RURAL BANKING AND NIGERIA'S DEV. FINANCING

BY:

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DECLARATION

I hereby declare that the write-up is original and a product of my research findings and that I am responsible for any errors of commission or omission.



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DEDICATION

I dedicate this project to my beloved wife, **Grace Philemon** and my children **Medline Paula** and **Meshach Funom** for their patience during my frequent absence from home.

CERTIFICATION

This project titled "RURAL BANKING AND NIGERIA'S DEVELOPMENT FINANCING" meets the regulations governing the award of the degree of Master of Business Administration of Ahmadu Bello University and is approved for its contribution to knowledge and literary presentation.

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ACKNOWLEDGEMENT

I am most grateful to God the Almighty for giving me the strength and wisdom to undergo this course. I am also grateful to my Supervisor, **Hajiya Maryam Larai Shafi'i** , relations and friends for their assistance during the time of this course.

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My thanks also go to the staff and management of First Bank, Union Bank, United Bank for Africa, Afribank plc, Allied Bank, People's Bank, Community Bank (zonal office) and other banks and Financial institutions based in Kaduna who formed the reference point of this project.

ABSTRACT

This project is meant to assess the performance of Rural Banks in Nigeria with reference to their contribution towards the development of the country at large, taking into consideration the objectives for their establishment. It also intends to examine the factors that have affected their performance and to make recommendations as to how their performance can be improved.

The primary aim of establishing the rural banking Policy and rural based banks like People's bank and the community banks was to encourage greater participation by rural dwellers in the mobilisation and utilisation of resources for development in the rural sector.

The rural banks have not been performing according to expectation because they have not been able to channel a significant part of the resources available to the rural areas. Some reasons given for the poor performance of the rural banks include:

i) Low capital base

ii) Irresponsible management

iii) Poor accessibility,and

iv) Harsh and unstable political and economic environment.

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The study makes, among others, the following recommendations:

i) There should be adequate monitoring of the implementation of the Rural Banking Policy by the Central Bank of Nigeria.

ii) There should be proper evaluation of loan requirements to ensure adequacy of loans granted and to ensure that it goes to the needy.

iii) Government should inject funds into cooperative and agricultural banking so that credit facilities can be geared towards agricultural financing.

iv) All rural commercial bank branches should provide full range of banking services daily.

v) The Central Bank of Nigeria should use it's power of optimising the rate and direction of growth of the economy not only in theeory but in practice. It should use the monetary policy of maintaining the flow of income to extend to the needy sectors.

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1. INTRODUCTION

1.1 Background of the study.

The theme of the dissertation was not a child of circumstance nor of chance. It had been burning in my mind for a considerable length of time.

Firstly, there had been little or no attempt to conduct research into our rural banking policy to find out the objectives and goals, the methods employed towards achieving them, the out come of the efforts, the shortcomings of the policy and the possible areas of improvements.

Secondly the immense neglect of the Nigerian Rural sector which constitute a high percentage of the country's population is serving as a retardant to the much needed development at all levels and in all spheres of human endeavour. In recognition of this neglect, past administrations have introduced various policies aimed at improving the lot of the masses in the rural areas through the initiation of various development programmes. Regrettably, these policies have been dogged by failures at various turns.

Looking back to the pre-independence era, the development policies and programmes were largely foreign-controlled. It is common knowledge, that the colonial masters had little or no interest in developing the country itself. Emphasis was laid more on the routes through which their loot was evacuated out of the country. Even the so called Regional autonomy granted by the colonial government *in 1952 only brought about the partitioning of the country into three (3) political* and economic power blocks namely: the North, the West and the East which lead to the establishment of the Northern Nigeria Development Company, NNDC, in the North; the ODUA group in the West; and the ESIALA in the East. Activities of these companies and organizations have been heavily in the urban centres with hardly any impact in the Rural sector.

The post-independent government in Nigeria evolved various development programmes (plans) in the sixties and seventies which laid emphasis on the rapid development of basic infrastructures such as Roads, Railways, Airports, Steel Plants, Refineries, Telecommunication networks at all levels. The faulty mechanism in these plans lies in the fact that they have, more often than not, been urban-biased with little to show in the rural areas. In the few cases where specific schemes and programmes were evolved for the development of the rural sector, they have almost always failed to create the much needed impact.

The poor attention given to the rural farmer, who is still battling with peasant farming when mechanized farming has become the order of the day in developed countries, and the poor infrastructural facilities at the disposal of the common man have only contributed in making life more unbearable. The oil boom of the late 1960s and early 1970s that saw Nigeria become a major exporter of crude oil gave the common man little cause for cheer. Government attention shifted from other revenue generating bases like agriculture and solid minerals to crude oil. The proceeds from the oil revenue were used in the development of urban centres at the expense of the rural sector. This trend is responsible for the rural-urban migration of the common man in the late 1960s in search of greener pastures.

There have been progressive attempts by past and present administration to rejuvenate the rural sector. Policies such as Operation Feed the Nation (OFN), the green Revolution, the Economic Recovery and Reconstruction, and until recently the Structural Adjustment Programme (SAP) have been embarked upon with little or no impact on the rural populace.

Thirdly, the rural sector has suffered serious neglect in areas of Capital formation/generation and in the channeling of same for productive investment and development. Some are of the opinion that this set back is largely due to lack of transparent commitment on the part of the government to reverse the trend. Even

where efforts have been made by government through the formulation of relevant policies aimed at rehabilitating and revitalizing this sector, it had always, in the main lacked vision, direction and determination.

Of note is the Rural Banking Policy of past administrations which include among others; the establishment of Agricultural Credit Guarantee Scheme in 1978, Rural branches of licensed banks (1975-1987), the Nigerian Agricultural Co-operative Bank (NACB) 1973, The Peoples Bank (1989), The Community Banks (1991), etc. All these were aimed at mobilizing funds for productive investments and developments in the rural sector.

It is the main theme of this project to analyze these policies, with particular emphasis on their strengths and weaknesses, and to also focus attention on their method of implementation in order to come up with fruitful recommendations necessary to provide remedies for the lapses and deviations discovered.

1.2 Objectives of the study

(i) To examine the Rural Banking Policy in use.

(ii) To examine the extent to which the Rural Banking Policy has been implemented.

(iii) To examine the impact of Rural Banking Policy in the mobilization and utilization of resources for development in the rural sector.

(iv) To high-light the successes and short comings of this policy.

(v) To identify the problems faced in the implementation of the policy.

(vi) To suggest measures necessary to overcome the problem and short comings, and to improve development across the country in general.

1.3 Significance of the study

The Nigerian Rural sector without doubt constitutes a sizable percentage of the Country's total population, in spite of the migration to the Urban centres, which is a pointer to the fact that financing development in this sector deserves more than a passing interest, particularly when one considers the vast untapped resources within the country. The necessity for this study would have been minimal if this was the only reason.

The level of development of basic infrastructures in this sector is at its lowest ebb in this era of technological advancement around the globe. Our rural roads are virtually inaccessible, having become death traps, in spite of the much trumpeted Directorate for Foods, Roads and Rural Infrastructures (DFRRI) programmes and propaganda of the late 1980s. Water and Electricity have remain mere dreams in the lives of the rural populace.

We have witnessed large increase in the number of banks and finance houses in the country in the last ten years with the establishment of the highest numbers of branches in the rural areas. In addition the immediate past administration within its eight-year rule evolved vigorous economic policies aimed at improving the lots of the rural populace through the establishment of people-oriented banks like the Peoples Bank and Community Banks. But these policies are yet to meet the yearnings and expectations of the common man in terms of mobilizing enough savings for productive investments and developments. This is another aspect that necessitates the study.

It is hoped, that within the context of this work, the reasons for the failure, shall be high lighted, along with the causes/sources of such failure. An attempt will be made to find out if the problem is with the policies, or their implementation or a mixture of both.

1.4 Scope of the study

The study covers the policy objectives and implementation of Rural banking policy, the impact of rural banking, financial institutions and other special institutions on the rural sector in terms of developmental growth.

Data were obtained from some selected relevant financial institutions, rural branches of licensed banks nation-wide. The exercise was carried out to ensure an even spread.

1.5 Research methodology

The instruments for research work included

(i) Interviews: This involved personnal interviews with staff at both the upper and lower rung of the ladder. The target of research comprised personnel of all cadre of the institutions involved including management staff in order to obtain wide ranging contributions. The interviews conducted featured a combination of open-ended and close-ended questions. The staff were most willing to give candid and detailed answers to questions asked. They had no qualm with the idea of having their views jotted down or, in some cases, their voices recorded in the tape recorder.

(ii) Survey of records:

This involved wide and varied consultation with source document from authentic and direct quarters. The institutions targetted for this excercise gave me free access to relevant books that relate to their establishment, functions and operational guidelines. Their assistance in this regard proved quite useful.

(iii) Analysis of data and other records:

It goes without saying that a meaningful solution to the research problem rests largely on the data generated from research findings. It is therefore important that the data be carefully and meticulously checked, organised and presented in a logical and meaningful way. The analysis in this research featured a combination of naration and tabulations aimed at achieving sound delivery.

(iv) Literature review:

The literature review excercise covered local and foreign textbooks, journals, periodicals, dissertations, newspapers (local and international), etc. Profuse use of Central Bank of Nigeria publications such as briefs, reports and reviews was made. Publications by other financial institutions were also used. The literature review was highly selective and appropriately related to the topic.

1.6 Limitations of the study

One obvious limitation of this type of study involving personal interviews is the high risk of subjectivity to which the answers are exposed. It is not possible to conclude that the answers to the non-statistical questions represent the immutable stand-point of each institution. To curb this limitation, effort was made to conduct personal interviews with all categories of staff.

A final limitation worth mentioning is the dearth of literature materials on rural banking and development financing in Nigeria. This dearth also extends to non-availability of data and statistics on the impact of Structural Adjustment

Programme on development of the rural sector for whom it was designed. It is however possible that the topic of the project would derive its strength and worth from the fact of its relative "newness" in the horizon of banking literature in Nigeria.

1.7 Chapter preview

The project is divided into two main parts (I) and (II). Part I contains three chapters. Chapter one offers an introductory discourse, chapter two treats the literature review of rural banking and Nigeria's development plans, with particular reference to People's bank, Community banks, rural branches of licensed banks, financial institutions and credit schemes. Chapter three is devoted to a review of development financial institutions in Nigeria which include Central Bank of Nigeria, Nigeria Agricultural and Cooperative Bank, Agricultural Development Projects (ADPs) and a host of others.

It is clear therefore that the bulk of discussion in part I is concerned broadly with the "status quo" exposition and analysis of the rural banking system, policies, and implementation in the development of Nigeria as a nation.

Part II contains two chapters. Chapter four focuses on the practical analysis of the way development is brought about through the use of rural banking policy. It dwells on the achievement and failures of the policy and its implementation. It also touches the achievements and failures of rural banks such as People's bank, Community banks, etc. which came in the wake of Structural Adjustment Programme as tools for development. Chapter five is the concluding chapter of the project and contains summary of findings, conclusion and recommendations made thereof.

CHAPTER 2

2.0 DEVELOPMENT POLICIES AND PERSPECTIVES OF RURAL BANKING.

2.1 Meaning and history of Rural Banking in Nigeria

In the early stage of development, government plays a very crucial role in mobilizing and channeling funds for investment in the rural areas. This is because the relatively low savings ratio of the rural household is not entirely caused by low productivity , but also by the absence of institutional agencies which could mobilize savings and channel them into productive investment. Thus, for a long time, savings in the rural areas have been through the "ADASHI" system, which by and large is being contracted in anticipation of a forecasted or future expense in form of marriage ceremony, payments of tax, and other unforeseen expenses. Until recently, institutional arrangements for the mobilizing and channeling of funds in the rural sector was entirely outside the banking system.

As stated earlier, despite the long history of banking in Nigeria, branch banking was concentrated in a few large cities sparsely scattered across the country. These branches have had very little impact on the rural populace. Commercial bank credit to agriculture which is the main concern of the rural populace has been very small even with the involvement of concerned government agencies. This confirms that the credit needs of the rural sector has always been met largely outside the organized institutional setting.

The demand for rural credit could be divided into areas like the uses to which farm credits are applied, duration of the loan repayment, in relation to the basis, the size and the timing of the demand for loan.

The uses to which credit received might be put will depend on whether the credit is constrained or not. The constrained credit is usually given with collateral and for specific purposes. The borrower is free in the disbursement of unconstrained than constrained credit, the various uses to which constrained credit is put is a better indicator of the uses to which rural borrowers would most likely apply their credit. If the rural borrower had constrained credit that is not tied to a specific purpose, he would most likely expend the loan on as many multiple uses as if it were an unconstrained loan. These are some of the factors that make the rural borrower a high risk for commercial banks.

Besides, some of the items for which credit is required have specific time requirement. For example, credit demand for food, would be during the periods of inflation or scarcity. While the demand for festivals is irregular. The point here is that the nature of unconstrained credit is such that it would not add much to productivity. It also makes it difficult for credit agencies to evolve a suitable loan processing mechanism for the rural sector.

Under normal circumstances, the demand for rural credit for investment purpose will depend on the cost of credit and the marginal efficiency of capital. At times, the profitability of investment in the rural setting is very difficult to determine by the credit agencies due largely to lack of qualified technical personnel to carry out the exercise, and the prevailing environmental factors affecting the rural areas.

In recent times, institutional sources, such as Government agencies, Commercial Banks and produce buyers have become the major suppliers of credit to the rural sector. The following institutions amongst others have made useful contributions to rural development in the areas of credit mobilization and utilization: Nigerian Agricultural and cooperative Bank (NACB) of 1973; Agricultural Credit Guarantee Scheme (ACGS) of 1977; Rural Banking Scheme of 1977; and improved lending rates to Agricultural sector small and medium-scale enterprises in order to improve development at the grass roots level. Others include the National Directorate of

Employment, the People's Bank Scheme and the Community Bank Scheme.

2.2. Rural Banking Policy

The Nigerian Government decided through the Central Bank in 1977 to embark on a well defined network of branch banking system on a nation-wide level to cover the entire country. This became necessary in recognition of the reluctance of banks, notably the erstwhile foreign banks, to extend services to the rural areas of the country. The advent of the indigenisation decree and its implications. coupled with the various strides made in the area of industrialization and technological development, were all with a view to improving the pace of development both in urban and rural areas. The rural banking scheme, as stated earlier, was initiated in phases with the deliberate intention of deriving full benefits of the scheme . The first phase of the scheme was set in motion in July 1977 and it covered a period of three years. The second phase commenced in July 1980 and lasted till December 1983. The third phase which commenced 1st August 1985 terminated on 31st July 1989.

In addition to these measures, government saw the need to establish banks with rural base such as the People's Bank and the Community Bank to compliment the rural banking policy.

2.2.1 Objectives of the Rural Banking Policy

The level of economic development in Nigeria at the time the policy was introduced showed an imbalance with most of the development programmes hitherto designed in favour of the urban centres. The most immediate policy objectives of the rural banking policy was aimed at:

1. Cultivation of banking habits amongst the rural dwellers.
2. Mobilization of savings from the rural areas for the purpose of

channelling some to profitable ventures.

3. Creation of credit by way of equity loans for small scale industries.
4. Development of Agriculture and agro-allied industries in the rural areas with a view to achieving the national objectives of self-sufficiency in food production.
5. Curtailing the drift of young men and women from Rural areas to the urban centres.
6. Providing job opportunities to the ever increasing population.
7. Preparing reasonable base to counteract possible economic depression and prevent further spread.
8. Assisting the newly created Local Government in their financial transactions.

