A CRITICAL APPRAISAL OF AGRICULTURAL FINANCING IN NIGERIA: A CASE STUDY OF FIRST BANK OF NIGERIA PLC

BY

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CERTIFICATION

This project, titled “A CRITICAL APPRAISAL OF AGRICULTURAL FINANCING IN FIRST BANK OF NIGERIA PLC: A CASE STUDY OF FIRST BANK OF NIGERIA PLC” meets the regulation governing the award of the degree of Master of Business Administration (MBA) of Ahmadu Bello University, Zaria. It is therefore approved for its contribution to knowledge and literary presentation.

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DECLARATION

I hereby declare that this project was written by me and there was no similar work that has been written before this research was conducted.

A fair use of materials of other related researches, books, journals, seminar reports, files was made, where these occur the sources of materials have been acknowledged in the references and bibliography.

DEDICATION

This work is dedicated to the course of Almighty, the Beneficent, the Merciful and to all those who gave the required encouragement.

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ABSTRACT

When Nigeria attained political independence in 1960, agriculture was the dominant sector of the economy. It constituted over 65% of the country's Gross Domestic Product (GDP) and provided the bulk of the foreign exchange earnings through the export of "Cash Crops". The sector catered adequately for nearly all the food requirements and raw material for industry in the country. Major expert crops included cocoa, groundnuts, cotton, palm oil and rubber.

This situation, however, changed drastically at the beginning of the 1970s. Agricultural output started to decline rapidly at a time which not only coincided with the end of the Nigerian civil war but also with the period of oil boom and severe drought of 1972 – 1973., the overall agricultural situation deteriorated creating a wide gap between the supply and demand for food.

To this end, no meaningful national economic development can take place without developing the agricultural sector. The bulk of the farmers expected to contribute to this development are small scale farmers in the rural areas. Moreover, they need modern farming techniques, which include the use of improved seedlings, modern machinery, equipment and storage facilities. It was found that the farmers cannot get all these items by themselves.

One of the major inadequacies inhibiting the farmers from achieving their aim is lack of capital. In an attempt to cater for farmers finance problems, the Nigerian Agricultural and Cooperative Bank (NACB) and the Agricultural Credit Guarantee Scheme (ACGS) were established by the government to ensure provision of credit to farmers.

One of the policies of commercial banks is financing agriculture as encouraged by the Federal Government, this has been extremely difficult in Nigeria. Banks especially commercial banks have shown a persistent reluctance in giving financial assistance to farmers while the agricultural development banks, like the NACB has not been performing to their expected standards.

This work therefore is aimed at looking into agricultural financing in general and how far the First Bank of Nigeria has performed in agricultural financing in Nigeria.

Based on the findings, recommendations are made to ensure that credit are given to the actual farmers, to reduce default and to increase its scope of operations by having more funds to be disbursed.

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CHAPTER ONE

GENERAL INTRODUCTION

1.1 INTRODUCTION

Agriculture is an indispensable sector of the Nigerian economy. It has been aptly described as the mainstay or backbone of the national economy since it provides employment and means of livelihood to about 75 percent of the country's labour force. Agriculture also provides the stable food requirements of our teeming population as well as the local raw materials needs of the industrial sector. Before the advent of the crude petroleum oil boom era of late 1970s, agriculture's contribution to Gross Domestic Product (GDP) of Nigeria were quite significant. For example between 1960 and 1969, the share of agriculture in the GDP averaged about 560 percent.

However, following the discovery of crude petroleum in commercial quantities in Nigeria, the share of agriculture in the GDP declined considerably averaging only about 24 percent between 1970 and 1979.

In enunciating the "Agricultural policy for Nigeria", the Federal Ministry of Agriculture, Water Resources and Rural Development (1988) observed that the traditional roles which the agricultural sector is expected to play in national economic development include the following:

- The provision of adequate food for an increasing population;
- To supply adequate raw materials to an expanding industrial sector;

- To provide employment and principal means of livelihood to the teeming masses;
- To constitute a major source of foreign exchange earnings, and finally;
- To provide a market for the products of the industrial sector.

The continued slow growth rate of agricultural production has been accompanied by the importation of agricultural commodities, including those food items in which the country has traditionally been self-sufficient. There is also a growing number of rural dwellers who have neither land to grow food crops nor the necessary incomes to purchase food from an increasingly expensive market. There is also a dearth of capital for the procurement of improved farm inputs. These factors are pointers to the urgent need to promote the transformation of the agricultural sector in Nigeria.

In realization of the role agriculture plays in the national economy, successive past governments had embarked on one form of rural development programme or the other in order to stimulate domestic agricultural production notably, there were the National Accelerated Food Production Programme (NAFPP) of 1973, Operation Feed the Nation (OFN) of 1977, The Green Revolution of 1980 and the Directorate of Foods, Roads and Rural Infrastructure. All these programmes have achieved little or no success due to their political conception and poor implementation strategies. Successive governments have only succeeded in changing the names of these programmes while no bold steps were taken to actually get to the root of the problem. In most cases attention was never focused on the small and medium scale farmers who are the actual producers.

Whatever technological innovation introduced to improve agriculture and even if it is accepted by the farmers, its adoption will, to a large extent, be dependent on the farmers' ability to finance the innovation. Because of his low income, the peasant farmer can hardly finance adoption of any new technology or innovation on his own.

The factors militating against agricultural development in Nigeria are varied and complex. However, capital has been identified as one of the most crucial factors around which all others revolve. (Adeniyi 1987). It has been asserted that most small scale farmers are unable to accumulate capital due to their low margins of savings. Consequently they are caught up in a vicious circle of poverty from which many farmers cannot escape without a decisive injection of necessary capital "outside". The need has, therefore, arisen for government to continuously address the issue of adequate financing for the agricultural sector in the national development plants.

There are basically two sources of credit available to farmers of different scales or sizes. Miller (1973) categorized these sources as the formal and informal types of credit. The formal credit sources appear to be more popular with the small scale farmers because of their relative ease of accessibility, and the accelerated speed of meeting the farmers; demands.

But they are usually associated with exorbitant interest rates frequently ranging between 70 and 90 percent. In comparison with the formal sources, the informal sources of credit usually do not demand stringent collateral requirement, as are often associated with institutional credit facilities. Sources of informal credit include personal savings loans from friends and relatives, thrift societies, moneylenders and merchants. The formal sources of credit include the commercial banks. According to Oludimu and Fabiyi (1984), the most ideal source of credit for agricultural growth and development is the formal and institutionalized type. More importantly, formal credit sources are conferred with legal status and they operate within specified guidelines. This prevents changing their terms to suit their whims and caprices to the detriments of the farmers, as it is the case with informal credit sources.

A commercial bank's sources of funds are capital and reserves, deposit accounts, savings accounts, current account, credit balances, interests receivable from accounts in debit and other earnings from commissions on turnover, bills, documentary credits, guarantees, transfers, etc. it is from these funds that banks are able to grant credit to their customers. Credit is the basis of banking.

The customer who deposits his money in a bank does so in consideration of the ability and willingness of the bank to pay back the money either on demand or on such other terms as is agreed upon before the deposition. Also, then the banker lends his customer; he is in effect transferring part of the money earlier deposited to other customers. This is done with the trust in the borrower's ability and willingness to repay according to a mutually acceptable schedule. In effect, the banker obtains credit with the intent to give credit.

However, the banks often create credit by giving more credit than they receive through the multiplier effect. The multiplier effect can be put into use in an economic system that has many banks each with a legal cash reserve level, which must be held against deposit liabilities. There must be no cash drain i.e. customers are willing and able to borrow as much as the banks are able to lend. Such credit creation requires legislation allowing banks to operate on the basis of fractional legal reserve.

The administration of credit can be regarded as the essence of financial institutions in any economy. Consequently, the formulation and implementation of sound credit policies are among the most crucial responsibilities of management in any financial institution. Thus, the formulation of a sound credit policy is a sine-qua-non, if financial institutions are to attain their objectives, serve the public in an efficient manner, and more importantly, ensure the safety of their funds. An articulate credit management policy not only seeks to balance profitability with liquidity, but in doing so, it is expected to determine to whom credit must be granted, how much credit to grant, for how long and finally, how to ensure successful recovery.

Credit management also involves estimation and monitoring of risks associated with lending. According to Crosse and Hampel (1973), a bank may stagnate if it takes no risks, in just the same way that a bank may run into great difficulties if it takes excessive risks. Proper credit management, therefore, not only calls for an accurate identification, but also a proper estimation, of the major risks attendant upon any particular lending activity.

Crucial area of economic growth like the agricultural sector was neglected due to the high risk involved in financing agriculture. It was in an attempt to plug this gap in the financial system that led to the establishment of development finance institutions. Significant among these are the Nigerian Industrial Development Bank (NIDB) established in 1964, the Nigerian Bank for Commerce and Industry (NBCI) established in 1973 and the Nigerian Agricultural and Cooperative Bank (NACB) established in 1973, and was set up solely to finance agricultural projects in Nigeria.

First Bank of Nigeria Plc, which is the case study of this thesis, was established as a limited liability company in London on March 31, 1894 with Head Office in Liverpool under the corporate name of the Bank for British West Africa. It has a diversified loan portfolio and credit facilities to various sectors of the economy. The bank's agricultural credit facilities through community farming loans scheme has given peasant farmers tremendous access to badly needed bank credit. The financing of the agricultural sector was handled mostly by some public institutions. Some of these include the Nigerian local Development Boards which took over from the former.

Others are the Western Nigerian Finance Corporation (WNFC) which administered farm loans in Western Region between 1955 and 1965 and the western Agricultural loan operation from NNFC. In the North there was the Northern Nigeria Development Corporation which commenced operations in 1962/63 and the fund for Agricultural and Industrial Development.

The coverage of Nigerian Agricultural and Cooperative Bank (NACB) lending activities is very low. Therefore, the government compel commercial banks to give out loans to agricultural sector for the purpose of widening loan availability in the rural areas.

Bankers regard lending to the agricultural sectors as very risky. This is because projects in agriculture are associated with a lot of uncertainty, especially since the weather is not predictable. High administrative cost which are complicated, cumbersome and time-consuming result in delays in approval and loans not being made available when required.

