RURAL AGRICULTURAL FINANCING AND POVERTY ALLEVIATION:

A CASE STUDY OF HABIB NIGERIA BANK LTD

By

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MBA/AMIN/88 72/1992-93

BEING PROJECT SUBMITTED TO THE POST GRADUATE SCHOOL OF AHMADU BELLO UNIVERSITY, ZAR1A IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF MASTERS OF BUSINESS ADMINISTRATION (MBA) DEGREE

DEPARTMENT OF BUSINESS ADMINISTRATION
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DECLARATION

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

All Sources of information collected for the purpose of this write-up are clearly acknowledged by means of references. And to the best of my knowledge, this work is original and has thus not been submitted to any institution for the award of a Degree or any Certificate before.

SULAIMAN ABDU LIMAN

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SIGNATURE

26/5/2000
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DATE

DEDICATION

To my Wife Hauwa and Daughter Fatimah (Zahra)

CERTIFICATION

This project report entitled, **RURAL AGRICULTURAL FINANCING AND POVERTY ALLEVIATION: A CASE STUDY OF HABIB NIG. BANK LTD** meets the regulations governing the award of the Degree of Master of Business Administration (MBA) of Ahmadu Bello University, Zaria, and is hereby approved for its contribution to knowledge of literary presentation.

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.... 25/4/2000

EXTERNAL EXAMINER **DATE**

ACKNOWLEDGMENT

This piece of work cannot be accomplished without the enormous contribution of some people who played one role or the other in the realization of my dream. Alhamdulillahi, all praises goes to Allah Subhanahu Wata'ala for giving me the ability to translate the knowledge He endowed me with into scripts.

First and foremost, my sincere appreciation goes to my supervisor Mallam M. N. Maiturare for all the pains he took 'M guiding and advising me throughout the production of this master piece (Project).

My Gratitude goes to my dear Parents Late Alh Abdu Liman and Hajiya Fatimah Azumi for my upbringing, care and love for Western education.

I am also indebted to my course mates, Alh. Kassim Adamu, Dr. Ola Alabi, Dr. Sulaiman Bala, Sqd Leader Suleiman S. N., Mr. Sunny, Mallam Waziri Al-Bashir, Mallam Adamu Pai, Mallam Ibrahim Gidi, Zakari Ya'u Umar, Aminu Abbas and several others whose names cannot be mentioned.

My appreciation goes to the entire staff of Intercity Bank Plc especially Kaduna Branch; Mallam Balarabe Sani assisted tremendously during my absence in the office. Also worthy of mention is, are staff of Habib Bank Nig. Lt, especially Alh. Lamis Dikko who delegated Mallam Tijjani Bala Yakubu to supply me with most of the information and data required for the project.

Furthermore, I am grateful to the entire Liman's family especially my Brothers and Sisters, Yunusa, Haruna, Ahmed (Babangida), Bashir, Habiba, Maryam (Kande) Hadiza, Fatimah and Hajara for their moral support and encouragement throughout the period of my studies. And to the entire family of Alh. Abdulrahaman Gara for their understanding during my most trying period.

To my beloved wife Hauwa, the patience, encouragement, understanding and prayers all put together serve as moral boaster and inspiration that bound together to give me the strength and the ability to write each letter in this project. And to my daughter Fatimah Zahra for passing through rigours of academic activities from both parents at an early age in life. For all these, my appreciations are unlimited.

Finally, I am also indebted to my bosom friends Dr. Baba Waziri, Mallam Garba Shuaibu, Yusuf H. Baba Mallam, Musa Basira, Salisu Shehu, Alh. Sikiru Usman, Bala Tijjani and Alh. Shehu Wachiko. May Almighty Allah reward you all abundantly. Lastly, to our beloved friend Late Mohammed Bello Bashir (May his Soul Rest 'm Peace Amin)

ABSTRACT

Rural finance/credit has been a prime component of bank lending operations since ils inception. Providing affordable credit lo the rural sector was considered warranted on both growth and equipment considerations. Governments have been promoting and con inuously supporting supply led rural finance institutions as device to neutralize or instigate distorted "Urban biased" macro-economic policies that adversely affected the rural sector. In many instances, however, these programme fell short of achieving their objectives as they reached only a small part of the rural population.

This research work analyzed the ways and manner farmers in developing countries, Nigeria in particular have been coping very widely but capital wise, they have been relying more on informal sources of credit. Therefore, findings in this research revealed that the Commercial Banks functions of mobilizing funds from the surplus units to finance agriculture can be sustained with beneficial effect on the farmer if the method of disbursement is line-tuned to take care of collateralization, being one of the major hindrance of effective agric finance as the peasant farmers has barely nothing tangible to offer as collateral. The implementation of this will assist farmers lo get assess to credit therefore, increasing production and alleviate the suffering of the farmers and poverty. It was the recommendation of this research that government institutionalized and entrenched rural finance by all Commercial Banks who should introduce a desired method for channeling this funds to farmers and the farmers in turn should sell their products through co-operatives movements that will finally pay back to the Banks.

CONTENT

CHAPTER ONE

INTRODUCTION

CHAPTER TWO

LITERATURE REVIEW

CHAPTER THREE

HABIB BANK OF NIG. LTD

CHAPTER FOUR

(DATA PRESENTATION AND ANALYSIS)

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

LIST OF TABLES

CHAPTER ONE:

INTRODUCTION

1.0 TRENDS IN NIGERIA ECONOMY

The Nigerian Economy, since the late 1970s, has had to contend with the adverse International Economic Environment created by oil shocks, World recession and deteriorating terms of trade. These difficulties have been compounded by inappropriate and inconsistent domestic policies, thereby aggravating the macro-economic imbalances. Consequently, the government of Nigeria was obliged to implement the Structural Adjustment programme, adopted in 1987, to correct the policy distortions and structural imbalances in the economy. Little attention was given to possible adverse impact on the poor. It was generally believed that the programme would facilitate growth and in the process reduce poverty. Experience however, has shown that the economic problems are more adverse than expected, with deteriorating social conditions for some groups. Concern over the effects of adjustments policies on the poor has only recently become evident.

The nature and extent of the impact of adjustment on the poor has been difficult to establish empirically, this is due to the difficulty in distinguishing between the direct costs of adjustment and the cost of unfavourable exogenous shocks and inappropriate past policies. This notwithstanding, the view is held that adjustment policies and agricultural credit will adversely affect the poor.

To date, the most crucial sector in the economies of nearly all developing countries, remain agriculture. Yet it is perhaps generally the most backward of businesses. Given the ways it is performed and the problems confronting its development. In these developing nations, agricultural production could be fairly high but agricultural production per capital is low. In many of them, food prizes rise so drastically that many people could not afford to eat the required minimum of carbohydrate food not to talk of proteinous food items. Agriculture has not been able to effectively perform its other role in terms of raw materials for industries, foreign exchange earning, gainful employment etc. This phenomenon is observed in Nigeria and had been so since the discovery of Petroleum in commercial quantities in 1970s.

Whereas various reasons have been adduced for this dismal performance, the most significant are capital, labour and technology of these three, capital stands out clearly, given the fact that, if available, it can be used to purchase appropriate technology pay for labour when available and machineries to reduce labour constraints.

1.1 BACKGROUND OF THE STUDY

Rural financing has been a prime component of bank lending operations since its inception. Providing affordable credit to the rural sector was considered warranted on both growth and equity consideration. Governments have been promoting and continuously supporting supply of rural finance institutions as device to neutralize or mitigate distorted "Urban biased" micro-economic policies that adversely affected the rural sector. In the urban areas an organized formal financial structure exist. To contrast a fragmented and disorganized financial structure marked the setting in the rural economy with implications for the mobilization of savings and disbursement of funds for productive activities.

Programmes to promote assured access to banking services for the rural areas have been evolving since the early 1970s. As far back as 1977, the agricultural credit guarantee scheme was introduced to ensure that farmers had increased access to credit. The NACB was also encouraged to open branches in all the States of the Federation and to grant credit to peasant farmers through the State Government and Agricultural Credit Institutions. Furthermore irked by the poor banking habits among the rural community, the Rural Banking scheme was introduced in 1977, and was implemented in three phases. Under the later scheme, commercial banks were compelled to open 765 Rural Bank branches between 1977 and 1990. In an attempt to ensure that these rural bank branches were not just deposit centers, the commercial banks were further directed to utilize a stipulated percentage (50% at present) of deposits mobilized from rural areas as credit to rural borrowers.

The main justification for intervention in rural credit markets has been a perceived shortage of affordable credit which has generally been attributed to imperfections in rural financial markets and the discrepancy between private and social rated of return. It was the need to ameliorate these deficiencies that informed the establishment of the Agricultural Credit Guarantee Scheme (ACGS). Since its inception, the most frequent forms of intervention have been the following.

- Administrative Allocation of funds
- Interest Rate ceilings
- Introduction of the Rural Banking and Lending scheme

Government efforts to boost lending to the sector is accentuated by the minimum lending percentage of commercial and merchant bank loan port folios that must go to agriculture.

These minimum lending percentages are prescribed yearly by governments credit policy. Minimum lending percentages have risen from 4 percent in 1972 to 13 percent in 1997 for merchant bank.

In response to critics that concessionary interest rates do not represent an efficient and equitable income transfer mechanism, the interest rates on agricultural investments grew from 6 percent in 1978 to 21 percent 'in 1995 when rates were deregulated.

These policy instruments complement the 75 percent guarantee of the amount in default by the Central Bank of Nigeria which forms the core instrument of (ACGS) Agricultural Credit Guarantee Scheme. In addition, the penalty which banks pay when they lend short of the prescribed minimum ie depositing the amount in shortfall with Central Bank without such amount attracting any interest were all aimed at stimulating growth in lending to the sector. A curs ory look at the achievements of the financial institutions charged with the responsibility of loan delivery will shed more light as to the extent of their success and as well help reveal the weakness inherent in the (ACGS) Agricultural Credit Guarantee Scheme.