The rural branches opened in the various Local Government areas were meant to provide the traditional banking services such as providing facilities for customers to open and operate either a current or savings account. In addition to these two traditional banking services, there are many more occasional services that will also be offered to the rural customers such as:

1. Sale of travellers cheques to customers who want to travel abroad or to other states..
2. Opening of letters of credit for customers who want to place order from abroad.
3. Purchase of stocks, shares, Treasury Bills, etc on behalf of customers who request the bank to do so.
4. Payments of annual dues for associations, instalmental payment of debts and other contributions on behalf of customers.

These are the laudable objectives of the Rural Banking Policy which if properly executed could transform the country's economy within a very short period into a viable and self-reliant mechanism for development.

This policy tends to play down the profit-making aspect of the banking systems. . In view of this, banking concepts such as the pay back period and optimal equity ratios are to be relaxed so as to derive the full benefit of the scheme. It must be quickly stated, however, that the policy does not suspend the main objectives of the banking systems but operates in conjunction with them.

According to the Central Bank of Nigeria, the banking Industry should increasingly be geared towards supporting national programmes designed to achieve:

(a) Self-sufficiency in agricultural output with some surplus to export.

(b) Substantial increases in industrial production and promotion of export where feasible.

(c) Rapid increases in the quantity and quality of housing facilities.

(d) Diversification of the economy and forging of various linkages among the different sectors of the economy.

(e) Expansion of banking facilities throughout the country to mobilize savings and ensure their optimal allocation.

(f) Increase in the share of the small scale enterprises in the flow of credit particularly in the rural areas

2.3 Rural Branches of Licensed Banks

2.3.1 Phase I: July 1977 - December 1980

In this phase, two hundred (200) centres were identified and allocated to the Commercial Banks to establish rural branches in the centres. Criteria used in the allocation include:

a. Banks that are already well established were given the more allocation than the up starts and those in the pipeline.

b. Any rural area with a population of 50,000 people and above was considered a centre.

c. Any rural area that has suitable institutions.

d. Local Government headquarters.

e. Any rural area that has industrial and commercial centres.

f. The rest was left to the discretion of the Central Bank.

In identifying centres for this phase, priority consideration was given to the local Government headquarters. Thus, all Local Government headquarters that were hitherto not enjoying banking services were identified and allocated bank branches in 1977 except those that were inadvertently left out or created after allocation. Consideration was also given to the extent of bank's involvement in rural banking. Those banks that were already operating actively in the rural areas were allocated fewer centres and vice-versa. On the basis of this allocation, banks were expected to be brought on to the same level with regards to the ratio of their rural branches to urban offices.

2.3.2 Phase II: August 1980-December 1983.

This phase, like the first, spanned a period of three years. A total of two hundred and sixty-six centres were identified for allocation. For this reason it became necessary to give the banks a longer period. In identifying centres in this phase, attention was shifted to rural areas or villages near the local government headquarters.

At the beginning of each phase, the banks were directed to submit to the Central Bank their implementation programmes for scrutiny to ensure that they were realistic enough to warrant the opening of branches within the stipulated periods. To encourage active participation by the banks the following incentives were incorporated in the scheme:

a. Waiving of a feasibility study/survey report as a pre-requisite for the establishment of rural bank branches.

b. Allowing the banks the monopoly of providing banking services in the allocated centres for a period of three (3) years .

c. Allowing the banks to write-off the capital cost of erecting the office blocks and staff quarters within three (3) years.

Phase III commenced on August 1, 1985 and spanned exactly four (4) years till the 31st of July 1989. Within this period a total of two hundred and ninety three rural branches were established which failed short of the stipulated figure of three hundred required by the Government. The short fall of the various phase were however later established.

These various phases of branches no doubt provided the much desired boost to the rural sector in terms of banking services, which has improved both economic and agricultural development.
Table I in the appendix illustrates the allocation by Banks in some selected states for both phases. Table II in the appendix illustrates the allocation by states in both phases.

2.3.3 The merits of Rural Branches of licensed banks

The gains of rural banking include the very obvious one of bringing banking services closer to the people at the grass roots. This is very much in line with the concept of bringing government closer to the people.
The Rural Banking Policy of establishing rural branches gave a lot of support to the newly created local government at the time by serving as financial centres for the transfer of local funds from both federal and state governments to the local government. This service is still relevant not only to the local government council but also to the civil servants and business enterprises in the rural sector.

The availability of rural banking facilities, has the capacity of reducing the chances of very large cash holdings by individuals mostly under unsafe conditions. It also certainly reduced cases of robberies and loss of wealth through hazards.

This development is also capable of reducing the very wide urban-rural gap in terms of infrastructures and other social amenities. Telephones, Electricity supply, adequate and healthy drinking water, accessible roads, safety in terms of provision

of adequate law enforcement agents will improve the standard of living of the rural populace and reduce the drift to the urban areas.

2.4 Financial Institutions and credit Schemes.

Financial institutions and credit schemes have no doubt played very important roles in enhancing development at all levels. Some of the financial institutions that have performed very well in this regard include the Nigeria Agricultural and Cooperative Bank, The Nigerian Industrial Development Bank, the People's Bank and the Community Banks. All these were designed solely to bring about meaningful development through the mobilization of funds for programmes and schemes directed at the general populace; particularly at the grass roots level. The Nigeria Agricultural and Cooperative Bank was established to serve as the leading organization to provide the much needed credit schemes for agricultural developments. The conditions for the credit facilities were fine-tuned in order to lessen the problems normally associated with such facilities in a normal banking system. This provided a lot of boost to farmers not only in the production of farm produce but also in the field of irrigation and fishing. Unprecedented yields were recorded, particularly within the first few years of establishment. The bank still serve as the leading Agricultural Bank today.

The Nigerian Industrial Development Bank, on the other hand was established to boost industrial growth. This bank unfortunately concentrated its activities within the Urban Centres, with the rural areas hardly getting much impact or hardly reaping much from it. This is so because most industries are sited in urban centres.

The most People-oriented bank emerged with the establishment of the Peoples Bank in 1987. Its objectives were quite laudable. It was designed specifically for the grass roots people, to provide credit facilities for the market women, men, and petty traders to enable them run small-scale enterprises without a collateral. This special provision created the quickest access to the grass root man who had

hitherto seen the banks as the exclusive preserve of the rich. The requirement of a collateral, guarantees and other similar conditions have always discouraged the private entrepreneur in the rural areas from venturing into business. The peoples bank, particularly, at inception removed this fear from the minds of so many willing entrepreneurs and gave rise to so many small-scale industries and enterprises that are still surviving today. The bank started operations with a maximum credit facility of two (2) thousand naira per head, which was later increased to five (5) thousand naira per head.

2.5 Community Bank Scheme.

When the steam within the Peoples Bank scheme began to show signs of subsiding, the government reached into its innermost shelf and came out with yet another scheme - the community bank. Unlike the Peoples Bank where the Federal Government provided the funds, gave the guidelines and even selected personnel to run it, the Community Bank Scheme was designed by government as an engine that was supposed to fuel and run itself. Government merely provided the guide lines for the establishment of the scheme i.e each Community is to give birth to a bank within its community. The share holders are to be members of the community, no single individual is to own more than 5% (five percent) shares of the bank and the bank can establish as soon as the share capital is up to two hundred and fifty thousand (250,000) naira only. Government after ascertaining and appraising the status of the bank through the supervisory body set up by it (National Board for Community Banks) will allow the bank to take full charge of its day to day running. Each bank's performance is to be re-appraised at the end of each financial year by the National Board for Community Banks through its statement of account presented at the Annual General Meeting of the share holders. The objectives of this scheme are quite laudable, and are geared through the mobilization of funds solely in the rural areas for the rapid development of

same. It ensures that funds within the rural areas are mobilized and used for the upliftment and betterment of the rural areas and its people.

2.6 The Role of Central Bank in rural development

The history and scope of Rural Banking in Nigeria will be incomplete without having a peep at the developmental activities of the Central Bank of Nigeria which has played a major role in the development and nurturing of the Rural Banking Scheme.

In order to facilitate economic development, Central Banks in developing Countries tend to engage in activities which extend beyond their traditional functions. It is in this regard that the Central Bank of Nigeria (CBN) has played a unique role in the development of the Nigerian economy, particularly in promoting Agricultural and Industrial development. In general the Bank's development activities are extensive, causing not only its promotional activities in Agriculture, manufacturing and export, but also National economic policy formulation.

Another way the Central Bank of Nigeria (CBN) has influenced development of the Nigerian economy is through the promotion of and continuous assistance to development Banks and institutions, which include among others, the Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI), the Nigerian Agricultural Insurance Company (NAIC), the Federal Mortgage Bank of Nigeria (FMBN), the Nigerian Deposit Insurance Corporation (NDIC), the security and exchange commission and the Nigerian Agricultural and Cooperative Bank (NACB).

Of particular concern and interest to this study is the promotion of Agricultural and Rural development by CBN through its regulatory activities which lead to the birth and growth of the following:

2.6.1 Promotion of Rural Banking.

To encourage banking habit nation wide and channel funds into rural development, the CBN introduced the Rural Banking Scheme in June 1977 in three phases. During the first phase (1977-1980), the commercial Banks were instructed to establish rural branches Nationwide by taking their Banks to the grass roots in order to facilitate availability and use of funds for development in the rural areas. The commercial banks complied fully by opening two hundred (200) branches Nationwide. (shown in appendix I)

In the second phase spanning 1980-1985, two hundred and thirty (230) out of two hundred and sixty-six (266) branches stipulated by the CBN were opened.(shown in appendix II). Under the third phase (1st August 1985- 31st July 1989) a total of two hundred and ninety-three (293) out of the 300 branches stipulated were opened. (breakdown not obtained). Those not opened during the second and third phase were subsequently opened with only one outstanding. Hence as at June 1992, seven hundred and sixty-six (766) branches stipulated by the CBN had been opened. Also the CBN stipulates that not less than fifty percent (50%) of the deposits mobilized from the rural areas is to be advanced as credit to the borrowers.

2.6.2 Promotion of small-scale Enterprises

The CBN since 1970, has been instrumental in promoting wholly-owned Nigerian enterprises. In its policy guide lines, the bank directed that with effect from April 30, 1970, credit to indigenous borrowers was to be at least 35 percent of commercial and merchant banks total loans and advances. The proportion of loans to indigenous borrowers was raised in subsequent years with special emphasis on small-scale enterprises. Currently banks are to advance not less than 20% of their

total loans and advances outstanding to small-scale enterprises. Non compliance attracts stiff penalties. All this is with the aim of channelling locally generated funds for development.

2.6.3 Promotion of special schemes and funds

The CBN has also been very active in promoting special schemes and funds to enhance economic development. This has been in the areas of Agricultural finance, export development and promotion of small and medium-scale enterprises.

The Agricultural credit Guarantee scheme , is a good example, established in 1977, commenced operations in April, 1978 under the management of CBN, which initiated its establishment, while a board of directors was constituted for policy making. The scheme was designed to encourage banks to increase lending to the Agricultural sector by providing some form of Guarantee against risk inherent in agricultural lending.

The National Economic Reconstruction Funds (NERFUND) is a special scheme set up by the Federal Government in 1989, to provide medium and long term loans to small and medium-scale enterprises (SME), in local and foreign currency to aid economic development. The CBN contributed N100 million to the fund to provide the much needed buffer.

2.7 Other Governmental policies that have enhanced economic development.

Various developmental policies have been embarked upon since independence in 1960 that are aimed at improving and solving the depressed nature of Nigeria's economic and agricultural sectors. Notable among these are:

2.7.1 River Basin Development Authority.

The practice began with the establishment of the Lake Chad Basin Commission in 1963. Since then, several other River Basins have been established for example, the Niger River Basin, the Benue River Basin, the Rima River Basin, the Hadejia-Jama'are River Basins etc. An important feature of the River Basin development scheme is that it transcends state boundaries and assists farmers involved fish and crop production throughout the year.

2.7.2 National Accelerated Food Production Project (NAFPP).

This project was initiated in 1973 by the then military Government of General Yakubu Gowon with the sole aim of increasing food production. This is by far the most ambitious Programme to be supervised by the Federal Ministry of Agriculture in the area of food production. The economy was much better then, which saw the scheme funding farm project and improving on the high yield of a variety of farm produce. Fertilizers and pesticides were made available to farmers at affordable prices. They also paved way for credit management through a coordinated package approach. Over 50,000 farmers participated in the project either as individuals, groups, associations or cooperatives.

2.7.3 Operation Feed the Nation (OFN).

The principal theme of this scheme was the need for self-reliance in the area of food supply and food production. It also encouraged Commercial Banks to give substantial loans to farmers. To encourage this the scheme spanned the administration of general Obasanjo (1976-1979).

2.7.4 Green Revolution Programme

This Programme was the brain-child of the Civilian Administration of Alh. Shehu Shagari (1979-1983) which was launched with a lot of fanfare, with the aim of rescuing the Nation from its over dependence on oil, in order to increase its resilience and ensure its growth on several planes. It provided continuity for the Green Revolution earlier introduced by the preceding government. The attention of the populace was directed at food production for both domestic and export.

2.7.5 Others

Several other development schemes and programmes have been evolved over the years which have had meaningful impact on the economic and Agricultural Development of Nigeria. Worth mentioning among others are:

a. The Directorate of Foods Roads and Rural Infrastructure.
b. The National Directorate of Employment.
c. The Peoples Bank Scheme.
d. The Agricultural Development Project.
e. The Community Bank Scheme.

They will be considered in greater details in chapter 3

CHAPTER 3

3.0 DEVELOPMENT FINANCING INSTITUTIONS IN NIGERIA

3.1 NIGERIAN AGRICULTURAL AND CO-OPERATIVE BANK (NACB)

The absence of a national credit institution for financing agriculture in Nigeria had been one of the major obstacles to agricultural development. An attempt to rectify the situation by the then Federal Government was made with a provision of N6m (six million Naira) in the 1962-1968 National Development Plan for the establishment of an Agricultural Bank.

The assistance of the International Bank for Reconstruction and Development (World Bank) was sought and by 1968 a feasibility study had been carried out by a joint team of World Bank and USAID experts. However, the project could not take-off due to the civil war. In 1969 a fresh study was carried out by the World Bank at the request of the Federal Government. The resulting "Stoneham Report" contained recommendation for the establishment of the Nigerian Agricultural and Cooperative Bank Ltd (NACB).The recommendation was accepted and included in the 1970 - 74 National Development Plan, for implementation. The inauguration of NACB on 6 March 1973 thus marked the fulfillment of a long standing need in the field of agricultural development.

The Bank established as a limited liability company had an initial authorized and paid-up capital of N2 million. The share capital was increased to N150 million in 1979. The Central Bank is a shareholder and contributes 40% of the share capital. The outstanding deposit from the short-fall of the prescribed allocation to the agricultural sector by the Commercial Banks and transferred to the NACB to support its finance of the Agricultural sector. The balance of the share capital is held by the Federal Government.

3.1.1 OBJECTIVES OF THE N.A.C.B.

The Bank was established to achieve the following objectives amongst others:

(a) To promote agricultural production and rural development;

(b) To improve the incomes and quality of life of Nigerian rural populace.

