A PERFORMANCE EVALUATION OF RURAL BANKS CREDIT PORTFOLIOS AND DEVELOPMENT IN IREPODUN AND OYUN LOCAL GOVERNMENT AREAS IN KWARA STATE

BY

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A THESIS SUBMITTED TO THE POSTGRADUATE SCHOOL AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF SCIENCE (M.Sc.) RURAL DEVELOPMENT

DEPARTMENT OF GEOGRAPHY
AHMADU BELLO UNIVERSITY, ZARIA

MARCH, 1993

DECLARATION

I hereby declare that this THESIS has been written by me and that it is a record of my own research work. It has not been presented in any previous application for a higher degree. All quotations are indicated and the sources of information are specifically acknowledged by means of references.

.....
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30-03-93
.....
DATE

CERTIFICATION

This Thesis "A PERFORMANCE EVALUATION OF RURAL BANKS CREDIT PORTFOLIOS AND DEVELOPMENT IN IREPODUN AND OYUN L.G.As IN KWARA STATE" by JOSEPH SUNDAY ADENIYI, meets the regulations governing the award of the degree of Master of Science (M.Sc) of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

Dedicated to my wife, Lucy Titilayo and my children: Kemi, Bode, Jumoke and Tade for their prayers, enthusiastic endurance of harsh realities and transparent love.

ACKNOWLEDGEMENT

The accomplishment of this thesis work and the course of study in general is largely due to the tremedious supports I received from a host of institutions and individuals.

On this note, I specially register my sincere appreciation to my employer, Kwara State Teaching Service Commission for the sponsorship facilities that have enabled me to undertake the study programme. I equally express my thanks to the Branch Managers/ Accountants of all the various banks covered during my field survey. Their cooperative efforts in terms of provision of useful and reliable information have advanced the course of this project work.

To my supervisors in the persons of Dr. D. O. Ogbonna and Dr. J. A. Ariyo of Geography Department, A.B.U., Zaria, I owned a great debt of gratitute. Their professional instructions, meticulous and impeccable supervisions as well as affections demonstrated through financial assistance at critical occasions, uniquely enhanced my performance and the completion of the study programme within a minimum time record.

I also wish to place on record the unflinching, unfailing and seasonable supports of my friends and brothers viz: Messrs Duro Ajiboye of OGS Offa; S. E. Kolawole of Trade Bank PLC; Lanre Awoseyin, Travel Konsult (Nig) Ltd.; Thaddy Akolade; Austin Arinde; David Igoli of NMT Osogbo and Kunle Olaniyan of UTC Kaduna. Others are Dr. J. B. Onifade OAUTH, Ife; Mr. Bayo Afolayan, Federal Polytechnic, Offa; Dr. Bello Yunusa CSER, A.B.U. Zaria; and Dr. Joshua Adebayo of English Language Department, A.B.U., Zaria. The unparallel

and enviable contribution of my brother and his wife Mr. and Mrs. J. F. Olaniyan of Finetex (Nig) Ltd, Kaduna is specially acknowledged. Others on equal pedestal are Mr. S. A. Ajibola (my elder brother), Gani Olaiya, Kayode Rotimi and Mrs. Funmilayo Ajisafe (Ayo nio). Their collective, multi-dimensional and unreserved efforts towards the success of this Study Scheme are unquantifiable.

Special thanks go to Mr. J. A. Onietan and Mr. M. A. Oyewole of ARMTI, Ilorin for their textual and brotherly supports. I also appreciate the brotherly love of Mr. E. A. Aiyeku and my other course-mates.

I equally thank Mr. M. S. Ademola of Federal Polytechnic, Offa who despite the short time notice given, did a speedy typing of the manuscript without compromising accuracy and neatness.

Above all, to God be honour, glory and adoration for His mercy, love, blessings and protection during the rather seemingly unending period of my study. With CHRIST, all things are possible.

I personally accept any error of omission and commission that may inevitably manifest in this work.

J. S. A.

A B S T R A C T

The stagnation or outright decline of rural production and hence the living standards of the masses residing at the rural space in Nigeria call for a number of deliberate policies and programmes.

Formal institutional credit scheme amongst other programmes represent a potent strategy for effecting greater rural productivity; and this is articulated in Nigeria via Rural Banking Programme. The scheme was introduced in 1977 by way of master plan that involves the allocation of specific number of rural branches to be established by major commercial banks in the country. In order to ensure relevance and effectiveness, the monetary authorities in the country through credit guidelines require the operating banks to allocate and extend a minimum portion of their loan portfolios to priority sectors of rural economy.

From the empirical study of commercial bank branches in Irepodun and Oyun L.G.As of Kwara State, the rural banking scheme was found to have failed to meet the expected loan requirements of rural producers. Total loan extended in relation to financial resource mobilised by the rura] bank branches over a period of eight years (1985-92) increasingly fell below the minimum policy targets. Similarly, the prioritised sectors of rural economy namely, agriculture and manufacturing activities were found to be grossly under financed by the bank branches as the actual loan granted fell wide of the expected portfolio to each sector. The agricultural sector loan was particularly more deficient in reLation to others.

The banks loathing situation is not unconnected with the perceived greater level of uncertainty that surrounds rural business activities. Banks profitability obsession in this case seems to be largely at variance **with** the equity objective of government rural credit programme. In addition, the loan policies being adopted by banks in the form of short-term advances, stringent collateral arrangements, long lending protocol etc. represent key variables that often force the rural entrepreneurs to either shy or divorce banks for alternative credit sources.

From the point of resource mobilisation and sustainability, rural banking scheme via conventional branch outfits forms a leading model par excellence. The network of branches coupled with the diversities of deposit lines make their savings records to be unparaIlel. However, from the point of popular access of rural producers to loan, the banking scheme still leaves much to be desired. It is in the light of this, that the study recommends policy revision in the the form of increased de-regulation of interest rates, loan quotas and portfolios. This is in addition to improved rural infrastructure and market to stimulate the level of demand for loan business at rural level. As a bridge in our rural banking scenario, the community banks scheme should be given more operational experiment on a rational scale.

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DEFINITIONS OF OPERATIVE TERMS

CREDIT: Represents financial facilities that give borrowers additional claims on all goods and services required for the satisfaction of a given level of output. Credit can be treated as a factor in an input-mix where it contributes to either the buying of other inputs or products. It can also be seen as a product perse in a product-mix where for instance it constitutes the stocks trade for financial institutions like banks. In both cases, extra management responsibilities on the parts of lenders and borrowers are required.

PORTFOLIO: As used in security market denotes a package of finance securities such as loans, stocks, shares, bonds etc. Each of the securities contained in a portfolio carries risk and expected returns, hence a rational and optimal selection by lending agencies and borrowing clients.

LOANS ON CALL: Classes of bank loans that mature on demand by the agency without any prior notice.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The Nigerian rural space is witnessing an enormous structural and socio-economic changes; a transformation process that has particularly gathered momentum from the 1970s to the present. The dynamics are due to increasing awareness on the part of planners and policy makers not only for the need to promote economic growth, but also to mitigate the problems of poverty, gross social injustice and inequalities prevailing in the country's space-economy. The main factors for the prevailing unhealthy development condition amongst others include, poor and restricted access of the masses to resources and the lopsided distribution of the so-called national 'cake' against the majority of the bakers who reside in the countryside. From the 3rd National Development Plan (1975/80), renewed efforts are being made to reverse the trend through articulated broad programmes. One of such functional schemes that is particularly focused on the monetary and credit sub-sector of our rural areas is the Rural Banking Programme (RBP) of the Federal Government launched in July 1977. The scheme presently is sub-sumed under a broader and systematic programme - Rural Development Programme (RDP).

1.1.1 The Federal Government Rural Development Programme

The main thrusts of the Federal Government rural development strategy has been articulated to include:

(a) Programmes designed to enhance peoples productivity and range of economic opportunities, mainly through agricultural modernisation and rural industrialisation;

(b) Monetary and credit programmes which entail the promotion of co-operative societies, encouragement and establishment of relevant banks to extend credit facilities to support (a) above;

(c) Programmes aimed at improving quality of life of rural masses through joint provision of basic needs - roads, water, electricity, health etc and;

(d) Programmes aimed at democratising rural institutions and organisation for effective grass-root participation in national development (Onibokun, 1983, DFRRI, 1991).

Our rural capital and credit markets therefore form a key sub-sector of the space-economy that has persistently been critical and thus, deserving the kind of stategic policy focus articulated in R.B.P. This is particularly so, because our rural producers generally have limited access to formal sector financial services that can effectively enhance their productivity, improve production and thus, their income. It is against this problem, and the debilitated status of the first generation of government narrowly focused financial service programmes in the form of subsidized credits through commodity boards, budgetary allocations to specialised financial institutions/corporations and credit via agricultural development programmes, that this second generation of rural financial services (RBP) became more relevant.

It is important to know that our Rural Banking Programme is a multi-facet package scheme; one designed to include:

i) rapid and progressive expansion of commercial bank branches into the neglected rural areas of the country, and

ii) promotion and establishment of banking and credit institutions (specialised banks) that are particularly responsive to the needs of our rural producers and dwellers.

This thesis focuses strongly on the first facet of the programme as the latter schemes are financial phenomena of the 1990s in the country.

1.2 STATEMENT OF THE PROBLEM

1.2.1 General Related Problems

The Nigerian rural credit market is poor and imperfect; similarly, rural sector's access to credit as well as rural development financing in general is relatively poor. This problem thus places the rural producers at a disadvantage and frequently raises the conundrum to both planners and policy makers as to how to design and implement an appropriate and effective rural financial programme for a sustainable growth and development. Touched by the situation and the need to guide the economy along a desirable end, the Federal Government has continuously intervened in the credit market. The intervention policy instruments range from grants and subsidies to supervised loans, portfolio quotas and interest rates ceiling to favour priority sectors of the economy.

Our Rural Financial Market (RFM) has for a long time been dominated by the activities of the informal credit agents and intermediaries such as local money lenders, merchant traders, processors, traditional 'esusu' clubs/unions etc. However, the persistent inability of these agencies

to effectively meet the credit needs of the small-scale farmers, micro-entrepreneurs and rural industrialists; and thus stimulate greater productivity constitute a development problem. Their sheer dominance has also meant that a low level of financial intermediations still occur at our rural areas, and this poses a problem to the growth of the space-economy.

There is also the problem of high level of operational fragmentation in the informal credit sector market. Such a situation has encouraged usury practices in the form of high interest rates and other stringent credit conditions imposed on their clients. In addition the segmentation of the market has also meant that inadequate financial resource is being made available for productive investments as the market is poorly (if at all) linked with the national financial stream. This informal credit sector market therefore, possesses very limited lending capacity and portfolios. Thus, from economic and social perspective, greater reliance cannot be placed on the market, and for so long as the poor rural masses continue to depend on these sources, for so long will they continue to be marginalised from the national scheme of development.

Alternative credit strategy via institutional funding and subsidies to rural producers in the country often miss the targets or founder, due to remoteness of the agencies, political intervention and sensitivity, poor management and irregularity of funds. The cheap nature of this form of credit often leads to surplus demands which inturn calls for stringent credit rationing mechanism, discriminatory policies and eventual poor outreach, all to the disadvantage of the poor rural producers. Closely linked with

this problem is the issue of slack loan recovery and negative real interest rates serving as disincentives to both finance managers and beneficiaries to work less hard; thus crippling the programme.

Some organised parallel rural finance institutions like co-operative societies, lack the financial resources and management experience necessary to run an efficient banking scheme for effective rural development. Given the above general problem, the only option left is the conventional banking strategy which leads us to our actual problem.

1.2.2 The Research Problem

The formal banking institution, especially the commercial banks have been adapted through their branch outfits as alternative and superior financial scheme for effective rural transformation in Nigeria. Our policy makers believe that the formal banking outfit possesses the necessary machinery and resource capacity that can lead to improve financial access of rural dwellers, if only the banks can be forced to operate at rural level and compulsorily made to allocate certain portion of their financial resource to some target sectors and groups.

The above optimism is reflected in the Federal Government policy objectives of the scheme which states, inter alia:

i) that the banks should actively facilitate the transformation of the rural environment by promoting rapid expansion of banking facilities and services and banking habit in the rural communities. They should provide savings deposit facilities .... and

most important of all, they will serve as vehicles for creation of credit that will be in form of equity and loans for small scale farmers and entrepreneurs.

ii) that while the banks had in the past concentrated on short-term lending, they should increasingly undertake more medium - long term lending designated as such .... to enable borrowers to undertake long term investment ...." (Ahmed, 1989, pg.2, CBN, July 1978, Lot, 1983 pg.19).

A number of issues surround this alternative approach which include:

(a) banks loath, as reflected in the relative paucity of their branches in rural areas.

(b) non optimimum allocation of minimum credit required or prescribed to productive sectors of rural economy.

(c) damaging of financial sector and diminishing of total banks service to the economy as a result of portfolio prescription and policing.

With 22 banks made up of 17 branch operations and 5 unit agencies (table 3.2), both Irepodun and Oyun Local Government Areas (LGAs) of Kwara State can be said to be fairly banked. The thrust of this study however, lies in the real performance of the bank branches in the area in terms of meeting the portfolio thresholds set by the Federal Government to effect greater productivity and improve rural production.

1.2.3 Federal Government Monetary and Credit Policy Guidelines

For the purpose of the task set above, and the subsequent analyses and interpretation of data under the relevant chapters, the following outlined credit guidelines and criteria set by the Central Bank of Nigeria (CBN) the apex bank will be used.

A. Sectoral Annual Policy Credit Allocation:

The government objective (as contained in the guideline) is to promote growth in the non-oil sector. Priority therefore, is given to agriculture and industry in the allocation of bank credit as indicated in table 1.1 below.

Table 1.1
Expected Sectoral Bank Loan Allocation (1985/92)

Sector			Percent
1.	Priority sectors		50
	a) agricultural prod. (minimum)	15	
	b) manufacturing enterp. (minimum)	35	
2.	Others (maxima)		50
	Total (1 + 2)		100

Source: CBN (Annual Monetary & Credit Policy Guideline) 1985/92

B. Loans to Rural Borrowers:

Of the total deposits mobilised by the rural bank branches, a 40 percent loan ratio was expected to be given to the local customers between 1985 and 1989. This ratio was further revised upwards to 50 percent in the 1990/92 budgets. The loans were expected to be given in accordance with the specifications outlined in table 1.1 above (CBN, 1990).

1.3 AIM AND OBJECTIVES

The aim of this study is to assess the performance of commercial bank branches, using Irepodun and Oyun LGAs of Kwara State, in terms of promoting rural development through

effective credit provision.

The specific objectives of the research are to:

(a) assess the level of annual savings mobilised by the operating banks with the view to determining their viability and rural financial resourcefulness;

(b) Identify and assess the banks aggregate loan portfolios against targets set by government to the priority sectors of agriculture and manufacturing enterprises;

(c) ascertain and assess the banks portfolio policies in terms of (i) ratio of loans granted to deposits mobilised (ii) loan maturity pattern, (iii) loan size and frequency of borrowers (iv) loan recovery pattern;

(d) ascertain the banks' and clients' views on policies affecting banks efficiency and effective services delivery and;

(e) recommend workable measures for improved performance of the banking outfit and other rural formal sector finance agencies in the study area.

1.4 HYPOTHESIS

The research makes the following hypothesis:

Rural banks branching scheme is not an effective strategy for accelerating rural productivity and hence, development in the study area.

1.5 SCOPE AND LIMITATION

Rural credit market and development financing is a broad issue. This study looks at the loan side of the market mainly via commercial banks branch operations. It focuses on the banks' loan portfolios for agricultural, manufacturing and commercial ventures at the rural areas from 1985 to 1992.

For time and financial reasons, the spatial coverage is restricted to two contiguous local government areas namely,

Irepodun and Oyun[1] (Fig. 3.2).

A major limitation to the study relates to data collection from the operating banks in the field. Some branches had to refer the researcher to their distance corporate affairs offices, while a number of the managers and officers were reticent about information sought through the questionnaire. It took the researcher repeated calls at several of the branches to retrieve the filled questionnaires.

1.6 JUSTIFICATION

The banking sub-sector perhaps currently forms the fastest growing unit by number and volume of operational transactions in our nation's financial institutional sector. Their ubiquity, particularly at the rural space of late, and the claim in the capacity of the banking institution to stimulate economic growth and development informed my decision to critically look at the tool at a grass-root level.

In addition, the unfavourable changing circumstance of our country's economic terrain and government measures designed to meet the exigencies of the World Bank imposed Structural Adjustment Programme (SAP) has led to fundamental socio-economic reforms. This is manifested in the current wide spread deregulation, increased privatisation, commercialisation, subsidies withdrawal and rationalisation policies in the country. A situation that has brought pervasive effects across sectors of our nation's space-economy. Thus, there is the need to

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1. These two LGAs now exist as four.

continuously evaluate the nation's financial programmes amongst others, with the view to ascertaining their appropriateness and effectiveness over time and space. This will help in the cyclic planning process of plan formulation and implementation for effective rural development programme.

Commercial banks as privatised, profit oriented ventures and an integeral scheme of the country's rural credit programme deserves this current evaluative study in order to improve on the operational performance of the agencies at rural level. Lessons drawn from this can also serve as useful information guide in policy and plan control over parallel schemes, particularly the Peoples Bank and Community Banks under the nation's Rural Banking Programme (RBP).

1.7 METHODOLOGY

1.7.1 Data Collection

This was done primarily through field surveys of commercial bank establishments and their rural clients.

I. Primary Data through:-

(a) Questionnaire - two sets of structured questionnaires coded RQ/01 and RQ/02 were designed and administered to:

i) fifteen bank branches out of the twenty-two banking agencies in the study area were studied to elicit information on the nature of the branch, its loan portfolio, loan policies and administration etc (Appendix IX).

ii) sampled banks clientele, mainly the small-scale farmers and micro-entrepreneurs in the study area were also studied to get their views on banks transactions with respect to loan proposal and approval, transaction costs including interest rates, loan management and pattern of loan deliquency (Appendix X).

(b) Interview - Personal interviews in scheduled form were also conducted of three randomly selected bank managers who could spare the researcher a short time from their tight work schedule.

II. Secondary Data:

Supportive data were also sought from quarterly journals, CBN Yearly Reports, Newspapers and researched documents.

1.7.2 Sampling Frame and Procedure

(i) For the selection of banks, a purposive sampling and complete sample coverage procedures were employed. Out of the 22 local banks in the study area, 17 branch agencies were purposively focused. The rest 5 agencies eliminated represent the new community banks on unit rather than on branch operation. The bias in this case is induced by the CBN Annual Credit Policy Guidelines that solely apply to the branch agencies.

Of the 17 branch agencies, two have been temporarily shut down, thus leaving 15 branches presently in operation. These were taken as sample size and were completely surveyed in view of the reduced number of the population sample. However the 15 banks sampled in the two Local Government Areas fairly represent outfits of the thirteen major commercial bank establishments in Kwara State. A copy of the designed questionnaire that was personally delivered to each of the Branch Manager/Accountant was self-administered by the officers and were later retrieved for collation. Table 1.2 gives the analysis of the sample frame.

(ii) For the banks clients or rural producers, both purposive and random samplings were used in their selection. First, the focus was on regular loan beneficiaries whose names and addresses were given by the banks and contact clients rather than on every counter customer. A total of seventy-five client names were supplied out of which fifty samples were randomly drawn using the table of random sampling numbers (Lindley and Miller, 1953). The respondents were thus traced to their places of work by the researcher and two other assistants. Every literate client reached with the research questionnaire self-administered it, while others were assisted by way of interpreting the structured questions and immediate recording of information given by the respondents.

Table 1.2
Banks Sample Frame

Districts	No of commercial bank branches	Sampled Size	Number Responded
Ekan-meje	1	1	1
Esie/Ijan	1	1	1
Idofin	1	1	-
Iloffa/Odoowa	-	-	-
Obbo/Eruku	2	2	1
Odo Ogun	2	2	2
Offa Town	5	5	4
Omuaran/Arandun	3	2	1
Oro	1	1	1
Osi	1	-	-
Total	17	15	11

Source: Field survey, Sept/Nov. 1992.