1.2 STATEMENT OF THE PROBLEM

Since independence, one of the goals of every government in Nigeria is the development of the agricultural sector. This is because of the role agriculture plays in the economic transformation of the country. Because of this role, the sector requires more resource allocation and serious attention. The Nigerian agricultural sector is dominated by the peasant subsistence farming simply comprising a large number of small scale farmers characterized by primitive techniques of farming. This result in low agricultural output. Investments in agricultural sector therefore, cannot be over-emphasized. But this cannot be done without the necessary finance. Farmers in Nigeria have no capital to make such investments.

Many financial institutions especially the commercial banks shy away from granting loans to agricultural sector due to the risk involved. Agriculture in Nigeria is faced with the problem of natural disasters that can come any time like flood and drought. There is also the problem of deforestation and desert encroachments. Lack of banking facilities in the rural areas kept most farmers ignorant of banking habits and the benefits that could be derived from banks. No efficient and well organized credit facilities in Nigeria. Some of the State Agricultural Credit Corporations that are established for the purpose of granting credit to farmers are found to be inactive because of shortage of fund and mismanagement of the funds by the personnel of such corporations.

First bank of Nigeria was established more than a century a go as a commercial institution; it helps ameliorate the farmers finance problems. However, the bank has not been able to meet the expected desire of its customers. In most cases the loans granted to the farmers are not sufficient to purchase implements, fertilizers, seedlings et-ce-tera due to high prices, therefor the purpose for which the loan is given is diverted and as such most farmers cannot pay back the agricultural loans.

1.3 SCOPE AND LIMITATION

The study covers mainly the area of making agricultural credit available for farmers by financial institutions and other specialized institutions established for the purpose of pursuing this objective. In this study, reference is made to First Bank of Nigeria (FBN) Plc. as a commercial institution participating in agricultural financing in Nigeria.

In respect of the choice of bank for the study, attempt will be made to concentrate only on the First Bank of Nigeria operating in Sabon Gari in Zaria Local Government Area. This choice is borne out of its long standing operation in the area.

The study is limited to agricultural financing in Nigeria and more emphasis was put on small scale famrers because they contribute about 9 percent to food production in Nigeria. Few areas were visited since it was not possible to reach every growing village and local government areas for the research work. Effect of time limitations and finance cannot be over-emphasized. Therefore, it is the researcher's hope that the constraints do not detract from findings and elicits more interest and further research in the field, to contribute in no small way towards entrenching efficient agricultural financing in commercial banks.

1.4 OBJECTIVES OF THE STUDY

The major aim of the study is critical examination of the current literature on agricultural financing with a view to gain insight into its roles, functions, operations and problems, with particular reference to First Bank of Nigeria (FBN). However, other specific objectives of the study include:

i) Appraisal of the FBN Plc in providing credit to finance agriculture.

ii) To examine the nature of agricultural loan procedures or techniques and functions of commercial banks.

iii) To find out who the loans are being given to either to the farmers in the rural areas or more to the absentee farmers.

iv) To find out the criteria used for granting loans.

v) To analyse their effectiveness and to find out the problems encountered by the commercial banks in granting agricultural credit and the farmers reasons associated with its loan repayment performance.

vi) Where possible to suggest possible methods of improving agricultural credit performance and operations in commercial bank based on the investigations.

1.5 HYPOTHESIS

1. Null Hypothesis

There is no relationship between the customers' behaviour towards agricultural loan from the banks and their repayment.

Alternative Hypothesis

There is a relationship between the customers' behaviour towards agricultural loan from the banks and their repayment.

2. Null Hypothesis

There is no relationship between the bank's behaviour in giving loans to customer that are worthy in terms of their personality and their payment behaviour.

Altenrative Hypothesis

There is a relationship between the bank's behaviour in giving loans to customers that are worthy in terms of their personality and their payment behaviour.

3. Null Hypothesis

There is no relationship between the bank's behaviour in giving loans to customers that are worthy in terms of the amount of loan granted and their repayment behaviour.

1.6 SIGNIFICANCE OF THE STUDY

The need to examine the agricultural financing can not be over-emphasized, this is because of the role agricultural sector plays in the economic development in Nigeria. Over the years production in this sector has been declining at a considerable rate and at the same time there is rapid increase in the population. In order to ensure the agricultural sector continuous to perform the role of economic transformation, it is necessary to ensure the continuous availability of fund to farmers for the purchase of better farm equipment, fertilizer and pay for labour to ease and improve their farm production.

First Bank of Nigeria have been agent of agricultural development in the country. Also it deals with credit and finance of farmers. However, the performance of this and other banks, with respect to agricultural finance in the past was nothing to write home about. It is the realization of these shortcomings that prompted the Federal Government into establishing the (Agricultural Credit Guarantee Scheme) ACGS in 1977 – seventy-five percent of the loan being guaranteed by the fund.

The question is, has the bank been able to reciprocate the gestures of the government by committing more of their loans to agriculture?

This study may be significant in the sense that the outcome of the research will motivate other researchers on the subject matter especially since agriculture provides the foundation of the Nigerian economy. Therefore, it is necessary that more research should be made in the near future to improve the output of the agricultural products.

1.7 DEFINITION OF TERMS

Definition of some key operational terms used in the study and by commercial banks are as follows:

Commercial Bank

By definition, they refer to those organization able to provide bank money, that is checkable demand deposits that are conveniently unable as a medium of exchange and which also help to manufacture and transfer long, medium and short term credits for businesses and families.

Credit Terms

Conditions stipulated by the bank when giving out loans to its customers.

Credit Standard

Refers to the target giving out to customers in order for the customer to value the loan obtained.

Collateral Security

Is a kind of provision given to the banks by the customer.

Disbursement

Is paying out money to customers who have been given loans approvals.

Defaulters

When a customer fails to abide by the agreement or conditions of the loan and the loan is overdue for payment.

Loan Recovery

Is a measure adopted by banks to recover the loans from customers.

Large Scale Farmers

These are farmers that engage principally in plantation such as tea, coffee, cotton, groundnuts, sugar and ruler. The acreage in moist cases is above twenty-five acres and in respect of livestock they keep thousands of chickens.

Small Scale Farmers

The Agricultural Finance Department of the CBN defined the small scale farmer as “a farmer whose unit of farm is limited to 25 (twenty-five) acres for crops while he also keeps between one to hundred chickens for livestock.

Trade Credit

Is loan given but to customers which repayment are expected to be paid instalmentally.

Interest

This is the amount of money charged by bank for the loan given out. Also interest are given to customers too on savings account, fixed deposit.

Intangible Assets

Is a guarantor who stands for a customer as a security.

Bond

A bond is a document under seal, whereby a person binds himself to pay a certain sum or to fulfill a certain obligation.

Guarantee

A guarantee is an undertaking by one (the guarantor) given to another (the creditor)O to be answerable for a debt of another person (the debtor) upon the default of the debtor.

CHAPTER TWO

LITERATURE

2.1 MEANING OF AGRICULTURAL FINANCE

Agriculture is the sum total of all practices involved in the production of food and other services for human consumption. These include production, research and training in fields of crops, forestry, fishery and livestock.

Agricultural finance is the economic study of the acquisition and use of capital in agriculture. Agricultural credit is a part of agricultural finance. Specifically, it is the process of obtaining control over the use of money, goods and services, currently in exchange for a promise to repay at a future date (Miller, 1977).

2.2(A) GOVERNMENT AND AGRICULTURAL FINANCING

The Nigerian government has over the years been at the fore front of and spear-headed agricultural transformation in Nigeria through increased government expenditure on and improving credit availability to the agricultural sector of the economy.

a) Government Expenditure

In its determination to adopt policies that would enable agricultural products to grow rapidly, agricultural reform leading to higher productivity and output have been given considerable priority through public spending.

In all development plans launched in Nigeria separates sectoral allocations were made for primary production. In the First National Development Plan period (1962 – 1968), government capital expenditure on agriculture was 11.6% of the total capital expenditure. This ratio fall to 9.9% in the second plan period (1970-1994), and in the third (3rd) development plan period (1975-1980) was 7.1%. The situation improved to 12.6% at the Fourth Development Plan period (1981-1985). This was in line with a policy that not than 12% of total national capital resources must be allocated to agriculture. To date, the government attention to agriculture has been very fresh and at increase.

b) <u>Credit Availability</u>

Credit availability has been recognised as one of the necessary pre-requisites for the development of agriculture. This lead to the establishment of the Nigeria Agricultural Cooperative Bank (NACB), the Nigeria Agricultural Development Bank (NADB), The Agricultural Credit Guarantee Scheme Fund (ACGSF), the Nigeria Agricultural Insurance Scheme (NAIS) etc. to facilitate the provision of agricultural finance guarantee for the loan and insurance cover for agricultural projects respectively.

For instance, the total asset/liabilities of the NACB at December 1993 stood at N\4,7069 million, representing an increase of N1,079.6 million or 29.9% over 1992. Total loans disbursed by the bank amounted to N4,175.5 within in respect of 436.526 agricultural projects credit disbursed for on-lending purpose continued to account. For about a third of the total, with on lending for production taking the highest share of 27.3% in 1993. Similarly, the domination of direct credits in respect of projects under the small holder scheme was sustained. However, while the amount of credit to this sub-group rose from N423.2 million in 1992 to N602.3 million in 1993, disbursements to other activities such as marketing livestock tractor hiring and oil palm farming were N501.8 million, N457.6 million, N358.3 million and N323.1 million respectively.

The government commitment to improving of agricultural productivity means the necessity for the mobilization of adequate capital for investment in the agricultural sector. The sources of this capital to the government are either internally generated funds or externally borrowed funds from the international financial institutions such as the World Bank.

2.2 OBJECTIVES AND PURPOSE OF AGRICULTURAL FINANCE

The main aim of agricultural financing is to deliver credit to the agricultural sector of the Nigerian economy having the following specific objectives:

- Promotion of agricultural production and rural development.
- Assisting the improvement of the income and quality of life of the Nigerian rural population.
- Contributing to the overall growth and development of the Nigerian economy.

The establishment of a National Agricultural Credit Institution by the government in 1972 was for:

- The provision of loans to individual farmers, cooperative organizations, limited liability companies, state and federal government agencies,
- Financing direct investment in the equity capital of major agricultural and agro-allied industrial ventures,
- Providing guarantees for viable agricultural and agro-allied ventures to enable them raise financing either locally or from abroad;
- Assisting in improving the incomes and welfare of farmers, promoting rural development;
- Increasing the national output of food and cash crops to meet the needs of a rapidly increasing population;
- Financing of all forms of agricultural projects which include, fishery, cattle, poultry, rabbitry, forestry and timber production, horticulture, arable crops and tree crops;
- Provision of finance for the marketing of agricultural produce locally and for export. It also makes finance available to industries that process agricultural products;
- Financing of agro-allied projects including tractor hiring operations, agro-processing and storage.