The Bank seeks to achieve the above objectives through the following activities:

(a) Granting loans for agricultural production and for purposes of storage, distribution, and marketing connected with such production to any state or any state institution for on-lending to any farmer, group of farmers, or corporate body subject to the state or institution guaranteeing repayment of the loan.

(b) Granting direct loans to individual farmers, cooperative societies or other bodies (corporate or unincorporated) in appropriate cases provided that the bank is satisfied that the schemes for which the loans are requested are viable and there is adequate security to cover such loans.

3.1.2 TYPES OF LENDING AND BENEFICIARIES

(A) TYPES OF LENDING

(I) ON-LENDINGS: This is lending to established institutions against repayment guarantees for on-lending to third parties. Institutions served include governmental bodies, cooperative bodies and companies. The ultimate beneficiaries have no direct contact with NACB.

(ii) DIRECT LENDING: This is lending to individual farmers and farmers organizations. Beneficiaries are in direct contact with NACB. The on-lending institutions are expected to prepare

aggregate project packages for their clients and to forward applications for such packages to NACB. The Bank itself will develop and appraise such packages and finance them.

(B) BENEFICIARIES

N.A.C.B. loan beneficiaries include:

(a) Individual farmers

(b) Cooperative organizations

(c) Limited liability companies

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

3.1.3 CONDITIONS FOR BORROWING :

(A) SOUNDNESS OF PROJECT:

The project for which a loan is sought should not conflict with any stated federal or state policies or Acts, be commercially viable and capable of showing satisfactory returns on investment made; be economically desirable, that is show a clear development value to the nation, and ability to repay.

(B) STATUS OF APPLICANT:

The applicant or someone he can employ to the satisfaction of NACB should have a proven ability to manage the project in sound and competent way. Agriculture should be the main object of applicant companies possess a good business reputation; and that the memorandum and Articles of Association or statutes of applicants shall be satisfactory to NACB.

(C) NO PROXY:

The granting of a loan can only be considered when the application comes from the intending client himself. The Bank does not deal with applicant through intermediaries.

(D) BORROWING POWERS AND ABILITY TO REPAY LOAN:

Clients are expected to keep within the framework of their financial capacities when applying for a loan. An individual borrowers ability to repay the loan will be determined by his net income after operating and living expenses are met.

(E) AVAILABILITY OF LAND

Land should be available before a client applies for a loan as the bank will not give loans for the acquisition of land. The legal tittle of such land should be available and not be in doubt.

(F) CLIENT'S CONTRIBUTION:

In addition to providing the land, an applicant is required to make contribution of a minimum of 10% of the total project cost in cash and/or in kind.

(G) SECURITY

While loan will be granted against at least ten percent security, the main emphasis will be on creation of repayment capacity of the borrowers as a result of technically and economically sound use of investment funds provided. Securities required are legal mortgages of the project land, real property endowment insurance policies, government guarantees, stocks and bonds of reputable companies and guarantees acceptable to NACB management.

(H) DISQUALIFICATION FROM BORROWING

The following persons and bodies are disqualified from borrowing:-

(a) Persons suffering from any form of legal disability, incapacity or limitation.

(b) Persons who are bankrupt, insolvent, have compounded with their creditors or have an order for winding up made against them.

(c) Bodies incognito. These include clubs, committees and societies having no legal status.

(d) Persons holding positions of profit or trust with NACB; e.g. staff, directors and officers of the Bank and their wives or persons whose position could institute a conflict of interest for NACB loan.

(I) LOAN TERMS AND CONDITIONS

The loan terms or durations have been generally categorized into three:-

1. Short-Term:- Those under two years. They are mainly personal loan and marketing advances.
2. Medium Term:- Those from two to five years. Such are aimed at the quicker maturing crops, poultry and pig production.
3. Long-Term:- More than five years. They are purposely aimed at for example shore maturing crops and at beef production. As much as possible, loans will be made in kind.

(j) LOAN PERIOD

The loan period runs from the date of first disbursement to the date of repayment or payment of the final instalment of the loan. Over this period, interest is charged. It also includes the

grace period. The Bank regards the period during which a client pays interest only without repaying principal as the grace period.

Interest:-

The present interest rates are 6% on production loans and 11% on marketing loans. NACB reserves the right to charge the interest rate without prior notice. Loans are to be secured by a debenture and/or a mortgage to be charged on the land, buildings and/or other fixed and current assets being the proven property of the borrower. Disbursement of loans shall normally be in kind, and accelerated repayment of loan shall be allowed.

Generally, borrowers are required to:

(a) Keep proper books of accounts which should be available for inspection and scrutiny by Bank officials at any time.

(b) Prepare and forward periodic progress reports in a form acceptable to NACB.

(c) Refrain from further borrowing without the Bank's prior written approval.

(d) Insure the organizations/farm assets with a reputable insurance company.

(e) Take an endowment insurance policy acceptable to NACB with the Bank as first beneficiary in case the borrower is an individual farmer.

(f) Accept and pay all expenses reasonably incurred by the Bank in relation to legal documentation of the loan.

Having analyzed the organization, terms of reference and borrowing/lending conditions of the Nigerian Agricultural and Cooperative Bank (NACB), it is pertinent at this juncture to assess another agricultural credit instrument in the name of the Agricultural Credit Guarantee Scheme.

3.2 AGRICULTURAL CREDIT GUARANTEE SCHEME (ACGS)

The Agricultural Credit Guarantee Scheme Fund was launched on 3rd April, 1978 under Decree 20 of 1977. It was designed to facilitate farmers' access to Bank Credit and thus help to stimulate agricultural expansion. In order to induce commercial and merchant banks to be more forthcoming with loans to farmers, the then Federal Military Government and the Central Bank jointly set up the fund to guarantee loans for agricultural production granted by commercial and merchant banks. The authorized capital of the Fund was N100 million subscribed by the federal government and the Central Bank in the proportions of 60 and 40 percent respectively. Of this amount, No million has been paid up; N51.3 million by the federal government and N34.2 million by the Central Bank. The extent of guarantee is 75 per cent of the amount in default (Principal Plus interest) net of any amount realized by the lending bank from the security it got from the borrower subject, in the case of a loan to an individual, to a maximum of N50,000 and, in the case of a loan to cooperative society or a corporate body, to a maximum of N1 million.

3.2.1 PURPOSE FOR GUARANTEE

The Agricultural purposes in respect of which loans can be guaranteed by the Fund are those connected with:-

(a) The Establishment or Management of Plantations for the

production of rubber, oil palm, cocoa, coffee, tea and similar crops.

(b) The cultivation or production of cereal crops, tubers, fruits of all kinds, cotton, beans, groundnut, sheanuts, beniseed, vegetables, pineapples, bananas, and plantations.

(c) Animal husbandry, I.e. poultry, piggery, cattle rearing and the like, and fish. The above coverage of projects is being reviewed by the authorities with a view to including agro-allied manufacturing projects under certain conditions. The Minister of Finance is empowered under the decree to prescribe the interest rate chargeable by banks on loans provided under the scheme. The interest rate chargeable at present is 6 per cent per annum on loans to institutions for on-lending to farmers and 7 per cent on loans to individuals and companies.

3.2.2 ORGANIZATION OF THE FUND

The Decree provides for the establishment of an Agricultural Credit Guarantee Fund Board of six members to manage the Fund. Two of the members represent the Central Bank of Nigeria, the remaining four, one of whom is the Chairman, are appointed by the Minister of Finance. The Board may coopt any person as a non-voting member for such period as it thinks fit when it desires to obtain his advice on a particular matter. The Secretary to the Board is an official of the Central Bank designated as such and the secretariat located in the Central Bank. The Minister of Finance has discretionary powers under Decree 20 of 1977 to appoint any person as managing agent for the administration of the Fund for such period as he may deem fit, and any person so appointed shall act under the directives of the Board.

3.2.3 FORMS OF SECURITY FOR LOANS

The security which may be offered to a bank for the purpose of any loan under the scheme may be one or more of the following:

(a) A charge on land in which the borrower holds - legal interest or a light to farm or a charge on assets on the land including fixed assets, crops or livestock.

(b) A charge on the movable property of the borrower.

(c) A life assurance policy, a promissory note or other negotiable instrument or security.

(d) Stocks and shares

(e) A personal guarantee

(f) Any other security acceptable to the bank.

3.3 RIVER BASIN DEVELOPMENT AUTHORITY (IES)

River Basin Development Authority has a long history in this country. The practice began with the establishment of the Lake Chad Basin Commission in 1963. Though Nigeria today, is made up of 30 states and the Federal Capital Territory (FCT), the development strategies of the River Basin transcends state boundaries and this is why we have more than ten River Basin Development Authorities covering the entire country. They are financed solely by the Federal Government, and their activities include the development of land for crops production, providing irrigation water for both production of crops by the authority and individuals, amongst others.

It is important to emphasize here that the functions of the River Basin Development Authorities can be described as a national strategy to rural development.

3.4 DIRECTORATE OF FOOD, ROADS AND RURAL INFRASTRUCTURE

The Directorate of Food, Roads and Rural Infrastructure (DFRRI) was established by Decree 4 of 1987. According to the Decree, one of the primary tasks of the Directorate was "to identify, involve and support viable local community organizations in the effective mobilization of the rural population for sustained rural development activities, bearing in mind the need for promoting greater community participation and economic self-reliance of the rural community."

On the basis of this and other functions defined in the Decree, the Directorate defined its mandate as falling into three broad areas:

(a) Community Organization and Social Mobilization
(b) Infrastructural Development
(c) Promotion of Productive Activities.

Towards the goal of community organization and social mobilization, the Directorate undertook the listing of all rural settlements in this country and their organization into larger community units such as village area, clans, obodo (or autonomous communities) and ilus. This information has now been published by States and local governments. It is from this that we realize that there are over 100,000 villages and hamlets in Nigeria.

The Directorate also mounted a major campaign for the rural population to form their own community development associations or, where these already exist, in the form of Town Unions or Patriotic Associations, to register them with their Local Governments. As at the last count some 15,000 Community Development Associations had been so registered.

The second broad mandate of the Directorate's activities was with the provision of rural infrastructure notably rural feeder roads, rural water supply and sanitation, rural electricity and rural housing. Here, the Directorate was emphatic that the provision of these facilities must be a joint effort of the communities, the local government, the State Government and the Directorate. The success that has attended the activities of the Directorate in this field is now a matter of public record.

But the third mandate of the Directorate, namely the promotion of productive activities, has not been as easy to initiate. These activities were in the areas of agricultural and food production, rural industrialization, rural art and crafts, rural marketing and rural transportation. Specifically with respect to agricultural production, the Directorate identified five areas where it wanted to make a national impact. These were:

(a) arable crops expansion - maize, rice, cassava etc.
(b) horticulture - citrus fruits, vegetables, market gardening, etc.
(c) oil seeds - soybeans, oil palm, groundnut, etc.
(d) aquaculture or fish farming
(e) small ruminant husbandry - sheep and goats, rabbits, etc.

Towards this end, all the agricultural research stations in the country as well as all State Ministries of Agriculture were provided ample funds to start producing high-yielding varieties of seedlings and seeds, fingerlings for the aquaculture and fast multiplying varieties of the small animals.

These various biological inputs have now been produced in abundant quantities. But because a major emphasis in the mandate of the

Directorate was sustainable rural development, it was not going to make the mistake of being regarded as a charitable organization. Since

farmers have always had to buy their inputs, it would sell these inputs to them, even if at subsidized prices. The Directorate, of course, recognized that for the farmers to vastly expand or intensify their productive capacity with these inputs,. they would need easy access to credit.

For over a period of three years, the Directorate held discussions with commercial banks. Various useful suggestions as to what could be done were offered. But it was clear that the issue of collateral security would always constitute a real hurdle to effect credit provision to rural producers.

It was as a result of exhausting the possibility of credit provision through the commercial banks, that DFRRI was constrained towards the end of 1989 to address a memorandum to the President and Commander-In-Chief of the Armed Forces proposing the critical need to establish a novel financial institution to be known as community banks. In the subsequent hearing at the Presidential Advisory Committee, it was gratifying that the Central Bank of Nigeria came out strongly in support of the proposal. Indeed, the Central Bank had been advocating the need for a rural banking system of this type as far back as the 1970s.

3.4 PEOPLES'S BANK OF NIGERIA

3.4.1 Introduction

The People's Bank is the new phenomenon in banking. It is an innovative credit Programme for poor people who due to non-availability of collateral do not have access to the facilities available at Commercial and Merchant Banks. The scheme will compliment government efforts in improving the productive base and raising rural employment and income. Since the scheme is meant for the less privileged citizen, beneficiaries will not be subjected to much paper work.

- How much can be obtained by an individual?

  Minimum N50.00

  Maximum N2,000.00
- Collateral Required - None
- Interest Rate - Nil
- Administrative fee of 5 per cent on loan secured.
- Loan Repayment Period - Within 52 weeks.
- Period of grace - 2 weeks moratorium for trade loans variable for agricultural and industrial credits.
- Basic Procedure for taking loans:

  (I) Formation of group

  (ii) Consolidation of membership

  (iii) Contact with the nearest People's Bank Centre

  (iv) Meetings and consultation between Bank's field officials and group members.

  (v) Registration of the group and issuance of Certificate of Registration.

  (vi) Determination of the amount required at group meetings as well as the selection of the first 5 beneficiaries by the group

  (vii) Bank worker will visit place of business of each prospective customer with a view to ascertaining individual request for credit facilities

  (viii) Recommendation and approval of loan request as agreed at the group meeting

  (ix) Notification and date of collection of approved loan from the bank by the beneficiary

  (x) Disbursement of loans directly to the individual loanee and not through an agent or group leader

  (xi) Utilization of loan within 7 days of collection

  (xii) Monitoring of proper utilization of loan by field worker

Repayment - Repayment Period of Loan is 52 Weeks

The Bank having been convinced of the constant repayment of the loans by the first set of beneficiaries makes arrangement for the disbursement of loans to the next set of loanees. The group leader and the secretary would be included in the last set of the loanees. Fresh loans could be taken as soon as the first loan is repaid by every beneficiary.

3.4.2 IMPACT OF THE LOANS ON THE BENEFICIARIES

In a recent People's Bank publication titled "An Evaluation of the Impact of the People's Bank of Nigeria's Loans on the Beneficiaries" it had this to say:

The poor has demonstrated the capacity to repay loans in spite of operating at the subsistent level. They have also shown the ability to generate productive capabilities when given access to credit. Consequently, they have experienced increases in income, exercise some control over their loans, production methods and produce. As a matter of fact, the Bank's loans have enabled them to purchase new capital assets, which are fundamental in the improvement of their productive capacity. Of course, this is a significant development considering the multiplier effects of capital assets as a basic element in production. In addition, they have experienced increased working capital; which is stimulating their business opportunities, the ability to repair and maintain machines and equipment, embark on expansion, which in turn is generating appreciable employment opportunities, increasing turnover from production and trading activities. Other benefits of the loans are the ability to bulk purchase raw materials and therefore reduce production cost. In all spheres of the economy particularly the informal sector, the Bank is positively influencing the economic growth of Nigeria.....