1.2 STATEMENT OF PROBLEM

For several decades, our a 'cultural sector felt neglected and in-coordinate in terms of credit for our farmers. Our various governments since independence have put in place numerous programmes that could 'improve the standard of our agriculture. Some of these programmes had credit delivery components built into them.

It is undisputable that credit is a necessary ingredient in various aspects of agricultural operations. This is reflected in the legislation of our government and directives of some of our institutions like the Central Bank on the issue. It is believed that the commercial and merchant banks are not favourably disposed towards lending to the agricultural sector because of the attendant risks and low returns unless they are compelled to do.

In general the conventional (both commercial and merchant) banks are known to be highly reluctant to lend to the agricultural sector because of the inherent risks as earlier highlighted that characterized agro-business ventures in Nigeria. This is as elsewhere in the developing countries of Africa, Asia and Latin America. Prominent among these risks factors are the adverse affect of natural hazards, long gestation periods, low rates of return on investment and the high cost of credit administration to the farming population, to mention but a few. In fact Okorie (1986) identified the under-listed factors that militate against the ability and/or willingness of commercial banks to meet the 5 percent target lending to the agricultural sector as stipulated by the CBN:

i. Lack of adequate security by farmers
ii. Low literacy level of the farming population
iii. Poor management of funds by farmers, thereby resulting in loan diversion in most cases.
iv. In adequate banking facilities in the rural area.
v. High rate of loan default by farmers.
vi. High administrative cost of loan delivery to the numerous small holder farmers.
vii. Inadequately trained personnel within the banks to implement the necessary credit functions, and
viii. The low interest rates prevailing in the national economy before the advent of deregulation.

All the above reasons can only point to the fact that the conventional banks regard lending to the agricultural sector as being quite risky and unprofitable. But in view of the uncompromising importance of the sector banks devise means to tackle these problems through introduction of innovate loan packages.

1.3 PURPOSE OF THE STUDY

Rural finance/credit is important and significant to the agricultural production as it assist farmers to obtain inputs that improves farm productivity and marketing. Therefore the significant of this study is to evaluate the performance of commercial banks especially Habib Nig. Bank Ltd in the area of rural agric. Financing and how they are able to excel despite the associated inherent constraints and risks.

1.4 RESEARCH QUESTION

The importance of Agricultural Financing by the Commercial Banks can not be over emphasized; The role of the regulatory authorities especially the Central Bank of Nigeria is to influence Agricultural Credit purveyance through its monetary policies which serve as a guide for the banks to carry out the packaging, disbursement, supervision follow-up and all other processes that will enable the credit reach the farmer. Therefore, the major aim of this study is the evaluation of the role played by the Commercial Bank in Credit supply for agricultural purposes.

However, specific objectives of the study include:-

1. To show the extent to which the Commercial Banks played a significant role towards assisting farmers with Agricultural finance for the improvement of agricultural production and its impact on the alleviation of poverty.

2. To recommend solutions where applicable to some of the problems faced by both farmers and the commercial bank in providing the credits.
3. To examine the implications of the method of agricultural finance adopted by the Bank vis-a-vis CAN stipulated criteria.
4. To identify the problems affecting the effort of HABIB BANK NIG LTD towards the achievement of this laudable objective.

1.5 SCOPE OF THE RESEARCH

In the study, emphasis is placed on the activities of Habib Bank Nig. Ltd especially the banks concentration on rural finance scheme the policy of which is entrenched in the operational performance of the Bank. The study through its five chapter reviews the policy of the Bank on the type of finance available and the eligibility criteria requirement for the credit as it relates to the Agricultural Credit Guarantee Scheme Fund (ACGSF).

Therefore, chapter one states the general background of the study, statement of the problem, objectives, significance and scope of the study. Also, it includes research methodology and limitations of the study.

Chapter two reviews related literature on rural agricultural finance, in Nigeria. While Chapter three deals with the establishment of Habib Bank Nig. Ltd, its organizational structure and management; also services and products offered by the Bank were discussed. Chapter four evaluates the performance of the commercial banks towards the achievement of Agricultural financing and it also deals with the analysis and presentation of the previous reviews and agricultural finance policy of the Banks in enhancing credit supply to the agriculture sector. The summary conclusion and recommendations are the thrust of Chapter five.

1.6 RESEARCH LIMITATION

It will be impossible to assume that a study as this is devoid of problems and/or limitations. In the course of conducting this research the major constraints encountered include the following:-

1. The problem of getting readily available data from the Commercial Banks as result of certain inherent security arrangement.
2. The cost of traveling to some rural branches of the Bank to obtain information most especially oral interviews with the farmers who are the direct beneficiary of the loans.
3. Also, there is the problems of collating data relevant to the specific period of review.

Therefore, these limitations have affected the outcome of this study.

1.7 SIGNIFICANCE OF THE STUDY

It is expected that the outcome of this research will contribute tremendously to knowledge, and in addition would be of great benefit to bank staff, creditors, farmers, who are desirous of collecting bank funds to improve their agricultural output, government and the economy in general in the following ways:-

a. The improvement and/or development of the socio-economic activities of the rural areas.
b. Stability of employment and good business returns
c. Concentration of the activities of financial institutions and Bank branches sighted in the rural areas.
d. Transformation of the rural economy to restrain population drift.
e. Policy directives and measures could easily be enforced with minimal distortions.

1.8 RESEARCH METHODOLOGY

The research specifically adopted the case study method; and it involves the examination of trend of events over time in agric finance for the ruralites by Commercial Banks especially Habib Bank of Nig. Ltd and other finance houses.

1.8.1 RESEARCH INSTRUMENTS AND METHODS OF DATA COLLECTION

The data collection instruments of this study would include the followings.

a. Oral interview with different officials of banks and regulatory authorities.

b. Secondary data from Central Bank of Nigeria, Habib Bank Nig Ltd, published annual report, published/unpublished Research work, seminar papers and several other literatures on Agric Finance.

1.8.2 SOURCE OF DATA

The study made extensive use of secondary data because of the availability of literature on topics and issues that are relevant and/or similar to the project topic. Specifically, the agricultural department of Habib Bank Nig. Ltd provided most of the research materials. Other sources of secondary data include:

- Annual Conferences reports of Agricultural Finance Department of CAN
- Financial Reviews
- Journals and Newspapers
- Literatures and unpublished works.

In addition oral interviews were conducted with farmers who benefited from such loans to determine the relevance/effect of the assistance if compared with their earlier individual and/or Group efforts.

i. Identification and accessibility to appropriate finance;

ii. Availability of loanable funds from the identified sources

iii. Satisfaction by the borrowing farmer of the lender's criteria which are noted in sound principals of lending, and

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

2.2 TYPES OF AGRICULTURAL CREDIT

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

1. **Short Term Finance:**

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

2. **Medium-Term Finance:-**

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

3. **Long-Term Finance:-**

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

The above classification is based on the usage and duration of the credit. However, Makings (1987), while accepting the above categorization as tenable, based his on the type of farmer using the loan. According to him there are distinct categories of need in agriculture for which credit is required.

These are:-

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

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

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

2.3 CHALLENGES AND PROSPECTS OF A VIABLE RURAL FINANCIAL MARKET

The tradition of most developing countries if to promote rural development through the extension of the services of urban financial institutions often promoted by Commercial, Merchant and specialized lending institutions. While preliminary successes were recorded in some instances, available evidence shows that these institutions encounter problems when they operate in rural areas. These difficulties are often traced to urban characteristics that inconvenience many rural clients and discourage potential clients. Inspite of these, most urban financial institutions have been promoted principally to supplant to rural informal financial markets. Indeed, the popular view of informal finance is of powerful money under who exploit the poor through usurious interest and unfair seizure of collateral (Igben, 1977). Yet these indigenous rural financial markets have persisted over a long period of time, and account for most of the financial services provided to the rural sector. Arising from this dilemma are several questions which agitate the minds of many economists:-

i. If informal rural financial markets have persisted where urban markets fail, to what extend do their financing mechanisms over-come the weaknesses in rural financial markets (RFMs), that the more formal organizations display?
ii. What is the structure, characteristics and nature of financial services provided by the informal rural financial markets?
iii. What kinds of return can be introduced to combine the advantages of informal rural financial markets with those of formal and specialized lending institutions?

In the literature there are divergent views about informal financial markets, while many analysts perceived the informal financial markets (also known as curb or fringe markets) as evil characterized mainly by usury and conscienceless loan sharks who extort the poor (Patrick, 1968), others see it as the enduring solution to the great credit problem of small farmers, tenants and other small holder enterprises (Mayer 1979, Sacay, Agabin and Yancho 1985). While attention is given to promoting formal financial institutions operation in rural markets Inspite of some of the observed lapses little effort has been devoted towards undertaking the informal financial markets. An attempt is made to identify the informal rural financial market in Nigeria, noting the structure, the clientless, the instruments and modus operandi and the implications for the financial viability and subsistence of the rural people by various authors.

Generally, the informal rural financial market usually referred to as "unregistered money lenders" "informal lenders" "non-institutional sources" and "unorganized sources" is defined to include all classes and types of credit and saving markets outside the formal financial system. The markets are made up of a heterogeneous lenders and savers and include landlords, merchants, professional money lenders, relatives, friends, peer group and other informal thrift and credit associations. They operate outside the banking system, not regulated, and are more loosely monitored than formal sources. Most often, they are not registered as being in the business of rural financial intermediation but operate savings and credit schemes either as an integral part of their major business or source of income, or based on tenurial or contractual relationship and social and kinship ties (friends, colleagues, neighbours and relatives.)