1.7.3 Data Analysis

The relevant descriptive and inferential statistical tools used include:

(a) tables, bar graphs and pie charts were variously used to describe and analyse information on deposits mobilised, loans disbursed, loan maturity rhythms, loan recovery pattern, loan size and grant frequency and proportion of deposit account operators;

(b) Target achievement index model was used to compute and determine the levels of performance of the bank branches in terms of:

i) their annual total loan to deposit ratios, and

ii) their actual sectoral loans disbursed to the expected portfolios in agriculture, manufacturing and general commerce in the study area.

CHAPTER TWO

LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

2.1 INTRODUCTION

> It is surprising how much development has taken place in Tropical Africa (rural setting) with comparatively little or no credit (John deWilde et al, 1967, p. 198).

Finance capital, amongst other factors, forms a potent engine in the growth and development of any given space-economy. Some development literature have attributed the problem of under-development to be partly due to poor capital base in an economy (Rostows, 1955). The policy option to the problem as argued is through external supports in form of subsidies, financial aids, capital and technology transfers etc. Faced with the realities of the national and international economic conditions of today, in which many low income countries (LICs) have incurred huge debts, such development theory thus deserves critical appraisal.

Currently, the issue of development has shifted to self-reliance (sustainability) based on internal resource mobilisation and broad accessibility to means of production to create economic surplus. Rural finance mobilisation and optimal purveyance through efficient and effective agencies represent a step in the realisation of that national goal.

This chapter reviews succinctly, the theories of development, rural finance theory and development, performance patterns of formal finance institutions and government policy options in the light of rural development.

2.2 CONCEPT OF DEVELOPMENT

The plethora of literature on development present varied ideas. The concept is said to be normative, idealistic, multi-dimensional and contestable (The Brandt, Report, 1980).

The 1950s development scholars see development as meaning economic growth in terms of percentage increase in aggregate national output and per capita income (Lewis, 1955, UNO, 1960). This definition was quite relevant to most national governments that were eagered to re-construct their world war ravaged economies and those that were just emerging from the yokes of political and economic domination.

Reflecting on the definition, the United Nation Organisation (UNO) declared 1960s as the first development decade. All countries that attained a 6 percent growth in their national income were thus, classified as having recorded a satisfactory level of development.

The notion of development however, goes beyond sheer economic growth. There is the redistribution,'anti-poverty' or 'basic needs' approach to it. To scholar like Dudley Seers, the concept implies social improvement or qualitative changes. It involves direct and deliberate improvement in the distribution of economic benefits through substantial reduction in the levels of un-employment, inequality, poverty and dependency.

According to him, the relevant questions to ask about the development of a given economy are:

> What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? .... If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result 'development' even if per capita income has soared (Seers, 1969, and 1977).

The development scholars of the 1970s, also defined the concept as that of emotional, spiritual and psychological transformation of individuals. In the words of Rodney, it means 'increased skill and capacity, greater freedom, creativity, self discipline, responsibility and material well-being' for individuals (Rodney, 1972, p. 9).

From structural perspective, Courlet, Tedaro and Nyerere see the notion of development as involving three core values viz:

i) life sustenance, relating to the satisfaction of basic physiological requirements.

ii) self-esteem, and

iii) freedom from hunger, ignorance, misery, disease, dogmatic beliefs etc (Todaro, 1977, p.97, Nyerere, 1977 cited anonymously, p. 5).

Development, therefore lies in the eye of the beholder and policy options available to promote the notion are as varied as the concept itself.

2.2.1 Theories of Development

Theories of development at international scale has corollary explanations at both national and sub-national (rural/regional) levels. Some of these theories that have influenced

the thinking and actions of planners and policy makers include modernisation thesis, structural-dependency model, Marxist theory and Neo-Marxist approach. The first two of these theories are most relevant to this work and thus, will be briefly stated.

2.2.1.1 Modernisation Theory

This theory is otherwise referred to as functionalist thesis. It argues that development problem in terms of poverty is primarily attributable to internal forces of the given space economy. It is a theory of social equilibrium and functional compatibility with evolutionary transformation of the economy from traditional to modern stage (Rostows, 1962). The theory maintained that each successive stage in the development process is not only different from the preceeding stage, but is also superior to it. Development in this case, is a cumulative improvement process.

On the production side of the economy, the theory considered decisions that involve input-output variables based on certain assumptions such as: limited factor resources (image of limited goods), rational behaviours on the part of producer and consumer and efficient allocation of resources by market forces. In order to effect rapid change in the economic system, external intervention might be required. Part of the external forces to induce the necessary change in the context of rural or national development

include credit support package (Adeniyi, 1991) in the form of local and international aids.

2.2.1.2 Structural Dependency Theory

This is a theory of social relation. It emphasised structural factors that are basically connected with balance of power between and within nations in the allocation of resources and securing of access to same. The theory contend that serious mal-distribution and inequality that exist in an economy with attendant conflicts account for the under development issue.

The structuralists also argue that external factors (more than any factor) in the form of resource expropriation, unequal terms of trade, spatial imbalance in the supply of infrastructure and many other structural distortions greatly affect the condition of the economy.

Viewed in the context of rural development, it is the unequal socio-economic relations between the rural and urban sectors in favour of the latter that undermines the development of the former sector.

Viewing spatial development realistically, these theories are not mutually exclusive, they rather reinforce one another to produce the state of development of the economic space in question.

2.2.2 The Concept of Rural Development

Like its parent notion - national development - the concept of rural development as an approach to a true national development is a broad, multi-sectoral and multi-dimensional process. Thus, the concept has been variously

described to reflect the vast and complex activities that it entails.

According to Bryant, (1986), rural development is a process of generating the socio-economic growth of rural sector; and the integration of its marginalised people in the national scheme through empowering process; thus improving their welfare and enhancing their dignity as citizens. Rural development in this case is seen as the democratisation of the political and socio-economic lifes of the rural people.

To Lele (1975), rural development is a planning principle that aims at improving the living standards of the low-income rural masses and making the process self-sustaining. For the programme to be judged successful in this context, it must not only be self-sustaining but must also give room for broad participation (accessibility).

From the legal and political perspectives therefore, rural development is a strategy based on the philosophy of social justice and the democratic idea of popular participation. From spatial context, it is a good strategy for effecting national integration as the 'backward' areas are brought into the orbit of national development. Precisely, rural development strategy may be described as 'development from below' or 'bottom - up' approach or 'public participation' approach to national development.

2.2.3 Nature of Rural Areas

Rural spatial structure is made up of its people, resources and technology which in development planning perspective

constitute a system of complex variables.

Both its people and the material resources are in different stages of development ranging from outright neglect, under capacity utilization to abuse in forms of deprivation and expropriation. There is also the problem of poverty, ignorance, illiteracy, low productivity, low income, disease, starvation and under-employment.

The deplorable condition of the rural sector, therefore calls for management control in the form of plans and programmes to achieve defined national goal. The various resources require appropriate mobilisation, combination and allocation for optimum production and satisfactory level of welfare to the people.

Thus, to properly understand and grip the development problem of the rural sector in terms of production, we can go via systems approach by building a production model.

2.2.4 Rural Production Model

Rural production function usually shows input-output relationship that is mathematically expressed as:

$$O = f(K, l, Q, T, P)$$ where

O = output

K = land

l = labour

Q = capital

T = technology

P = price/demand

(Lloyd and Dicken, 1972, Akpan, 1986 etc).

The model has been further modified to include other non-economic variables such as health, education, extension services, power structure, beliefs, settlement pattern etc. (D'silva and Raza 1980, Bryant, 1986 etc). A general model therefore, shows rural production (development) as a function of mutual interdependence of complex micro and macro socio-economic, political, cultural and spatial variables, internal and external to the space economy.

2.2.5 Nigeria's Rural Condition

The Nigerian present rural situation is a product of historical development process. The pre-independence and first decade of post-independence development efforts reflected a situation of cumulative policy neglect for the rural area. The sectoral economic plans adopted, disproportionately focused on economic growth per-se with little or no deliberate programme of rural development on the national agenda (First and Second National Development Plans, 1962/68 and 1970/74).

Programmes of development during the time were such that they extracted rural surplus and taxes to develop the few urban (including metropolitan centres in Europe) centres. The resultant dichotomised socio-spatial economy gave rise to mass rural poverty and thus heightened the pace of rural-urban migration, particularly from the 1970s to date (DFRRI, 1991).

Real agricultural output and per capita production declined, while the country became net importer of food and raw materials that could otherwise be sourced locally. The dependency situation reached an unprecedented level in the early

1980s as a result of high liquidity generated by Petro-Naira (Mabogunje, 1986).

The present mass consumption, materialist pursuit and elitist/white elephant programmes of our national government further emphasize the influence of modernisation and structural-dependency theses that favour the urban sector and foreign metropolis. The expansion in the so called modern urban sector (mainly through industrialisation) has not 'trickled down' to the rural space and its poverty-stricken dwellers. Market forces in the words of Myrdal (1957 and 1971) exacerbate inequalities between regions. Also, the concepts of 'growth centre' and 'growth pole', implied in modernisation/dependency theories, have a dis-proportionate backwash effects to spread effects on our rural areas.

2.2.6 Resource Allocation Mechanism

The resource allocation strategy being devised by a development agency or government is important to the measurement of success or otherwise of a rural development project. Does the system allow for broad or limited access to input resources by the project users? In the rural financial market, the issue of which finance agency and allocative mechanism that best serves the interest and needs of rural producers (dwellers) and the goal of rural development remains contestable. There are issues of effectiveness, efficiency, appropriateness and sustainability around informal and formal finance agencies in the financial market. While accepting the inadequacy of the former

as a financial gateway for accelerating grassroot development, the mode and performance of the latter as alternative approach has continued to be a matter of concern to both planners and policy makers. This is thoroughly examined under section 2.6 and 2.7 of this chapter.

2.3 THE STRUCTURE OF RURAL FINANCIAL MARKET

Rural financial market forms a system with complex and dynamic variables that cover transactions such as savings, credit and insurance services. These transactions have influence on household activities like production, income and consumption.

Rural financial transaction occurs in a market for funds at specific price determined by forces of demand and supply. The price paid is in form of deposit rate for savers and lending rate for borrowers.

In the informal market with simple savings - investment model, direct transactions prevail between the borrowers, savers and lenders. The market in this case smoothly transfers funds from savers to borrowers, thus producing uni-market. In the formal market, however, where intermediaries like banks exist, two apparent markets can be identified namely: (i) deposits market and (ii) credit (loan) market. The credit market has its loan supply curve based on bank source, while the demand curve aggregates on individual borrowers (Virmani, 1982, Cammann, 1990).

The market operates on principle of trust and commitment on the part of borrowers to repay a loan amount plus interest, and the bank to pay a deposit amount plus interest. Uncertainty in terms of risk and returns plays a fundamental role in the market.

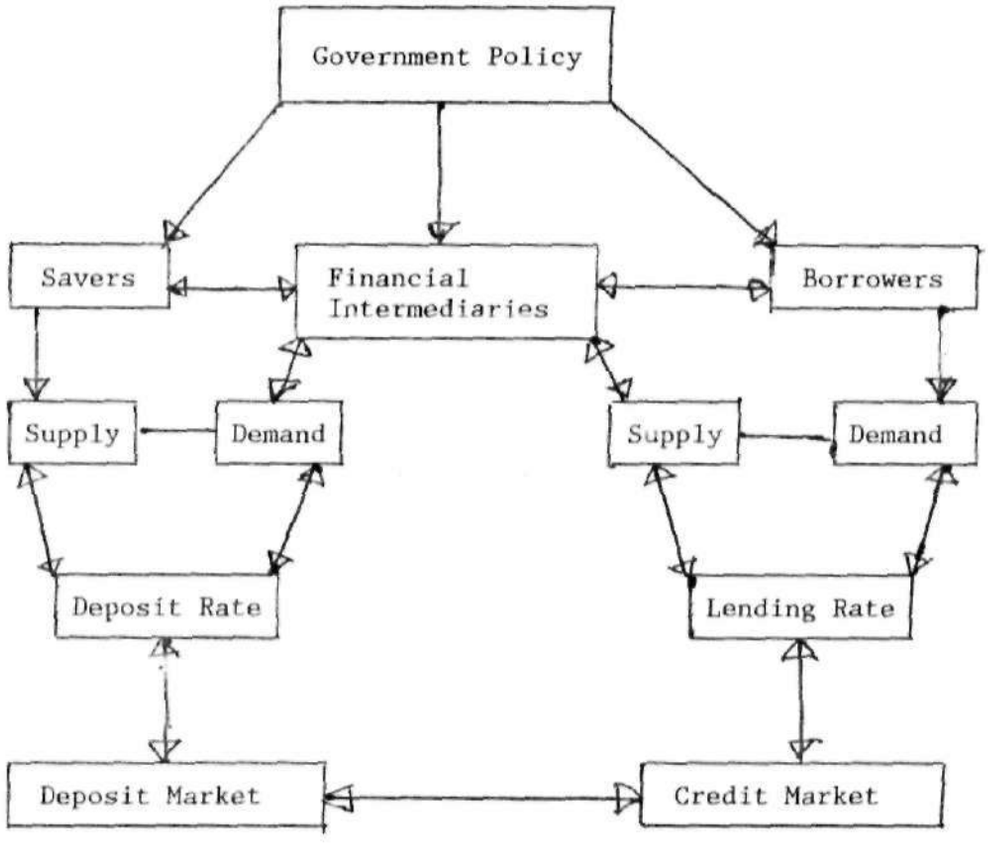


Fig.1 RURAL FINANCE SYSTEM

Source: Cammann, 1990

2.4 THE ROLE OF CREDIT IN RURAL DEVELOPMENT

The World Development Report on poverty (WDR) emphasises the crucial role of economic growth (i.e. increased productivity) in poverty reduction. Amongst others, the Report argues for appropriate, non-distortionary macro-economic and fiscal policies

that support rural infrastructural and agricultural development. It also calls for complementary directed programmes that include financial services (especially credit support) as mechanism to improve poor people's ability to participate in economic growth and improve their material lots (World Bank, 1990).

The potentials for increasing rural productivity such as improved methods of farming, farm management practices, training, infrastructures etc can be fully realised only if there are adequate support services like credit and extension. Thus, the new strategy of rural development in the form of greater productivity and improved rural incomes is partly a function of technology which in turn is a function of financial capital base (Teriba, 1972).

Production credit can contribute not only to income generation, but also to sectoral income raising among the rural poor by stimulating higher productivity. Credit in this case is a partial tool for poverty alleviation.

It must however, be emphasised that credit perse can not address all issues of low productivity nor serve as panacea for poverty reduction. Financial services programme that is not skillfully designed, implemented and managed can aggravate the undesirable rural condition. The lagging performance experienced with certain credit delivery models underscore this point.

Noting the discriminatory nature of credit policy, Berger argued, that the'ultra poor' are in most cases unlikely to be good candidate for loans in the formal sector market (Berger, 1989, Lipton, 1989).

Rural development, as planners emphasised, requires wide spread access to resources to ensure that benefits of change are spread

broadly among target population (Lele, Opcit). Good financial performance by rural financial institution that permits internally generated growth on a broadly based credit access is therefore essential. This condition, however can only be achieved when loan defaults can be minimised (Pischke, 1981[a], p.3).

2.5 BASIS FOR GOVERNMENT INTERVENTION IN RURAL CREDIT MARKET

Government credit policies in low-income countries (LICs) designed to promote rural development are usually based on a number of assumptions about the space-economy. These according to Pischke (1976[a]), Virmani (1982), Adams and Graham (1984) include:

(a) Market failure or imperfections in other markets in which the rural economy or the priority subsectors of it is inadequately served with credit.

(b) Market failure or imperfections in the credit market and the related question of distribution of gains between borrowers and lenders. Rural formal credit institutions are said to be rational, workably competitive and loss avoiding. Hence, majority of rural families or a target group therein do not enjoy direct access to services offered by the agencies.

(c) The broader socio-economic issue of equity and divergence of social from private optimality in finance allocation. It is argued that credit supplied for agricultural and other relevant rural production would be advantageous to the national economy based on the following related assumptions:

  i) that due to glaring poverty that prevails at rural areas, (particularly among the farmers), rural producers could not pay market interest rates charged on loans.

  ii) that supply-leading finance can stimulate agricultural and rural development; and this contribute to target group productivity; and

  iii) that government should promote or should be seen as promoting rural development through concessionary loans, subsidies and other regulatory financial policies.

2.6 PERFORMANCE PARADIGMS OF (RURAL) FORMAL FINANCE INSTITUTIONS

2.6.1 The Specialised Credit Institution

Most of the credit agencies in this category are usually public sector based. They exist under different names such as Agricultural and Cooperative Bank, Land Development Bank, etc.

This traditional approach to rural credit policy seems to be the most popular in a number of low-income countries as it serves as channel for funds supplied by bilateral and multi-lateral finance agencies. It is also a popular scheme because it gives way for broad credit access and patronage; and thus more appealing to government that wants to be seen as having identified itself with the plight of rural people.

The approach views the financial structure of rural economy as characterised by feudal market, with expliotative landlord-tenant relationship. In this case, producer's surplus is marginal having been eroded by usurious interest rate. Policy measure to the problem, therefore is to intermediate concessionary loans to the target group.

In addition, the agricultural credit complex scheme under this approach defined rural development problem in terms of the poverty of rural producers and their lack of access to credit for specified purposes. Again, specified credit becomes a medium through which political initiative can be exercised, and supply - leading finance responds to the perceived poverty of rural producers (Pischke, 1981[a], and Schaefer-Kehnert, 1982).

The finance agencies established for this purpose are made to have limited loan portfolios consisting mainly of

agricultural loans and other marginal services. They are expected to induce agricultural innovation and promote certain social aspects of rural development policy.

2.6.1.1 Problems of Specialised Finance Agencies

Specialised finance institutions have been noted to have chequered records of financial performance. Their efforts at achieving institutional as well as financial viability and to expand credit access to rural clientele often meet with more complications than those experienced by diversified lenders (Ibid).

The agencies face the following problems:

(a) High rate of loan defaults and delinquencies. The agencies usually find it difficult to achieve loan recovery levels sufficient to break-even before the allocation of their administrative costs (Donald, 1976). In addition, their interest rates usually are negatively priced.

(b) In cases where they breakeven, they still often have substantial part of their loan assets unrecoverable (Miracle, 1973).

(c) The agencies reliance on treasury/budgetary allocation and external loans limit their access to local market funds and information.

(d) Lack of such crucial access leads to alienation of the institutions arising from their inability to act as rural financial intermediaries between savers and borrowers.

(e) Rural areas and its people are not seen by these agencies as market to be developed, but rather as poor, exploited and economically incompetent sector and group to be assisted (Kratoska, 1975).

(f) On the other hand, their rural clients do not see this form of finance agency as theirs, but rather as benevolent intrusions to be exploited (Pischke, Opcit).

2.6.1.2 Institutional Viability of Specialised Credit Agency

The survival of the specialised finance agency is certain to the extent that the managements can persuade their sponsor governments and donors to regularly dish out adequate funds (Ibid). However, due to the following salient points, the continued survival of the approach is said to be less certain:

i) The present trend of rural development efforts in many low-income countries that is going far beyond sheer intervention in rural finance. This has meant total transformation of the rural space-economy including the public sector finance agency into a set of accounts for the rural developers and various planning authorities (Schaefer and Pischke, 1982).

ii) Increasing rural development break through that are more dependant on demand-leading finance and less dependent on supply-leading model. This accordingly, is eroding the concern raised by the public sectors finance paradigm.

iii) The current level of rural investments and financial requirements in most poor-countries far outstriped the level that can solely and reasonably be met through specialised finance intermediary.

iv) The dwindling national economies coupled with the mounting foreign debts of the low-income countries have necessitated more urgent need for a self-sustaining financial scheme.

v) The political economy of specialised credit institution with respect to rural (agricultural) development in developing countries shows high content of external influence called 'support' or 'aid' and hence great leakage effect.

vi) The management problem and frequent political intervention in the affairs of such agencies leave much to be desired in their actual operational performance.