3.4.3 PEOPLE'S BANK AND THE BETTER LIFE PROGRAMME

On the impact of the Bank on the Better Life Programme which Dr (Mrs) Maryam Babangida, the wife of the then President, started with the objective of mobilizing women to improve their knowledge and skills, encourage them to become more assertive and independent, *the publication had this to say:*

Nigerian women perform very important tasks: they produce most of Nigeria's food and they are the backbone of the family units. But very often, they have very little economic power and they find themselves over dependent on the men. In some cases, women are restricted by traditional practices: for example, they cannot possess land, and most of them are poorly educated. The Better Life Programme promotes the welfare of Nigerian women, which is the basis of the relationship between it and the PEOPLE'S BANK OF NIGERIA. The Programme, as a matter of fact, has sensitized the women and indeed, the women generate the activities of the Programme such as mat making, local arts and crafts, fishing, livestock breeding, etc. Nigerian women are normally engaged in these economic activities but the Better Life Programme is insisting that women can do them better, export them, obtain more income and thereby improve the well-being of their families.

The programme has developed many projects all over the country. *The following will serve to illustrate this fact. There is a co-operative* farm in Bwari, about fifty minutes away from the Nigerian federal capital, Abuja. The co-operative started about four years ago and it now has two hundred members. They plant and harvest guinea-corn, soybean, maize and cassava. The co-operative is contemplating expansion of its activities. The operative has a rice threshing machine, which Better Life Programme has leased out to it. Before the acquisition of the machine, the women used to take the rice to

Suleja, which is about 60 km away from Bwari. The co-operative members operate the machine. Most of the co-operative members already possess farming knowledge and skills but the women are taught new techniques in food processing, preservation and packaging. Others are learning farming for the first time. The collective strength of the co-operative means that they are more productive than if the women were working individually. The co-operative assists them to obtain improved seeds, fertilizer, and secure farm lands. In the nearby village to Bwari, the women for generations have been making pots. In appreciation of the market potentials of the products, the Better Life has uplifted it to a pottery centre. They have commenced learning new skills in addition to the old ones. There is improved standard of living as a result of the intervention of Better Life Programme. The women used to fetch water from the stream and then carry the water to the pottery centre. To reduce the suffering of the women, the Better Life sunk a borehole for them. Prior to the coming of Better Life, women used to manufacture only water pots; which were not very marketable. Fortunately, they have been taught new designs and they now manufacture products like trays, etc., which sell very well. As a result of numerous projects like those discussed above, the women are becoming more assertive and they have started to compete and even challenge the men. The evolving competition will bring out the best for Nigerians. The Better Life Programme is leaving no stone unturned in order to improve the life and well-being of our women. It is liaising with relevant institutions to create labour saving devices for women. Apart from the PEOPLE'S BANK OF NIGERIA's loans to the Better Life to execute its programmes, the Bank also gives loans to women outside the Better Life groups. Women in this category include petty traders, food sellers, distributors and tailors, to mention a few. They have been introduced to the income earning stream without conditions and pains of salary/wage employment. They remain where they are

without leaving their families and yet pursuing the trade on things they know best. In the process, they earn more income and save some very enterprising ones have even diversified their business opportunities. Men in similar disposition such as Electricians, Cobblers, Cane-Weavers, especially those beside the Maryland bridge farmers, fishermen, carpenters, vulcanizers, mechanics, particularly those in Adeniji Adele area in Lagos and those in related activities have acquired a new significance.

The Bank's loans to these group of customers are contributing to the enhancement of their economic power. For instance, the group of cane-weavers opposite the Maryland bridge which have been able to increase and diversify their assets base through the purchase of new tools, repair of the old ones and bulk purchased raw materials. In addition, they have expanded their workshops, employed more labour, increased their output and profit margin.

This group has been able to improve on the quality of their cane products to international standards. Some of the products are already being exported to other countries. The range of their products includes tables, chairs, baskets, trays, stools, furniture, etc. These items are highly treasured by visitors to this country.

Some of these beneficiaries can now conveniently pay their children's school fees, eat good food and live a meaningful life. The impact of PEOPLE'S BANK could be measured by its grassroots oriented credit delivery system. Banking is taken to people and not the people coming to the bank. The beneficiaries of the loans have been able to improve their living standard. Their businesses are witnessing Banking culture expansion and more employment are being created.

Banking culture is also being cultivated among these client who

hitherto shy away from the financial institutions to transact business. People's Bank credit is empowering the poor and constituting the enabling vehicle which will pull the poor out of poverty in the Nigerian society.

3.5 COMMUNITY BANK SCHEME

At the Commissioning of the first Community Bank in Nigeria in Kaduna on 31 December, 1990, President Ibrahim Babangida emphasized his administration's commitment to grassroots development. It was indeed not an empty claim, because his administration had earlier on established the Directorate of Food, Roads and Rural Infrastructures (DFRRI), MAMSER, the Better Life Programme for Rural Dwellers, the rural banking policy, and the People's Bank whose joint objective is Rural Development.

The President gave the following reasons for focusing his attention on rural development:

1. The shift of emphasis to grassroots development is a matter of necessity at the present stage of our development. It is well known that at least 75 percent of the country's resource endowment abounds in the rural areas. Thus our development projects and programmes cannot achieve any appreciable improvement or impact until they focus on these rural areas. Otherwise, the masses who are rural-based but poverty-ridden will continue to weigh down any development aspirations of government. In effect, it is imperative that we lift up the rural low-income segment of the society if society is to undergo true economic transformation."

2. Part of our experience in rural development has clearly shown that efforts at expanding the economic base of the rural area almost always flounder because of scarcity of, and restrictive access to,

loanable funds. In addressing this problem, previous administrations had relied exclusively on development banking and rural branch banking. It was, however, observed that the sophisticated mode of operation of the conventional banks, their legalistic insistence on collateral, and their very limited geographical coverage rendered them inadequate or incapable of dealing with the unsophisticated rural dweller and the less-privileged in the lower strata of our society. It was the unsatisfactory outcome of these banking systems that prompted this Administration to conceive other more appropriate system of credit delivery....."

3. Yet, it is the firm believe and commitment of this Administration that every Nigerian who is engaged in a productive economic activity must have access to loanable funds, regardless of the size of that need. Therefore, in order to bridge the gap between the conventional banking system and the People's Bank, the idea of a Community Bank was conceived. This consideration became the essence of this Administration's decision to establish community banks all over the country.....

In addition, the President stated the fundamental concept and composition of Community Banks thus:

> The fundamental concept of a Community Bank is of a self-sustaining financial institution, owned and managed by a community, for the purpose of providing credit, banking and other financial services to its members, largely on the basis of their self-recognition and credit worthiness. The Community Banks will be substantially owned by Community Development Associations, as well as by local cooperative societies, farmer's unions, trade groups, individuals resident in the community as well as sons and daughters of the community resident outside the community...."

It is important to state here that: unlike the conventional commercial bank, a Community Bank has the dual function of not only providing banking services but also being a very active agent in the economic development of its community.

Community Banking system in Nigeria was established to achieve the following objectives amongst others:

1. The promotion of rural development by providing financial and banking services (credit and deposit services) as well as other facilities to communities inadequately supplied with such facilities.
2. The rapid enhancement of the development of productive activities in both rural and urban areas and hence the improvement of the economic status of small producers in the informal sectors of the national economy.

3. The promotion of the emergence of an effective and integrated national financial system that responds to the needs of the whole economy, especially at the grassroots community levels.

4. The inculcation of disciplined banking habits, among the masses of low-income workers in Nigeria especially those in the rural areas.

5. The fostering of the spirit of community ownership and use of economic assets and the maintenance of such facilities and organizations on a suitable basis, etc.

In its 1990 budget speech, the Federal Government gave a broad outline of what it had in mind regarding the Community Bank. It is useful to quote the relevant sections of the speech as follows:

> The adjusted subsidy levels of domestic prices of petroleum products have been estimated to yield an implied saving of N503 million in

fiscal 1990. Government has, however, decided that this sum be put back into strengthening its programme of grassroots economic development. Accordingly, the sum of N453 million will accrue to a special account with the Central Bank for the purpose of establishing community banks and strengthening the People's Bank.....

The Community Banks will be substantially owned by community development associations, co-operative societies, farmers' groups, patriotic unions and trade groups within the community. In addition, individual members of the community will be encouraged to subscribe to the equity capital of the community banks. The modality for the operations of the proposed community banks and their relationship with the People's Bank will be worked out in the course of the year.

A community bank is 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. By not getting involved in sophisticated banking services like foreign exchange transactions or international commercial papers, corporate finance or equipment leasing, and by minimizing its operational cost through high localization and superior arrangements for loans recovery, it should be able to operate at lower interest rates to its customers. Each community bank, by serving its particular area, will also be contributing to the overall development of the banking system and of the economy as a whole. Above all, a national network of such community banks will greatly strengthen the massive programmes of government in rural development....

3.5.1 COMMUNITY BANK IMPLEMENTATION COMMITTEE

Working out the modalities of implementation did not, however, prove as straight forward. Eventually, by July 1990, the Community Bank

Implementation Committee (CBIC) was established with the Secretary to the Government of the Federation, Alhaji Aliyu Mohammed, as Chairman. Other members of the Committee were Air Vice-Marshal Larry Koinyan, Chairman, Directorate of Food, Roads and Rural Infrastructure, Alhaji Aminu Tijani, former President, Council of Nigerian Farmers, Chief (Mrs.) Layi Aina, Managing Director, Sentinel Insurance Company, Professor M.O. Ijere, Director, Centre for Rural Development and Cooperatives, University of Nigeria, Nsukka as well as representatives of The Presidency, the CBN, DFRRI, MAMSER, the Federal Ministries of Finance and Economic Development, Trade and Tourism and Justice. The Secretary of the Committee was Alhaji Zakari Isa Chawai.

One of the first tasks of the Committee was to design the various documents needed to provide the various communities with the requisite information about community banks and the steps they should take to have these established. The result of their activities was the production of the following seven documents:

1. The Community Bank Prospectus
2. Application to Establish A Community Bank
3. Approval to take the Preliminary Steps to establish a Community Bank
4. Application Form for the Purchase of Equity Share Capital of Community Banks
5. Application for a Community Bank License
6. Application Form for CBIC Matching Loan
7. Issuance of Provisional Community Bank License.

The Community Bank Prospectus spelt out the objectives of the Community Banking System, the functions and ownership structure of community

banks, the requirements and procedures for establishing a community bank, the manner of applying for a matching loan and a suggested management structure for a community bank. This prospectus was widely advertised in the media. They were also widely distributed and, together with the application forms, made available to the public at the CBIC Secretariat in Lagos, at the DFRRI Headquarters and the National DFRRI Offices at State Capitals, at State DFRRI Offices, State MAMSER Offices, State branches of the Central Bank and at Local Government Offices.

3.5.2 NATIONAL BOARD FOR COMMUNITY BANKS

It became very clear to government later that Community banking system must grow rapidly to serve developmental needs of the grassroots throughout the country, a more executive agency must be established. This was the rationale for setting up the National Board for Community Banks to take over from where the Community Bank Implementation Committee (CBIC) had reached. The Board was inaugurated on Tuesday, July 16, 1991 and has settled down immediately to work.

Already, another set of 9 Community Banks have been approved for licensing and are ready to be commissioned. Another 30 had applied to be inspected preparatory to being licensed. Of these, 21 had been inspected and nine were yet to be inspected. Moreover, incorporation documents had been submitted to the Corporate Affairs Commission in Abuja in respect of 180 other community banks of which 93 have now been incorporated.

Details of the breakdown of these figures by States are indicated in Table 1. The table shows that as of 31st July, 1991, some 1,055 applications had been received, of which 593 were approved for the communities to begin to take the necessary preliminary steps whilst 462 were referred back for further information. As can be seen from the table, some States have been more responsive than others. Given their level of community

mobilization, it is no surprise that Imo, Anambra and Bendel top the list of responses whilst Borno, Katsina, Niger and Cross River States have not responded yet in any significant way. Consequently, the National Board for Community Banks sees national enlightenment of community leaders throughout the length and breadth of the country as one of its immediate priorities.

3.5.3 OPERATIONS OF COMMUNITY BANKS

The Community Banks which have been licensed have, of course, commenced their operations in earnest. I have been able to visit some of those operating in Lagos. It is gratifying that in all cases they have started to meet the yearnings of the small producers for credit. Deposit and savings accounts are being opened daily and loans are starting to be approved for known members of the community.

Because community banks are commercial in their orientation, they also have to charge interest on any loans they give and pay interest on savings. They are also bound to do this within the broad margins set by the Central Bank with the floor being the minimum rediscount rate of the Central Bank and the ceiling being the maximum currently operative in the market.

In order to ensure a wide spread of beneficiaries and given their limited capital base, community banks are not encouraged to give a loan of more than 10 per cent of their share capital to a single individual. This can of course be enhanced in the case of co-operatives or group borrowing.

To increase their capital base, community banks, if they so desire, can apply to the National Board for Community Banks for a matching loan. This loan is offered at a subsidized rate but it must be repaid over a period of not more than 5 years. Repayment attracts a moratorium of six months, after which it is meant to commence on a half-yearly basis. Whilst this loan is still

being repaid, a community bank cannot declare any dividend to its shareholders. The loan is meant to be secured by a first charge on the fixed assets of the Bank and a second charge on the floating assets as well as by the personal guarantee and undertaking of the Directors of the Community Bank.

For operating current accounts, Community Banks do have their own cheque books. However, because they do not as yet belong to the clearing house, these cheques are currently cleared through the instrumentality of existing commercial banks with which the Community Banks have established correspondent relationships.

The training of the staff of Community Banks as well as of members of their Board of Directors is seen as a priority of the National Board for Community Banks. Already, the Financial Institutions Training Centre (FITC) in Lagos has been commissioned and has produced the training manuals for the different categories of staff. Until the number of licensed community banks increases rapidly, most of the training offered will be in-house. It is, indeed, gratifying that a few community banks are not waiting for the National Board before initiating their own training programmes under advice.

3.5.4 ROLES OF THE CENTRAL BANK

The Central Bank of Nigeria by law has regulatory and supervisory control over all financial institutions in the country. The Community Banking System is not likely to be an exception. Nonetheless, because of the large number of these banks, the National Board for Community Banks is expected to serve as an intermediary institution between them and the Central Bank.

This, of course, does not relieve the community banks of their reporting obligations. Every community bank is expected to keep in its office proper books of account with respect to the transactions at the bank. It must

submit to the National Board not later than 28 days after the last day of each quarter a statement showing the assets and liabilities of the bank as well as an analysis of loans and advances and other assets of the Bank. Equally, not later than four months after the end of its financial year, each Community Bank must submit to the National Board and exhibit prominently to the view of all members of the community the bank's balance sheet and profit and loss accounts duly signed by the Directors of the bank after having been audited by a qualified accountant.

Because a community bank is a fully-fledged bank, its books and affairs are subject to continuous examination by the Central Bank working through the National Board for Community Banks. All of this is to ensure due protection of funds mobilized from the public and to guarantee that community banks operate in the context of the overall macro-economic and monetary policies of government.

3.5.5 COMMUNITY BANKS AND THE NATION'S FINANCIAL INSTITUTIONS

There is concern in some quarters that community banks are in competition with commercial banks. This is far from the truth. Indeed, if anything, their role is meant to be complementary and supportive.

It is a well-known fact that most commercial banks find opening accounts for the small depositors or savers with, for instance, less than N100.00 quite disfunctional. On the other hand, these are meant to constitute a significant part of the customers of community banks. Indeed, some of the community banks are already setting up systems for mobilizing the type of savings that used to go into the traditional *esusu* or *adashi*. They find themselves providing savings outlets for market women and similar small-scale producers.

Consequently, in relation to the commercial banks the community banks

serve as an agency for bulking the savings of the lower income group. It is therefore expected that most community banks will establish correspondent relations with nearly all commercial banks. But like all actors in a free market, community banks are free to shop around for the best terms and to have correspondent relations with as many banks as they find appropriate.

