THE PERFORMANCE OF PUBLIC AGRICULTURAL CREDIT INSTITUTIONS: A CASE STUDY OF NIGERIANS AGRICULTURAL AND CO-OPERATIVE BANK LIMITED, KADUNA (1973-85)

BY

EJIGA, OKOLIKO ISAAC (B.Sc.)
Department of Geography,
Faculty of Arts and Social Sciences,
Ahmadu Bello University,
Zaria - Nigeria.

A Thesis Submitted to the post Graduate School, Ahmadu Bello University, Zaria, in partial fulfilment of the requirement for the degree of Master of Science (Rural Development).

DEDICATION

This Thesis is dedicated to Mark Ejiga for financing my education.

DECLARATION

The Author hereby declares that the whole of this study now submitted for the Master of Science degree (Rural Development) of Ahmadu Bello University, Zaria, is the result of his research, except where reference is made to published literature and duly acknowledged, has not been part of any presentation for any other qualification.

Ejiga Okoliko Isaac

The above Declaration is confirmed

Dr. E.G. Etuk

CERTIFICATION

This Thesis entitled: The Performance of Public Agricultural Credit Institutions: A Case Study of Nigerian Agricultural and Co-operative Bank Limited, Kaduna (1973-85) by Ejiga Okoliko Isaac meets the regulations governing the award of the degree of Master of Science (Rural Development) of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

Dr. E.G. Etuk,
Dept. of Agric. Econs. &
Rural Sociology,
Ahmadu Bello University, Zaria. _____ Date

Chairman Supervisory Committee

Prof. K.O. Ologe,
Dept. of Geography, FASS,
Ahmadu Bello University, Zaria. _____ Date

Head of Department

Prof. G.E. Osuide, _____

Dean, Postgraduate School _____ Date

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ABSTRACT

Most developing countries in Tropical Africa, including Nigeria depend on agriculture for a significant portion of their national income. The bulk of the farmers who are expected to contribute to this economic development are poor and live in the rural areas. It is expected that these farmers will improve their productivity and that increases in their incomes will help stimulate industrial development by opening up new market for consumer goods.

Increasing productivity of these small scale farmers involves a number of inter-related factors. Among them are capital, land and labour. However, capital is generally recognised as a major constraint. Availability of capital in Nigeria is often a problem and even where it is available, ensuring that it reaches the large number of small farmers tend to be a bigger problem. Large farmers to some extent have access to commercial funds. Such opportunities bypass the small farmers who are often looked upon for most of expanded food supply.

To solve this financial problem, the Government established the Nigerian Agricultural and Co-operative Bank which undertake the provision of credit to

farmers, so that they can utilize more or better agricultural production inputs than would otherwise be the case. Either a change in technology is involved, or as is sometimes the case, a farmer already using improved methods and inputs to certain extent, is enabled to extend his use of improved technology. This, it is hoped, will raise the farmers' incomes and improve their well-being. The programme is also viewed as a useful tool for transfering resources to the farmers.

In order to have a better idea of how much farmers are benefiting from the Bank, this study is an evaluation of activities and the achievements so far made by the scheme. The result of the study shows that the Bank's operations are not well-suited to the prevailing modes of agricultural production in Nigeria. This is evidenced by the poor number of farmers reached with high concentration of resources on narrow privileged elite large scale farmers to the neglect small farmers who constitute the majority of our society. It is concluded that that the scheme cannot be relied upon as an instrument for boosting the country's food production and improving the lives of the rural poor.

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CHAPTER I

1.1 PROBLEM STATEMENT

The majority of Nigerians who consitute the poorest segment of our society live in the rural areas with agriculture as their main economic activity (Olatunbosun, 1975). The World Bank (1975), described Rural Development as a strategy designed to improve the economic and social life of the rural poor. It involves extending the benefits of development to the poorest among those who seek a livelihood in the rural areas. A rural development strategy which intends to reduce poverty by increasing production must pay attention to the agricultural sector of the economy. Hence, the practice of agriculture has a close link with the life of rural people.

In Nigeria, like any other country in the Tropical Africa, agriculture is expected to provide the basic food requirements for the population; to serve as a source of raw materials for industries; to contribute to the country's foreign exchange earnings; to finance importation of other needed commodities; and provide an avenue for the employment of majority of the working population.

One problem currently facing the sector is its poor performance. This is manifested in the failure of the sector to provide adequate food for the

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growing population, declining productivity of most export crops which has contributed to the substantial reduction in the Nigerian's foreign exchange earnings, and the declining contribution of agriculture to the Gross Domestic Production in real terms. This continued low rate of agricultural production in the country has been accompanied by alarming increase in the importation of agricultural products including food items for which the country has been traditionally self-sufficient.

The agricultural imports have become a drain on Nigeria's foreign exchange earnings. Between the period 1970 and 1980, the total import bill for agricultural, forestry and fishery products increased by almost 20 times. The share of food import in total import bill increased from 7.67 per cent in 1970 to 11.30 per cent in 1980. The most disturbing thing about these imports is that a good component of them can be produced locally given the ecological and resource endowment of the country; example are rice, maize, milk, meat, vegetable oil and dairy products (Osuntogun, 1986; Ogwuma, 1986).

The poor performance of the agricultural sector has had very adverse effects on the development of agro-based industries in Nigeria. This is manifested in the shortage of essential raw materials for which the country is endowed to produce locally.

Examples include citrus and other fruits for fruit processing factories, cotton for textile industries and groundnut for the oil mills (Osuntogun, 1986).

One of the contributory factors to the problem of low productivity of the Nigerian agriculture is the use of simple production technology. A unique feature of the Nigerian agriculture is the predominantly peasant system of cultivation. Production is carried out under largely traditional system of cultivation in which farm holdings are small. The system is also characterized by the use of simple tools like cutlasses and hoes. Farm inputs consist mainly of land and family labour. Capital investment is small and modern inputs like fertilizers, chemicals and improved seeds are still not widely used by most of the producers. Subsistence production is a main feature of the system (Abalu, et al 1979; Osuntogun, 1986).

Under this small holdings system, productivity remains low and the average farm income is so low that no net saving is possible. To reverse this situation, farmers will have to take to advanced agricultural technology that will lead to increased yields and income. But farmers can only take to this advanced agricultural technology if they buy it. In Nigeria, empirical evidence has shown that lack of sufficient capital is

a major constraint on agricultural production (Norman, 1970; Ogunfowora, 1972). Under this general low level of farm income and hence low margin of savings, credit is an essential element in rural development.

The Nigerian Government identified capital [illegible] shortage as one of the critical constraints limiting growth in the agricultural sector. According to the Second National Development Plan 1970-74, "the proposed Nigeria Agricultural Credit Bank which is to operate in all states will assist farmers particularly in the area of cooperative farming and agricultural marketing cooperatives. The bank will make money available directly to the cooperative societies, credit-worthy farmers and State Governments". In the Third Plan (1975-80), the Government defined its agricultural objective as that of "evolving appropriate institutional and administrative apparatus to facilitate smooth integrated development of the agricultural potential of the country as a whole".

Agricultural credit schemes are normally designed to facilitate the development of potential agricultural resources, especially in situations where capital is a major constraint to such development (Wilde, et al; 1967; Lele, 1975). According to Wharton (1970), the basic assumption that under-lined the establishment of institutional credit scheme for farmers in low income countries is that, these farmers are constrained

by existing low level of technology and lack of credit. Lack of credit would result in sub-optimal use of available resource since production cost are financed by savings. Provision of credit is then expected to bring a change in the farm level resource use and farm production by removing the financial constraint, so that the farm operator adopts an improved technology.

Government in Nigeria have attempted to meet this need of credit by establishing various types of credit schemes. The credit programmes, have in most cases, been designed to provide capital for the agricultural sector and partly to stimulate the adoption of improved technology. It is hoped that in this way output will be raised with a corresponding increase in income; and that the recipients would be able to improve their well-being (Ogunfowora, 1972; Falusi, 1973).

Injection of credit is usually thought of as being necessary to break the vicious cycle of low farm productivity, low output, low income, low savings, low investment which seem characteristic of peasant farming conditions in economically underdeveloped countries. Thus, it is argued that until credit is made available to small holders, agricultural modernisation will be seriously delayed even after the other conditions necessary for adopting new technology have been fulfilled (Falusi, 1973)

Emphasis on public credit scheme to finance agriculture is rightly founded on the belief that agriculture for various reasons is not in a strong competitive position vis-a-vis other sectors to acquire investment and productive credit from the private financial institutions. In addition, the nature of the traditional farming system, warranting little savings, places it in a position where it cannot finance its own development at a desirable level (Nwagbo, 1981). Also, credit is seen as a necessary incentive package needed to stimulate agricultural development. Hence the adoption of concessional lending rate on credit to the sector. An example, is that of the Nigerian Agricultural and Cooperative Bank (NACB).

Despite the great importance attached to public credit schemes as instruments for rural development, the evaluation of some public credit schemes interms of volume of credit dispensed; number and types of projects financed and rural farmers reached were not well documented in Nigeria. These indicators of performance provide the basis for appraising such institutions. The Nigerian Agricultural and Cooperative Bank (NACB) which is the major credit institution for rural development in Nigeria is used as the case study in this research work. This is done with a view of making some policy suggestions for an effective planning and implementation strategies to NACB

authority and other similar new credit scheme planners or policy makers.

1.2 OBJECTIVES OF THE STUDY

The broad objective of the study is to critically examine the performance of NACB scheme in terms of its present achievements in relation to its stated objectives.

The specific objectives are:

1. To appraise NACB loan operations in terms of (a) volume of loan approval; (b) volume of loan disbursement, and (c) rate of loan recovery.
2. To analyse the various NACB loan schemes and farmers or projects benefiting from them.
3. To appraise the viability of NACB programme.
4. To identify some of the problems associated with NACB programme and make some suggestions to NACB responsible authorities.