Experiences with this approach across many developing countries have demonstrated lagging and foundering performances. It has been observed that after over a decade of subsidised credit schemes in Africa, Latin American and Asia, only 5, 7 and 15 percents of small farm holders have actually had access to specialised credit (Braverman and Guasch, 1984, p.4, World Bank, 1989, pp. 88-89).

In the words of Ribe and Holt (1990), subsidised credit has largely become a mere income transfer to loan recipients who in most cases are the non-poor individuals. Their inability to either reach the actual rural poor or stimulate higher productivity has persisted despite the increased financial resource at their disposal.

Divorced of the essential market information and constraints set by government-donors, credit allocation policy under the approach becomes governed by political and extra-market criteria.

2.6.2 Commercial Banks: Rural Branch Outfits

The conventional banks have been adapted in many low-income countries (including Nigeria) for purpose of financing agricultural and other rural development activities.

Their relative advantages over other sources of credit for development have been enumerated as follows:

i) diversities of operation that is, their business operations are more diversified covering services like savings, money transfer, corporate finance, foreign exchange transactions, credit facilities etc.

ii) competitiveness in terms of operating units and their service products.

iii) Internal and international connection, that is, strong service linkages.

iv) tremendious lending capability and portfolios, arising from their power to mobilise savings and creation of credit and

v) flexibility in terms of response to business and economic cycles (Friedman, 1977, Abebe, 1989 etc).

Because of their tremendious resource and multi-purpose nature, commercial banks (through branch outfits) are possibly in better position to respond to the diversed needs of rural people in terms of savings, corporate/equipment leasing and credit lines (Pischke, 1981[b]).

It is assumed that most of the lapses identified with the specialised agency can be eliminated via commercial banking operation where government controls is minimal. The distortionary damages often inflicted on the rural financial market through subsidisation would also be removed where banks operate essentially on market principle. The argument is, where governments de-regulate, the market forces will optimally allocate funds among different uses and categories of borrower (Virman, 1982).

2.6.2.1 Undermining Rationale for Cheap Credit

Part of the rationale for providing subsidised credit is based on the notion of rural stark poverty as perceived by policy makers. In this case small-farm holders and micro-entrepreneur alike are deemed to be in status too good to cope with market interest rates. Thus, credit must be provided at a 'reasonable' interest rates for purposes that are socially and economically imperative (Donald, Opcit).

However, several studies have shown that the rural poor producers do pay and are still willing to pay market interest rates where applicable. For example, a USAID (1983) Study of rural financial market in Bangladesh shows that with annual lending rates of between 12 and 36 percents, small-scale demand for loans remained relatively inelastic up to a rate of 30 percent. Similar condition is also presented in Nigeria where it has been observed that rural producers still routinely borrow from the informal market where annual interest rates have traditionally ranged from zero to 200 percent (Oyatoye, 1983). This shows an exceedingly higher rates than those being charged in the formal market.

2.6.2.2 Interest Rate Structure and Bank Credit Policy

Rural economy as observed, fluctuates more widely than any forms of financial activity. The cash-generating portion of agricultural output is subject to greater uncertainty as a residual after relatively constant subsistence requirements are met (Allan, 1967). Variability in producer's income, therefore tends to reduce banks evaluation of the debt capacity of the target group (Pischke, 1976[b]). Uncertainty surrounding the amount of a borrower's future cash flow available to service debt is seen by a bank as a credit risk.

A key willingness parameter to bear this risk is the interest rate structure that is positively priced and other income expected to be derived from the loan - supported transaction. Loans involving tremendious degrees of uncertainty are less attractive

to banks, most especially when interest rates are kept low. Banks are not keen to expand their markets into projects which command high costs, including the costs of greater uncertainty (Shaw, 1973) that is not interest rate insured.

However, institutional devices according to Pischke (1981[a] p.9, Opcit) prevent formal banks from charging rates arbitrarily or selectively to offset the costs of tolerating the more risky borrowers like farmers. Such factors include usury laws, danger of political exposure, the size of the increases needed, likely loses in economies of standardised lending terms, and the cost of getting the information and expertise required to limit the risks of marginal business. All things being equal, low interest rates in all aspect encourages banks to perpetuate the status quo of stringent credit rationing in accordance with commercial principle of credit worthiness.

2.6.2.3 Banks Deposits and Loan Policy

The institutional structure of commercial banks ensures the immense liquidity status they often enjoy. They create most of their loanable funds subject to legal reserve requirements, their daily cash commitment and internal policies of each bank. The funds or savings are raised in the forms of demand and time deposits.

One measurement of financial intermediary's performance takes into account the degree to which the agency is able to mobilise its (loanable) funds through deposits - "inside money" (Adams, 1988). The size of the deposits mobilised to some extent influences a bank credit policy.

2.6.2.4 Bank Earning Assets and Credit Policy

A bank's earning assets are made up of cash at hand, loans and advances, investment in securities etc. Banks policy with regard to these assets substantially influence the amount of funds set aside for loans. More importantly, the allocation of funds between loans and investment assets shows the relative preference given by a bank in its loan portfolio programme (Oyatoye, Opcit).

A classical theory of commercial banking operation states that the banking system should regulate its earning assets to the needs of the business world or cycle. This is so because banking activity in general forms an adjunct service to production process. Observations have shown that many occasions exist when banks investment in securities is skewed against their loan business. Such circumstance enables banks to be flexible and adjust more readily to the changing business cycle. The securities can be easily liquidated to provide funds for unpredictable rise in loan demands.

Thus, a bank can operate a low or high loan to deposits ratio depending on its preferential allocation of funds between security investments and loan business. The conservative banks are said to maintain a low ratio of loan to deposit in their sectoral loan portfolios, while the reverse holds true for the progressive agencies (Ibid).

2.6.2.5 Commercial Banks and Rural Development

(a) Credit allocation by commercial banks are strictly governed by commercial principle which in most cases leads to stringent and intensive rationing. This credit policy often limits the access of the rural masses to financial services provided by banks. Thus, from access perspective (a major goal of rural development), we can further hypothesize that banks loan policy is anti rural development.

(b) The loath and deviant conducts of commercial banks to rural development are further demonstrated through:

i) paucity of their rural branches (except where forced).

ii) stringent collateral requirements beyond the capacity of most of their rural clientele.

iii) minimum rural transaction sizes and minimum deposit balance requirements that are relatively high to the size of business and income normal for rural areas.

iv) high transaction costs imposed on clients through repeated calls, untimely approval and disbursement of loans.

v) inflexible repayment terms and other dismal lending procedures.

As observed, the economics of modern banking operation makes it rather difficult for banks to transact business with the rural poor clientele individually. Banks tremendious overhead costs, reflecting the complexity of their operations and their fiduciary responsibilities, do not allow for their efficient and effective operation at the rural level (Donald, 1976, Pischke, 1981 and Ijere, 1991).

(c) Banks desire to balance risk and returns is reflected in their preference for short-term loan portfolio rather than medium to long-terms. This preferential tendency thus, technically excludes or incapacitates agricultural sector's access in their total loan portfolio.

2.6.3 The Innovative (Unit) Rural Banks

The institutional rigidity approach of the conventional banks and the rather dismal performance of the public sectors credit agencies in respect of rural development, called for alternative. The new financial scheme called 'rural bank' or 'rural development bank' is designed to meet economic growth objective and equity requirement in terms of capital ownership and user-participation.

The traditional banks' obsession with pure profit calculation and the need to minimise loss have either made them shy at rural market or led to insistence on tangible assets - based collaterals. This to a large extent poses problem of equity in liquidity programme for rural development.

Rural banks by institutional structure seeks to redress the problems raised above and improve on the level of financial and social services at the grass-root.

2.6.3.1 Operational Structure of Rural Bank

Many rural banks have gone through organisational innovation, thus presenting the following operational features:

i) Unit operation - most of the agencies are de-branched and are truely grass-rooted.

ii) Client targeting - in most cases the rural clients are the target rather than sectors in the agency loan policy.

iii) Narrow business scope that primarily involves savings, simple credit provision and social programmes.

iv) Local shares are raised from the local (rural) capital market. Level of public/community participation in this case is relatively high.

v) Management control, membership of the board of management usually include people of proven character chosen from the community.

In terms of credit management, the agencies do not impose nor incur high costs of transaction, they usually set simple credit terms and collaterals without compromising their financial viability. They have better access to information about their clients and the market through linkage schemes with local institutions.

On Sherry Arnstein's (1969) ladder of public participation, Unit bank agency has progressed from the therapeutic and manipulatory (that are illusory) stage to that of partnership. This superior and innovative arrangement coupled with product and services delivery that respond to the needs of rural producers guarantee the continued survival of the novel scheme.

A number of schemes under this latest approach have been noted to have yielded modest success both in terms of commercial and social banking objectives (Bedard, 1988, Ribe, 1990, and Carmmann, 1990). This is particularly true of some Asian countries like Bangladesh, Indonesia, Philippines and India.

2.6.3.2 Sustainability Issue of Rural Bank

Small banks on unit operation at rural space with limited scope and capacity to mobilise funds as well as transact other business are vulnerably proned to failures.

The programme often runs into liquidity crunch either because of the overestimation of 'untapped' or 'idle' resource at the rural base or macro economic crises in the national economy.

In addition, policy plan to synchronise the establishment of such banks is usually not properly articulated to optimize and rationalise their operations as well as the resources of the numerous rural communities. Thus, in practical term, the ubiquitous and replicated banks compete for limited resource and market that often yield less returns to costs and scale.

Faced with the above problem and hence the incapacity to refinance their rural clientele on regular basis, most of the agencies have to rely on government grants. Some have also called for concessionary loanable funds. Example include Bancodel Pacifico in Guayaquil - Ecuador, Bank Rakyat (Kupedes) of Indonesia, Rural banks in Ghana and the newly established community banks in Nigeria (Ribe and Holt, 1990, Torku, 1991).

Thus, like specialised agricultural credit institution, low interest rates, inflation, negative margins and inadequate savings experienced by unit bank agencies posed the difficult problem of sustaining the purchasing power of their loan portfolios without resorting to government/external

aids. The survival of the scheme as noted by Babangida (1990) "is intimately connected with the development of the community" it serves, a process that is difficult for such finance agency to either control or manupulate.

2.7 RATIONED CREDIT POLICY

Financial institutions on their own are said to be incapable of creating investment opportunities either in agriculture, manufacturing or any named sector (Rouse and Pischke, 1983). Funds (under market principle) should gravitate towards uses and sectors that offer highest returns, be it productive, provident or purely consumption activity. However, planners and policy makers eager to design and implement utopian scheme often subvert this process through rationed or programmed credit policy.

2.7.1 Credit Control Instruments

(a) This includes the following:

Portfolio quota involving minima or maxima credit specification and target to preferred sectors or subsectors. It is done with the view to control inflation and stimulate higher productivity in the given space-economy.

(b) Interest rate ceiling. A restrictive policy tool to create cheap funds and stimulate investment in preferred sectors. In this case, legal or penal limits on interest rates chargeable by finance intermediaries are set by monetary authorities. The tool is also used to prevent exploitation, increase the proportion of loans available on medium - long term basis to agriculture and induce optimum

industrial capacity utilization in the economy.

(c) Preferential rediscount rates. This is adopted for the transfer of project funds from government or donor agency through the central bank to the various lenders for on-lending. The usual policy commandement is that the project funds must be on concessional rates since they represent subsidised loans.

2.7.2 Modes of Rational Credit

Two broad methods have been identified viz:

2.7.2.1 Intensive Rationed Credit Approach

This is common with the gaint agricultural projects supported by bilateral agencies. It involves an elaborate access mechanism with the use of complex farm budget analysis by lenders (Adams and Neham 1979). Usually a relatively small target group is identified and members are made to benefit from credits that are relatively large in relation to their scope of operation. It is a supply-leading finance to the core.

The rationale for intensive rationed credit is based on the assumption that lack of finance represents a considerable and binding constraint for increased productivity and income. Credit, therefore is seen by this policy as not only determinant but equally instrumental to other essential elements required to realise a defined production objective.

Beneficiaries of this form of loans are not expected to repay their loans from the pre-loan cash flow but rather from the incremental cash flow generated by the loan-supported investment (Pischke, 1981[a], Opcit).

This mode of loan policy, self destroy most rapidly due to the following reasons:

i) the size of loan granted to beneficiaries is often relatively large to their financial status.

ii) this imposes large debt service burden on the borrower; a situation that may promote loan deliquency most especially during adverse periods.

iii) borrowers often treat loan contract transgression with levity since such loans are usually provided by government or its agency with'unlimited' resources.

iv) relatively little of the clientele's personal funds are put into such loan-supported scheme, thus weakening their commitment to the successful performance of such programme (Ibid).

2.7.2.2 Extensive Rationed Credit Approach

This is demand-leading financial strategy with policy consideration centred on broad accessibility to credit. The rationing mechanism is usually simplified, thus credit is rationed extensively to large number of target group's members in accordance with needs and capacity to pay or repay. For instance, all members with good records in a local cooperative society may be given easy access to credits in cash, seeds and fertilizers. Broad access in this context implies that relatively small-size loans are made within the reach of many borrowers.

It has been observed that this form of credit line is appropriate for the distribution and acquisition of seasonal inputs to inspire broad appeal, increase production and win political support from the masses (Ibid). Extensive rationed credit is usually funded by state, regional or national governments without serious recourse to external aid, save for

a few donor-supported area development projects. One example of such is the World Bank assisted Agricultural Development Programmes (ADPs) in Nigeria.

The problems with this approach include:

i) repayment obligations that may assume a serious proportions to the subsistence rural producers.

ii) incomplete adoption of innovation package due to small size of the loan compared to the financial requirements of improved input package.

iii) some borrowers may not be in position financially strong enough to use their loans wisely or even have the intension to use the loan at all.

Which ever credit instrument is adopted, distortions are usually introduced into the financial sector of the given space-economy. This situation often inhibits the optimal, efficient and effective performance of formal finance institution in their finance intermediation for rural development.

On the other hand, rationed credit in the context of rural experiences across low-income countries, has been aptly described as a planner's (policy maker's) illusion (Rouse and Pischke Opcit) Such loan programme becomes mere transfered subsidy to borrowers in the face of negative nominal interest rates; and the beneficiaries are not the true wretched rural producers but rather the well offs in the space-economy.

CHAPTER THREE

THE STUDY AREA AND BASIC NEEDS INVENTORY

3.1 INTRODUCTION

The development of any given space-economy as earlier noted in chapter two depends on complex interaction of variables that are physical, socio-economic, political and cultural in nature. These essential factors zeroed to specific resources include land, soils, minerals and water. Others are bio-climatic resources such as temperature, rainfall and vegetation. There are also the human resources aspect like population size and structure; their activities such as agriculture, industries and a host of institutional organisations.

From rural planning perspective and in the context of this work, this chapter presents a mini resource inventory of Irepodun - Oyun Local Government Areas.

3.2 LOCATION AND SIZE

The contiguous Irepodun - Oyun LGAs of Kwara State is found between latitudes 8°N and 8° 20'N; and longitudes 4° 30'E and 5° 32'E. The total land area is put at 3,092 sq kilometre (Kwara Government, 1976), while the area is bounded to the south by Ondo State; to the West by Osun and Oyo States; to the East by Kogi State and to the North by Asa and Ifelodun Local Government Areas of Kwara State (figs 3.1 and 3.2).

FIG. KWARA STATE SHOWING THE STUDY AREA



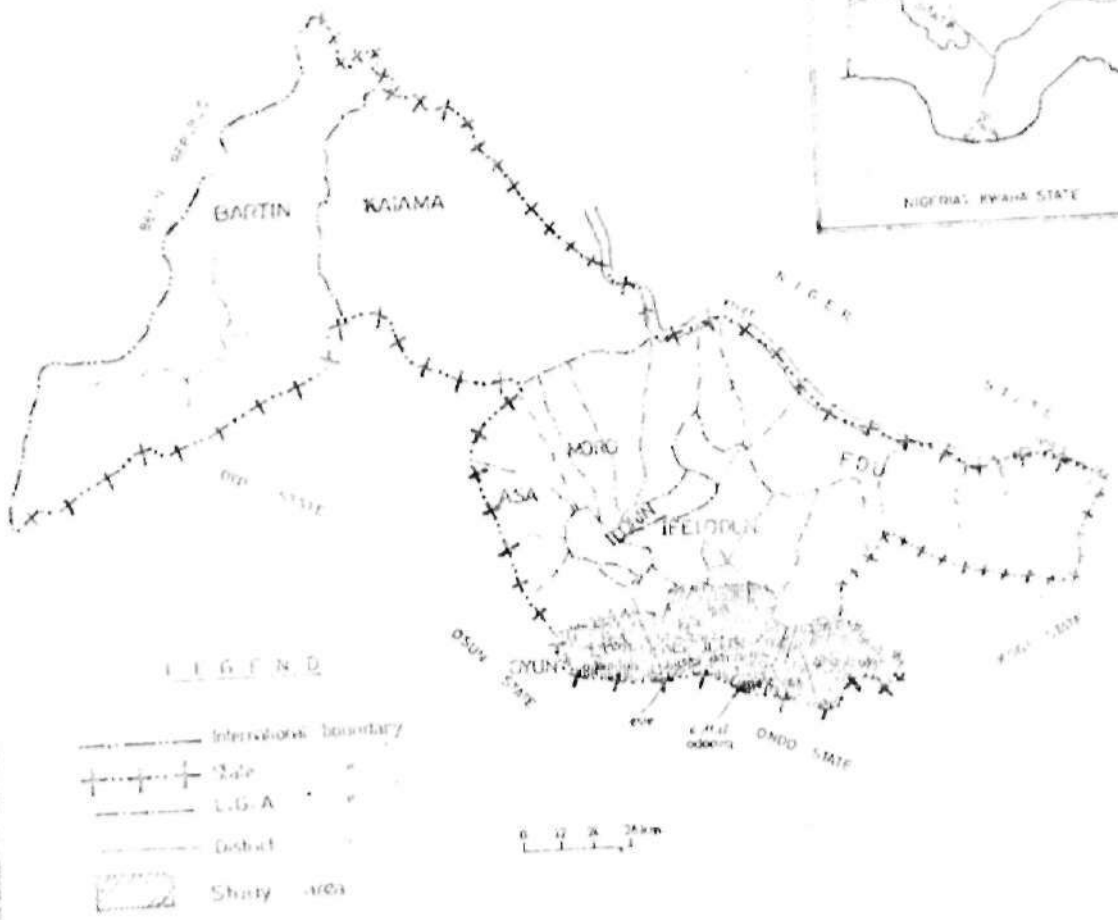
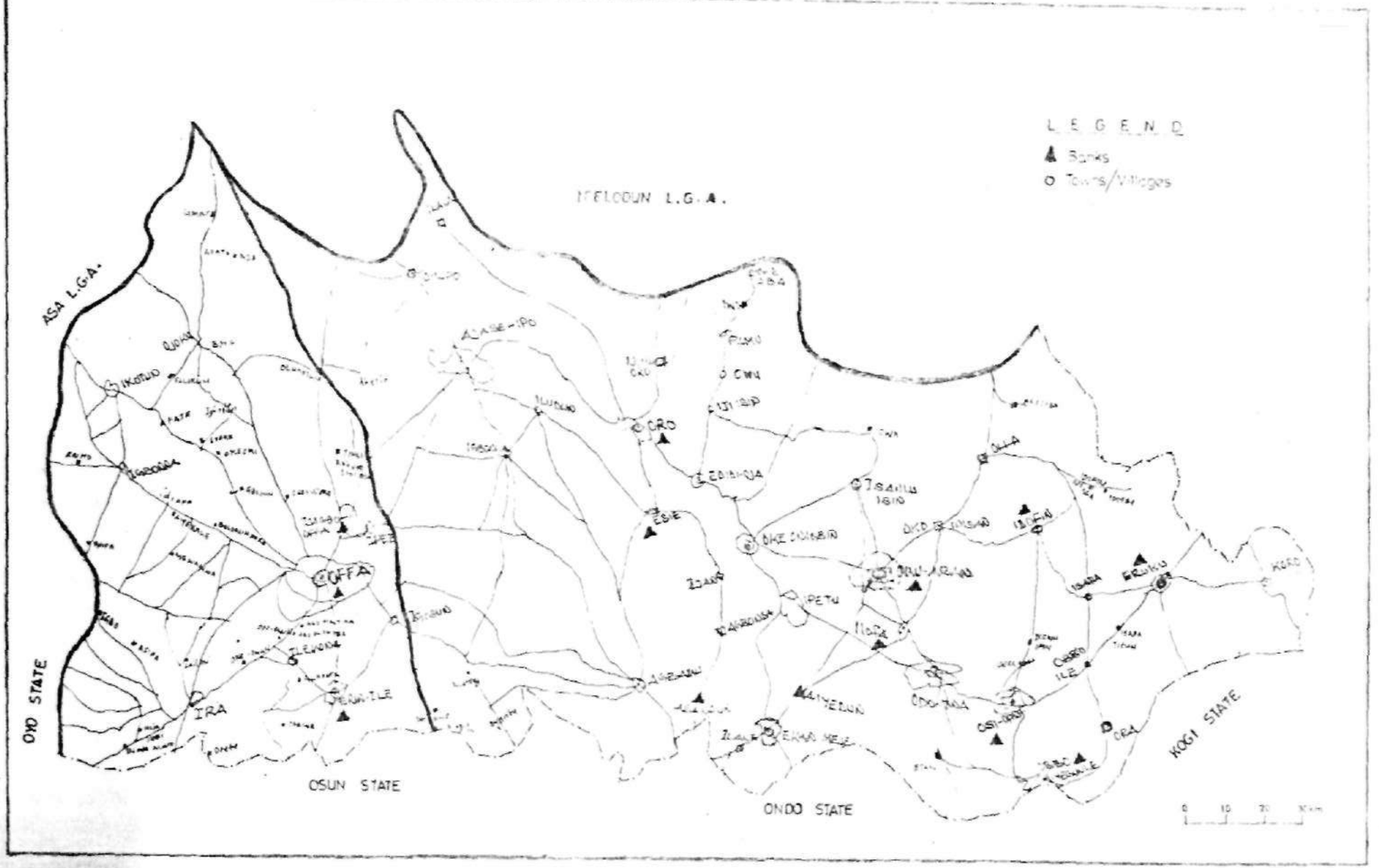


FIG.3.2 IREPODUN - OYUN L.G.As : BANKED COMMUNITIES



3.3 PHYSICAL AND BIO-CLIMATIC CONDITION

The entire area lies within the basement complex terrain with elevations ranging between 200 and 400 metres above sea level (a.s.l). There are pockets of hills and ridges across the area with the south-eastern segement appearing to be more rugged. The drainage consists of streams and small rivers that are seasonal and of little or no significant for large-scale irrigation farming.

