RURAL BANKING AND RURAL DEVELOPMENT IN KANO STATE (1977 - 1987)

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Z A R I A

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DECLARATION

I hereby declare that this Project has been written by me and that it is a record of my own effort. It has not been previously presented in any form for a higher degree.

I wish to point out that all information collected for the entire write-up are clearly acknowledged by means of references.
All errors of omission or commission in the work are entirely mine.

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CERTIFICATION

This Project entitled:

RURAL BANKING AND RURAL DEVELOPMENT IN KANO STATE

by MALLAM GARBA BELLO meets the regulations governing the award of the degree of MASTER OF BUSINESS ADMINISTRATION (MBA) of Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

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Dean, Post-Graduate School	Signature	Date 26/6/89

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Garba Bello, AMNIM
November, 1988

ABSTRACT

The retarding effects which neglected rural development in Nigeria would continue to have effect on efforts to promote the country's economic development and the importance of rural development in the overall development of the country cannot be over-emphasised. And one important aspect of the requirements for rural transformation is the need for rural credit. Thus, rural credit must be recognised as an important pre-requisite for planning economic development.

It is in recognition of this that the Central Bank of Nigeria inaugurated the Rural Banking Scheme and since 1977 tied the approval for opening urban branches by commercial banks to concrete proposals for opening rural branches. Unfortunately the commercial banks have not made good their pledges to open a rural branch after they have secured approval for urban branches. And even where they did open rural branches, the operations of such branches need much to be desired in terms of the provision of timely rural credit.

This project analyses the operations of the rural banks as it relates to rural development in Kano State. In so doing, the operations of the rural banks since the inception of the scheme in 1977 have been analysed by collecting data from both the operators and the beneficiaries of the scheme. This is with a view to identifying their degree of effectiveness, efficiency and relevance as agents of rural development through the provision of the much needed rural credit.

In the course of the analysis, the Rural Banking Scheme objectives, modalities, implementation, and the circumstances under which the scheme was inaugurated with respect to the problem of agricultural lending have been examined. Also, the complementary role of the Agricultural Credit Guarantee Scheme and the State Government expected role in fostering the scheme have been examined.

DEDICATION

This Project is dedicated to my wife, Mrs Fadimatu Garba, and my children: Hauwa, Umar, Amin, and Mujiburrahman.

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CHAPTER ONE

I N T R O D U C T I O N

1.1 KANO STATE AND ITS ECONOMY

What is known as Kano State came into existence on May 27th 1967, with the promulgation of Decree No. 14 by the Federal Military Government in power at that time. The State extends between latitude 10°, 30° and 130° North and occupies an area of about 16,650 square miles with an estimated population of about 11 million people.[1] This makes it the most populous State in the whole Federation.

The State, which is situated on a gently undulating land about 1,476 feet (450m) above the sea levels, is drained by mainly two rivers, Kano and Challawa, which run north east flowing into the upper part of the Lake Chad Basin. The two rivers join to form the Hadejia River almost bisecting the State in equal half. Lying largely within the Savannah vegetation zone the State stretches into Guinea vegetation area.

1) CLIMATE

The climate of Kano State is distinctly indentifiable as wet and dry seasons. The dry season lasts from October to April, while the wet season extends from May to September.[2] The average annual rainfall is approximately 35 inches, though in recent years there is shortfall in the seasonal rains which gave rise to the acute drought experience in the Northern most part of the State.

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1. Kano State of Nigeria - potential investors 'Guide to Kano State - compiled and produced by the Office of the Personal Assistance to the Military Governor (Economic & Industrial Affairs), Kano State.
2. For a more detailed geographical and climate description of Kano State the reader could consult - Kano State Commercial and Industrial Hand-book, Ministry of Trade & Industry Kano State, December, 1974.

2) AGRICULTURE AND NATURAL RESOURCES

A great majority of the people of Kano State are farmers. The State has a very large agricultural sector and a sound agricultural policy that will ensure an uninterrupted supply of agricultural raw materials for agro-based industries. The activities of the multi-million Naira Kano Agricultural and Rural Development Authority (KNARDA) and the Kano State Agricultural Supply Company Limited (KASCO) are geared towards enhancing agricultural output and higher productivity in the State. The State is noted for a variety of agricultural products which it supplies to other parts of the country. These products include: Groundnuts, Soyabeans, and cottons. The major food crops produced are millet, maize, guinea corn, wheat and rice.

Recently, the State Government has embarked upon a wheat production programme that will satisfy the input requirement of existing and future flour mills in the country. There are also programmes that will, in no distant future, rehabilitate the production of groundnut and cotton, so that existing oil and textile mills can be resourced locally with resultant savings in foreign exchange.

The State has also the best water resource management system in the country, which makes it an ideal centre for general agricultural and fisheries development. The State has 22 dams and an area of 90,000 hectares of land under cultivation. For example, the seven-kilometer long Tiga Dam, the third largest in West Africa, has a capacity of supplying enough water to irrigate 72,000 hectares in the Kano River Basin. For this reason it has been supplying other States of the Federation with vegetable crops like:- mangoes, tomatoes and pepper, onions and sugar-canes.

Kano State is also endowed with a great variety of natural resources located in different parts of the State. These include: Tin, Zinc, Lead and Clay, Kaolin, Fine Sand and Gum Arabic.

3) INDUSTRIES

Kano State was an ancient entrepot and focus of merchantile endeavour, as well as the major terminus of trade routes with other African regions. Kano State was reknown for its iron smelting and metal fabrication industry, textiles manufacture, tanneries, indigo dyepits, ceramic ware, architecture and several other mature technological advances. The State has witnessed a tremendous growth in large, medium and small scale industries since its inception in 1967. The State now boast of 240 large and medium - scale establishments scattered all over the State. It is second to Lagos State in terms of industrial establishments in the whole Federation. Large scale industrial activities in the State include metal and wood transformation for the manufacture of furniture, containers, steel and alluminium structures, assembly of trucks and tractors, sugar processing, manufacture of ceramics, tiles and concrete building materials, textiles production and many others. Regrettably, however, there has been an over-concentration of industrial establishments in metropolitan areas and immediate outskirts while the rural and semi-rural areas have remained largely agricultural and as suppliers of raw-materials to industries.

In order to encourage the dispersal of industries throughout the State and give a fillip to the present administration's resolve to revive the rural economy, the State has pledged the following additional incentives to prospective investors outside the Kano Metropolitan area:

i) The provision of free industrial plots in rural and semi-urban areas;

ii) The provision of free land for the construction of housing estates for woerkers;

iii) The exemption of establishments from all land development charges for a period of five years;

iv) The preparation of industrial profiles and feasibility studies by the appropriate Government Agencies, or in partnership with private consultants, to provide a pool of economically viable and socially profitable commercial and industrial ventures, to be made available to prospective investors in the rural areas free of charge, and

v) The extension of Government patronage, where appropriate, to manufacturing industries located in rural areas, provided their products are of acceptable standards.

1.2 BANKING IN KANO STATE

Before the advent of the Rural Banking Scheme in 1977 there were about 18 commercial banks in Kano State all located in the municipality serving a population of less than 1 million people.

Whereas the rural areas of the State with a population of over 5 million people has none. With the Rural Banking Scheme, Kano State can now boast of about twenty-nine rural bank branches located throughout the State.