In most rural setting, where banking facilities are non-existent, informal credit and savings market dominates. Despite this fact, little hard fact is available to trace more conclusively the relative strength of the informal market due to inadequate statistics. However, a few studies (Ijere 1986: Igben 1977) provides some indication of the scope and magnitude of the informal rural credit and savings in Nigeria.
A preliminary examination of this information shows that in many rural settings, many farmers patronize money lenders for both consumption and investment credit during land preparation and planting season. Igben (1977) showed that informal credit accounts for more than 90 percent of the total rural credit in Nigeria in 1950s and the 1980s. He noted that prior to the advent of a few rural bank branches, many farmers depended solely on the informal financial market for both savings and credit. Even where a few bank branches existed, it was patronized by less that 5 percent of rural financial markets credit and savings beneficiaries.

Ijere (1986), also confirms further that about 25 percent of the rural credit beneficiaries patronize informal sources such as money-lenders, traders or merchants and indigenous credit institution based on cooperative principles called Esusu. In a survey of Nsukka Local Government of Anambra State Ijere (1986) estimated that 30 percent of farmers sampled got their loan from money lenders, 40 percent got from Esusu clubs, 10 percent from supervised credit scheme and 5 percent from banks.

2.4 RURAL INFORMAL FINANCIAL MARKETS

There are five informal financial markets that are in operation in Nigeria:- They provide credits to ruralites for agricultural activities using available indexes based on agreement to concertize the relationship.

i. The Money Lenders

Money lenders are individuals, who possessing excess loadable funds or with access to the same, are willing to lend them to needy persons at a fee. According to Ijere (1986) their interest rates range between 20-100 percent and sometimes more. But their loan is characterized by timeliness, regularity and ease of delivery in the place and amount desired. Collateral Security accepted for such loans may be tree crops, farm land, buildings and other chattels. The operations of the money lenders are often continued to well known localities and persons, and therefore do not extend to wide geographic areas. In general, money lenders are not strict in specification of credit use. They provide a broader interpretation of rural credit to include the need for farm and home financing, and displays expeditions enforcement of loan terms to ensure quick repayments.

ii. The Cooperative Thrift Society

This is also a rotating programme where only savings are mobilized and no credit extension to members. The operators are cooperative members who appoint a secretary to serve as lender and collector. This job is done as an income earning job as the secretary is paid. He mobilizes savings and gives to owners as this is done at a discount. It has been proved that this association thrives among the low income earners particularly traders that want to save even under trying circumstances. The cooperative thrift society has proven very useful in inculcating savings habits in traders and small farmers who have very small idle cash balances at the end of each sales operations.

iii. ESUSU

This is a rotating savings and credit association which is popular in the rural sector. This association intermediate in the most basic way. An initiator who serves as a leader periodically collects a given amount (a share) from each member. The money collected (the fund) is then given in a rotation to each member of the group. The Esusu is popular among many small savers in both the urban Commercial environment as well as rural areas. The modalities of operation varies from locality. For example, the lender may receive no special consideration other then collecting the fund first, others may take only commission which may not total the fund collected. However, taking commission has its own disadvantage, as contributors will hold him liable for any default.

iv. The Mutual Aid Programme

(Teiba, 1978) states that "it is more of a cash-in-kind mutual association than cash/credit organization. The members operating this programme mutually assist each other on their farms through extension of services both in kind and cash. For cash/or kind assistance, mutual - aid group determines the extent of finance:-

- Aid managerial requirements of the member beneficiary and requires each member to contribute both labour and other resources for accomplishing the task.
- For a successful operation, there is usually a close relationship between mutual aid, the farm and other business itself, and the member farmer consumption aspiration, savings patterns and own cash resources.
- The member beneficiary must also display the willingness to reciprocate to other members the equivalent amount of cash and services when it is his turn to do so. A prior information indicated that many rural dwelling properties and farm plantations were established mainly through the mutual aid schemes.

v. Productive Lending Programmes

This is another informal financial service provided mainly by traders. Usually, the trader in support of farmer beneficiaries advances money or inputs, as production/consumption expenditures, and even finances the farmers consumption. Such credit repayments are expected to be realized from the purchase of the farm output by the financing trader, at an agreed price. The trader's decision to provide finance to beneficiaries is often guided by his personnel knowledge of the clients, their sources of income, their commitments and their respective abilities in farming and in any other significant income earning activities. Because the trader is lending his own resources he is, therefore, highly motivated to consider very carefully the ability of the borrowing client to service the debt. The savings and credit needs of the ruralities who patronize the informal markets are not necessarily high. Ijere (1986) showed that the amounts borrowed by farmers from money lender often ranged from as small as ₦50 to slightly above ₦100.

This trend has changed over the years because of the devaluation of our currency, the inflationary trend and the high depositors funds kept with the money lenders. Thus, relatively it can be within the range of ₦1,000.00 to ₦5,000.00. Moreso, many informal Credit operators find it more convenient to lend higher than smaller amounts, often to ensure high interest rates to cover administrative costs. Due to inadequate data, it may be difficult to evaluate the performance of rural informal financial markets, especially against the background of their adequacy, interest rates charges, accessibility and viability. However, available Literature and prior information confirm that they are very accessible to ruralites and at the same time more favourable and acceptable to them.

2.5 ROLES OF OTHER FINANCIAL INSTITUTION IN RURAL AGRIC FINANCING

Although there are divergent views as to the exact causes of the poor state of the agricultural sector, various scholars seem to have arrived at a consensus that the potent factor that has tended to inhibit any meaningful improvement is the inadequacy of credit facilities. Because modern agriculture apart from being capital intensive and mechanized, is also carried out on a large scale basis. The traditional perception is that the extension of the services of formal financial institutions into rural financial markets could bring about rural transformation rapidly. This may partially explain why many developing countries promote the growth of institutional financial markets mainly to provide credit facilities on concessionary terms to operators of rural economy, such as farmers and cottage industrial entrepreneurs. While several development economists favour this approach to development (Patrick, 1966), the literature is replete with instances of the growing inability of the promoted institutions to meet the financial needs and inspiration of the rural dwellers (Von Pishiice 1981 Graham and Bourne 1980).

There exist three groups of formal financial institutions which operate in rural markets:-

i. The specialized development banks - such as the Nigerian Agricultural and Cooperative Bank (NACB), the Nigerian Industrial Development Bank (NIDB) and Nigerian Bank for Commerce and Industry (NBCI)
ii. Semi formal institutions, such as People's Bank, Community Banks and Federal Economic Advance Programme (FEAP)
iii. Commercial Banks.

These formal and semi formal financial institutions operate with the aim of purveying credits either at concessionary rates or on soft terms, and are supported by several financing facilities such as the Agricultural Credit Guarantee Scheme (ACGS), the small and medium scale Enterprises Scheme (SME's Scheme), National Directorate for Employment (NDE), National Economic Reconstruction Fund (NERFUND).

i. **The Specialized Banks:-**

These institutions are mainly specialized lending agencies that rely mainly on government and multinational institutions for their funding. The Nigerian Agricultural and Cooperate Bank Limited (NACB) is a specialized lending institution which delivers credit to the agricultural sector of the economy hitherto at concessionary interest rates. This is carried out through the provision of loans to individual farmers, cooperative organizations, Limited Liability companies, State and Federal Government Agencies. In addition, the Bank provides financing by direct investment in the equity capital of major agricultural and Agro Allied Industrial ventures.

The Bank operates through a network of 22 Area Offices spread across the country with their headquarters in Kaduna. Each area office controls roughly one State of the Federation. Under each area office there is a network of branch offices. Further down and located in rural areas, there is a network of representative offices, under the control of branch offices. This organizational structure indicates the distant network of the headquarters to the rural setting.

The Nigerian Industrial Development Bank (NIDB) is a specialized lending institution for supporting industrial activities. The Bank which grew out of the Investment Company of Nigeria (ICON) in 1964 had a restrictive operational guidelines which limited operation to the following:-

- Medium and Long Term Finance to Nigeria Industrial and Mining Enterprises which are privately owned and managed.
- Financial participation in projects up to ₦20,000 (minimum) and 10 percent of its paid-up capital and reserves (maximum).
- Loans maturing from 5 to 15 years or more than 15 years little evidence exists to show that they provide services to the rural sector.

The Nigerian Bank for Commerce and Industry (NBCI) is a development finance institution geared towards financing small businesses. The objectives of the Bank include acting as a catalyst for development and engaging in all aspects of merchant banking. It administers direct lending up to the tune of ₦750,000 from government grants. In addition, it administers the Federal Ministry of Industries Special Fund for small-scale Enterprises. However, the Bank has been saddled with shortage of funds due to high rate of failure of projects financed. The loans are allocated on a parity basis to the state on soft terms.

ii. **Semi-Formal Financial Institutions:-**

These are made up of small holder credit programmes for supporting rural activities. Among these institutions are:-

The National Directorate of Employment (NDE) which was established in 1986 to provide financial and enterprenural assistance to small self-employed people both in the rural and urban centres. The NDE Scheme operates a credit programme for agriculture and small medium scale rural/cottage industries.

The People's Bank of Nigeria (PBN) was formally launched in October 1989 to provide credit to small-scale informal sector. The PBN is funded by subventions from the Federal Government and Loans from State Government and Private Individuals. The Bank's operation is similar to the "Peer Group" or the "Collective provision of intangible collateral" of the India and Bangladesh rural bank and the Niger Informal Finance Money Guard World Bank 1990 report). The difference between PBN and the "Peer Group" informal financing is that PBN did not start its operation with Savings Mobilization in the rural area. Loan recovery is done with pear group pressure and sanction (TABLE 2).