The annual mean temperature is put at about 25°C, while rainfall figure is between 1000 and 1500 millimetre (Afolabi, 1977). Rainfall lasts for about seven months of the year starting effectively from April or May but occassional lateness do occur. Climatic drought in absolute term is uncommon to this area as it forms part of the humid tropical belt of the country.

Soils of the area are primarily red laterites with local alluvium around stream and river basins that gives rise to unique land usage. The area also falls within the guinea savanna belt with the southern fringes sharing part of the country's rain forest. A land use map of Kwara State broadly puts the various categories in the area as residential, industrial, farmlands, forestry and forest reserves and animal grazing. Local detailed soils and land surveys are still needed to determine the various land capabilities and suitabilities for purpose of effecting local plans.

3.4 POPULATION SIZE AND SETTLEMENTS

The area has a provisional population figure of 370,631 people as at 1991 (National Census, 1991) spread over fourteen districts, some towns and many rural communities. It is a relatively densely settled area of Kwara State with an average density of about 120 persons per sq. kilometre. The numerous settlements are nucleated and these include the fairly large towns such as Offa, Omuaran (with over 20,000 people); the medium towns like Oro, Ekan-meje, Erin-Ile, Osi etc (10,000-20,000) and numerous villages and hamelets. The total number of communities in the area is put at two hundred and thirty-one (DFRRI, 1989).

3.5 ECONOMIC ACTIVITIES

It is said that where 'enterprise leads, finance follows' (Robinson, 1952, p.86). This is a demand-leading finance theory that is relevant to this area.

3.5.1 Agriculture

Irepodun - Oyun area, like many other parts of Kwara State, is a predominant agricultural region with vast arable land under prime and unique usages. The subsistence and commercial food crops that are commonly grown include yams, cassava, maize, guinea-corn, rice, potatoes and vegetables. The tree crops are essentially Kolanuts, Cocoa and Oil palms; while the livestock includes cattle, sheep, goats, pigs and poultry farms.

Statistics on crop production are scanty and relatively difficult to obtain. However, a cursory observation of annual total production shows remarkable fluctuations with down-ward trend. The increasing food shortage in the area, arising from complex factors (labour shortage, diseases, agricultural technologies in use and socio-economic variables) gives a good index of the declining production in the area.

3.5.2 Industry

The industrial activities consist of modern plants and numerous small-scale and cottage industries. There are more than ten fairly big industries in the area, namely:

Okin Biscuits and Okin Foam Limited; Kwara Breweries Ltd; Amukude Technical Industries; Demosco Industries Limited; Kwara Paper Converter Ltd.; Olalomi Carpet Industry, Union and Oro Steel Industries etc. Each of these factories has a labour force ranging from 50 to 500. The small and medium scale industries include bakeries, cement blocks making, sawmills, food processing mills, soap making etc. The vast others are essentially handicrafts and cottage based industries.

3.5.3 Commerce

This includes trade, transport and other services being provided on extensive basis. The bulk of retail business in agricultural and manufactured goods are routinely done by the women, while the astute businessmen engage in both retail and wholesale ventures. The available micro-enterprises include

hotels and cafeteria, dressing shops and saloons, chemist-pharmaceutical and patent stores, fuel filling stations, automobile repairs, dental and medical clinics and a host of other ancillary services.

3.6 INFRASTRUCTURAL FACILITIES

The level of economic growth and development of a region is said to be partly a function of the facilities and services available over that space economy. In the absence of an effective demand and good infrastructure, credit as a tool of promoting growth and development will be relatively ineffective or become unaffordable facility.

3.6.1 Road Facilities

A good rural transportation network enhances the productive capacity and efficient flows of goods and services. In this area, about 1,026 kilometres of roads are being maintained by the three tiers of government in the country. The roads are shared as follows:

i) 121 kilometre of roads are maintained by the Federal Government.

ii) 284 kilometres are maintained by Kwara State Government.

iii) 546 kilometres are maintained by the Local Governments.

(Adebayo, 1991, p.74). The vast other feeder roads are being maintained by the various villages and hamlets. Most of the roads that lead to remote settlements are laterite surfaced and often in deplorable condition during the rainy

season. This situation constitutes serious constraint to efficient movement of goods and people and especially the delivery of farm produce from the numerous villages in the area.

3.6.2 Public Utilities

These include the following:

(a) Electricity Supply: Of the two hundred and thirty-one towns and villages in this area, only 45 communities have access to electricity. The others still depend entirely on solar and organic sources for lighting and energy requirement.

(b) Pipe Born Water Supply: About 34 communities enjoy this facility as at December 1991 (ibid). While the two hundred towns and villages rely on erratic sources like harvested rains, streams, wells and bore holes; all the communities in the area still content with inadequate water supply problem.

3.6.3 Educational Institutions

This area is an educationally advanced part of the state. There are over four hundred schools and colleges in the area. The inventory is as follows:

Table 3.1
Number of Primary, Secondary and Tertiary Schools in Irepodun - Oyun LGAs; December 1992

i)	Nursery and Primary School	205
ii)	Secondary School	97
iii)	Technical College	2
iv)	Adult Education Centre	96
v)	Home Economic Centre	33

vi)	School of Health Technology	1
vii)	College of Education	1
viii)	Polytechnic	1
	Total	436

Source: Adebayo, 1991 (Revised)

3.6.4 Health Institutions

The area presently can boast of six general hospitals, fifty-three basic health centres and fifty-four health posts. In addition, there are fifty-four private hospitals and clinics spread across the nook and cranny of the area (Ibid).

3.6.5 Tele-communication and Security Services

There are four towns with telephone facilities; these are Offa, Erin-Ile, Oro and Omuaran. There are twenty-two postal outfits made up of seven post offices and fifteen postal agencies. A total of thirty-eight police stations and posts made up of fourteen and twenty-four respectively are found in the area. The banks are thus guaranteed adequate securities of their capital assets and funds.

3.7 FINANCIAL INSTITUTIONS

The level of economic growth and development is also partly dependent on the degree of financial intermediations prevailing in a given space-economy. The intermediations in this case relate to the absolute number of finance agencies, their nature, savings and portfolio policies etc.

3.7.1 Bank Facilities

There are twenty-two banking outfits in the area. These are made up of fourteen commercial bank branches and eight

quasi state banks. The banks fairly represent outfits of the thirteen commmorcial and unit banks operating in the state. Given a population of 370,631 people in the area and a total of twenty-two operating banks, the service density ratio is about a bank branch per 16,847 persons and a branch spatial coverage of 140.6 km^2. It must be noted that the banks are not evenly sited as shown by table 3.2. The spatial distribution reflects the level of socio-economic development in terms of infrastructures, industries and general commerce within each district area.

The Offa - Erin-Ile industrial axis for instance attracts nine (40.9 percent) out of the twenty-two operating banks, while the other vast zones are left to share the rest thirteen branches.

3.7.2 Co-operative Societies

Available data has not been updated since 1990 as at which there were one hundred and seventy-five registered co-operative societies in the area. The agency includes (i) Credit and Marketing Society, (ii) Consumer Co-operative, (iii) Farmers Co-operative, (iv) Thrift and Credit Association and (v) Multipurpose Co-operative. The number of the agency both registered and unregistered is on the increase in view of the prevailing economic hardship in the country.

This alternative finance scheme will continue to enjoy increased patronage due to its proximity, flexibility of operation, immediacy of loan disbursement and convenience debt rescheduling.

3.7.3 Insurance Services

The major companies (subsidiaries) are Gateway and Pacific Insurance with their offices at Offa and Omuaran. However, a number of their commissioned agents often have extensive service coverage of the study area. Their products mainly covered life, accident (vehicles and industrial) and education policies. Policy coverage has not been extended to the subsistence agricultural and commercial sectors in the area. Many farmers in this area often lose substantial portion of their farm produce due to high incidence of theft, occasional drought and perennial annual bush burning. In view of the great adversities suffer by the rural producers, the National Agricultural Insurance Scheme deserves urgent implementation at grass-root level.

3.7.4 Community Development Associations

As at 1991, the number of registered community development associations (CDA) and unions in the area was put at one hundred and eighty-three (DFRRI, 1991). This makes about 24 percent of the total number in the state. Many unregistered unions and self-help groups (SHGs) exist in all the communities in the area. The CDAs have been very effective in the mobilisation of resources mainly funds and labour for speedy execution of various community development projects like electricity, feeder roads, schools, civic centres etc in the area.

Given the above state of the earth in the study area, the performance of rural bank branches can be gauged against government and planners expectation.

Table 3.2

Names of Banks And Distribution By District As At December 1992

Ser No.	Bank	District	No. Per District
	Irepodun L.G.A.		
1	Societe Generale Bank PLC, Ayedun	Ekan-Meje	1
2	National Bank of Nig. PLC, Osi	Osi	1
3	United Bank For Africa PLC, Obbo	Obbo/Eruku	2
4	Allied Bank PLC, Eruku	Obbo/Eruku	
5	Societe Generale Bank PLC, Idofin	Idofin	1
6	Iloffa Community Bank Ltd., Iloffa	Iloffa/Odoowa	1
7	National Bank of Nig PLC, Omuaran	Omuaran/Arandun	4
8	Peoples Bank of Nig., Omuaran Branch	"	
9	Peoples Bank of Nig., Arandun Branch	"	
10	Omuaran Community Bank Ltd., Omuaran	"	
11	Union Bank PLC, Oro	Oro	2
12	Oro Community Bank Ltd., Oro	Oro	
13	United Bank For Africa PLC, Esie	Esie/Ijan	1
	Oyun L.G.A.		
14	Union Bank PLC, Offa	Offa	6
15	Bank of the North PLC, Offa	Offa	
16	Commerce Bank PLC, Offa	Offa	
17	Fed. Mortgage Bank, Offa Branch	Offa	
18	Peoples Bank of Nig. Offa	Offa	
19	Offa Community Bank Ltd., Offa	Offa	
20	Afribank PLC, Erin-Ile	Odoogun	3
21	Erin-Ile Comm. Bank, Erin-Ile	Odoogun	
22	Allied Bank PLC, Ijagbo	Odoogun	
	Total		22

Source: Field Survey, 1992

CHAPTER FOUR

TREND IN RURAL BANKING PROGRAMME IN NIGERIA

4.1 INTRODUCTION

Policy strategies to rural banking vary across low-income countries. However, the goal and objectives of such programme are essentially the same - that of promoting economic growth and development of the rural area and hence national development. Specific objectives include rural savings mobilisation and creation of credits in the form of loans and equity for small-scale farmers, microentrepreneurs and industrialists.

This chapter reviews the various efforts made by the Federal Government towards rural banking programme in Nigeria, particularly from the mid 1970.

4.2 RURAL BANKING EXPANSION PROGRAMME

Federal Government's deliberate policy and strategy to correct the spatial imbalance in banking operations in Nigeria started effectively in 1977. This followed the approval of the Report of the Financial Institutional Review Committee (1976) that was set up to re-examine the operations of commercial banks in Nigeria. The decision to adapt commercial banks was a matter of exigence and the conviction that the banks are by *far the largest single outfit in the financial sector; they* also outweigh, by sheer volume of transactions all the non-bank financial institutions put together (Olashore, 1983).

Amongst other recommendations accepted was that commercial banks should be made to transform "the rural environment by promoting the rapid expansion of banking facilities and services and banking habit in the rural and near rural communities...." (Ahmed, 1989).

Prior to the launching of the programme, the bulk of the 470 bank branches in the country was lopsidely located in the urban centres. Lagos metropolis for instance, had one hundred of the available branch offices. The situation thus posed serious problem of rural and regional imbalance in banking services in the country. There was also the problem of service congestion at the few urban centres, an indication that the entire country was and is still under banked.

Available records put the banks service ratio and density at one branch per 170,000 persons and one branch per 1,957 sq. kilometre respectively. The situation compared unfavourably with figures recorded for countries like India, 1/52,000 persons; United States, 1/6,000 persons and United Kingdom, 1/4,000 persons (Olashore, Opcit).

Thus, the Federal Government Rural Banking Programme (RBP) launched in July 1977 involves the use of existing commercial banks machinery through allocation of specific number of rural branches to be established by the banks.

4.2.1 Phases of Rural Banking Branch Programme

The decision to phase in the twelve-year programme became obvious in view of the large number of rural centres of about 1,126 communities, (Ibid) and the enormous plans and resources required.

4.2.1.1 Phase One (July 1977/June 1980)

Under the first phase of the programme, a target requirement of two hundred branches was set and allocated among the eighteen commercial banks in the country. Locational priority was given to the local government headquarters where branch agency did not exist.

Three leading banks namely, First Bank, Union Bank and United Bank for Africa (UBA) because of their resource capacities and sizes were allocated greater branches. However, cognisance was taken in respect of the existing number of rural offices in each bank's branch network before allocations were made.

By the end of the phase in June 1980, one hundred and eighty-eight branches (94 percent) were firmly established and opened for operation. The first phase of the scheme was successful not only in terms of number of branches established but also in actual transactions and operational services. It was observed that all the banks mobilised an aggregate sum of ₦116.4 million through their deposit account schemes. Out of this amount, a total sum of ₦22.4 million (19 percent of deposits mobilised) was disbursed as loans and advances to rural clientele (Oyedeji, 1990, p.15).

4.2.1.2 Phase Two (July 1980/December 1984)

The allocations under this phase were meant to reach the remotest nook and cranny of the country. A target of two hundred and sixty-six branches was set and allocated among

the twenty commercial banks in the country. It was initially scheduled to end by December 1983, but had to be extended by a year due to waning response.

The success feat of the first phase was not repeated under phase two of the programme. Of the two hundred and sixty-six allocation, just one eighty-one branches (68 percent) were completed by December 1983; and even with the extension to December 1984, only two hundred and twenty-nine branches (86 percent) were established and commissioned. This relative drop in the level of branch establishment was due amongst others to the poor state of infrastructural facilities in virtually all the designated rural centres in the country. However, by the end of September 1983, a total sum of ₦350.8 million was mobilised as deposits by rural branches of 15 banks. Of this amount, ₦110 million (31 percent) was given as loans and advances (Ibid), an improvement in loan-deposit ratio over the first phase.

4.2.1.3 Phase Three (August 1985/July 1989)

Under this phase, three hundred branches were set as target and allocated among twenty-eight banks in the country. The banks however could no longer sustain their initial momentum as sharp drop was noticed in the number of branches actually established. For instance, from August 1985 to December 1988, just one hundred and forty-four branches (48 percent) were completed and opened for business, thus leaving one hundred and fifty-six to be completed within seven months.

The Central Bank of Nigeria (CBN) noting the relunctance shown by the banks had to come up with a number of incentives and penalties to ensure banks compliance. The incentive package includes:

i) The waiving of feasibility report requirement as pre-requisite for the establishment of a rural branch.

ii) grant of a three-year monopoly right of sole operator in the allocated centres from the date the branch was commissioned.

iii) capital cost of erecting office blocks and staff quarters were to be written off within a period of three years, and

iv) the exclusion of loans and advances made within the first two years of operation from the calculation of annual growth rates of their loans and advances; as well as the ratio of their adjusted capital to loans and advances.

The penalties for failing to complete allocation made by the July 1989 target date include:

i) none declaration of dividends to shareholders until all branches allocated to each bank were completed.

ii) embargo was laid on urban branch opening until all rural branches allocated were completed and opened.

iii) defaulters after a moratorium of six months (December 31st 1989) were to be barred from participating in the foreign exchange market (FEM); a popular, veritable and succulent market for immediate and substantial returns to costs or funds (Oyedeji, p.16, Opcit).

The Central Bank of Nigeria (CBN), however exercised further moratorium on the sanctions set in view of the cost-benefit effects of the scheme to the banks.

4.2.2 Numerical Size of Commercial Bank Branches

On a socio-spatial balance sheet, rural banking programme in Nigeria presents a viable venture. The first twelve years

of the scheme has ushered in larger number of rural branch networks to the country and the banking sector than hitherto experienced in the eighty-four years of banking in Nigeria. As at December 31st, 1988, CBN report put the total number of new rural branches at 626 out of a total of 1,698 banks in the country (Table 4.1). Of the 766 total allocations made under the three phases of the scheme, 628 branches were completed and became operational as at 1989; thus giving an achievement rate of 82 percent. Giving a total number of 1,898 banks as at December 1989 (Oyiana, 1990, p.18), and a provisional population figure of 89 million, the new bank service ratio and density are one branch per 46,892 persons and one branch per 485 sq. kilometre. These figures measured against the 1977 records represent significant positive growth. Perhaps what remains to be evaluated is their actual operational activities in line with the credit and monetary policies of the government. This on a micro scale, is what the next chapter of this thesis tried to achieve.