1.3 RESEARCH PROCEDURE

1.3.1 The Data

The information used in this study were compiled from NACB records. These include; Annual Reports from 1973/83, Agric Bank news, NACB Guide for Applicants and conference papers. These sources give details of NACB operations which include the various schemes. Subsectional loans distributions by states. The latest of such data currently available is that of the year ending

31 December, 1985. Other source of information was library research on discriptive and historical information. Thus, materials were collected from official reports, studies and publications.

There are some limitations of data collected for this study. They include: first, the official records are silent on the issue of amount of loan due for collection as at 31 December, 1985. For that reason, the information on repayment used in the study is that of 1984. Second, official records are silent on the issue of farm sizes and farm level credit utilization, thus, attention is not given to their analysis in this study. Third, data on the on-lending scheme were lumped into organisations and project types, this made it impossible to determine the ultimate number and classes of loans beneficiaries. While these limitations of data used were appreciated, it is considered that the approach chosen for the study is a realistic work plan. This is because, there is no other better way with my limited resources - finance, time and manpower to have carried out a new survey to collect data specifically for this study, which could have resulted in a better data other than is now available from the official sources.

1.3.2 Analysis of Data

The study relied heavily on both destriptive data and data analysis. The percentage method of analysis

is used in the analysis of loan operations of the various scheme under NACB programmes stated in the objective of this study.

1.4 Organization of the Study

Chapter one of this study focuses on the statement of the problem, the objectives of the study and research procedure used in the study. Chapter two of this study reviews the relevant literature available on credit administration in Nigeria and other parts of the world. Chapter three deals with NACB organisation, its' objectives, organisation and loan application procedures. Chapter four deals with data analysis and presentation of results. The findings on all the objectives of the study are documented in this chapter. Finally, Chapter five summarises the findings of the study and some policy suggestions are discussed.

CHAPTER 2

2.1 LITERATURE REVIEW

2.1.1 Introduction

In finance the words "credit", "loan", "borrow" are often used inter-changeably in referring to the process of obtaining control over the use of money, goods or services in the present in exchange for a promise to repay at some future date. The lender forgoes the use of money or its equivalent currently by making a loan or extending credit to the borrower, who promises to repay on the terms specified in the loan agreement or debt instrument. In this manner the borrower obtains resources to use for current production or consumption purposes before doing the saving that would be required to pay for the goods if credit were not available (Miller, 1977).

2.2 THE ROLE OF CREDIT IN RURAL DEVELOPMENT

In a developing country like Nigeria, agriculture is expected to provide the basic food requirements for the population; to serve as source of raw materials for agro-based industries; to contribute to the country's foreign exchange earnings; and provide employment for the part of working population. But under the present subsistence production with so low output, low income and no net saving, agriculture would require credit if improved technology is to be adopted by the farmer to increase production to meet the above roles.

To break this vicious circle, there is need to inject not only technology and other agricultural services, but also capital into rural agriculture "Financial credit is the most universal and flexible transferable form of economic resources", says Donald (1975), "with cash obtained via credit one can buy anything that is for sale". Thus where appropriate technology is available , acceptable and understood by the farmers, with an increased capital base, they will be in position to adopt the technology.

According to Ogunfowora (1972), credits is needed in the Nigerian agriculture for the following purposes:

1. The adoption of modern technology in farming inevitably calls for increasing capital which most farmers are unable to meet.
2. Most of the farmers produce at low productivity level and therefore, capital formation is low.
3. Because the seasonal nature of farm income is very irregular, credit is therefore needed for purchasing farm inputs.
4. Credit strengthen the position of the farmer who could otherwise dispose of their crops for the need of urgent cash.

Gustave (1973), observed that technological development in United States led to over 40 per cent increase in agricultural productivity between 1950 and 1970. This technological revolution brought certain signficant changes in the structure of agricultural development:

(a) Substitution of physical capital for labour;

(b) fewer and larger farms;

(c) narrowing profit margins; and

(d) the need for more substantial capital both in aggregate and on a per farm capital.

Oweis (1974), states that the need for credit in agriculture stem from economic and social factors prevalent in the rural areas of developing countries. He further said that, credit is needed for financing farm improvements, working capital for consumption and social expenditures. After a survey of some less developed countries, the United States Agency of Industrial Development (1969), finally inferred that a high rate of capital formation usually accompanies rapid growth in productivity and income if producers are provided complementary factors of production in the form of technical knowledge and other relevant agricultural inputs.

Mosher (1971), states that "most methods of increasing farm productivity involves the use of purchased inputs, and those farms near the

subsistence end of the continuum from subsistence to commercial, produce little cash income out of which inputs can be bought". Rice (1973) summarizes the assumption behind the formal credit programmes as being:

1. "that farmers need credit to adopt new technology.
2. that farmers cannot get credit on fair terms from the usual financial houses.
3. that the provision of credit breaks the most important constraint of small farmers' progress".

Ogunfowora (1972), reported that in recent years, there seemed to be a growing theoritical consensus that a combination of increased supply of credit and improved biological and chemical technologies has resulted to a measure which has high potential for increasing firm productivity, income and employment. Chandavarkar (1970), has emphasized that "one of the basic problems facing the less developed countries is the scarcity of domestic capital relative to the size of investment required to achieve high and self-sustaining rates of growth of national and per capital incomes".

From the foregoing literature review, it suggests that the rate of agricultural and economic development in a country may critically

be limited by lack of capital, in which case capital is regarded as just one of the important factors in the development process.

2.3 Sources of Credit

The major sources of farm credit supply can be broadly classified into two; instituttional and non-institutional (and at the same time regarded as formal and informal). The non-institutional credit comprise of friends, relatives, neighbours, merchants and traders. Credit transactions among these lenders are on a more personal basis and so also are the rate of interest charged, security required, and lending procedures vary widely (Miller, 1977). The amount of capital from these sources is small and inadequate relative to the needs of agriculture. Also, in most cases their term have been found to be exploitative (Sule, 1986). There is an absence of supervision of agricultural activities. The money lender possesses no agricultural (technical) knowledge himself and thus cannot offer. Consequently, there is no defined development goal inbuilt into the system for economic improvement of the farmer (Onugua, 1979). Nisbet (1971), also observed that "the informal lender could prefer to maintain the economic status quo or actually to promote the decline of the client so that he might acquire real assets or accumulate labour services". Thus this system

tends also to worsen the already sensitive problem of income distribution.

But despite the high interest rates charged, many small farmers prefer to borrow from the private lenders, farmers are of the opinion that private sources have the advantages of being quicker, more personal, flexible and free of 'red tape' or complicated procedure and informal and above all, can be obtained next door with unnecessary procedure (Falusi; 1973; Nisbet, 1973). Some experts have noted some useful reasons for the successful operation of the non-instututional lenders. The believe it is easier administratively and more efficient economically. The points followed; (1) low risk premium; (2) low collection costs; and (3) lower transaction cost (Wharton, 1970; Bottomley 1975; Long, 1973).

The informal credit is the oldest source of agricultural credit. For subsistence agriculture, then, credit from such sources was adequate. But when farmers entered the market economy, both locally and internationally with the introduction of commercial crop production, the demand for credit became more than the rural financial market could provide thus, agricultural development process became stunted (Famoriyo and Nwagbo, 1980).

Formal sources of credit include government credit institutions, cooperatives, and commercial banks, which are formal in the sense that their operating procedures and loan terms tend to be standardized (World Bank, 1975; Miller, 1977). Government credit institutions have often been seriously criticized for untimeliness in delivery of loans and inputs, unnecessary bureaucratic means, inability of setting up effective repayment collection machinery, insistence on provision of collateral (Onugua, 1979). Nisbet (1971), in a survey of attitudes among farmers in Colombia found that, despite the high interest rates, more farmers preferred to borrow from the money lenders than from the banks, their complaints were that institutional programmes involved "red tape", were too slow, and rigid as regards repayment.

2.4 Agricultural Credit Institutions in Nigeria

Government involvement in agricultural lending in Nigeria started in the former Northern Nigeria in the 1930's with the establishment of the Native Authority Advance System, with the aim of [illegible] encouraging mixed farming and to stimulate the adoption of improved technology in the region. Responding to members of the Cooperative Society who engaged in produce marketing as a result of the withdrawal of some expatriate firms in the remote areas of the north, the government

guaranteed loan scheme for Cooperative Society members was introduced to finance cooperative marketing by means of Bank Overdraft (Osuntogun, 1973; Okorouen, 1981; Ajakaiye, 1982).

Agricultural credit scheme started much later in the Southern Region with the establishment of the Western Nigeria Agricultural Credit Corporation (WNACC) and the fund for Agricultural and Industrial Development (F.A.I.D.) established in 1963 by the Former Eastern Region Government.

The establishment of the Nigerian Local Development Board in 1946 was the first nation wide attempt to provide credit for both Agricultural and Industrial Development. The Board was responsible for financing development projects. This was succeeded by the three Regional Local Development Boards to ensure a better geographical coverage of the country. The main aims of the Boards were:

(1) development of the primary industries;

(2) improvement of the areas of production; and

(3) improved welfare of the producers.

The Western Region Finance Corporation was established by law on 28 April 1955. This was evolved from the Western Regional Development Board. It was established under the authority of the Premier and divided into three broad section:

(a) general purposes, (b) agricultural and (c) industrial. This programme was succeeded by the Agricultural Credit Corporation of Western Nigeria, established in 1964. Specifically, the law that established the scheme states:

(1) The Corporation will be responsible for all agricultural credit operations of Western Nigeria and take all agricultural loan operations from the Western Nigeria Finance Corporation.