ESTIMATED TOTAL BANKING SYSTEM CREDIT OUTSTANDING TO AGRICULTURE AND SMALL-SCALE ENTERPRISES IN NIGERIA (=N=' MILLION)

	Total Credit outstanding to the Economy					Grand Total	Agriculture & Small Scale Industries					Total Agric And Small Scale Industries	Share of Agric & Small Scale Total Total in %
	C B	M B	NACB*	NIDB*	NBCI*		C B	M B	Credit NACB*	NIDB*	MBCI*		
1980	6,349.1	400.1	99.8	175.6	80.9	7,105.5	462.2	20.1	106.8	36.5	13.7	639.3	9.0
1981	8,582.9	712.0	130.0	282.9	92.5	9,800.3	590.6	28.6	99.8	41.5	37.5	798.0	8.1
1982	10,2753	1,026.8	139.0	330.0	107.4	11,878.5	786.6	40.1	130.0	54.6	55.9	1,067.2	9.0
1983	11,093.9	1,485.5	101.2	374.9	123.5	13,179.0	940.4	54.5	139.0	50.4	38.5	1,222.8	9.3
1984	11,503.7	1,686.0	82.2	395.2	144.7	13,811.8	1,052.1	79.3	101.2	36.7	31.5	1,300.8	9.4
1985	12,170.3	1,802.9	403.0	469.7	155.9	15,001.9	1,310.2	120.2	82.2	36.4	36.2	1,585.2	10.6
1986	15,701.6	2,771.5	607.8	557.1	192.2	19,830.0	1,830.3	211.8	403.0	40.4	46.2	2,531.7	12.8
1987	17,531.9	4,165.8	717.5	1,016.1	220.7	23,652.0	2,427.1	327.7	607.8	48.2	45.4	3,456.2	14.6
1988	19,461.2	4,289.8	908.4	1,261.1	248.7	26,169.2	3,066.7	576.5	717.5	41.9	62.7	4,465.3	17.1
1989	21,119.0	5,310.0	1,043.5	1,543.7	305.1	29,321.3	3,470.5	815.1	908.4	73.4	87.7	5,355.1	18.3
1990	37,308.7	11,217.0	1,243.5	1,893.7	364.4	51,662.9	10,086.0	2,857.9	1,108.4	106.9	93.6	14,262.8	27.6
1991	40,342.0	12,760.0	1,442.5	2,143.7	413.1	57,101.3	12,585.0	4,150.4	1,207.9	131.9	98.5	18,173.7	31.8

SOURCE: **Derived from data complied from CAN Annual Reports**

C B: Commercial Banks

M B: Merchant Banks

NACB: Nigerian Agric And Cooperative Bank

NIDB: Nigerian industrial Development Bank

NBCI: Nigerian Bank for Commerce and Industry

*: **Estimate based on the annual disbursement figures** and an assumed repayment interest rates

The Community Bank, licensed by Directorate for Food, Roads and Rural Infrastructure (DFRRI) beginning from 1991 are unit banks solely owned and controlled collectively by individual shareholders within the community. Available information showed that, a total of 402 Community Banks were established as at end December 1992.

2.6 ROLES OF COMMERCIAL BANK IN RURAL AGRIC FINANCING

The level of involvement of commercial banks in rural activities can be measured in terms of the banks provision of loans and advances for agricultural activities (being the dominant occupation) in the rural sector. The importance of investigating this matter can not be over emphasized because of the desire to determine whether rural banking has benefited the rural population because of the commercial bank's operational philosophy of liquidity and profitability which emphasizes short-term lending as against long-term funding requirement of agriculture (Sheriftdeen, 1998).

The distress that has pervaded the financial system for some time now calls for a reassessment of the role of the different sub-sectors in the National Economy. This has become particularly necessary given the distress that has crippled most industries, especially the banking sub-sector. This has adversely affected all banks and non bank financial institutions, including the insurance companies, inspite of the financial distress in the banks, the commercial banks continue to dominate the banking scene in terms of number of branches spread and credit to the economy.

Prior to the introduction of community banks, rural banking scheme involving commercial bank's operations in the rural area had been a very good tool for engineering a banking culture among the rural population. Their effort also complemented the role expected to be played by the Nigerian Agricultural and Cooperative bank (NACB) whose activities were geared towards distribution of funds to farmers and, tangentially, towards mobilization of savings from the agricultural communities in the rural areas.

Braverman and Huppy (1991) argue that government has to interfere in the financial market in rural areas because commercial lending institution like the commercial banks consider lending to farmers problematic due to:

i. Substantial unit cost in processing and administering small loans to numerous farmers.
ii. The farmers inability to provide collateral
iii. The attendant unjustified fear of the risk associated with small scale farming.
iv. The perceived shortage of affordable credit.
v. The fact that the seasonal nature of agricultural operations results in nonsynchronization of cash flows and cash needs of rural producers which invariably affects the personal funds that farmers would have injected into their farming activities.

Onimode (1986) also argues that the elitist concentration of banking offices in urban area reflects their commitment to rural underdevelopment, the manifestations of which are agricultural stagnation, incessant rural urban immigration and mass poverty. According to him:-

.... "The Commercial banking policy in Nigeria has so far produced only an amorphous and largely unspecialized banking system. Inspite of years of exhortation, adequate credit for long term ventures, manufacturing, agriculture and construction are yet to be forthcoming from the commercial banks. Insistence on profitability has precluded extension of adequate loans and advances to these fields" (p.281).

Despite these statements investigation has revealed that the Commercial Banks plays a significant role through the rural banking scheme introduced to imbibe the banking culture and to assist farmers/ruralites with loans for agricultural activities.

(Sheriffden 1998) stated that "results of investigation carried out show that Commercial Banks contribute significantly to agriculture, which is the main occupation in the rural areas and that the fisheries sub-sector suffer on all counts. The result, in general, makes it imperative for us to conclude that commercial banks are veritable institutions for the transformation of the rural sector".

Therefore, the commercial banks, if properly controlled, restructured and motivated, can be a veritable catalyst for the transformation of the rural sector in spite of their guiding philosophy of profitability and liquidity.

CHAPTER THREE:

HABIB NIGERIA BANK LTD

3.1 ESTABLISHMENT AND DEVELOPMENT

Habib Nigeria Bank Limited was incorporated as a private limited liability company in November, 1982. It was granted Banking Licence on 7th March 1983 and Commenced operation on 16th May of the same year. The shareholder ratio is 40 percent Habib Nig. Bank Limited, Pakistan and 60 percent to Nigerians. In 1985 however, and in compliance with Nigerian Enterprises promotion Act of 1977 the Nigerian Partners of the Venture relinquished 10 percent (10%) of their shares to the Nigerian Employees for acquisition under the staff Equity participation scheme. The objectives of the venture have been to ensure the followings:-

1. Introduce and maintain a banking style with a difference in Nigeria and develop a sound bank with branch network in all the States of the Federation and the Federal Capital Territory, Abuja.
2. Provide Financial and Technical Assistance to the public and private sector organizations with the framework of the government of Nigeria's plan and policies.

3. Mobilize deposits by encouraging savings through the introduction of effective banking services and effective advertising programme.

With these at the back ground, Habib Nigeria Bank Limited went into full range of retail banking services tailored to the neede of all categories of customers emphasing services and professionalism with a difference. Generally, the main thrust of the Bank's philosophy is the provision of quality service with emphasis not only on the enhancement of social morals, but also on the need to be responsible to the requirements and aspirations of the communities in which they provide services through numerous products.

The Bank started operations in May, 1983 with two branches but by the following year the number of branches had grown to four with the addition of Kano and Tafawa Balewa Square, Lagos.

This stream of rapid expansion of branches network was maintained such that by the end of 1997, the number of branches had reached 46 in 26 State and the Federal Capital Territory. All the 46 branches are fully automated, plans have also reached an advance stage in the conversion of computer to on-line, real time system.

3.2 ORGANIZATION & MANAGEMENT

The current structure of the Bank has the Managing director as the head of the organization, directly reporting to him is the Deputy Managing Director. Thereafter, all the other Departmental Heads, Area Offices and Branches reports directly or indirectly to the Deputy Managing Director.

ORGANIZATIONAL STRUCTURE

The Management of the Bank is the responsibility of the Board of Directors presently composed of 6 Nigerians and 4 Pakistanis. There is the Chairman of the Board and the Managing Director Chief Executive is also a member.

The Board is charged with the responsibility for policy and general administration of the affairs of the Bank, and also in accordance with the provisions of the Companies and Allied Matters Decree 1990 and others Financial Institutions Decree 1991 the Bank's Directors are responsible for the preparation of annual Financial Statements which give a true and fair view of the state of affairs of the bank as at the end of the period and of its profit and loss account for the period then ended and comply with the requirements of both Decree.

There are 6 Departments in the Bank namely:- Corporate Services, Credits banking, International Finance Services, Audit & Secretariat, all these departments are headed by General Managers, who give directives to other sub-units that carried out functions.

The Corporate Services department performs a purely administrative function. This consists of five Department: Administrative, Personnel Staff Training, Finance and Accounts and Legal Departments. These departments are responsible for the running of the day to day internal affairs of the Bank, in addition they ensure compliance with the Corporate image of the Bank especially in the areas of publicity and advertisement.

Credit department ensure compliance with the credit objective of Habib Nig. Bank Ltd, which is to have a high quality diversify loan portfolio and at the same time, amongst others:-

- Generate profits which are commensurate with the risks and the bank's target for return on assets and return on capital.
- Enable the Bank to promptly identify potential problem loans; thus keeping non-performing assets and charge offs to minimum, and
- Adhere to external regulatory directives concerning exposure to industries sectors which government has identified to be strategic.

The department consists of two (2) units:- General Credit and special credit. The two carried out the same functions except that the special credits are usually associated with high volume and specifically for Corporate bodies.