Table 4.1

Number of Commercial Banks' Branches in Nigeria as at December, 1988

Banks	Rural	Urban	Total
Afribank Limited	33	55	88
African Continental Bank Limited	36	66	102
Allied Bank of Nigeria Limited	24	36	60
All State Bank of Nigeria Limited	-	1	1
Bank of Credit and Commerce Int. Limited	18	23	41
Bank of the North Limited	32	50	82
Chartered Bank of Nigeria Limited	2	2	4
Commercial Bank Credit Lyonnais Limited	2	2	4
Commercial Trust Bank Limited	-	2	2
Cooperative Bank Limited	17	31	48
Cooperative and Commerce Bank of Nigeria Limited	22	33	55
Cooperative Development Bank Limited	-	3	3
Eko International Bank Limited	-	1	1
First Bank of Nigeria Limited	98	161	259
Gamji Bank of Nigeria Limited	-	5	5
Habib Bank Nigeria Limited	3	14	17
Highland Bank Limited	1	1	2
Inland Bank Limited	-	1	1
Intercity Bank of Nigeria Limited	-	11	11
Lion Bank of Nigeria Limited	-	3	3
Lobi Bank of Nigeria Limited	1	10	11
Merchantile Bank of Nigeria Limited	12	26	38
National Bank of Nigeria Limited	43	79	122
New Nigeria Bank Limited	17	35	52
Nigeria Arab Bank Limited	13	15	28
Nigeria International Bank Limited	2	5	7
Nigeria Univesal Bank Limited	11	8	19
North-South Bank Limited	-	1	1
Orient Bank Nigeria Limited	-	3	3
Owena Bank Nigeria Limited	3	17	20
Pan African Bank Limited	8	16	24
Premier Comm. Bank Limited	-	4	4
Progress Bank of Nigeria Limited	1	26	27
Republic Bank Limited	-	1	1
Savannah Bank of Nigeria Limited	24	27	51
Societe Generale Bank Nigeria Limited	7	10	17
Trade Bank of Nigeria Limited	-	3	3
Tropical Commercial Bank Limited	9	3	12
Union Bank of Nigeria Limited	91	148	239
United Bank for Africa Limited	80	96	176
Universal Trust Bank Limited	1	4	5
Wema Bank Limited	15	34	49
Total	626	1072	1698

Source: Culled from CBN. Annual Report 1988 and Banking & Finance DIGEST, p.19, 1990.

4.3 PEOPLE'S BANK SCHEME

The launching of the People's Bank of Nigeria Scheme in October 1989 marked a further stride in the Rural Banking Programme package. The scheme is basically designed to cater for the financial needs of the poor class (low-income class) in both rural and urban areas of the country. The compeling need for the scheme can be inferred from Mr. President's statement, that the informal class and sector constitutes a significant number and equally contributes substantially to the sustenance of the economy over the years. However, the categories of workers in this sector who are mainly artisans, micro-entrepreneurs and petty traders are being marginalised from access to funds in the conventional capital and financial markets (Babangida, June, 1991). The bank is placed under the supervision of the Federal Ministry of Industry and Commerce.

4.3.1 Objectives of People's Bank Scheme

The programme objectives of People's Bank include:

i) creation and extension of credit facilities to the less priviledged class in the country.

ii) creation of opportunities for self-employment in the informal sector.

iii) bring the under-priviledged people within the folds of banking format and services.

iv) reduction of the exploitation of shylock and usurous money lenders.

v) promotion of banking culture at the grass-roots (Babatope, 1992).

4.3.2 Operation Achievement of People's Bank

As at December 1991, two hundred branches of this bank were established by the Federal Government and opened for operation nationwide. Statistics for 1992 is not yet available, but cursory observation suggests a reasonable addition to the existing branches. The bank maintains rural and urban locational operations that reflect the distribution patterns of its target clientele in the country. However, its location and operations are more pro-rural than urban as a parallel scheme - Urban Development Bank is planned for take off in the 1992 national fiscal budget.

The Federal Government direct grants to fund its operations nationwide in 1991, amounted to ₦295 million. The number of loan beneficiaries during same period was put at 245,000 individual and corporate clients. A loan recovery rate of 85.5 percent was also reported by the bank during 1991 (Chamber of Commerce and Industry, 1992).

4.3.3 Operational Innovation

The bank, through operational innovation is already achieving some modest financial services impact on its target clients and sector. In addition to a minimum commercial banking operation rights granted to the bank, it also maintains two new service products, viz:

4.3.3.1 The People's Bank Emergency Deposit Scheme

Under this scheme, the bank undertakes mobile operations in vechicles to mobilise savings from customers in neighbourhood and rural markets. The bank thus competes with the local

savings syndicates and other agencies in the mobilisation of 'idle funds' for productive and development purposes. It is a form of door-to door banking service to local clients as distincts from the arm-chair banking of the conventional banks.

4.3.3.2 The People's Bus Loan Scheme

The bank undertakes lease service to target clients. The strategy involves the provision of buses to recognised and registered transport groups of a maximum of ten members each on hire purchase. Presently, eleven states of the country have been covered under this scheme, while it is hoped that other states will equally benefit as more grants are received by the bank and loan recovery rate accelerates.

4.4 COMMUNITY BANKS SCHEME

This sub-programme of the Rural Banking Programme took off on December 31st, 1990 with the commissioning of the first unit - Alheri Community Bank, Tudun Wada, Kaduna. The scheme can be considered as a partial fulfilment of the equity objective of the rural banking programme of which the two models examined earlier could not satisfy.

A community bank is defined as a "commercial bank serving only one community and exploiting to the fullest its advantageous position of local knowledge and trust. Its survival is intimately connected with the development of the community which it serves..." (Babangida, 1990). It is in miniature, a specialised bank in that by the banking

decree governing its operation, the bank is not expected to go in to sophisticated services like foreign exchange transactions, international commercial papers, corporate finance and equipment leasing (Mabogunje, 1991, p.5). It is also a unit bank in the sense that by government policy, it must not establish or operate any branch office.

4.4.1 Objectives of Community Banks Scheme

On a broad term, the bank is expected to provide complementary services to those being provided by the formal and informal finance agencies at community level. Its specific objectives include:

i) provision of savings avenue for individuals small-scale producers, micro-entrepreneurs, professionals as well as social and religious organisations, community development associations, cooperatives, etc within a limited space;

ii) provision of credits to clients whose debt capacities and other relevant information are known to the bank through members of the community of its operation;

iii) acts as financial gateway for capital development to community development associations and individuals through equity capital share participation.

iv) to offer 'Savings-Credit Plus' services relating to resource (labour and finance) mobilisation and its efficient management mainly on advisory and consultancy basis to the community of operation.

4.4.2 Capital Asset of Community Bank

A minimum equity capital share of ₦250,000 is approved for the take off of a community bank company. The capital is expected to be wholly and fully subscribed by the members

of the community. However, not more than 5 percent of the minimum equity capital share can be held by individuals in the community.

In order to increase their capital base, Community Banks, if they so wish, can apply to National Board for the Community Banks of Nigeria for matching loans. The loan is repayable over five years with a six month moratorium, after which, it starts on a half-yearly basis. While the loan is under payment, the bank can not declare dividend to its shareholders. In addition, the company's fixed and floating assets are mortgaged for the loan.

4.4.3 Procedures for Setting up a Community Bank

It is required that application for establishment of a community bank should be made on a prescribed form by the promoting groups or communities. The application is expected to be specifically backed by the Community Development Association (CDA) of the community. This is to ensure that all members of the community have unrestricted access to the bank regardless of their status, sex, affliations etc.

After the approval of the application, the promoters are expected to:

(a) apply for the incorporation of the community bank company, stating its name and location;

(b) raise the minimum equity capital share of ₦250,000;

(c) provide a suitable, secure and accessible building to be used by the bank;

(d) provide two safes of satisfactory standards with facilities for anchoring to wall, floor and with provision for a minimum of dual control;

(e) provide ultra-violetrays for detecting forged notes as well as deed boxes, cabinets and other office furniture and equipment;

(f) provide suitable insurance cover against the risk of loss arising from physical attacks on the bank;

(g) appoint and make available for training, educated personnel at both Board and Management levels; and

(h) appoint a Board of Directors which shall not be less than 5 or more than 7 in number (Mabogunje, Opcit, p.9).

After meeting the above conditions and requirements, and upon due inspection and recommendation made by a relevant body of the National Board for Community Banks to the Implementation Board, a provisional licence is thus issued to the bank to commence operation.

4.4.4 Implementation Achievement

As at July 31st, 1991, available record showed that out of 1055 applications received by the National Board for Community Banks, 93 were successful and had accordingly been licenced to commence operation (Ibid). A more recent report, December 15th, 1992, updated the number so far incorporated to 409 banks. Considering the relatively enormous financial and capital requirements on the parts of interested communities; and the record number of community banks in operation in barely two years, we can be optimistic about the success of the scheme.

Relatively, the number in operation is far more than those of the People's Bank or Commercial Bank branches within a comparative time. It thus proves that the scheme is commanding

greater acceptability on the parts of the rural and urban masses. The bank seems to be perceived as 'ours' as against the top-down parallel schemes that hardly give room for grass-root participation at boards, management and equity levels.

A performance evaluation of this scheme at a later period will show that the taste of the pudding truely lies in the eating. As for our subject matter, we turn to the analysis of data collected from the field in the following chapter.

CHAPTER FIVE

ANALYSIS OF DATA AND DISCUSSION

5.1 INTRODUCTION

The performance evaluation of the eleven bank branches in terms of their loan portfolios for rural development is done mainly within the framework of Federal Government Annual Monetary and Credit Policy Guidelines. This is outlined in Chapter One, Sub-section 1.2.3 of this thesis.

For the purpose of data analyses and interpretations, the following assumptions are made:

(a) that the minimum of 40 and 50 percents loan target set by the monetary authorities for commercial banks are adequate for rural development take-off;

(b) that the minimum of 15 and 35 percent sectoral loan allocations to agriculture and manufacturing entreprises are also adequate to stimulate growth in the two sectors;

(c) that other bank loan policies are in consonant with government efforts aimed at accelerating rural development.

Where the actual loan allocated falls short of the expected portfolios, we conclude that growth in terms of increased rural productivity has not been induced by the operating bank branches. Our working hypothesis is re-capped as follows: Rural banks branching scheme is not an effective strategy for accelerating rural productivity and development of rural space-economy.

In addition, this chapter also presents brief analyses of data on rural clientele's perspective of banks loan policies covered by the research instrument.

5.2 TRENDS IN DEPOSITS MOBILISED AND LOANS GRANTED BY (ELEVEN) BANK BRANCHES

The following analysis gives the volume of saving mobilised and proportion of loan granted by rural banks between 1985 and 1992 in Irepodun - Oyun LGAs.

Table 5.1
Aggregate Bank Deposits and Loans Granted, 1985/92

Year	Total deposits (₦m)	Total loan Granted (₦m)	% of loans to deposits
1985	29,650,000	11,740,000	39.6
1986	37,189,000	14,989,500	40.3
1987	48,893,000	17,606,000	36
1988	66,925,000	21,797,000	32
1989	81,594,000	24,768,000	30
1990	97,775,000	26,858,000	27.5
1991	118,965,000	28,566,000	24
1992	132,689,576	33,014,110	24.9
Total	613,680,576	179,338,610	29.2

Source: Field Survey Sept/Nov., 1992.

Table 5.1 above shows increased trend in the volume of annual savings mobilised as well as loans advanced by the sampled bank branches over the period covered. Between 1985 and 1992, a

total of ₦613.7 million was mobilised as savings while, ₦179.4 million (29.2 percent of savings) was granted as loans and advances by the banks. Appendices I and II provide the analyses of deposits mobilised and loans advanced by each sampled bank.

The proportion of loans advanced to deposits mobilised however, declined from 1987 to 1992 with an annual ratio of 36, 32, 30, 27.5, 24 and 24.9 percents for each of the six consecutive years. A minima of 40 and 50 percent loan to deposit ratios were expected to be recorded by policy guide between 1985/89 and 1990/92 respectively. Looking at column (4) of the table above, the banks glaringly failed to meet the expected minimum loan ratio for all the years save for 1985 and 1986 with 39.6 and 40.3 percents respectively.

5.3 LOAN ACHIEVEMENT INDEX

Further analyses of the loans actually disbursed in relation to the expected portfolios will perhaps reveal more vividly, the performance of the banks in terms of credit for rural development. Loan achievement index in this case, expresses the percentage of loans observed to have been made to the target(s) (expected) set by the monetary authorities.

The loan achievement index formula is adopted from the target achievement index formula provided by Idachaba and Okorie (1983, p.9). This is given as:

$$Ic_i = \frac{A_i}{T_i} \times 100$$

This can be slightly modified as follows:

$$Ic_i = \frac{\Sigma A_i}{\Sigma T_i} \times 100$$

Where I_c = Loan Achievement Index

ΣA = Sum of loans achieved by the agencies.

ΣT = Sum of expected (target) loan portfolios by the agencies.

i = Project activity/sector being examined.

In view of the fact that the Federal Government prescribed the minimum loan criteria to be made by banks to rural customers and their economic sectors, the interpretation of the loan achievement index is as follows:

$I_{ci} < 100\%$ = poor performance, i.e. below minimum expectation.

$I_{ci} = 100\%$ = good performance, i.e. the minimum target (requirement) is met.

$I_{ci} > 100\%$ = very good performance, i.e. the agency satisfies more than expected minimum loan.

Using the formula (Appendix III) the overall loan achievement index as well as sectoral loan achievement indices by banks are analysed as follows:

5.3.1 Proportion of Actual Loan to Expected Loan

Table 5.2
Aggregate Loan Portfolio Achievement Index (1985/92)

Year	Expected Loan (₦m.)	Actual Loan (₦m.)	Achievement Index (%)	Deviation from Expected (%)
1985	11.86	11.74	98.9	-1.1
1986	14.88	14.99	100.8	0.8
1987	19.56	17.61	90	-10
1988	26.77	21.80	81.4	-18.4
1989	32.64	24.77	75.9	-24.1
1990	48.89	26.86	54.9	-45.1
1991	59.48	28.57	48	-52
1992	66.35	33.01	49.8	-50.2
Total	280.43	179.35	63.96	-36.04

Source: Field Survey, 1992 (Appendix III)

Between 1985 and 1992, a cumulative minimum loan of ₦280.43 million was expected to be granted to the various productive sectors. Of this amount, only ₦179.35 million was actually disbursed by the banks, thus giving an achievement index of 63.96 percent and a loan portfolio failure of 36.04 percent over the period.

Annual achievement indices were all below the expected value with the exception of 1986 with an index of 100.8 percent and a positive deviation of 0.8 percent above the expected minimum portfolio. The annual deficits as shown in column (5)

of the table appeared to have fallen wide over the period, despite the stiff penalties imposed by the CBN on defaulting banks.

The analysis thus showed a case of lagging performance by the operating banks in terms of loan allocation to the productive sectors of rural economy as demonstrated under columns (4) and (5) of table 5.2. The possible reasons for this rather poor situations are examined under section 5.13 of this chapter.

5.4 AGRICULTURAL LOAN PORTFOLIO

The actual share of agricultural loan in the banks expected loan portfolio is shown by the following analyses.

Table 5.3
Share of Agricultural Sector in Expected Loan Portfolio

Year	Expected Loan (₦m.)	Actual Agricultural Loan (₦m.)	% of Actual to Expected Loan
1985	11.86	1.15	9.7
1986	14.88	1.37	9.2
1987	19.56	1.53	7.8
1988	26.77	1.57	5.9
1989	32.64	1.4	4.3
1990	48.89	1.39	2.8
1991	59.48	1.69	2.9
1992	66.35	1.61	2.4
Total	280.43	10.34	3.69

Source: Field Survey, 1992 (See Appendix IV)

Given an annual credit policy target of 15 percent minimum allocation to the agricultural sector, it can be observed that the banks aggregate grants fell below the annual target portfolio. Of the total sum of ₦280.43 million expected to be disbursed as loans and advances to various sectors, just ₦10.34 million (3.7 percent) was granted as agricultural loan between 1985 and 1992.

Annual credit grant over the period did not only indicate a sub-optimal allocation, but also a succeeding decline from 9.7 percent in 1985 to 4.3 percent in 1989 and 2.4 percent in 1992 as shown in column (4) of table 5.3.

5.4.1 Agricultural Loan Achievement Index

The analysis below further shows the level of achievement recorded by the bank branches in terms of actual loan disbursed in relation to expected loan portfolio to agricultural sector.

Table 5.4
Agricultural Loan Portfolio Achievement Index (1985/92)

Year	Expected Agric. Loan (₦m.)	Actual Agric. Loan (₦m)	Deviation (₦m.)	Achievement Index (%)
1985	1.8	1.15	-0.65	63.9
1986	2.2	1.37	-0.83	62.3
1987	2.9	1.53	-1.37	57.8
1988	4.02	1.57	-2.45	39.1
1989	4.9	1.4	-3.5	28.6
1990	7.3	1.39	-5.9	19
1991	8.9	1.69	-7.2	18.9
1992	9.95	1.61	-8.34	16.2
Total	42	10.34	-31.66	24.6

Source: Field Survey, 1992.

The above table shows that the actual annual loan allocation increased through each succeeding year save for 1989 and 1990 (column 3). However, of the minimum of ₦42 million expected to be granted as loan to this sector between 1985 and 1992, only ₦10.34 million was actually disbursed. This gave an achievement index of just 24.6 percent and a deficit loan balance of ₦31.66 million over the period.

There was no single year between 1985 and 1992 where the loan achievement index was either at par or close to the expected minimum allocation to the sector. Rather, wide negative margins are shown (columns 4 and 5) by the analysis to prove that the actual agricultural loans granted over the period grossly fell below the expected sectoral portfolio.

The reason for the poor performance in this case may not be unconnected with the banks concern to balance risk and return in their loan portfolio allocation. A lot of uncertainties surround agricultural investment, hence a higher default rate is of-ten anticipated by banks for the sector. In addition, small-holder lending that often characterised rural credit market imposes high transaction cost including cost of servicing the amount of loans overdue on formal sector finance agency like banks.

5.5 MANUFACTURING SECTOR LOAN

The proportion of loans actually disbursed by sampled banks to the manufacturing sector out of the expected total loan is presented as follows:

Table 5.5
Share of Manufacturing Sector in Expected Total Loan (1985/92)

Year	Expected Loan (₦m.)	Actual Manufacturing loan (₦m.)	% of Actual to expected loan
1985	11.86	4.32	36.4
1986	14.88	3.43	23.1
1987	19.56	3.4	17.4
1988	26.77	5.36	20
1989	32.64	7.04	21.6
1990	48.89	7.67	15.7
1991	59.48	7.51	12.6
1992	66.35	8.24	12.4
Total	280.43	46.97	16.8

Source: Field Survey, 1992 (Appendix V).

For the manufacturing sector, a minimum of 35 percent credit policy target is expected to be met by the banks. With the exception of 1985 when a 36.4 percent record above the target set was attained, the succeeding years from 1986 to 1992 showed sub-standard loan allocation. The percent ratios of 23.1, 17.4, 20, 21.6, 15.7, 12.6 and 12.4 were respectively below the 35 percent loan threshold to the sector.

In absolute term, just ₦46.97 million (16.8 percent) of the expected sum of ₦280 million over all loan quota was granted to the sector as shown in table 5.5 above.

5.5.1 Manufacturing Loan Achievement Index

The actual loan to the manufacturing sector in relation to the expected minimum portfolio as well as deviation from target for the sector are shown as follows:

Table 5.6
Manufacturing Loan Portfolio Achievement Index (1985/92)

Year	Expected Manufacturing Loan (₦m.)	Actual Manufacturing Loan (₦m.)	Deviation (₦m.)	Achievement Index (%)
1985	4.15	4.32	0.17	104.1
1986	5.21	3.43	-1.78	66.8
1987	6.85	3.4	-3.45	49.6
1988	9.37	5.36	-4.01	57.2
1989	11.42	7.04	-4.38	61.7
1990	17.11	7.67	-9.44	44.8
1991	20.82	7.51	-13.31	36.1
1992	23.22	8.24	-14.98	35.5
Total	98.15	46.97	-51.18	47.9

Source: Field Survey, 1992

An achievement index of 104.1 percent was attained in 1985, hence the banks had very good performance record with 4.1 percent over and above the minimum target. However, the succeeding years from 1986 to 1992 showed that the banks failed to beat the prescribed minimum loan allocation. Just 66.8, 49.6, 57.2, 61.7, 44.8, 36.1 and 35.5 percents of the expected manufacturing loan portfolio was achieved in the years respectively.

