the banks themselves to ensure that the banking industry was made more relevant and adaptable to the structural problems of the underdeveloped Nigerian economy. The main banks operating in the country were branches of banks of the metropolitan countries, whose activities were based on decisions taken at their overseas head offices. This exploitative strategy was not appreciated hence the birth

of indigenous banks.

The fact that the first spate of indigeneous banking came at a time of acute world-wide depression, lent some credence to the view that indigenous banks were born out of frustration which was experienced by many Nigerian businessmen in their attempt to obtain credit and other facilities from the existing expatriate banks. This allegation, according to Awosika (1984) was a fact since the indigenous businessmen did not obtain loans easily and, when obtained, the interest rate were high. The allegation was equally confirmed by Nigeria's branch Managers of the Barclays Bank to the visiting West Africa's General Manager of the bank, who told the General Manager that they had no African borrowing customers because they know of none who were sufficiently credit worthy (Crossly and Blandford, 1975, P.258). While on the other hand, Uzoaga (op.cit., P.71) noted that "Europeans, Asians and Levantine communities appear satisfied with the existing credit facilities provided by the banks". To make it even worse, the foreign banks' profits were not invested in Nigeria but in Europe, a situation which was seen as a form of exploitation. This situation led to several abortive attempts to establish locally-owned and managed banks to break the foreign monopoly in banking. Later several local banks were able to succeed, and are still operating. Such local banks include the National Bank of Nigeria, African Continental Bank

(formerly Tinubu Bank), the Agbonmagbe Bank (now Wema Bank) and other state-owned and privately owned banks.

Inspite of the fact that the local banks tried to cater for the aspiration of the national economy, they achieved little since they were unable to reverse the trends set by the large foreign banks. The indigenous banks in fact came to operate on the principle of 'if you cannot beat them, join them.' Thus the local banks were forced to operate but in the fringe of banking in their own economy. The unhealthy development necessitated the need for national aggressive banking policy which would force the commercial banks to be prime movers of the national economic development. This led to the establishment of the Central Bank of Nigeria (CBN) in July 1959 with the main aim of developing a sound financial system, capable of facilitating national economic development. The CBN was therefore charged with, among other functions, the power of controlling the activities and performance of the commercial banks in line with the needs and objectives of the economy. But the problem to grant credit facilities to promote the development of the national economy persisted. Table 2.1 empirically shows the fact.

TABLE 2.1

MATURING PATTERN AND PROPORTIONAL DISTRIBUTIONS OF LOANS, 1963 - 1968 (%)

Ownership of Banks	Year	Maturing with 3 months	Maturing between 3 - 6 months	Maturing between 6 - 12 months	Maturing later than 12 months
Expatriate Banks	1963	88.1	1.9	5.0	5.0
	1964	88.2	2.6	2.8	6.4
	1965	87.8	4.3	2.9	5.0
	1966	70.6	17.1	6.0	6.3
	1967	75.9	14.2	5.4	4.5
	1968	79.7	11.6	4.0	4.7
	Average	81.7	8.6	4.3	5.3
Indigenous Banks	1963	20.7	41.9	20.1	17.3
	1964	15.0	44.7	20.2	20.1
	1965	21.0	41.1	17.6	20.3
	1966	24.2	32.7	17.1	26.0
	1967	20.5	42.6	13.1	23.8
	1968	22.4	41.3	18.7	17.6
	Average	29.6	40.7	17.8	20.8

Source: CBN, Economic and Financial Review, June, 1969, P.6.

Though credit facilities like deposits generation are dominated by expatriate banks, the table above has shown that credit resources were concentrated on seasonal or very short-time investments. For instance, on the average, about 82 per cent of expatriate banks' loans and

advances were of 3-months maturing. Further observation from the table shows that their credit lines maturing within 3 to 6 months, later than 12 months, and 6 to 12 months came second, third, and fourth in order of priorities in their credit advancement. Worth noting is the fact that between 1966 and 1968, the proportion of their credit resources diminished gradually in all categories, except within a three-month period which increased substantially.

From this analysis, the conclusion made is that the banks failed to take into account the credit requirements of the nation's agrarian economy which mostly falls between medium-term and long-term investment. In fact even industrial development on equity basis was not favoured.

The above postulation was supported by Nwankwo (1980, P.75) who pointed out that:

> Even in the developed countries - the United States, Japan and Europe where there are alternative lending institutions, the commercial banks nevertheless undertake mixed banking and grant medium - and long-term credit to a large extent. Yet in Nigeria, as in other developing countries, where the expatriate banks dominate the banking system and at times are the only effective sources of credit, they concentrated their lending to the very shortest and of the spectrum.

Ojo (1976, P.37) and Uzoaga (op.cit; PP.68 - ff) portrayed similar picture as Nwankwo, and later came to the conclusion that Nigerian commercial banks in general neglect the agricultural sector and merely service, rather than finance, industry and commerce.

Commercial loan theory which was outgrown in European banking practice was put forward by expatriate banks to justify their action. This theory believes that a commercial bank's liquidity is secured as long as its assets are held in short-term loans that would be liquidated in the normal course of business. In other words, commercial banks should avoid as much as possible financing medium - and or long-term ventures with high risks and uncertainties. The assumption of the theory is that compared with long-term, short-term credit gurantees much safety. While the former even when credit resources are prudently invested, ensures a relatively long period of gestation and immaturity especially with infant industries, coupled with the high risk of fluctuation in investment value which may endanger a bank's assets. But the latter entails better estimation and calculation of unforeseeable risks at the shortest possible period.

The application of the theory in a developing economy like ours is unrealistic, because the theory fails to take into consideration the credit yearning of the country's agrarian economy. Consequently, it has discou-

raged the banks to commit their huge financial resources to even viable productive sectors. Secondly, the application of the theory in our developing economy, exposes shortcomings of the commercial banking system from equipping itself with the techniques of analysis of long-term projects, unlike its counterpart in the developed economies. Thirdly, for the banks to apply and insist religiously on credit worthiness and collateral security of a potential end viable local entrepreneur, has limited relevance to the realities of our environment, because there are very few indigenes with tangible securities. Other factors which the banks should have considered in their operation are the various provisions made by CBN to come to their rescue if they genuinely run into difficulty.

These among other reasons limit the relevance of the commercial-loan theory to the nation's developing economy. Hence, it becomes urgently imperative to soften the content of the theory to conform with stark reality of our national development.

For commercial banking in Nigeria even today is not radically different from what it was in the 1960s and 1970 despite the fact that 1969 Banking Decree and the Indigenisation decrees of 1972 and 1977 were promulgated, with the latter giving the Federal Government 60 per cent shares in all expatriate banks. The main objective of the three decrees is to enable local entrepreneurs to own and control the commanding heights of their own economy.

However, the main issue of the Nigerian commercial banking system is not one of ownership but of operational orientation. Indeed as Nwankwo (op.cit., P.81) noted, an institution may be predominantly owned, managed and controlled by indigenes and yet possess an operational orientation that is essentially foreign to the extent that it does not identify with the development objectives and aspirations of the indigenous economy. Hence most of the banks, including local banks, still see their primary role as the financing of large expatriate sector of imports of raw materials, manufactured and capital goods into Nigerian and the export of oil and other primary produce from Nigeria. To them, other functions are incidental and of secondary importance. This explains their concentration of offices and credit services in the major towns and commercial centres for maximization of profits. This view is supported by the major findings of the Nigerian Financial System Committee in 1976. As a result, the commercial banking activities have had adverse effects on the nation's rural economies and banking habits of a large segment of the country and its population.

It is this gross inadequacies of banking services and its attendant consequences in the rural areas that led the Federal Government in 1977, through the CBN to initiate and pursue the Rural Banking Programme. In the next section of this chapter, an attempt is made to

discuss the background to the Rural Banking Scheme with references coming from three Asian countries of Idonesia, India and the Philippines which coincidentally share some locational and other characteristics with Nigeria. The experiences of these countries are significant to Nigeria bacause they are developing nations, located in the tropics with large population mostly concentrated in the rural environment, and having similar socio-economic conditions. Above all, in the three Asian countries, rural banking scheme has achieved an appreciable measure of success and thus has some lessons to offer to Nigeria.

2.2 BACKGROUND TO THE RURAL BANKING PROGRAMME

Rural banking in Nigeria, unlike some countries in Asia especially Indonesia, India and the Philippines, has not been well developed despite the fact that it is now a deliberate government policy. In fact it is only the Nigerian Agricultural and Co-operative Bank (NACB), which was established in 1973 that brought rural credit administration along conventional banking lines. However, the NACB is not a rural-based bank, though it is aimed at serving the rural economy, as all its twenty offices are located in the big urban centres, perhaps with the exception of the few branches in Local Government headquarters such as the Funtua branch in Katsina State.

2.3. The Experiences of Three Asian Countries - Indonesia, India and Philippines

In Indonesia and India, where a system of rural banks exists, the banks have developed as quasi-co-operative association of borrowers, since they are managed by a committee of elected, credit-worthy villagers. When looking at Indonesian rural banking system closely, there are relatively large number of special kinds of village banks and rice warehouses or paddy banks, locally known as 'Desa' bank and 'Desa Lumbung' banks respectively. The banks have been operating since the early 1900s, and by 1967 there were 3,900 Desa banks and 2,868 Desa Lumbung banks (Biro Pusat Statistik, 1968, P.237) distributed all over the country. The Bank Rakjat Indonesia, otherwise called Indonesian people's Bank (IPB) and one of the country's largest banks, established by the Government largely to help provide finance for the development of the rural sector, supervises and assists both the Desa banks and Desa Lumbung banks. But the initiative for organising the banks mainly comes from the villagers.

In establishing a Desa bank, a collective decision is taken by village leaders, and they appoint one person, who is generally one of the better-educated villagers, to manage the bank. According to Emery (1970, P.213) the average Desa bank has a membership of about 200 households, and it is open only periodically, such as once a week, for business. Each Desa bank simply operates from an individual's home or a single room in a community

building, with a full-time employee keeping the bank's accounts and who generally services about four such banks, travelling from village to village.

The Desa banks provide small cash loans to farmers, traders and craftsmen, and the loans are in two forms. One is a consumption loan extended when the borrower is seasonally short of funds, and other consists of small loans to farmers for productive purposes. All loans are short-term, ranging from a week to a few months, and the rate of interest is very low as the banks are non-profit institutions. The sources of capital for the Desa banks come from village revenues' funds, interest payments by borrowers and disposits by villagers (Charlesworth, 1959, P.155). But it is important to note that Desa banks, unlike commercial banks, do not actually conduct a real deposit business, either demand or time. While Desa banks provide cash loans, Desa Lumbung banks equally extend small loans but mostly in the form of rice and other food items, which are to be repaid with interest in rice and related foodstuffs. It is important and interesting to note that the loan-repayment record for Desa banks and Desa Lumbung banks has been relatively good as Emery (op.cit; P.214) gives the level of loan default at only about ten per cent, as against about 20 per cent for the co-operatives. This achievement is due to local familiarity.

If the Indonesian model is a special case, the Indian experience is equally another one. Until the mid-sixties, banking policy in India relied mainly on co-operatives and the Imperial Bank of India for extension of banking into rural and semi-urban areas of the country. In fact that was the time, according to the Report of the Committee of Direction of All-India Rural Credit Survey (1952, P.32), when co-operative banks such as the Alamura Co-operative Rural Bank in Andhra State played a major role in providing rural areas with credit, and generally they serve as agents of mobilizing not only financial but human resources for rural development. Historically, India's commercial banks, like their Nigeria's counterparts had shied away from rural markets as their branch network and operations had a pronounced urban orientation.

However, in the last four decades, or to be more precise, in 1949, the Government of India took a giant stride to increase the banking facilities in its rural areas. This was the time when the Rural Banking Enquiry Committee was instituted at the instance of the Reserve Central Bank, the sole banker of the Government. The committee's terms of reference included among others, measures for increasing the banking facilities in rural areas. According to Wilson (1952, P.161), the committee's report helped in providing answers to many problems hindering banking services in the rural areas of India.

Coupled with nationalisation especially in the late 1960's, the situation has drastically changed as banks came under pressure to expand their operations to rural areas. In fact the pressure made the central government of India to link the issue of licences for establishing branches in metropolitan and urban places to the opening of branches in semi-urban and rural centres.

The government formerly had a policy which forced banks to open two or three branches in semi-urban or rural locations for every one office established in an urban place. But to give more priority to the rural unbanked centres, the arrangement was changed and in its place a new arrangement made it compulsory on banks to establish four offices in rural areas for each one office opened in an urban location. With this policy, within so short a time of a decade, there was an unprecedented rate of bank growth in the rural areas. For instance, the number of rural branches went up from 1832 in June 1969 to 11,802 by the end of June 1978 (Shah, 1983, 117).

Large number of banks in the rural areas may not be enough unless they provide intensive, effective and coverage of their desired services of mobilizing financial resources for rural development in the country. To achieve the purpose therefore, India has adopted different strategies, among which is Lead Bank Scheme. With this approach, India was divided into zones and lead or large banks were assigned for the development of

banking services in each zone. The second approach is the Village Adoption Programme, under which bank branches adopt a village or a cluster of contiguous villages for intensive financing of all viable and potentially viable farmers. In addition, the branches finance special area development schemes indentified by techno-economic studies of the villages. Agricultural Development Branches (ADBS), an innovation of the State Bank of India is another strategy adopted. There are specialist bank branches manned by a team of experts who are competent to formulate, execute, monitor and evaluate projects for area development, and assist the small farmers with credit and counselling. Each ADB is expected to operate over a reasonable wider area of contiguous villages.

In addition to the three approaches, moble banks, satellite banks and one-man branches have also been experimented by Indian banks, Mobile banks provide limited banking services to villages along the route of a mobile van on particular days and at prescribed timings. While services on the part of satellite banks are offered one of twice in a week, one-man offices operate for all working days, although with limited services.

With all these efforts however, substantial parts or rural India remained unbanked and this led in 1975 to a new approach to the problem of mobilizing financial resources for the development of rural areas in addition

to the already existing strategies. The new approach tagged Regional Rural Banks (RRBs) is sponsored by the lead or big commercial banks of the concerned regions, with main objectives of filling some credit gaps. They are established in regions where the credit gaps are pronounced and the large per centage of the population is landless rural labourers, but with good potential for agricultural development. In addition, they provide limited amounts of consumption loans. With these objectives in mind, Regional Rural Banks' services are confined to the 'weaker' sections of the society. The capital and the management control of the banks came from both the central Government and the commercial banks of the regions concerned.

In a survey carried out by a committee appointed by the Indian authorities in 1977 to review the performance of the RRBs, it was found that the performance was good since credit gaps had been filled, recoveries of loans and development of resources locally were better than those of commercial banks and better than co-operative banks in deposit mobilization (Shah, Ibid, P.125). This achievement was possible may be due to the fact that RRBs combine the more positive aspect of co-operative and commercial bank system, which has local familiarity and business sense, respectively.

Systematic rural banking in mobilizing savings on the model of the Philippines is equally worth noting. In the Philippines mainly as a result of the leadership and guidance of the country's Central Bank, a rural bank programme was created by the Rural Banks Act of 1952. Since that time, the government has sponsored and assisted financially the growth of a rural banking system but with the initial capital being supplied locally and later to be matched up to 100 per cent by the government (Donald, 1976). With the promulgation of the Act, the mobilization of local capital for productive investment was stimulated (Krinks, 1983, P.108).