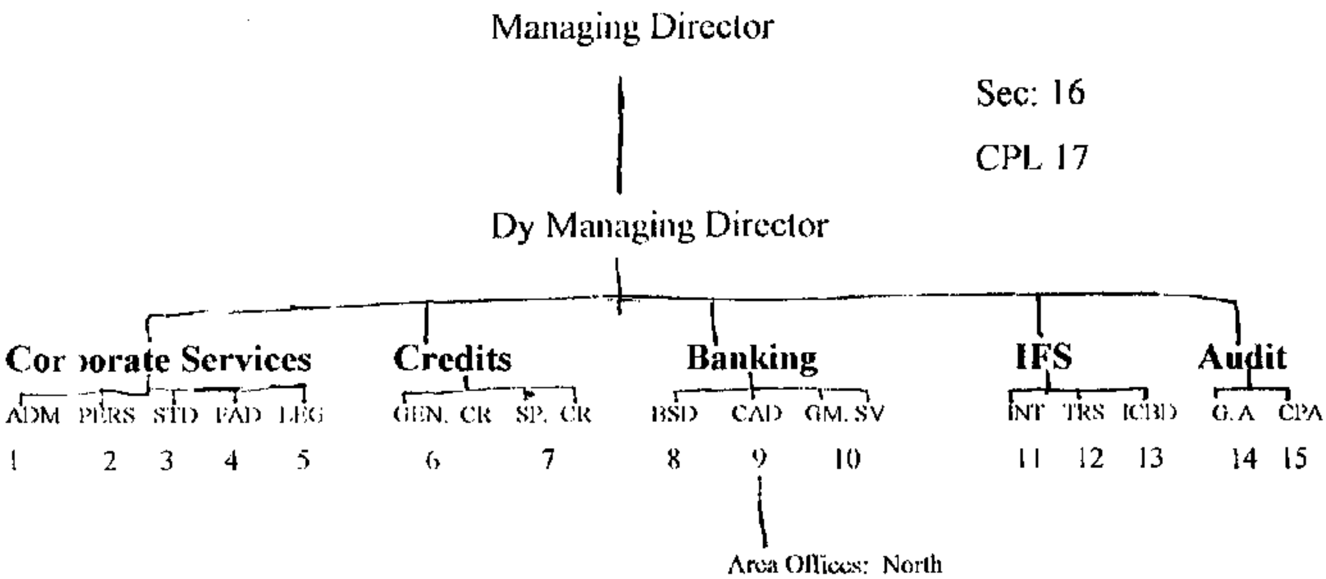
Generally the branches are the credit initiators of the Bank, because the credit approval processes commence from the branch, proposal is usually prepared and all necessary documentation put - in - place and thereafter the final decision/approval is carried out at the Head Office by the Management.

The Banking Services Group performs supervisory functions and consists of Branch supervision department. Area Offices and credit administration. They closely monitory the performances of all branches and match same against the expected targets.

International Foreign Services Group deals with all international transactions; foreign exchange dealings, bidding session, inter-national money transfers and operation of domiciliary account. Treasury activities is also part of the function of this group, as they engaged in placements and other related investments for the benefits of the organization.

The guiding principles and the stipulated guidelines, rules and regulations of the banks as it relates to general operations is being controlled and monitors by the Audit Department; the departments carries out both general and computer Audit and reports directly to the managing Director of the Bank.

ORGANIZATIONAL STRUCTURE OF THE BANK



Key

1. Administration
2. Personnel
3. Staff Training
4. Finance & Accts Dept.
5. Legal Department
6. General Credit
7. Special Credit
8. Branch Supervision
9. Credit Admin.
10. Banking Services
11. International
12. Treasury
13. Inland Correspondence Banking Department
14. General Audit
15. Computer Audit
16. Secretarial
17. Corporate Planning

3.4 SERVICES AND PRODUCTS OF THE BANK

Habib Nigeria Bank Ltd is among the second categories of Banks in the industry, as such, they combined in their provision of services most of the products offered by the leaders in the industry and at the same time act as a niche player with specifically designed products to suit the needs of their numerous therefore, the bank offers to its numerous customers the following products and services:-

1. **Term Loan:**
   To enable their customers finance specific projects which usually require large capital outlay, the bank provides medium to long term financing for new projects and project expansions.

2. **Overdraft Facilities:**
   Another services offered by the bank is the provision of short-term facilities in form of Overdraft. The Overdraft facilities are usually granted for a maximum period of one (1) year (which may be renewed annually) to enable their clients meet pressing cash calls or finance their working capital needs.

3. **Inland bills Purchase Facility:**
   This facility allows customers to obtain immediate payment on all their bills lodged with the bank by discounting same with them.

4. **Equipment Leasing:**
   For any economy to achieve meaningful growth, it must generate sufficient Savings for investment. Crucial to the issue of investment is the need for capital accumulation. Habib Nigeria Bank, in identifying the this need, provide direct lease financing to allow customers the use of assets without bearing the capital outlay required. Leasing also, allows numerous customers to guard. against obsolescence. The services also cover refinancing options for asset (Sale and Lease Back) already procured by their clients to enable them raise sufficient working capital that would have otherwise been locked in assets. The Bank is also participating in consortium leasing deals along with other banks to enable clients the use of assets that require huge capital investment.

5. **Preferential Sector Financing:**
In line with government efforts of encouraging small and medium scale enterprises, the bank participates actively in financing such enterprises through the National Economic Reconstruction Fund (NERFUND) and other Governmental bodies set up for that purpose.

6. **Warehousing Loan:**
Customers also enjoy warehousing or stock financing facility, Customers goods are pledged as security and are then deposited in warehousing in the name of the bank against which the customer is allowed credit accommodation. The bank has extended this facilities to a number of customers to enable them either stock pile needed raw material for future use, or take advantage of prices, etc. This service is mostly beneficial for seasonal goods.

7. **Export Financing:**
The Bank has been in the fore front in providing short, medium and long term funds for export operation for its numerous clients. They are also a participating bank in the Nigerian Export Import (NEXIM) credit agency which was established by the government with a specific mandate to assist banks to provide pre and post shipment finance in support of non-oil exports under the Rediscounting and Refinancing Facility (RRF). Other services provided by NEXIM include Foreign Input Facility (FIF) which provides manufacturers of export products the needed foreign exchange for the importation of capital equipment, packaging and raw materials for the production of finished or semi finished export products.

8. **Loan Syndication:**
The Bank, along with other Banks is participating in quite a number of Syndications. Syndications allow the teaming customers raise large sums of money that would have been very difficult or impossible to get from other arrangement. Syndicated facilities offer customers the opportunity to expand working capital assets preparatory to business diversification or acquire/replace capital assets.

9. **Foreign Exchange Dealings:**
The International and Finance Services (IFS) Division will guide a customer in all foreign exchange transactions. Using a reputable correspondent banks abroad, the bank promptly open and confirm letter of credits for foreign exchange transactions as well as handle other legitimate remittances on behalf of the customers. Some of the Forex dealings handle by the Bank are as follows;

a. **Open and Advice of Letter of Credit**

Various types of Letter of Credit (L/C) are opened on behalf of Clients wishing to import goods into Nigeria. Likewise acting as advising Bank to Exporters, receiving L/C for the export of goods from Nigeria.

b. **Document Collections:**

The Bank forward Shipping documents on collection basis and arrange for receipt of funds in respect of same.

c. **Clean Collections:**

Funds may be remitted to the Bank for payment to a beneficiary who may not necessarily be a foreign currency account holder. Foreign Currency checks may be forwarded through the bank for collection. Proceeds of these may be utilized in foreign currency or converted to Naira.

d. **Domiciliary Foreign Currency Accounts:**

A customer may operate US$ or Pound Sterling Currency Account from any of our Branches. No restrictions are placed on use of funds in such accounts.

e. **Sundry Payments:**

The Bank may source Foreign currency and remit on any legitimate payment duly supplied with relevant documents, eg School fees, Subscriptions.

The above represent some of the services provided under forex. However, the bank will assist its client to conclude any legitimate foreign currency transaction allowed under existing Federal Government regulations and Central Bank of Nigeria guidelines.

10. **Inland Correspondence Banking:**

The Summary of services being rendered to clients by the Inland Correspondence Banking Department is to assist the Correspondent Banks by extending services to their clients through the Bank's wide network of branches where they do not maintain presence. Through this, obligations to their clients are promptly honoured.

11. **Treasury Operations:**

Habib Nigeria Bank places funds with some selected banks and discount houses to maximized returns as well as diversify risks. The bank also issues and deals in money market instruments. They assist their corporate clients raise short-term bridging financing and working capital through various money market instruments such as bankers acceptances, commercial papers etc. Which are alternative and cheaper sources of financing.

12. **Agric and Rural Development Finance:**

The bank is involved in a wide range of Agricultural Financing from production to marketing of commodities with full range of extension services tailored to the needs of all categories of farmers, with due emphasis on service and professionalism with a difference.

To enable the bank reach more farmers at grass root level, most of the credit proposals are considered in line with the Agricultural Credit Guarantee Scheme Fund (ACGSF) guideline. The effort of the bank under this scheme have been most rewarding.

Due to the generally low economic capability of peasant farmers, the Bank's approach has been to organize them into voluntary Self-Help Groups (SHG's). The farmers objectives is the same and if they are brought under one umbrella, it will be easier to address their common socio-economic problem. The bank directs them in such a manner that they meet the laid down guidelines for group formation.

The bank also encourage and finance other economic activities in the rural areas by providing financing for cottage and traditional industries, as well as other commercial engagements of the rural dwellers towards meeting up with the bank's desire to alleviate poverty among the ruralites.

13. **Term and Short Notice Deposits:**

For customers that have surplus and idle funds, Habib Nig. Bank Ltd offer special deposit services to them at an agreed interest rate and duration within the requirement of the law.