As at 31st December, 1987 there were 25 Commercial Banks operating in the State with a total of 29 rural branches in the following locations:-

S/NO	BANKS	LOCATIONS
1.	Allied Bank of Nigeria Ltd	Tudun Wada
2.	BCCI	Tofa
3.	BCCI	Birniwa
4.	First Bank of Nigeria Ltd	Hadejia
5.	I B W A	Gumel
6.	I B W A	Gezawa
7.	I B W A	Minjibir
8.	I B W A	Kura
9.	Tropical Commercial Bank Ltd	Hadejia
10.	" " " "	Birnin - Kudu
11.	" " " "	D/Kudu
12.	" " " "	Wudil
13.	" " " "	Dambatta
14.	" " " "	Karaye
15.	" " " "	K/Hausa
16.	" " " "	Maigatari
17.	Nigeria Arab Bank Ltd	Gwarzo
18.	" " " "	Bichi
19.	" " " "	Bazaure
20.	" " " "	K/Dangora

S/NO	BANKS	LOCATIONS
21.	Savannah Bank of Nigeria Ltd	Gaya
22.	" " " " "	Gwaram
23.	" " " " "	Jahun
24.	" " " " "	Ringim
25.	Society General Bank Nigeria Ltd.	Garko
26.	Union Bank Nigeria Ltd	Dutse
27.	United Bank for Africa Ltd	D/Tofa
28.	" " " " "	Hadejia
29.	" " " " "	Rano

On the whole Kano State was allocated 18, 14, and 17 branches in the 1st, 2nd, and 3rd phases respectively of the Rural Banking programme making a total of 49 branches. Out of these 29 branches were established as at 31st December, 1987. This is about 59% of the total branches allocated in the three phases of the Rural Banking programme.

1.3 STATEMENT OF THE PROBLEM:

The importance of rural development in the overal development of the country cannot be over emphasised. And one important aspect of the requirements for rural transformation is the need for rural credit. Thus, rural credit must be recognised as an important prerequisite for planning economic development.

The economy of Kano State is predominantly agricultural. The majority of the people of the State are farmers producing mostly food crops. They also produce crops like wheat, rice, tomatoes, date, soyabeans, sugar-cane and many others with sufficient surplus to supply other States of the Federation.

This surplus is achieved only because so many people are engaged in the farms both during the rainy and dry seasons. However, the productivity per head is still very low and so is the per capita-income.

Because income is low the capacity to save is also proportionately small. This leads to lack of capital and hence low productivity. Production is on individual or family basis with each household cultivating only a small piece of land with the most primitive methods of farming using a lot of human labour. This situation is not only peculiar to Kano State but to virtually all the States of the federation. In an effort to boast food and agricultural production generally the Federal Government has identified the pausity of capital as a bottleneck in the development process of the Nigerian rural sector. To supply this capital the Government through the Central Bank of Nigeria adopted the Rural Banking Scheme which started in 1977.

The non - availability of credit at the correct time and quantity is the major handicap to rural development in Kano State. However, the second equally important factor which is often overlooked is the availability of entrepreneurship. The availability of credit facilities should stimulate entrepreneurial response that would complement the availability of capital for growth to take place. If entrpreneurial response is minimal and hence the demand for loans is limited, there will be tendency to accumulate rural savings only to transfer and loan them out to more active urban branches where the demand will be high.

In such situation the contribution of banks to the rural development will be limited not just by the limits of the small deposits collected by the banks but also by the demand for financial accomodation. Thus, banks may provide the facility but unless the people are enlightened on production methods and how to go about it, the money will not be of much use to them.

Another issue is the application by banks of similar conventions and habits to local enterprises in the rural areas as in the modern Urban Sector. Generally, few rural enterprises are able to conform to the standards of credit worthiness, or to provide the type of collateral security which banks are accustomed to demanding in the more developed urban sectors. The rural industries or agricultural enterprises are almost invariably small scale and their ability to provide conventional securities is often limited. The absence of a formal system of legal title to land in particular often renders it extremely difficult for a farmer in the rural area to produce the mortgage security which would be common in a more developed economy with a highly formalised system of land tenure. Further more, the predominant need of such industries would be for at least medium term capital of the type which industries in the urban areas would normally raise on the capital market or from other long - term lending institutions. Thus, the restriction of bank lending to working capital requirement which is customary with commercial banks would be particularly unfortunate in the light of the needs and nature of the industries struggling to establish themselves in the rural areas where long - term funds are not available.

Another issue worthy of mentioning which is closely related to the above is that given the high degree of risk inherent in investment in rural economy, it may prove essential that institutions established to collect and invest the savings of the communities should be supported by a guarantee of Government. It is inherent in an under-developed economy that the risk attached to investment in local enterprises especially in agriculture, is so large that rural banks - being subset of commercial banks cannot reasonably be expected either to assess the extent of this risk fairly, or to take it entirely on their shoulders. It is the proper function of Government to provide some guarantee against this risks if the desired rural development is to be achieved.

1.4 THE OBJECTIVE OF THE STUDY:

The main objective of this study is to examine the operations, problems and prospects of the rural banks in Kano State with a view to determining their contribution to rural development through the mobilization of rural populace savings and granting of agricultural and small - scale rural industrial loans.

The specific objectives of the study are:

(1) To find out the extent to which rural banks branches have provided financial assistance in Kano State.

(2) To find out the extent to which the beneficiaries of such financial assistance have utilized the funds for the purpose for which they were given.

(3) To find out how much awareness the scheme has generated among the local populace.

(4) To ascertain the view points of the rural farmers and small - scale industrialists in respect of their financial problems.

(5) How much of the rural branches loanable funds have been loaned to local entrepreneurs for investment in these rural areas and hence their contribution to the development of Kano State.

(6) To identify areas of bottlenecks and constraints besetting the rural banking scheme.

(7) To evaluate the viability of rural banking scheme as suppliers of credit for rural development.

(8) To recommend remedial measures to correct the weaknesses indentified.

1.5 RESEARCH METHODOLOGY:

The research methods adopted for this study was a survey of rural banking practices and operating records in Kano State as well as a survey of practices and sources of financing economic and agricultural activities among the rural population of Kano State. For this purpose we made use of both the primary and secondary data.

(1) PRIMARY DATA:

In order to obtain data that would provide information on the operations of the rural bank branches and their contribution to the development of the rural areas of Kano State both questionnaires and personal interviews and observations were used.

(a) QUESTIONNAIRES:

Two sets of questionnaires were designed. One was administered among rural bank managers while the second was administered among rural farmers and rural small scale industrialists.

(b) PERSONAL INTERVIEWS AND OBSERVATIONS:

Under this the researcher interviewed some rural branches co-ordinators at the zonal offices of those commercial banks having rural branches in Kano State.

In addition some discussion with officers of the supervision department and Agricultural finance Department in the zonal office of the central Bank of Nigeria was made particularly with regards to their finding during their routine inspection of rural branches in the State. Personal visits to some banks branches during working hours were undertaken to observe operations across the counter. Also the researchers practical experience as a rural branch manager for over five years was extensively used.

(ii) SECONDARY DATA:

The use of the available literature on the subject was extensively made especially from publications of Governments, Central Bank of Nigeria, Commercial Banks, Development Plans and symposia. The use of available published data of rural branches was made whereever necessary.

...RAHIM LIBRARY

1.6 WORKING HYPOTHESIS:

The working hypothesis of this study is that there is an inadequate financial support in the rural areas of Kano State in particular and Nigeria in general and that the rural banks being subset of commercial banks conforming to their old-age banking practices as in urban centres have not envolve suitable outlets for the provision of financial support for an integrated rural development.

1.7 RELEVANCE OF THE STUDY:

This study is important in view of the important role financial institutions in general and rural banks in particular have to play in the rural development process of the country.