2.2 PROBLEMS AND PROSPECTS OF AGRICULTURAL FINANCING

Generally the problems of agricultural financing are compounded by the risks and uncertainties arising from timing and periods involved. These hazards may be grouped into 3 categories namely:

i) Edaptic (solid) conditions

ii) Biotic conditions

iii) Weather conditions.

Edaphic problems include landslide, earthquake, erosion, soil acidity or alkalinity, soil infertility etc.

The biotic factors are conditions brought to soil as a result of the activities of man, animals and other living things. These include pests and diseases such as invasion of rats on grain store, destruction leafy crops by grasshoppers, outbreak of fowl typhoid or other diseases among poultry birds.

Other biotic factors include fire disasters caused by man, seasonality and perishability of products human problems, i.e. managerial ability of the entrepreneur, illness or unemployment of workers, diversion of funds etc.

Climate factors that affect agricultural production and include flood, droughts, windstorm, thunderstorm etc. Heavy financial losses can also result if farmers assets are affected by the above mentioned hazards. All these factors are beyond the borrowers' control. In some cases financing or postponement of the maturity date be justified, depending on the circumstances.

2.3 BANKING INDUSTRY AND THE DEVELOPMENT OF AGRICULTURE

The word “Bank” appears to have derived from the Halian words “BANCO” which literally means a bench. This term was applied to tradesman counter or money shop and in this sense passed from Italy to other countries. It was at one time thought that the earliest bank known to modern history was the bank of Venice, founded around 1170 to finance state debts. However, there are facts to show that the history of the institution of banking and banking industry is traceable to the activities of the camp sores or money-changers in the Halian city of Rome.

In Nigeria, the history of modern banking industry began in 1892 when the British African Banking Cooperation was established in 1894, the bank metamorphosed into the Bank of British West Africa (which later became the Standard Bank of Nigeria and subsequently First Bank of Nigeria). The Bank of British West Africa continued to have monopoly of the banking industry until 1925 when Barclays Bank acquired Dominion Colonial Bank in U.K. and opened a branch in Lagos. These two banks provided financial services to the British Colonial Administration, expatriate civil servant and those belonging to the commercial and agricultural sector. The National Bank of Nigeria was established in 1933. Agbon Magbe (now Wema) Bank in 1945, African Continental Bank in 1947 as Frist Bank of Nigeria (FBN) in 1977. As a result of Indigenization Decree in Obasanjo regime the Standard bank of Nigeria becme known.

The regionalization of the country in 1954 and attainment of independence also witnessed increased government participation in the development of indigenous banks. All were established with the aim of making profit and existing the development of the national economy with top priority given to some sectors i.e. agricultural development.

For instance, before the implementation of Structural Adjustment Programme (SAP) in Nigeria in 1986, the relationship between the banking industry and the agricultural sector has been an issue of contention to most observers. If one were to take a census of all the pronouncement by our various governments since independence, one can see that banking industry's contributions to agricultural development has been significant. As a matter of fact, it can be said that the setting up of the wholly government owned banks such as First Bank of Nigeria Plc for the purpose of lending to all forms of agricultural endeavours, short, medium and long term loans is predicated on the philosophy widespread. Agriculture and agricultural related business will turn out to be the greatest beneficiaries of the banking industry as well as the government programmes, for example the disengagement of government from commodity price-fixing and the evaluation of Naira.

It is generally agreed that for now, our hope is the small holder farmer who has been making vigorous effort to improve his lot. The future prospect for continued cooperation and co-existence of the two industries are quite bright. The banks can improve on their performance more especially in line with the prospective plan outline in their agricultural policy for Nigeria.

BANKING AND AGRICULTURE PRIOR TO OIL BOOM

It might be useful to put issues into prospective by recalling grounds in financing agriculture in near future. This optimism becomes more opt against the background of the new agricultural policy for Nigeria. Part of the bank's expectation in the new policy is demanding but challenging.

This expectation becomes better appreciated against the background of the fact that for our agriculture to be transformed from its present near subsistence stage, more capital has to be injected into the sector. Such capital in the form of credit is required in the form of business to acquire tested and modern technology, acquire the necessary inputs (improved seeds, seedlings, agro-chemicals) other materials and services necessary in their farms. Another crucial factor is the fact that even though small scale farmers and producers are presently dominant and produce the bulk of goods and fibre required, the long run strategy should be increase the proportion of the population engaged in farming. In doing this, more medium and large scale producers will be able to fully commercialize farming and of course increase on both their output, productivity and profitability.

PRINCIPLE AND OBJECTIVES OF AGRICULTURAL DEVELOPMENT

To agricultural scientist, agricultural development refers to technological breakthrough in which high yielding varieties of seeds and planting materials are developed and accorded with range adoption. In the context of Nigerian situation, the concept of agricultural development as conceived by Babangida's administration is an attempt to replace piece meal exclusive and uncoordinated past agricultural system with a total approach in which existing social, economic and constitutional factors which inhibit rapid rate of agricultural development are identified and appropriate policies and programmes are designed.

The integrated approach of the agricultural development involvews a number of closely related steps. First is the identification of the social, economic and institutional needs of the agricultural sector of the economy. Second is the formulation of policies. This is followed by the design of strategies by which policy goals can be achieved. The strategies are translated into programmes of actions and projects which are executed, monitored and appraised over time. At each stage of the process, the people are directly involved in the identification of their felt needs, the strategies in accordance to the enhancement of agricultural production exchange and consumption opportunities.

The objectives of agricultural development are:

i) self-sufficiency in food and fibre

ii) reduction in the rate of food price inflation

iii) production of raw materials for local agro-based industries

iv) diversification of the country's source of foreign exchange earnings through the rejuvenation of agricultural export commodities.

The guiding principles of agricultural development are that:

a) The sovereignty of Nigeria depends on its ability to be self-sufficient in her food and fibre needs.

b) Provision of the basic needs of the people in yard stick for improved productivity and higher standard of living.

c) People are the major agents of development and small scale producers the bedrock of development programmes.

d) Simple transfer of agricultural technology is limited by its limitation and development of indigenous is therefore sin qua non for agricultural modernization.

IMPORTANCE AND NATURE OF AGRICULTURAL CREDIT

Agricultural credit has been defined as "that which encompasses all loans and advances to borrower whether beneficiaries of agricultural reforms or someone to finance production activities related to agriculture, fishery, and forestry, also for processing, marketing, storage and distribution of product resulting from the activities. Credit has been an important instrument for the development of agriculture in many countries. Agricultural enterprises therefore need to borrow money in order to develop.

Credit is a device for facilitating the temporary transfer of purchasing power from one individual to another. It provides the basis for increased production efficiency through specialization function. The use of production credit will enable farmers to take full advantage of seasonal price variation and process better bargaining power. The farmer then requires production credit to expand his scope of operation and modernize farming operation by purchasing improved inputs. The combined effort tends to raise the net income of producers, increase marketability or surplus, raised the level of saving and consequently increases the level of investible funds. Hence, it is no doubt that credit can thus serve as a catalyst for accelerating the rate of agricultural development.

Being a clear fact that credit is one of the necessary ingredients of any effective agricultural revolution, any policy focussed on improving and accelerating agricultural productivity in the country must tackle the problem of availability and accessibility of credit to farmers. The term is in fact more than necessary in all forms of farming whether for commercial (export) or consumption purpose, since it provides inputs and capital items now and to play the cost from future earnings. The need for improving agricultural credit facilities to farmers is universal, especially in a country like ours where bulk of the farmers produce at subsistence level it requires urgent need to inject capital into agricultural sector. To sum it up, experience has shown that credit in many developing countries are essential for increase in agricultural production since few farmers can save from their earnings large enough to enable them to have or acquire improved technology and tools for agricultural development.

There are many types of agricultural credit, and proper classification will facilitate communication and financial analysis as well. We can classify credit in terms of time of repayment and the purpose for which the agricultural loan is to be used with respect to time, they loan. A credit is short term if the repayment is between three to twelve months, medium term is between one to five or ten years, and it is long term if it is above ten years with respect to purpose, short term loans can generally used for annual inputs needed in the production of farm products, medium loans are used in most cases for capital assets like machinery and long term loans are frequently used for purchase of farm implements. The purpose of this classification is that it can facilitate analysis of profitability of a specific loan of record as to income and expenditures are kept. For instance, the CBN credit policy guidelines for 1988 fiscal year stipulates that loans to agriculture must not be less than 15 percent of commercial banks and 10 percent of merchant banks total outstanding. Where a bank allocation to this sector falls short of or below the minimum stipulated percentage such a bank will deposit the amount of the shortfall with the central bank of Nigeria for onward lending to the agricultural sector.

For small scale farmers, growing crops and seasonal cash crops such as root crops, grain – like cotton, maize and groundnut, the grace period shall be one year.

For loans to farmers investing. In new plantation of cash crops with relatively long period such as oil palm, rubber and cocoa, the grace period should be seven years.

For medium and large scale mechanized farming involving large capital outlay, the grace period be seven years and for raising also the grace period of seven years.

The stipulated grace period notwithstanding a borrower may decide to commence loan repayment a head of the specified grace period if it becomes feasible and commenced to do so. All the above mentioned credit is obtained informally or in a formal way. The informal way is through the traditional institutions with little or no interest and the grace period demanding on the agreement between the giver and borrower while the formal way is through the modern financial institution. This includes the Central Bank of Nigeria which forms a class of its own. Commercial banks and development banks such as a First Bank of Nigeria (PLC).

PROBLEMS OF AGRICULTURAL FINANCING

Agricultural financing was known to be non-institutional that is, the finance came normally from, relatively of the farmers or from local money lenders, it was later on, that modern institutionals started giving finances in the form of credit to farmers. The traditional financial institutions were the early ones that gives credit to farmers for the purpose of agricultural production. This later took another turn after the country became independent in 1960, whereby modern institution became fully involved in agricultural financing. Finance can be seen as an “effectively acquisition and utilization of resources to achieve desired goals” therefore, agricultural finance derived its role in agricultural development theory from a fundamental conception. The concept is that of agricultural development as a process that involves adoption of farmers. For new and better agricultural practices, most of these practices need finance, while few farmers have the financial resources to finance their projects. The rural capital market cannot supply needed funds to finance innovation as a result, agricultural development process is affected. There has been some reasons why agricultural financing in Nigeria has been faced with so many problems, some are associated with agriculture itself, some also related to financial institutions, some credited by government while others are credited by farmers.