With regard to their checking account, however, it would be wise for them to relate to only one commercial bank. But this is an area where experience will make it possible to decide on the best course of action.

3.5.6 COMMUNITY BANKS AND LOCAL ECONOMIC DEVELOPMENT

It is not possible to overstate the fact that community banks were set up primarily to promote productive activities in the rural areas. Specifically, they are meant to facilitate the programmes of the Directorate of Food, Roads and Rural Infrastructure by providing easy access to credit for rural producers. Consequently, the Directors of Community Banks will be expected to take very special interests in knowing about and understanding the details of these programmes and encouraging their customers to enhance their productive capacity through participating in these programmes.

The important point to stress in all this is that no community bank can grow and prosper unless it strives strenuously to make the local economy grow and prosper. For this reason, it is expected that there would continue to be strong liaison among the Board of Directors of the Community Bank, the leaders of the Community Development Association and the leaders of other local organizations such as co-operatives, women groups and so on. All of them must engage in the search for new productive ideas, especially ideas which translate into some exportable commodities or services from the community area. For example, there have been requests for certain types of crops for export out of the country. Such crops require to be packaged

in particular ways and transported on a tight time-schedule basis. Between, on the one hand, the bank which can provide credit to farmers to purchase the special seedlings and other inputs and the local craftsman who can fabricate the packages and, on the other hand, the Community Development Association which can organize, mobilize and advise the farmers, local craftsmen and transporters appropriately, there should be very close rapport.

The expectation is thus that the economic activities in a community should increase in volume and diversify with the establishment of its community bank.

3.5.7 ROLE OF THE URBAN ELITE

One of the principal agencies which can help to bring about a significant economic transformation with the establishment of a community bank is the group of sons and daughters abroad from a particular community. Most of these sons and daughters abroad have usually migrated to the big cities like Lagos, Ibadan, Kano, Kaduna, Port-Harcourt, Enugu and other State capitals. In the process of raising the equity capital for the community banks, community leaders have had to appeal to many of these members of the urban elite to contribute so as to help the development of their home town or home district. The report in almost all cases has been that a great majority of the urban elite have responded positively and generously to these appeals.

This is all to the good. It means that for the first time the urban elite are now being made to join hands with the government and their rural compatriots to develop the economy of their rural homes. This indeed is the special challenge of the community banks in that it provides the urban elite a veritable instrument which they can use to improve the fortunes of their home towns or home districts.

But to achieve such transformation will take more than just taking 5 percent of the equity share of the bank. It must involve using their wider knowledge, their contacts and influence, their expertise and competence to work with their community development associations to promote the production of new commodities or the adoption of new production processes in their home towns or home districts. In short, the presence of community banks must now be seen by the urban elite as providing an unusual opportunity for articulating and implementing a local medium-term plan for the economic development of their communities at home.

CHAPTER FOUR

4.0 POLICY ANALYSIS AND FINDINGS:

This chapter will be devoted to analysing the impact rural banking has made on the development and general upliftment of the rural sector vis-a-vis the country in general. In doing so the impact of the rural banking policy and other development financing policies and strategies of the 1980s and 1990s on the economy and general development will be analysed with a view to ascertaining to what extent these policies have addressed the realities of the issues at their given situations, and the level to which the desired objectives of these policies were really achieved or are being achieved. The impact made by the various financial institutions to Nigeria's development financing in relation to rural banking will be similarly analysed. Lastly, the impact made by rural-oriented banks during the era of Structural Adjustment Programme such as the Peoples bank and Community banks will be analysed and the findings listed for possible improvement where lapses are noted.

4.1 BANKING POLICY ANALYSIS

The basic constituents of the Banking Policy have been discussed in the preceding chapter in details. This part will focus on the implementation of the policy. The execution of this policy was commenced by most commercial banks in the early 1980s with mixed reactions ranging between pessimism and rare optimism at the other end. They all perceived the intentions of the policy to be good but the pace of its implementation as handed down by the Federal Government was what they frowned at. Some embarked on the implementation of the policy with a lot of caution while others saw the policy as an avenue to exploit certain government regulations that have been relaxed in favour of the programme.

The policy emphasised the need for the licensed banks to establish branches in rural areas nationwide to facilitate the flow of capital into the rural sector in order to enhance faster development of this very important sector. Its implementation was phased in three segments with desired branches for each phase allocated to each bank to be met within a specified time frame. The banks saw no way out and treated the first phase with the seriousness it deserved. By the end of 1980 over 98% of the allocated branches have been completed, the remaining 2% were however completed at the end of 1982.

By the time the first Phase of the Rural Banking programme ended on 30th June 1980, a total of 188 (one hundred and eighty eight) branches were opened. This was a very good indicator of compliance by the financial institutions to a good government policy.

However, there were protests against the early commencement of the second phase. The banks strongly kicked against the arbitrary number allocated to them and they advocated for a break period between the two phases because of the financial and human resources required for the implementation.

Against this background most of the banks did not commence operations early enough despite their initial enthusiasm and promise to do so. This accounts for the poor performance in this phase. Only three banks were able to open all the branches allocated to them within the period covered by the Phase.

At the end of phases I and II the following summary of performance was recorded:

	Total Allocation	Completed on Schedule	Outstanding Balance
Phase I:	**200**	**188**	**12**
Phase II:	**266**	**181**	**85**

Source: *S.I. Abe (1984). The Rural Banking Programme - An Appraisal. The Bullion Magazine.*

It should be noted that at the end of the second phase, eighty-five (85) branches were still to be opened. This slowed down the taking off of the third phase, with only (68%) sixty-eight percent of the allocated centres fully operational within the stipulated period of about three and a half years (31/2 years).

It became imperative to extend the second phase with a whole of one year, which gave the banks the opportunity to consolidate their positions and enabled the Central Bank to assess fully the impact of the rural banking programme on the operations of the bank. When the period lapsed on 31 December 1984, the performance was more or less encouraging, in the sense that 48 additional branches out of the outstanding 85 were opened, leaving a balance of 37 branches unopened. In spite of the foot-dragging there is an increase in the percentage of rural banks when compared to what it was before the rural banking policy was introduced.

At the end of 1984 when other three phases of the rural banking policy were fully executed, a notable rise was obtained in the percentage of rural branch locations which averaged 35% of the total number of branches as shown in the table below. This is more than twice the figure of 15.41% recorded in 1974

The era of Structural Adjustment Programme encouraged the establishment of new banks - dubbed the new generation banks. They took advantage of the economic climate and the enabling decree which put no ceiling to interest rates chargeable on credit. This particular provision worked against the interest of the rural areas. The banks' focus became that of profit maximisation. The rural areas became less attractive for this purpose. This led to a heavy concentration of the banks in the urban areas.

The achievements and otherwise of these banks have been discussed in the preceding sections where the gains of Structural Adjustment Programme were considered in greater details. Although many more branches have been established between 1984 and 1995, the balance is still tilted in favour of the urban areas. The table below compares the percentage of rural branches of some selected banks in 1995 against the percentages obtained in 1984 to see the level of improvement after **11 years.**

COMPARISON OF RURAL BRANCHES AS AT 31ST DECEMBER 1995 WITH THOSE AS AT 31ST DECEMBER 1984

COMMERCIAL BANKS	BRANCHES NATIONWIDE		URBAN BRANCHES		RURAL BRANCHES		% RURAL	
	1995	1984	1995	1984	1995	1984	1995	1984
African Continental Bank	89	89	56	56	33	33	37	37
Allied Bank	70	23	52	10	18	13	26	56
Afribank (I.B.W.A.)	123	51	95	33	28	18	23	35
African Intern. Bank (BCCI)	52	18	39	14	13	4	25	22
Bank of the North	97	60	67	46	30	14	31	23
Coop. & Com. Bank	34	34	23	23	11	11	32	32
Cooperative Bank (N.U.B.)	25	20	8	7	17	13	68	65
First Bank of Nigeria	286	208	181	133	105	75	37	36
Mercantile Bank of Nigeria	29	21	18	14	11	7	38	33
National Bank of Nigeria	86	82	64	62	22	20	26	24
New Nigeria Bank	55	33	33	22	22	11	40	33
Nigeria-Arab Bank	28	21	13	10	15	11	54	52
Pan African Bank	30	26	21	19	9	7	30	27
Savannah Bank	87	27	56	9	31	18	36	67
Societe Generale Bank	27	13	11	7	16	6	59	46
Union Bank PLC	258	184	142	127	116	57	45	31
United Bank for Africa	202	115	121	64	81	51	40	44
Wema Bank	39	28	24	19	15	9	38	32
TOTAL	1617	1058	1024	675	593	378	37	36

Source: *Results of Interview/field survey conducted and tabulated by me: January/February 1996.*

Only a very little increase has been recorded in the **last eleven years.** It is worth noting that although many more branches have been established between 1984 and 1995, the balance is still in favour of the urban areas. The percentage of rural branches in 1995 is **37** showing an increase of only **1%** in eleven years. From the banks surveyed, the table shows that **37%** of the total branch network are in the rural areas, up by **1%** from what it was in 1984. Bankers interviewed on the urban-bias associated with branch network blamed it on the low cash inflow in the rural areas compared to that in the urban areas.

A general overview indicates that the rural branches introduced in the banking system have not made any significant improvement on the cash flows of the rural dwellers as the banking habit of the rural dweller is still considered poor.

4.2. THE IMPACT OF STRUCTURAL ADJUSTMENT PROGRAMME (S.A.P.) ON THE BANKING POLICY

Structural Adjustment Programme (SAP) brought in its wake several aspects of government policies. Of particular concern to this dissertation are the policies that touched on rural banking. With the introduction of Structural Adjustment Programme (SAP) by the Military regime of General Ibrahim Badamasi Babangida in 1986, banks and finance houses sprouted as fast as intending owners, sometimes con-men and fat-cats haunting corridors of power, could rustle up the capital. By 1989, there were a total of 81banks and countless other non-bank institutions. This figure rose to 120 at the end of 1995, with an increase of over 300 rural branches nationwide (total increase was over 800 branches nationwide). Largely run by non-professionals, the financial felons of the era of sleaze collected deposits, from the public, convinced themselves they owned the funds, helped themselves to the till and made merry. Their sins included disregard for credit regulations, payment of illegal brokerages, negligence and fraud.

The environment was right for these to luxuriate. The regulatory authority, the Central Bank of Nigeria (CBN), floundered, churning out inconsistent policies, being an appendage of the federal government. The rot that set in in 1988 led to the distress of seven banks in 1989.

The number had risen to 16 in 1992 when the National Deposit Insurance Corporation (NDIC) took over the management of the National Bank of Nigeria Ltd (one of the distressed banks). For the next two years, the number of distressed banks stood at 33 and 45, rising to 57 in 1995. This development affected about **500 rural branches nationwide,** equivalent

to more than one-third of the banking sector.

The impact of distressed banks on Nigeria's economy and its development will be better understood when viewed from the level of involvement of the following notable organisations:

1. **Nigeria Deposit Insurance Corporation (NDIC):**

The NDIC was set up in 1989, its enabling law, decree 22, having been promulgated a year earlier. The corporation can be said to have arrived half way into the era of sleaze that began in 1986. The financial sector, following the stupendous party it began in 1986, had lapsed into a terminal hangover from which death increasingly became the major escape. The NDIC came into this grim scenario.

On January 21, 1994, NDIC finally laid the Financial Merchant Bank and Kapital Merchant Bank to rest. To date, a total of five banks have suffered this fate from the NDIC, six have been acquired by the Central Bank of Nigeria, while a total of 17 have been taken over by the NDIC and CBN, *as reported by* ***the Policy magazine*** *Vol. I No 18 of March 1996, pages 12-16*

The NDIC was set up to insure the deposit liabilities of licensed banks and other financial institutions up to ₦50,000 per depositor. It also has other functions such as rendering assistance to depositors of financially distressed banks and other financial institutions, guaranteeing maximum payment of ₦50,000 to each depositors in the case of imminent or actual suspension of payment by insured banks and assisting monetary authorities in the formulation and implementation of banking policies.

The Managing Director of NDIC, Mr. John Uutohoria Ebhodaghe, had stated in an interview as reported in the **Weekend Guardian** of 10 February, 1996, page A9. "NDIC is an undertaker. In essence it does not give life and does not take life .. So, if there are distressed banks, what NDIC could do in its own supervisory role is to assist such a bank to the extent that it doesn't

make it possible for the owners or management who failed the bank to benefit from it. "In other words, the NDIC strictly wants to assist the CBN in clearing mess arising from failure of regulatory devices. It may be ironical, but it is doubtful whether the undertaker can be of much relevance if mortality rate in the bank keeps on increasing because nobody is able to save banks from themselves. And the only way to do this seems to be the injection of openness into the management of the banks.

As with other cases of distressed and financially insolvent banks, the occurrence at the Commerce Bank Limited has brought to the fore the issue of NDIC's rather slow response to danger attendant to funds it insures. Although, the enabling decree gives the NDIC the right to demand for auditor's qualified reports on banks, this has not led the corporation into stopping the drift in some banks early enough. The explanation for this seems that auditors, who are more loyal to bank handlers who pay them, have been misleading NDIC and the public into thinking the banks were healthy. Isn't it desirable for NDIC to hire its own auditors for these banks since auditors obviously collude with bank executives?

With distressed banks now numbering close to 70, more and more bank executives face the chilling fate of moving from their cozy offices to the darkest police dungeons in the land. For the first time in Nigeria's economic and financial history, the greater portion of an entire professional group is being dragged through the mud of public ignominy and harsh legal penance.

2. Central Bank of Nigeria (CBN)

Picture the Central Bank of Nigeria (CBN) standing aside, arms akimbo and looking askance as executives of banks it suddenly termed distressed are hauled from under its nose to face a strange music. And you thought the apex bank had all the facts and figures about every bank in the land and their directors at its finger tips. Banks make monthly returns to the CBN -

at least they are supposed to. Their top management staff and directors are vetted by it. Banks' books are spread out for CBN inspectors to pore through any day. The CBN has the power of life and death over banks. As such, its moral suasion translates to law in the industry. The internal rot that eats up a bank to the point of no cure is not a sudden affair.

The CBN can see a bank distress in the making years before it happens. That is why many are not ready to absolve it of blame in the widespread collapse of the industry it supervises. Analysts speak of the failure of regulatory devices. But this is exactly what was thought to have been addressed by the path-breaking Banks and other Financial Institutions Decree, BOFID, of 1991 and the associated prudential guidelines. In the wake of these two instruments, many banks found they had to write-off huge chunks of loan assets and take the resultant losses upfront.

Ironically, the prudential guidelines seem to have triggered off the distress syndrome as it brought to the fore the living and the dying. But this was still when banks regularly made fast foreign exchange deals which enabled many to weather the unleashed regulatory storm. Given the banks' heavy exposure, their statutory minimum capital base was further raised to ₦40 million and ₦50 million for merchant and commercial banks respectively. In the last quarter of 1995 when Central Bank sought court approval to acquire 15 banks for one naira each, it pleaded among other points, that the banks' paid-up share capital was lost while their assets couldn't cover their liabilities. Part of the Central Bank's restructuring exercise for the banks taken over includes getting old and new owners to inject substantial funds into the banks.