The importance of rural development in the overall development of the country cannot be overemphasized. And one important aspect of the requirements for rural transformation is the need for rural credit. Thus, rural credit must be recognized as an important prerequisite for planning economic development.

This study will be of great importance to Kano State at the time when the State is trying to find ways and means of developing some agro-allied industries in her rural areas with the help of local entrepreneurs and resources. And it is likely that this study will generate a lot of data which will be useful for that purpose.

This study will also raise issues and bring to the knowledge of policy makers the successes recorded by the rural banking scheme and how such success if any, could be consolidated and enhanced. It will also pinpoint the problems encountered by the rural banks and suggest some remedial solutions.

1.8 SCOPE OF THE STUDY

This appears to be a maiden study of the operations of the rural banking scheme in Kano State since the inception of the Scheme in 1977. The study covers the period from 1977 to 1987. Geographically, the study covers ten out of the twenty local Government Areas of the State representing fifty - per cent. This, it is believed is sufficiently representative of Kano State and that the conclusions and recommendations drawn will be applicable to the entire population of Kano State and other States with similar characteristics.

1.9 LIMITATIONS;

This study is confined to the operations of the Rural Banking Scheme in Kano State. This is due to financial limitations. Official Secrecy also posed a limitation as most Managers would not release all the useful information required in this study, wholly and freely.

1.10 THE SCHEMATICS OF THE STUDY:

The project is divided into six chapters: Chapter one is an introduction to the study which contains a brief history of Kano State and its economy, problem statement, the objectives of the study, research methodology, working hypothesis, relevance of the study, scope and limitations of the study. Chapter two contains the conceptual framework and the related literature review of the study both within and outside the country. Chapter three centres on the three phases of the rural banking scheme and the complementary roles of the Agricultural Credit Guarantee Scheme and the State Government.

Chapter four contains Data Analysis in which the responses of both Bank Managers and farmers/small scale industrialists on the questionnaire administered among them are analysed. Chapter five contains an evaluation of the Rural Banking Scheme in Kano State. Chapter six contains summary of conclusions and recommendations.

CHAPTER TWO

CONCEPTUAL FRAME WORK AND REVIEW OF RELATED LITTERATURE

2.1 INTRODUCTION

This chapter reviews some historical development of banking system in Nigeria with emphasis on inadequacy of banking facilities and poor banking habits which gave rise to the rural banking programme. It will then examine the role of banks in economic development. Under this, banks role in capital formation and intermediation, savings - investment process and in the stabilization of the economy will be examined. The chapter will also review the theoritical support for rural banking programme so as to determine whether the Rural Banking Scheme was founded on a sound theoritical back-ground and to examine the conditions under which the rural banking programme can contribute meaningfully to the development of the rural areas they were meant to serve. The chapter will close with a review of previous studies relating to rural banking undertaken both in Nigeria and some foreign countries which adopted similar strategy for development purpose when they were at about our present stage of economic developement.

2.2 HISTORICAL DEVELOPMENT OF COMMERCIAL BANKING IN NIGERIA

The origin of the Nigerian Commercial banking system dates back to 1892 when African Banking corporation of South Africa, on the invitation of a shipping agent of Elder Dempster, opened a branch office in Lagos.

A year later, the Bank of British West Africa [1] was incorporated in England and it absorbed the banking business of the African Banking corporation in 1894.

It remained the only bank in Nigeria until 1917 when the Colonial Bank opened its offices. In 1925, the Colonial[2] Bank was obsorbed by Barclays Bank D. C. O.[2].

The traditional sources of business for these foreign banks were the governments, the marketing boards, the large supraterritorial minning and commercial firms. They financed import and export trade where they hoped to make quick and highest possible profit. It is therefore not difficult to see why they concentrated their operations in the commercial and administrative head quarters.

The indigenous merchants discovered quite early that the expatriate banks would not serve their interests. Accordingly, they founded many banks, most of which failed. But those that survived[3] and others that came later were unable to attract the profitable business of the extraterritorial firms, which being expatriate owned, naturally promised the expatriate banks. The indigenous banks were therefore, as Olashore pointed out, lefte to operate on the periphery of banking. [4]

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1. Now known as First Bank of Nigeria Ltd.

2. Now known as Union Bank of Nigeria Ltd.

3. Among those that survived include the National Bank, the African Continental Bank and the Wema Bank.

4. O. Olashore, "Rural Banking Strategies and policies of Government and the Central Bank of Nigeria", the Bullion 20th Anniversary, Ed, July 1979

They could not venture into the rural areas because of fear of failure. Thus, inspite of their initial patriotic fervour, they too settled in the big cities, for to them that was the way to survive.

Even the State Government - owned banks which were established later, also adopted this expedient, but myopic stance. In their anxiety to survive, the indigenous banks have lost sight of the objectives of their founders in the direction of serving the needs of the rural population, and instead have focused their strategy on the big cities - like the foreign banks, who have always been out to promote the interests of their metropolitan headquarters.

By 1977, after about 85 years of banking in Nigeria, there existed only 470 bank branches to serve a population of about 80 million (one branch per 170,000 persons) and a territory of some 920,000 square kilometres (one branch per 1957 square kilometres). The poor state of our banking habit can best be appreciated when compared with the distribution of banks in other countries. As far back as the 1940s U.K. had a per capita bank ratio of 1:4,000 persons, U.S.A. had 1:6,000 persons, while India had 1:52,000 persons. By 1967 Canada had 3,500 persons per bank office. With these statistics, Nigeria is certainly one of the countries worst supplied with banks in the world. [5]

The picture that emerged from the geographical distribution of the 470 bank branches was even disturbing.

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5. Olashore, O. Op cit

More than 100 of the 470 bank branches were located in Lagos State, and served an area of 1381 square kilometres, while States like Niger, Bendel and Gongola had fewer than 10 bank branches each. Even within each state, the few bank branches are located in the urban centres. [6]

With the above picture of the total neglect of the rural communities in the scheme of bank expansion and the inadequacies of banking services generally relative to the size of Nigeria's territory and population, the Federal G Government inaugurated the rural Banking Programmes in 1976. The first phase of the programme was scheduled to last from July 1977 to June 1980 during which a total of 200 branches were to be opened in rural areas.
The second phase which was to last from 1980 to 1983 was to produce 266 rural branches. By December 31, 1984, there were a total of 27 commercial banks in the country with a total of 1213 branches to serve a population of over 80 million people. This would give a per capita bank ratio of 1:65,952, which by international standards is still very low. Under the third phase (1985 - 1989) in which 300 branches were allocated, as few as 24 (or 8.0 per cent) were completed by the end of December 1986. On the whole 766 rural bank branches have been allocated under the three phases of which 481 have been opened by December, 1986 yielding a compliance rate of 62.7 per cent. Table 2.1 shows the development of banking density in Nigeria interms of both geographical area served and population per bank office.

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6 Olashore, O. Op cit

TABLE 2.1

NIGERIA'S BANKING DENSITY

YEAR	NO OF BANKS	NO OF BRANCH OFFICES	POPULATION PER BANK OFFICE	SQ KILOMETRE PER BANK OFFICE
1977	18	470	170,000	1,957
1978	19	485	137,714	1,572.6
1979	20	624	127,186	1,462.6
1980	20	740	108,108	1,243.2
1981	20	881	90,806	1,044.3
1982	na	na	na	na
1983	25	1108	72,202	830.4
1984	27	1213	65,952	758.5

Source: Business Times, Monday 13, August, 1984 and CBN Annual Statement.