Between 1986 and 1992, a deficit loan allocation (deviation) of ₦51.18 million was established against the operating banks. This represented about 52 percent loan performance failure from the ₦98.15 million target loan to the sector. The annual deviations are shown in column (4) with increased deficit balances across the reporting period.

5.6 JOINT SHARE OF AGRICULTURE AND MANUFACTURING SECTORS IN EXPECTED LOANS

These two productive sectors are jointly allocated a minima of 50 percent of the expected banks loan portfolios. The analyses of loan data for the joint sector are as follows:

Table 5.7
Joint Share of Agricultural and Manufacturing Sectors in Expected Loan Portfolios

Year	Expected Loan (₦m.)	Actual Joint Loans (₦m.)	% of Actual to Expected Loan
1985	11.86	5.47	46.1
1986	14.88	4.79	32.2
1987	19.56	4.92	25.2
1988	26.77	6.93	25.9
1989	32.64	8.44	25.9
1990	48.89	9.04	18.5
1991	59.48	9.19	15.6
1992	66.35	9.19	14.8
Total	280.43	58.66	20.9

Source: Field Survey, 1992.

Of the ₦280.42 million expected loans for all productive sectors, only ₦58.66 million was jointly disbursed to agriculture and manufacturing industry between 1985 and 1992. The joint cummulative ratio of 20.9 percent allocation for the period was less than the 50 percent expected minima loan.

The Federal Government de-regulated interest rate policy could not even arrest the down-ward loan trend as noted in the 1991 and 1992 loan data (column 4) of table 5.7 above.

5.6.1 Loan Achievement Index for Agriculture and Manufacturing Industry

Table 5.8
Loan Achievement Index for Agricultural and Manufacturing Sectors

Year	Expected Joint Loan (₦m.)	Actual Joint Loan(₦m.)	Deviation (₦m.)	Achievement Index (%)
1985	5.93	5.47	-0.46	92.2
1986	7.44	4.79	-2.65	64.4
1987	9.78	4.92	-4.86	50.3
1988	13.39	6.93	-6.46	51.8
1989	16.32	8.44	-7.88	51.7
1990	24.5	9.04	-15.46	36.9
1991	29.74	9.19	-20.55	30.9
1992	33.18	9.85	-23.33	29.7
Total	140.23	58.66	-81.34	41.8

Source: Field Survey, 1992.

Merging the actual loans against the expected loan portfolio to the two sectors, the indices of achievement put the performance of the banks below expectation. Columns (2), (3) and (5) of table 5.8 provide the necessary data. In 1985, 92.2 percent index was achieved and this further declined over the years to incredible records of 51.8, 36.9 and 29.7 percents for 1988, 1990 and 1992 respectively.

Of the ₦140.23 million expected as minima loans between 1985 and 1992, only ₦58.66 million was jointly granted to the two sectors. This gave a 41,8 percent achievement index and 58 percent performance failure, that is, ₦81.34 million deficit balance outstanding to the two joint sector.

5.7 GENERAL COMMERCE LOAN

This sector together with other unclassified activities come under residual class with a maximum target of 50 percent loan portfolio. Paradoxically, the tertiary sector appears to be very attractive to banks financing.

Table 5.9
Annual Share of Commerce in Expected Loan Portfolio

Year	Expected Loan (₦m.)	Actual Loan (₦m.)	% of Actual loan to expected
1985	11.86	2.21	18.6
1986	14.88	3.06	20.6
1987	19.56	3.41	17.5
1988	26.77	4.64	17.3
1989	32.64	5.67	17.4

1990	48.89	6.71	13.7
1991	59.48	6.99	11.8
1992	66.35	9.28	14
Total	280.43	41.96	14.96

Source: Field Survey, 1992 (Appendix VI).

Table 5.9 above showed a cumulative sector loan of ₦41.96 million to commerce between 1985 and 1992 from the expected total portfolios of ₦280.43 million. This record appeared much better than that of agricultural share and also compared favourably with the share of manufacturing sector in the loan portfolios.

Given banks preference for short-term loan investments in commerce, securities, corporate finance etc, a disproportionate loan allocation to the sector is not unexpected. Data for the latter sub-sector loan investments are not available for computation, hence performance evaluation based on 50 percent maximum target could not be done for the sector. However, column (4) of the table above is indicative enough of banks' preference for short-term rather than medium to long-terms loan investments in agriculture.

5.8 LOAN PORTFOLIO MATURING PATTERN

Commercial banks have been enjoined by monetary authorities in the country to designate and grant a sizeable portion of their loan portfolios on medium to long-term bases. This is to promote both medium and long-term investments in the economy.

The following analysis shows banks preference and performance in the light of their annual loan investment portfolios.

Table 5.10
Loan Portfolio and Maturity Pattern (1985/92)

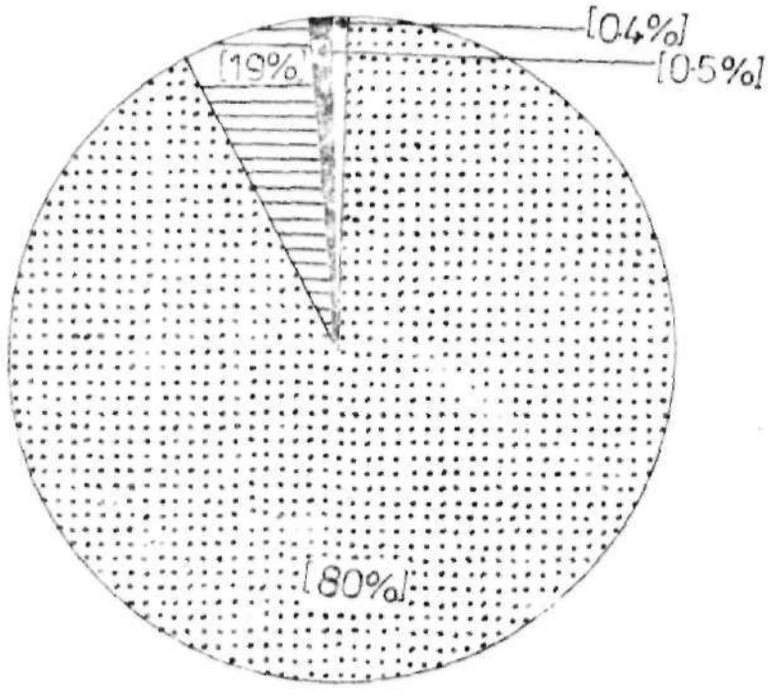
Year	Maturing on call (₦m.)	Maturing within 3 months(₦m)	Maturing between 3-6 mths. (₦m.)	Maturing between 1-3 yrs. (₦m.)	Maturing 5 years + (₦m.)
1985	3.0	-	0.01	0.22	-
1986	3.8	0.03	0.001	0.51	-
1987	4.3	0.03	0.035	0.67	-
1988	4.73	0.03	0.052	0.97	-
1989	5.57	0.03	0.018	1.6	-
1990	6.18	0.03	0.016	1.53	-
1991	6.8	0.04	0.072	2.09	-
1992	8.98	0.02	0.086	2.38	-
Total	43:36	0.21	0.29	9.97	-

Source: Field Survey, 1992.

Over ₦43 million of loans and advances made between 1985 and 1992 were scheduled for repayment on call, while about ₦9 million matured between one and three years. There was no data for loans exceeding a five-year duration. Most of the loans therefore, were meant for short-term investments as against the medium to long-term loans to which the banks were enjoined in their portfolios (table 5.10).

The interest rate ceiling policy of the government between 1985 and 1990 had been anti credit expansion on medium to long term basis. The low interest rate policies had meant that banks required more stringent conditions for loans granted to the industrial and agricultural sectors. The fact that the bulk of the loans and advances matured on calls and between one and three years, reflects banks preference for short-term loan ventures.

FIG. 5.1 LOAN MATURITY CHART



Source: Field data from table 5.10

In figure 5.1 above, about 80 percent of the loans and advances made between 1985 and 1992 by the banks matured on demand; while 18.5 percent matured between one and three years. Debt scheduling agreement between banks and borrowers influences the response of clients to loan contracts.

5.9 LOAN RECOVERY PATTERN

Loan repayment pattern varies with the activities or sectors and clients that attract and enjoy the financial benefit. The sectoral repayment pattern by rural clients is as follows.

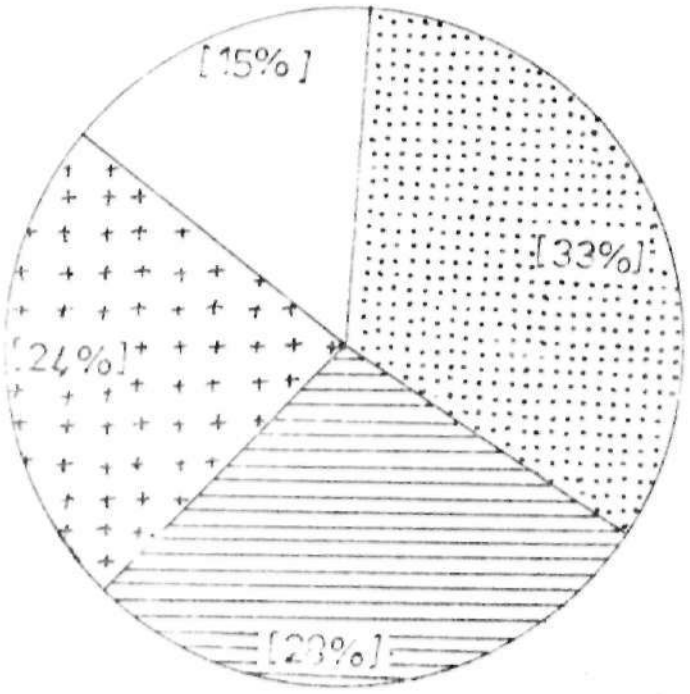
Table 5.11
Sectoral Loan Recovery Rate by Banks (1985/92)

Year	Agriculture (%)	Manufacturing (%)	Commerce (%)	Others (%)
1985	10	73.3	35	22.5
1986	16.3	58.8	45.8	26.7
1987	21.3	60.8	61.3	51
1988	31.8	73.8	60.3	53.3
1989	34.3	59.7	56.2	58.5
1990	43.7	69.9	72.1	66
1991	40.3	79.1	66.4	62.8
1992	39	66.3	62.2	54.6
Total	29.6	67.7	57.4	49.4

Source: Field Survey, 1992.

Table 5.11 presents the annual as well as the average cumulative rates of loans recovered on sectoral basis by the operating banks. The agricultural sector had the least repayment rate with the annual and average rates below 50 percent of loans due. With average rates of 67.7 and 57.4 percents, the manufacturing and commercial sectors gave better returns to banks. Both sectors showed annual and cumulative average rates above 50 percent of loans due for repayment. The inference from the above is that the agricultural loan beneficiaries in the area were more delinquent than the manufacturing and commercial entrepreneurs in their loan repayment obligations.

FIG 5.2 SECTORAL LOAN REPAYMENT CHART



Source: Field data from table 5.1

Figure 5.2 above shows that the manufacturing sector topped the repayment chart with 33 percent, followed by commerce with 28 percent, while agriculture had the least of 15 percent. This repayment pattern partly explains why banks are more relunctant to target and actually grant loans for agricultural purposes in their loan portfolio business.

5.10 LOAN SIZE AND FREQUENCY OF GRANTS

The size of loan granted and the frequency of access of clients to re-borrow partly determine the productive usage or otherwise of a given loan. Thus, loan diversion as a form of loan delinquency is a partial function of the amount of money granted and the rate of re-lending. The following table gives size of loans and the frequency of grants by the sampled banks.

Table 5.12
Loan size and Grant Frequency by Banks (1985/92)

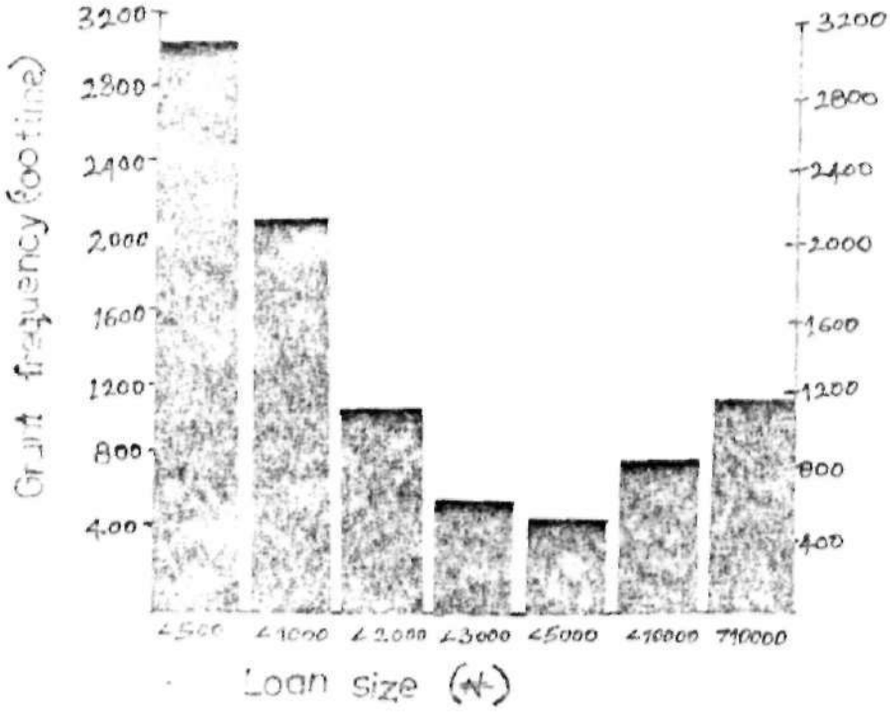
Loan size (₦)	<500	<1000	<2000	<3000	<5000	<10000	>10000
Loan Grant Frequency (No of times)	3025	2135	1057	539	452	757	1084

Source: Field Survey, 1992 (Appendix VII).

Loan proposals and grants for small-scale ventures were most frequent on the banks portfolios. Between 1985 and 1992, cumulative time grant frequencies for loans below the sum of ₦2000 were 3025, 2135 and 1057 (about 6,217 times). Grants for the loan proposals of ₦10,000 and above were relatively low

with 757 and 1084 (about 1,841) time frequency. The situation is consistent with the nature of the space-economy that relies heavily on small-scale agricultural activities and informal sector operations.

FIG 5.3 LOAN SIZE AND GRANT FREQUENCY



Source : Field data from table 5.12

The graph further proved that the frequency of loan grants (On time scale) by the operating banks is positively skewed to the small-size loan-product category. An inference from this is that, the frequency of loans granted to the size follows a 'demand-leading' principle in which more loan proposals and applications were received by banks for small-scale ventures than other categories. The relative increase at the extreme right of the loan scale to some extent shows the banks preference for medium to large-scale loan ventures.

5.11 DEPOSIT ACCOUNTS OPERATORS

One other method of measuring the performance of a financial scheme relates, to the number of savings account depositors the agency is able to mobilise over time. For the banks branches in Irepodun - Oyun areas of Kwara State, the following represents their effort along the line.

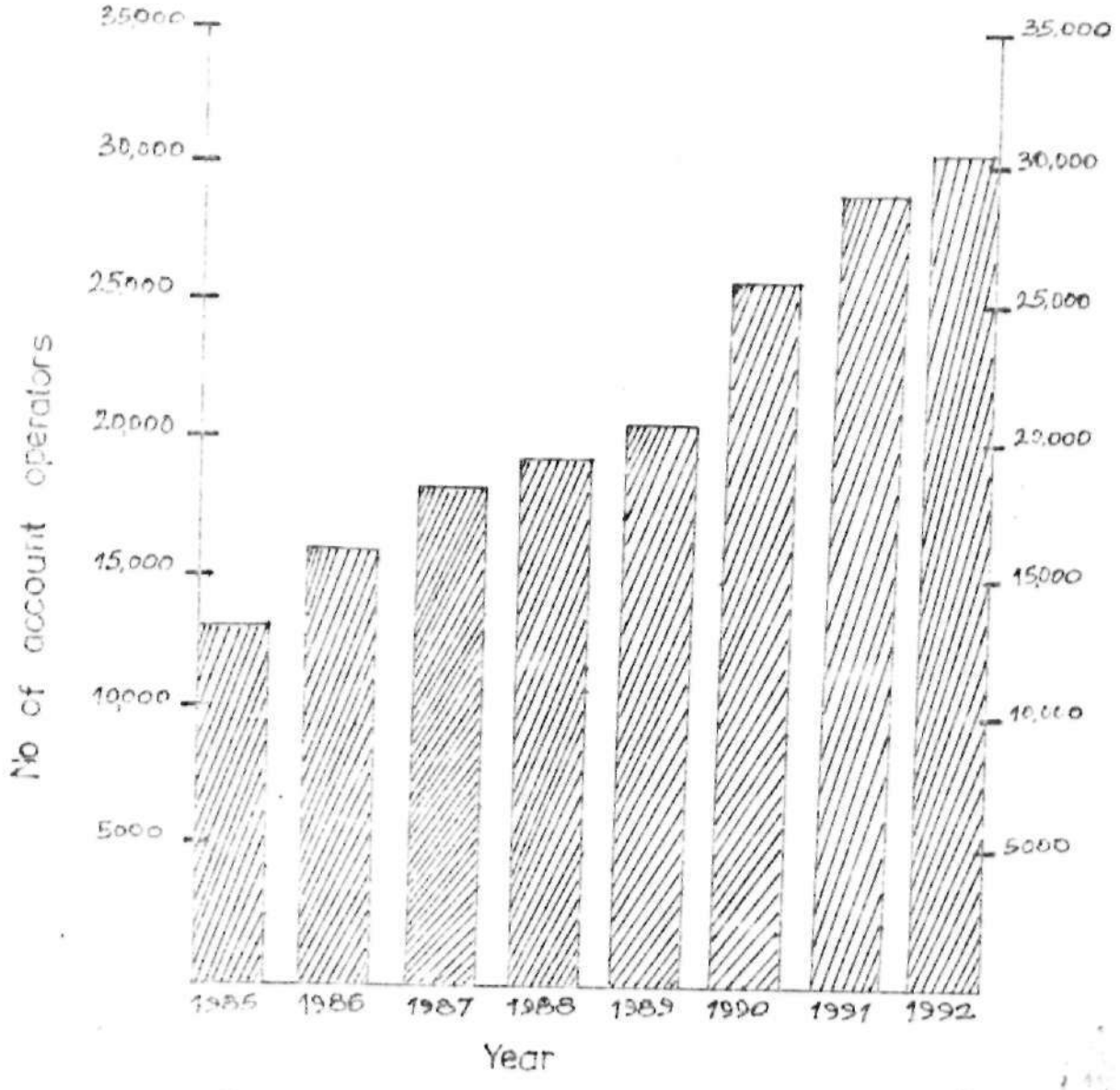
Table 5.13
Number of Deposit Account operators (1985/92)

Year	1985	1986	1987	1988	1989	1990	1991	1992
No. of a/c operators	13715	15975	17558	19876	21245	25429	28881	30900
% Inc-	-	16.5	9.9	13.2	6.9	19.7	13.6	6.9

Source: Field Survey, 1992 (Appendix VIII).

The operating banks appeared to have maintained a progressive savings account policies that induced high level of local patronage. Total number of depositors increased annually from 13,715 in 1985 to over 30,000 clients in 1992 (table 5.13). This is due to increase in the number of operating banks in the area as well as their ability to inculcate banking habits on the rural populace.

FIG 5.4 DEPOSIT ACCOUNT OPERATORS



Source : Field data from table 5-13

5.12 BANKS CREDIT POLICIES AND RURAL CLIENTS PERSPECTIVE

It is pertinent and equally informative to access the rural banks scheme from the users perspective in order to have a comprehensive and balanced coverage.

5.12.1 Loan Procedure

Bank customers and loan receipients in particular are required to satisfy certain conditions before their proposals can be met by their banks. Amongst the requirements is the security arrangement ranked by customers response as follows:

Table 5.14
Loan Approval Requirement Rating

Loan Approved By	No. of Response	Percentage
Credible guarantor	31	32.3
Simple application	25	26
Personal recognition	22	22.9
Complex and certified documents	18	18.8
Total	96	100

Source: Field Survey, 1992.