Though the rural banks are organised, manned and largely owned by private citizens and are set up as stock corperations, however, a special Department of Rural Banks exists at the Central Bank of the Philippines to supervise the rural banking programme. One remarkable aspect of rural banking in the Philippines is that the rural branches provide credit only to the rural areas and at a relatively low rate of interest. Not only that, the bulk of the credits are short-term agricultural loans to small farmers. In addition, a rural bank is not only prohibited from extending credits to large and wealthy borrowers and from lending more than 10 per cent of its paid-in capital and surplus to any single individual or

firm, but must also maintain a minimum ratio of capital-to-risk assets of 20 percent (Emery, op.cit, PP.398-403). The small farmer credit programme of the rural banks in the country is a scheme of supervised credit under which loans can be granted without the usual collateral but with a stipulation on how the loan should be utilized, This is spelt out in a farm plan and budget which is supposed to be prepared by the farmer with the assistance of farm management staff.

More recent, small farmer credit schemes organised by the rural banking system centre on the improvement of the socio-economic conditions of the farmers. Under these shcemes the small farmer is viewed not merely as a production unit who must be provided with credit so that he can be a vehicle for increasing national production but as an object of development whose needs for improvement should be addressed in totality. These needs include an efficient input supply sytem, essential infrastructure, technical advice on farming, and marketing outlets when necessary. Some credits of the rural banks are also extended to merchants and small industrial entrepreneurs in the rural locations of the Philippines. The rural banking system has grown rapidly that Skully (1980, P. 312) provided a figure of 906 rural bank branches for the country.

As the three Asian rural banking experiences show it can be safely concluded that there is no unique way in which to develop a rural banking system. It must equally be pointed out that systematic rural banking on the models of the three Asian nations do not exist in Nigeria. What exists is a system of commercial branch banking with much inherent obstacles to mobilize rural savings and provide same for effective rural transformation.

2.4 RURAL BANKING SYSTEM IN NIGERIA

Following the recommendation of the Nigerian Financial Systems Review Committee (1977, P.6) on the extension of banking services to rural areas in 1977, the Federal Government mandated the CBN to implement the accepted recommendation. The bank responded with a master plan that is intended to inject the rural areas with bank branches, and to run in phases. The First Phase of the scheme started in July 1977 and ended in June 1980, while the second one covered the period between July 1980 and December 1983. However, to allow some commercial banks to fully comply with the directive of the CBN, the period of the Second Phase was extended by one year. The Programme has now entered its Third Phase and expected to end by July 1989.

As previously noted, at the time the rural banking programme started in 1977, Nigeria had only four hundred and ninety bank offices and branches but serving an estimated population of about 80 million and an area of about 920,000 square kilometres. This gave a very unfavourable bank-person ratio of 1:170,000 as compared with countries at similar level of development as Nigeria. At that time, for instance, India with its large population had a ratio of 1:52,000 while West Germany, United States and Britain had ratios of 1:9,446, 1:6,000 and 1:4,000, respectively (Olashore, 1976, P.49 and Umoh, 1984, P.31). The uneven bank-person ratio does not stop at global level but also is observed nationally. Table 2.2 shows that the geographical distribution of 477 branches in existence in 1977 was lopsided, with Lagos State alone having 100 (about 71 percent of the total) branches, while some states such as Bauchi, Niger and Gorgola had less than ten bank branches each. What was more lamentable was that within each state, most of the branches were concentrated in urban locations. Over 80 per cent bank branches, for instance, were urban-based (Abe, 1985, P.79).

To lend more credence to Nigeria's unfavourable bank-person ratio, the Chairman of one of the lending banks in the country, Alhaji Umaru Mutallab (1982, P.10) sadly said "population per bank branch ratio of 114,200 persons in Nigeria compares very poorly with figures for most other countries in the world" Figure alone cannot be

TABLE 2.2

Statewise Distribution of Commercial Bank Branches as at 30th April 1977

States	No. of Banks	% of Total	Population	% of Total Population	Persons per a Bank
Anambra	36	7.55	3,596,618	6.46	99.906
Bauchi	9	1.89	2,431,296	4.37	270,144
Bendel	48	10.06	2,523,092	4.53	52,564
Benue	10	2.10	2,427,017	4.36	242,702
Borno	13	2,73	2,997,497	5.38	230,577
Cross River	17	3.56	3,515,589	6.32	206,799
Gongola	6	1.26	2,605,263	4.68	434,211
Imo	31	6.50	3,695,263	6.64	119,202
Kaduna	27	5.66	4,098,306	7.36	151,789
Kano	22	4.61	5,774,840	10.37	262,493
Kwara	15	3.14	1,714,485	3.08	114,299
Lagos	100	20.96	1,443,568	2.59	14,436
Niger	7	1.47	1,194,508	2.15	170,644
Ogun	15	3.14	1,550,968	2.79	103,398
Ondo	24	5.03	2,727,676	4.90	113,656
Oyo	48	10.06	5,208,884	9.36	108,518
Plateau	12	2.52	2,026,657	3.64	168,888
Rivers	23	4.82	1,601,742	2,88	69,641
Sokoto	14	2.94	4,538,787	8.15	324,200
TOTAL	477	100.00	55,670,055	100.00	116,709

Source: Nwankwo G.O.(1980), The Nigerian Financial System, P.65.

used to support the fact that Nigeria is underbanked. Common experiences of long queues at the bank offices and the incredible length of time it takes to complete a very simple banking transaction like obtaining bank balances also bear testimony to this phenomenon. (See Court, 1981, P.16; Abdul-Rasaq, 1983, P.83 and Adeniyi, 1986, P.5).

It is this inadequacy of banking services that led the Federal Government through the CBN to initiate and pursue more vigorously the Rural Banking Programme.

Although much depends on the rural inhabitants of any given country, the basic objective of rural banking system remains true for all countries. In Nigeria, the objectives of the programme among others include: the encouragement of banking habits amongst the rural population; mobilization of savings from the rural areas for the purpose of channelling same to profitable ventures; creation of credit for the transformation of agricultural economy and by way of equity and loans for small scale industries, and reduction of migration from rural to urban centres by providing gainful employment avenues for rural population (Nigeria Banking Almanac, 1985/86, P.252). These objectives are laudable. To achieve the stated objectives, the CBN originally attempted to copy the Indian model by breaking the country into zones. As such Nigeria was divided into three zones and the three biggest foreign dominated banks and the three major indigenous banks were to be paired and act

as lead banks for the development of banking services in each zone's rural areas. But this plan was abandoned according to Olashore (op.cit, P.52) for the following reasons: The inadequacies of banking services in the rural sector are not uniform nor of equal intensity in the three zones, and as such the burden would not be shared equally among the leading banks. Secondly, other banks might not feel obliged to participate in the rural banking programme, and might continue to restrict their operations to the more profitable urban centres without undertaking any sacrifice for social and economic development of the country. Thirdly, a fresh imbalance might be created as banks may rush to operate in a certain zone. Above all, the zoning model provides banks too much option like the previous method of persuasion which the banks might not comply with, and thus jeopardising the objective of the whole programme.

To avoid these obstacles, the CBN formulated another method which relates each bank's rural branches to its total branch network throughout the country. This ensures equitable distribution of rural branches in the country, as well as fairly sharing among the banks the burden of rural expansion. To make the method work, branch allocations were made in the following patterns: Where there was a rural town of 50,000 population; in the headquarters of a local government area where there were suitable institutions available; and at the directive of

the CBN as Banking Decree of 1969 gave much power to it (CBN) to ask any bank to open a branch in any location (1969 Nigeria Federal Republic Official Gazette 56, P.A4).

Since according to the CBN rural banking survey, there were as many as 1,126 centres needing banking services, the bank decided to execute and control the Rural Banking Programme in phases.

2.5 Phases of Rural Banking Programme

In this section, the first two phases of the scheme are discussed and later their performances briefly appraised. Under the first Phase of the Programme which was launched in June 1977, two hundred centres were identified and allocated among the eighteen commercial banks. In identifying the 200 centres of the First Phase, priority was given to local Government headquarters. However, the capacity and size of each bank to perform, and the extent to which each of these banks had willingly established branches in the rural centres were carefully considered by the CBN in allocating the branches. The phase required all the participating banks to establish all the branches assigned to them not later than end of June, 1980.

Looking at Table 2.3, there is no doubt that the First Phase of the Rural Banking Programme was a huge success. This is because the completion records of 94 percent and 97 percent were achieved by June and by the

end of December 1980, respectively. The completion records also indicated how seriously the banks received the programme inspite of some obvious operational obstacles. In fact, only four banks with total number of six branches failed to complete their allocated branches.

The second phase of the Rural Banking Scheme which took off immediately after the First Phase ended on 31, December, 1984 after a year's extension. In the Second Phase the total branches expected to be established were increased to 266. Subsequently, the centres were identified and allocated among the twenty commercial banks. For the phase, the criteria used in allocating the branches were the size and branch network oi the banks throughout the country. In addition, no bank, however small, had less than 6 branches allocation. To help in identifying the 266 centres, the various state governments using CBN's criteria supplied the lists of centres where priority attention was needed most, which the Bank used to base its selection away from Local Government headquarters but to population, industrial and commercial centres.

Table 2.4 indicates that as at December 1983, at the time when the phase was expected to end, only 181 branches (68 per cent of the total allocation) were set up. The table also shows that even though the period covering the phase was extended by one year, only 229 branches (86 per cent of the total 266 allocations)

had been established, there by leaving as outstanding thirty-seven branches unopened. However, according to the CBN's Annual Report and Statement of Accounts (December 1985, P.116), "based on exhortations" nineteen more branches were opened in 1985.

The Rural Banking programme in Nigeria is now in its Third Phase which has a life span of four years. It took off on August 1, 1985. During the phase, as shown in table 2.5, a total of 300 rural branches are expected to be established by the twenty-eight commercial banks that were in operation in the country in 1985. In view of the fact that the present Third phase has a long way to go, assessments would appear to be very premature at present. Nevertheless, there is a strong probability that it has very limited chance of success during the specified years, going by the experience of the Second Phase. Moreover, the present phase has started under strong protest from the practioners (Bankers) who are expected to implement it. For instance, according to Yusufu (1986, P.3), the chairperson of the United Bank for Africa (UBA), at the Annual General Meeting of the bank complained that "the rate at which the programme had been executed imposed a great strain on the resources of the banking industry, that it would be counter productive if a moratorium is not observed". Likewise the chairman of the Bank of the North appealed in 1985 to the CBN to allow commercial

TABLE 2.3

Rural Banking Programme: Phase I Branch Allocations and Completion Dates

Banks	Allocation	Completion June 1980	Completion Dec. 1980
African Continental Bank	16	16	16
Allied Bank of Nigeria	6	6	6
Bank of Credit & Commerce Internationl	-	-	-
Bank of the North	6	6	6
Co-operative Bank Ltd.	5	3	5
Co-operative & Commerce Bank	7	4	4
First Bank	40	39	39
International Bank for West Africa	11	10	10
Kaduna Co-operative Bank	3	3	3
Kano Co-operative Bank	6	4	6
Mercantile Bank of Nig.	3	3	3
National Bank of Nig.	15	15	15
New Nigerian Bank	4	4	4
Nigeria-Arab Bank	7	5	7
Pan African Bank	5	5	5
Savannah Bank of Nig.	7	7	7
Societe Generale Bank of Nigeria	-	-	-
Union Bank of Nig.	27	27	27
United Bank for Africa	27	27	27
Wema Bank	5	4	4
TOTAL	200	188	194

Source: CBN, Annual Report and Statement of Accounts for Year Ended 31 December 1980, P.38.

TABLE 2.4

Rural Bank Programme: Phase II Branch Allocation and Performance as at December 1983 and 1984

Banks	Allocation	Completion 1983	Completion 1984
African Continental Bank	19	15	16
Allied Bank of Nig.	7	7	7
Bank of Credit & Commerce International	6	4	6
Bank of the North	19	8	19
Co-operative Bank Ltd.	8	6	6
Co-operative & Commerce Bank	8	4	4
First Bank of Nigeria	37	35	37
International Bank for West Africa	13	7	13
Kaduna Co-operative Bank	6	1	3
Kano Co-operative Bank	6	3	3
Mercantile Bank of Nig.	6	4	6
National Bank of Nigeria	19	5	6
New Nigerian Bank	9	2	4
Nigeria-Arab Bank	6	4	5
Pan African Bank	6	1	3
Savannah Bank of Nigeria	11	11	11
Societe Generale Bank of Nigeria	6	6	6
Union Bank of Nigeria	36	30	36
United Bank for Africa	32	24	32
Wema Bank	6	4	6
TOTAL	266	181	229

Source: Extracted from 1985/86 Nigeria Banking Almanac, P.255.

banks a breathing spell to enable them to consolidate and imptove on the branches already opened before a new allocation was made. Above all, according to the CBN's Annual Report and Statement of Accounts (1985, P.116), only three branches had so far been opened.

It seems natural and relevant for an evaluation to be made of how the rural banks contribute in transforming rural communities into viable and conducive systems for the general national development and growth. This is what the next chapter focuses on. But before then, attempt is made to directly relate the functions of the bank to economic growth and development through the savings investment process.

2.6 TRADITIONAL FINANCIAL INSTITUTIONS IN RURAL AREAS OF BORNO STATE.

The theoretical justification for the introduction or extension of modern bank services to rural areas is because of the existence of un-organised heterogenous money markets in the rural economy. These un-organised money markets are according to Oguzo (1987) referred to as Traditional Financial Institutions (TFIs). One of the main sources of fund of the TFIs is the deposit from individual members of the community. Once a man acquires reputation of honesty and refunds the money deposited with him on demand by the depositor, such a man wins people's confidence for safe-keeping then the flow of deposit from different members of his community to him continues. Since the depositors do not come at the same time to demand their deposits, such an individual can lend part of the deposits to other members of the community. In this way, such a member of the community becomes a money lender. The TFIs are made up of many individual money lenders. The TFIs give little or no interest to depositors and charge exorbitantly to borrowers.

Although the TFIs charge exorbitant interest rates, borrowers still patronise them because of the following reasons:

> First, the rural producers have no other alternative sources of credit. In the saving-investment process, financial intermediaries are seen as means of raising the saving/investment levels and to allocate more efficiently, scarce resources among alternative investments. Organised financial intermediaries such as modern banks are scarce or non-extent in the rural areas. Where the modern banks exist, their stringent lending conditions are not favourable to the rural producers. Secondly, the TFIs mode of operation is simple as compared to the time-wasting formalities of the modern banks. Borrowing from the traditional financial institution does not require high level of literacy (which majority of rural producers lack) to accomplish formalities.

Another important reasons for rural producers' preference for credit from the traditional financial institutions despite the high interest rate is that the collateral security needed by this source of credit is attainable. The collateral security needed by local money lenders in the rural areas include farmland, animals and even unmarried daughters. It is interesting to note that grown up daughters are important collateral securities among some communities of Borno State. This is because the borrower can give out his/her daughter to the lender as wife when the former finds that he/she cannot pay back the loan. The borrower's health condition is also considered as collateral security by local money lenders. So that a healthy and strong individual gets loan more easily than a weak person. The reason for taking the borrower's health condition as collateral security is that the borrower can work for the lender when the former can not pay back the loan.

The preceding reasons among others contribute to the existence of traditional financial institutions in the rural areas even after a decade of the introduction of the Rural Banking Programme.