From the above table one could see clearly that Nigeria is 'underbanked'

Banking services are inadequate even in the urban centres where the few available bank offices are concentrated. Banking services can be adequate only if the customer does not have to go to great pains to obtain the services. They can also be adequate only if the customer does not have to travel great distance to find a banking facility. They cannot be adequate if the customer has to suffer humiliation of long and open wait in long queues to deposit or withdraw his own money, or buy the favour of a clerk or officer of the bank to obtain some financial accomodation. And banking services cannot be adequate if the financial infrastructure to support commercial banking has not yet been created.

2.3 DEVELOPMENT OF BANKING HABIT

The inadequate of banking services in the country has implications for banking habits. As per the CBN annual report and statement of records for the year ended 31/12/85, the total money supply in the economy was ₦ 11,282.4m, ₦ 12,204.1m and ₦ 13,267.8m in 1983, 1984 and 1985 respectively. The corresponding currency outside the banking system were ₦ 4,842.8m, ₦4,883.5m and ₦ 4,909.9m respectively. These represent about 43 per cent, 40 per cent and 37 per cent, respectively of the money supply. In June and September 1986, the per centage of currency outside the banking system to money supply was 39 per cent and 41 per cent respectively. On the average therefore 40 per cent of the total money supply in the economy stayed outside the banking system. This is in contrast to Britain, which as far back as 1980 up to 85.6% of total money supply was in the banking system, and only 14.4% was outside the banking system. [7] America provides still a better example who, some writers have referred to as a cashless society. This is because cash as a form of money is not commonly used. Other forms of money such as cheques, credit cards, and food coupons are more in common use. And it has been propounded that the degree of cashlessness of a nation is a measure of that nation's economic development. It is also a measure of efficiency and effectiveness of her financial establishments. It is therefore true to say that the more developed a nation becomes, the less it uses cash in her transactions.

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7 U.K Diggest of statistics, June 1981.

The factors responsible for the poor banking habit in Nigeria can therefore be summarised as follows:

(a) Inadequate banking facilities and the poor quality of bank's services to their customers.

(b) The hardships and difficulty encountered in opening and operating a bank account.

(c) The high level of illiteracy and lack of understanding of the modern financial system and its opportunities by the general public especially in the rural areas.

(d) Unreliability and unacceptability of cheques as a medium of exchange due to low moral standards, difficulty of clearing cheques and lack of trust.

It is hoped that with deregulation of interest rates by the CBN and increase in its rediscount rate to 15%, savers will be encouraged to patronise banks and this if happens will reduce further the amount of money outside the banking system.

2.4 THE ROLE OF BANKS IN ECONOMIC DEVELOPMENT

In examining the role of banks in economic development, particularly the commercial banks, the following theoritical concepts usually constitute the focus of attention:

(i) The domestic mobilization of financial resources is essentially for capital formation and accelerated growth.

(ii) An efficient allocation of available domestic resources is of vital importance in the development process.

(iii) Commercial banks offer an efficient institutional mechanism through which resources can be mobilized and directed from less essential uses to more productive investments.

The first role of commercial banks is therefore to provide a collecting point for savings of a relatively small average amount from a large number of individuals. So long as the means to utilise savings safely, and profitably are not available within an economy, funds will either be strerilised in useless hoards of cash or converted into physical goods for savings. No matter how poor an economy may be, there is always need for institutions which allow such savings to take place and to channel same into the most productive purpose. The poorer a country is the greater the need for such institutions to collect and invest the savings of a broad mass of people and institutions within its borders. Such institutions not only permit small amount of savings to be handled and invested conveniently, but will allow the owners to retain liquidity individually, but finance long - term investment collectively.

2.5 THE ROLE OF COMMERCIAL BANKS IN THE SAVING INVESTMENT PROCESS

In both developed and less - developed countries, the basic role of commercial banks in mobilising funds for investment is the same. Whatever differences exist are mainly those of techniques and methods. These are divised to meet the different levels of development and imperfection of financial institutions and markets which, in turn, determine the extent to which the financial authorities are directly involved in the allocation of financial resources. [8]

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(8) Ade T. Ojo and Wole Adewunmi - Banking and financ in Nigeria, 1982

Also in both developed and developing countries, the problem of finance exist although in varying degrees. In developing countries like Nigeria, the lack of adequate institutions to channel the existing or latent surplus into productive investment seems to be the major problem affecting capital formation, it is not so much a shortage of funds alone, that is, there is a greater need to mobilise the limited available funds for productive investments.

In many countries, particularly developing countries, commercial banks are increasingly utilised to mobilise and channel available domestic resources to the economic sectors which are considered essential for growth and social eauity - designated 'preferred sectors' in Nigeria. The expected increasing role of banks has induced governments in many developing countries to assume direct control of these institutions. This is the case in Nigeria where the government have elected to participate with private interest in the management and ownership of financial institutions.

2.6 ROLE IN CAPITAL FORMATION

Commercial banks, can depending on the success of their intermediation function promote increased aggregate d savings in general. Similarly, an improvement in their financial intermediation might bring about higher levels of capital formation in the productive sectors and sectors considered essential for development and social equity. This positive effect of the role of banks on capital formation arises from the fact they provide savers with higher liquid, divisible and attractive assets at a lower risk, while investors have access to a larger pool of resources for investment finance, often at a lower cost and in a more suitable form.

This positive effect, depends primarily on how well the banks satisfy the divergent preferences of both savers (surplus economic units) and borrowers (deficit economic units) for financial services. [9] Goldsmith agrees with this view when he opined that the growth inducing effect of financial institutions can come from two sources:

(i) From the increase in the volume of savings and investment.

(ii) From the marginal rate of return on investment that results from a more allocation of savings among potential investments. [10]

In the schumpeterian analysis of capitalist economic development, banks/financial institutions or new credit creation perse are considered to be one of the two primary and essential factors for development - the other factor being the available of entrepreneurs. Implied in this analysis is the fact that banks promote capital formation in the development process of any nation.

The important issues in assuring the real impact of banks on capital formation centres therefore, on whether the banks bring forth higher savings and allocate investments in the preferred sectors of the economy that would otherwise be the case.

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(9) Porter, R.C. (1980), promotion of the "Banking Habit" and Economic Development. In: Coats and Khatkhate (Ed.) money and monetary policy in less developed countries. Pergamon Press OX;80

(10) Goldsmith R. W. financial structure and Development (Yale) page 394.

The existence of a greater number of banks offices may evoke a greater volume of real saving. [11] The mere existence of new commercial banks will encourage the savings habit and mobilise small savings for investment.

Dr. U. T. Wai seems to support the significance of household savings and its link with opportunity to save through financial institutions. [12] There is a widespread, though not empirically established, belief that saving is "institutional-elastic". For example, professor Lewis claims that the amount of savings depends partly on how widespread savings institutions are; "if they are pushed right under the individual's nose people save more than if the nearest saving institution is some distance away. [13]

There are three possible determinantso of such an aelasticity:

(i) Existence of accessible banks may mean that, for the first time, individual savings can take place without the need for a con comitant act of investment, either fixed investment or accumulation of stocks of goods. The process of saving is thereby freed from the problem of investment opportunity.

(ii) The possibility that bank deposits represent a new form of saving with less riskkiness and greater liquidity.

(iii) In a stagnant rural economy where savings previously earned a low or even negative yield, the interest rate on bank deposit may attract net savings.