The problems can be grouped as follows:

i) problems inherent in agricultural production

ii) problems credited by farmers

iii) problems credited by institutions

iv) other problems.

PROBLEMS CREDITED BY FARMERS

There is deliberate misconception of the objectives of government in instituting credit programmes. Agricultural loans especially those which are connected with government or its parastatals are regarded by most farmers as a national cake, a bonus, a grant or rather a subsidy that must necessarily be distributed equally to masses at the grassroots level for instance, in the course of my discussion with some farmers, I found out that many big farmers with tangible securities prefer to use their securities for non-agricultural loans instead of associating such good securities for agricultural loans. "After all" they remark "our Federal Government has provided 75% guarantee". The guidelines say that for the time being the liability funds will be 75% of the amount in the default net of any amount realised by the bank from the security it got from the borrowers. But in practice, the lending bank cannot automatically collect 75% from CBN as soon as any default is detected. Accordingly, the security for the loan must be disposed off if the amount is obtained does not cover the outstanding balance. This means that banking institution must accept only security which can easily be disposed off.

There is diversion of loan meant for agricultural projects. This diversion may be partial or complete, it is complete diversion when a whole of the money approved for an agricultural project is used for non-agricultural purpose. The partial diversion is when only a small portion of the loan for the agricultural projects is used for agriculture so as to avoid a possible penalty like the one in section 14 of the guidelines for the agricultural credit guarantee scheme.

Mismanagement by farmers two has been a serious problem. This may be due to wrong selection of enterprises, at times they venture into areas of production in which they have no knowledge and in the face of this error they may refuse to employ right calibre of staff to manage the new venture for them. Also some ambitious farmers may also expand their enterprises above their managerial ability, even if a suitable project can be found, his limited financial ability could dwindle the progress of the project.

Exaggerated assessment of farmers credit needs and his reluctance to accept time assessment also posses a problem with the establishment of the agricultural credit guarantee scheme, many businessmen, contractors become farmers over night. Many of them lacked viable agricultural projects while some of them even found it difficult to identify and select the projects to be financed and when the project is even identified, the method of application/operation and size of the project may be difficult to ascertain.

There is prevailing reluctance on the part of farmers to borrow from agricultural credit institutions. This may be due to nonchalant attitude of the farmers or are ignorant of these credit institution and their operations and so on. This can be justified by the fact that majority of our farmers are in rural areas and are mostly illiterate but only few. And they are not making any effort to have th modern form of education etc.

PROBLEMS CREATED BY INSTITUTIONS

The credit institutions attributes towards lending to small rural enterprises have been an obstacle for agricultural financing. These institutions perceived lending to small rural enterprises as being risky, the uncertainties that face small rural industry, the high mortality rates the susceptibility to market changes and economic production make bank reluctant to deal with those clients.

The administrative formalities of obtaining bank finances particularly the paper work involved, condition and terms of borrowing and complex bureaucratic channel that must be followed are formidable different to most borrowers there has been cases where an applicant has offer something in kind before he will be allowed to submit how form that will qualify him for loans, or the applicant will abandon the loan he is about to receive because of the difficulty long procedure that must be followed.

PROBLEMS ASSOCIATED WITH AGRICULTURE ITSELF

Natural hazard like unfavourable wind, droughts, flood, soil factors and pest which are unpredictable, some which of course have not immediately feasible solutions.

Absolute inelastic nature of land, relative scarcity and immobility of farm labour also contribute to the risky nature of agricultural projects.

Poor and inadequate infrastructural facilities in the areas where farming is mainly carried out further scares away would-be labour from the farming communities. This accentuated by the erroneous belief that farming is tradition rather than business.

Some agricultural products have very slow rate of return and therefore take long time to break. Example of such project include tree crops and beef farming.

The high rate of perishability of agricultural products has also been a serious problem to agriculture financial instructions still feel reluctant to extend credit to farmers, because these problems do not reconcile with profit motive behind their establishment. They rather prefer to invest in enterprises that have rapid rate of return and are not characterized with element of risk and uncertainty.

PROBLEMS CREATED BY GOVERNMENT

The success of an agricultural financing depends (i.e. Agricultural Loans Scheme) depends on government policy and implementation. According to Jerome C. Wello (1968) "Government policy is a mixed economy involves a host of separate decision which are made by different agencies and which have their impact in a very different ways these decisions may easily conflict with each other and to ensure that various government will coordinate their development effort". In 1979, for instance the same government that tried to encourage food and other agricultural production temporarily placed embargo on the importation of maize. Consequently, almost all feed mills in Nigeria folded up, birds starved to death and poultry industries closed, it is also an objectives of the government to protect local agro-allied industries but in 1980 tones of frozen birds were imported into the country, many Nigerian poultry farmers found it difficult to procure market for the quelled poultry and broilers, while some felt reluctant to increase their stock of broilers of the presence of imported frozen birds.

There has been failure of government programmes on agriculture. The National Accelerated Food Production Programme (NAFPP) of 1974 for instance, was not given enough support before it was superceded by Operation Feed the Nation (OFN) programme in 1976. The OFN failed because states were not ready for its implementation. Also it sought to turn everybody into farming, it threw money at the programme in a populist approach at solving food crisis. The Green Revolution in 1980 was a feature of a system that goes through frequent changes in political regimes, each regime thus coined up a new label for its programme. The politicians ignored the report of World Bank Food Strategies Mission which drew up food productions played politics with the programmes. The Buhari's regime has a misplace emphasis on the River Basin Development Authority (RBDA) and gave too many functions to them. Because of this, there was a lack of focus and loss of basic idea behind the setting up to the RBDA in 1977, which is to focus on water resources development by increasing their number of eighteen (18) from eleven (11) they become more or less like State-agencies instead of being basis-based. The past Abacha's administration in emphasizing rural development as the structural foundation of agricultural development, the success of which and the agricultural instance scheme is too premature to be analysed.

Interest rate too is one of the major problems of agricultural financing before the introduction of interest development policy in 1989, interest rate change under the agricultural credit guarantee scheme is lower than those charged in saving deposits. One should note that commercial banks and other credit institutions are mostly profit oriented, they will naturally prefer higher rate because it is there they can have more revenue resources.

OTHER PROBLEMS

There is a problem of labour shortage especially within the farming communities. Crops like rice and maize need large number of workers during harvest time. Finding such intensive, the high cost labour lending to high cost of productivity. In the midst of this expenses venture marginal productivity of labour does not even increase, the yield of crop may fall, livestock may not be more prolific or made resistant to pest and diseases etc. even the prices of farm products may not have an upward increase in sympathy with the prevailing high cost of production, while manufacturers can easily adjust the prices of their output by passing on increase in production cost to customers. Farmers all art the mercy of the market, forces or demand and supply.

Another problem is inadequate securities. There is always in ability of borrowers to provide acceptable, security with their relevant documents, many borrowers especially rural farmers have landed properties but do not have certificates credit institutions like commercial banks in most cases to ensure the safety of money deposited by their customers. This stem from the fact that the bank are duty bound to repay deposits in demand to bank institutions feel somehow reluctant to approve loans which are not adequately secured. Therefore, genuine farmers without acceptance securities with their relevant documents stand a chance of being from the loan scheme.

THE IMPACT OF COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS ON AGRICULTURAL FINANCING

Lending in agriculture has continued to receive a boost from commercial banks reflecting priority attached to it towards the country's economic programme lending to agriculture by bank dated back many years ago i.e. in 1986 the minimum lending rate stipulated has 12% of commercial banks loan to be distributed. Despite the presence of agricultural banks which emerge to finance agriculture from a wider perspective, this does not preclude commercial banks from granting loans to farmers. These attitudes of commercial banks toward loan disbursement to farmers illustrated the role played by commercial banks in agricultural development.

It is common knowledge that lending to agricultural sector is associated with high risk necessitated by drought, pest and other environmental hazard, hence, all consideration in terms of giving out loans by the bank is applicable in agricultural lending which also has the following:

a) confessional interest rates

b) solid repayment terms

c) long monotorium grace period.

Commercial banks also in addition to extending credits to farmers top priority in extending credit facilities. This was made possible and even more realistic when the Federal Government of Nigeria gave the blessing to the effort of commercial banks by introducing the Rural Banking Programme in July 1977 after many years of research and planning. The objectives of the programmes are:

1) Cultivating banking habits among the rural dwellers.

2) Mobilization of savings from rural areas for the purpose of lending such savings to profitable ventures.

3) Creation of credit by way of equity and loans for small scale industry.

4) Development of agriculture and agro-allied industries in the rural areas with a view to achieve the national objectives of self-sufficiency in food production in the country in general.

5) Increase the income of the rural farmers by enlightening them on the various sources of agricultural income and possibly to make them increase production not only in food crops but cash crops too.

6) To avoid seasonal fluctuation in agricultural production by giving them financial assistance in construction of storage facilities.

Commercial banks were deemed to have the facilities to achieve these objectives. Unfortunately whose main objectives is profit maximization could not on their own go to the rural areas since they were not sure of making profit. Thus, enforcement of opening rural branches in rural areas was created.

The Rural Banking Programme is divided into three phases.

<u>Phase I</u>

The first phase (1977 – 1980) lasted from July 1979 to June 1980. During this period 200 centres were allocated to the 18 commercial banks existing them in all the states of the federation as shown in table 2.4).

<u>Phase II</u>

The second phase covered a period of three years and five months from August 1980 to December 1983 (1980 – 1983) under this phase 266 sentres were identified and allocated to commercial banks (as shown in table 2.4) consideration were given to population density, government establishment and economic activities in identifying commercial banks.

Phase III

Third phase (1984 – 1989): Under this phase, 300 countries were identified (as shown in table 2.4) and the same criteria applied in Phase II was used in Phase II in allocating branches. The third phase of the programme was concluded since 1989 and there has been mixed reaction in the success or otherwise of the programme in raising the standard of living in rural communities and thus developing the rural sector. Below are tables 2.4, 2.5 which shows the allocation of banks to be opened by various commercial banks and the percentage performance of each phase.