2.7 THEORETICAL FRAMEWORK

The importance of savings and investment in economic development and growth is derived from the simple capital accumulation growth theory and the neo-classical growth theory (Oguzo op.cit; P.32). The most popular of these theories is the Harrod-Domar model (hereafter referred to as HD). Harrod and Domar rightly emphasised that the prime mover of the economy is investment and it has a dual role to play. First, it creates income and secondly, it augments the productive capacity of the economy by increasing its capital stock. Whereas the Keynesians concentrated only upon the former, the classicists emphasised the latter. The variables chosen by HD are the broad aggregates, for instance, investment, capital and output (Ghatak, 1978). The theory implicitly assumes that capital and labour are used in fixed technical relationship and that output is related to the capital stock by the capital-output (c/o) ratio. The concept of (c/o) ratio has greatly dominated the present theories of growth in LDCs and hence justifies some special attention.

TABLE 2.5

Rural Banking Programme: Phase III
Branch Allocations

Banks	Allocations
African Continental Bank	14
Allied Bank of Nigeria	11
Bank of Credit and Commerce International	16
Bank of the North	14
Commercial Bank(Credit Lyonnais Nigeria)	5
Co-operative Bank	9
Co-operative and Commerce Bank	9
First Bank of Nigeria	28
Habib Bank	6
International Bank for West Africa	15
Kaduna Co-operative Bank	5
Kano Co-operative Bank	5
Lobi Bank of Nigeria	6
Mercantile Bank of Nigeria	8
National Bank of Nigeria	10
New Nigerian Bank	8
Nigeria-Arab Bank	9
Nigeria International Bank	5
Owen Bank	6
Pan African Bank	5
Societe Generale Bank of Nigeria	15
Progess Bank of Nigeria	5
Savannah Bank of Nigeria	14
Sokoto Co-operative Bank	5
Union Bank of Nigeria	28
United Bank for Africa	28
Universal Trust Bank of Nigeria	5
Wema Bank	6
TOTAL	300

Source: CBN, Annual and Statement of Accounts December 1985, P.116.

Let Y be income or output

S = Savings, I = investment; and let C = S/Y, V = I/dY (the incremental capital/output ratio), where

dY = change in c income or output (Y).

g = dY/Y (rate of growth of Y). Now with fixed v, and given S = I in the equation, we have:

$$dY/Y = \frac{dY}{I}\ \frac{S}{Y} \quad \text{or} \quad g = \frac{c}{V}$$

Alternatively, in terms of a linear difference equation

$$\frac{Y_{t+1} = Y_t}{Y_t} = Cb$$

where b = output-capital ratio or

$$Y_{t+1} = Y_t + cbY_t = (1 + cb)Y_t$$

given that the proportional growth-rate of income equals the savings ratio times the output-capital ratio. The solution to the difference equation is: $Y_t = Y_o\ (1+cb)^t$

Although a solution to the model exists, the real problem that now emerges is related to stability. If we get away from the simple HD model where I is given by planned savings and where investment function based on expectations is absent, we can observe the problem even in the context of the Harrodian investment function of the accelerator type. The investment level is given by the expectations of additional demand and this investment via the multiplier generates effective demand. The real issues that Harrod confronted are:

(a) the conditions for realizing investors' expectations; and (b) the problems that emerge when the expectations are not realized (Ghatak, op.cit; P.23).

In reality Harrod's model stands on a knife-edge because if investors expect more than the rate "warranted" by c/v (i.e. "equilibrium" or "warranted" rate of growth) then the actual growth rate of demand will be greater than the anticipated rate leading to inflation as the expectation was too little. Conversely, if the expected rate of growth is lower than the warranted growth-rate, then the actual growth-rate will be less than the expected rate; it will mean that the investors expected too much rather than too little - deflation.

Apart from the problem of instability, the HD model is based on a number of simplifying assumptions, for instance, one product, fixed technological relationship between capital stock and income flows, constancy of savings ratio, absence of lags, vertical integration of the economy and no-problem about inter-industrial deliveries, no depreciation of capital and one-factor of production. But despite these restrictive assumptions, the HD model has been used in many countries either as a rationale behind the planning exercise or as a part of forecasting mechanism (Ghatak, Ibid).

The chief appeal of this model, perhaps lies in simplicity, Given, a target growth rate, g and v, it is easy to find out the level of c that must be realized to attain g. Again, if the sufficient level of c is not forthcoming to match a certain level of I to attain g then model states the required amount that should be borrowed from without. The model also predicts that given v, the higher the c, the higher is the g, or the lower the v with given c, the higher is g.

However, the application of the HD model is beset with many difficulties. First, the model is too aggregative and hence do not provide the basis for a detailed quantitative study, nor does it highlight the structural and regional problems.

Secondly, the problem of estimation of capital is not easy in any country (Robinson, 1956) and is particularly difficult in LDCs. Thirdly, the data available on most LDCs are such as to make the reliable estimate of capital-out ratios very difficult. Lastly, labour along with capital is another input in the process of production. Even in so-called labour surplus LDC, evidence suggests that such surplus is sometimes observed only seasonally.

CHAPTER THREE

BANKING AND RURAL BANKING ATTITUDES IN NIGERIA

CHAPTER THREE

BANKING AND RURAL BANKING ATTITUDES IN NIGERIA

As noted earlier rural banks in Nigeria, as elsewhere, are established to assist in promoting the socio-economic development of the nation's rural environment, where shortage of capital continues to form a barrier to the effective transformation of the sector. In what follows the analyses of rural banks' achievements and problems in relation to Borno State are focus of attention.

Twenty-three rural bank branches were served with questionnaire. The 23 rural bank branches covered by the study belong to seven banks. These banks are; Bank of Credit and Commerce International (BCCI), Bank of the North (BON), First Bank (FB), International Bank for West Africa (IBWA), National Bank of Nigeria (NBN), Union Bank (UBN) and United Bank for Africa (UBA) (See Table 3.1).

3.1 Rural Banking Objectives

From the response of the questionnaire, all the twenty rural banks that responded explicitly agreed that to comply with the directives of the CBN, is their foremost objective of opening the bank branches in the rural areas. 16 (80%) of the rural branches added as some of their objectives: to bring banking closer to

the rural people; and to generate enough funds within the rural communities, with a view of providing same for the development of agricultural sector of the rural economy.

On the surface, these objectives as enunciated by the banks, may be taken as laudable. The last two objectives are nothing new to what the Rural Banking Scheme sets out to achieve. However, the first objective which all the banks emphatically mentioned, appears to be as if the banks were forced into the rural areas, for only to avoid incurring CBN's heavy wrath. This may be a dangerous development to the whole Rural Banking Scheme, since the participating banks may co-operate fully in achieving effectively the objectives of the scheme, by way of not granting lending facilities to the rural communities, or by establishing only rural collection or deposits branch which tends to siphon the little funds generated within the rural sector only to invest in urban economy.

The above contention is supported by an empirical study on the role of banks in Rural Banking Development in Nigeria. Adewunmi (1983, P.39) in an interview, was able to discover from an executive of one of the commercial banks that "... their rural branches are run as deposit collection centres ... and that the deposits are employed in urban areas. Later, when the branch (rural) environment develops a capacity for absorbing even more

credit than their total deposits can support, the bank starts bringing back urban resources to the rural areas". This is a weak argument because the issue is, how and when could such rural environment 'develop' a need for credit lines when at the same time it is being impoverished and starved of financial capital for its socio-economic transformation.

From the objective of merely complying with the CBN's directive, it can be pointed out that the commercial banks were not as enthusiastic of the rural banking programme as were the Federal Government and Central Bank. On the allocation of bank branches to banks, an official of a commercial bank argued that "... with the allocation of branches by the Central Bank of Nigeria, there is an infringement of this normal procedure. The result may be a half-hearted performance from commercial banks at least in the short run" (Lot, 1983, P.19). Neither are the banks particularly interested in the Federal Government's focus on agriculture. Other empirical evidence from field data of this research as subsequently presented did not contradict the above postulation.

3.2 PHYSICAL FACILITIES

Based on Table 3.1, it stands clear especially observing the dates of opening the bank branches, that rural banking in the area under review is a recent

TABLE 3.1

BANK BRANCHES AND POPULATION SERVED

BANK	VILLAGE BRANCH	DATE OF OPENING	POPULATION SERVED*
B.C.C.I.	Ngelzarma	1985	33,703
B.O.N.	Lassa	1982	6,665
	Goniri	1984	31,302
	New Marte	1982	31,199
	Benisheik	1980	36,359
	Dapci	1984	12,831
F.B.	Damboa	1981	7,114
	Damaguna	1982	12,274
	Damaturu	1980	28,225
	Geidam	1978	46,367
	Konduga	1978	556,685
	Ngamdu	1983	12,276
I.B.W.A.	Gwoza	1979	168,316
	Banki	1985	17,868
N.B.N	Manguno	1980	32,633
U.B.N.	Chibok	1981	8,523
	Gamboru	1979	33,808
	Talala	1983	6,010
U.B.A.	Askira	1980	23,367
	Mallumfatori	1983	19,533
	Yusufari	1985	24,180
	Kukawa	1980	15,237
	Gadaka	1984	5,809
TOTAL	23		1,160,584

Source: Field Survey, Dec.; 1987

*Extracted from Borno State Statistical Year Book, 1983.

development. Most of the branches were established in the 1980s. Of the 23 branches, three branches do not have buildings of their own. The three branches are: Union Bank branch at Talata, United Bank for Africa branch at Gadaka and Bank of North branch at Dapci. It was revealed during the survey that the workers of the various banks go to their various branches on the villages' market days to provide banking services. The banks' operations take place in rented buildings usually in a house of one of the customers that has the largest deposits with the bank. The customers are kept informed that every market day the bank officials would be there and that withdrawals and deposits are made that day. The implication of being away from where services of bank are provided is that the loan financed ventures in such an area may not be under the supervision of the bank experts.

All the bank branches claim to offer deposits and lending services. No branch pointed out that it operated as collection centre. The areas covered by operation of the rural branches are not defined. A bank branch may sometimes serve about five contiguous villages but the population provided in the table is for the villages where the branches are located. The combined population of the villages is 1,160584. This figure gives an average of rural branch-person ratio of

1:50,460. From the table, it is observed that First Bank branch at Konduga serves the largest population, while U.B.A. branch at Gadaka serves the least. Using population and areas of coverage as variables, First Bank is leading while National Bank of Nigeria and Bank of Credit and Commerce International are trailing behind all other banks.

The response of the questionnaire shows that greater percentage of bank buildings are rented but with enough office space. This is commendable in that adequate bank office accommodation may promote a conducive atmosphere to both the bank staff and the customers, as it allows particularly free movement of staff in performing their duties. Rented bank buildings whose score is about 57 per cent could be understood and appreciated because substantial amount of money is expended in the forms of fat salary structure to such grossly underutilized bank staff in the rural branches, large establishment costs such as erecting new and permanent buildings with strong rooms, machinary and other operational costs. In fact land may not be readily available in rural areas for the banks to erect their permanent structures. Even when it is available, as one top management staff of a commercial bank in Maiduguri pointed out, "inflated compensation fees have to be paid on a piece of land simply because it is a

bank that needs it (land)." One notable point here is that commercial banks, which are only custodians of the depositors' wealth, perceive rural branches as heavy burden because such branches are not profitable due to very low business turnover.

However, commercial banks, though not charitable institutions but profit making ventures should morally consider rural banking as an added social responsibility on their shoulders towards raising the quality of life of the 'neglected rural majority'. After all, the problem of slim business in rural environment may be a temporary phenomenon, as in the long run after building up a strong customers' base and an image, greater business would be stimulated and generated. Thus past low profit performance would be compensated by higher future profits.

In fact, with all the allegation of high operational costs in the rural areas, Table 3.2 shows that commercial banking has remained a profitable venture. Even though Union Bank's profit performance in 1983 was down by about 6 per cent when compared with the 1982 record, the profit figure nevertheless remained high. Coupled with its good efforts in completing about 95 per cent of its assigned branches at the end of the Second Phase of the Rural Banking Programme, First Bank, at the same time had increased its profit before tax by about 10 per cent. Even for the other two banks, Union Bank and

United Bank for Africa, the 1982 profit before tax increased over 1981 performance. In fact it was only First Bank which recorded a decline in profits before tax in 1982. Inspite of the fact that it was First Bank that experienced the highest variability in profits during the period under analysis, however, raw figures and facts from the annual reports of the various commercial banks in the country showed that First Bank turned out the best performance. It is important to note that the profits of these banks have continued to rise despite the present economic recession. For instance, in 1986, Union Bank and Allied Bank declared a pre-tax profit of ₦103.7 million and ₦12 million respectively (CBN, 1987).

It is therefore hardly convincing to argue that return (profit) and risk of profit variability are of such dimension as to warrant commercial banks' incessant protest to cancel the Rural Banking Programme. An action which if taken will deny some rural folks the services of commercial banks which will in turn perpetuate the vicious cycle of poverty in the rural area.

TABLE 3.2

Performance of the Big Three Commercial Banks

Banks	Profit Before Tax (₦.Millions) 1981	1982	1983
First Bank	50.704	43.90	48.30
Union Bank	60.197	64.97	61.00
United Bank for Africa	42.865	52.40	-

Source: The banks' Annual Reports and Accounts of the various years.

3.3 Utilization of Rural Bank Facilities by Customers

Field survey data on table 3.3 depict that 20 of the bank branches have a combined staff strength of 196. U.B.A. branches at Yusufari and Gadaka and U.B.N. branch at Talala have not responded to the questionnaire. Expected volume of business determines the number of staff to be deployed to the branch.

The same table has also indicated a low turn out of bank customers, as the combined efforts of the 20 banks branches that responded is to mobilise and service 169 customers daily. The ratio of bank staff per customers in the area of operation is 1:2. From the response to the questionnaire, it is observed that early morning hours is the 'peak' business period of most of the branches, while few banks enjoy business 'boom' at

TABLE 3.3

Staffing and Use of Facilities

Bank Branch		No. of Staff	No. of Customers Attended to Daily
B.C.C.I.,	Ngelzarma	6	7
B.O.N.,	Lassa	8	15
	Goniri	6	7
	New Marte	11	19
	Benisheik	12	21
	Dapci	5	6
F.B.,	Damboa	9	19
	Damagum	14	22
	Damaturu	16	36
	Geidam	13	31
	Konduga	15	43
	Ngamdu	5	7
I.B.W.A.,	Gwoza	7	11
	Banki	5	9
N.B.N.,	Manguno	10	23
U.B.N.,	Chibok	6	8
	Gamboru	14	39
	Talala	-	-
U.B.A.,	Askira	8	17
	Mallumfatori	11	12
	Yusufari	-	-
	Kukawa	13	40
	Gadaka	-	-
TOTAL		196	392

Source: Field Survey, December, 1987

- = No response.

late morning hours. Virtually no bank has business transactions in the afternoon hours.

It is the contention of this research that currently most of the branches in the study area are overstaffed, taking into account the small volume of transactions. in many of these branches. In other words, the staff-customers ratio (1:2) is too high in the study area as Table 3.3 has shown

Despite problem of Low business transactions, highly-skilled staff are still being posted to these rural banks. A fully established rural branch, is headed by a sub-manager followed by an accountant, two to four clerks (including cashiers), a typist and three to five auxiliary staff. The latter are made up of drivers, watchmen, messengers and cleaners.

Surprisingly some of these rural branches are complaining of staff shortage. For instance, during a visit to one of these rural branches, the officer incharge who had 5 other workers with him complained of low staff strength. This is an irony, because for the whole day spent with the bank, only three customers came to transact business. Secondly, in all the rural branches visited, the greater percentage of the bank staff were found to be idle. In fact, the staff strength as weighed against the average number of customers attended to daily by the banks, further supports the contention.