Banking operations are gradually being de-mystified at the rural level to improve access of users. The lending procedure by banks on loan proposal through application to a large extent, now depends on third party's consent. The guarantor can be individual or socio-economic group but must

be credible in terms of economic and social status. This requirement topped the clients rated response table with about 32 percent affirmative. It is followed by loans approved on simple application and personal identity with 26 and 23 percents clients affirmative. The last and least required security relates to guarantee and domicillary assets in the form of titled lands, buildings, moveable properties, life insurance certificates etc. This last collateral with 19 percent clients affirmative is not easily met by the rural clients, hence its de-popularity.

5.12.2 Cost of Loan Transaction

The cost of loan in the form of interest rate in the formal financial market is often said to be lower than that of the informal sector. However customer's total cost of loan transaction can assume large dimension as expressed by banks clients in table 5.15 below.

Table 5.15
Customers Cost of Loan Transaction

Rank	No of Yes Response	%
High	44	67.7
Moderate	20	30.8
Low	1	1.5
Total	65	100

Source: Field Survey, 1992.

From customers' perspective, the total cost of transacting loan business with their banks is relatively high. 67.7 percent clients affirmative indicated this, while 30.8 and 1.5 percents showed for moderate and low cost respectively on the relative assessement table. The cost in this case includes that of queuing for approval, repeated calls and occassional bribes for favour, in addition to the interest rate.

5.12.3 Loan Delinquency

The pattern of loan default varies across space economies. For the Irepodun - Oyun rural socio-economic region, the prevailing forms of loan default are shown in table 5.16 below.

Table 5.16
Rural Pattern of Loan Default

Category	No. of Yes Response	%
Untimely repayment	36	39.6
Loan diversion	31	34.1
None repayment	2	2.2
Deciet	Nil	-
None of the above	22	24.2
Total	91	100

Source: Field Survey, 1992.

Loan default in terms of none repayment (bankruptcy) of full loans is uncommon to the area. Out of the 91 sampled clients response, there were only two bankruptcy affirmatives representing 2.2 percent. The popular mode of default in the area relates to untimely repayment and loan diversion with about 40 percent and 34 percent of clients affirmative. Loan default by deceit is also uncommon as criminal breach of loan obligation and absconding were unfound among the sampled clients. The untimely repayment condition could be explained in terms of the nature of rural economy that is basically agricultural with a high degree of uncertainty. Loan diversion on the other hand is not a phenomenon unique to rural borrowers in the area. However, the degree of loan fungibility and the overall loan management to guarantee repayment is a subject for further investigation.

5.12.4 Preference for Banking Institution

The idea of banking with formal finance agency has come to stay in Irepodun - Oyun Local areas. However, the type of banks preferred by rural users is ranked by percentage as follows.

Table 5.17
Clients Prefererence for Bank Model

Type of Bank (by scope)	No of Response	%
Unit Bank (Community Bank)	26	38
Commercial Bank	22	32.4
Low-Income Oriented Bank (Peoples Bank)	17	25
Highly Specialised Bank (NACB) and others	3	4.4
Total	68	100

Source: Field Survey, 1992.

The above analysis showed that rural bank users seem to have mostly prefered the new banking scheme namely, Community Banks. 38 percent of the respondents indicated their preference for such unit bank operation in their locality. Next on the preference table is commercial banks with 32.4 percent while Peoples Bank and other specialised banks ranked third and fourth with 25 percent and 4.4 percent clients preferential rating.

5.13 LAGGING PORTFOLIO PERFORMANCE, RATIONALE AND RURAL DEVELOPMENT IMPLICATIONS

The preceeding analysis of loan data in terms of the proportion of banks aggregate loans disbursed to the total deposits mobilised showed an average record of 29 percent. This ratio compared poorly with the 40 and 50 percents targeted by government for 1985/89 and 1990/92 respectively.

Similarly, the sectoral analyses showed that the banks actual loans were at variance with the various government policy targets. A cursory glance at the loan figures presented and if the actual and expected loans were correlated , these might be statistically significant. However, from the point of loan policy targets set by the government, the operating bank branches in the study area could be adjudged ineffective.

A number of subtle reasons might be advanced for the lagged performance of the banks. These range from the government monetary and credit policies, to the nature of rural economy and the rational conducts of the operators. The credit policy guidelines designed to regulate and stabilise the supply of money in the economy by banks in most cases appeared to be inflexible, imperfect and unnecessarily distortionary. These include the interest rate ceiling policy of pre 1992, the loan portfolio quotas, the stabilisation measures etc.

Hitherto, the cost of funds to most commercial banks in the country was much above the nominal interest chargeable on loans to agricultural and small-scale industrial activities. Under such a regulatory policy, banks have a number of alternative options to keep their business up. They might have probably reduced their level of rural loan business in the productive activities to which the low interest rate policy applies, and concentrate on security investments, leasing services, foreign exchange business etc. These activities though essentially pro-urban are made realisable through their branch

network operations. The banks might as well ration their scarce financial resources over the economic space in a manner based on profitability. In both cases, it is the rural areas that often suffer from inadequate loan portfolio attention as most rural productive activities become marginally financed.

Loans and advances that were made by banks under the low interest rate policy often attracted stringent security arrangements of the type analysed under section 5.12, subsection 5.12.1. This situation might have scared regular and potential clients from sourcing and re-sourcing bank loan. In this case, surplus funds might be left idle at the local branches which could invariably be transfered to the urban based sectors to the detriment of the rural areas. Interest rate de-regulation exercise was not effected in the country until January 1992. The effect of the policy on the level of credit made available by banks for rural productive enterprises is rather early for meaningful assessement.

The analysis presented also revealed that the operating banks preferred to advance a disproportionate share of their loan portfolios on short-term basis. This short-term loan policy favours the commercial enterprises like trades, transportation, constructions etc. than agricultural, agri-business and small-scale industrial rural activities. This situation is not unconnected with the low interest rate policy that the banks were expected to maintain at that time. In this case, it would appear rather un-business-like for the banks to lock up their hard earned assets in long-term, low interest repayment ventures like agriculture with absolute low return tendency. Again, the rural areas are at a disadvantage as the level of tertiary

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activities that could be financed by banks are rather scanty compared to the primary and possibly secondary activities.

The various loan portfolio quotas prescribed by the monetary authorities might have been flouted by the banks, partly because of their perception of higher level of uncertainties surrounding rural business. The agricultural sector for instance, was noted to give the least loan repayment in the sectoral analysis of loan recovery pattern in the study area. Yet, this sector represents a dominant activity of the rural economy for which banks may continue to under finance. The reason is due to the fact that agri-business in particular and possibly other rural enterprises in general are not insured against unstable price and demand as well as effects of natural hazards like droughts, floods etc. This situation could promote high breach of loan obligations which a self-sustaining finance agency like commercial bank could not tolerate.

An analysis of loan delinquency in the study area shows that, the popular mode of loan default relates to untimely repayment and diversions. These conducts could be attributed to the economic and physical forces noted above as well as the compeling social needs of borrowers. The size, nature and frequency of loan granted might as well be contributory. In a market situation where the cost of servicing the amount of loans overdue is high, banks credit expansion is done with utmost caution.

In addition, the debt capacity of rural entrepreneurs are comparatively low as the size and number of their entreprises are small.

Even the cash generating portion of the technologically poor rural producers is meagre and uncertain. The cost of retailing loan business to such small ventures and holders could assume high dimension to conventional banks that maintain rigid lending procedures. Such situation could discourage the formal lenders from full credit extension business at the rural level.

The occasional provision of concessionary loans and rediscount facilities by the government through specialised and commercial banks to rural producers has some limiting impact on the rural bank branches. Under the circumstance, the banks casually devote little or virtually nothing out of their self-generating resources to the financing of rural designated sectors. In addition, beneficiaries of subsidised loans at times treat their repayment obligations with levity; a situation that could sap the ability of banks to recover their broader loan contracts. Increased competition from rural parallel agencies like co-operative societies, local money syndicates etc. might be limiting the level of rural patronage enjoyed by rural banks, thus crippling their propensity to optimise rural loan.

Last but not the least is the mounting problem of spiral inflation in the country that often penalise lenders at the expense of borrowers. Under this situation, coupled with regulatory interest rate policy, banks could find it difficult to sustain the purchasing power of their loan, due to decreasing returns. In addition the routine mopping-up exercise done by the CBN under the perceived notion of excess liquidity unnecessarily restricts the volume of credit expansion by banks. In all, a perceptible and doubtless conclusion about the conventional rural banks is their loan reservation policies to avert the risk of corporate loss as the

rural market is dimly and socially viewed.

The over all consequences of the rather poor loan portfolio business by banks on the development of rural areas can at best be imagined and gauged against the realities at the sector. It must however, be reiterated that credit is just a part of the integral factors required to effect greater productivity and income and hence, better life at the grass-root.

The level of rural productivity has continued to decline as most producers and entrepreneurs therein could neither adequately acquire the necessary farm inputs nor establish and manage small-scale industrial ventures on a sustainable basis. This is partly due to the fact that institutional credit has continued to elude majority of the rural producers despite the physical presence of conventional banking halls. Even the adoption of agricultural and small-scale industrial technologies such as irrigation, pumps, fertiliser, chemicals, machines, tools etc. by rural producers could not be sustained beyond initial momentum, due to high cost and lack of credit on a sustainable and popular bases.

Comparatively, rural income has subsequently continued to fall 'ad-infinitum', while the living standards of the rural majority has hardly improved. Rural - urban migration has not been successfully stemed despite all articulated credit efforts and other programmes by our Federal, State and Local Governments.

CHAPTER SIX

CONCLUSION

6.1 SUMMARY, POLICY IMPLICATIONS AND RECOMMENDATIONS

The assessement of the Rural Banking (Expansion) Programme (RBP) has been done from the angle of government policy prescriptions, the banks operational principle and rural users' perspectives.

6.2 SAVINGS MOBILISATION

Judging from the savings data obtained from the field, Rural Banking Scheme in the study area has been a success so far. A whoping sum of over ₦613 million (table 5.1) was generated through savings accounts by just eleven rural bank branches over a period of eight years. This gives an average savings of ₦6.97 million mobilised per bank branch per annum. The number of savings account of rural depositors also increased annually (table 5.13) over the evaluated eight-year period.

The Scheme thus, further proved that huge financial resource exists at certain rural areas waiting to be optimally and effectively mobilised through efficient and appropriate formal institutions.

6.3 LOAN PORTFOLIO EXTENSION

From the point of credit portfolio quota prescriptions, the conventional bank branches have grossly failed to fulfil the Federal Government loan portfolio policy standards to rural sector or areas. This is shown by their annual loans to deposits

record as well as their actual sectoral loan allocation. Total banks loan extended over eight years for rural productive ventures amounted to ₦179.4 million as against ₦613.7 million mobilised as savings and an expected portfolio sum of ₦280.4 million (tables 5.1 and 5.2).

The government prioritised sectors namely, agriculture and manufacturing industries were under-financed by the banks, judging from their actual loan allocation against the expected figures. For the agricultural sector, the banks recorded an achievement index of just 24.6 percent and a loan portfolio failure rate of 74 percent (table 5.4). The manufacturing sector was under-lent to the level of 52 percent from the banks actual allocation of ₦46.9 million as against ₦98.2 million over an eight year period (table 5.6).

The two sectors put together were expected to be financed by banks to the tune of about ₦140 million over the eight years evaluated period. The actual loans to the joint sector stood at ₦58.66 million, giving a deficit of 58 percent index (table 5.8).

From the point of loan portfolio maturity pattern, the banks loans were essentially scheduled on short-term basis. The bulk of their loans were technically lumped under call maturing category, an exigency arrangement in which the amount of loans due or left unpaid were called as at when required by banks. Most of the loans granted rarely exceed a three-year repayment duration (table 5.10) with very short moratorium if any.

The sectoral loan repayment pattern revealed that the agricultural sector lagged behind other sectors in loan returns to the banks.

An average of about 30 percent repayment record was achieved for the sector as against 57 and 68 percents for commerce and industry respectively (table 5.11 and fig. 5.2)

The size and frequency of loans granted by the banks branches were preponderant to the small-scale loan category than to the medium-large scale type (table 5.12 and fig. 5.3). This is an indication that the bulk of the loans were meant for business operations with quick income yielding propensity, rather than in agricultural business with long investment - output gestation.

Banks loan procedure in terms of application, screening and approval still take longer time from the views of rural clients. It also involved a stringent security arrangement in the form of credible guarantors and personal loan history of clients. In terms of total cost of loan transaction to customers, banks time approval and lending protocol imposed relatively high cost, including that of interest rate on clients (tables 5.14 and 5.15). The pattern of loan deliquency observed to be common to the particular local area studied relates to untimely repayment and loan diversion. Deceit and case of bankruptcy are marginal loan defaulting phenomena in the area (table 5.16).

6.4 POLICY IMPLICATIONS

Government rural credit policy effort through conventional banking programme, aimed at accelerating the level of productivity and steming the rather stagnated pace of rural development has partially missed policy targets. Paradoxically, the policy programme seems to be encouraging financial and capital flights from

the rural space through intra and inter-banks transfers of 'idle funds' into urban sector.

The forced location and compulsory allocation of a given minimum quota of banks loan portfolio to priority sectors under regulated interest rate structure, was tantamount to an enforcement of policy on banks to things they would ordinarily and wittingly loath to do. In this case, banks through rational and prudent economic and extra economic forces have spuriously and ingeniously beat the policy target as an escapist strategy to CBN penalties. Such a policy situation tends to diminish banks total service to the national space-economy and also inflicts damage on the financial sector of rural area.

From the point of resource sustainability and self-reliance, a major strategy for rural development, the programme represents a leading model. However, from the perspective of broad credit access to rural producers, another major strategy for rural development, the Rural Banking Programme has not met and could possibly not satisfy the credit yearnings of the teeming rural populace. Banks in their orthodox structure and operational format do not represent appropriate finance institution for wide-spread (popular) access to financial resource at the rural level. Commercial banks, whether forced or otherwise, will prefer to ration their scarce loanable resource primarily on commercial rather than on socio-political portfolio principle. Their economic drive for profitability takes precedence over equity objective in their loan portfolio business.

6.5 RECOMMENDATIONS

Under the present maniacal privatisation and commercialisation programme of our nation's economy, it is incongruous to promote the escalation of rural finance institutions on a public sector basis. Thus, the Federal Government should divorce its ownership of public finance agencies like NACB, Peoples Bank etc. Such agencies can now operationally compete in the rural financial market without concessional loans. There is also a need for the government to de-regulate its credit policies in terms of interest rate structure and minima portfolio quota prescription. This is in view of its artificiality and sub-optimality of credit allocation by banks which the policy prescriptions often engender.

By prescribing and enforcing credit quota on the rural banks, government assumes that the necessary and adequate finance able ventures and entrepreneurs are in place at the rural areas. The under allocation of credit by banks from the point of policy standards in this case seems to have undermined the assumption, as the available rural enterprises are not adequate enough in scale and number to attract full credit allocation. It goes without saying that, where enterprise prevails finance automatically follows: a demand-leading finance principle that is relevant to rural socio-economic planning.

Government should therefore, not aim at achieving too much through proliferation of formalised finance institutions and loan portfolio quota to banks. Rather, various enabling and facilitating environments should be created by the three tiers of government in the country that would allow for agricultural

and industrial transformation of rural areas. This will involve increased public investments in infrastructures or basic needs at the rural level at a pace much more than hitherto, to induce greater number of investors to the area. It will also involve government direct participation in agricultural and industrial investment at the local level to redress the spatial imbalance of investment pattern in the country. It is only when these conditions are in place that banks at that level can be made an effective vehicle of rural development.

Any cosmetic rural finance programme in form of highly specialised bank would at best in the short-run be therapeutic. In the long-run, it may not be able to stand the test of viability, sustainability and profitability under a competitive economic environment in which we operate. In view of the conservative credit extension posture of the conventional banks operating at rural level, the present experimentation effort on unit banks should be cautiously but vigorously pursued. The branch agencies of the conventional banks should not be further strangulated through portfolio prescriptions, rigid credit ceilings and enforcement penalties.

Agricultural sector seems to be particularly less attractive to finance institutions in view of the greater level of uncertainty in the sector. As a strategic sector, it must be given a re-sounding focus beyond subsidies. The National Agricultural Insurance Policy Scheme should be implemented in a way that will allow broad access of the local small-scale farmers to the scheme. Such an insurance policy would help to guarantee better repayment of loans; and when the risk of loss is minimised, banks on their part would be more prepared to extend greater loan to the sector.

As much as possible a multi-agency approach to rural credit programme should be fostered by the government after ensuring that adequate infrastructures and market in terms of effective demand are in place. Under a competitive credit atmosphere, banks would likely change their lending pattern and procedure through innovative products and schemes for rural market. However, the crucial point is that, the horse should and must come before the cart and not the reverse if we expect to see rural formal banking scheme as a veritable instrument of rural development programme in Nigeria.

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APPENDIX I

Banks Aggregate Annual Deposits (Mm.)

Bank	1985	1986	1987	1988	1989	1990	1991	1992
A	15.1	16.8	21.5	24.25	29.35	33.85	39.	46.26
B	10.8	13.7	17.4	18.05	21.89	26.12	30.7	37.45
C	3.75	6.1	9.2	15.6	19	25.	31.7	26.8
D	-	0.59	0.79	0.93	0.89	0.95	0.99	0.64
E	-	-	-	8.1	9.2	10.3	10.7	10.2
F	-	-	-	-	0.18	0.21	0.29	0.46
G	-	-	-	-	0.59	0.65	0.84	0.64
H	-	-	-	-	0.49	0.55	0.59	0.55
I	-	-	-	-	-	0.15	1.8	3.89
J	-	-	-	-	-	-	1.47	2.56
K	-	-	-	-	-	-	0.88	3.23
TOTAL	29.65	37.19	48.89	66.93	81.59	97.78	118.96	132.68

Source: Field Survey, 1992

APPENDIX II

Banks Aggregate Annual Loans Granted (Mm.)

Bank	1985	1986	1987	1988	1989	1990	1991	1992
A	6.85	7.25	8.65	10.75	11.85	12.75	13.45	15.35
B	4.1	6.81	7.62	9.3	10.75	11.69	12.3	13.54
C	0.79	0.8	1.16	11.37	1.54	1.45	1.54	1.58
D	-	0.13	0.17	0.23	0.23	0.19	0.17	0.29
E	-	-	-	0.15	0.11	0.18	0.14	0.24
F	-	-	-	-	-	0.03	0.03	0.15
G	-	-	-	-	0.15	0.21	0.19	0.27
H	-	-	-	-	0.15	0.17	0.15	0.28
I	-	-	-	-	-	0.18	0.25	0.26
J	-	-	-	-	-	-	0.25	0.67
K	-	-	-	-	-	-	0.1	0.38
TOTAL	11.74	14.99	17.6	21.8	24.77	26.86	28.57	33.01

Source: Field Survey, 1992.

APPENDIX III

TARGET ACHIEVEMENT INDEX

Given Target (loan) Achievement Index formula as:

$$Ici = \frac{\Sigma Ai}{\Sigma Ti} \times 100 \quad \text{where}$$

Ic = Index of target loan achieved

A = Observed loan achieved

T = Expected loan

I = activity or sector being examined.

Substituting for the above, the target loan achievement index of banks between 1985/92 are calculated as follows: -

	Year	Sumation	Index in (percents)
i)	1985 Ic	$= \frac{11,740,000}{11,860,000} \times \frac{100}{1} =$	98.9%
ii)	1986 Ic	$= \frac{14,989,500}{14,875,600} \times 100 =$	100.8%
iii)	1987 Ic	$= \frac{17,606,000}{19,557,200} \times 100 =$	90%
iv)	1988 Ic	$= \frac{21,797,000}{26,770,000} \times 100 =$	81.4%
v)	1989 Ic	$= \frac{24,768,000}{32,637,600} \times 100 =$	75.9%
vi)	1990 Ic	$= \frac{26,858,000}{48,887,500} \times 100 =$	54.9%
vii)	1991 Ic	$= \frac{28,566,000}{59,482,500} \times 100 =$	48.1%
viii)	1992 Ic	$= \frac{33,014,110}{66,344,788} \times 100 =$	49.8%

APPENDIX IV

Banks Aggregate Annual Agricultural Loans 1985/92 (₦m.)