TABLE 2.4
COMMERCIAL BANK ALLOCATION TO STATES UNDER THE RURAL BANKING PROGRAMME

STATE	PHASE I	PHASE II	PHASE III
ANAMBRA	19	19	19
BAUCHI	10	15	19
BENDEL	9	15	17
BENUE	8	12	16
BORNO	12	15	15
CROSS-RIVER	7	17	16
GONGOLA	15	13	17
IMO	14	21	15
KADUNA	3	12	19
KANO	17	14	15
KWARA	6	12	18
LAGOS	2	8	16
NIGER	6	8	4
OGUN	10	9	12
ONDO	16	18	19
OYO	16	18	17
PLATEAU	10	13	19
RIVERS	9	12	15
SOKOTO	11	14	15
TOTAL	200	266	300

SOURCES: CBN Annual Report 1989.

TABL3 2.4

As shown above indicates the rural banking programme State by State.

TABLE 2.5

COMMERCIAL BANK ALLOCATION OF BRANCHES UNDER THE RURAL BANKING PROGRAMMES

		I	II	II	
1.	African Continental Bank	16	19	14	49
2.	Allied Bank of Nigeria Ltd.	6	7	11	24
3.	Bank of Credit and Commerce Nigeria Ltd.	-	6	16	22
4.	Bank of the North Ltd.	6	19	14	39
5.	Cooperative Bank Lit.	5	8	9	24
6.	Cooperative Bank of Nigeria Ltd.	5	8	7	22
7.	First Bank of Nigeria Plc	40	37	28	105
8.	Habib Bank Nigeria Ltd.	-	-	6	6
9.	New Nigeria Bank Ltd.	3	6	8	17
10.	Nigeria Arab Bank	4	9	10	21
11.	Quena Bank Nigeria Ltd	-	6	8	14
12.	Prolicies Bank of Nigeria Ltd.	-	-	6	6
13.	Savannah Bank	-	-	5	5
14.	Society Generale Bank	7	11	14	32
15.	Union Bank of Nigeria	-	6	15	21
16.	United Bank for Africa	27	27	28	92
17.	Wema Bank.	27	27	29	93
18.		5	5	6	17

SOURCE: CBN Annual Report Allocation of various commercial banks under the Rural Banking

THE IMPACT OF FIRST BANK AND OTHER BANKS

First Bank of Nigeria PLC was established specially to make profit, which involves the process of accepting deposits of money and other valuables. The banks also repay cash on demand and also grant loan to the farmers.

Other banks like Nigeria Agricultural Development Bank (NACB) is a development bank established specially to develop the agricultural sector. Union Bank of Nigeria PLC is a commercial bank established to also make profit. Finally, the Central Bank of Nigeria is the government representative in the banking sector and acts mainly as bankers to the government which maintains close association with the government and the banking sector.

The First Bank of Nigeria Plc has recorded some impressive achievement with respect to agricultural development of Nigeria notably.

A) ESTABLISHMENT OF SMALL SCALE HOLDER SCHEME (SHS)

At the teething stage, the nature of the bank credit delivery operation were carried out in a way that rural farmers will demand the credit facilities because the on-lending type of loan could not give the rural farmer the opportunity to source the loan. This necessitate the establishment of SHS which allows the peasants farmers to borrow up to N25,000.0 in that collateral.

B) ESTABLISHMENT OF WORKERS SCHEME

The bank has also created an avenue for retrenched workers to contribute their quota towards the development of agricultural output of the nation. To this end, a certain sum of money was allocated to each state branch in the federation. The loan is allocated to tangible securities except that the applicant should be guaranteed by a reputable person. This scheme has also increased agricultural production in the country.

C) ESTABLISHMENT OF SUBSIDIARY COMPANIES

Subsidiary companies are established by First Bank of Nigeria Plc.

These are Food Development Corporation, National Poultry Production Companies which are set up by banks to respectively intervene in agricultural production and marketing in both domestic and export market.

D) ESTABLISHMENT OF STAFF TRAINING AND DEVELOPMENT CENTRES

This is another kind of related banking service being rendered by the bank. The rational behind this is to provide opportunities for new and existing staff to acquire as rapidly and economically as possible. The banking and other skill required to do their job efficiently and also prepare for higher responsibilities in other words, to provide individual workers with knowledge, skills and attitude required to perform efficiently and also prepare for whatever future responsibilities that may arise. As at 30th September, 1990 a total of 5,226 of the bank staff benefited from various courses.

The financial contribution of First Bank of Nigeria Plc to agricultural development is obvious. Statistics indicates the banks, since its inception has increasingly contributed financially to the agricultural sector of the economy.

2.4 THE ROLE OF COMMERCIAL BANKS IN FINANCING AGRICULTURAL DEVELOPMENT

Commercial banks in a way stabilize the growth of the economy by performing its allocation functions. Banks have been and are likely to remain a dominant force in providing the financial requirements of the various sectors. In spite of the fact that Nigeria is predominantly agricultural country, the supply of credit for agriculture has not been adequate. Apart from the bank which are often being accused of inflexibility, apathy, reluctance to commit credit funds into agricultural sector. Lending to agriculture cannot be compared with other sectors because of the high risk involved.

Analysis of the operations of commercial banks shows that over the years, very little priority was placed on financing the country's agriculture. For instance, during the years 1972/73, when mandatory allocation of bank credit to agriculture by Central Bank started through to 1977/1978, the commercial banks recorded short falls against the targets set by the government. There was no period when agricultural credit by commercial banks accounted for the amount level expected.

The performance was not impressive, guidelines was designed among other reasons, to ensure an adequate supply of credit to the productive sectors of the economy which agriculture was included. On the other hand, despite commercial banks did not account for stipulated amount; there was consistent increase in the specification. It shows an indication of the emphasis of the banks on the development of agriculture. Also commercial banks consistently increased their lending to agriculture as a move towards achieving prescribed minimum targets. This was due to a variety of reasons. Firstly, the increasing awareness and access to bank credit must have stimulated increasing demand for agricultural credit. Secondly, the introduction of measures capable of reducing the losses of bank credit when they lend to agriculture cannot be ignored, such as the new agricultural insurance scheme. The third factor, is the penalty which banks pay when they lend short of the prescribed minimum. Fourthly, the entry of educated men into agriculture and the relative improvement in the standard of project preparation must have improved the attractiveness of agricultural lending.

However, despite the general increase in the outstanding loans to agriculture, commercial bank lendings were generally less than the prescribed minimum as mentioned above. The amount of loans and advances made by the commercial banks to the agricultural sector increased from about N152.00 million in 1972 to about N235 million in June 1990.

Another major characteristic of the Nigerian banking system is concentration of banking offices in the main urban areas. There are fifty five commercial banks in Nigeria with a total of 1,757 branch offices at the end of 1990, less than 10% of the branch offices were located in the rural areas. As a result of the absence of commercial banking facilities in the rural areas, banking contacts become difficult for a large section of the population, and commercial bank credit does not constitute an important aspect of rural credit.

In order to correct this aspect of the location of commercial banks branch offices and to extend banking services to majority of the people in the rural areas, the Central Bank of Nigeria drew up a master plan, which directed commercial banks to establish more branches in designated areas of the country between 1977 and 1980. One commercial bank branch has to be established in each of the local government headquarters and the Central Bank took care of the population, and level of economic activities in those areas.

Also the major commercial banks which had their operations concentrated in urban centers were allocated more branches in the rural areas.

2.5 BACKGROUND OF FIRST BANK OF NIGERIA PLC

First Bank of Nigeria Plc commenced banking operations in Nigeria in 1894, after its incorporation as a limited liability company in London on

March 31, of the same year. Founded in 1894 by a shipping magnate from Liverpool, Sir Alfred Jones, the Bank commenced as a small bank in the Office of Elder Dempster and Company in Lagos. Today, First Bank of Nigeria Plc has diversified into a whole range of banking activities and services including commercial, merchant and international banking, and has become, historically, a potent factor in the development of the country. In compliance with the Companies Decree of 1968, the Bank was incorporated in Nigeria in 1969 as Standard Bank of Nigeria Limited. With the commencement of the indigenization programme of the Federal Government in 1972, the Federal Government acquired a 36.1% equity interest in the Bank while it also allowed other local investors to take up 12.9%. the majority 51% was held by Standard Chartered Bank Limited which resulted from a merger between Standard Bank Limited and the Chartered Bank (both of the United Kingdom).

By 1979, the local interest in the Bank increased to 62% following further dilution of Standard Chartered Bank's shareholding. The Bank's name was changed in the same year to First Bank of Nigeria Limited with the shares being publicly quoted on the Nigerian Stock Exchange following the promulgation of the Companies and Allied Matters Act Cap. 59 Laws of the Federation of Nigeria 1990, and in compliance with the requirements of section 29 thereof, the Bank's name was changed to First Bank of Nigeria PLC.

2.5 THE LENDING/INTEREST RATE POLICIES OF FIRST BANK OF NIGERIA PLC

The rates of interest by First Bank of Nigeria PLC on its loans depend on the guidelines given by the Central Bank of Nigeria.

Hitherto, agriculture was a preferred sector and hence the rate of interest on loans granted to the sector is lower than what obtained generally in the economy.

2.7 MAIN OBJECTIVES AND FUNCTIONS OF F.B.N. PLC

The main objective of First Bank of Nigeria Plc is to remain true to its name at all times as the leading financial institution in the country, by providing to its customers, across the nation and beyond, within the parameters of regulatory policies, the best banking services available. First Bank of Nigeria Plc has its functions diversified into a whole range of banking activities and services including commercial, merchant and international banking and has become historically a potent factor in the development of the country.

2.8 CONDITIONS FOR F.B.N. PLC AGRICULTURAL LENDING

Agricultural lending covers all kinds of agricultural production e.g. cash crops, arable crops, livestock, and fisheries.

It could be lending to individuals, sole proprietors, partnership, limited liability companies, cooperative societies or government parastatals, security for such lending is usually any of the existing securities provided it is acceptable to the bank.

Initial contact with the Bank by the would-be applicant can be made either verbally or in writing at any of the branch offices or at the head office of the Bank. A standard ACGS application form is then obtained by the applicant, filed in triplicate and returned for processing with the relevant documents attached. The completed application form and their relevant documents will be used for project identification and formulation by the bank. This will involve visiting the project site and making an on-the-spot assessment by Agricultural Credit Officer (ACO) of the Bank. The feasibility study submitted will be reviewed to conform with the Bank's standard. The Bank uses the economic analysis approach in its project formulation.