The foregoing analysis help to support the view that inculcating modern banking habits amongst the rural communities in Borno State is making slow progress. Cultivating banking habits in the state, as will be shown by subsequent analysis, has been opposed by the informal saving system of keeping money outside the banking institution, only to be carried about around the waist or deposit away in pots, tins, pillow cases and under mats and mattresses. Thus, it is tempting to postulate that banks are not conducting salesmanship or advertisement of their business in the rural areas. If they, do, the campaign strategy is not only inadequate but also inappropriate. Data available from field survey of this research confirmed both shortcomings.

It is not surprising, as shown on table 4.2, that the rural populace, who have for long attached themselves to the traditional credit institutions such as money lenders, friends and relatives, 'adashi', and other similar credit agencies could not shift over to the alien-type institution, inspite of the latter's relative advantages. To change from the old known system to an unknown one may be a difficult decision to arrive at, as indicated in the subsequent chapter. Lawal and Sheikh-Usman (1986,P.8) in a study on the contribution of financial insitutions to the development of rural areas ~~to the development of rural areas~~ in Sokoto State, empirically attested this postulation. The study had

noted that there is no "integration of the traditional savings/credit system into the modern banking system being introduced in the rural areas". The authors, therefore, came to the conclusion that "comparatively low savings in the rural areas may not be unconnected with the very strange nature of the system to the rural community."

Commercial banks are partly to take the blame because enough salesmanship and or advertisement is rarely done to market their business and win more clients into the institutionalised financial system. Field data from the research show that eight banks indicated that they conducted advertisement. Most of the salesmanship strategies are: through local leaders, during ceremonial occasions, personal calls at some 'progressive' potential customers and by way of "approving and disbursing reasonable loans within a shortest possible period". Eleven banks have indicated failure to conduct advertisement in their areas of operation. Three banks said that their staff were not permanently attached to the branches, coupled with the fact that their staff stayed away from the branch locations after official banking hours, it was not possible for them to conduct advertisement. Seven branches submitted that they were not undertaking customer mobilisation advertisement because it was the duty of their Head Office since no financial allocation

was made to such effect.

As there is no doubt to the effect that conducting appropriate salesmanship and advertisement is a strong force in educating the rural populace to cultivate banking habits for favourable deposits mobilisation, table 3.3 has shown that customers patronage is very low compared to prospective customers in the areas of operation. Apathy towards rural banking development in the area of study can further be supported by evidence from the next chapter, and by raw figures on deposits generated in 1987, as supplied by 20 banks.

3.4 Deposits Generation and Granting of Loans

Nwankwo (1980, op.cit., P.152) pointed out that deposits mobilisation is the most valuable function of a financial institution, a function which for the purpose of lending stimulates and generates savings from sources of surplus funds to the deficit sector. Thus the amount to be supplied as loans and advances to such deficit sectors depends on the capacity of the deposits generated. The figures on table 3.4 demonstrate that the rural banks' deposits mobilization is not satisfactory.

The 20 bank branches that responded to the questionnaire on deposits generation for one year mobilized a total sum of ₦16,104,163 in the rural areas of the state. From the data available, U.B.A., Kukawa leads in the rural banking business, followed by F.B. branch Damaturu, Konduga, Geidam; and U.B.N. Gamboru.

Advertisement of the leading bank may be responsible for the comparatively more favourable deposits mobilization. However, it is important to note that comparatively the branches are located in a relatively more business-like rural environments than the other branches, beside being in a local government headquarters. Generally speaking, whatever criterion is used, the level of rural savings in the state is very low. In fact the above figures of deposits generated in the state coincide with the work of Yusuf (op.cit.,P.3), from the returns tendered in 1983 by 15 out of the 20 banks that participated in the nation's Rural Banking Scheme. The study established that ₦350 million or 3 per cent of ₦13.5 billion deposits generated within the banking system came from the rural areas.

Also worth noting from table 3.4 is the percentage of loan and advances granted to the customers in relation to the amount of deposits generated. Figures made available by the 20 rural branches reveal that F.B. branch at Damaturu leads with 40.15 per cent, followed

TABLE 3.4

Deposits and Lending for 1986

Bank Branch		Deposits Generated	Loan and Advances Granted(₦)	% of Loan/ Advances Granted to Deposits
B.C.C.I.	Ngelzarma	283,718	52,314	18.44
B.O.N.	Lassa	449,132	62,718	14.00
	Goniri	126,946	24,100	19.01
	New Marte	509,782	140,123	27.50
	Benisheik	982,654	260,308	26.50
	Dapci	98,961	18,324	18.51
F.B.	Damboa	799,734	247,100	30.91
	Damagum	387,962	821,134	21.17
	Damaturu	2,134,651	857,140	40.15
	Geidam	1,210,323	413,100	34.13
	Konduga	1,972,453	654,102	33.16
	Ngamdu	81,316	14,812	18.21
I.B.W.A.	Gwoza	463,914	98,500	21.23
	Banki	135,825	24,730	18.21
N.B.N.	Manguno	1,031,757	342,354	33.18
U.B.N.	Chibok	121,839	23,840	19.57
	Gamboru	1,621,087	421,500	26.00
	Talala	-	-	-
U.B.A.	Askira	172,928	31,450	18.18
	Mallumfatori	997,536	101,500	10.17
	Yusufari	-	-	-
	Kukawa	2,521,645	585240	23.21
	Gadaka	-	-	-
	TOTAL	16,104,163	5,194,389	32.25

Source: Field Survey, December, 1987.

by F.B. branch at Geidam and N.B.N. branch at Mangumo with 34.13 per cent and 33.18 per cent reppectively. These are also followed by F.B. branches at Konduga and Damboa with 33.16 per cent and 30.91 per cent respectively. Observation of the lending levels of the various branches pointed out that only five bank branches (25 per cent) satisfied the CBN's 30 per cent stipulated minimum lending ratio to rural deposits. All the other branches (75 per cent) disregarded CBN's credit guidlines. In fact U.B.A. branch at Mallumfatori extended only 10.17 per cent deposits generated to its customers on the pretex that "most of our customers are engaged in distributive/retail trade without appreciable tangible securities."

The above trend made a mockery of the single most vital role of commercial banking system, which should not only transfer resources from the surplus to the deficit sectors, but should stimulate the provision of capital and entrepreneurship, in backward economies normally found in rural areas of developing nation like Nigeria.

These empirical facts and observations from Borno State, support Adewunmi's findings, that rural banks tend to drain the limited resources generated in the rural areas, only to develop the urban economies. Ojowu and Pam (1982) in their study too, concluded that rural banking system particularly in Nigeria drains

resources from the rural sector to the more growth-inducing urban economy.

If further analyses are to be made on F.B. branchs at Damaturu and Geidam whose lending levels are 40.15 per cent and 34.13 per cent respectively, it may be revealed that their lending facilities are urban bias in favour of privileged large scale farmers and entrepreneurs. Unfortunately for this research, all the 20 bank branches shied away from supplying data on the types of project financed by the banks, location of the beneficiaries. This might not be unconnected with what all banks consider as "classified infromation" to protect their customers' personality. Therefore, in view of the non-availability of data, the research is handicapped to draw empirical conclusion on the issue of loan distribution. Nevertheless, studies done on the subject by some authors are generously exploited to arrive at a very useful deduction.

In Third World countries, agriculture, although the dominant sector of the economy, receives very little attention from the financial institutions. An analysis of the operations of commercial banks in Nigeria shows that over the years very little priority was placed on financing the country's agriculture. For instance, between 1974 and 1984, there was no time when agricultural credit of commercial banks accounted for up to 5 per cent of the total bank loan and advances (See Table 3.5).

While the performance of banks improved with respect to the distribution of their loans to most of other sectors of the economy, their performance with respect to the loans to the agricultural sector was not impressive. In no year did the commercial banks attain the limits set for funding the agricultural sector by the Central Bank of Nigeria Credit Guildelines. The Guidelines were designed among other reasons to ensure an adequate supply of credit to the productive sectors of the economy. Between 1972 and 1974, the prescribed minimum credit to agriculture, according to the Central Bank Guidelines, was 4 per cent per annum. The deviation of commercial banks' lending to agriculture from the prescribed minimum in 1974, according to table 3.5 was - 1.97 per cent. From 1975 to 1977 the prescribed minimum credit to the agricultural sector was changed to 6 per cent per annum. The deviations of the commercial banks' lending to the sector was - 3.4, - 2.7 and -2.1 per cent during 1975, 1976 and 1977 respectively.

Even though the amount of loans and advances made by the commercial banks to the agricultural sector increased from about ₦69.73 million in 1974 to about ₦1434 million in 1984, nonetheless most of the loans were commercial credit which were intended for the financing of purchases and exports of marketing Boards' controlled produce (Osuntogun, 1983). Only a very

small proportion of the loan (less than 1 per cent) was advanced for direct agricultural production.

TABLE 3.5

Analysis of Loans and Advances by Commercial Banks to the Nigerian Agricultural Sector, 1974-1984.

Year	Value of total loans and advances (₦.thousand)	Value of credit made to agricultural sector (₦.thousand)	Agricultural credit as % of total loans and advances by commercial banks
1974	3431264	69732	2.03
1975	3689230	95647	2.6
1976	5967458	195473	3.3
1977	4835602	187345	3.9
1978	6124313	209378	3.4
1979	6843145	243460	3.6
1980	7026422	294376	4.2
1981	8835670	368677	4.2
1982	10837620	478514	4.4
1983	15673145.	889756	3.5
1984	41670932	1534120	3.7

Source: CBN, Economic and Financial Review various issues.

In fact, even where agriculture is financed by the formal credit institutions, mostly the subsistence small scale farmers, who consitute the bulk of the farming population, are usually not favoured. In Nigeria, as elsewhere in Tropical Africa, Monsoon Asia and Latin America, empirical data have demonstrated this fact. Lele (1975 P.18) has shown that in Kenya, 88 per cent of the cumulative loans had gone to big scale farmers. A similar situation exist in Malawi, where until recently, small scale farmers received virtually no institutional credit. In Ethiopia, the same study shows that three large-scale farms and 107 individual farmers accounted for nearly 79 per cent of the loans," thereby denying assistance to over 80 per cent of the farming population who could not meet the collateral and other security conditionalities attached to such loans.

Gridffin (1979) in a study on the economic, social and political consequences of the 'Green Revolution' in Asia and Latin America, has shown that large scale-farmers obtain capital easily on the organised credit market because they have access to commercial banks. As pointed out by the author, the privileged entrepreneurs "obtain loans at preferential interest rates since their wealth, income and status make the risk of lending to them minimal". In addition, the big farmers "are able to use their political influence to ensure that government credit programmes cater for their needs, to the

neglect of the needs of less powerful and influential cultivators," who are mostly the peasant farmers.

More readily available data from the works of Nwagbo (1983) and Baba (1986) buttressed the biased attitudes of banks in favour of large scale elite farmers. Both empirical studies demonstrated similar positions. Nwagbo (**op.cit.**, PP.101-103) established that in 1979, commercial banks "involved with the Federal Government sponsored Agricultural Credit Guarantee Scheme (ACGS) exceeded by 0.5 per cent, the prescribed Nigeria's Central Bank percentage". However, the loan distribution showed the following results: of the ₦30.6 million granted by the commercial banks in the year, co-operative societies got 2 per cent of it while individuals had 31.6 per cent and other bodies, 66 per cent. Although the records failed to provide loan structure by land-hold size, Nwagbo further noted, in 1980 the CBN evaluation report showed that "... there are certain structural factors which call for correction. These include the dominance of large scale urban based company borrowers, the relative insignificance of small farmers as well as co-operative society borrowers ...". Thus the loan distribution was obviously biased against the small holders and the co-operatives, whose members are mostly small scale farmers. This is contrary to the main goals of the scheme which explicitly and consciously specified

that co-operatives should be generously considered.

Baba (op.cit) when analysing the beneficiaries of the ACGS, found out that urban residents benefitted most. He opined that "urban-bias of credit issuance under this scheme" is an irony in "that an agricultural credit scheme in a dominantly agricultural/rural economy should focus its attention on the more privileged urban minority". Above all, the last civilian President of the country admitted in 1980 that "one immediate result of the establishment of the Agricultural Credit Guarantee Scheme is the emergence of a new class of educated urban farmers" (Nzimiro, 1985, P.38). Data from field survey of this research, as discussed later, confirmed the above findings of the various works.

In Nigeria, the issue of commercial bank credit supplies has some major effects on rural economies. At the beginning of each fiscal year, CBN issues a Monetary Policy Circular to all commercial banks, prescribing the lending ratios that commercial banks are required to maintain in their loans and advances to the defined activity sectors and subsectors of the nation's economy. But Uzoaga (op.cit., P.122) illustrated that mostly agricultural sectors "fell short of the prescribed ratios" in favour of general commerce, construction and others, where the CBN's policy ratios were exceeded by the banks. Just recently the Managing Director of the Union Bank of Nigeria regretted that the

bank did not meet the stipulated minimum lending rate to agriculture in 1986 by 2 per cent, as a result of which the bank was penalised by the CBN.

Until recently, the second problem associated with the commercial banks lending facilities for effective agricultural development in the country was the absence of detailed classification of agricultural subsectors. This shortcoming from the CBN made the banks to use their discretion to determine how best to allocate the agricultural loans to various subsectors in order to avoid the CBN's penalty. Perhaps this prompted Uzoaga (Ibid, P.123) to view that "the ratio for the agricultural subsectors could be satisfied with a loan either to a bonafide farmer for production, or to a transporter for movement of agricultural produce, or to a food processing industrialist or to an importer of food items" residing in cities and big towns. Neither of the banks credit supplies for the four agricultural subsectors, therefore, is targeted to benefit the small peasant producers who neither possess the required loan collaterals, nor are they commodity transporters, food processing industrialists or food items importers.

On the basis of the foregoing empirical evidence, it seems the research hypothesis that the financial credit gap between rural and urban economies continues to widen in favour of the latter is confirmed to be valid.

In the next chapter, the attitudes of rural entrepreneurs in the study area to modern banking particularly with reference to rural banks set up in the area will be discussed.

CHAPTER FOUR

ATTITUDES OF RURAL ENTREPRENEURS TO MODERN BANKING

ATTITUDES OF RURAL ENTREPRENEURS TO MODERN BANKING

4.1 Introduction

The first portion of this chapter, based largely onfield data, analyses the attitudes of rural people towards modern banking from the current rural banking perspectives. Effects, both positive and negative, of the system as perceived by the rural communities in the study area, are the main issues for analysis and discussion. With few observations from rural small scale/ cottage industries field data, much of the inferences are drawn from individual farmers' questionnaire, since they constitute the majority of respondents. Secondly, the chapter sets to explore the views of the people in the study area on the possibility of adopting a new rural banking model. Implications of the research findings are also discussed.

Information on the background of the respondents is essential for discussion, because it helps to throw more light on future analyses of rural savings and credit needs of the rural communities. For purposes of analysis, the individual farmers are classified into five groups according to the amount of their landholdings. The five groups are necessary for differentiation between small scale and medium or large farmers. The first two classifications constituting about 92.5 per cent of the total farmer respondents, are of small scale, while the last three are of medium and or big farmers.

This is in accordance with the standard international definition which states that any landholding below ten hectares is termed a smallholding (Okolu, 1986, P.5). Thus two main variables of size or category of farmers and size of a farmland are used to measure the farmers' response on the role of rural banks to the development of the rural sector.

The justification for employing the two variables are first, that agricultural development entails differentclasses of producers, and secondly, size of farmland primarily influences the socio-economic status of a farmer to secure bank agricultural loans (Nwagbo, op.cit; P.98; Golley, 1985, P.24).