14. **Guarantees, Bonds and Indemnities:**

Part of the services being rendered to clients include issuance of Advance Payment Guarantees, Bank Guarantees, Bid Bond, Tender Bonds, Custom Bonds and Indemnities to guarantee transactions entered into by clients and third parties. The third parties are, therefore, assured of payments in respect of such transactions entered into by the Bank's clients.

CHAPTER FOUR:

DATA PRESENTATION & ANALYSIS

4.1 PERFORMANCE OF COMMERCIAL BANKS IN RURAL AGRIC FINANCING AND POVERTY ALLEVIATION

Malnutrition results from insufficient intake of specific nutrients in a diet and may or may not co-exist with hunger. Both malnutrition and hunger are closely related to poverty, which is why there has been a glamour for availability of sufficient food as a basic human right. Adequate domestic production is considered to be the major determinant of food security. Thus, the recommendations therein focus on policies that will enhance domestic production of agricultural outputs in the following areas:-

- Increased access of farmers to productive resources
- Improved extension services and ensuring reasonable and stable supply of agricultural inputs.

According to Broca and Oram (1991) about 595 million people were calorie deficient in developing countries with the exception of Nigeria. In Nigeria for instance during the period between 1970 - 1979, the average annual deficit in per capita daily Calories intake was 24.4 percent, and within the periods 1980 - 1989, and 1990 - 1994, it became 23.58 percent and 8.38 percent respectively (CBN, 1993: African Development Bank, 1996). The food situation in Nigeria has led to a tremendous increase in the price of food over the years and a deterioration in the living conditions of many families. For example, the aggregate consumer price index for food rose from 24.5 percent 1976 to 11.75 percent in 1994 (CBN, 1994: 1887).

The per capita income is very low and has declined over the years. For example, in the period 1970 - 1980, the average annual per capita income in Nigeria was ₦1,540 but during the period 1981 - 1994, the amount declined to ₦920.00 (CBN, 1993; 1994). The problem was highlighted in the World Bank Development Report of 1988, where it was shown that in 1980, almost 14 million Nigerians or 17 percent of the population suffered from food insecurity. Consequently the income of most families are no longer adequate for the basic sustenance of life. This situation is gradually improving with the spread of Commercial Banks in the country and their increase over the years as indicated by the Table below:-

TABLE 4.1

NUMBER OF BANKS

YEAR	NO
1960	10
1990	58
1995	65

Source: CBN BULLION (vol. 21 No.3)

The Number of Branches simultaneously increase along with the number of Banks, however, the concentration of Branches in the urban center at the detriment of the Rural areas still persist, with all its inherent associated negative impact on the improvement of agricultural productivity. Because the spread of agricultural finance cannot be easily available to the numerous agricultural populace concentrated in the rural areas. The table below shows the number of branches in Urban & Rural areas.

TABLE 4.2

NUMBER OF BRANCHES IN URBAN AND RURAL AREAS

YEAR	1986	1988	1995
URBAN	1367	1939	2403
RURAL	481	602	763

Source: CAN BULLION (Sept. 1997)

This table shows number of Bank Branches between 1986 to 1995. However, out of this number concentration is higher in the urban areas.

Despite this glaring difference in the location of branches the Commercial Bank Credit to economy, although increasing, but preference is given to other sectors in the economy if compared with the agricultural sector. The table below analyzed the amount of credit by Commercial Bank to the economy.

TABLE 4.3

COMMERCIAL BANK CREDIT TO ECONOMY

YEAR	AMOUNT
1986	20,309.5m
1993	94,841.0m
1995	165,336.7m

Source: NES, ANNUAL CONFERENCES

The policies adopted in Nigeria in the past to encourage industrialization have typically included many elements which directly favour capital intensity at the expense of labour. Generous investment allowances combined with low tariffs have encouraged the importation of machinery. Such machinery was considered to be sound collateral for bank loans and for this and other reasons the banking system in Nigeria had often favoured the large-scale modern sector rather than small-scale enterprises in the administration of credit.

The table indicates that, between 1980 and 1992, the share of large-scale manufacturing industry in commercial bank loan were significantly higher than those of other sectors including agriculture. On the average, manufacturing industry accounted for 31 percent of Commercial Banks Loans. While Agriculture accounted for barely 13 percent.

TABLE 4.4

Sectoral Distribution of Commercial Banks Loan, 1980 - 1992 (N million)

Year	Agric & Forestry	Manufacturing	Mining & Quarrying	Real Estate & Construction	Other	Total
1980	462.2	1956.8	50.9	1352.4	2553.8	6349.1
1981	590.6	2659.8	88.0	1750.5	3494.0	8582.9
1982	786.6	3037.6	94.3	2085.0	4271.8	10275.3
1983	940.4	3053.1	118.7	2260.2	4721.5	11093.3
1984	1052.1	3083.5	165.5	2373.8	4828.2	11503.6
1985	1310.2	3232.2	236.1	2493.7	4898.0	12170.2
1986	1830.3	4475.2	208.0	2840.4	7004.9	17531.9
1987	2427.1	4961.2	246.3	2840.4	7181.3	19561.2
1988	3066.7	6078.0	227.3	3007.9	7181.3	19561.2
1990	4221.4	7883.7	362.4	3210.8	10321.8	26000.1
1991	5012.7	10911.3	541.8	3573.2	11267.2	31302.1
1992	6978.9	15403.9	759.7	4059.4	14806.3	42008.85

The table above shows sectorial allocation of Commercial banks loan to the economy; this has revealed sufficiently that agriculture and its associated sectors obtained comparatively lower amount than the manufacturing sector and others, if the reverse were the case, agriculture sector will be able to provide sufficient raw material for manufacturing purposes which will eventually curtailed importation of finished good from overseas.

4.2 EVALUATION OF HABIB BANK NIG. LTD UNDER RURAL AGRIC FINANCE SCHEME

In the area of financing the agricultural sector, while government was looking for a situation whereby finance would be readily available to farmers through the fiscal policy on the one hand, the commercial and merchant banks on the other hand consistently lent short of prescribed limits under the credit allocation policy. Average shortfalls in commercial bank lending to agriculture, for instance, ranged from 10 percent in 1980 to 29.3 percent in 1993. (Mrs Evbuomwan, G.O. 1993). With regard to the specialized lending institutions, the trend in annual loan disbursement is generally very discouraging. This might be due to lack of collaterals by farmers and the default rate of repayments.

In order to minimize these finance related problems in the years ahead, banks and agricultural credit extension officers should be encouraged on the formation of formal; Self Help Groups Scheme (SHGS) and link them to financial installations to encourage savings which could serve to satisfy partially the requirement for tangible collateral to support lending. Lending to groups under the linkage programme has many advantages, including higher loan repayments rates because of peer group pressure, lower transaction costs for all parties and better spread of loan to various activities.

The history of Self Help Groups Scheme in Habib Nigeria bank Limited, dates back to 1990 when the Bank played great role in meeting the Credit needs of the various Self Help Groups operating with the Bank. The idea is to encourage farmers to save from their farm and other non-farm proceeds. The savings can in turn be used as a collateral to avail Credit facilities. At inception of the scheme the Bank started with (5) SHGS on a pilot programme. However, soon the system proved effective in meeting the credit needs of farmers hence the gradual need to expand the system to all other loan beneficiaries under the ACGSF. The Bank then devised an effective strategy of operating such specialized scheme which ultimately improves the efficiency and productive capacity of the Self- Help Groups.

The formation of Self Help Groups is premise to the small scale operations and very meager farm income of the peasant farmers with its consequent low propensity to save or invest their meager individual resources for productive purposes. The approach adopted by the Bank has been to organize them into voluntary Self-Help Groups. The farmers objective must be the same, and if they are brought under one umbrella, it become easier to address their common socio-economic problems. In organizing individual farmers into voluntary SHG, the Bank only direct them in such a manner that they meet the laid down guidelines for Group formation.

At times, the Bank take the pain of organizing the farmers into groups based on their request. However, in any mode of group formation adopted one thing is certain and that is their aims and objective have to be congruent with that of the Bank.

The typology of the Group under the Linkage programme, takes the form of formal/informal society approach where individual members (either men or women) are organized into groups. In the men category, loan facilities are targeted at direct

Agricultural production while in the women category, the farmers who are women, benefited in Loan targeted at processing Agricultural productions. The Bank have started recording varying decrees of success on the SHG scheme.

The eligibility criteria for obtaining credit facilities is determined after the group formation. The Group usually open a Savings Account with any of the Bank Branch nearest to them. Such Accounts have to be operated satisfactorily for six (6) months before they can become eligible for loan consideration. The saving aspect is made paramount in the minds of the members of a Self-help Group, while regularity of such savings is used as eligibility criteria for obtaining credit facilities. Each Self-Help Group has to adopt a written bye-laws and the members have to adhere strictly to the rules and regulations contained in the said bye-laws. Ability to maintain simple book-keeping such as membership register, savings passbook register, income and expenditure are very important.

The adoption of the Self Help Groups system by the bank and its associated benefits to farmers gradually develop over the years with higher number of farmers organizing into groups. From the data obtained, it was discovered that between 1990 - 1996 the group increased with much wide spread throughout the Bank branches (especially Rural branch) located in the Country.

TABLE 4.5

NUMBER OF SELF-HELP GROUPS

YEAR	GROUPS
1990	50
1991	102
1992	150
1993	200
1994	220
1995	281
1996	310

The group formation at commencement had a small number but suddenly increased drastically because of the financial needs of the farmers and the willingness of the Bank to grant loan. However, with the advent of Peoples Bank and Community Bank the number of the group formation decline.