If the project is considered to be viable, depending on the size of the loan, a letter must be addressed to Regional Administration enclosing Form No. 3800 setting out the following information:-

a) A short statement of the customer's reputation, how long he has been known to the Bank and past experience in dealing with him.

b) The facility required should be explained, and that it is not excessive in comparison with the size of the customer's business or resources.

c) The purpose for which the facility is to be used must be clearly described, and it should be established that the proposed facility is sufficient for this purpose.

d) All advances should be self-liquidating and the repayment proposal fully spelt out. Repayment arrangements must be within the customer's capabilities, and must be made to appreciate that his engagement for repayment as arranged must be respected.

e) The security must be accurately described and any features which may offset its value must be disclosed. The Bank generally requires security to be deposited.

Customers applications for facilities must be submitted to Regional Administration for approval with the fullest information possible. Form 3800 should be completed, taking particular note of the following requirements:

a) Name of the customer, directors, partners, proprietors or other leading officials.

b) Character of the officials and status of the customer.

c) Paid-up capital, nature of business, date established and other details of the customer.

d) Amount of advance required.

e) Purpose for which required.

f) Period for which required.

g) Proposal for repayment.

h) Security offered.

i) Valuation of security as required by Head Office circulars concerning the form of security offered.

j) Whether the applicant has any other facilities, and if so, the amount outstanding.

In Bank lending, the need for proper control of advances cannot be over-emphasized. The control of over N2m facilities are controlled by Regional Administration. After thorough appraisal, facilities are either approved or declined, depending on the circumstances and available facts.

The applicants or farmer are grouped into small, medium and long term scheme. In each of these categories there is stated amount that the farmers can borrow. The amount ranges from N10,000 (ten thousand Naira) to N1m (one million Naira). Loans can be given to full-time farmers, civil servants, individuals and business farmers can be beneficiaries. There is no clear dichotomy between full time farmers, civil servants farmers. A farmer is a farmer.

The Central Bank of Nigeria regulates the agricultural financing by all the commercial banks. But despite that the Bank is not measuring up with the agricultural policies for the farmers by Central Bank.

To benefit from the rural scheme group of farmers can be organized in the villages as long as it is close to any of the First bank Branch. Farmers who are well known to themselves can be mobilized into small groups of either 5, 10 or 15 farmers under the leadership of a well known, tested and respectable farmer in the community.

Credit will be provided to individual participants within an informal group or to a group when it has been registered as a cooperative society. When credit is provided in either case, the members will jointly and severely guarantee the credit provided to the individual members of the group. This concept of joint liability groupings is to ensure cooperation among farmers in the group, members will also derive maximum benefits from the scheme because of group effort. When a group has been formed, it should take a name and the members should elect their officers – chairman, secretary and treasurer.

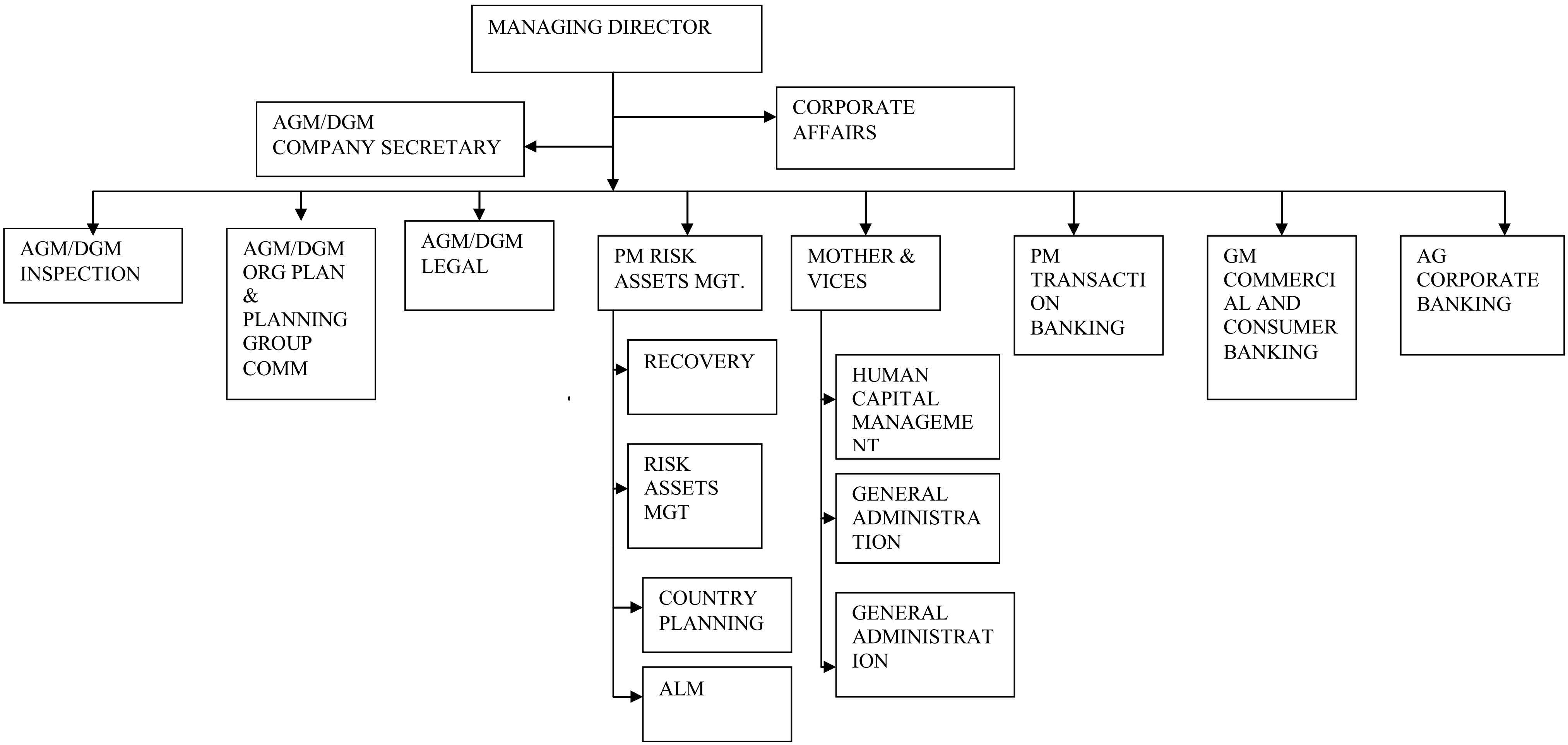
The Bank used the information from the application forms to screen the applicants before loans are disbursed to the farmers. The Bank take into consideration the quality of the persons, inspections are conducted to the site of the farms. The size are also considered before any loan is given and also depending on their previous performances. The application forms are processed between the months of April to June.

First Bank, has what is called "community farmer" (National economic Reconstruction Fund). This kind of harvesting or produce loan is given to farmers during harvesting period. Some farmers have benefited from this loan within the State. When farmers submit their forms late, the Bank officials may decide to convert it to harvesting loan.

To ensure effective utilization of the loan it is the policy of the Bank to draw a schedule where periodic inspection is made to the farmers in the rural areas. Also to educate and give their expert advice to the farmers.

TOP LEVEL STRUCTURE

ORGANIZATION DESIGN TEAM



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 METHOD OF DATA COLLECTION

The researcher carried out all the major tools required on the variables. Research Assistants were trained to assist in giving out and collecting of the questionnaires throughout the period of the research.

Questionnaire

There were two sets of questionnaires designed. One was administered to the farmers and the other to the banks. The questionnaires for the banks was deposited with the agricultural department officials and collected later.

The questionnaire meant for the farmers was filled and returned through the help of research assistants and agricultural officers. The questionnaires are both dichotomous and multiple choice as well as closed ended questions from which most appropriate answer could be selected. Instructions was given as on each of the questionnaires. The reason for the combination of these different types of questions was to increase the reliability of the responses.

Personal Interview

In addition to the questionnaires separate questions was drawn for the personal interview both for the banks and farmers. Discussions was made during working hours and to observe operations between the farmers and the agricultural officers. In First Bank, the agricultural offices are experienced workers under agricultural department for years. Therefore, their verbal information was vital. It was necessary to use personal interview because records were not properly kept, to gather other useful information that would have otherwise remained unanswered.

The same applied to the farmers when visits was made, discussions was made to get useful responses.

3.1.2 Sources of Data

Historical methodology was used extensively through secondary and primary data.

i) Secondary Data

The use of available literature on the subject matter that can be relied upon was used. This was based on the publications, related journals, (Central Bank of Nigeria – Bullions), periodical, magazines. Data were collected from different pamphlets on agriculture from the Bank. Little information on customers was obtained from the files.

ii) In order to obtain data that would provide information on agricultural financing in First bank both questionnaires and personal interviews were used. Most information was made available verbally directly by the Agricultural Officer of the Bank. Most information was not field since agricultural department was regarded as secondary aspect of the bank's operations. Proper attention was not given to the agricultural departments. Visits to some farmers was made by the researcher in the evenings so as to get the farmers at home.

3.1.3 Sample of the Study

In wide research of this nature that covers a very large population of farmers operating in First Bank, it was not possible to interview all the farmers that exist in a state as well as operating with the Bank. For this reason a selection of appropriate unit which represents the entire population was chosen. The random villages are Samaru, Biye, Maraban Guga, Yakawada, Kaya, Tsaunin Mayau and Hayin Kanwa. The reason why these villages were chosen is because they are very close to the Bank branch office. This will also ensure accuracy in the findings. To have a meaningful research First Bank was taken as sample and it is of vital significance because of the contribution to the agricultural sector.

With the sample selection, it has helped the researcher to obtain the reliabilities and validity of the research.

3.1.4 Population of the Study

The population of some 15 villages around Sabon Gari and Giwa Local Governments were considered for this study.

3.2 METHOD OF DATA ANALYSIS

The data collected was analysed through the following methods:

a) Tabulation

b) Simple ratio analysis

c) Spearmans correlation coefficient

d) Economic examination analysis

3.2.1 Instrument of Data Analysis

Two main sources were used in this study.

a) The primary sources:

   i) Interviews

   ii) Office/Home calls.

b) The secondary sources:

   i) Various text books

   ii) CBN publications

   iii) Business journals.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

The government has emphasized so much on agriculture. This is because agriculture is the main source of Nigeria's economic development. To achieve the self-sufficiency of the agricultural products, loans should be given to the full-time farmers in the rural areas and customers who would make use of the loans judiciously. There is need for scientific evaluation of customers to reduce default rate and the cost of recovery by commercial banks. Despite the objectives of commercial banks to make profit, its continued existence depends on how credits are given to its customers and recovered by the banks especially in the agricultural sector.