4.2 Main Occupation of Respondents

Observation from figure 4.1 shows that 81.7 per cent of the respondents have farming as their main occupation. Another 5 per cent are mainly craftsmen, who also earn a living from their small pieces of landholding. Wage earners constitute 4.1 per cent, and other occupations such as petty trading, building and other kinds of contract arrangement, local merchant and produce buying business account for the remaining 9.2 per cent. Further analysis depicts that the larger percentage of farmers comes from the small scale holders,

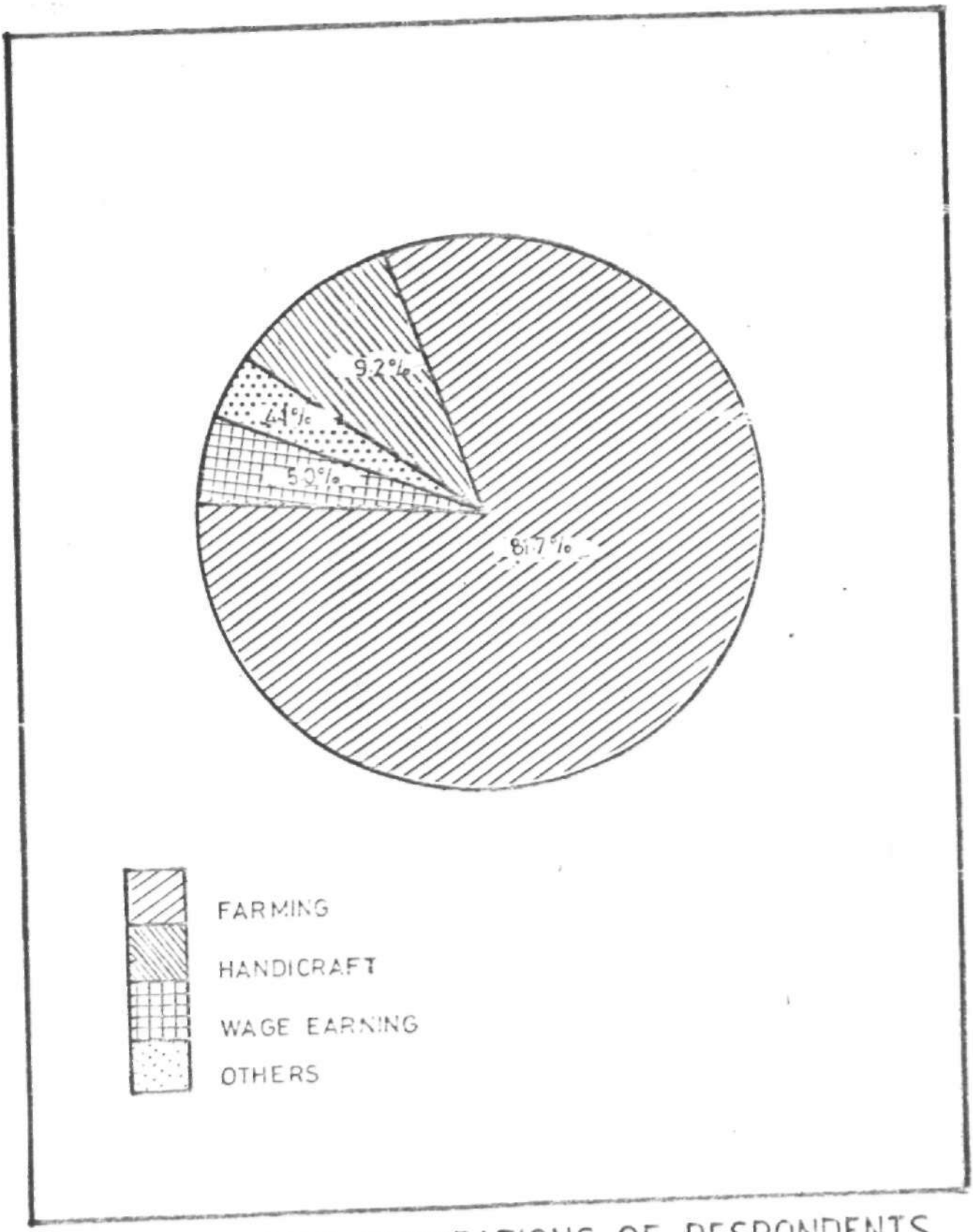


FIG. 4.1 MAIN OCCUPATIONS OF RESPONDENTS

Source: Field Survey, Dec. 1987

as all the craftsmen are found to be possessors of small farmland. The salary earners, who are engaged in farming activities, are found to be the landowners of less than 5 hectares, and between 10 and 49.5 hectares. However, the majority of them are in the category of less than 5 hectares. Petty trading is mostly practised in the two groups of small-holders. In the categories of medium and large landowners, are local leaders, small scale building contractors, local merchants and producer buying agents.

4.3 Land Ownership and Size of Family

As agriculture is the predominant subsector of the rural economies, it naturally follows that the most vital means of production is land resource. Hence the only way to get access to it, is to possess it. From the data gathered on land ownership and size of family in the study area, the following results are obtained: 10.5 per cent of the total 2601 farmland hectarage goes to the small holders of less than 5 hectares, but with 48.3 per cent of the total number of family members. The second farmers group of 5 to 9.5 hectares possesses 19.1 per cent of the farmholdings and 37.5 per cent of the family members is observed for the group. While 11.6 per cent and 7.2 per cent of all landholdings go to those two groups of farmers with between 10 and 49.5

hectares, and 50 to 100 hectares respectively, the same two groups respectively have family percentages of 6 and 3.5. The top landowners group controls 56.3 per cent, with 4.7 family percentage.

Further analysis on the relationshp between landownership and size of family in table 4.1 reveals that an average landownership per family member is 0.16 hectare and 0.39 hectare for the first and second categories of the smallholders. However, averages for the three classes of small, medium and large scale farmers are observed to be 1.47, 1.55 and 8.4 hectares respectively. Data available to us show that of the 3425 hectares of farmland owned by the 200 farming respondents, 0.1 per cent is irrigated, while the larger percentage of 99.9 is non-irrigated.

4.4 Rural Credit Source

The fact that institutional credit systems of rural commercial banks are established under government directives in the rural sector, the sector relies almost exclusively on traditional sources of credit generated from within itself. Hence the transforming state of rural space economy is largely dominated by informal credit arrangements.

TABLE 4.1

Landownership and Family Size

Amount of Farmland Owned (hectares	No. of Respondents	TotalLand owned (hectares)	No. of family members
Less than 5	120	273	1656
5 - 9.5	65	498	1284
10 - 49.5	8	301	205
50 - 100	3	186	120
Above 100	4	1343	1160
TOTAL	200	2601	3425

Source: Field Survey, December, 1987.

This confirms the hypothesis that the traditional institutions still survive as the most important sources of financial capital in the rural areas of Borno State even after the establishment of Rural Banking Scheme.

Table 4.2 reveals the following: Of the seventy-seven farming respondents out of the two hundred that secured on kind of loan or the other in the past two years, credit lines friends and relatives account for 35.1 per cent, money lenders (including merchants or traders, produce buying agents and contractor), constitute 32.5 per cent, while 15.6 per cent is from commercial banks. State credit has 5.2 per cent, with other sources

TABLE 4.2

Sources of Loans 1986 -1987

Amount of Farmland Owned (hectares)	No. of Respondents	Loan		Sources of Loan				
		Taken	Not Taken	Rural Banks	Money Lenders	Friends/ Relatives	State Credit	Others
Less than 5	120	48	72	4	18	20	2	4
5 - 9.5	65	19	46	2	6	7	1	3
10 - 49,5	8	5	3	2	-	-	1	2
50 - 100	3	2	1	1	-	-	-	1
Above 100	4	3	1	3	-	-	-	-
Percentage	100	38.5	61.5	15.6	32.5	35.1	5.2	13

Source: Field Survey, December, 1987.

of credit sharing the remaining 13 per cent. Some top government salary earners were mentioned as other sources of credit, whom the respondents termed as their "bosses".

More revealing is the analysis of the sources of loan within each groupd of the respondents. From the same table, bank loan to farmers of smallholdings of less than 5 hectares is 8.3 per cent, where as loans to the same group of small farmers from friends and relatives is 41.7 per cent, and 37.5 per cent comes from money lenders. 4.1 per cent is from state's credit and the remaining 8.3 per cent from other sources.

In the second category of landowners, 10.8 per cent of the total loan taken, comes from the rural banks. Friends and relatives account for 36.8 per cent. As loan from money lenders has a share of 31.6 per cent, 5.3 per cent is from the state's loan arrangement to farmers, and the remaining 15.8 per cent comes from other sources.

Landowners of between 10 and 49.5 hectares have 40 per cent of their loan from commercial bank, 40 per cent from other sources of loan arrangement, 20 per cent from state's credit and no loan from money lenders and Friends/ Relatives.

The two groups of large holdings dominate the commercial bank lending facilities. For instance, of their total loan sources, farmholders of between 50 and 100 hectares have 50 per cent as bank loan and 50 per cent from other sources of credit. The top large owners

of more than 100 hectares have 100 per cent of their total loan from the commercial bank. This group of large landowners does not have loan from any other sources of credit.

In its credit guidelines, the CBN provided that 16 per cent of commercial banks loans and advances be reserved exclusively for small-scale, wholly Nigerian-owned enterprises (Nigerian Banking Almanac, op.cit; P.271). But as table 4.3 shows, local rural industries are not benefitting from such credit policy.

As demonstrated several times in this study, commercial banks in the study area (indeed in Nigeria) have played an insignificant role in the development of the rural sector. Analysis of table 4.2 reaffirms the unhappy trends. But commercial banks, like all other financial systems and profit-making business, are guided by certain conditions in their operations, notably amongs which are, averting relatively high risks and many uncertainties, and where returns on investments seem to be unfavourable. These lending conditions of commercial banks, as noted in chapter two, does not favour farm investment, particularly the dominant peasant small scale farm business, but favour manufacturing, commerce and trade, largely concetrated in the urban areas where the bank offices and branches are mostly located. Because commercial banks are more familiar with the urban economies than rural, the banks have not always

been ready to grant loans to farmers and other rural entrepreneurs.

Commercial banks contend that there is high cost in administering rural credits since farmers and other rural entrepreneurs are scattered over wide and poorly accessible rural settings; secondly, majority of the rural entrepreneurs do not have acceptable collaterals; thirdly, land which is the single-most important asset of a subsistence rural producer is unacceptable security, since the traditional tenure arrangement makes it inalienable by individuals. Furthermore, the 1978 Landuse Decree vests all land in the hands of government.

Other, inhibiting factors to large extension of bank credit resources to rural areas are: the rural environment is characterised with low volume of business transactions due to the dominance of subsistence peasant entrepreneurs; determining profitability of investment in the rural sector is not an easy task particularly with lack of experts in the field. Also commercial banks believe that agricultural ventures like tree crop plantation and animal husbandary, including poultry, do not attract significant lending facilities due to their long-term gestation period. To compound the whole problem, agricultural enterprise is a shaky and impredictable venture as most of the conditions controlling the farm business are beyond what a farmer can handle.

TABLE 4.3

Rural Cottage Industry and Rural Bank Loans and Advances.

Cottage Industry	Commercail Bank Loan
Amuda Bricks, Gwoza	No
Bitrus Grain Mill, Chibok	"
Modu Dye, Manguno	"
Kadai Mat Weaving, Geidam	"
Chris Furniture, Konduga	"
Alhaji Ali Bakery, Gomboru	Yes
Hajiya Kaka Spinning, Goniri	No
Zainab Pottery, Damagum	"
Kyari Blacksmithing, Dapci	"
Usuman Tailoring Ngamdu	"
Alhaji Hamidu, Bakery, Banki	"
Alhaji Audu Bricks, Kukawa	Yes
Alhaji Lawal Bricks, Damaturu	"
Alhaji Bakari Bakery, Ngelzarma	"
Buba Tailoring, Talala	No
Modu Grain Mill, Benisheik	"
Goni Grain Mill, Askira	"
Ashami Mat Weaving, New Marte	"
Abba Dye, Mallumfatori	"
Chuks Furniture, Lassa	"

Source: Field Survey, December, 1987.

The above arguments advanced by the commercial banks deserve some comments. It is true that these obstacles to rural credit extension and administration exist and the role of a banker is "to protect depositors' funds and ensure that they are invested in viable projects that will be able to guarantee the repayment of the loan and the interest" (Olashore, 1985, P.15). However, this study reaffirms that the problems are not to the degree to which the commercial banks view the situation if they actually want to carryout what the nation's economy requires of them.

In March, 1977, with the promulgation of Act No.20, the Federal Government established the Agricultural Credit Guarantee Scheme. The Scheme which guarantees up to 75 per cent of the amount in default, was purposely set up to take care of the problems arising from commercial banks' agricultural lending facilities. The scheme initially had an authorised capital of ₦100 million, later increased to ₦150 million in 1981. It was subscribed by the Federal Government (60 per cent) and the CBN (40 per cent). The scheme fund is being managed by the CBN. There has been effort by the Federal Government to increase the guarantee percentage to 80.

In chapter three evaluation performance of the scheme shows little success as majority of Nigerian farmers who are the smallscale holders benefited less. Bata (op.cit., P.7) pointed out that the scheme fund is underutilised as "in no single year had the scheme succeeded in giving

loans up to 50% of the initially scheduled guaranteed sum of ₦100 million," even though the nation's agricultural sector suffers from lack of finance.

This empirical fact illustrates that most of the commercial banks have other reasons for not providing substantial credit facilities for agricultural production. Profit maximization is strongly believed to be the main motive, but certainly not the insecurity of their loans in the rural sector. This view may be true, taking into account the long gestation period of some agricultural ventures and the low interest charges on agricultural loans as compared with other bank loan charge rates in manufacturing, trade, commerce and construction.

One major argument put foward by the commercial banks for not granting lending facilities to some rural ventures is that agriculural businesses take long period to mature, thus tying down their liabilities which are repayable on demand or at very short notice. This argument is weak. As demonstrated by Nwanko (op.cit, P.156), such argument is no longer tenable in the Nigerian context because of the following reasons: first, the banks have not "undertaken any analysis of the pattern of deposit withdrawals" to justify the fear that if they lent for long-term ventures, they might experience liquidity shortage. Secondly, the CBN, which is the "lender of last resort" is empowered by law to come to the resque of banks, who

genuinely run into trouble.

Sayers (1958) termed as baseless, the usual explanation given by the bankson the above subject. He argued that a banker "could not make any living by matching his assets precisely to his liabilities." Sayers added that a banker "knows that repayment of his deposits is in fact not required in total at any time --- ".

The above observation indicates that there is no proof to defend the argument that long-term loans are necessarily very risky than short-term loans.

Another obstacle usually raised by the commercial banks as regards rural credit administration is poor credit-worthiness of the rural entrepreneurs, largely due to lack of acceptable securities. This issue needs re-examination. Though the problem may be prevalent in rural settings, however, the amount in default is not huge to warrant the accusation. For instance, of the twelve respondents who secured bank loans between 1986 and 1987, in the area of study, in which a sum of ₦68,000 was involved, the repayment record have shown that about 71.6 per cent (₦48,688) of the amount was recovered. Only three of the beneficiaries admitted that they could not settle the whole loan due to low prices of the farm produce.