(2) It will administer loan to medium and large scale farmers directly.

(3) The Cooperative Bank will act as the Corporation's agent in administering loans to small scale farmers under procedures laid down by the Corporation itself.

The programmes invested large sums of money into the rural sector but therewas a substantial default in credit repayment in the aggregate sense. An equally restrictive impediment to the success of the programme was inadequate funds. Other problems of the programme were lack of personnel, complex loan procedure; and lack of initial groundwork (Bauman, et al, 1966).

The Midwestern Nigeria Agricultural Credit Corporation was established in July in 1964.

Originally, the Ministry of Agriculture was responsible but in 1966, the Corporation was attached to the Ministry of Trade and Industry, then in May, 1966, transferred back to the Ministry of Agriculture. Three classes of farmers were established by the corporation for credit utilization.

(1) Large-scale, cultivating more than 25 acres;

(2) Medium-scale, cultivating between 5 acres and 25 acres; and

(3) Small-scale, cultivating less than 5 acres.

The problems of the Corporation included (1) excessive high cost of credit administration; (2) inadequate staffing and lack of fund (Bauman, et al, 1966).

The Northern Region Development Corporation was one of the family of government sponsored development institutions in Nigeria. It had its origin in the establishment of two regional Board in 1949, the Northern Development Board and the Northern Regional Production Development Board. It was involved in a wide variety of agricultural project financing, ranging from mechanized rice project to encouragement of mixed farming. Nearly seven years of existence, the Board authorized loans totalling about £590,000. During the 1949-55 period, about 27.4 per cent of the total loans of £590,324 was spent in agriculture. By 1956, the

Northern Regional Government had abandoned any attempt to pretend that it was conducting activities exclusively for the benefit of agricultural producers who supplied it with its funds. By 1956-62, it had become interested in awide variety of activities, such as communication and manufacturing. After 1959, primary agriculture received only one per cent of its total loan. From 1956 to 1966, only six loans were made to agricultural marketing and farming societies. In April, 1966, all but one loan was in default. As a result the Board ran short of money to finance further agricultural development (Bauman et al, 1966).

The fund for Agricultural and Industrial Development (F.A.I.D.) was established in 1963 by the then Eastern Nigerian Government to provide rural credit. While the fund is not exclusively for agriculture, it representsthe largest source of government credit to agriculture. The implementation of the programme was said to have been very slow. The problems in the complexity of programme was in term of available of human resources. The programme was predicated entirely on the ability of the Ministry of Agriculture to provide the technical and economic feasibility analysis for the initial loan consideration and progress reports of loan implementation. F.A.I.D. was only a fund of money for certain categories of loans. It was not an

implementing agency, thus, implementation rests elsewhere outside the F.A.I.D. and as such these external agencies must assume a large measure of the responsibility for the slowness of projects. According to Bauman et al (1966) reasons for the slowness of F.A.I.D programme included (1) faulty initial concept; (2) lack of initial groundwork, (3) staff problems; (4) wrong training and experience of staff; (5) complex forms; (6) lack of committee continuity; (7) dependence upon Ministries; (8) shortage of technical staff; and (9) over-complancency.

The detail and disposition of each loan request is formidable. Each request is treated in its fullest sense until final disposition, regardless of time.

Other policies and programmes of the government on agricultural credit included the financing of agricultural exports by the Central Bank of Nigeira, the credit guidelines embodied in Central Bank's monetary policy circular, the establishment of the Nigerian Agricultural Credit Guarantee Scheme Fund (Osuntogun, 1986) and the NACB.

Financing of agricultural Export by the Central Bank of Nigeria was introduced in 1962 as the commercial bill finance scheme for the marketing boards. Under the Scheme, the boards obtained

funds by drawing 90-day bills of exchange on the defunct Nigeria Produce Marketing Company Limited.

A consortium of commercial banks and acceptance houses was formed to discount the bills after they had been accepted by Nigeria Produce Marketing Company. The Central Bank supported the scheme by providing liberal re-discounting facilities to members of the consortium up to defined limits. These facilities were also extended to bills on commercial banks and acceptance houses by reputable licenced buying agents.

Apart from the bills covering scheduled agricultural commodities, bills involving the exports such as timber and groundnut oil were accepted for re-discounting by the Central Bank. The interest charges for these re-discounting facilities was generally concessionary - 1.25 per cent below the minimum re-discount rate.

The scheme ran into several difficulties caused by the depressed prices for most export crops in the world market and the civil war. The member banks of the produce finance consortium refused to discount bills. This led to the abolition of the commercial bill finance scheme in May 1968. Ever since, the Central Bank assumed responsibility for financing the marketing operations of the commodity boards.

Another instrument with which the Central Bank has assisted the financing of agriculture is its credit Guidelines embodied in its monetary policy circulars. This circular was first issued in 1969.

During the current financial year, the commercial banks were required to lend a minimum of 15 per cent of their loan portfolio to agriculture. Similarly, Merchant banks are required to grant a minimum of 8 per cent of their total loan to agriculture. In order to encourage banks to meet targets set for them with respect to the minimum proportion of their credit that should be committed to agriculture, the Government established the Agricultural Credit Guarantee Fund in 1977 with which agricultural loans granted by the banks are guaranteed up to 75 per cent. Under the Scheme, individuals can obtain a maximum of ₦50,000 while companies, cooperatives and other corporate bodies can obtain a maximum of one million naira.

2.5 Performance of Institutionalised Credit Houses

The performance of institutionalised credit have been the subject of a number of studies. Osuntogun (1973), reported that a total of ₦801,568 as loan made by Western Nigerian Agricultural Credit Corporation (WNACC) to a total of 1,248 farm families in 1970/71. Loan recovered by the scheme for the period 1964/65 to 1970/71 were at the rates of

36 per cent, 64 per cent and 51 per cent on loans to individuals, cooperatives and Unions/Companies respectively.

Abaelu and Ijose also reported that WNACC's cost of operation alone exceeded the amount of loan issued by the scheme for most years from 1965/66 to 1970/71. They reported that the cost doubled the total loan made during 1970/71. The problems of the scheme were: low farmers' coverage, inadequate finds, excessive operational cost, high incidence of defaults, inadequate staffing and untimely release of funds, as a result, the scheme was abandoned.

Bauman et al (1966), reported that the Fund for Agricultural and Industrial Development (F.A.I.D.) advanced a total of ₦620,378 in three years of its operations and ₦226,506 or 36.51 per cent of loan granted was disbursed. Of the approval ₦290,296 (46.93 per cent) went for production purposes and ₦70,962 (11.44 per cent) of the amount was disbursed after three years of approvals. The criticism of the scheme include; poor co-ordination of the programme with other agencies; lack of adequate funds; untimely release of fund; understaffing and unqualified personnels; all resulted in high default and the programme was discontinued.

Godwin and Selly (1973) reported loan increase from ₵1,142,000 to ₵8,308,000 between 1966 and 1970 by Agricultural Development Bank of Ghana. They reported that between 1969 and 1972, a total of 620 maize farmers groups benefited with a total of ₵2,077,339. Loan recovered between 1969 and 1972 were 74 per cent and 50 per cent on its "package deal" and traditional maize production respectively. The operational cost as percentage of new loan issued was 10 per cent during 1970/71. Some of the problems of the programme they reported included understaffing; lack of proper loan recovery recording; lack of coordination and untimely release of funds.

Dean (1971), in his study of Agricultural Loan and Credit (ALC) Scheme in Siera Leone between 1961 and June 1968, reported that of the Le 841,962 loan advanced to primary cooperative, Le 512,094 (60.82 per cent) was overdue for repayment. He also reported 35.3 per cent; 43.2 per cent and 34.4 per cent repayment for short, medium and long term loans respectively.

Sule (1986), reported that from 1977 to 1984 a total number of 7,737 projects were financed under the Agricultural Credit Scheme with a total amount of ₦404.509 million. He reported that 95.8 per cent of the farmers reached were small scale producers taking 40 per cent of the total loan granted.

It was also observed that 57.4 per cent of the total loan went to poultry production numbering about 20.8 per cent of total projects financed.

Osuntogun (1973), noted that credit schemes in Nigeria have failed to make the desired impacts on the rural economy. He identified the following factors as some of the causes for the failure of the previous credit schemes. (a) cubersome and time consuming procedures in loan approvals; (b) over centralization and dependence on government for investment; (c) bribery and political interference; (d) repayment problem; and (e) land tenure problems.

Igben (1976), and Olatubosun (1975), have documented some of the reasons for the failure of some credit schemes. These included: high default, high servicing cost, inability to cope with peak demand, bureaucratic procedures; late or non-availability of inputs; lack of marketing out-lets for the farmers produce; misuse of credit; lack of initial groundwork; shortage of trained staff and pricing problems, as a result, most of the schemes were discontinued.

Based on the result of previous studies, Oluwasanmi and Alao (1965), made the following recommendations for the credit schemes:

(1) There should be adequate and acceptable security for loans;

(2) Loans to cooperative or groups of small farmers be properly backed by government guarantees;

(3) introduction of supervised loans;

(4) pledging of properties, crops and livestock;

(5) lending to groups to reduce costs of loan administration.

NACB adopted most of the suggestions from its' inception. It was hoped that this would help NACB in achieving its objectives. At the end of this study, it would be clear whether or not the suggestions had made any desirable impact in term of the NACB achieving its objectives.

CHAPTER 3

3.1 THE NIGERIAN AGRICULTURAL AND CO-OPERATIVE BANK.

3.1.1 Introduction

The Nigerian Agricultural and Co-operative Bank Limited was founded to fill the need for a national agricultural credit institution. Although provision was made for its establishment during the 1962-68 development period, it was not until 1973, following the acceptance of the recommendations of the 'Stoneham Report' and the inclusion of the establishment of such a bank in the 1970-74 National Development Plan that the Bank was actually established.