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11 Porter R. C. (1980) page 58

12 WAI, U. T. Financial intermediaries and National savings in developing countries, N. Y. 1972 page 85 - 98.

13 Lewis, W. Arthur - The theory of Economic Growth, George Allen and Unwin, London, 1955.

The role of banks in the efficient allocation of available resources is based on the fact that by mobilising funds from non-productive channels, more productive investment activities can be financed to increase capital formation. This can be achieved mainly through banks' ability to minimise the constraints of investment indivisibility by the pooling together of scattered small savings of money economic units and lending same in lump sums to needy sectors of the economy. In many developing countries like Nigeria, where money and capital markets are deficient, banks can offer a major means of financing large investments.

The banks, by promoting financial integretion of the various parts of a country bring about further improvements in the mobilisation and utilisation of funds for increased capital formation. They have thus, a direct impact on the volume of realised savings. Also the manner in which funds mobilised are allocated influences the productive utilisation of resources, and this, in turn influences the volume of funds available for mobilisation. The manner in which funds are mobilised also influences to some extent the utilisation of funds, or the volume of funds mobilised determines the volume of invested funds and capital formation.

The impact of banks on the utilisation of resources is usually indirect via the allocation of funds into various sectors. In some cases, however, their impact may be direct where the banks not only ensure that the funds are efficiently allocated, but also ensure that other necessary non-financial services are provided for the productive utilisation of the allocated funds.

2.7 ROLE OF BANKS IN ECONOMIC STABILISATION

It has often been maintained that the greater stabilisation of the economy through monetary controls is attainable when the banking system is more widespread. And there seems to be little doubt among bankers and economists that the effectiveness of monetary controls is closely related to the sophistication of the financial system.

2.8 BANKS AND OTHER FINANCIAL INTERMEDIARIES

The first and essential function of any banking system is to act as an intermediary between savers (or holders of idle money balances) and persons able and willing to borrow

This function is of course, shared with other financial institutions such as insurance companies and thrift institutions like savings and Loan Associations, credit unions and ordinary money lenders.

Bankers can also be distinguished from other financial intermediaries in that they are in a position not only to serve as the custodians of the stock of money, but also to increase or decrease that stock. This is because, they alone, furnish part or all the means of payment, or money supply, either by issuing their own promise to pay, that is, bank notes or by holding and transfering the monetary deposits of the public. The consequences of this power for society at large can be considerable and can either be favourable or unfavourable. Another function though outside the definition of banking system is the provision of entrepreneurical talent and guidance for the economy as a whole.

This function has been of historically great significance in developing economies as was the case in Japan and Germany.

The way the banks perform the above functions in both underdeveloped and developing economies may significantly determine the degree of success of the development effort of those economies.

2.9 THE THEORITICAL SUPPORT FOR RURAL BANKING PROGRAMME

It is generally believed, in a market oriented economy - that where enterprise leads, finance follows. Prof. Robinson observed that "the same impulses within the economy which set enterprises on foot make owners of wealth venture some. And when a strong impulse to invest is fettered by lack of finance, devices are invented to release it and institutions are developed". This phenomenon is termed "demand - following" [14]

This approach lays emphasis on the demand side for financial services, as the economy grows it generates additional and new demands for these services, which in turn bring about a supply response in the growth of the financial system. In this view, the lack of, or inadequacy of financial institutions or retail banking services in Nigeria especially in the rural areas is an indication of the lack of demand for banking services.

"Demand - following" phenomenon assumes that the evolutionary development of the financial system is a continuing consequence of the pervasive, sweeping process of economic development.

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14) Patrick, H. T. - "Financial Development and Economic Growth underdeveloped countries" In coats and Khatkhate (Ed). Money and monetary policy in less Dev. countries Pergrown press (1980) Page 38.

The emerging financial system is shaped both by changes in objective opportunities (the economic environment, the institutional frame-work) and by changes in the subjective response (individual motivation, attitudes, tastes, preferences). It also assumes that the supply of entrepreneurship in the financial sector is highly elastic relative to the growing opportunities for profits from the provision of financial services, so that the number and diversity of types of financial insitutions expands efficiently, and a favourable legal, institutional and economic environment exists. These assumptions holds true probably of the situation in early nineteenth century England but certainly not in a developing country like Nigeria where the increased supply of financial services in response to demand may not all be automatic, flexible or inexpensive. As observed by Patrick, religious and other obstacles, together with imperfections in the operation of the market mechanism, may dictate an inadequate demand - following response by the financial system. And the lack of financial service, may thus, in one way or another inhibits or restricts effective growth patterns and process.

In the Nigerian case, it was the failure or absence of the "demand - following" phenomenon that gives room for an alternative approach termed "supply - leading" phenomenon. In this a leading and positive role is assigned to the financical sector, such that financial institutions have to be created before the demand for their facilities really becomes evident.

Financial systems falling under this category are seen as plying a more dynamic and active role in the industrialisation and overall development of their economies (e.g. the financial development experiences of Germany since 1830 and Japan since 1870)

Supply - leading type of financial structure and development can, therefore, be seen as having features almost opposite to those of the passive "demand - following" one. The possitive growth - inducing aspects are attributable to its allocative efficiency and to its encouragement or enterprise. Here, the financial institutions mobilise resources in the non - growth or less - preferred sectors to step up investment in the growth or preferred sectors of the economy.

Such a resource transfer can, however, be justified to the extent that there exists a class of entrepreneurs capable of utilising the resources in a more efficient and desirable manner than would have been the case in the other sectors denied the use of the transferred resources.

Financial intermediation which transfers resources from traditional sectors whether by collecting wealth and savings from those sectors in exchange for its deposits and other financial liabilities, or by credit creation and forced savings, is akin to Schumpeter's concept of innovation financing.

Patrick believes that new access to such supply - leading funds may in itself have substantial, favourable, expectational and psychological effects on entrepreneurs. It opens new hirizons as to possible alternative opportunities enabling the entrepreneur to "think big".

This may be a very significant effect particularly because the entire financial millieu and the rationalism it implies could trigger creative entrepreneurial responses.[15]

A supply - leading financial system by its very nature, may not initially be able to operate profitably by lending to the nascent modern sectors. There are however several ways in which new financial institutions can be made viable. First, they may be goverment owned, using government capital and perhaps receiving direct or indirect Government subsidies usually the latter. Secondly, new, modern financial institutions may initially lend a large proportion of their funds to the traditional agricultural and commercial sectors profitably, gradually shifting their loan portfolio to modern industries as these begin to emerge.

Patrick, however warns that the supply - leading finance is not a necessary condition or precondition for inaugurating self sustained economic development. Rather, it presents an opportunity to induce real growth by financial means. It is thus likely to play a more significant role at the beginning of the growth process than later when the demand - following approach becomes dominant.[16]

An excellent example of the sequence of supply - leading and demand - following finance can be found in Japan between the 1870 and the beginning of World War 1. A modern banking system was created in the 1870s subsidised by the right to issue banks notes and by Government deposits.

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15) Patrick, H. T. page 39

16) ibid

They, in the absence of large scale industrial demand for funds, initially concentrated their funds on financing agriculture, domestic commerce and the newly important foreign trade.[17] They also became the agent for much of the early promotional and entrepreneurical talent which initiated the industrial spurt in the mid 1880s. The bank also became an early important source of industrial funds. The modern financial system was thus not only created in advance of Japan's modern industrialisation, but by providing both funds and entrepreneurial talents on a supply - leading basis, contributed significantly to the initial spurt. By the mid 1890s , the emphasis apperently shifted from supply - leading to demand - following in its financing of the textile and other consumer goods industries.

There is no doubt that the financial systems in some countries have actively promoted development. As Patrick suggests, the relative strength of the relationship between financial and economic development may vary significantly during the growth process.