The above observation is contrary to what is obtained in the urban economies. During the period between 1979 and 1983, the larger percentage of the defaulting banks' loans was dominated by the urban investors. The situation became so serious that the liquidity position of especially the states' controlled banks was threatened, that led to the setting up of various loan recovery committees. The case of the Bank of the North is still fresh in mind. In that period according to Osage (1987, P.9) the states-controlled banks had 31 per cent share of bad debts incurred by all the commercial banks operating in the country, compared to 9 per cent in 1985.

To further argue this issue, Adekanye (1984, P.54) noted that there is:

> .... a Nigerian so-called millionaire who boasted recently that money was not his problem but how to spend it. The company of this supposedly rich man is indebted to the tune of over ₦4 million to a bank, and this loan has been outstanding since 1978. Being the guarantor of the loan he is personally liable for the debt. Instead of honouring his guarantee and paying off the loan, he goes about telling people about his wealth, and how difficult it is for him to control his bottomless resources. The case is already in court.

The above evidence seems to dispute the view that the credit worthiness of the rural entrepreneurs is low, especially when compared with the urban investors. In other words, the point being made here is that bank loan defaulters are more of urban than rural dwellers.

Character or honesty though an important index in measuring a borrower's willingness and determination to repay a bank loan, is however, extremely difficult to appraise, because it is within the borrower himself and so cannot lend itself to measurement. Thus "the credit analyst who sets out to assess the character of the borrower usually ends up investigating his reputation which may or may not be a true assessment of his character" (Uzoaga, op.cit; P.211). The case of the ex-senator/businessman above indicates that the procedure on judging who constitutes a good credit worthy borrower by commercial banks has flaws.

The fact is that because the silent rural majority entreprenueurs do not constitute the pivot of decision making, as they lack economic and political bases, the laudable objective of the Rural Banking Programme simply by-pass them. For instance, Mohammed (1985, P.20) noted that a retired army general secured a ₦15 million bank loan without any collateral, but his rank in the Nigerian Army. Even though granting such unsecured loan is within the orthodox context of banking operations in Nigeria, the policy tends to be more biased against the small rural businesses, whom the commercial banks termed as not credit worthy due to absence of acceptable collaterals.

Other issue often raised by commercial banks, which hinder large injection of credit resources into the rural economies is the size and spatial distribution of the rural enterprises. The cost of administering loans and advances to a large number of widely scattered small rural entrepreneurs tends to outweigh the capital returns to the commercial banks, because "additional field staff have to be employed to keep in touch regularly with the farmers and other rural entrepreneurs". This was admitted during a discussion with one Assistant Branch Manager.

To ensure that its lending services are felt at the grassroots level, First Bank, of recent, has set up a ₦100 million fund for its National Community Farming Programme. The scheme has the intention to aid smallscale farmers wither as groups or individuals with a maximum facility of ₦5000 per individual within the group or society, without any form of collateral.

The present efforts of the various commercial banks to extend credit resources to rural economies is a correct decision and at a right time. However, the success of such efforts towards promoting rural development rests more on how such loans are distributed among the different categories of rural producers, its timeliness, utilization, repaying procedures and repaying performamce. From past experiences of similar schemes, the above indices are not favourable.

To encourage the commercial banks to succeed in their various agricultural credit provisions in the rural areas, the Federal government should implement the proposed Agricultural Insurance Policy. Though it may not favour the smallscale holders, but the policy may go along way to reduce the high risks and uncertainties of diseases outbreak, insects and pests attacks, and drought, which are all inherent in agricultural production, not only in Borno State, but throughout the country. This may promote willingness and ability of the farmers to repay the bank loans.

4.5 Agricultural Purposes For Taking Loan

Data on Table 4.4 show purposes for which loans were taken in the past two years. Loan to purchase fertilizers dominates with 55.8 per cent by mostly the two small scale groups. Loan taken to pay for hired labour which include: animal plough, tractors, spraying and other farm machinery, records 20 per cent, largely from the two groups of the smallholders. Loan secured to buy farm implements which were mainly tractors, drillers and other agricultural machinery has 10 per cent. With respect to loan to buy seeds, only 4.2 per cent of loan was taken. Significantly, loan for the purchase of chemicals such as pesticides and insecticides account for 14.2 per cent. Loan for other needs which include: acquisition of more farmland, purchase of food items before harvest, and to

settle part payment for the ownership of bulls and plough has a share of 8.3 per cent.

Based on the foregoing empirical facts, purchase of fertilizers tends to be the most important purpose for which rural credits were sought, then followed by hired labour. One would have expected the percentage of loan for hired labour to be much larger, but perhaps this may be due to large productive family members, as noted earlier. Loan for the purchase of seeds records very small percentage. The explanation is that first, most farmers retain part of their harvests for use as seeds during the next planting season. Secondly, in the area of study, improved variety of seeds which are sold to farmers elsewhere are not available for sale.

These empirical facts also seem to indicate that there is no such appropriate time to inject more credit resources into the rural economies by the commercial banks than now. This is due to the fact that the present structural Adjustment Programme(SAP) of the Federal Government, leads to the exposure of farmers and other rural entrepreneurs to the unequal exchange relationships between agricultural produce and industrial manufactured goods. This relationship results to low earning in the rural areas. Agba (1987) in an analysis of the impact of Second-tier Foreign Exchange Market (SFEM) on the rural economy, is invariably disadvantaged by the free market forces of the SFEM.

TABLE 4.4

Factors Influencing Farmers To Take Loan: 1986 - 1987

Amount of Farmland Owned (Hectares)	No. of Respondents	Buy Seeds	Buy Fertilizers	Buy Farm Implements	Pay Hired Labours	Buy Chemicals	Others
Less than 5	80	-	45	5	15	10	8
5 - 9.5	22	-	18	2	5	4	2
10 - 49.5	5	1	2	1	2	1	-
50 - 100	3	2	1	2	1	1	-
Above 100	2	2	1	2	1	1	-
Percentage		4.2	55.8	10	20	14.2	8.3

Source: Field Survey, December, 1987.

The earlier discussion on rural credit administration obstacles mostly centres on the bankers' point of view. Attention will now be turned on the rural dwellers, who also have problems with the commercial rural banking system.

4.6 Rural Communities' Banking Habit

Already in chapter three, mention has been made of banking habit in the rural environment. Further elucidation of this issue is made in this subsection.

Table 4.5 showns that the bulk (94 per cent) of the farming respondents are not engaged in banking business in the study area. Further analysis shows that only 1.7 per cent and 6 per cent of the two small holder groups of less than 5 hectares, and between 5 and 9.5 hectares, respectively, have business contact with the rural banks. In the third group of landholders, 12.5 per cent utilize rural banking facilities. For the last two categories of large landownership of between 50 and 100 hectares, and above 100 hectares, 66.7 per cent and 75.0 per cent respectively, are obtained as operating rural bank accounts. Almost the same poor result is recorded for the rural cottage entrepreneurs (Table 4.3).

Reasons militating against developing positive banking habit in the rural area of the state are not difficult to perceive. In the first instance, 47.5 per cent, mostly smallscale farmers are ignorant of banking

procedures. With the high rate of illiteracy in the area the majority of the rural residents find it difficult to go through the various banking formalities of particularly opening accounts with the banks (Idachaba et al; 1981). It is observed from the table that banking habit increases with the amount of hectares. This shows that the medium and large landholding farmers are more enlightened with the banking procedures.

29 per cent of the respondents considered distance as a barrier to using banking facilities. This is not surprising considering the distribution of banks over the land area of the state. The ratio of bank branch to land space in the area is 1:2915KM^2. A ratio which is less than the national average of 1:872KM^2, as already noted in chapter one. The area of study, particularly the northern part, has a poor accessibility due to the sandy nature of desert. This reason has also been confirmed by the banks when enumerating obstacles to the efficient operation of the rural banks in that part of the state. The cost of going to banks located in desert areas like Kanguno, Kukawa, Geidam, Mallumfatori and New Marte is high and is cumbersome. This inaccessibility of the areas was confirmed during the survey. In fact, the researcher had the experience of having to pay ten naira to travel a distance of about 20 kilometres in a wooden bus from Gaji Gana to Mallumfatori.

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TABLE 4.5

FARMERS BANKING HABIT

Amount of Farmland Owned (Hectares)	No. of Respondents	Using Rural Bank Facilities		Reasons for Not Using Bank Facilities			
		Yes	No	Don't Know how to	Location is far	Discouraging Procedures	Other
Less than 5	120	2	118	63	36	7	12
5 - 9.5	65	4	61	30	19	5	7
10 - 49.5	8	1	7	2	3	2	-
50 - 100	3	2	1	-	-	1	-
Above 100	4	3	1	-	-	-	1

Source: Field Survey, December, 1987.

TABLE 4.6

FARMERS BANKING HABIT (%)

Amount of Farmland Owned (Hectares)	No. of Respon-dents	Using Rural Bank Facilities (%)		Reasons for Not Using Bank Facilities(%)			
		Yes	No	Don't Know how to	Location is far	Discouraging Procedures	Other
Less than 5	120	1.7	98.3	52.5	30	5.8	10
5 - 9.5	65	6	94	46.2	29.2	7.7	10.8
10 - 49.5	8	12.5	87.5	25	37.5	25	-
50 - 100	3	66.7	33.3	-	-	33	-
Above 100	4	75	25	-	-	-	25
	100	6	94	47.5	29	7.5	10

Source: Field Survey, December, 1987.

4.7 Rural Communities' Preference for Bank Credit Facilities

Despite the discouraging situation observed on tables 4.4 and 4.5, 94 per cent of the respondents have expressed their need for bank credit facilities. Table 4.7 further shows that 41 per cent have preference for bank loan in cash. According to the respondents, cash loan is preferred to loan in Kind because some farm inputs may be imposed on them by the commercial banks. Above all, loan in cash provided much freedom to allocate resources in desired ways. Most of the medium - and large-scale landholders want loan in cash in order to acquire more land and purchase farm machinery, perhaps to derive the benefits of economies of scale.

Loan in Kind such as fertilizers, chemicals improved seeds and seedlings, workbulls with ploughs and other farm inputs are desired. Some of the respondents who sought loan in Kind admitted their inability to manage and invest cash loan into only agricultural production but to other basic and urgent family expenses. Another reason they gave was that they could get easy access to some of the farm inputs and at subsidized rates from the commercial banks as compared to purchase of the inputs at a higher price from some rich individuals within their localities.

forced to depend on traditional credit supplies for its development as shown on table 4.2. The cumulative implication is denying the rural economy the surplus funds that could be generated and pooled together for achieving the goal of rural development.

Finally, 10 per cent of the respondents gave other factors, as obstacles to cultivating banking habit, some of the reasons mentioned are "insufficient money" to open and maintain an account, and that "banking facility is for the rich". About 7 per cent simply said they had nothing to do with a bank. In fact, the idea of opening an account with a bank seemed laughable to some respondents.

The research findings on banking habit of the rural communities, seem to support the view that enlightenment campaign by the commercial banks in the rural areas is not enough.

Some empirical evidence on the issue of banking awareness, as shown by the research work calls for the attention of the commercial banks to consider more effective salesmanship campgaign of their business. The campaign strategy of using mobile film and other enlightenment method as used by the then Northern Region Marketing Board in the early 1960s should be adopted by commercial banks in the rural areas.

Thirdly, 7.5 per cent of the respondents said that banking procedure was discouraging. Reasons discouraging banking transactions as advanced by the few bank customers are, rejection of an overdraft and loan applications even where a customer has met all the rigorous requirements, late approval of loan, abashed favouritism, and unorthodox business arrangement outside bank premises. One other discouraging behaviour of the commercial banks as reported by the rural dwellers is that a customer may deposit relatively large sum of money on a particular day, but may not be able to withdraw some part of it the next day. The reason given to such customer by the rural bank staff is simply "there is no money". Due to these reasons, 1.0 per cent of the respondents revealed that they were formerly bank customers, but had to leave their accounts dormant. About 0.40 per cent went to the extent of closing their accounts and vowed never to engage in any kind of banking business which would warrant revival of such accounts.

The implication of these incidences is that some potential bank customers may be discouraged from patronizing banks. The rural populace would therefore continue to keep their surplus funds outside the banking system, until they are faced by circumstance such as the 1984 currency exchange. Worst still, the rural economy is

TABLE 4.7

Bank Loans and Farmers' Preference

Amount of Farmland Owned (Hectares)	No. of Respondents	Loan in Cash	Loan in Kind	Both
Less than 5.0	100	30	20	50
5 - 9.5	42	18	14	10
10 - 49.5	51	30	11	14
50 - 100.0	4	2	1	1
Above 100.0	3	2	-	1
Percentage	100	41	23	38

Source: Field Survey, December, 1987.

Loan both in cash and kind, accounts for 38 per cent of the respondents. Reasons such as, to obtain farm inputs of good quality, and at reasonable price, are given by the respondents. In addition, to have cash is crucial so as to pay for hired labour and acquire more farmland. It is important to note that most of the respondents that expressed their desire for bank credit facilities, pointed out the need for the banks to disburse such loans on time for better utilization at the most opportune period.

Detailed analysis of the data within each class of the farmland holders is essential to aid commercial banks design an appropriate mechanism to cater for the aspiration of the different categories of land holders.

In the first group of smallholders, need for loan in cash accounts for 41.2 per cent, with 16.8 per cent preference for loan in Kind; and loan in cash as well as in kind is 54.4 per cent. In the second category, 38.7 per cent of the respondents need loan in cash, while loan in kind is 12.6 per cent. Loan in both kind and cash attracts 62 per cent. For the third group, 45.2 per cent express their desire for cash loan, with 66.5 per cent requiring bank credit supplies in the combination of cash and kind; and none of the respondents need loan in kind only.

In the fourth category of landholders, 76.5 per cent prefer bank landing facilities in cash. The other 23.5 per cent need both cash and kind from the credit resources of commercial banks. Loan in kind scores zero per cent. In the fifth group of more than 100 hectares, 90 per cent wish to have loan in cash, while 10 per cent prefer loan in both cash and kind. No respondent wishes to have loan exclusively in kind from the group.

The above findings may be healthy to agricultural development, in particular, for this refutes some of the usual commercial banks' and policy makers' accusation that farmers (especially smallscaleholders) need cash or unconstrained loan only to undertake such non-agricultural ventures such as acquiring more wives or purchase of bicycles/motor-cycle.

4.8 Respondents Views on the Proposed Pilot Model

At the begining of this research, an assumption, which was confirmed to be true, was made that although there are rural banks in the rural areas of the state, there is gross inadequacy of credit facilities. So because of the expected large gap between demand and supply of rural lending resources, the research made provision to test the hypothesis that adoption of a new rural bank model in the area is possible and acceptable. The rural bank pilot model is designed (See Fig.4.2) with the following major structures:

Name: RURAL COMMUNITY BANKS(RCBs)

Area of Coverage:

At initial stage, main branch of the Rural community Bank is to be set up in each of the 18 Local Government headquarters in the state, and later expand the branches to districts and villages.

Amount of Initial Working Capital: Five hundred thousand naira to each of the 18 Local Government Areas.

Initial Sources of Fund:

(a) Rural community Development Levy (40%). This levy will include any products such as agricultural product that a member of a community finds convenient to give.
(b) State Government contribution (30%)
(c) Commercial Banks (14%)

(d) Insurance and other Financial Houses (6%)

(e) Co-operative Societies (6%)

(f) Deposits from wealthy individuals (4%).

This initial working capital is to be subsequently replenished or expanded by interest charged by the RCB.

Services Offered

(a) Deposits Acceptance

(b) Long - and short-term loans

(c) Expert Advice on loan-financed ventures

(d) Overdraft.