3.2 NACB Objectives:

The main objectives of NACB are two folds, firstly to promote agricultural production and rural development; secondly to improve the incomes and quality of life of the Nigerian rural population. The key activities through which the Bank seeks to attain its objectives are:-

(a) Granting loan to any State or any State institution for on-lending to any farmer, group of farmers, or corporate body subject to the State or State institution guaranteeing repayment of the loan.

(b) Granting direct loans to individual farmers, co-operative Societies or other bodies

(corporate or incorporated) in appropriate cases, provided that the bank is satisfied that these schemes for which the loans are required are viable and there is security to cover at least ten per cent of such loans. In the case of small scale farmers the security requirement is waived.

The bank loans could be in respect of the following agricultural projects: arable crops, tree crops - horticulture, poultry, piggery, cattle, rabbitry, fishery and forestry and timber production. Although, the loans for the above are mainly for the production purposes however, storage, processing and marketing such are also catered for.

3.3 Sources of NACB Finance:

NACB approved sources of funds for operation are:

1) Its' paid up capital shares by subscribers.
2) Loans and advances from government.
3) Loans from the International Bank for Reconstruction and Development.
4) Shortfalls from the Agricultural Credit Guarantee Scheme Fund (ACGSF).
5) Loan from domestic money market.
6) Interest earned on loans granted by NACB.

As at December, 1983, the total assets of NACB stood at ₦388,966,693 (NACB Annual Report 1983).

This amount is considered small relative to the size and importance of Nigerian Agriculture.

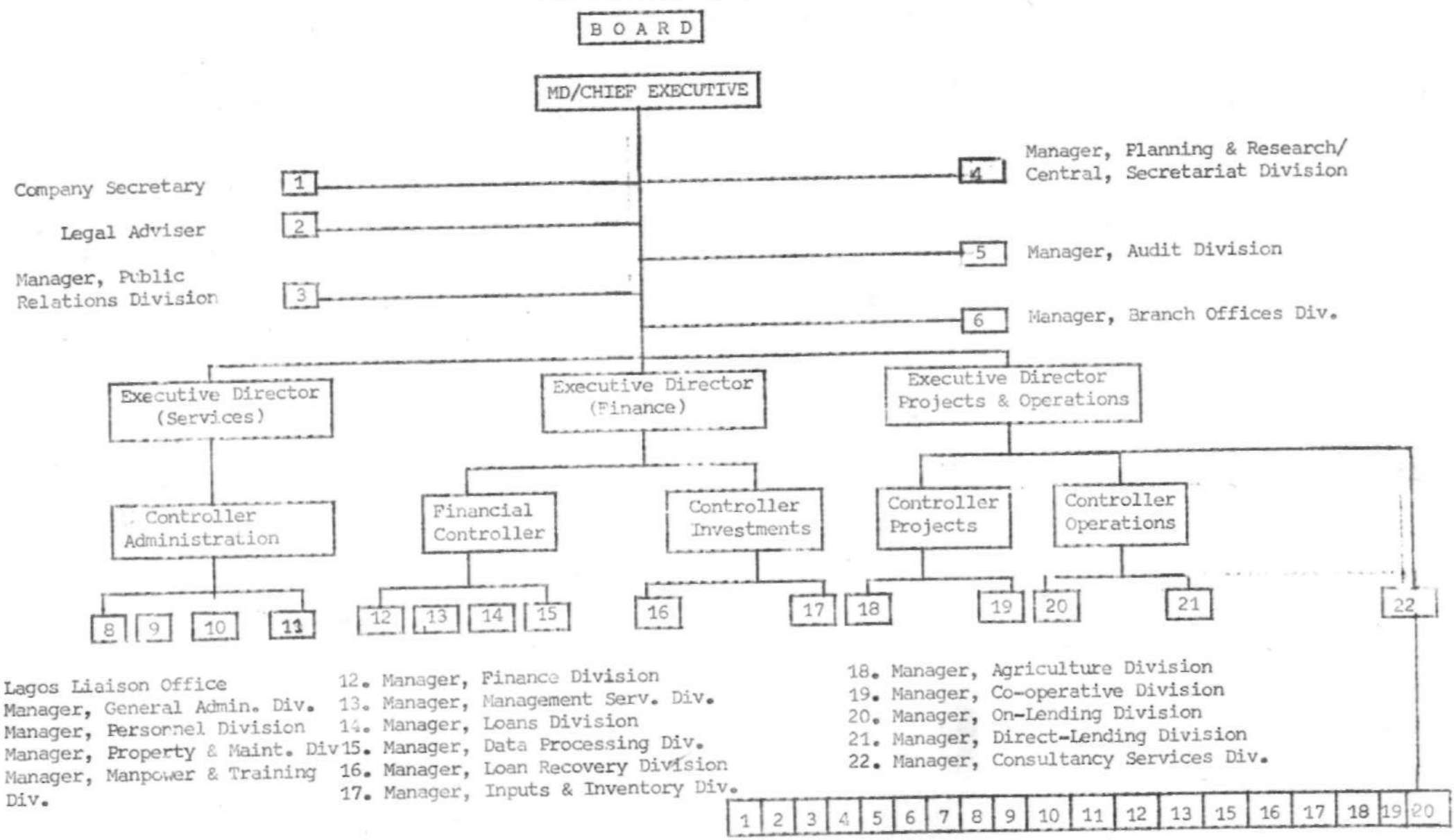
3.4 Organization of the NACB

The NACB is organized at two levels; the Headquaters at Kaduna and an area office in each of the State capitals and Abuja the Federal Capital Territory. The organizational struction of the NACB Headquarters is illustrated by figure 3.1. Overall policy is set down by a Board of Directors. The Chief Executive of the Bank is the Managing Director, under whom are three Executive Directors for Services, Finance, Project and Operations. The job of project appraisal is carried out by the Project Department. The Operations Department sees to the implementation of the projects according to the terms of agreement with the clients. Their job therefore includes supervision. The Finance Department monitors the financial health of the bank financed projects and asists clients in the procurement of inputs where it is determined that credit would be given in kind.

There are also the Legal, Audit, Account, Administrative and Investment Departments seeing to the various aspects of the bank's operation. For loans below ₦5,000, approvals come from branch offices, while approval for loans above ₦5,000,

NIGERIAN AGRICULTURAL AND CO-OPERATIVE BANK LIMITED

ORGANIZATION CHART



7. Lagos Liaison Office
8. Manager, General Admin. Div.
9. Manager, Personnel Division
10. Manager, Property & Maint. Div
11. Manager, Manpower & Training Div.
12. Manager, Finance Division
13. Manager, Management Serv. Div.
14. Manager, Loans Division
15. Manager, Data Processing Div.
16. Manager, Loan Recovery Division
17. Manager, Inputs & Inventory Div.
18. Manager, Agriculture Division
19. Manager, Co-operative Division
20. Manager, On-Lending Division
21. Manager, Direct-Lending Division
22. Manager, Consultancy Services Div.

Source: Nigerian Agricultural and Co-operative Bank Ltd. Kaduna.

must come from the Headquaters. The staff strength in the bank as at 5 February 1986 was 805, comprising specialists in all agrcricultural fields, accountants, economists and administrators together with complements of intermediate and Junior Staff. The distribution of the staff between the Headquaters and branch offices is shown by table 3.1

Table 3.1: The Staff Strength of Nigerian Agricultural and Co-operative Bank at 5 February, 1986.

Category of Staff	Head Office	Branch Office	Total
Management	19	7	26
Senior	126	144	270
Junior	272	237	509
Total	417	380	805

Source: Nigerian Agricultural and Co-operative Bank Limited, Kaduna.

The NACB operates nation wide with offices in State Capitals. It is a common fact that most of the farmers are however living in the villages, far removed from the State Capital. Apart from the fact that these farmers may find it hard to make contact with these NACB Head Office and Branch Offices, when they do, due to high illiteracy level, they may not be able on their own to articulate their needs for loans. As would be shown later in this chapter, loan application procedures involves excess paper work on

one hand and multiple level decision on the other. Also, the present staff strength of NACB is considered small as to effectively and sufficiently appraise loan applications and monitor the same when granted, relative to the size of Nigerian agriculture. For any of these reasons, NACB peformance would be affected.

3.5 NACB Beneficiaries

NACB loan beneficiaries include:

(a) Individual farmers.

(b) Co-operative organizations.

(c) Limited Liability Companies

(d) Government owned agricultural organizations, financial institutions and other government bodies.

The present types of loans that are given by NACB to farmers are:

(1) Direct Small Holder Loans. This is meant for small farmers whose credit need does not exceed ₦5,000. The Branch Managers are fully responsible for administering this loan.

(2) Direct Investment Loan. These are usually medium (up to five years) and long term production loan issued to individual farmers,

limited liability companies or registerd Co-operative Societies. State government agencies or Companies could also benefit. Individuals can only be granted loan below ₦200,000. Any amount above this limit must be applied for by corporate bodies.

(3) Direct Marketing Loans: This loan is for individuals who have facilities for bulk purchase of grains and other strategic agricultural produce. Such facilities include stores or warehouses, transportation, processing, drying and preservation facilities. The loan is usually for one season.

(4) On - Lending Marketing Loans: Beneficiaries are State ministries or agencies, and Apex co-operative organizations. The loan is meant for purchasing farmers' produce after harvest and is usually for one season.

(5) On - Lending Production Loans: Loans granted to State Ministries or Agencies, as well as Apex Co-operative. It could be for one season or a few years (short term loan).

3.6 Standard Conditions of Loan

These can be broadly stated as follows:-

(i) Project should be commercial viable and capable of showing satisfactory returns on investment.