While it is possible for the two phenomenon to interact at a point in time and over time in some countries, there may also be changes in the prominence of each type as an economy develops. In some countries, the formulation of conscious and deliberate policies foster the development of certain financial instituions and markets may encounter certain major problems and obstacles in view of the fact that they are conscious attempts to intervene by way of accelerating a normal pattern of financial development.

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17) Patrick, H. T. (1980) page 40.

However, in view of the different institutional factors in different countries, the opposing forces will probably vary and the success attending such conscious efforts will depend mainly on the institutional conditions in each country.

In many developing countries, there is no doubt that the provision of innovation finance can remove other major obstacles to economic development that are absent from the advanced economies. State interventionist policies to restructure and develop the financial system in Nigeria, as well as some other developing countries, seem to decline more to the notion that the financial system has to function more on the supply - leading model than on the demand - following one if it is to make the desired contribution in the planned development of the country.

2.10 SUPPLY — LEADING APPROACH CRITICISM

Supply - leading Approach have been criticised by many writers. For instance, Porter points that "it is one thing for the central bank to promote the establishment of new financial institutions, to supervise and examine them, to help them develop efficiency and trust worthiness. It is quite another to place on the central bank heavy continuing responsibility for financing these institutions.[18] Porter is of the view that for purpose of savings creation there are other financial institutions like postal savings accounts that can be used to encourage the savings habit fully or nearly as well as bank offices and such can be operated at lower cost then setting up bank offices.

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18) Porter, R. C. (1980) page 57

KASHIM IBRAHIM LIBRARY

He further argues that private "transferred" Savings is really not all that important in the development process. This is because the historical experience of Japan suggests that total voluntary saving invested indirectly through financial intermediaries were small compared with the investment of business surpluses.

However, for an under - developed economy like Nigeria where postal services are not widespread or properly organised to harness the savings of the rural economy for development purposes, these arguments do not hold. Besides, even if postal services were sufficiently available in the rural areas, they would not be able to play the kind of role that banks have been called upon to play. Banks are most suitable of all financial intermediaries to perform such kind of role in that they alone can furnish part or all the means of payment or money supply by holding and transforming the monetary deposits of the public. They are therefore, in a unique position to serve not merely as the custodians of the stocks of public money, but also to increase the purchasing power of society by extending credit to investors. Besides the provision of financial needs of society, banks can also provide entrepreneurial guidance and talent for the economy as a whole, as was the case in Germany and Japan in their early stages of development.

The contention that private "transferred" savings is really not that important in the development process because of the historical experience of Japan advanced by Porter is however, contestable. The experience of Japan only shows the relative importance and development of the business sector.

In Nigeria, too the investment of business surpluses would be more important than household savings in the urban commercial/industrial sector of the economy. In the rural areas however, served by the Rural Banking Scheme where there are few industries and very little commercial activities, household savings are a significant factor. This is supported by Cameroun's argument that commercial banks have a more significant role to play during the early stages of a country's economic development/

2.11 NIGERIAN RELATED STUDIES

The work of S.N. Ugbor (1985) is one of the excellent studies available in this area. He examined the operations of the rural bank branches and their contributions to the development of the rural areas of Benue State. In this studies Ugbor found that rural banks have not succeeded in creating credit for small scale industries in the rural areas for the development of agriculture and agro-allied industries for the achievement of self-sufficiency in food production. He concluded that the "rural banking scheme has not yet started serving the purpose for which it was created in Benue State. So far, it is only a drain on the resources of the State". [19]

The recommendation he made include:

(a) That the State Government should launch a public enlightment campaign in the rural areas to educate rural dwellers in modern banking practices and the advantages of cultivating the banking habit.

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19) S. N. Ugbor M. B. A. project (1985)

And that such campaign should be designed to reach the people in their natural habit like at market places and religious gatherings.

(b) That the State Government should endeavour to build and rent suitable accommodation to bank staff in the rural areas.

(c) That the banks should ensure that the personnel posted to the rural branches are mostly indigenes of the areas to remove communication problems and thus encourage rural dwellers to patronise the banks.

(d) That commercial banks should play a more active role in providing entrepreneurial talent and guidance by identifying viable opportunities and participate in such ventures with indigenes.

(e) That the Agricultural Credit Guarantee Scheme should be reviewed with a view to simplifying the process of obtaining a loan under the scheme so that small scale peasant farmers can benefit from the programme.

Another work by H. A. Mani (1983) examined the part played by the rural banks in extending credit to the farmers and craftmen in the rural areas of Niger State, Mani, for his survey used a sample of twenty farmers and the twelve rural banks operating in Niger State at the time.

The study started with explanation - of Niger State economy and a short history of banking. However, this section only gave information on the total number of banks offices without relating it to the population and geographical area served by the bank.

This gap will be filled by this study in order to give a clear picture of banking density in terms of the number of people and the geographical area served per branch office respectively.

Without a sound conceptual framework and clear statement of the aims and objectives of the Rural Banking Scheme, Mani's study went into detailed discussions of the Nigerian Agricultural Development Programmes and projects in Niger State without relating them to the operation of the Rural Banking Scheme. This present study will be different.

It will be based on a firm theoritical framework and any other programmes for agricultural development will be discussed only to the extent that they relate to the operations of the Rural Banking Scheme. The present study will also include an evaluation of the aims and objectives the scheme was set to achieve.

Mani made the following conclusions:[20]

(1) Most farmers were not aware of credit facilities in the banks. The few who knew did not find it convenient enough to borrow from the banks so they resorted to other quicker and cheaper sources of credit.

(2) Since the rural farmers of Niger State produced only for subsistence their felt needs were sufficiently met without bank loans so they never demanded.

(3) Rural Banks in Niger State did not make any effort to mobilise deposits.

(4) The processing of loan applications take a long time.

The recommendations made include:

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20) H. A, Mani - M. B. A. Project - 1983

(1) Agricultural Credit should seek to solve short and medium term finance through NACB and ACGS.

(2) Greater emphasis should be placed on small - scale producers who from the bulk of rural farmers by strenghtening the various lending institutions in the State.

(3) Those to be employed in rural branches should have rural backgrounds so as to give the local populace more confidence in the banks.

(4) Application forms should be simplified and preferably in the local languages.

A. T. Ojo and Wole Adwunmi (1982) in their apprasal of the Rural Banking Scheme, have argued that the strategies adopted by the Central Bank with regard to rural banking scheme is too slow and unacceptable and that there is a limit to the pace at which Commercial Banks move prudently into the areas as a result of many inhibiting factors in the way of their outside expansion from the urban centres. These inhibiting factors they listed include:[21]

(1) Underdeveloped and poorly adapted banking and financial practices which prevail in the country, even today.

(2) Traditional, institutional and infrastructural constraints.

(3) Lack of banking facilities in the rural areas.

(4) The 'attitudinal problem', which refers to the apathy of bank staff to rural banking.

E.T.O. Oyatoye (1979) argued that "Commercial Banks are not in the best position to provide finance for rural development".[22] He went on to suggest that in rural development banks

21) A.T. Ojo and Wole Adewunmi - Banking & Finance in Nig. (1982)
22) In Rural Banking in Nig. - Edited by Adenayi Obutogun and Wole Adewenmi. (1983).

emphasis should be placed mainly on the prospects for success of the projects which finance is sought instead of concerning primarily with the security the loan applicant can offer. This , according to him, will ensure a more adequate flow of funds of those farmers and rural industrialists who have sound investment opportunities but insufficient equity to obtain finance or reasonable terms and conditions from other sources.