The real value of bank's capital base has long been eroded by inflation and naira depreciation. To ensure their survival, many banks have raised their capital to more than double the required minimum. Analysts believe the time is ripe for the regulatory authorities to raise banks' minimum

capital to at least four times its present level. For currently distressed banks and those recently taken over, the Central Bank said it advised the affected banks to recapitalise as far back as 1992 and 1993.

Apparently, the same signal is being flashed to those yet to join the distressed list. Non-performing loans worsened banks' capital inadequacy. And the risk assets (loans) which most banks carry is more than ten times their capital base. On the other hand, their deposit liabilities run as high as above twenty times their capital base. Whereas, all deposit liabilities stand to be repaid sooner or later, if the bank is to continue as a going concern, not all loan assets can be recovered.

Over 40% of most banks' loans are non-performing. For the distressed banks, over 70% are non-performing. The Central Bank's prudential guidelines requires adequate provisions for such likely bad debts. The resultant loss could not be cushioned by their low capital base. Over time, more of the banks have fallen for short of regulator capital requirements.

The CBN annual report of December 1994, page 16 summarised the prevailing situation as follows:

> "From 8 in 1990, the number of banks adjudged technically insolvent rose steadily to 24 in 1993 and 34 in 1994. The banks in financial stress during the year accounted for N16.7 billion or 10.3 percent of the deposit liabilities of the banking system and N15.6 billion or 15.0 percent of the system's outstanding loans and advances. More than two-thirds of the aggregate loans and advances of such banks were non-performing while their aggregate adjusted capital stood at - N4.7 billion. While the initial core group of distressed banks identified in 1990 were all owned by state governments, their composition has since become diversified in terms of ownership and include a significant number of privately owned banks. Beginning in 1993, distress in the financial system spread to a wider circle of banks and

non-bank institutions, including community banks, primary mortgage institutions and finance companies.

These capital adequacy requirements are ballooning each year, ignored by the banks and their regulators. As their largely non-performing loans assets are useless in meeting maturing deposit liabilities, distressed banks have been raiding the Central Bank's coffers. By imposing a stringent "capital to asset ratio," the CBN would not only be saving the life of banks but its own skin as well."

3. PEOPLE'S BANK

The People's bank is indeed the new phenomenon in banking, or so it seemed until Community banks sprang up all over the country. But in all fairness to the People's Bank Scheme it has registered tremendous successes all over the nation. To its credit, it made a lot of impact even at the grass roots level. It is people-oriented, and it remains the most populist approach to meeting the yearnings and aspirations of the poor in terms of credit facilities. It has improved the productive base of the rural dweller and has, in some way, raised rural employment. Most people who had, hitherto, been unemployed and disillusioned about any means of livelihood obtained a life-line at the People's Bank. The most attractive innovation in the Peoples' bank scheme was the lack of collateral as a necessary requirement for loan advancement. This brought prospective customers in droves to the bank. The minimum and maximum amounts at the beginning were ₦50 and ₦2,000 respectively. The maximum was later raised to ₦5,000 as shown in the People's Bank hand book. The only qualification necessary for loan is the viability of the business in view. The bank's field officials were always handy to offer useful advice to customers on the use of their loans. The repayment period is 52 weeks at no interest.

The greatest threat to an innovation like the People's bank is default in

repayment of loans, because it will hinder circulation of the funds and limit the bank's ability to meet demands . From the survey and interviews conducted with customers and bank staff, repayment appears to be fair in general terms. Defaulting customers are hindered from further credit facilities until re-payment is effected in full.

Most loanees and beneficiaries interviewed have given credit to the bank for bringing momentum back into their lives. On the whole, the bank appears to have revived economic growth in the informal sector. It has increased its ability to bulk purchase raw materials in order to beat production costs. Its impact on the better life programme is also noteworthy. Several women who had, hitherto, held firmly to the idea of being full time housewives found a lot of diversion in the new marriage between the Peoples bank and the Better Life Programme for Rural Women. This has brought a lot of independence to rural women financially, as reported by a Publication of The People's Bank titled: " Impact of People's Bank Loans - Views of Beneficiaries and field staff ". They can now cater for their minor and not-so-minor needs without having to turn to their husbands for help all the time.

To some extent, the Peoples Bank credit scheme has empowered the poor and provided the life-line for them to get out of the poverty line. The Peoples Bank is not however without its share of problems. Right from inception, several people had a lot of misgivings about the bank and its basic framework. The CBN annual report of December 1994 page 35 had this to say about the performance of the People's bank in the last two years:

> "The activities of People's Bank of Nigeria in 1994 showed mixed developments as reflected in its key performance indicators. The number of branches of the bank rose to 275 from 271 in 1993. At N928.3 million, total assets/liabilities of the bank rose by N86.2 million or 10.2 per cent over the level in the preceding year.

However, the bank's reserves continued to be negative and in fact worsened from N32.7 million in 1993 to N48.9 million in 1994. Subvention from the Federal Government (N207.1 million) was the major source of funds which were utilized largely to meet deposit withdrawals and to defray operational expenses. Total loans/advances granted by the fund during the year were mainly from the reduction of their placements and investments in government securities (N467.7 million) and increase in capital (N439.9 million). These funds were employed largely for expanding other assets (N499.1 million), meeting maturing obligations (103.1 million) and reducing other liabilities (225.7 million)."

The Problems of the People's Bank can be summarized as follows:

1. Over-dependence on government for funds, since the bank does not generate interests or revenue of its own to run itself.
2. Default in repayment by some loaners.
3. Problems of politicization of credit facilities by bank officials.
4. The funds available are not sufficient enough to meet the requirements of loaners nationwide.
5. The size of technically competent personnel to administer the scheme is largely inadequate.
6. Corruption has become prone in the scheme particularly at the management level.
7. Excessive overhead costs on managerial staff has become another source of concern.

4. COMMUNITY BANKS

The shift of emphasis to grass root development brought about the establishment of the first community bank in Nigeria (Alheri Community Bank, Kaduna) on 31 December, 1990. The President and Commander-in-Chief admitted at the commissioning that:

"Previous efforts at expanding the economic base of the rural

area almost always flounder because of scarcity of, and restrictive access to, loanable funds. He listed the following among the shortcomings of the conventional banks in this regard:

- Their sophisticated mode of operation.
- Their legalistic insistence on collateral.
- Their limited geographical coverage rendered them inadequate or incapable of dealing with the unsophisticated rural dweller.

Government conceived the Community Bank Scheme to bridge the gap between the conventional banking system and the Peoples bank. This scheme, as expected, was welcome with a lot of enthusiasm by the rural populace. They had been informed that the community bank, unlike the conventional commercial bank, has the dual function of providing banking services on the one hand and being a very active agent in the economic development of the community on the other. The rural populace had every reason for cheer because of the government's assurance that community banks will be substantially owned by community development associations (CDAs), cooperative societies, farmers' groups, patriotic unions and trade groups within the community. This is, of course, in addition to the individual members of the community.

It is gratifying to note that the response from various communities nationwide was spontaneous. Overnight, community banks littered the rural and urban settings. It had the greatest impact at the grassroots level. They exploited to the fullest the opportunities within the communities and wards where they were established. It gave the rural dweller the feeling of belonging, particularly those who bought and owned shares in the banks. It became the responsibility of the communities to ensure the survival or otherwise of the banks. This is a sharp departure from the practice in conventional commercial banks where government and a few individuals

control the major shares in most of the biggest banks across the country today.

One very important point to note is that although these community banks operate independently in rendering services to their communities, they are collectively contributing to the overall development of the banking system and of the economy as a whole. A national network of such community banks has greatly strengthened the programmes of government in rural development.

The table below gives the distribution network of Community Banks in Nigeria as at 31st December, 1992. Expectedly, the greater proportion of the banks were in the rural areas averaging 63% of the total.

STATE DISTRIBUTION OF LICENSED COMMUNITY BANKS
AS AT 31 DECEMBER, 1992

S/No.	STATE	NO. OF BANKS	URBAN	RURAL	% RURAL
1.	ABIA	25	11	14	56
2.	ABUJA (FCT)	-	-	-	-
3.	ADAMAWA	07	03	04	57
4.	ANAMBRA	37	06	31	84
5.	AKWA IBOM	13	02	11	85
6.	BAUCHI	07	02	05	71
7.	BENUE	15	03	12	80
8.	BORNO	01	01	-	0
9.	CROSS RIVER	03	03	-	0
10.	DELTA	17	04	13	76
11.	EDO	12	04	08	66
12.	ENUGU	07	05	02	29
13.	IMO	34	04	30	88
14.	JIGAWA	01	01	-	0
15.	KADUNA	15	07	08	53
16.	KANO	12	08	04	33
17	KATSINA	08	01	07	88
18.	KEBBI	08	03	05	63
19.	KWARA	07	03	04	57
20.	KOGI	08	01	07	87
21.	LAGOS	43	39	04	9
22.	NIGER	06	03	03	50
23.	OSUN	15	04	11	73
24.	ONDO	33	06	27	82
25.	OYO	18	10	08	24
26.	OGUN	19	05	14	74
27.	PLATEAU	10	05	05	50
28.	RIVERS	06	02	04	67
29.	SOKOTO	05	01	04	80
30.	TARABA	07	02	05	71
31.	YOBE	03	-	03	100
	TOTAL	**402**	**149**	**253**	**63**

Source: *Wole Ademolekun (1994): Community Banking System - Moderning the Informal Financial Intermediaries in Nigeria. Tolalu & Taymes Publishers, Lagos.*

The community banks registered quick successes nationwide, providing a sound basis at the rural level for financial transactions. The banks helped the money to circulate among rural dwellers.

By 1993, the total number of community banks rose to **874** and by 1994 they had risen to **970.** As at December 1995 the total number of Community banks in the country had gone beyond **1000.**

The report based on returns received from **813** of the **970** Community banks in operation at the end of 1994 as published in the Central Bank annual report of December 1994 showed increases in the banks' assets, capital and reserves, deposit liabilities, loans and advances, and investment when compared with those of the previous year. The data for 1994 reads thus:

Assets:	=	N 0.0 million
Capital and Reserves	=	N 808.0 "
Deposit liabilities	=	N2,721.2 "
Loans and Advances	=	N1,147.8 "
Investment	=	N 448.4 "

The banks' loan/deposit ratio rose significantly to 42.2% from 32.4% in 1993. As in the previous two years, commerce accounted for the largest share of the banks' loans and advances. Total loans for commerce amounted to N461.5m or 40.2% of the total compared with 39.5% in the previous year. Agriculture and forestry, real estate and construction, transport/communications as well as "others" sub-sector accounted for N493.7 million or 43.0% of the total loans and advances of the banks. The balance of 16.8% of the community banks loans and advances outstanding went to the manufacturing, mining/quarrying sectors of the economy.

The banks' reported savings deposit and lending rates were generally in line with CBN's policy guidelines. The average savings deposit rate fell from 19.0% in 1993 to 15.0% in 1994. While the average lending rate dropped from 36.0% to 21.0%. The table below gives a summary of Community banks' activities between 1991 - 1994.

SUMMARY OF COMMUNITY BANKS' ACTIVITIES, END - DECEMBER 1991 -1994

(₦ million)

	1991 (1)	1992 (2)	1993 (3)	1994 (4)
Number of Reporting Banks	60	250	611	813
Capital and Reserves	34.0	166.5	625.3	808.0
Total Assets	126.9	774.4	3.252.5	4.117.2
Deposit Liabilities	76.7	474.6	2.188.2	2.721.2
Loans and Advances	15.9	132.2	708.2	1.147.8
Investments	16.8	78.9	326.6	448.4
Average Loan/Deposit Ratio (%)	20.7	27.8	32.4	42.2
Sectoral Distribution of Loans and Advances				
(i) Agriculture and Forestry	N/A	23.7	123.2	123.3
(ii) Mining and Quarrying	N/A	N/A	N/A	23.8
(iii) Manufacturing and Food Processing	N/A	20.1	69.6	82.7
(iv) Manufacturing/Others	N/A	6.6	60.0	86.0
(v) Real Estate and Construction	N/A	N/A	47.5	117.1
(vi) Commerce	N/A	43.7	280.0	461.5
(vii) Transportation/Communication	N/A	9.3	53.7	101.0
(viii) Others	N/A	28.8	68.4	152.3
Deposits and Lending Rates (average %)				
(i) Savings Deposits	N/A	15.6	19.0	15.0
(ii) Time/Term Deposits	N/A	19.4	25.0	Negotiable
(iii) Interest Rate on Loans and Advances	N/A	28.8	36.0	21.0
% Change Over the Preceding December				
Number of Reporting Banks	-	316.7	144.4	33.1
Capital and Reserves	-	389.7	275.6	29.2
Total Assets	-	510.2	320.0	26.6
Deposit Liabilities	-	518.8	361.1	24.4
Loans and Advances	-	731.4	435.7	62.1
Investments	-	369.6	313.9	37.3
Average Loan/Deposit /Ratio (%)	-	34.3	16.5	30.2

N/A = Not available.

Source: *Central Bank's annual report of 1994 Page 44.*

1. **Nigerian Agricultural and Cooperative Bank (N.A.C.B.)**

When the Green Revolution was launched in the 1970s, the Nigerian Agricultural and Cooperative Bank (NACB) mapped out two new strategies to meet the challenges of the programme. The conceptualised schemes are the 'Small Holder Direct Loan Scheme' and the 'on-lending scheme for the River Basin Development Authorities. Both programmes represent new dimensions in agricultural financing and underscore the radical and aggressive tenet of the Green Revolution Programme.

The centre of both schemes is the small holders. Under the scheme no security was required from farmers as the criteria lay emphasis on the character of the farmers only. The maximum ceiling of the loan under the scheme was ₦50,000 in order to obviate difficulties in making advances beyond the same farmer credit need.

Out of the first ten years of the bank's operation (1973 - 1983), the first four years were characterized by start up operations which involved the setting up of internal organisation as a nucleus that can easily permit both vertical and horizontal expansion.

The Nigerian Agricultural and Cooperative Bank (NACB), to book, remains the largest single bank that has made the greatest impact to agricultural concerns nationwide in terms of fund mobilisation through loans for Agricultural Development. It has given out loans worth billions of naira to farmers for both small and big agricultural developments in both the urban and rural sectors. To enhance the inflow of loans to the grassroots the NACB has established zonal and area offices nationwide which coordinate the activities of the branches in the rural sectors to ensure that rural farmers benefit from the credit facilities that the bank was principally established to provide.

The 1994 Central Bank's annual report has summarised the activities of the NACB for the years 1993 and 1994 as follows:

> Growth in assets/liabilities of the Nigerian Agricultural and Cooperative Bank (NACB) showed marked deceleration in 1994 relative to previous years. At N4,506.3 million at the end of 1994, total assets/liabilities of the bank outstanding declined by 13.5 per cent during the year 1994, compared with increases of 51.0 and 70.6 per cent in 1993 and 1992 respectively. Draw-down on cash holding amounting to N238.0 million and reduction in "other" assets (N705.5 million) represented the dominant sources of funds. So also was the increase in other liabilities (N445.8 million). These funds were applied to expand the bank's loans and advances (N125.6 million), investments (N8.1 million), fixed assets (N125.6 million), among other uses.
>
> A total of 634,898 agricultural projects benefited from the Bank's loans which stood at N5,947.4 million, representing an increase of 26.1 per cent over the previous year's level of N4,715.5 million. Credit for on-lending for production accounted for N1,764.1 million or 29.7 per cent of the Bank's total credit under the direct lending scheme, credit for marketing activities amounted to N777.3 million and accounted for 13.1 per cent of total loans, while the share of loans to the small holders scheme stood at 12.2 per cent, down from 12.8 per cent in 1993. Loans for livestock farming retained their 1993 share of 11.3 per cent, while tractor hiring, oil palm and fishery received 6.5, 6.2 and 5.1 per cent, respectively.