BANK	1985	1986	1987	1988	1989	1990	1991	1992
A	0.5	0.55	0.59	0.59	0.52	0.65	0.56	0.57
B	0.47	0.5	0.56	0.54	0.43	0.21	0.52	0.55
C	0.18	0.29	0.32	0.35	0.28	0.32	0.35	0.33
D	-	0.027	0.056	0.06	0.054	0.5	0.035	0.022
E	-	-	-	0.026	0.028	0.018	0.022	0.015
F	-	-	-	-	-	0.02	0.015	0.016
G	-	-	-	-	0.045	0.043	0.035	0.022
H	-	-	-	-	0.045	0.045	0.033	0.025
I	-	-	-	-	-	0.03	0.05	0.05
J	-	-	-	-	-	-	0.025	0.01
K	-	-	-	-	-	-	0.041	-
TOTAL	1.15	1.367	1.526	1.566	1.402	1.386	1.686	1.61

Source: Field Survey, 1992

APPENDIX V

Banks Aggregate Annual Manufacturing Loans 1985/92 (₦m.)

BANK	1985	1986	1987	1988	1989	1990	1991	1992
A	1.4	1.34	1.5	2.45	3.21	2.08	3.17	3.51
B	2.37	1.7	1.33	2.21	2.9	4.41	2.93	3.32
C	0.55	0.35	0.5	0.55	0.7	0.87	1.02	0.92
D	-	0.04	0.065	0.082	0.085	0.073	0.065	0.42
E	-	-	-	0.069	0.043	0.101	0.059	0.057
F	-	-	-	-	-	0.008	0.012	0.026
G	-	-	-	-	0.075	0.08	0.085	0.04
H	-	-	-	-	0.025	0.042	0.046	0.04
I	-	-	-	-	-	0.01	0.015	0.02
J	-	-	-	-	-	-	0.105	0.26
K	-	-	-	-	-	-	-	-
TOTAL	4.32	3.43	3.395	5.361	7.038	7.674	7.507	8.235

Source: Field Survey, 1992.

APPENDIX VI

Banks Aggregate Annual Commerce Loans 1985/92 (₦m.)

BANK	1985	1986	1987	1988	1989	1990	1991	1992
A	1.15	1.5	1.55	2.1	2.5	3.2	3.27	4.4
B	1.06	1.35	1.47	1.93	2.42	2.95	3.14	4.11
C	0.06	0.15	0.34	0.47	0.53	0.24	0.155	0.262
D	-	0.059	0.053	0.083	0.087	0.075	0.072	0.053
E	-	-	-	0.057	0.042	0.059	0.062	0.055
F	-	-	-	-	-	0.002	0.004	0.018
G	-	-	-	-	0.026	0.065	0.051	0.037
H	-	-	-	-	0.063	0.067	0.056	0.057
I	-	-	-	-	-	0.05	0.06	0.04
J	-	-	-	-	-	-	0.115	0.0245
K	-	-	-	-	-	-	0.009	-
TOTAL	2.21	3.059	3.413	4.64	5.668	6.708	6.994	9.277

Source: Field Survey, 1992.

APPENDIX VII

Loan Size and Frequency of Grant by Banks (Time Rate)

YEAR	₦ 100-500	₦ 501 - 1000	₦ 1001 - 2000	₦ 2001 - 3000	₦ 3001 - 5000	₦ 5001 - 10,000	₦ 10,000+
1985	207	102	50	37	17	17	38
1986	287	146	74	56	28	47	73
1987	322	184	95	74	41	78	86
1988	436	176	118	76	46	95	140
1989	497	291	175	92	75	148	181
1990	633	512	217	105	109	163	254
1991	643	724	328	99	136	209	312
TOTAL	3025	2135	1057	539	452	757	1084

Source: Field Survey, 1992.

APPENDIX VIII

Number of Deposit Account Operators

BANK	1985	1986	1987	1988	1989	1990	1991	1992
A	4550	5345	5646	5790	6205	6490	6828	7140
B	4840	4545	5020	5449	4068	6348	6597	6831
C	4325	5227	5923	7028	7330	7831	7727	8228
D	-	858	969	1054	1105	1234	1305	1098
E	-	-	-	555	1021	1570	3322	3885
F	-	-	-	-	323	364	512	467
G	-	-	-	-	662	797	869	682
H	-	-	-	-	531	683	731	559
I	-	-	-	-	-	112	110	125
J	-	-	-	-	-	-	528	1156
K	-	-	-	-	-	-	352	729
TOTAL	13,715	15,975	17,558	19,876	21,245	25,429	28,881	30,900

Source: Field survey, 1992

Department of Geography,
Rural Development Unit,
Ahmadu Bello University,
Zaria.

29th September, 1992.

The Bank Manager,
.....
.....
.....

Dear Sir,

QUESTIONNAIRE ON "AN EVALUATION OF RURAL (BRANCH) BANKS CREDIT PORTFOLIOS AND DEVELOPMENT IN IRTODUN & OYUN LGAs, KWARA STATE"

I am a final year M.Sc. (Rural Devept.) student of the above named University currently conducting a research on the above topic.

I hereby enclosed a copy of the questionnaire drawn on the project topic which you should kindly fill; taking note of the following:-

(i) Make a tick(✓) or write where appropriate

(ii) Your views and information will be treated along with others in the study area to give an aggregate data without any reference to you or any other person or individual bank's name. In addition the confidentiality of the information given is guaranteed.

(iii) Your early and reliable response will be highly appreciated.

Yours faithfully,

Adeniyi Joseph Sunday.

QUESTIONNAIRE FOR RURAL(ANCH) BANK MANAGERs (RQ/01)

PART A

1. Name of Bank .....

2. Location(town) .....(3) LGA .....

4. Number of your Branch in the LGA .....

5. Nature/status of your Bank (tick appropriately)

   (a) Cash ice ( )
   (b) Loan office ( )
   (c) Deposit and Loan " ( )
   (d) Mobile office ( )
   (e) Others (Specify).....

6. Total Employees in the Branch .....

7. Nature and Adequancy of Bank Building ( )

   (a) Bank owned ( ) Rented ( )
   (b) Space Adequate ( ) Inadequate ( )

8. Operating Time (tick)

   (a) Daily, except week ends ( )
   (b) Daily, including Saturdays ( )
   (c) Once per week ( )
   (d) Any other (specify) .....

9. Approximate coverage by:-

   (a) Number of villages .....
   (b) Population served .....

10. Average Number of Customers serviced:

   (a) Per week .....(c) Per year .....
   (b) Per month .....

...../2

7. Existing infirastructure in your area of operation(tick)

(a) Tarred Road ( ) Unterred Road ( )

(b) Pipe borne Water ( )Bore Hole ( ) Stream ( )

(c) Electricity supply:-(i) NEPA ( ) ii Generator ( )
(iii) None ( )

(d) Telephone service:- Available ( ) U
Unavailable ( )

(e) Police Station:- Available ( ) Unavailable ( )

(f) Market operation:- (i) Daily ( ) Weekly ( )
(iii) Both ( )

-...../3

PART B (FINANCIAL SERVICES)

NB: This designed format may not meet the standard of your book-keeping (Records); You may therefore supply information seek as your banking classification PERMITS

I. SAVINGS MOBILISATION

1. Annual Deposits by Account operated:-

Account	Annual Amount (N'000)							
	1985	1986	1987	1988	1989	1990	1991	1992(Proj.)
(i) Savings								
(ii) Current								
(iii) Fixed Deposit								
iv. Mortgage								
vi. Others(specify								
TOTAL								

2. Annual Target Deposits By your Branch

Deposit(N'000)	1985	1986	1987	1988	1989	1990	1991	1992
(a) Estimated Deposit								
(b) Actual Deposit Raised								

3. Annual Deposit Rates Paid on Accounts

Account	Annual Rate (percent) 1985	1986	1987	1988	1989	1990	1991	1992
i. Savings	%							
(ii) Current	%							
(iii) Fixed Deposit	%							
(iv) Mortgage	%							
(v) Others(specify)	%							

4. Deposit Accounts and Number of Operators

Account	Number of operator 1985	1986	1987	1988	1989	1990	1991	1992
(i) Savings								
(ii) Current								
(iii) Fixed Deposits								
(iv) Mortgage								
TOTAL								

LOAN PORTFOLIOS

5. LOANS AND ADVANCES BY SECTOR

(a) AGRICULTURE

(₦'000)

Subsector	1985	1986	1987	1988	1989	1990	1991	1992
(i) Crop Farming								
(ii) Poultry								
(iii) Livestock								
(iv) Fishing								
TOTAL								
Interest Rate charge	%		%	%	%	%	%	%

(b) MANUFACTURING

(₦'000)

Subsector	1985	1986	1987	1988	1989	1990	1991	1992
(i) Food processing								
(ii) Furniture & Fixtures								
(iii) Saw milling								
(iv) Block Making								
(v) Metal products								
(vi) Building Materials								
(vii) Soap making								
(viii) Textiles								
(ix) Others								
TOTAL								
Interest Rate Charge	%	%	%	%	%	%	%	%

(c) GENERAL COMMERCE

(₦'000)

Subsector	1985	1986	1987	1988	1989	1990	1991	1992
(i) Wholesale/ Retail								
(ii) Hotel/ Catering								
(iii) Petrol/Fuel								
(iv) Medical/ Service								
(v) Vehicle/Repairs								
(vi) Tailoring								
(vii) Transport Service								
(viii) Others:								
TOTAL								
Interest Rate charge	%	%	%	%	%	%	%	%

6. LOANS AND ADVANCES BY CLASS OF BORROWERS

(N'000)

Class	1985	1986	1987	1988	1989	1990	1991	1992
(i) Self-Help Groups, clubs and Unions								
(ii) Cooperative Societies								
(iii) Community Devopt. Associations								
(iv) Local Government								
(v) Others(specify)								
TOTAL								
Interest Rate charge	%	%	%	%	%	%	%	%

7. LOANS AND ADVANCES BY MATURITY

(N'000)

Maturity Time	1985	1986	1987	1988	1989	1990	1991	1992
(i) On call								
(ii) Maturing within 3months								
(iii) 3 - 6months								
(iv) 1 - 3years								
(v) 5 years above								

8. RATIO OF LOANS AND ADVANCES TO TOTAL DEPOSITS

	1985	1986	1987	1988	1989	1990	1991	1992
(a) Annual Total Deposit								
(b) Annual total Loans								
Ratio	-	-	-	-	-	-	-	-

9. REPAYMENT PERFORMANCE

Annual Recovery Rate By Sector Grant

(Percent)

Sector	1985	1986	1987	1988	1989	1990	1991	1992
(i) Agriculture	%							
(ii) Manufacturing	%							
(iii) Commerce	%							
(iv) Others	%							

.....6

Annual Loan frequency By size to Borrowers 128

Number of Times

Size of Loan	1985	86	1987	1988	1989	1990	1
₦100 - 500							
500 - 1,000							
₦1000 - 2000							
₦2000 - 3000							
₦3000 - 5000							
₦5000 - 10,000							
Over ₦10,000							

11. Nature of Operational Linkage Rank in Descending order of 4, 3, 2, 1, 0).

Activity	Local Cooperatives	Community& Peoples Bank	Branch Bank	Regional & State Offi
(i) Re-financing				
(ii) Technical-Assistance				
(iii) Staff Training				
(iv) Project Design				
(v) ~~Revenue~~ Reserve Deposits				

...../7

PART C.

1. The Annual level of Deposits mobilised by your Branch can be described as (tick appropriately)

   (a) Highly satisfactory ( )
   (b) Very satisfactory ( )
   (c) Fairly satisfactory ( )
   (d) Satisfactory ( )
   (e) Not satisfactory ( )

2. What is the average Number of Loan Application Received by your Branch per ?

   (a) Quarter .....(b) Year .....

3. How long does it take your unit to appraise and approve a loan proposal ?

   (a).....Days (b) ..... Months

4. Loan Referral frequency to Head Office before Approval (tick appropriately)

   (a) Highly frequent ( )
   (b) Very frequent ( )
   (c) fairly frequent ( )
   (d) Frequent ( )
   (e) No Referral ( )

5. State the collateral Requiremtnts by:

   (a) Terms of Loan

	Short-term	Medium-term	long - term
(i)	.....	.....	.....
(ii)	.....	.....	.....
(iii)	.....	.....	.....

   (b) Class of Borrower

	Small-size	Medium- size	Large-size
(i)	.....	.....	.....
(ii)	.....	.....	.....
(iii)	.....	.....	.....

6. Do you supervise Loans to customers to ensure strict utilization ? Yes ( ) No ( )

7. Costs of (a) Local operation can be described as (tick)

(i) High ( ) (ii) Modrate ( ) (iii) Low ( )

(b) Service Transaction to customers

(i) High ( ) (ii) Modrate ( ) (iii) Low ( )

8. Is Annual Minima Credit Allocation to priority sectors by Monetary Authority Appropriate ?

Yes ( ) No ( )

9. If No, in your opinion what alternative policy can be more effective and efficient ?

(a) .....
(b) .....
(c) .....

10. In what ways has Interest Rate De-regulation Policy affected your operational performance ?

(a) .....
(b) .....
(c) .....
(d) .....
(e) .....

11. Other than financial services does your Bank undertake any social scheme for customers and communities of operation ?

Yes ( ) No ( )

(b) If Yes, state such project

(i) .....
(ii) .....
(iii) .....
(iv) .....

12. What do you think your Bank can do to improve the level of financial services in your area of operation ?

(a) .....
(b) .....
(c) .....
(d) .....
(e) .....

13. What do you think the local communties can do to improve their access to Banking services ?

(a) .....
(b) .....
(c) .....
(d) .....
(e) .....

14. What in your opinion can government do to achieve effective Rural Banking programme in Nigeria

(a) .....
(b) .....
(c) .....
(d) .....
(d) .....
(e) .....

THANKS FOR YOUR COOPERATION

APPENDIX X

Department of Geography,
Rural Development Unit,
Ahmadu Bello University,
Zaria

RESEARCH TOPIC "AN EVALUATION OF RURAL (BRANCH) BANKS CREDIT PORTFOLIOS AND DEVELOPMENT IN ILORIN/ODUN & OYUN LGAs, KWARA STATE"

QUESTIONNAIRE FOR FARMERS AND MICRO-ENTREPRENEURS
(RC/02)

NB: - Please tick(✓) or write where appropriate

PART A

1. Name of Respondent .....

2. (a) Village/Town.....
   (b) Bank Available ( ) unavailable ( )

3. Educational level (tick highest attained)
   (a) Primary ( ) (c) Post Secondary ( )
   (b) Secondary ( ) (d) Vocational ( ) None ( )

4. Membership of association (tick appropriately)
   (a) Farmers co-operative ( )
   (b) Thrift and credit society ( )
   (c) Crafts guild ( )
   (d) Market women association and Better Life Society ( )
   (e) Others (specify) .....

5. Major occupation:
   (a) farming ( )
   (b) Civil servant ( )
   (c) Petty trading ( )
   (d) Craftsman ( )
   (e) Dealers/ Distributors ( )
   (f) Industrialist ( )
   (g) Others (specify) .....

...../2

6. You maintain an account with

(a) Commercial Bank ( )
(b) Community Bank ( )
(c) Peoples Bank ( )
(d) Mortgage Bank ( )
(e) Agriculture Land Cooperative Bank ( )
(f) Merchant Bank) Cooperative Society)

PART B: (LOAN PROPOSAL AND APPROVAL)

7. Nature of Account

(a) Savings ( )
(b) Current ( )
(c) Fixed Deposits ( )
(d) Mortgage ( )
(e) Others (specify) .....

8. For How long have you maintained your Account?

.....year(s)

9. (a) Have you ever applied for a loan/Advance ?

Yes ( ) No ( )

(b) How many times (a) onces ( )
(b) twice ( )
(c) thrice or more ( )

10. (a) Was your loan Proposal Approved ?

Yes ( ) No ( )

(b) If No, any Reason(s) for rejection ?

(a) Lack of collateral ( )
(b) Default on previous loan ( )
(c) Unviability of proposed project ( )
(d) Others (Specify) .....

11. Loan purpose and Approval

(a) Agriculture ( )
(b) Industry ( )
(c) Commerce ( )
(d) Real estate ( )
(e) Consumption ( )

12. How was the loan released ?

(a) in bulk or one lump sum ( )
(b) instalmentally ( )

13. Was the loan approved timely released ?

Yes ( ) No ( )

14. Your other sources of credit

(a) Money lender ( )
(b) Relatives/Friends ( )
(c) Cooperative Society ( )

15. What is the Annual Interest Rate Charged by this other source(s) in question (14) above ?

(a) No interest ( )
(b) Less than 10 percent ( )
(c) 10 - 20 percent ( )
(d) 21 - 30 percent ( )
(e) Over 30 percent ( )

16. Bank Lending Rate is relatively

(a) High ( ) (b) Moderate ( ) (c) Low ( )

17. Total cost of borrowing from your Bank is comparatively

(a) High ( ) (b) Moderate ( ) (c) Low ( )

18. Loan procedure is by

(a) Simple application ( )
(b) Complex paper screening ( )
(c) Credible guarantor ( )
(d) Certified document(s) ( )
(e) Personal recognition ( )
(f) Others (specify) .....

PART C (LOAN UTILIZATION AND DELINQUENCY)

19. (a) Agricultural Loan

Subsector	Amount granted (₦'000)	Amount invested (₦'000)
(i) Crop farming	.....	.....
(ii) Poultry	.....	.....
(iii) Livestock	.....	.....
(iv) Fishing	.....	.....

(b) Manufacturing:

Subsector	(R'000) Amount granted	(R'000) Amount invested
(i) Food processing	.....	.....
(ii) Textiles	.....	.....
(iii) Furniture&Fixtures	.....	.....
(iv) Saw milling	.....	.....
(v) Block Making	.....	.....
(vi) Others(specify)	.....	.....

(c) Commerce

Subsector	(R'000) Amount granted	(R'000) Amount Invested
(i) Wholesale/Retail	.....	.....
(ii) Transport Service	.....	.....
(iii) Repair Service	.....	.....
(iv) Construction Works	.....	.....
(v) Hotel&Catering Service	.....	.....
(vi) Dressing Saloon	.....	.....
(vii) Others(specify)	.....	.....

20. Repayment period set (tick)

(a) Less than one year ( )
(b) 1 - 3 years ( )
(c) 3 - 5 years ( )

21. Have you ever defaulted ?

(a) By none repayment Yes ( ) No ( )
(b) By untimely repayment Yes ( ) No ( )
(c) By Deceit Yes ( ) No ( )
(d) By loan diversion Yes ( ) No ( )

22. Reasons for default

(a) .....
(b) .....
(c) .....
(d) .....

PART D

23. Other than being a customer, do you enjoy any of the following participatory status ?

(a) Equity share ( )
(b) Membership of Board ( )
(c) Management membership ( )
(d) None ( )

24. Estimated Annual Income
(a) Pre-loan Estimate ₦ .....
(b) Post - Loan Estimate ₦.....

25. In your assessment, your loan-supported project has partly resulted in the following:

(a) increased productivity ( )
(b) improved income ( )
(c) improved material gains ( )
(d) negative decline ( )
(e) None ( )

26. Apart from Deposit and Loan Schemes, what other service(s) do you enjoy from your Bank?

(a) .....
(b) .....
(c) .....
(d) .....

27. Which of the following Bank Models do you or your community prefer most ?

(a) Commercial Bank (Branch office) ( )
(b) Unit Bank (Community Bank) ( )
(c) Low-Income (Class) oriented Bank(Peoples Bank) ( )
(d) Specialised Bank (N.A.C.B.) ( )

28. What are your suggestion(s) for improving Banking services (especially credit) to the Rural dwellers?

(a) .....
(b) .....
(c) .....
(d) .....

THANKS FOR YOUR COOPERATION.