Board of Directors

(a) Four reputable members of the community

(b) One commercial Banks representative

(c) One Insurance/other Financial Houses representative.

Technical Consultants

Premier Commercial Bank (Borno State Bank) and Nigerian Agricultural and Co-operative Bank (NACB).

General Supervision:

Department of RCBs to be created at Premier Commercial Bank.

To know the acceptability or otherwise of the proposed RCBs Model, which combines two aspects of co-operative and commercial banking, the researcher explains in detail the content and objectives of the new model to the respondents to get sampled opinion. The results achieved are represented on Table 4.8.

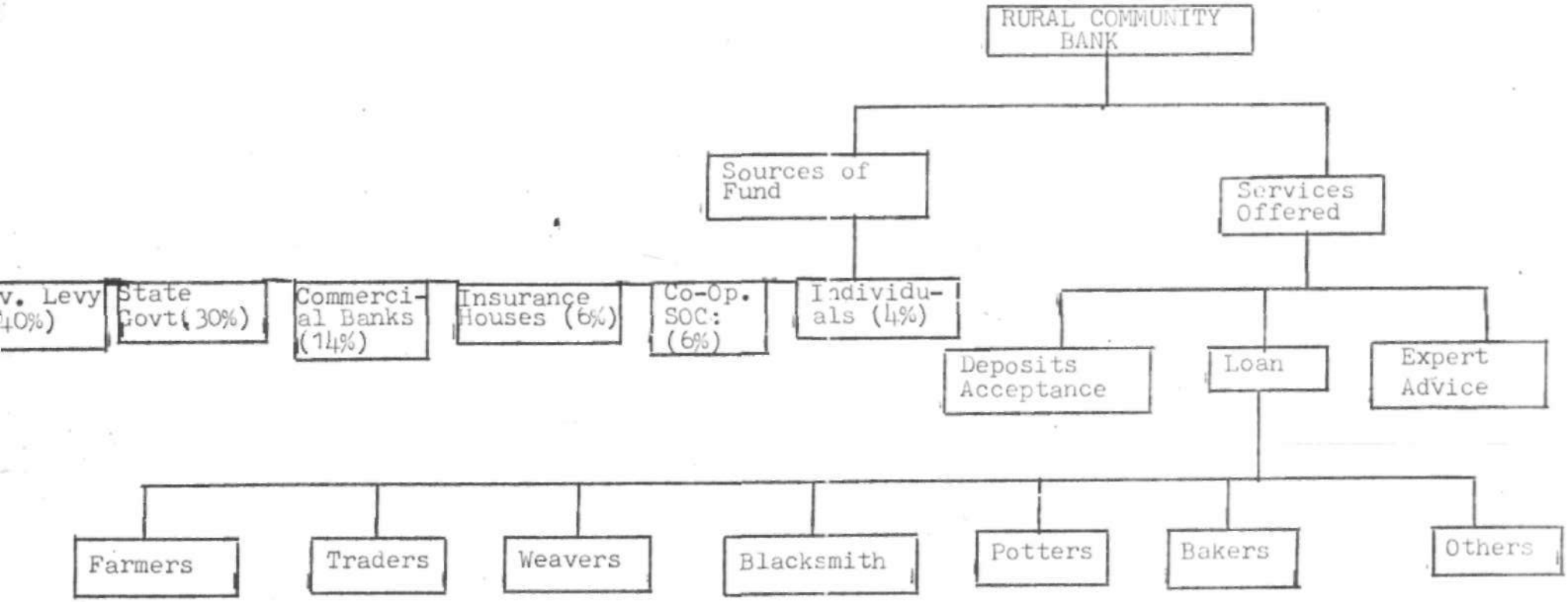


FIG. 4.2: STRUCTURES OF THE RCBS' MOFEL

TABLE 4.8

Respondents' Views on the Proposed RCBs Model

Amount of Farmland Owned (Hectares)	No. of Respondents	Acceptable and Practicable	
		Yes (%)	No (%)
Less than 5.0	120	48.2	51.8
5 - 9.5	65	63.1	36.9
10 - 49.5	8	70.0	30.0
50 - 100.0	3	75.2	24.8
Above 100.0	4	81.4	18.6
General %		61.3	38.7

Source: Field Survey, December, 1987.

From the Table, it can be seen that the new model gets 61.3 per cent support from the farming respondents, while 38.7 per cent is recorded for those against the idea . Those respondents who opposed the model gave these reasons: First, credit lines may still be far from their reach. Secondly, the amount of credit may be meagre for any big meaningful project to be financed. Thirdly, the initial Development contribution to the funding of the RCBs is another form of "exploitative tax collection" only to serve some very few privileged individuals.

Further analysis of the acceptability of the model within each of the five categories of the respondents, reveals that small farmers having less than 5 hectares, and between 5 and 9.5 hectares, support the model by 48.2 per cent and 63.1 per cent, respectively. Acceptability of 70 per cent is recorded for landholders of between 10 and 49.5 hectares. The last two top landowners class of between 50 and 100 hectares, and 100 hectares and above hectares are in support with 75.2 per cent and 81.4 per cent, respectively.

The proposed Rural Community Banks model is considered by the rural small scale industrialists as one of the best solutions to the problem of financing their projects. In fact, a 100 per cent positive response was obtained from the proprietors of all the cottage industries in the study area.

However, the respondents cautioned that the would-be operators of the RCBs to take into account their kind of local industry.

The empirical evidence from the sampled farmers and local craftsmen shows that adoption of Rural Community Banks amongst the rural dwellers in the study area is acceptable and possible.

The implication of the above finding is that rural folks recognise and appreciate the need for another financial institution which is conceived to be their 'own thing' since it recognises and incorporates co-operation

at grassroot level, a feature not all that alien to them, to pool their resources together for an effective rural transformation. Thus the new model serves its purpose of filling some credit gap left by the commercial rural banks and state credit agencies. This may reduce the role of money lenders. The model may venture further to encourage deposits mobilization in the rural sector.

In conceiving the new credit delivery, it is further encouraging to note that substantial amount of revenue was generated during the 1985 and 1986 Development Levy exercise in the State. Moreover, the RCBs may not demand much, if some revenue from Federal Government sources are invested into rural economies. It is the belief of the researcher, that the new model has a better chance of being viable, if properly planned and executed. RCBs with some unique advantages tilted in favour of rural dwellers, may not be what Ojo and Adewunmi (1980), P.59) refer to as "lame-duck" banks. Advantages, other features and strategies to make the new model more workable are discussed in the next and final chapter.

CHAPTER FIVE

FINDINGS, SUMMARY AND POLICY OPTION

5.1 FINDINGS

This chapter draws attention to the implication of earlier findings, summerises the study and makes policy recommendations to guide future action.

From the preceding empirical facts the study reveals that Nigeria's present Rural Banking Scheme, initiated in 1977, is far from achieving the main objectives for which it was established in Borno state. It has been empirically shown that the rural banks have taken more credit resources out of the rural sector than they injecte in. In other words, the rural banks could appropriately be labelled as collecting and transmitting centres of rural resources to the urban sector. One other important finding of the research is that, the limited credit made available to the rural producers, tended to be rationed largely among those with substantial landed property and other secured assets.

The problem of rural indebtedness in the study areas has shown to be not very impressive. However, seasonal indebtednesss when in default of credits, results in the rural small entrepreneur having to pledge his produce or other properties to the middleman or to a money lender. So, the manner of which the rural banks

deny credit facilities to most of the rural entrepreneurs, push the latter (particularly the small scale producers) to seek credit in the traditional capital market, which results in paying a high price for it. Consequently, this may contribute to a great extent to the continued low productivity in the rural economy.

This observation encourages the researcher to agree with the views of Schultz (1964), Griffin (op.cit), Aziz (1978) and Lipton (1982) that these kind of trends in inequality are a product of policy, not fate. For as rightly observed by the above works, policy discriminates in favour of some interest groups and against others, not because governments are ignorant, but because in practice the policy makers and their advisers have given little attention to reducing inequality. Afterall, as noted by Griffin (op.cit; P.202), "governments may claim to rule in the 'national interest' but in reality they act on behalf of their supporters. Prominent among the supporters --- are large landowners and other men of property" mostly found in urban centres.

There is, therefore need for the commercial banks to realise once again, that the Rural Banking Programme was initiated to adapt them to the stark realities of the country's rural economy in particular. For it is not enough, to extend their branches into the rural areas without reasonable credit facilities, to enable the rural enterprise utilize the facilities, and make savings more

effective. By implication, this will increase not only the production capacity of both the people and the banks' business, but the country's economy would be boosted.

The study has also made an attempt to highlight some major factors militating against sound and viable credit supply system in the rural sector. Commercial banks have advanced some arguements against massively committing their credit funds to finance rural enterprises. Among these reasons are that:

(i) rural communities are dispersed over a much wider inaccessible locations, and with poor basic services;

(ii) majority of the rural entrepreneurs lack acceptable security;

(iii) lack of technical personnel to determine profitability of investment in the rural setting;

(iv) agriculture which is the dominant economic activity of the rural setting is always a risky business as it is threatened by droughts, pests and diseases; and

(v) that the rural sector is exposed to volatile prices and other natural or economic uncertainties beyond the control of the farmers.

So because of these and other reasons, commercial banks act rigidly and conservatively to extend little of their much needed credit resources into the rural economies.

The rural dwellers on their part, have contended that though characterized by inadequacies and shortcomings, informal credit market is however, preferred to rural banks. This is due to the former's demand for less security, immediacy, and other convenient loan-taking procedures. Rural entrepreneurs admitted that rural banks' distant location, favouritism tendency, time-wasting, rigorous lending procedures, and other elitist approach to secure credit facilities like collecting and filling the loan forms are cumbersome and frustrating to seek credit facilities from the banks.

It is a fact that rural credit administration like in urban centres, involves evaluation of the credit risk and the project, loan disbursement, project monitoring and recovering the loan. However, rather than the rural banks rigidly subjecting the rural enterprises into such misplaced orthodox procedures, a more flexible, but reasonable assessment standard should be attained. Unless rural banks act as prime movers in the socio-economic transformation process of the rural environment, by way of taking more risks, and going out for business through equity participation, unequal distribution of income, lopsided and unbalanced growth between the urban and rural sectors of the Nigeria's economy will continue.

Nigeria's commercial banks should have some lessons to learn from the experiences of some Asian countries. In Indonesia, India and the Phillippines, for instance, commercial banks are successfully intermarrying unorthodox

custody, because he feels that he does not have enough to put in the bank, and when the has enough, it may not be worth his time to do so.

Commercial banks are not alone to blame on the issue of poor rural banking development. Government should share part of the shortcomings. It is important to note that, it is not enough for the government to order the commercial banks to go to the rural areas, without itself helping much to develop the necessary rural infrastructures for the smooth take off of banking business in the rural areas. The rural environment as it is, limits the success to which banks could mobilize savings. Poverty, illiteracy, poor communication facilities and access roads, near non-existence of basic social facilities collectively hinder the productivity and capacity of the rural dwellers to save.

The study discovered that some commercial banks provide loan both in cash and in kind (fertilizers, chemicals, tractors and other agricultural equipment) in conjunction with some government agencies (like Farmers Credit Scheme) and agricultural machinery dealers to some large scale farmers. It may be even more appropriate for the banks to start evolving suitable ways and means to extend the same kind of treatment to smallscale farmers. Paramount is providing workbulls with ploughs, since the area has very suitable soils (sandy and loamy) to this type of simple technology. Moreover, the local

industry that produces such ploughs in the area, may be stimulated in both production and perfection. Cash should equally accompany such loan for settling bills of hired labour and acquiring more land.

From the results of the analysis, some conclusions also may be arrived at. First, farmers in the area have indicated readiness for more purposeful efforts towards agricultural production. By using some farm inputs and bringing more land under cultivation, increase of yields may likely be achieved. In fact, this is in line with the objective of the Fourth National Development Plan (1981, P.78). Secondly, because of the yearning for more credit resources from the rural sector, commercial banks could not cope up, especially taking into account their performance so far. There is a need, therefore, for more institutionalized rural credit sources to fill the wide gap.

Another important finding of the research is the acceptance of a new Rural Community Banks (RCBs) model by the rural dwellers. This innovative response to the need for effective rural credit delivery service, which is capable of reaching millions in geographically spread-out rural landscape, shows the extent to which the rural communities in the state are disillusioned by the existing rural banks. As they are currently structured, rural banks would not be able within a reasonable period of time to play the dynamic role of channelling funds to rural sectors. Moreover, the fact the rural entrepre-

neurs seek for more meaningful alternative credit system, raises some fundamental issues on the innovative nature of the rural society, which are erroneously conceived. For it is widely believed among the bankers and some policy makers that huge provision of credit facilities is not possible in the rural environment, and that the rural dwellers who are mostly illiterate, impoverished and wretched are incapable of taking advantage of opportunities to innovate.

5.2 SUMMARY AND RECOMMENDATIONS

The study shows that given the right conditions, rapid change in the rural sector is possible. In fact, what is at stake currently is not whether rural producers innovate, but whether they are able to move from their weak and defensive role to an offensive position to break through the vicious cycle of deprivation, to achieve higher levels of productivity, income accumulation and their general welfare.

In the light of our research findings, some policy suggestions are considered appropriate. The adoption of the new Rural Community Banks model is considered desirable in view of the advantages associated with it. The more important ones are outlined below:
First, it has strong potential features to harness the vast rural resources into a dynamic instrument for socio-economic mobilization. Secondly, it encourages popular

mass participation at the grassroots level to transform rural economies, since not only small production and seasonal loans are provided to farmers, but also traders and craftsmen in the rural areas are to benefit. This helps create supplementary farm-based and off-farm income opportunities. Thirdly, to increase productivity in the rural economy, Rural Community Banks nurture and encourage small rural producer co-operative organizations in agricultural as well as non-agricultural activities through funding. Lastly, due to local familiarity and close contact with its clients, assessment for the needs of credit facilities by such rural clients is expected to be cheap and less risky. Loan granted would likely be on time. There is also a strong probibility that loans granted for production are not misused as effective supervision may be achieved, compared to present rural banking system, whose project supervisory staff usually come from the Head Office or Area Office.

However, if the model is to be functional, viable and adopted successfully in the area of study or nationwide, it needs modification.