Generally, **Habib Bank of Nigeria Ltd** performance in the Rural Agricultural financing can only be complimented by the eradication of distortions in the interest rates policy and high cost of funds. The present cost of funds and transactions costs of formal financial markets will be too high for rural borrowers. The Bank therefore in addition to the initiative of Self-Help Group introduce the Agricultural Credit Guarantee Scheme Fund (ACGSF) that will accommodate lower interest charges or its complete elimination, to be replaced by profit sharing policy, while in the event of loss the ACGSF should be applicable.

4.3 <u>AGRICULTURAL CREDIT GUARANTEE SCHEME FUND (ACGSF)</u>

In assessing their customers request for loans and advances banks usually apply a popular acronym called PARTS; where **P** stands for Purpose of loan, **A** for Amount, **R** for Repayment, **T** for Terms and **S** for Security). The case of lending for agricultural purposes is no exception.

However, prior to the Mid-seventies, available statistics showed that banks were more favourably disposed towards lending for manufacturing and general services than to agriculture for a number of obvious reasons. One of these was the fact that the majority of promoters of agricultural projects were usually unable to provide adequate and acceptable collaterals to banks.

A ver table device for the purpose was found in the ACGSF which was established by the Federal Government in 1977 by Decree No. 20. The Decree provides for a fund of ₦100 million subscribed to by the Federal Government (60 percent) and Central Bank of Nigeria (40 percent).

Actual operations under the scheme commenced in April 1978 and bank loans under this scheme are guaranteed up to 75 percent of the amount of default. Maximum loan to an individual was originally fixed at ₦50,000. The maximum loan that the fund can guarantee for a cooperative society or a registered company is ₦1 million. Ventures for which loans could be guaranteed by the Fund include Crop production (both food, fibers and industrial raw materials and Animals husbandry, Fisheries, Agro-allied Industries and Agricultural plant-line.

Since the inception of the Fund, it has been under the management of the ACGSF Board, with the Central bank of Nigeria as the Managing Agent for its day-to-day administration. In other to avoid delay, much of the work of guaranteeing loans under the scheme is done at the CAN branch in the State in which a transaction under the scheme takes place. The Agricultural Finance Department of the Head Office of CAN Co-ordinates the branches and serves as the secretariat of the Fund.

a. **SIZE OF THE FUND:**

"The Funds paid-up capital grew rapidly from ₦15 million in 1978 to ₦85.5 million in 1982, but has remained at that level since the need for further subscription has not arisen.

Closely related to the issue of a fully paid capital is the value of the total resources at the disposal of the Fund. As at December 1988, resources at the disposal of the Fund was ₦160.60 million (87.8 percent) above the paid up capital."

"The capital of the ACGSF which stood at ₦855 million was invested mainly on Government securities. The investment led to a further appreciation of the Fund by ₦194.3 million as at the end of 1990 compared with ₦174.9 million in 1989."

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

b. **AGGREGATE NUMBER AND AMOUNT OF LOANS GUARANTEED**

In 1987 about 945 loans amounting to 30.95 million was guaranteed; these guaranteed loan increased to 34031 loans amounting to ₦121.9 million in 1996

TABLE 4.6

NUMBER OF LOANS AND AMOUNT OF LOANS GUARANTEED BY ACGSF FROM 1987 - 1996

1987	945	30,945.00
1988	1295	35,642.40
1989	1076	31,763.90
1990	1333	36,307.00
1991	1642	24,654.90
1992	3337	44,243.60
1993	5203	68,417.40
1994	16209	102,152.50
1995	24538	118,611.00
1996	34081	121,940.00

Source: ACGSF Annual Reports

Since 1987 in particular, there has been a consistent increase in the number and amount of loans guaranteed by ACGSF. This trend can be attributed to the improved awareness amongst the farming population especially the small-scale operators who were the most disadvantaged in terms of meeting bank requirement for collaterals. It is imperative to note the leap in the number and amount of loans guaranteed between 1993 and 1997 (Table 4.6)

This dramatic increases, observes Adebiyi (1989), was as "a direct response to the introduction of ₦5,000 loans which banks could grant without obtaining collateral from borrowers." It does appear that the active participation of most banks in the disbursement of security - free loans is an endorsement of the economic relevance of the ACGSF. However, there was a corresponding decline on the Total amount disbursed.

c. **LOANS GUARANTEED BY PURPOSE:**

As earlier stated, livestock, food and cash crops, mixed farming, etc are eligible for finance under the ACGSF. (See table 4.7 for details)

Between 1978 and 1990, a total of 122275 loans amounting to ₦765,375.8 million has been guaranteed by the Fund. Livestock got ₦252,115.10 million (or above 32.94%); mixed farming - ₦21,031.60 million (or about 2.75%) food crops - ₦40,486.20 million (or about 52.90%); cash crops - ₦42,294.50 (or about 5.33%) and others - ₦45,070.40 million) or about 5.89%).

TABLE 4.7

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

	LIVESTOCK		MIXED FARMING		FOOD CROPS		CASH CROPS		OTHERS	
Year	No	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1978	137	6040	35	1555.50	116	2868.20	-	-	53	820.70
1979	339	21442.8	27	2220.00	391	7456.10	97	737.60	251	1749.20
1980	263	21064.8	12	2761.30	472	5176.30	123	965.60	75	977.00
1981	275	25147.50	30	1128.40	702	7444.70	107	1032.70	181	889.10
1982	322	21875.50	5	77.70	658	5706.40	22	580.70	69	3528.30
1983	362	23364.70	20	1998.60	736	8202.60	50	334.00	165	2407.60
1984	541	12642.50	5	227.50	808	4784.80	30	280.00	258	6720.10
1985	768	14876.60	18	2180.20	1909	13569.20	36	2081.00	606	11536.40
1986	731	27449.10	20	2353.60	4204	34953.90	190	2112.30	58	1548.50
1987	1108	33914.20	14	2102.00	13674	56906.60	1027	7162.00	386	2067.70
1988	1128	23017.20	415	3199.10	21426	77979.00	1307	12150.20	263	2294.60
1989	1005	12423.30	19	227.70	29669	100013.10	2475	10772.80	1352	5873.40
1990	1252	18866.90	1	1000.00	27224	79832.40	1020	4085.60	1234	4671.30
TOTAL	8231	252115.10	621	21031.60	101989	404864.20	6483	42294.50	4951	45070.40

d. **LOANS GUARANTEED BY CATEGORY OF BORROWERS:**

Out of the total number of 57,024 guaranteed loans between 1978 and 1988, 5,721 or 97.71% were individuals and only 374 (.66%) were cooperatives. The remaining 929 (1.63%) were companies.

With regards to amount, ₦269.99 (or 50.20%) was guaranteed to individuals, in contrast to ₦17.04 (3.70%); to Cooperatives and Companies - ₦254.4 (4%) was guaranteed.

TABLE 4.8

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

	INDIVIDUALS		COOP. SOCIETIES		COMPANIES	
	NO.	AMOUNT	NO.	AMOUNT	NO.	AMOUNT
1978	300	4,373.70	12	1,080.90	29	4,529.00
1979	1,008	13,056.20	30	1,926.30	67	18,634.50
1980	325	13,522.30	22	626.90	71	16,795.00
1981	11,205	17,813,40	28	796.10	62	17,032.90
1982	1,013	16,117.70	10	474.00	53	15,172.20
1983	1,248	14,179.80	12	609.90	73	21,499.80
1984	1,563	9,853.90	9	377.00	70	14,424.00
1985	2,319	19,407.70	15	702.00	103	24,133.90
1986	5,001	25,643.30	33	1,099.10	160	41,675.00
1987	15,960	54,97.20	113	4,379.00	136	42,676.30
1988	24,352	80,078.90	90	4,166.30	96	34,365.80
1989	N. A	N. A	N. A.	N. A.	N. A	N. A
1990	N. A	N. A	N. A.	N. A	N. A	N. A
TOTAL	55,721	269,442.1	374	11,037.50	929	251,139.70

SOURCE: ACGSF ANNUAL REPORT

Some discernible observations are certain from the above presentation. The first is the almost negligible proportion of loans guaranteed to cooperative despite the fact that they remain an and efficient channel for reaching a large number of farmers. This is also indicative of the poor level of cooperative development in Nigeria. The second point has to do with the fact that slightly more than half of guaranteed loans went to individuals. From the foregoing, it could be seen that in terms of number and amounts of loans guaranteed, food crops was first followed by others. Mixed farming trailed last, coming after livestock and cash crops.

Small scale food crops producers, who are in the majority in Nigeria, source most if not all their inputs locally, an act that is practically difficult for livestock growers. This explanation (of SAP effect) is also true of farmers in cash crops, who in the quest to capitalize on the price advantage provided by exchange rate adjustments, have had to borrow more money from banks to expand and maintain their farms. The result is the leap in both the number and amount of loans guarantee by ACGSF as from 1986 when SAP was introduced.

The domineering position of food crops in terms of number of loans should be seen as an indication of the Federal Government's drive towards self sufficiency in food production.

It should also be stated that in the last half of the review period, guaranteed loans to food crops increased at a faster rate than that of livestock, partly because of the obvious implications of the Structural Adjustment Programme (SAP) which appears to have favoured enterprises that fully source their inputs locally.

4.4 BANK LENDING UNDER ACGSF

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

In the six year of its operation from 1979 to 1984, the share average of 7.5 percent, and 3.9 percent points to improvement over years 1973 to 1978. Thus hardly substantial.

However, the 7.5 percent is still regarded as small, compared with the shares of some of the other sectors like manufacturing (30%), real estate and construction (22%), general commerce (15%) and services (11%), considering the financial needs of agriculture and the fact that agriculture currently accounts for about 14 percent of the gross domestic product (GDP). Manufacturing and real estate and construction for example; currently account for 8 and 9 percent of the GDP, respectively.