Thus, to some extent, this study will try to verify the truth or otherwise of the above conclusions that the Rural Banking Scheme as designed by the Central Bank of Nigeria through Commercial Banks have not evolve suitable outlets for the provision of financial support for an intergrated rural development in Kano STate in particular and Nigeria in general.

2.12 FOREIGN STUDIES

In a study of Japanese economy carried out by Prof. H. T. Patrick between 1870 and 1941, he found that during that period the Japanese banking system was "Supply - leading" rather than "demand - following". That is to say that banking services were provided in advance of the demand for them by the entrepreneurial class. The banks were subsidised by the right to issue bank notes and by Government deposit. Thses banks, in the absence of large - scale industrial demand for funds initially concentrated their funds on financing agriculture, domestic commerce and the newly important foreign trade.

Two important features, could be identified as being responsible for the success of the Japanese experience. First is the fact that banks did not concentrate on short - term self liquidating commercial loans. Instead, they developed strong ties with industry and industrialist and thus increasingly served the function of industrial banks providing funds for fixed investment as well as for working capital. Secondly, the banks became the locus for much of the early promotional and entrepreneurial talent which initiated the industrial spurt. The Japanese experience was similar to that of Germany during these early stages of development.

(a) THE BRAZILIAN EXPERIENCE:

The 'Brazilian Rural Credit Outpost' are small establishments housed in simple prefabricated buildings, and can be set up in any areas entirely lacking in rural credit facilities. By the use of these out - posts it is hoped to be able to reach the small producer on his own ground and make it easier for him to get credit, with financing scaled down and timed to fit the various phases of production and marketing. Thus, at the same time pass on to him information on marketing, and agricultural techniques that may help him to improve his economic position.

The objectives of this scheme is to make the small agricultural establishments profitable and to transform their more subsistence activities into generators of surpluses, thereby improving rural populace income and a better standard of living.

(b) THE INDIAN EXPERIENCE

Until the mid-sixties banking policy in India relied mainly on Cooperatives and the Imperial Bank of India for extension of banking into rural and semi-urban area. However, with the increasing influence of social objectives on banking policies in 1968 some form of social control marked a watershed in the growth of rural banking. This was most evident in the area of branch licensing policy which took on a distant rural orientation. After many years of trial and errors methods in attempting to expand bank branch net-work to the rural areas, the Indian Government embarked on 'area approach' to rural banking. The area approach took several forms but the major ones were lead bank scheme, the village adoption scheme and the Agricultural Development Branch.

(b) (1) THE LEAD BANK SCHEME

This envisaged allocation of the country's 333 districts amongst the public sector banks on the basis of four criteria - contiguity, competition, capacity and coverage of at least two States. Each bank was expected to take a 'lead role' in the 'lead districts' assigned to it under the Scheme. A 'lead bank' was responsible for conducting a techno - economic survey, identifying economic potential and credit gaps and preparing co-ordinated branch expansion and credit plans for development of its lead districts.

This, however did not succeed because of lack of authority to enforce the implementation by other banks or agencies in the district, nor were there other agencies required by law to refer their own plans for the district to the concerned lead bank.

(b) (2) VILLAGE ADOPTION SCHEME

Under this approach, branches adopt a village or a duster of contigous villages for intensive financing of all viable and potentially viable farmers and special area development schemes identified by techno - economic surveys of the villages. Villages are selected in consultation with the concerned

Government departments or agencies to ensure their co-operation with the scheme. Innovation concepts of social or group guarantees are to assist farmers who may not be individually viable. Even Nurske's concept of 'unemployment labour' as form of potential capital is applied to satisfy requirements of margins on loans. For instance, borrowers were said to contribute the labour component of the project cost, and the resultant saving in wage cost of projects is appropriated as margins for loans. This scheme has succeeded.

(b) (3) AGRICULTURAL DEVELOPMENT BRANCH (ADB)

This is the third variant of 'area approach' - an innovation introduced by the State Bank of India.

> These are specialist branches, staffed with the required complement of expert and operational staff competent to formulate and evaluate projects for area development and the asistance of small farmers with credit as well as counselling. Each ADB is expected to operate over an area covering 100/125 (contigous) villagers, and attain a credit disbursal target of RS 10 - 15 million over a four or five year period.[23]

The lessons to be learnt from the Brazilian 'Rural Credit Out-posts' and the Indian 'area approach' is that it is not so much the erection of big and beautiful bank's offices in the rural areas that is of importance but the designed and applied simple but comprehensive solution to rural banking problems. Both the Brazilian and Indian approaches hold out prospects for an effiicient and effective coverage of credit gaps of compact contiguous rural areas within the limits of development - oriented banking risks. However, for these approaches to rural banking and development to succeed, first, the credit agency must not be overloaded with too many and diverse role responsibilities - planning role, management role - roles for which they have neither the orientation capabilities nor authority. Secondly, that credit will be unfruitful unless it is dovetailed with the activities of other concerned executive agencies, and thirdly, that there must be a machinery at all levels to monitor and enforce this inter - agency co-ordination without making it too cumber-some and costly to operate.

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23) Rural Banking: The Indian Experience - B.G. Shah - A Seminar paper presented at the University of Ife between 29/3 & 1/4 1979.

2.13 CONCLUSION

The monetary authorities' concern about the inadequacy of banking facilities and the poor banking habits in Nigeria is indeed justified. This justification arises from the important role banks can play in the development process of the rural areas in particular and Nigeria in general through the process of savings and investment, capital formation and the stabilisation of the country's economy. It has also been shown that where the "demand - following" finance approach cannot be relied upon as in the Nigeria's rural areas economy, the adoption of the "supply - leading" finance approach by the Nigeria's monetary authorities through the inauguration of the Rural Banking Scheme is indeed welcome. The Rural Banking Scheme can perform two vital role:

1. To mobilise and transfer resources from traditional (non growth) sectors to modern sectors, and
2. To promote and stimulate the entrepreneurial response in these modern sectors of the rural areas.

However, it must be noted that the supply - leading finance approach is not a necessary condition or precondition for inaugurating self - sustained economic development and growth. It presents, rather an opportunity to induce real growth by financial means. And where the supply - leading approach has succeeded, the banks provided not only the finance, but also the entrepreneurial talent and guidance.

The way in which the banks perform the above stated functions in the rural areas may determine the degree of success of the rural development effort of the government through the rural banking scheme.

If the scheme is filted by unwise legislation and policy, if it is misunderstood by the operators, as it seems, as one rural branch manager respondent maintained that his bank only open in rural areas so as to fulfil a statutory requirement of government, the result of the scheme may well be negative. For example, if commercial banks expand their size without widening their scope, those borrowers considered credit - worthy by banks will receive cheaper financing. On the other hand, if deposits grow more rapidly than the number of "bankable" loan customers, the supply of investment finance in the rural areas will be reduced. This will mean further starving agriculture (which is the main stay of rural economy) for funds. This will happen especially if commerical banks fail to lend to rural dwellers and choose to transfer their deposits to urban centres.

CHAPTER THREE

RURAL BANKING PROGRAMME AND THE COMPLEMENTARY ROLES OF THE AGRICULTURAL CREDIT GUARANTEE SCHEME AND THE STATE GOVERNMENT

3.1 INTRODUCTION

In the first portion of this chapter, we will examine the modalities, incentives, implementation and the actual performance of the scheme up to 31st December, 1987. In the second part, we will examine the complementary role of the Agricultural Credit Guarantee Scheme, its objectives, operational guidelines and actual performance with particular reference to Kano State. The third part will contain an analysis of which role the State Government is expected to play in facilitating the success of the rural banking scheme.