5.3 MODIFYING THE MODEL

Although the study received good response from the respondents, further studies on the model should be undertaken because this study is not in a position to claim definite conclusions that would make the model applicable to all the local government areas in the

country.

ii A vigorous enlightenment campaign should be undertaken so that the rural communities are well-informed. They should understand the motive and content of the new model before its take-off. In the past, poor publicity and salesmanship strategy marred some laudable programmes which led to the failure of such programmes.

iii Rural communities must be well-represented at the planning and implementation stages, as well as at management level. This would give them the psychological satisfaction of belonging and and an opportunity to have a say in running the affairs that are paramount to their well-being. The policy makers should know from past experience that rural communities would not like to welcome and support programmes without clear evidence that the programmes will bring material and social benefits, and better their way of life rather than disrupt it.

iv The central issue of whom the RCBs are really established to serve should be strictly adhered to. For RCBs should not be tailored to serve the interest of the rural elites and bureaucrats in the state and the local governments administration. Moreover, RCBs' credit facilities should not be available to urban entrepreneurs under the pretext that such facilities would be invested in the rural areas.

v The four community seats in the management committee of the RCBs, should be filled through constituency - grouping election. That is, the Farming Co-operative Union being expected to be the biggest in terms of membership should produce two members. The remaining two seats are to be contested amongst the other co-operative societies. But some level of literacy should be a pre-condition for nomination.

vi To give confidence to commercial banks, Insurance Corporations and other Financial Institutions for their funds invested in the RCBs, concrete and reasonable lending policy should be worked out. RCBs could also serve as guarantor between other commercial banks and some viable medium rural projects. This is relevant because new medium enterprises are promising generators of employment. Such enterprises as agro-allied and other rural-based industries, create jobs and maintain a reasonable degree of economic activities at the rural level.

vii There is need for preferential treatment of RCBs as they are not purely commercial banks but quasi-co-operative/commercial banks with the sole interest of financing specific rural enterprises. The special kind of role expected of RCBs to play especially that of filling some financial gaps in the rural economy and supplying financial resources at cheaper rates to the rural entrepreneurs, warrant the RCBs not be treated and compelled to operate in the same pattern as commercial banks. To accommodate and allow the RCBs pursue an

independent policy, but with guidance from the CBN, some relevant sections of the 1969 Banking Decree and 1968 Company Act need to be amended. It may not therefore be out of monetary policy if RCBs are added to the list of those special banks and schemes (such as the NIDB, NACB, Federal Mortgage Bank, Federal Savings Bank and National Provident Fund) under the exemptions clause of part v, Section 38, subsection (1) of the Banking Decree. Afterall, subsection (2) and section 40 in the same part v give room for such action. Without this measure taken, provisions especially in part 1, section 6 sub-sections (1) and (12) of the same Banking Decree, related to minimum paid-up-capital, and minimum holding of cash reserves, specified liquid assets, special deposits in the CBN, stabilization securities, and interest structure, may result in RCBs being fined unnecessarily, and denied any privileges or facilities that are normally accorded to a lincensed bank. This is relevant because RCBs do not possess the capacity of such requirements. Observation is alo made of part II, Section 13, Subsection (F) Stating that licensed banks shall not: "acquire or hold any part of the share-capital of any financial ---- or other undertakings." This provision should equally exempt RCBs so as to ease their funding because 14 per cent of their sources of fund is obtained from licensed commercial banks and other financial institutions.

Other concessions and privileges to be granted to RCBs should include exemption from company tax and free stamp duties on cheques used in all branches of the bank.

viii Finally, there should be a machinery to monitor and evaluate the objectives of the RCBs model, but without making it too cumbersome and costly to operate. Relevant modifications should appropriately be made to smoothen the workability of the model, to achieve the desired goals.

Since the acceptance and implementation of the RCBs model does not mean that the problems of rural credit delivery system are solved, multi-agency approach to rural banking is desirable. To make the rural banking system competitive and efficient, suggestion is made for the continuation of the present Rural Banking Programme along with the model being suggested. However, the rural banks should embark vigorously upon the critical task of financing rural enterprises at relatively low costs, and with less rigidity in their lending procedure. This calls on them to design essential dynamic techniques to assist and speed the current rural development programme. To improve the services of the rural commercial banks, we offer some policy suggestions.

5.4 POLICY SUGGESTIONS

To improve deposits generation, all Local Governments' accounts should be with their nearest rural bank. Payment of wage earners in rural areas should be by cheques; all other payments exceeding certain amount by government, and to government in rural areas should be by cheques. Government and commercial banks should be partners in enlightening the rural dwellers about the existence and operations of the rural banks. Effective and appropriate means such as mobile film shows, radio broadcasts and adult education should be used to enlighten rural dwellers to operate bank accounts and 'avoid being cheated'. The Federal Government's Directorate of Mass Mobilization for Social and Economic Recovery (MAMSER) should consider this enlightenment in its Rural Education Scheme.

In the area of bank lending and the rural entrepreneurs, CBN should see that its stipulated 30 per cent minimum lending ratio to rural diposits is adhered to, if not exceeded by all the rural banks. Loan Application Forms should be translated into local languages of an area where a rural bank operates. Rural banks should introduce flexible lending services for the financing of viable co-operatives and small scale entrepreneurs. This arrangement shortens the conservative and stringent process link with bank lending conditions. Banks should further reduce the present lending interest rates charged to rural borrowers. Loan in cash and

kind should also be strengthened, and banks should be considerate to reschedule loan repayment whenever the need arises because of the volatile nature of income obtained from farms and local rural industries.

To reduce costs, small size of staff strength is suggested for rural banks. This may enhance their profit margin. But the busier a rural bank becomes, the larger the staff strength.

For banks to be very effective as prime movers and instruments in the socio-economic transformation of the rural economy, some operational as well as legal modalities should be reformed. Most important is the Part II, Section 13, Subsection (g) of Banking Decree of 1969 which restricted a licensed bank not to "own any subsidiary company which is not carrying out a banking business." This regulation and other monetary policies need re-examination if banks are to participate directly in the financing of projects which raise productivity in the rural economy. Although the 1988 budget allows commercial banks to own shares in some companies, commercial banks, guided by profit motive, are reluctant to invest in the rural sector which is mainly agricultural.

The foregoing policy options though not conclusive may stimulate demand and supply of rural credits through the multi-agency approach to rural banking, which if carefully and effectively employed would serve and speed the process of mobilization and utilization of local resources.

This induces national economic recovery and development, which promote banking business and upliftment of the socio-economic status of the rural communities.

Finally, it is important to point out that the search for sound and viable rural credit strategy should not only be confined to the indices within the credit system, but should go beyond it as intricacies and alignment of political, economic and social forces have to be looked at. These, more than other forces substantially control the strength and orientation of capital or credit market mechanisms. Thus, unless these conflicting interest variables are reconciled, even an ideal model, with laudable objectives as the Rural Community Banks would simply by-pass the chance to transform the rural economy.

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APPENDEX A

RURAL BANKING AS AN AGENT OF DEVELOPMENT A CASE STUDY OF BORNO STATE

QUESTIONNAIRE FOR MANAGERS:

Note: Put a tick in the box provided where appropriate.

e.g. Yes ☐ No ☐

PART A

1. Name of the Bank:.....
2. Name and Location of the Branch: .....
3. Date Branch was opened ..... Day .....

   Month ..... Year .....
4. Number of Employees in the Branch: .....
5. Nature of Status of branch (a) Loan Office ☐

   (b) Deposit and Loan ☐
6. Specific Objectives of Opening the branch at :

   .....

   .....
7. Nature and Adequacy of Bank Building:

   (a) Owned by the Bank ☐ Rented ☐

   (b) Adequate ☐ Inadequate ☐
8. Approximate area of operation of your branch i.e.

   Number of Villages/Local Government Area: .....

   .....
9. What is the approximate population of the area of operation: .....

PART B

1. The nature of deposit Accounts:

(a) Savings

i. ☐ 25%
ii. ☐ 25 - 50%
iii. ☐ 50 - 75%
iv. ☐ 75 - above

(b) Current

i. ☐ 25%
ii. ☐ 25 - 50%
iii. ☐ 50 - 75%
iv. ☐ 75 - above.

(c) Fixed

i. ☐ 25%
ii. ☐ 25 - 50%
iii. ☐ 50 - 75%
iv. ☐ 75 - above

2. Amount outstanding at 31st December 1985 and 1986

1985:

Savings ☐ 25% ☐ 25 - 50% ☐ 50 - 75%
☐ 75 - above

Current ☐ 25% ☐ 25 - 50% ☐ 50 - 75%
☐ 75 - above

Fixed ☐ 25% ☐ 25 - 50% ☐ 50 - 75%
☐ 75 - above

1986:

Savings ☐ 25% ☐ 25 - 50% ☐ 50 - 75%
☐ 75 - above

Current ☐ 25% ☐ 25 - 50% ☐ 50 - 75%
☐ 75 - above

Fixed ☐ 25% ☐ 25 - 50% ☐ 50 - 75%
☐ 75 - above

3. Target fixed for deposit mobilization: 1985 and 1986.

1985:

Savings ☐ 25% ☐ 25 - 50% ☐ 50 - 75%
☐ 75 - above

Current ☐ 25% ☐ 25 - 50% ☐ 50 - 75%
☐ 75 - above

Fixed ☐ 25% ☐ 25 - 50% ☐ 50 - 75%
☐ 75 - above

1986:

Savings ☐ 25% ☐ 25 - 50% ☐ 50 - 75%
☐

Current ☐ 25% ☐ 25 - 50% ☐ 50 - 75%
☐ 75 - above%

Fixed ☐ 25% ☐ 25 - 50% ☐ 50 - 75%
☐ 75 - above

4. Was the target met? Yes ☐ No ☐

If no, please give reasons

i. .....
.....

ii. .....
.....

iii. .....

.....

5. Any incentive given or deposit mobilization scheme introduced? Yes ☐ No ☐

If Yes, please specify the scheme: .....

.....

.....

PART C

1. How long does it take you to finalize a loan proposal/ project from the date of submission?

Less than 3 months ☐

3 - 6 months ☐ 6 - 9 months ☐

2. The nature of assistance/loan granted for:

by seeds ☐

Farm Implements ☐

Tractor and others ☐

Machinery ☐

Cottage Industry ☐

Others ☐

3. The amount of loan granted during the last two years (1985-1986)

i. Buying seeds: .....

ii. Farm Implement: .....

iii. Tractor and Machinery: .....

iv. Cottage Industries: .....

v. Farm improvement: .....

4. Nature and type of security acceptable

The Crop ☐ Land ☐ Building ☐

Personal Status ☐

5. If any Guarantor required

Personal ☐ Official ☐

6. Number of instalments in which loan recovery is made:

Quarterly ☐ Half yearly ☐ Annually ☐

Others ☐

7. Rate of Interest Charged:

☐ 5 - 10% ☐ Above 10%

8. Are you satisfied with the recovery of loan?

Yes ☐ No ☐

If no specify reasons: .....

.....

.....

9. Do you charge penal interest for overdue loan and provide rebate for early payment?

Yes ☐ No ☐

10. Any amount of bad debt written off during the last two years?

Yes ☐ No ☐

11. Do you generally find loan proposal/project in order?

Yes ☐ No ☐

If no, please state the commonest deficiencies.: ....

.....

.....

.....

PART D

1. Dor you provide printed forms and other relevant information in local languages? Yes ☐ No ☐

2. Do you get reasonable co-operation from Government/ Parastatals in the loan granting process or recovery?

Yes ☐ No ☐

3. Do you get any agricultural expert's advice before granting loan? Yes ☐ No ☐

4. Do you supervise the loan utilization? Yes ☐

No ☐

Thank you very much for finding time to complete this questionnaire.

APPENDEX B

RURAL BANKING AS AN AGENT OF DEVELOPMENT
A CASE STUDY OF BORNO STATE

QUESTIONNAIRE FOR FARMERS AND LOCAL BUSINESSMEN

Note: Tick where appropriate e.g. Yes ☐ No ☐

PART A

Local Government ..... Village Unit .....

1. Name of the head of the family .....
2. Number of earning members in the family .....
3. Number of dependent members of the family .....
4. Main occupation - Agric ☐ Craft ☐ Others ☐
5. a) Approximate acrage of land owned .....
   our of which irrigated area is .....
   and not irrigated is .....
   b) Area of leased land ..... out which
   ifrigated area is ..... and not irrigated
   area is .....
6. Number of Animals (Livestock)
   Cattle ..... Goats ..... Sheep .....
   Fowl .....
7. Approximate value of animals, N.....
8. The appropriate value of agricultural implements owned is N .....
9. The main agricultural crop you grow are:
   Millet ☐ Maize ☐ Groundnuts ☐
   Guinea corn ☐ Cotton ☐ Others ☐

10. What was the approximate value of your harvest for the last two years?

☐ ₦1,000 ☐ ₦1,000 - ₦5,000

☐ Above ₦5,000

11. Do you grow any commercial crops?

Yes ☐ No ☐

If yes, state the amount realized for the past two years ₦ .....

12. Is there any changes in the commercial crops produced for the past two years? Yes ☐ No ☐

PART B

1. Has any amount of loan been taken during the last two years? Yes ☐ No ☐

2. If loan was taken, state the purpose of loan. Buy seeds ☐

Buy farm implements ☐

Purchase Tractor and other machinery ☐

Cottage Industry ☐ Others ☐

3. From whom was loan taken?

Money lenders ☐ Rural Banks ☐

Other Agencies ☐

4. Do you know that Banks provide loans for agricultural production and for starting any new business?

Yes ☐ No ☐

5. If yes who told you about these schemes?

   Friends ☐ Relatives ☐

   Village Head ☐ School Teacher ☐

   Bank officials ☐

6. At what rate of interest was loan granted? ☐ 5-10%

   ☐ Above 10%

7. (a) Do you intend to seek for loan during the period 1988 - 1989? Yes ☐ No ☐

   (b) If yes, state amount of loan N.....

8. How do you propose to repay the loan?

   Out of agricultural product ☐

   Out of business income ☐

   Other sources ☐

9. Why do you want loan from where you took?

   i) Convenience ☐

   ii) Lesser interest rate ☐

   iii) Secrecy is maintained ☐

   iv) Less Security required ☐

   v) All of the above ☐

10. Do you get some advice from Bank officials before getting loan formalities completed? Yes ☐ No ☐

11. Are you satisfied with the loan procedure adopted by the Bank? Yes ☐ No ☐

12. Bank officials' behaviour is

   a) Satisfactory ☐

   b) Very Satisfactory ☐

   c) Fairly Satisfactory ☐

13. a) In your own opinion the rate of interest chargeable by the bank branch in your area is reasonable.

Yes ☐ No ☐

b) If no, would you like some concession in the rate of interest chargeable?

Yes ☐ No ☐

14. Would you like to get bank loan in kind i.e. seeds, fertilizer, chemicals and equipments? Yes ☐ No ☐

15. Would you like to make any suggestion(s) as regards bank loan terms?: .....

.....

.....

.....

.....

.....

.....

.....

APPENDIX C

BANK OF THE NORTH LIMITED

(Incorporated in Nigeria with Limited Liability)

Telephone:233091,232630
Telegram: Northsbank

LAKE CHAD ROAD,
P.O.BOX 220,
MAIDUGURI.

Your Reference:

Our Reference: MDG/RIP/ARAS/AYI/AM/88/502043

DATE 23rd Feb.,1988

Alhaji Abubakar Garba Ngoshe,
P.O. Box 374,
Maiduguri.

Dear Sir,

RE-OVERDRAFT FACILITY OF ₦10,000-00

We refer to your application on the above subject matter and are pleased to covey approval of the New Overdraft line under following terms and conditions:

Facility	-	Temporary Overdraft
Limit	-	₦10,000-00
Tenure	-	Sixty days from 23rd of Feb.,'88.
Interest	-	BON PR + 1½% = 17% P.A.
Utilization	-	This is subject to creation of Legal Mortgage on your property covered by Certificate of Occupancy No.BO/14011.

Please indicate your acceptance of the above terms and conditions by signing and returning sopy of this letter for our records.

Yours faithfully,

(SGD).
Manager.

(SGD.)
,Advances Officer.

DIRECTORS:- Alh. Jibrin Ahmed (Chairman), Alh. Kassim Musa Bichi, Alh. Ahmed Othman, Alh. Bala Kuki, Mrs. Elizabeth L. Nyam, Alh. M.B. Ahmad, Mall. Mari Madu, Alh. Ahmed Sani, Mr. John R. Orokpo, Mr. Laja Olugbami, Alh. Muhammadu Isa Doko, Mr. Zakka T. Nagga, Alh. Ahmadu Gwandu(Alternate). Alh. Yusuf Bamali(Alternate) Alh. Ali Al-Makim (Managing Director & Chief Executive).