To examine how far First Bank has assisted in giving loans to the agricultural sector, sample of farmers are examined with the aim of suggesting ways to improve agricultural financing by commercial Banks.

In analyzing the data collected, critical comments from the respondents would be looked into. Both comments from the farmers in the rural areas and banks agricultural officers presenting a data and testing of the hypothesis.

A total number of 100 questionnaires were administered to farmers and 75 was filled and returned back, while 25 representing 25 percent were not returned because of the reluctance by the farmers to fill the questionnaire and time constraint.

The questionnaire were administered to the bank's customers and farmers in the villages. This is to give a true picture of how many full-time farmers have benefited from the agricultural loan. The questions were interpreted to the farmers in Hausa Language.

The aim of this data analysis therefore is to examine how far First Bank have assisted in giving loans to the agricultural sector, sample of farmers are examined with the aim of suggesting ways to improve agricultural financing by the bank.

Personal interviews were also conducted to farmers in some places like Giwa, Kaya, maraban Guga and Tsaunin Mayau. Most of the farmers asked that when answers are provided, would they be given the agricultural oan. It was explained to them that the essence of the interview and questionnaires were for research work and to encourage them to go to the bank to open an account. And when this is done they can obtain agricultural forms, filled correctly and loan would be given to them.

Bank agricultural officials were also consulted but the responses from them was far. Although audience was given, it was not easy to obtain some fact from them, most especially facts involving figures, the officials felt the questions are too detailed and it is not the bank's ethic to release such information. In any case the required information was given and other relevant figures was obtained from Central Bank, Kaduna Branch. At the Central Bank proper records of all the banks are kept by the Agricultural Department. Therefore, information received was supplemented by the data that was not provided by the commercial bank. The information provided has made it possible for the analysis to be provided.

4.2 PROBLEMS OF FARMERS IN OBTAINING AGRICULTURAL LOANS

From the findings, most farmers have never made an attempt in going to the banks for agricultural loan. This is because of lack of awareness even those who are aware and make attempt, the farmers are neglected at the bnak, they become discouraged. Most farmers are not guided by the agricultural offices. That is, a lot of farmers fill the forms wrongly instead of the Agricultural Officers to direct the farmers who are illiterates, the farmers are left without guidelines. When the forms are filled wrongly such forms are not processed. The farmers become discouraged especially when attempts have been made twice or more.

There is the problem of the customers unable to make repayments because of the risk involved with agriculture. A survey carried out by Oyatoye (1975) in Ife and Ondo showed that only about 30% of loans taken by farmers was used for agricultural purposes while about 70% was used for consumption purposes. In developing countries, loans meant for agricultural purposes are used for meetings, cost of marriages, funerals etc. This may be true in Nigeria where the repayments of these loans become difficult after they have been used for non-productive activities. Some of the customers would not like to pay the loan back because they feel is a way of having their own share of the national cake or consider the loans as grants.

Table 4.2.1: Classification of Respondents

Name of Source	No. of respondents	Never Borrowed from the Bank	Borrowed money from the Bank	Amount Borrowed	
				N5,000 – N10,000	N10,000 – N20,000
First Bank	25	--	25	20	5
Other sources	50	50	--	--	--
TOTAL	75	50	25	20	5

SOURCE: Questionnaire, 2002.

The analysis shows that the bank do not offer agricultural loan to many people. Where the bank gives the agricultural loan, it is given to only absentee farmers. This shows that the full-time farmers have not been encouraged to benefit from the agricultural loan. Therefore, there is the need for the bank to advertise to the grassroots, to create awareness to these full time farmers and embrace the rural banking scheme. The agricultural officers instead of staying air-condition offices owe a duty of visiting the full-time farmers in the villages. Encourage them to open an account with the bank so that agricultural forms can be given to the farmers to be filled.

Table 4.2.2 Main Occupation

Type of occupation	No. of respondents	Percentage of Total
Farming	5	7
Shop-keeping	1	1
Workers	65	87
Others	4	5
TOTAL	75	100%

SOURCE: Questionnaire, 2002.

The findings shows that 5 respondents, 7% had their main occupation as farming while 87% are workers, and farming at the same time, 5% are farmers and do other occupation such as business. From the analysis the farmers in the rural areas engaged less on farm work than those working and farming at the same time.

Table 4.2.3 Size of Farm

Size of Arm in Hectares	No. of Respondents	Percentage of Total
Less than 5 ha. 5 – 10 ha. 6 10 – 15 ha. 7 15 – 20 ha.	28 35 7 3 2	37 47 9 4 3
TOTAL	75	100%

SOURCE: Questionnaire 2002.

From the table above, most farmers are small scale farmers or medium. This is because 47% have their size of farms between 5 – 10 ha. And 37% less than 5 ha., 9% between 10 – 15 ha, while 4% and 3% between 15 and above 20 ha.

This could be termed scale farmers. It was discovered that the full-time farmers in the rural areas are the small scale or medium.

The full time farmers are expected to have large farm sizes but this is not so from the findings. This might be because of lack of funds and energy to farm large area. Lack of technical expertise may also be responsible for small sizes of farm lands by full time farmers.

Table 4.2.4 Types of Farm Implements used

Types of implements	No. of Respondents	Percentage of Total
Hoes and cutlass	55	73
Tractors and other machineries	7	9
Both	13	18
TOTAL	150	100%

SOURCE: Questionnaire 2002.

The findings shows that about of 75 respondents 73% use local implements such as hoes and cutlass while 9% used modern implements that is tractors and other machinery only, 18% use both the local implements and modern implements. It can be deduced that modern implements are used, the farm size will increase and it will give a better yield for income. The analysis shows that majority of the farmers' still use local implements. The cost of the modern machine and lack of fund might be responsible for farmers not using modern machines. But when modern machines are used. The energy is reduced.

Table 4.2.5 Types of Crops Grown

Types of Crops	No. of Respondents	Percentage of Total
Maize	68	91
Guinea corn	11	11
Rice	3	4
Others	4	5
TOTAL	`50	100%

SOURCE: Questionnaire 2002.

From the findings 91% indicated that they grow maize and guinea corn. While 4% farm only rice. Maize, guinea corn, rice is the major crop planted by the farmers irrespective of the size of the farm.

Table 4.2.6 The Use of Harvested Crops

Use of crops	No. of Respondents	Percentage of Total
Consume	5	7
Sell	30	40
Process all	2	2
Consume and sell	38	51
TOTAL	75	100%

SOURCE: Questionnaire 2002.

The table shows that 51% consume and sell, while 40% grow crops to sell them, 7% for consumption only, while 2% is for consumption, sell and processing. Despite this, most of the full-time farmers had never benefited much from the agricultural loan, they are still able to grow crops for consumption and sell. This might be responsible for their personal savings and see no need for agricultural loan from the banks. The farmers are able to sell and consume their crops irrespective of the size of the farm. This also shows that if farmers can farm larger size they will make a lot of profit.

Table 4.2.7 Estimated Value of Harvested Crops

Amount (N)	No. of Respondents	Percentage of Total
Less than N1,000	--	--
N1,000 – N5,000	40	53
N5,000 – N10,000	30	40
Above N10,000	5	7
TOTAL	75	100%

SOURCE: Questionnaire 2002.

From the findings 53% estimated N1000 – N5000, 40 percent estimated N5000 – N10,0000, while 7% estimated above N10,000. From the analysis income from the harvested crops must be proportional to farm size. The size of the farm may be small but the type of crops and the soil may give good yield. This is responsible for farmers not going to the banks for agricultural loan as stipulated. Therefore, the problems is not the repayment by the farmers but the willingness on the part of the banks to encourage and give out loans with proper supervision. This will also reduce default rate. From all indication the loans given by the bank is still not encouraging.

From the findings, the total number of customers that are granted ACGSF has been on the increase. The increase might be due to more branches by the bank and a number of new commercial banks now existing.

Table 4.2.8 Loans Granted under ACGS by First Bank of Nigeria in Kaduna State

Year	No. of Loan	Amount	Percentage
1995			
1996	297		
1997	165	4420	18.4
1998		3359	17.3
1999			

SOURCE: Questionnaire 2002.

4.3 Hypothesis Testing

At this point it is appropriate to test our hypothesis. Under 1.5 we have hypothesized as follows:

Ho: There is no relationship between the customers' behavior towards agricultural loan from the bank and the loan repayment.

Ho: Bank's behavior in giving loans to customers does not depend on their personality and their repayment behaviour.

Under our discussion in 4.2 we have enumerated some obstacles hindering effective distribution of loan to farmers. Similarly, using table 4.2.1 it is evident that there is a relationship between customers and behaviour towards agricultural loans, their personality and their repayment behaviour. This hypothesis is therefore rejected and alternate hypothesis (Hi) is hereby accepted.

Hypothesis II also states that banks behaviour in giving agricultural loans to customers does not depend on their personality and their repayment behaviour.

Based on the data analyzed earlier it is evident that this hypothesis must be accepted because banks do not show any specific behavior towards giving loans to customers as well as their repayment period. This null hypothesis is therefore accepted and the alternate is hereby accepted.

The analysis also shows that alternative hypothesis (Ha) should be rejected, which says that customer behavior towards agricultural loan from the bank is a function of inter-relationship of the repayment of the loan, attitude of banks not granting loan and size of farms.

In effect, null hypothesis is accepted (Ho) that there is no inter-relationship between the customer's behavior towards agricultural loan from the bank and its repayments of the loan, bank not granting loan and size of the farm.

The analysis shows that majority of the respondents have never taken agricultural loan from the bank before. It shows a negative aspect of the findings and why farmers have not enjoyed the benefits of the agricultural loan. Most of the farmers income is through personal savings. They must have been savings at home for a long period to enable them get some funds for farming. They can decide to store the crops until when it is very expensive before the crops are sold, to felt them higher income.

On the positive side of the findings, customers who are farmers and have taken loan from the bank before, have their value of harvested crops between the ranges of N10,000 – N100,000. With this estimate the customers can pay back their loan. It was also discovered that the farmers grow crops for consumption and sales, irrespective of their farm size and implement used.