(ii) Economically viable, that is shows promise or raising the living standard of the farm operator.

(iii) Generate adequate funds to repay the loan in full in accordance with stipulated and agreed terms and conditions.

(iv) Evidence or presence of good management.

(v) Suitable land with legal-title should be available and not in doubt.

In addition to providing the land, the applicant is required to make contribution of a minimum of ten per cent of the total project cost in cash and/or in kind. For small holder farmers whose loan is not above ₦5,000, provision is legal title to land,real assets for security and ten per cent applicants contribution are waived. The security for this category of loan will consist of credit worthy guarantors.

3.7 Loan Period and Interest Rate

NACB lending activities are diversified, catering for all types of farming activities. These activities fall under short term (less than two years) medium term (2-5) years, and long term more than five years. The loan period for any project is treated on its own merit. The interest rate at present is 9 per cent and 13 per cent for production and marketing loans respectively.

A major constraint on NACB is inadequacy of funds. For example, the Federal Government gave the NACB an authority to raise a sum of ₦100 million loan from the money market since 1980. But this has not been possible due to high interest rate of 13 per cent quoted by prospective lenders. The government however wants the NACB to lend out this funds to farmers at the rate of 9 per cent (Uba, 1985).

While the low interest rate coverage could be encouraged as an incentive to get finance into agriculture, it is important to note what undesirable effect it may have. Nwagbo (1981), observed that Nigerian farmers always insist that availability of funds is more critical to them than the interest charge. The lower the interest charged by NACB the greater the demand for loans. According to NACB Chairman (1986), application for loans in 1985 alone amounted to ₦1,500 million. But NACB was only able to approve ₦160 million for that year. NACB could not approve anything higher than this because of the limited funds.

The low interest rate therefore, curtail the NACB from borrowing from the financial market. It also restricts the Bank's financial assistance to a relatively small number of highly subsidized farms, rather than serve a large clientele which is one of the objectives of the NACB.

3.8 Loan Disbursement and Repayment

NACB places greater emphasis on kind disbursement rather than cash in order to discourage loan diversion. Loan repayment is scheduled according to the projected income of the project. A schedule is usually worked out in a loan agreement and this has to be agreed upon by all parties concerned. Usually, some grace period is given to allow the project generate some funds before repayment commences.

3.9 Procedure for Loan Application

Initial contact with the bank can be established either verbally or in writing at any of the Branch Offices or at the Head Office of the Bank. A standard application form will be obtained which is expected to be completed by the client and returned for processing with the following:-

(a) Two copies of the feasibility study of the proposed project.

(b) Tax clearance certificate for the last three years.

(c) Survey plans signed by a licensed surveyor and a registered certificate of occupancy covering the proposed project land.

(d) Detailed curriculum vitae as well as diplomas of the proposed farm Manager.

(e) A copy of the valuation report on each of the properties offered as security.

(f) Two recent passport photographs of the applicant.

The completed application form and other information furnished will serve as the means of proper project identification. If this study indicates that the envisaged project may be viable, the NACB will send one of its project formulation teams to the proposed site, make an on-the-spot assessment and discuss all aspects of the project with the applicant. All completed application forms except in the case of small holder farmers should be addressed to the Managing Director of the bank or to any of the state branches. The small holder forms should be submitted directly to the nearest NACB Branch Office. A project found bankable is submitted to either the Management Committee or Board of Directors for approval depending on the size of the loan.

The foregoing clearly shows the elitist nature of NACB loan package based on established modern economic principles. NACB operates under a set of conditions. Credit worthiness is determined by using a rigid set of criteria. The justification for this security requirements include:-

(i) that the agricultural lending is a risky business and the bank needs some

protection against borrowers who may not pay back as well as against the natural hazards of agriculture.

(ii) that without the certificate of occupancy, it is impossible for the bank to lay effective claim on the land.

(iii) that without this security the bank would be short lived and soon cease to be of service to Nigerian farmers.

The implication of this security requirement is that it does more than simply provide protection for the bank's loan. It also serves as a useful rationing device in a situation where at the going lending rate, demand for agricultural credit far exceeds supply. In one sense these conditions may be justified as they safe guard the interest of the NACB. But in another sense, they are unrealistic within Nigeria's agrarian system in which the bulk of the farmers are illiterate and small operators. The idea of certificate of occupancy has no place in the traditional conception of land rights in most communities (Bala, 1986). Neither would the credit needs of the most traditional farmers justify certified cost-benefit analysis.

Even in the case of the small holder loan scheme where these conditions were waived off, it is

still questionable whether the majority of the small farmers would actually get guarantors acceptable to the NACB management in their demand for loans. The Security NACB requires, is likely to increase the borrowing costs. Borrowing costs could be a serious barrier to credit demand. Borrowing costs are the sum of interest rate charged on the loan and loan transaction costs. Transaction cost include the money value of cost of production, travel and related expenses, the inflation - related costs of awaiting e.g. increase in project costs through delays. These transaction costs, which are sometimes unintended and frequently unperceived by a credit agency such as NACB, may out-weight interest costs. It is total borrowing costs that matter to credit demand.

In this, there is a conflict between NACB credit system and the realities of the country's agrarian structure. The NACB loan conditions clearly elitist and established on modern economic principles which are aimed at minimising risks through rigid procedures and expectations. The farmers, on the other hand, still operates within a flexible traditional context in which modern economic principles and perception of risk are yet to be fully understood, appreciated and acted upon. The inevitable result of the conflict as should be expected would be the alienation of the

bulk of small farmers from the scheme and concentration on large and elitist farmers who are able to appreciate and meet the requirements of the NACB for credit issuance.

CHAPTER 4

4.1 THE PERFORMANCE OF NACB CREDIT SCHEME

In this section critieria for measuring performance of the NACB institution is discussed.

4.1.1 Criteria for Success

1. Perhaps one of the first requirements for an effective institution is that, its goals, procedures and evaluation criteria are specific and understood. Tendler (1973) has summarized the objectives of farm credit schemes under three broad categories:

(a) The economic efficiency of the activities financed by credit.

(b) The ability of the programmes to serve a hitherto neglected portion of the rural population.

(c) The viability of the institution through which the programme funds are administered.

Hefferman et al (1983), noted some criteria with which rural credit schemes can be assessed. They are:

(a) adequacy of volume of credit;

(b) the efficiency of the credit delivery system;

(c) allocative efficiency;

(d) distributional equity; and

(e) financial viability of the programmes themselves.

Goodman (1973), noted that due to connection between repayment and a successful loan, and the lack of a feasible alternative measure of success, criteria for assessing agricultural credit schemes should be based on quantitative information such as loan volume, pay back percentage, and loan volume versus administrative costs.

Okurume (1980) reported three criteria for measuring agricultural credit schemes' performance. They are:

(a) the ability of the scheme to get as much money as possible into agriculture;

(b) recover as much of the loan funds as possible in order to recycle it back into agriculture;

(c) be as cost-effective as possible, in order to realise net operating surpluses and further augument the financial resources available to it for assisting more farmers.

Osuntogun (1973) observed that criteria for measuring credit scheme performance are several and are subject to differences of opinion. He identified the following:

(1) number of farmers reached;

(2) the volume of loan;

(3) level of default;

(4) number of small farmers reached; and

(5) cost of programme operation.

According to Brake (1973), the clarity of objectives is one of the reason why 'project' type credit seems to have been relatively successful. With the project type approach, development objectives of the projects are generally clear. The same point is probably one reason why government agency credit is so often not successful. The purpose is less clear. The government personnel may see their objective as one of getting funds out into the rural areas without proper arrangements for collection.

2. It is necessary to separate the welfare purpose from their credit purpose. A credit institution expects repayment, a welfare agency does not. Both functions have merits but attempting to include both in one agency may well destroy the institution's ability to perform the credit function.

3. There must be potential borrower benefits from the use of credit for a farm credit institution to thrive. Simply providing credit is not sufficient to build a viable credit institution. Greater production leading to increased returns is probably the main benefit.

4. The culture and society must be receptive to the credit concepts. If the culture accepts

non-repayment of institutional debts as a norm or if there are no sanctions available against defaulters, credit institution cannot be effective.

Therefore, if a credit institution must survive and strive, it must be able to specify its' objectives. It must make the funds available to the farmers at the proper time, help them imcrease their income, hence, their repayment capacity and be able to recover their loans for further advances.

4.2 Assessment of the NACB Performance

The assessment of success or failure of any given credit institution is a complex matter which involves conflicting issues. It requires not only a knowledge of the facts of the programmes performance but also a set of criteria for success against which these fact can be judged. Indeed of the principal problems of evaluation of a programme is the assumption of goals to be used as criteria for success in evaluation.

4.3 Indicators of Performance

In this study, the following performance indicators are used in evaulating the scheme.

(1) Number and class of farmers benefiting from the scheme. This is done by analysing NACB loans distribution under the various schemes.

(2) Loan disbursement. This is done by appraising the volume of loan approved and amount disbursed.

(3) Level of loan repayment. This is done by appraising NACB loan recovery rate.

(4) The financial viability of NACB. This is done by appraising the viability of NACB scheme.

The justification for using above indicators includes: (a) the fact that the magnitude of credit advanced is not a sufficient indicator of performance since access may vary greatly among rural credit clienteles. The question of equity of loan distribution between the large and small farmers is taken into consideration.

(b) The fact that the volume of loan approval means little since these are only promise that are yet to be kept. That is why amount of disbursement is important.

(c) The rate at which the loans are recovered is very important because the NACB funds are expected to be revolving funds for agricultural development. The higher the amount the Bank recovered, the higher will be its ability to recycle the money to farmers.

(d) Profits are by and large the indicator whereby the success of a business entity is measured and the assurance of survival.

It should be noted that the criteria used for evaulation opinions could differ in their consideration.