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

Two, attributing the improvement to the scheme would mean discounting the influence of other factors. Those factors include the Rural banking programme, which came into effect in 1977, and raising of the percentage of banks total loans stipulated for agriculture in 1980 from 6.0 to 8.0 percent and even to 15 percent in 1988, which might have prompted banks to strive to comply with the stipulation by increasing lending.

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

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

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

Based on the two criteria above, it is evident that the scheme has not resulted in any substantial increase in lending to agriculture. The share of agriculture in total bank lending has not been substantial and the banks have failed to meet the stipulated lending to agriculture all over the years.

4.5 OPERATIONAL PROBLEMS OF ACGSF

In the course of the Fund's operations, a number of problems have been identified as militating against a smooth performance. The first problem derived from a rapid expansion is the scope of operation. The substantial increase in loans from 945 in 1980 to 30704 in 1990 suggested the need for increased men and materials for effective supervision.

It also implied the need for improved sophistication in the Fund's administrative machinery since only 8989 (or 15.76 percent of total) loans had been fully paid. Unfortunately this was not the case. While conceding that the Central Bank of Nigeria had adopted a number of measures to enhance the discharge of its functions, it still has room for improvement in the areas of man-power and equipment's especially the computerization of records of the Funds operation which have gradually become more difficult to handle manually.

The second problem was the increase in the number and amount of delinquent loans. The Scheme has recorded remarkable incidence of defaults which could be traced to a number of factors. Some of these factors include deliberate attempts by borrowers to default, natural disasters, poor project management by farmers, poor project appraisal by banks, inadequate or total lack of project monitoring by banks. Ultimately disbursement of funds by banks which, at times, encourage loan diversion, etc. There are good indications that apart from natural disasters over which man has no control, all other causes of default could be controlled by both the banks and the borrowers. What is required is just for all the interest parties to recognize the negative impact of defaults on both the scheme and the society at large. And for default due to natural disasters, the new National Agricultural Insurance policy under the management of the Nigeria Agricultural Insurance Company (NAIC) is mandated to handle such cases.

Closely related to the above is the delay of the Fund in settling bank's default claims. Though the problem is partly administrative and also partly due to the failure of some of the banks to file their claims in accordance with the ACGSF guidelines. The delay of the Fund, in settling claims was more pronounced in 1983/84 and 1986, when the

Board of the Fund was dissolved without an immediate reconstitution. Since the creditability of the Fund depends, to a large extent, on an efficient settlement of claims, it becomes imperative for both managers of the Fund and the lending banks to work in concent towards removing all obstacles on the path of a full realization of the Fund's objectives.

A forth problem confronting the ACGSF is the delay by banks in processing, approving and disbursing loans to farmers. This delay could be due to inadequacy or trained personnel, administrative lapses including an over-concentration of decision making at bank head offices, unacceptable project package and presentation by potential borrowers etc. The adverse consequence of untimely credit delivery can not be over-emphasized here. It could however, suffice to say that if allowed to persist for a long time, this problem could reduce aggregate farm output; encouraging loan diversion and trigger massive defaults. In particular banks need to remember that it is part of their responsibilities under the ACGSF to help (farm) project promoters to comply with all conventional requirements for bank credit.

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

Another constraint has to do with the specified maximum sizes of loan to individuals from ₦50,000 to ₦100,000 should be applause, since this would help farmers to face the challenges of soaring input prices and other production costs. However, the failure to similarly review the size of maximum loan to cooperatives and companies deserves a second look.

The reasons are obvious. If on one hand there is a clamour for rapid development of cooperatives and on the other there is an upward review of maximum individual entitlement or loans, the net effect would be a reduction in the number of individuals that would benefit from any loan guaranteed to the cooperative society. Also, since the cost profiles of all farm operations have gone up, there has been a general increase in the size of loans requested by companies. Presently, it is not uncommon to find a company borrowing more than one million Naira from the bank, out of which the Fund would guarantee only a million. There may be no obvious problem with this arrangement until when there is partial default. The solution to this type of problem lies either in an expansion of the scope of coverage of the Fund's guarantee - to cover more than one million Naira, or alternatively to explicitly amend the Decree establishing the Fund to cater for this type of problem.

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

CHAPTER FIVE:

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

The importance of the agricultural sector to the Nigerian economy before and after independence as a provider of employment, food, raw materials amongst others has been further confirmed by the study. But evidently agricultural production has not been able to keep pace with the growth in population rate.

One of the factors identified by the study as responsible for this un-savour of situation is inadequate credit financing to the sector. To reverse the trend, various financial institutions have initiated products such as Agricultural loan schemes, Self-Help Groups and Rural Agric Finance. The Federal Government through the Central bank of Nigeria has been playing a motivating role in all policies and strategies aimed at reinveriating agricultural production. These include directing Banks to allocate a given percentage of loans to agricultural production, concessionary interest rate for such loans special moratorium on them and insuring part of the loans through ACGSF and NAIC.

The main thrust of the study has been to examine effectively to what extent financial institutions especially the Commercial Banks were able to influence the agricultural production in the rural areas through rural agric financing leading to the eventual consequences of poverty alleviation among the ruralites. The study first defined the concept of agricultural financing, and explained types of agricultural financing and various sources of such finance.

The challenges and prospects of a viable Rural Financial Market was exhaustively discussed in the study. The performance of the informal financial markets along with its orthodox methods of operations is discussed vis-a-vis the formal financial markets whereby the roles of other financial institutions was analyzed.

Also, the roles of Commercial Banks in rural agriculture finance, especially, in the areas of loans and advances provision and its contribution to the agriculture along with the associated problems in the areas of administration and operations were also discussed.

A whole chapter was devoted to specifically examine and assess the establishment, objectives, organization, management, operations, functions, services and products of the case institution - Habib Bank of Nigeria Ltd.

The study also examined the performance of the Commercial Banks in rural agricultural financing and its effect on the poverty alleviation among the rural populance. An evaluation of Habib bank's performance in this regard was analyzed to serve as a specific case study

The Agricultural Guarantee Scheme Fund (ACGSF) was analyzed in terms of its insuring capabilities and the effect on bank lending to rural areas under the scheme is contained the fourth chapter.

5.2 CONCLUSION

The role of Commercial banks as a lender for development purposes in all the sectors of the economy is once again evident from the findings of this study. In Nigeria, successive governments have attempted severally to tackle the problem of poverty through various programmes over the years. In the agricultural sector programmes include the agricultural development programmes, the National Agricultural Land Development Authority etc.

These programme aimed at promoting and utilizing land reserves through subsidized land development, to improve the supply of farm inputs and services, and to extend credit and institutional support for produce marketing cooperatives to the farmers. However, the appraisal of these programmes listed above Ohwioduokit (1997) concluded that the programme did not attain the desired results. This is not however, unconnected to frequent policy changes and inconsistent implementation that prevented continuous progress and created a climate of uncertainty, resulting in most operators having short-run perspectives of the objectives of most agricultural schemes. However, if schemes if well coordinated and sustained with massive investment in human capital resources, development of agriculture could be the basis for food abundancy and poverty alleviation. Nigeria is blessed with all the resources she really needs to achieve a decent living for her people.

5.3 RECOMMENDATIONS

Owing to the findings of this study a number of recommendation that would enhance the efficiency and effectiveness of rural agric financing are preferred. This recommendations are directed at, the government, the regulatory agencies and the financing banks

i. The activities of Commercial Banks in the area of long-term financing needs to be looked into by the monitoring authority. This must have special attention to the rural agric financing. The government should institutionalized and entrenched rural finance by all Commercial Banks in its policies; guidelines and regulations should be formulated for Banks to participate through introduction of products that will assist the rural community and also the alleviation of poverty, instead of the present trend of creating products purposely to satisfy the shareholders.

ii. The activities of the Agricultural Credit Guarantee Scheme should be fine tuned. We are aware that the Commercial and Merchant Banks are not lending to the agricultural Sector because of the attendant risks and low returns, the ACGSF has incorporated the former (risk) into its activities, thus, the inclusion of creation of avenues through which banks will improve their earnings will be appropriate, this will simultaneously relate with the aforementioned recommendations and will skew the supply of loans in favour of potentially viable projects.

iii. The review of the capital base of the ACGSF earlier fixed at ₦200 million will be of great importance to the improvement of Credit Finance; subsequently, if the fund is reviewed upwards same will influence the maximum amount of loan that can be guaranteed; this is because agriculture is now mechanized, and the cost of machines and other implements is so enormous and therefore requiring capital to ensure high production that will meet up with the ever increasing population.

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

v. In the area of efficient channeling of the funds to farmers and in anticipation of effective utilization and timely repayment; the Self-Help-Group (SHG) system introduced by **Habib Bank Nig. Ltd** should be recommended to all Banks.

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

vi. To receive the loans, farmers benefiting from the scheme should be made to sell their produce through the cooperative movements and the money paid back to the Commercial Banks. This will minimize the problem of default that is normally the case with repayments.

vii. The establishment of Scheme such as Peoples bank, Community Banks, National Directorate of Employment and Family Economy Advancement Programme with the aim of alleviation of poverty needs to be fine tuned.

The programmes of these schemes concentrates mainly on group activities as it relates to trade and self employment activities. To maximize the effect of this schemes and also to have a lasting solution to our present poverty situation; greater percentages of the funds should be channel to groups for agricultural proposes; this will be granted through the banks and the modalities entrenched into the procedures.

viii. The present concessionary lending rate for agricultural loans should be reduced to the bearest minimum and/or waived. This can be substituted with the profit sharing formula of 30% - 70% to the Bank and the farmer respectively. Where a loss situation applies same should be absorbed by both parties since the failure may be as a result lack of close monitoring by the farmer and/or the bank; it may also be as a result of natural cause. Furthermore, this will eliminate the issue of moratorium Vis-a-Vis gestation period that are also in conflict with duration of interest charges.

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