The variable used in testing the alternative (Ha) and null (Ho) hypotheses are occupation and income. The two variables accept the null hypothesis that there is no relationship between the bank's behaviours in giving loans to customers that are worthy in terms of their characteristics and their payment behaviour. The reason could be due to the size of the sample and going to the rural farmers in the villages who have not taken loan before. Therefore the alternative hypothesis (Ha) is rejected while the null hypothesis is accepted. The default rate experienced by some commercial banks may be due to risk involved with agriculture and not the unwillingness on the part of the customers. This is because most of the customers are salary earners, who have regular income to the bank to enable them pay back the loan.

4.3 SUMMARY OF FINDINGS

From the results it shows that there is still much work to be done by the bank in this area of Kaduna State in financing agricultural sector. Therefore, there is need for continuous research until the full time farmers in rural areas are reached with agricultural loan within the state for better agricultural yield.

4.4 F.B.N. PLC AND AGRICULTURAL TRANSFORMATION

First Bank of Nigeria Plc is one of the commercial banks that provide the transmission mechanism through their supply and allocation of cried for monetary policy in Nigeria.

In recognition of the complex challenges confronting banks, Government has established a number of mechanisms to stimulate financial institutions to channel funds to the agricultural sector. Some of these measures include the mandatory sectoral allocation policy, the Agricultural Credit Guarantee Scheme (ACGS), the Rural Banking Scheme and the Nigerian Agricultural Insurance Scheme. Government had also intervened at various times by setting up agencies such as the Nigerian Agricultural and Cooperative Bank (NACB/NACRDB), the Directorate of Food, Roads and Rural Infrastructure (DFFRI) and the Nigerian Agricultural Land Development Agency (NALDA) to improve farm-related infrastructure.

In all of these, First Bank has remained a loyal collaborator with government; CBN and farmers (large and small) in providing funds for agricultural business. In the 19980s First Bank added glamour to ACGS by introducing a customized micro-finance packages styled "Community Farming Scheme", with a vote of N100 million across the country, from 1990 to the present, the Bank's portfolio in agriculture has grown from N499 million to N4.178 billion with a peak of N6.09 billion attained in 1998.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMRNEDATION

5.1 SUMMARY

The importance of agriculture in the economic development of Nigeria cannot be over-emphasized. Its role and contributions in the national economy were discussed. The problems besetting this sector of the economy were highlighted among which is lack of or inadequate agricultural credit. The importance of credit in agriculture, its sources, management policy and the need for specialized credit institutions were highlighted upon. Because of the inadequacies discovered in financing agriculture by commercial, merchant banks and other traditional financial institutions, specialized institutions like the Nigeria Industrial Development Bank (NIDB), Nigerian Agricultural and Cooperative Bank (NACB), Federal Mortgage Bank (FMB), Agricultural Credit Guarantee Scheme (ACGS) and many others were established.

The main objective of this study was to review the role played by traditional financial institution, commercial and merchant banks in agricultural financing in Nigeria and as well unfold the role played by First Bank of Nigeria Plc. Problems of agricultural financing were also exhaustively discussed. Recommendations will be made based on the empirical results.

The farmers generally face the problem of inadequate financing for increased agricultural production. Therefore, the government took certain measures to get the financial institutions involved in lending money for agricultural purposes. This can be seen in various monetary policies undertaken by successive governments. The Central Bank has been the main institution through which these policies are being implemented, because it acts as government agent in all financial issues and as a banker to banks and lender of last resort.

Rural banking programme was also introduced by the CBN as a measure to bring the banks services nearer to the rural farmers. Agricultural financing in Nigeria has a very bright future, though it seems to be faced with so many problems. Some of the problems as earlier discussed arose from the environmental factors while some are man-created. The problems from the environmental factors constitute all the risks involved in financing. These risks could be drought, flood, pests and erosion. The other problems are associated with the farmers and financial institutions. Other problems are associated with farmers and financial institutions. Other problems of agricultural financing also emanated from the various government policies on agricultural financing. For instance, the politicization of distribution of agricultural inputs.

A commendable contribution to agricultural sector can further be seen in various budget allocations that are being granted to agricultural sector every year by the Federal and State Governments. Although the availability of credit to the agricultural sector can solve the financing problems of that sector, it can only be a reality when the credit granted is judiciously utilized.

5.2 CONCLUSION

Agricultural transformation and development cannot be achieved in a developing economy like Nigeria without adequate financing of the small scale, resource poor farmers who are widely acclaimed to produce over 90 percent of the country's food and fibre production. A number of problems have been discussed in the previous chapter which militate against efficiency delivery of agricultural credit. Numerous as the problems appear, they are not insurmountable. Consequently, adequate steps should be taken to ensure that the numerous resource poor farmers, are not denied access to institutional farm credit.

Inspite of the risks and problems involved in agricultural financing, the level of bank loans to agricultural sector has been on the increase, both in fulfillment of the Central Bank of Nigerian directives and as a result of efforts by banks themselves to help develop the economy. Banks, over the years are accused of being averse to lending to the risk-prone agricultural sector. But this is almost a thing of the past, because banks are now more dynamic and advantageous in this direction. This can be seen through the rural branch expansion. Though, this was basically CBN's strategy, the commercial banks in compliance with its directives open so many rural branches. This development means establishing new markets for themselves at the same time providing the rural areas with modern banking services. The essence is to extend the activities of lending agencies to local authorities and district levels in the villages so as to integrate more farmers into the mainstream of agricultural development. By rural expansion, commercial banks will no doubt enhance the level of agricultural financing at the grassroots level.

All these notwithstanding, Nigeria needed foreign investment to assist in the development of agriculture, provided such investment was compatible with her foreign status, autonomy and particularism. This is because Nigerian financial institutions can not meet all the required financing, and the foreign institutions are more experienced and have more equipment and abled personnel to supervise the activities of their investment.

Most of the commercial banks agricultural credit are concentrated to customers in big towns and the State capital instead of the rural areas. All types of agricultural production should be encouraged, commercial banks should create awareness to the full time farmers in the villages. The banks should embrace the rural scheme with all seriousness. The risk involved with agriculture can be minimized if there is effective supervision by the agricultural officers in all the commercial banks. Also repayments would be made too.

However, the attitude of commercial banks is not only the repayment aspect but of the interest rate. The interest rate is very low that much gain is not made compared to other type of credit. Commercial banks should not see it in this light because there would be no progress or development in Nigeria. The banks should look at agricultural financing as their role responsibility to assist the farmers especially now that the cost of agricultural implements are high.

5.3 RECOMMENDATIONS

Based on the results and findings of the study, the following recommendations are made.

Available evidence indicates that late approval and disbursement of loans is one of the major factors militating against an effective utilization of loans by farmers, thereby hampering their repayment ability. First Bank of Nigeria and other credit institutions should ensure that agricultural loans are approved and disbursed at the right time in order to promote timely implementation of necessary farm operations which is a sine-qua-non for efficient farm management and performance.

The need for a thorough appraisal of agricultural projects need not be over-emphasized. It is at the project appraisal stage that all unviable and/or unfeasible projects may be readily detected and rejected, thereby reducing the magnitude of loan delinquency that may face particular financial institution.

Farmers should be encouraged to join cooperative societies or other forms of farmers organizations since this will increase their chances of benefiting from formal agricultural credit programmes. It has been established that the cost of administering credit to an individual small scale farmers is quite high. Thus, credit institutions show preference for group lending as against lending to an individual farmers. Group lending has also been found to be more effective in credit recovery. Another benefit that may accrue to farmers who join cooperative societies, or other farmers groups is that such organization afford them the opportunity to pull their fragmented, isolated, and scattered holdings together into sizeable and viable contiguous flocks. In this was this smaller-holders will not only benefit from the economies of scale in production, but their farm enterprises are found to be more attractive to formal credit institutions.

With the establishment of the Nigerian Agricultural Insurance Company (NAIC), farmers should be encouraged to insure their crops and livestock against such national disasters as drought, flood, fire, pest and diseases. It is recommended that credit institutions should make it mandatory for their clients to insure their agricultural projects as a prerequisite for granting loans. This is the only way of ensuring that in the event of crop or livestock failure due to an insurable hazard, both the farmer and the financing agency will be adequately protected.

Farmers should be educated on simple methods of keeping records about their farm enterprises. A good farm record is an important tool which credit institutions use for the determination of the performance of an agricultural project and it also reveals the level of experience of an entreprenur in a particular farm enterprise.

Encouragement should be given to banks through tax relief, capital allowances and direct subsidies to assist such institutions that are engaged in agricultural financing. This can be done by reducing the tax rate to be paid by banks that engage in agricultural lending up to a certain level. Similarly, capital allowances and direct subsidies should be given based on the bank's involvement in agricultural financing. Special agricultural discountable bills should be introduced into the financial market.

There is a dire need to ensure consistency in government policy on agriculture from one administration to the other – whether military or civilian. For instance, a situation in which a particular government policy as enunciated by a regime may favour the selective production of specific agricultural commodity. While a succeeding regime fail to recognize such a policy is bound to send conflicting signals to producers, thereby jeopardizing agricultural development. What is therefore, required is proper planning and articulation of all government policies in related fields in order to achieve the desired objective of attaining self-sufficiency in food production in Nigeria in the foreseeable future.

There is the need for a more vigorous enlightenment campaign to inculcate the spirit of loan discipline on borrowers. Farmers must be made to appreciate that banks are essentially financial intermediaries, who lend to borrowers the various amounts of money deposited by savers. If borrowers fail to meet their repayment obligations, the chain is broken, and under such a situation the banks cannot function effectively. Part of the enlightenment programmes should also focus on the judicious use of borrowed funds to ensure that agricultural loans are not diverted to unproductive and unintended uses.

Farmers should be trained on the need for better storage facilities, preservations and all necessary agricultural techniques in growing their crops. Infrastructural facilities can be improved with the cooperation of the banks where necessary. That is the need for social responsibilities to the rural dwellers.

Finally, it should be mentioned that credit is necessary but not sufficient to increase the value of farmers output. There are many complementary factors which have to be available to farmers seeking credit for their operations, such factors include adequate infrastructure, essential input supply system, technical advice and farming and so on. The provision of these factors are outside the control of the NACB but the appropriate organs of the governments should make great efforts to ensure that those factors they can provide are available to these farmers.

5.4 SUGGESTIONS FOR FUTURE STUDY

There are areas where questions are to be answered by further researchers. Much work has been done in the area of the attitude of commercial banks in granting agricultural loan to the farmers in the rural areas. But there is still room for further work.

Because of time constraint, it has not been possible to carry out the study beyond this present stage. This implies that more work can be carried on in this particular area.

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