For example, when emphasis is on institutional viability, substantial default rate is considered highly undesirable, and should be left out at all costs. However, when emphasis is turned on equity, there would be de-emphasis on default as it would be regarded as accomplishing a transfer of funds to the farmers especially small farmers. Similar argument is applicable to the profitability of the scheme. Indeed the disappointing result of many agricultural credit programmes may be caused by this conflict in goals, or rather failure to recognise its existence.

4.4 NACB Performance

Table 4.1 shows the annual volume of the NACB operations for the most years it has been in operation. The Bank has from inception on 6 March, 1973 to 31 December 1985 approved a total loan volume of about ₦667,720 million and disbursed about ₦477,880 million or 71.57per cent of the loans for the development of agriculture in the country through direct lending and on-lending schemes. A total of 9,333 projects were financed by NACB loans.

The number of loan made rose from one in 1973/74 financial year to 67 in 1976/77. This was followed with a drop in number of projects to seven in 1977/78 and 66 in 1980. There was a steady rise

Table 4.1: Annual Volume of Operations 1973/74 - 1985 Amounts in N'000

Year	No. of Project	Gross Approvals	Net Approvals	Disbursement
73/74	1	3,752	3,752	3,752
74/75	47	46,831	42,488	7,713
75/76	55	52,392	49,418	19,982
76/77	67	139,850	106,086	40,527
77/78	7	20,523	19,079	52,452
78/79	38	48,484	45,979	44,588
79/80	14	22,855	22,605	29,658
1980	66	46,841	44,796	28,658
1981	138	105,021	105,021	75,717
1982	970	60,540	60,540	68,177
1983	1,407	15,948	15,606	23,356
1984	913	30,863	30,729	27,683
1985	5,580	73,820	73,820	55,459
Total	9,333	667,720	618,919	477,880

Source: Research and Planning Division; Nigerian Agricultural and Co-operative Bank Limited, Kaduna, February, 1986.

in the number of loans granted from 138 in 1981 to 5,580 in 1985. In 1973/74, the net amount of loan approved was about ₦3.752 million. This amount rose to about ₦106.086 million in 1976/77. This was followed by a decrease and fluctuations in volume of loan approval of about ₦18.079 million in 1977/78 financial year to about ₦105.021 in 1981 and about ₦75.820 million in 1985 financial year. While the volume of loan disbursed rose from about ₦3.752 million in 1973/74 to about ₦52.452 million in 1977/78. This was followed by a drop to about ₦44.588 million in 1978/79 and rose to about ₦75.717 million in 1981. In 1982; the amount of loan disbursed falls to about ₦68.177 million and the trend continued to 1985 with about ₦55.459 million of loans disbursed.

The average loan disbursement during the period under review was 71.57 per cent. This rate of disbursement is considered high and good compared with the amount of funds NACB operations on. Also, the policy of the bank is to disburse loans according to the phases (progress reports) of the financial projects.

4.5 On-Lending Scheme

Table 4.2 shows the on-lending operations of the bank from 1973/74 financial year to 31 December, 1985. The institutions that benefit from on-lending scheme include: Government agencies; Co-operative bodies and Companies. A total loan of ₦398,913,170 was granted under the scheme. This amount represent 59.74 per cent of the total amount of loans granted by NACB for the period. Of the amount of loan approved under the on-lending scheme, ₦307,787,604.72 (77.16 per cent) was disbursed. A total of 140 projects were financed under this scheme.

The projects benefiting from the on-lending scheme comprise of 11 River Basin Development Authorities (R.B.D.A.) taking 13.79 per cent of total volume of loan approved under the on-lending scheme. The loans were 100 per cent disbursed, the number of marketing loans was 49 and this took 40.92 per cent of the loans granted under the on-lending, and about 66.87 per cent of the approvals were disbursed. While one tree crop project on-lending granted took 0.05 per cent of loan value under the scheme with no disbursement. Others are 71 arable projects taking 40.12 and 81.38 per cent of the amount was disbursed. And eight Integrated projects taking 5.11 per cent

Table 4.2: On-lending Scheme: Sectoral Distribution of Loan Approvals and Disbursement as at 31 December 1985

Project Type	No. of Approval	Amount Approved(₦)	% of Total Approval	Amount Disbursed	% of Total Disbursed
R.B.D.A.	11	55,000,000	13.79	55,000,000	17.87
Marketing	49	163,252,641	40.92	109,167,748.00	35.47
Tree Crop	1	196,410	0.05	-	-
Arable Crop	71	160,067,920	40.12	130,268,182.72	42.32
Integrated Project	8	20,396,190	5.11	13,351,674.00	4.34
Total	140	398,913,170	100	307,787,604.72	100

Source: Research and Planning Division: Nigerian Agricultural and Co-operative Bank Limited, Kaduna, February, 1986.

of the loan value under the on-lending scheme. The loans were 65.46 per cent disbursed. This on-lending scheme shows that there were more arable and marketing loans in terms of both number and money flow under the scheme.

4.6 Direct Lending

Direct lending under NACB are of two types. One, small holder loan scheme, and second, large scale scheme. Table 4.3 shows the investment loan scheme, that is large scale loans to individual medium and large scale farmers, limited liability companies and so son. A total number of 785 projects were financed under the large scale loans with a total approval of ₦250,738,060 from 1973/74 financial year to 31 December 1985. Of the approval ₦154,727,447.25 or 61.71 per cent was disbursed.

A break down of projects financed under this scheme shows that oil palm, tree crops, horticulture and forestry together shared 24.87 per cent of loan value under this scheme. Also, 34.12 per cent of loan disbursed went to them. The livestock sector comprising rabbitry/ram, poultry, cattle, fishery and piggery/goat formed 55.15 per cent of the number of projects under the large scale loans. In term of loan value, 42.98 per cent went to livestock farming. While marketing, feedmill, mixed farming and arable projects combined shared 40.76 per cent of loan number under this scheme and 32.15 per cent of the loan value.

A further break down shows that tree crops, arable crops, poultry and fishery projects took

Table 4.3: Direct-lending (large scale) Sectoral Distribution of Loan Approvals and Disbursement as at 31 Dec. 1985.

Project Type	No. of Approval	Amount Approved(₦)	% of Total Approved	Amount Disbursed(₦)	% of Total Disbursed
Oil palm	6	1,475,920	0.59	476,376,00	0.31
Tree crop	22	53,975,719	21.53	46,723,322.21	30.10
Horticulture	2	74,470	0.03	73,001.00	0.05
Forestry	2	6,824,116	2.72	5,661,201.81	3.66
Rabbitry/ram	3	279,180	0.11	237,779.00	0.15
Poultry	328	40,891,220	16.31	29,009,549.69	18.78
Cattle	83	22,684,032	9.05	15,975,788.14	10.33
Fishery	12	42,742,343	17.05	15,065,047.56	9.74
Piggery/goat	7	1,144,216	0.46	600,806.00	0.39
Marketing	41	5,101,148	2.03	1,553,043.00	1.00
Feedmill	7	2,896,673	1.15	2,284,617.79	1.48
Mixed farming	52	19,758,053	7.88	14,782,281.54	9.55
Arable crop	220	52,891,970	21.09	22,284,574.22	14.40
Total	785	250,738,060	100	154,727,447.25	100

Source: Research and Planning Division: Nigerian Agricultural and Co-operative Bank Limited, Kaduna, Februrary, 1986.

21.53 per cent, 21.09 per cent, 16.31 per cent and 17.05 per cent of loan value under the large direct loans went to them respectively. All the other projects shared the remaining 24.02 per cent at the rates of 0.03 per cent, 0.46 per cent, 0.59 per cent, 0.11 per cent, 2.03 per cent by horticulture, piggery/goat, oil palm, rabbitry/ram and marketing projects. Others are: 2.72 per cent for forestry, 7.88 per cent for mixed farming and 9.05 per cent for cattle.

The livestock agricultural subsector took the largest share of loans under the large direct loans. According to Baba (1986), it is a commom knowledge that the operators of livestock (especially poultry) are mainly the more influential, urban - based farmers, while the food crop subsector is mainly rural sector. Osuntogun (1986), notes that agricultural commodity food need will produce credit allocation in favour of ventures that promise quicker pay offs, like poultry, if no criteria for determining lending targets for different categories of agricultural products are specified.

4.7 Small Holder Loan Scheme

Table 4.4 shows the cumulative small holder loan scheme as at 31 December 1985. This scheme was introduced by NACB in 1981 so as to reach small farmers whose credit need do not exceed ₦5,000. A total approval of ₦18,068, 632.27 was made under this scheme in all the States of the Féderation and Abuja, the Federal Capital Territory. Of the approval, ₦15,291,478.21 (84.63 per cent) was disbursed. And a total of 8,408 projects were financed.

From table 4.4, loans distribution were skewed in favour of some states. They include 835 projects in Borno (9.93 per cent), 803 in Gongola (9.55 per cent), 633 in Kaduna (7.53 per cent), and 601 in Sokoto (7.15 per cent). Others are 565 in Kwara (6.72 per cent), 564 in Anambra (6.71 per cent) and 510 in Bauchi (6.07 per cent). This distribution of loans in term of numbers was to the advantage of some Northern States.

In term of loan value under the small holder loan scheme, the single largest benefiting state is Gongola accounting for ₦1.625 million (8.99 per cent). This is closely followed by Anambra State with ₦1.490 million (8.25 per cent) and Borno ₦1.3 million (7.20 per cent). Others are: Kaduna ₦1,266 million (7.01 per cent), Niger ₦1.206 million (6.68 per cent), and Kwara ₦1.09 million (6.02 per cent.

Table 4.4: Cumulative Small Holder Loan Scheme aas at 31 December, 1985.