In recent years the bank has had to grapple with the increasing pressure for loans. Until a more viable alternative is found, the bank remains the main hope of farmers, particularly those at the subsistence level.

2. **The Agricultural Credit Guarantee Scheme Fund (ACGSF).**

The Agricultural Credit Guarantee Scheme Fund (ACGSF) did very well, in the late 1980s and peaked in 1989, in providing credit facilities to all grades of farmers and those who engaged in agriculture-related endeavours. It is a Federal Government agency established to compliment the efforts of the NACB in facilitating the formation and circulation of funds to the agricultural sector.

The tables below give statistics of the performance of the Fund between 1978 - 1993. The tables show the number of loans guaranteed by purpose and by state as well as the corresponding values of loans guaranteed. In all cases it can be seen that the highest level of performance was recorded in 1989. Since then there has been a steady fall in performance yearly.

The efforts of the ACGSF are being complimented by those other agricultural agencies such as National Agricultural and Land Development Authority (NALDA) and Federal Agricultural Coordinating Unit (FACU). These agencies were established essentially to serve as units that will cater for the needs of the Agricultural Sector by liaising with the Federal Government through the Federal Ministry of Agriculture to ensure that farmers get the desired assistance provided by the Government.

Although they have been doing everything possible to meet their goals, the bulk of the activities of these agencies are tilted towards the upliftment of agricultural endeavours in the urban areas at the expense of those in the rural areas.

3. AGRICULTURAL DEVELOPMENT PROJECTS (ADPs)

The main objectives behind the establishment of Agricultural Development Projects in Nigeria centered around the following: Increased food production, farm incomes and living standards of the rural populace nationwide, which will be achieved by providing:

(i) Rural Infrastructural facilities such as feeder roads, water supply, inputs distribution and;

(ii) Improved agricultural technologies to farmers through extension of services.

A big success was recorded by the several state branches of the Agricultural Development Projects nationwide. Of particular interest are the developmental efforts in the construction of feeder roads and Boreholes in the rural areas. Also of importance is the various assistance given to farmers through improved agricultural technologies which boosted the yield of both food and cash crops.

The efforts of the ADPs complimented the various efforts of DFRRI in the general improvement and upliftment of the lives of the rural dwellers. These successes were recorded largely because a greater part of the funds used were acquired through loans obtained from the World Bank which constituted 80% of the total funds used by the various state ADPs. The balance of 20% was the counterpart funding provided by the states in line with the conditions of the loan acquisition outlined by the world bank.

The Central Bank's annual report for 1994 Pages 79 - 81 summarised the achievements of this scheme in 1993 and 1994 as follows:

> "The World Bank - Assisted Agricultural Development Projects (ADPs) received N1,521.9 million for the execution of their various programmes in 1994. This amount represented an increase of 1.9 per cent over the level in the previous year. A breakdown of the

funding showed that contributions by the World Bank and State Governments accounted for 63.2 and 30.0 per cent of the total respectively, while the Federal Government contributed the balance.

The increased level of funding was reflected in the tempo of activities of the ADPs in all the States. In the area of provision of infrastructure, the length of rural roads constructed increased from 1,240.7km in 1993 to 1,786.2km while the number of bore holes, wells and earth dams drilled/dug also rose dramatically from 326 to 4,066. Extension services improved as the number of farm visits increased substantially from 338.800 to 1,809.612.21. With respect to farm input supply, available data showed that land area devoted to seed multiplication increased by 20.0 per cent to 15.474 hectares, while the quantity of insecticides supplied also rose by 63.8 per cent to 54,884,000 litres. The number of farm equipment (sprayers, ploughs and pumps) supplied also increased by 122.1 per cent to 4,535.

The improvement in funding did not however, have a positive impact on all the activities of the ADPs. For instance, the quantity of fertilizer distributed declined by 67.6 per cent from the level in 1993 to 107.656 tonnes. The output of crops such as maize and groundnut within the project areas also declined by 43.5 and 94.5 per cent respectively.

4. River Basin Development Authorities (RBDAs)

Available data from 8 River Basin Development Authorities (RBDAs) showed that the total budgetary allocation to the Authorities during the year 1994 was N263 million. This amount represented a decline of 42.6 per cent below the level of funding in the preceding year. The bulk (87.5 per cent) of the funds came from the Federal Government, while the remainder (12.5 per cent) was internally generated by the RBDAs.

The poor level of funding was reflected in reduced lev l of some essential services provided. For example, the volume of irrigate water pumped fell by 3.2 per cent to 133 cm', while the land area irrig d declined by 8.2 per cent to 4,479 hectares. The total length of roads c structed remained relatively unchanged at 375 km. However, the nu ber of bore holes drilled/sunk rose substantially from 70 to 153, while he number of farm families catered for also increased by 2.1 per cent to 1 2,932. (See Table Over-leaf).

5. Nigeria's Economy: An Overview

As the decade of economic vicissitudes deepens in N eria, the economy exhibits a highly fragile upturn. The country's growt ate of 2.17% cannot be regarded as anything that can bail out th economy from its present crisis. And in fact the rate of growth is to far from the 4.5% growth rate which the World Bank's long-term perspe ve study for Afca sets to achieve.

A comparison of the present growth rate of the gros domestic product, GDP, with past years indicates serious structural probl s in the economy. Between 1985 and 1989, the growth rate was 3.8% o verage. This rate witnessed a fall to 3.4% between 1990 and 1994. A though the growth rate of 2.6% in the agriculture sub-sector was impre e, the population grew at 3.5% causing dislocations that actually subver policy objectives in 1995. The manufacturing sector exhibited a negativ growth rate of 5%, against the background of staggering inflationary rate o 4.29% at the end of 1995.

Although a little success was achieved in 1995 in t ms of increase in output which was almost persistent throughout the y r, this is not sufficient as it does not consist what will take the co try from the economic doldrums up the hill of economic recovery.

At the close of 1995, Nigeria's development remained a symbol of decline. Ten years ago, the per capita income was much higher at $500 but now it is merely $350. In spite of the pressure on government to increase its commitment to education and health, the government's investment in these sectors had not been encouraging. And in spite of the enormous direct benefit from education, the government still shows more interest in security and defence. In the 1996 budget allocation for example, the amount allocated to security and defence is still higher than that allocated to education which was slashed slightly below the allocation for last year. This clearly shows government's lack of commitment to education. This will make it difficult to uplift education from its present low level. Almost all the gains in human resources development in Nigeria since independence, notably school enrolment and health care standards, have been surrendered.

All that is needed in Nigeria today is the ability to link new economic policies or strategies with long-term development goals. This is the only thing that can provide the country's launching pad into the next decade and beyond. Nigeria's general financial situation became bleak at the close of 1995. The reduction in official development assistance was accompanied by poor performance of the banking and finance sector. A total of 57 banks, accounting for 10.3% or ₦16 billion of the total deposit liabilities of the banking system, were distressed. A more serious cause for concern was that the threat of extinction to the banking sector was caused by those considered to be pillars in the society, but who acted as enemies of the people. This had created more problems for the economy as it eroded public confidence in the banking and financial institutions in Nigeria.

"Money is the pivot of the economy", argues Ebhodaghe. The banks help the money to get round. If along this chain of circulation of money, somebody steals or amasses it for his own exclusive satisfaction,productive ventures are stifled and the economy becomes the worse for it.

Consequently, tailspining economy produces instability and social problems. Ebhodagbe postulates: "You can't reform the economy without reforming the banking system."

Fortunately or unfortunately the proliferation of banks in the SAP era was largely limited to the urban areas with the sole aim of making quick gains through dubious means as highlighted above. The money lodged into these banks was not allowed to flow to the rural areas, due to the sharp practices of fraudsters. It is perhaps the result of the incessant failures of these banks that informed the decision of the Federal Government to establish the Peoples Bank and Community Banks to cater for adequate cash flow for developments and entrepreneurship in the rural area.

	1990 (1)	1991 (2)	1992 (3)	1993[1] (4)	1994[2] (5)	Percentage Change between (1)&(2) (6)	(2)&(3) (7)	(3)&(4) (8)	(4)&(5) (9)
Revenue/Expenditure Profile (N million)									
Total Allocation	103.0	127.0	116.1	458.2	263.0	23.3	-8.6	294.7	-42.6
Actual Disbursement	174.9	188.9	104.1	103.8	N/A	8.0	-44.9	-0.3	-100.0
Land Development ('000 ha)									
(a) Land Preparation	77.1	12.6	12.5	34.7	39.2	- 83.7	-23.0	123.9	13.0
	11.8	5.2	11.3	4.9	4.5	- 56.0	117.3	56.6	- 8.2
(b) Land Under Irrigation	105.1	133.5	210.0	137.4	133.0	18.7	57.3	- 34.6	- 3.2
(c) Volume of Irrigation Water Pumped (Cm)...									
Infrastructural Facilities Provided:	13	8	5	2	2	- 38.5	- 37.5	- 60.0	0.0
(a) Dams	181	190	46	70	153	5.0	- 75.8	52.2	118.6
(b) Boreholes (No.)	20	32	90	375	375	60.0	181.3	316.7	- 0.1
(c) Feeder Roads	167	15,284	18,596	110,625	112,932	9,049.7	21.7	494.9	2.
Farm Families Catered For (No.)									

[1] Revised.
[2] Provisional.

Source: Compiled from the returns of Central Bank of Nigeria Annual Agricultural Survey.

4.4 FINDINGS

In the course of execution of the Rural Banking Policy it was realised that the financial institutions concerned encountered certain problems that included the following among others:

1. **Accessibility** - some of the areas allotted lack basic infrastructures which are indispensable in banking -. Good roads, telephone, communication system, and electricity. The lack of these facilities in banking makes a business that is already difficult actually dangerous.

2. **Staffing** - inadequate trained staff due to the banks unpreparedness for the take off of the scheme; and some of these staff are resentful to being deployed to rural (remote) areas.

3. **Inadequate publicity** on the role and functions of the rural banks. Most of the inhabitants of these rural areas are not in the least aware of the banking services existing in their areas. Only very few enlightened ones do.

4. **Accommodation** - Lack of suitable accommodation both for office and staff as well as difficulty in obtaining land and certificates of compan thereof.

5. **High cost** of renting properties in view of the fact that the prospective tenant is a bank.

6. **Low Business Volume** - It is a truism that commercial banks would be less interested in entering areas where most of their banking business will be limited to agriculture. Being seasonal in nature, it attracts seasonal business and thus becomes a half yearly affair instead of full year operation.

7. **Security** - Most of the rural branches are located in areas vulnerable to armed robbery. Provision for police station in some of these rural towns are lacking, and neither can they install security devices due to lack of electricity.

Finally the banks accepted that the overall cost of operating the rural branches may be high for a number of reasons. One of these can be isolatory nature of the branch, such that clearing of cheques and order

presented by the customers may involve lot of communication by mail or "courier services" to the urban centers. The level of literacy of majority of the customers may be that which requires some assistance to write a cheque or enter withdrawals or debits in pass books. To explain such procedures on individual basis is time consuming in terms of staff time involved. Generally speaking, the problems associated with development financing in this great country, taking the operations of the discussed financing bodies into consideration, seem to fall into three broad categories:

1. GOVERNMENT

The Government as a custodian of finance to its subsidiaries tends to make inadequate provisions and untimely release of funds in the National Budget. Others include:

(a) Lack of adequate pre-project studies

(b) Problems of infrastructure and marketing

(c) Land Tenure system with reference to the landuse Decree.

(d) Problems of politicization of credit facilities to particularly those ran by ministries in some states.

(e) Inadequate supply of fertilizer and the politicization of its distribution which has tended to militate against the achievement of increased production levels.

(f) In many states the extension services provided by the ministries of agriculture have been ineffective.

(g) Government policies on imports have often been inconsistent, and more often than not have hampered the achievement of self-sufficiency in food production.

(h) Inability of government agencies such as NACB, to reach the small farmers and entrepreneurs at the grass root level.

2. FINANCIAL INSTITUTIONS:

Problems associated with the [illegible] financial institutions in the commercial sector include:

(a) Lack of or insufficient number of credit officers who can effectively monitor the activities of the borrowers. This has led to the reluctance [illegible] of the smaller banks to lend to agriculture and small scale enterprises.

(b) Farmers and entrepreneurs complain that funds are not disbursed in time

(c) Delays in the processing of application forms

(d) Granting of inadequate loans

(e) Lack of adequate appraisal before granting loans

(f) Drawing of inconvenient disbursement and amortization schedule

(g) The question of interest rates charged

(h) Mutual distrust between the bankers and borrowers.

3. FARMERS:
The innumerable problems that [illegible] farmers include:-

(a) High level of illiteracy

(b) Bio-physical problems of climate, soil, water, pest and other environmental factors

(c) Management problems leading to inefficient application of funds; and also the diversion of funds to non-agricultural and some-times non-productive uses

(d) Land fragmentation by small holders

(e) They usually lack collateral security demanded by banks for large loans

(f) Lack of proper record which means that "optimum" levels of operations cannot be [illegible]

Finally, misconception about bank loans b[illegible] eq[illegible]ded as national cake instead of depositors money.

In conclusion, it should be realised t[illegible] po[illegible] ri[illegible]ulation in Nigeria with regards to development tends to really addres[illegible] lf [illegible] the problems it aims to solve. The snag is with the execution. Es[illegible]tio[illegible] of policies tend to be divided between two extremes. The operat[illegible] th[illegible] interpret the policies their own way, and the beneficiaries that e[illegible] c[illegible]tain standards out of the policy. The area of conflict tends to li[illegible] be[illegible]w[illegible]en the two extremes. Understandably, it was realised that some of [illegible]e[illegible]ficiaries of these loans and advances have never in their life t[illegible] in[illegible]olved in small scale enterprises talk less of embarking on a large s[illegible]e or[illegible]nation. They only had access to such 'credits' due to the presence [illegible]e[illegible] friends,kiths and kins at the helm of affairs. Even where [illegible] bene[illegible]y [illegible] an entrepreneur but lacked the proper qualities to qualify him [illegible]n[illegible]h larger amount, the corruptible tendencies and manipulative dev[illegible]s of [illegible]igerians is usually put into play,and you find such people e[illegible]oying [illegible] in[illegible]n utilities.

As for the Rural Banking Policy, the corre[illegible] b[illegible]ween this policy and Agriculture is still not feasible. There [illegible]xists [illegible] ori[illegible] conflict between the commercial banks and t[illegible]e intentions of th[illegible]tr[illegible] Bank. For example, it was clearly stated that capital formatio[illegible]n[illegible] of the aims that the policy wants to achieve. But up till [illegible]oday [illegible]e[illegible] no tangible evidence to show the reality of such a policy. What [illegible] o[illegible]mercial banks tend to regard is their desire to derive more deposit[illegible] a[illegible]olutely not to give out credit lines. Even if they are giving, it is [illegible] sir[illegible]smen well-known to them, and those that had business contrac[illegible] n[illegible] more the rural branches were set up.