State	No. of Projects	Loan Volume	Disbursement
Abuja(FTC)	293	650,233.00	573,302.00
Anambra	564	1,490,176,37	1,361,979.03
Bauchi	510	998,926.00	855,054.58
Bendel	464	1,022,758.00	898,668.00
Benue	270	539,811.00	457,018.50
Borno	835	1,300,324.00	1,126,811.79
Cross River	107	379,699.00	357,002.49
Gongola	803	1,625,037.00	1,181,128.13
Imo	376	940,172.00	812,121.97
Kaduna	633	1,266,383.00	1,173.652.20
Kano	290	751,580.70	754.042.99
Kwara	565	1,087,282.00	900.161.00
Lagos	203	521,648.00	374,945.87
Niger	523	1,206,865.00	887,511.00
Ogun	303	828,819.70	618,505.46
Ondo	339	883,722.00	713,931.80
Oyo	154	536,288.00	420,100.90
Plateau	477	865,244.00	725,210.00
Rivers	98	360,996.00	306,439.50
Sokoto	601	806,465.00	793,891.00
Total	8,408	18,068,632.27	15,291,478.21

Source: Research and Planning Division: Nigerian Agricultural and Co-operative Bank Limited, Kaduna, February, 1986.

On the other hand, states with fewer numbers of loan beneficiaries under the small holder scheme are: Rivers 98 (1.17 per cent), Cross River 107 (1.27 per cent), Lagos 203 (2.41 per cent), Oyo 154 (1.83 per cent) and Benue 270 (3.21 per cent. This shows disadvantages of loans distribution to small scale holders in the Southern States.

Under the direct lending, it was observed that ₦25,738,060 or 93.28 per cent of loan value under the scheme went to 785 large scale farmers who constituted only 8.54 per cent of total loan beneficiaries under the direct lending . While ₦18,068,632.27 or 6.72 per cent of loan value under the direct lending went to 8,408 small farmers who formed 91.46 per cent of total loan beneficiaries under the direct lending. This shows a very high concentration of resources on large scale farmers (See Table 4.3 and 4.4).

The amount of loan granted under the direct small holder loan scheme is considered too small and there is the need for the bank to increase funds allocation to the scheme for further expansion. The reasons for this includes:

(1) The small scale farmers are the mainstay of Nigeria's agricultural production.

(2) It seem safe to say that Nigerian agricultural production particularly food production, will depend very largely on them at least for the near future.

(3) Rural employment generation is another reason why adequate provision must be made for small holders.

The nature of NACB objectives and requirements for granting of loans, however do not discriminate as to farm size. But the criteria of NACB credit issuance as stated earlier in the study are bound to direct the NACB to the large farmers. The point however, is that renewed and bold emphasis should be placed on loans to small scale farmers at least for social and political reasons.

4.8 Geographical Distribution of NACB Operations by States

Table 4.5 shows the geographical distribution of cumulative loan operations of NACB. The table shows that a total of 9,333 projects were financed by the bank from 1973/74 financial year to 31 December 1985. States with high concentration of beneficiaries include: Borno 887 (9.50 per cent), Gongola 880 (9.43 per cent), Sokoto 671 (7.19 per cent), Kaduna 769 (8.24 per cent), Kwara 617 (6.61 per cent), Anambra 612 (6.56 per cent) and Bauchi 581 (6.23 per cent).

In term of loan value and the distribution is similarly to the advantage of Kaduna with ₦60.324 million (9.03 per cent), Gongola ₦57.615 million (8.62 per cent), Borno ₦46.775 million (7 per cent), and Lagos ₦45.958 million (6.88 per cent). Others are Bendel ₦44.469 million (6.65 per cent) and Sokoto ₦38.524 million (5.76 per cent.

In constrast with the value of loan disbursed, the following States are among the top ranking: Kaduna ₦46.303 million (9.68 per cent), Bendel ₦42.184 million (8.82 per cent), Ondo ₦40.834 million (8.54 per cent), Borno ₦36.980 million (7.73 per cent), Gongola ₦33.867 million (7.08 per cent) and Anambra ₦32.694 million (6.84 per cent.

Table 4.5: Geographical Distribution of Cumulative Loan Operations as at December 31, 1985: Amount in ₦'000

State	No. of Project	Amount Approved	% of Total	Amount Disbursed	% of Total
Abuja(FTC)	297	1,955	0.29	1,727	0.36
Anambra	612	36,411	5.45	32,694	6.84
Bauchi	581	35,432	5.30	22,056	4.61
Bendel	527	44,469	6.65	42,184	8.82
Benue	334	25,528	3.82	17,822	3.72
Borno	887	46,775	7.00	36,980	7.73
Cross River	151	25,430	3.80	22,298	4.66
Gongola	880	57,615	8.62	33,867	7.08
Imo	448	27,487	4.11	22,417	4.69
Kaduna	769	60,324	9.03	46,303	9.68
Kano	364	25,390	3.74	17,325	3.62
Kwara	617	29,473	4.41	19,452	4.07
Lagos	241	45,958	6.88	6,346	1.32
Niger	360	19,710	2.95	16,554	3.46
Ogun	335	17,850	2.67	14,828	3.10
Ondo	384	57,673	8.63	40,834	8.54
Oyo	213	35,438	5.30	25,154	5.26
Plateau	525	13,782	2.06	10,925	2.28
Rivers	132	22,496	3.36	19,541	4.08
Sokoto	671	38,524	5.36	28,573	5.97
Total	9,333	667,720	100	477,880	100

Source: Research and Planning Division: Nigerian Agricultural and Co-operative Bank Limited, Kaduna, February, 1986.

Comparing the result obtained from the number of loan beneficiaries and loan value by States, it is of interest to note that while the bulk of the Southern States (particularly Lagos, Rivers, Cross River, Oyo, Ondo and Bendel have scored low in terms of number of projects financed, they are among the top-ranking in terms of amount of money flow. An indication of this can be calculated from table 4.5. This shows that the average size of loan is highest in Rivers. It is well over ₦170,000. This was followed closely by Cross River, it was over ₦169,000; in Oyo it was well over ₦162,000; in Ondo it was over ₦150,000 and in Bendel it was over ₦84,000 respectively.

In constrast, the average size of loan was less than ₦79,000 in the bulk of the Northern States. The value was less than ₦6,000 in Abuja, above ₦26,000 in Plateau, and above ₦47,000 in Kwara and above ₦52,000 in Borno. Possible factors which may explain the variation in average loan sizes are the nature of projects financed by NACB which may vary from region to region. Also, the variations in degree of success in organising co-operative societies which have the advantage of attracting higher loans under the Co-oerative condition especially as NACB gives priority to farmer groups.

It is evident in literature that the Southern States, especially the Western States have registered more progress in co-operatives compared to the Northern States. This probably accounts for few number of loans made in most of the Southern States as earlier stated.

As at the end of 1983, an estimated total of 350,000 Nigerian farmers have been said to have benefited from the NACB scheme through both direct lending and on-lending schemes. (NACB Annual Report 1983). This number of farmers reached by the NACB is considered to small relatively to the size and importance of the Nigerian agricultural sector. Hence, the Nigerian Agricultural and Co-operative Bank is not functioning effectively, especially as the small farmers who constitute the majority of Nigerian farmers are yet to receive a good sizeable portion of NACB loans.

4.9 Loan Repayment

Loan repayment means repaying the amount of loan borrowed when it fall due. That is timely repayment, while loan default refers to the amount of loan that the debtor did not pay at the time that it was due. The Executive Director of Projects and Operations of NACB reported in the Triumph newspaper of 16 October 1985, that NACB has loan recovering rate of 52 per cent on amount due as at December 1984. The paper gave the break down by projects as in table 4.6.

Table 4.6: NACB cumulative Loan Repayment Rate as at December, 1984.

Type of Project	Percentage Recovery Rate.
Marketing	83
Horticulture	72
Cattle	58
Integrated Project	57
Oil Palm	3
Fishery	0.6
Forestry	0
Rabbitry	0
Total Average	52

Source: The Triumph, 16 October 1985, p.5

The average rate of 52 per cent of low recovery as shown in table 4.6 is good. According to Oweis (1974), overdue between 50 and 80 per cent of outstanding loans are no exception with agricultural credit institutions in the developing countries. Two broad reasons account for loans un-repayment by farmers. They are:

(1) Factors associated with the farmers ability to pay;

(2) Factors associated with the willingnes to pay.

The ability of farmer to pay deals mainly with the level and variability incomes which may result in adequate income to render the debtor farmer unable to meet his constractual loan obligations to the credit agency. Two variables affecting farmers' income are: his out-put and the prices he receives for his output. The out-put is affected by vagaries of weather, diseases and the non-avaiability of appropriate technology which may lead to unrealised yield expectations. Inadequate marketing facilities can impede price expectations, and lack of market for the farmers produce.

The willingness to pay is concerned with farmers' attitude towards repayment. Some farmers may have the ability to pay, yet not repay loans. These farmers can be said to be unwilling to pay. The farmers

that fall into this category may regard credit from government agency as grants and not as loan. This attitude is usually prevalent in situations of political interference in the administration of credit programme (Osuntogun, 1973; Nwagbo, 1981).

4.10 Viability of NACB Scheme

When the total value of loans granted by NACB to finance its projects compared with the amount of funds on which it operates, the approval is said to be high and good. As at the end of the 1983, which was the last financial annual report available, NACB operated on a total resources of ₦388,966,693 (NACB Annual Report, 1983). Despite the low interest charged on agricultural credit and the developmental nature of NACB Scheme, as 31 December 1983, the date of the last published accounts profits made on NACB loan stood at about ₦18.5 million (Annual Report, 1983). Profits as earlier said are by and large the indicator where the success of a business entity is measured and the assurance of survival.

But as earlier stated in the study, the low interest charged by NACB on its loans makes it impossible for the Bank to expand its source of fund by borrowing from the capital market. The

impact of the Bank is therefore restricted to what it may directly get from the Government. The question here, is how consistent is the present subsidy on NACB loans with the national for establishing the programme?

It should be pointed out that the reason for the establishment of NACB is for a lack of specialization of private sector in farm credit. The impression then, is that NACB is simply intended to fill a gap in the rural credit which at the same time called for application of a competitive rate on its loans. That is, the subsidy is not justified. This is especially so, as the bank presently serve only a few small number of highly subsidized farmer rather than serve a large clientele.

CHAPTER 5

SUMMARY, CONCLUSION AND SUGGESTIONS

5.1. Summary of the Study

This study has assessed the performance of the Nigerian Agricultural and Co-operative Banks in relation to the stated criteria for measurement of performance. It has also discribed and analysed the various schemes under the programme. The summary and conclusion presented here are based on the stated objectives of this study.

The result of the study shows that the on-lending scheme took the largest share of NACB total loans made since inception. It took 59.74 per cent of the loan value made by NACB in its 13 years of operation. It was found that top-ranking projects both in number and in loan value that benefited from the on-lending were arable crops and marketing loans. The two took 81.04 per cent of loan funds under the scheme.

Under the direct lending scheme, the single agricultural subsector projects with the largest share of loan funds was the livestock sector with poultry and fishery farming dominating the sector. Also the arable crop and tree crop projects were among the top ranking in terms of loan value.

The study also showed that though the small holder formed about 90 per cent of loan beneficiaries under the direct lending, only 6.72 per cent of loan value went to them. It was observed that loans were skewed to the advantages of large scale farmers who constituted only 8.54 per cent of number of beneficaires under the direct lending. It was also observed that loans were skewed to the advantages of some Northern States in terms of number of beneficiaries. But the average size of loans were generally higher in the Southern States than in the Northern States.

The average loan recovery of 52 per cent recorded is considered good, with marketing and horticulture projects with exceptional high rates of repayment. NACB's present office network is 100 per cent urban-located while the majority of Nigerian farmers live in the rural areas. This has the tendency of alienating the majority of the farmers.

NACB conditions for loan issuance do not discriminate as to farm size but the security criteria NACB employs is not suitable to the prevailing modes of Nigerian agrarian production.

The Bank's present interest rate charged on agricultural loan is below that of interest charge to other sector of the economy. This limits the

ability of the bank to borrow from the financial market, while NACB complains of funds it finances its projects.

The loan procedure adopted by NACB is complex, long and costly and has the tendency of serving as institutional barrier against the small scale farmers.

5.2 Conclusion

Collectively, the above results from the study have several implications for the development of the Nigeria's rural sector. Two of these are particularly important to this study and highlighted below to provide base for proposing future alternative approaches. First, the present low farmers' coverage by NACB loans implies that under the present conditions of NACB Credit issuance, it cannot be relied upon as an instrument for promoting Nigeria's agricultural development nor can it be relied upon as an instrument for improving the income and quality of life of the rural population. Secondly, although the scheme is designed towards modernization of agriculture, its operations so far have shown that they are capable of inhibiting some goals of development process. In particular, the currently prevailing notion of development emphasises among other things, the levelling up of inequalities in

the society (see Seers, 1977; Tadaro, 1977; Mobogunje, 1980). Contrary to this notion, however, the present operations of the NACB have had a tendency of widening the gap between the few subsidised farmers benefiting from NACB loans to the neglect of the majority of rural population. Hence, I considered NACB to have preformed below expection.

5.3 Suggestions for Improvement of the NACB Scheme

This section of the study discusses some policy suggestions for planning and implementing NACB scheme to become a more effective investment for providing credit to the peasant farmers.

5.3.1 One basic requirement for a rural credit scheme to become effective is adequate manpower. NACB should employ more personnels from all disciplines of rural economy. One broad category of staff that needs top priority is the middle level personnel i.e. intermediate staff who are supposed to be in constant touch with NACB clients on their farms. They should be trained to serve in rural areas. This could likely improve their judgement of loan application processing and monitoring the same when granted. This increase in manpower would help in administering loans at

the grassroot level branches that would be shortly suggested.

5.3.2 NACB has to further decentralize its operational authority, if the impact of the scheme is to be seriously felt on the rural economy, Rural branch offices should be set up exclusively to cater for the small scale farmers in the rural areas. To reduce the possible overhead costs, these offices should be tied into other programmes presently serving agricultural development. Presently, some of these programmes such as River Development Authorities (R.B.D.A.) and the Agricultural Development Projects (ADPs) serve as on-lending agents to NACB. What the NACB need to do is to seek ways of formally integrating its services by formalising agreement of using them as base for rural branch offices. In this context, these two programmes (ADPs and RBDA's) which have gained a country-wide acceptance, may be used as vehicles for promoting the rural offices.

The branches should be given power to deal directly with farmers in terms of loan approval, disbursement and loan recovery. This would all the branch Managers to use their initiative and make use of the socio-economic evironments within which they operate. This brings NACB in touch with

realities at farm levels and avoid too many things being referred to Head Office or the State area Offices. This will aslo bring the Bank close to the farmers at the grassroot and narrow the communication gaps which are already existing between NACB and the farmers in the remotest rural areas of the country.

But some effective devices to check excessiveness of these branches should be evolved. Such as: stipulating limit of loan approval; to show cost consciousness on loan approval, disbursement and loan recovery; a reward system to reward performing officers and due purnishment for non-result oriented officers.

Another function of this rural branches should be to accept money deposits in addition ot its present functions. This should be delibrately pursued to mobilize rural saving by offering attractive interest on such deposits. This would give the bank the advantage of getting closer to the rural farmers with a view of becoming familier with causes of loan default. The bank would therefore be put in apposition to make more progressive credit policy that meet the small farmers need.

The above suggestion could work only if the government removes the present restriction on rate of interest charge. This would give NACB opportunity to charge market rates on its lending to be able to offer attractive interest on deposits it receives. The removal would also put NACB in a good position to augment its financial standing by borrowing from other financial markets. In this way, more money may be made available to NACB to reach more farmers, especially the small farmers.

5.3.3 To achieve more direct loans to the small farmers, NACB should find ways of simplifying or liberalising its ledning procedures and terms. The interest rate on loans need to be adjusted in such a way that the rate charged is lowered relative to rate charged to small farmers. This will leave enough margin for credit administration - the high cost of which it makes on lending to small farmers.

5.3.4 NACB should make delibrate efforts of elvolving an integrated approach. This involve taking steps to have direct contact with inputs supplying firms; the on-lending agencies; farmers and agricultural produce buying agencies. To achieve this, the

NACB needs assistance from the Government to establish a subsidiary inputs supply company charged with responsibility of procurement and delivery of inputs to NACB clients, government agencies, and certified individual farmers only. This also involved NACB as using the subsidiary Input Supply Company to play a dual role by accepting some types of farmers' produce as part of loan repayment in cases where this becomes necessary. The Government should in this respect make it mandatory for all approved produce buying agents to accept such produce from NACB at anytime. This may enhance repayment if farmers are adequately monitored. However, such move may put the farmers in a position to accept unsatisfactory produce prices if their bargaining power is weak. To guide against this, groups or co-operatives marketing may be necessary to safe guide the interest of their members.

5.3.5 Another possible way of reaching the small farmers is for the bank to use its rural offices earlier advocated in conjunction with the ADPs to intensify lending to farmer groups or co-operatives. ADPs should be used in identifying the various types of farmers groups at village, district and divisional levels and be made where necessary into viable credit

groups. When these groups are identified and being reached by NACB, there should be minimal interference with the group activities except where necessary like educating the group members on use of credit and leadership role.

The advantages of group lending is widely known. They include; reduction in cost of loan administration; there is the possibility of groups pressures on farmers to curb repayment deliquency, especially if the groups are charged to collect loan repayments; and if the groups are enlightened enough, it could also serve as agents for training members on effective use of credit if well organised. However, it should be noted that such groups have their problems if not well planned. These include: inability of some groups to attract reliable management, corruption among the leaders and dishonesty; and lack of impartiality are some factors which can spell disaster not only to the credit operations of the groups but to their survival as entities.

5.3.6 On loan recovery, there is the need for the Federal Government to come to the assistance of the NACB. The Government should specifically evolve a court designed for loan recovery for all

government agencies extending agricultural loans including NACB. The court should be designed for speedy trial of defaulters. A court equivalent to that of tribunal on public fund recovery is advocated for this purpose.

5.3.7 The Government should also evolve a national agricultural insurance scheme with wide coverage to cope with the problem of natural disasters and other insurable risks associated with farm enterprises. This is necessary since agricultural fixed assets are known to command very little value under the hammer; foreceosure of mortgages would in most cases not succeed in recouping NACB loan in cases of failure.

5.3.8 The Government should also direct NACB to officially set aside a specific percentage of its loanbale funds that must go to the small scale farmers. This would go along way to make NACB Authority to design a credit strategy which sees the small holders as the main focus of farm lending.

5.3.9 Finally, it could be misleading to assume that only inadequate capital shortage limits the agricultural development. Other factors that affect the performance of credit institutions

include: provision of adequate production incentives like subsidies, guarantted prices, secured land tenure and price stabilization. Others are: efficient extension and training services; timely and adequate supply of production inputs; an efficient marketing system which will give farmers a high return for their produce; provision of rural infrastucture including all weather roads, and social services such as health care and water-supply. Several studies have shown that these, together with credit, constitute the major constraints to agricultural development; hence any government policy that aims at developing an efficient and effective credit scheme like NACB, must take cognisance of all factors that are obstacle to rural/agricultural development.

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