It should be noted that [illegible] Banking Operatio[illegible] [illegible] a desirable stand, but as far as the progress and deve[illegible]opment wi[illegible] a[illegible] to public awareness of this Rural Banking programme is concerne[illegible] ac[illegible] a policy tends to

concentrate the desired facilities to a selected few who had already enjoyed their shares even before the advent of the Structural Banking Policy. In retrospect, they are only creating more opportunities for these businessmen to exploit at the expense of the ignorant rural dwellers.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY AND CONCLUSION

The summary is three pronged: It has considered the Impact of rural banking on rural development, agricultural development and the effects of Structural Adjustment Programme (SAP) on Nigeria's development financing. Viewed from the spectrum of rural development, rural banking has registered significant successes. The rural banking policy was received at the beginning with mixed feelings, particularly by commercial banks who were saddled with the responsibility of implementing it to fruition. The Central Bank of Nigeria as the supervising body should take the credit for ensuring adherence to guidelines issued to commercial banks for the successful execution of the programmes set out in the rural banking policy. The programme was executed in three phases with allocations of required branches made to the banks in phases. The initial lukewarmness and disillusionment was soon overcome by CBN's stern insistence that the programme must go on. Once the message became clear to the banks that there was no letting go, they implemented the policy in full but the period had to be extended by one year to ensure full compliance.

Although the policy reduced the bank to person ratio significantly from 1:170,000 to 1:80,000 in Nigeria, it was still not attractive enough when compared to India, another third world economy with its large population, having a smaller ratio of 1:52,000. Although the influx of banks during the SAP era has reduced this ratio to 1:55,000, one still wonders when Nigeria will match United States of America's slim ratio of 1:6,000 or better still, Britain's slimmer ratio of 1:4,000.

The boom in banking activities characterized by the era of Structural Adjustment Programme gave rise to a sharp increase in the number of branches nationwide and the birth of new banks. Overnight banking became the new attraction of young executives. In spite of this development, the rural sector continued to suffer neglect as most of the new banks and branches were located in urban areas. The sole objective of the banks was more profit. Rural development was not a priority per se. The field survey conducted indicates that as at 31 December, 1995, tremendous progress has been made in branch network nationwide, particularly by the bigger and more stable banks such as First Bank, U.B.A, Union Bank and Afribank, no significant improvement has been made in the proportion of rural to urban branches. The trend has been maintained with a heavy bias for the urban area. Most bank executives hold the view that cash inflow is very low in the rural areas which informs their bias for the urban centers where cash inflow is more guaranteed. On the whole, in terms of number, there is noticeable increase in the number of banks located in the rural areas when compared to what obtained at the end of 1984 - about 11 years ago.

There is no doubt, that the Peoples Bank and Community banks gave the rural areas the biggest boost of all. For the first time the balance was tilted in favour of the rural areas. More than two-thirds of the total number of Community banks were located in the rural areas at the end of 1992. Peoples Bank had similarly advanced more than fifty per cent of its loans to rural dwellers which had, to a large extent, put them on the road to economic recovery. The efforts of both banks is responsible for the significant improvement in cash flow through small scale enterprises in the rural areas. This has enhanced a faster rate of rural development.

For a developing economy like Nigeria's, this is a good development but conscientious efforts will have to be made in implementing policies to the letter. This in addition to other agencies like the Agricultural Development Projects, Directorate of Food, Roads and Rural Infrastructure and Nigerian

Agricultural and Cooperative Bank among others, will serve as the foundation to the anticipated self-sufficiency in agriculture and rural development.

From the spectrum of agricultural development, rural banking has done a lot to revitalise agriculture which has dwindled to a deplorable position from its former status as the predominant occupation of Nigerians less than fifty (50) years ago. This deplorable situation emanated partly out of the neglect of the rural economy which had lacked various developmental and socio-economic infrastructure to make life worth living for the teeming population.

The government in an effort to revamp this ailing sub-sector of the economy and in effect speed up the concept of capital formation through investment in the agricultural sector, embarked upon various policies aimed at achieving such goals. These policies included the utilisation of the marketing boards in the late 1950s and early 1960s, the launching of various programmes notably Operation Feed the Nation, Green Revolution programme and Government's "back-to-the-farm" strategy.

These policies all started fine with good promises of meeting the popular demand and set objectives but fell at one stage or the other. The establishment of Nigerian Agricultural and Cooperative Bank, the introduction of the Rural Banking programma and the Agricultural Credit Guarantee Scheme aimed jointly at raising the standard of living of the rural economy, restored agriculture to its export potential level, inculcated the discipline of savings and the use of credit facilities in the mind of the rural populace and in effect made Nigeria self-sufficient in food production.

These policies, notably the activities and policies of the Nigerian Agricultural and Cooperative Bank, the Agricultural Credit Guarantee Scheme, and the Rural Banking Programma have been extensively analysed in the previous chapters both in formulation and execution vis-a-vis their implication and effect on the rural economy and found to be working under some conditions

and had certain lapses that need verification.

The Nigerian Agricultural and Cooperative Bank was found to be operating at a reasonable and progressive state, but had certain problems to contend with in both the formulation and execution of its activities. These include the disbursement of loans to unrelated categories of farmers whose professional claims are in doubt; while neglecting the genuine farmers who have been crippled with all sorts of procedures and conditions foreign to the well-known extended family heritage and social upbringing.

The Agricultural Credit Guarantee Scheme just like the Nigerian Agricultural and Cooperative Bank, but this time aimed at small peasant farmers with the participation of commercial banks, was more or less absorbed into the same stream of manipulation and operational problems like the Nigerian Agricultural and Cooperative Bank. This notwithstanding, the achievements and impact recorded have gone a long way to show their significance towards the achievement of Nigeria's agricultural policy.

The advent of Agricultural Development Projects elevated farm income, living standards of the rural person and increased food production, through the provision of basic infrastructural facilities and improved agricultural technologies to farmers.

These achievements will be better appreciated when considered along with the achievements recorded by the Directorate of Food, Roads and Rural Infrastructure. The two bodies had similar mission aimed at alleviating the travails of the common man.

There is no single government policy that had as much impact, both positively or negatively, on the Nigerian population like the Structural Adjustment Programme **(SAP)**. This policy affected the main fabric of the Nigerian society and left footprints along its path. The Nigeria's financial sector received its biggest jolt in the **S.A.P.** era and went through various

stages of growth rather too quickly. **SAP** gave birth to several banks and financial institutions which sprang up, reached their peak and crash-landed all within a record time of less than a decade. The flexible nature of the guiding principles that surrounded the operations in this very important sector set the pace for the damage and wreckage that followed. The era of boom in the sector is now history, having made the yuppie young chief executives millionaires overnight at the expense of the shareholders who were left to clear the mess. So far several banks have been liquidated. Majority of the non-bank finance institutions that sprang up have since gone under, leaving depositors to whistle for their large chunk of money lodged into the fledgling institution's accounts. The National Deposit Insurance Corporation (NDIC) is today better known as the undertaker because of the number of banks and finance houses it had to take over or liquidate.

The continuing distress in the financial services sector, is an unfortunate indication of unlearned lessons on the bank failures of the 1950s. That Nigeria can celebrate the failure of 70 banks almost within a generation, in such an ugly manner, raises questions on how far managers and professionals in the banking industry have been able to grasp the fundamentals of banking practice and ethics.

But **S.A.P.** is not without its gains. It is during its era that we had the DFRRI, Peoples Bank and Community Bank. To a large extent these establishments both in intent and implementation were directed at the rural sector. The Directorate of Food, Roads and Rural Infrastructure was the first to bring smiles to the faces of the teeming population of rural inhabitants. Several villages that were, hitherto, inaccessible either due to lack of roads or damaged roads were made accessible. Boreholes and electricity were also among the infrastructural facilities taken to some of the rural areas.

The Peoples bank and Community banks are rural based banks that were

later instituted to compliment each other in terms of mobilisation and utilisation of resources for development in the rural sector. For the first time, the rural sector felt a sense of belonging in the scheme of things. They had access to credit facilities at the People's bank without collateral, and the control which they lacked in the People's bank they had in the Community banks which they co-owned. Tremendous success in both rural and agricultural developments soon became manifest. Recently, these institutions are bedeviled by the Nigerian syndrome of corruption which has, as it were, eaten deep into the main fabric of the society and is constituting a serious threat to the implementation of government's well intended policies. The people saddled with the responsibility of managing the agencies have plucked and squandered, leaving them in ruins. This, unfortunately, has become the rule rather than the exception in the country today.

5.2 RECOMMENDATIONS:

There is no doubting the fact that the activities of Nigerian Agricultural and Cooperative Bank, Agricultural Credit Guarantee Scheme, Agricultural Development Projects, the Rural Banking programme and until recently, Peoples Bank and Community Banks have achieved and are still achieving the desired results. But to facilitate the attainment of the desired level of perfection and interaction, the following recommendations are given:

- The Federal Ministry of Agriculture, the state Ministries of Agriculture and the appropriate federal and state ministries of Information should continue with renewed vigour the enlightenment and public awareness to draw the attention of farmers to the financial services that the following agencies can provide to farmers: NACB, all commercial banks, Peoples Bank, Community banks Agricultural Development authorities, etc.

- Supply of Agricultural inputs including fertilizers would have to be

geared up and subsidised to enable a greater cross-section of Nigerian farmers to have access to them.

- A review of the land use decree and land tenure system has become desirable so as to make documented ownership of such facilities simple.

- Strengthening the farmers cooperative societies and acceptance of social or group guarantees to assist farmers who may not be individually viable.

- Proper evaluation of loan requirements to ensure adequacy of loans granted and to ensure that it goes to the needy.

- Development of a food valuation and production distribution system which fits our particular soil, climate, manpower and economic constraints. Thus the establishment of a competitive agricultural enterprise will be possible.

- Government should inject funds into cooperative and agricultural banking so that credit facilities can be geared towards agricultural financing.

- Simplification of the lending procedure so as to eliminate the bureaucratic bottlenecks that have become the obstacles hindering the illiterate and less previledged groups and individuals from benefitting in such ventures.

- The Nigerian Agricultural and Cooperative Bank should be strengthened in terms of financial support to enable it meet the greater demand of rural farmers for loans.

- All rural commercial bank branches should provide full range of banking services and open daily.

- Provision of basic infrastructures to the rural areas should be embarked upon with maximum despatch through the revitalisation of the efforts of Directorate of Food, Roads and Rural linfrastructure and Agricultural Development Projects.

- The Central Bank of Nigeria should use its power in optimising the rate and direction of growth of the economy not only in theory but in practice. It should use the monetary policy of maintaining the flow of income and savings for the desired national objectives especially that of directing credit to the needy sectors. It has not dully exploited its powers in influencing cash reserves of commercial banks as well as the level of their bank deposits. The Central Bank's reliance on consultation and cooperation is responsible for the many instances of non-compliance by commercial banks.

- Embargo should be placed on opening of new branches in the urban areas. This will leave the banks with no alternative but to consider further improvement in the rural areas.

- The Federal Savings Bank should be restructured to undertake the basic banking activities of savings and loans accounts, thereby making it possible to tap the vast and idle resources of the rural areas.

- Finally, policy regarding issues should be straight forward and non-contradictory. This was prompted in 1977 when the government introduced the Rural Banking Programme. A year later, the government started its crusade against inflation by tightening up the economy. We are presently going through the same crusade. Generally, in a period of recession, banks become illiquid; deposits

dwindle, and unless there are other sources of funds like non-deposit sources, banks will resort to cut-throat competition for deposits. While this goes on, the no cost (demand) deposits also decline. All of these factors increase the commercial banks cost, while their income remains constant. In such a situation, no profit making institution would want to expand. Expanding during a contracting economy is unwise in most cases but is especially so when the expansion is into a geographic area where possibility of profit is not in sight.

- The government demonstrated a dangerous flexibility in pursuing its policies in the 1980s, particularly during the SAP era which led to the collapse of the financial sector. The sector is still suffering from the excruciating pain of its travails in the hands of non-professional and greedy operatives.

- This writer is of the view that Nigeria, particularly the rural sector still stands to gain a lot from the **Peoples Bank** and **Community Banks schemes** - their failures and problems notwithstanding. A careful examination of the operations of these banks should be carried out to identify their areas of problems. Once remedies are provided to get the banks properly on their feet and working again, strict supervision of their performances should be carried out religiously. The supervising body should comprise men of proven integrity, who are professionally qualified and are wiling to execute the policies without fear or favour.

- Adequate remuneration should be provided for them to reduce any temptation to sell their conscience for monetary reward in order to permit fraudulent operatives that will lead to ultimate collapse of the system.

From the interviews and surveys conducted, it has been established beyond reasonable doubt that the rural banking policy and other governmental efforts at rural development, to all intents and purposes, have been very good. The problem has almost always been with the implementation, which has the habit of running into a hitch. There is therefore the need for good managerial capabilities, transparent honesty and dedication on the side of operatives hired to execute government policies in Nigeria.

The present regime of General Sani Abacha has undertaken a crusade aimed at bringing sanity back to the banking sector in the country. Defaulting bank executives and customers are being made to face the wrath of the law.

Trials of bank executives under the Failed Banks (Recovery of Debts) and Financial Malpractices Tribunals, in consonance with Decree 18 of 1994, might punish financial managers for their incompetence, greed and susceptibility to easy virtues within a system that requires display of high competence and discipline.

Efforts of the Nigeria Deposit Insurance Corporation, NDIC, at sanitising the financial system within the ambit of the decree, though desirable, cannot be sufficient or be wholly genuine. The NDIC came when the distress syndrome was ravaging the industry. It got pre-occupied with banking supervision and had little time to build premium reserves for the financial emergency created. The N15 billion to be recovered from culprit bankers notwithstanding, the administration of the decree in its present state will still impair credit availability for the growth of the stimulant segments of the economy. This handicap need not further reduce the sanitization of the banking system by excluding recalcitrant debtors from reprimand. The banking system thrives only when debtors oblige to pay.

Addressing insider abuse is not the ultimate panacea to checkmate bank distress. Prompt loan repayment is the crucial factor. Bank distress should be differentiated from ordinary business failure. If a business fails, it ceases to operate. When banks fail, the snowball effect shreds the entire economic fabric, exposing more than a private individual's interests to jeopardy.

Banks, as springboards for the smooth sail of other sectors of the economy, deserve close monitoring and errant bankers deserve appropriate sanctions. Trial of bankers, being a delicate and conscious exercise, requires some precision and accuracy to prevent unearned imprisonments. Also, careers need not be ruined on unproven allegations. A board of director that approves a suspect loan is as culpable as the manager that granted it. Close focus is therefore needed on conflicting statements, to determine when truth is being economised. Afterall, authority and privileges attract responsibilities.

Fortunately, imprisonment of errant bankers is not novel to Nigeria. Ghana, Malaysia and Venezuela have tried it.

Incidentally, new banks predominate the distress list, harping the lesson that it is better to be old, seasoned and steady. Since financial systems are built on confidence, trust, probity and utmost good faith, adherence of all players to the rules of the game is crucial. The banking system in Nigeria requires the code of safe banking practice to enable it survive and contribute its fundamental quota to economic development. The Chartered Institute of Bankers, CIBN, must ponder more on this and distance all tainted bankers from its fold.

The CBN and NDIC need not be alone in providing checks and balances in the financial system. The CIBN, Association of Finance, AFA, and the Associations of Accountants must contribute their quota to the promotion of a safe financial system for Nigeria, by curbing the propensities of their members to err. This, of course, is the master solution that can sanitise the financial system.

The recent sack of about **178** bank executives and the blacklisting of **75** others is a good omen from the CBN aimed at sanitising the system.

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