3.2 OBJECTIVES OF THE SCHEME

The Rural Banking Programme was introduced following the reluctance of the banks, notably the erst-while foreign banks to extend banking services to the rural areas of the country. The scheme which came into being in July 1977 after many years of research and planning has the following objectives:[1]

(a) Cultivation of banking habits amongst the rural dwellers.

(b) Mobilization of savings from the rural areas for the purpose of channelling same to profitable ventures.

(c) Creation of credit by way of equity and loans for small scale industries.

(d) Development of agriculture and agro-allied industries in the rural areas with a view to achieve the national objective of self-sufficiency in food production.

(e) Reducing to a comfortable extent the drift of young men and women from the rural areas to the urban areas.

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1. Abe, A.I. "the Rural Banking Programme - An Appraisal" Bullion, June, 1984. Page 77.

These objectives were both economic and social, and commercial banks were deemed to have the facilities to achieve them. Unfortunately, commercial banks which are essentially private sector institution whose main objective is profit maximisation could not on their own go to the rural areas since they were not sure of making profits there, hence the enforcement of opening rural branches on them.

3.3 RURAL BANKING PROGRAMME

The Rural Banking Programme is divided into phases:

3.3.1 PHASE I (1977 - 1980)

The first phase of the scheme lasted from July 1977 to June 1980 during which 200 centres were identified and allocated to the 18 commercial banks existing then in all the States of the Federation (as shown in Tables 3.3.1 and 3.3.2). In identifying centres for the first phase of the programme priority consideration was given to the Local Government Headquarters and semi-urban centres with a population of over 30,000 people.

Other factors considered in allocating the branches include level of economic development and number of established institutions like schools, hospitals et cetra in such areas. The branches were allocated to the eighteen commercial banks on the basis of a formular which related the number of each bank's share of rural branches to its total branch network in the country.

3.3.2 PHASE II (1980 - 1983)

The second phase of the Rural Banking Scheme covered a period of three years and five months (August 1980 to December, 1983). Under it, 266 centres were identified and allocated to twenty (20) commercial banks as shown in Table 3.3.1. Again, consideration was given to population density, government establishments and economic activities in identifying centres for this phase. Moreover it was considered that no bank however small should be allocated less than six branches.

At the beginning of each phase, the banks were directed to submit to the Central Bank their implementation programmes. These programmes were duly scrutinised to ensure that they were realistic as to ensure the opening of all the allocated branches within the stipulated period.

TABLE 3.3.1 FIRST AND SECOND PHASES - RURAL BANK ALLOCATIONS BY BANKS

S/NO.	BANKS	1ST PHASE	2ND PHASE
1	African Continental Bank Ltd.	16	19
2	Allied Bank of Nigeria Ltd.	6	7
3	Bank of Credit & Commerce International Limited	-	6
4	Bank of the North Ltd.	6	19
5	Co-operative & Commerce Bank Ltd	7	8
6	Co-operative Bank Ltd.	5	8
7	First Bank of Nigeria Ltd.	40	37
8	International Bank for West Africa Limited	11	13
9	Kaduna Co-operative Bank Ltd.	3	6
10	Kano Co-operative Bank Ltd.	6	6
11	Mercantile Bank of Nig Ltd.	3	6
12	National Bank of Nigeria Ltd.	15	19
13	New Nigeria Bank Ltd.	4	9
14	Nigeria-Arab Bank Ltd.	7	6
15	Pan African Bank Ltd.	5	6
16	Savannah Bank of Nig. Ltd.	7	11
17	Union Bank of Nigeria Ltd.	27	36
18	Societe Generale Bank Nigeria Ltd.	-	6
19	United Bank for Africa Limited	27	32
20	Wema Bank Ltd.	5	6
	TOTAL	200	266

Source: Bullion, July, 1984 Page 77 & Page 87

TABLE 3.3.2 FIRST & SECOND PHASES - ALLOCATION BY STATES

S/NO	STATE	1ST PHASE	2ND PHASE
1	Anambra	19	19
2	Bauchi	10	15
3	Bendel	9	15
4	Benue	8	12
5	Borno	12	15
6	Cross River	7	17
7	Gongola	15	13
8	Imo	14	21
9	Kaduna	3	12
10	Kano	18	14
11	Kwara	6	12
12	Lagos	2	8
13	Niger	5	8
14	Ogun	10	9
15	Ondo	16	19
16	Oyo	16	18
17	Plateau	10	13
18	Rivers	9	12
19	Sokoto	11	14
	TOTAL	200	266

Source: Bullion July 1984. Page 78

TABLE 3.3.3

RURAL BANKING PROGRAMME, 1ST, 2ND AND 3RD PHASES:
ALLOCATION OF BRANCHES AND COMPLIANCE BY COMMERCIAL BANKS
AS AT 31ST DECEMBER, 1987

NO.	B A N K S	1ST PHASE			2ND PHASE			3RD PHASE			TOTAL		
		Allo-cated	Opened	Out-Standing	Allo-cated	Opened	Out-Standing	Allo-cated	Opened	Out-Standing	Allo-cated	Opened	Out-Standing
1	African Continental Bank Ltd.	16	16	-	19	19	-	14	1	13	49	36	13
2	Allied Bank of Nigeria Ltd.	6	6	-	7	7	-	11	3	8	24	16	8
3	Bank of Credit & Commerce Int. Ltd.	-	-	-	6	6	-	16	3	13	22	9	13
4	Bank of the North Ltd.	6	6	-	19	19	-	14	3	11	39	28	11
5	Commercial Bank (C. Lyonnais)	-	-	-	-	-	-	5	-	5	5	-	5
6	Co-operative Bank Ltd.	5	5	-	8	6	2	9	3	6	22	14	8
7	Co-operative & Commerce Bank Nig Ltd	7	7	-	8	8	-	9	5	4	24	20	4
8	First Bank of Nigeria Ltd.	40	40	-	37	37	-	28	6	22	105	83	22
9	Habib Bank of Nigeria Ltd.	-	-	-	-	-	-	6	-	6	6	-	6
10	International Bank for W/Africa Ltd.	11	11	-	13	13	-	15	7	8	39	31	8
11	Kaduna Co-operative Bank Ltd.	3	3	-	6	6	-	5	3	2	14	12	2
12	Kano Co-operative Bank Ltd.	6	6	-	6	3	3	5	-	5	17	9	8
13	Lobi Bank Ltd.	-	-	-	-	-	-	6	1	5	6	1	5
14	Mercantile Bank of Nigeria Ltd.	3	3	-	6	6	-	8	3	5	17	12	5
15	National Bank of Nigeria Ltd.	15	15	-	19	19	-	10	3	7	44	37	7
16	New Nigerian Bank Ltd.	4	4	-	9	9	-	8	5	3	21	18	3
17	Nigeria-Arab Bank Ltd.	7	7	-	6	5	1	9	-	9	22	12	10
18	Nigeria International Bank Ltd.	-	-	-	-	-	-	5	-	5	5	-	5
19	Owena Bank Nigeria Ltd.	-	-	-	-	-	-	6	2	4	6	2	4
20	Pan African Bank Ltd.	5	5	-	6	3	3	5	-	5	16	8	8
21	Progress Bank of Nigeria Ltd.	-	-	-	-	-	-	5	1	4	5	1	4
22	Savannah Bank of Nigeria Ltd.	7	7	-	11	11	-	14	-	14	32	18	14
23	Society Generale Bank Nigeria Ltd.	-	-	-	6	6	-	15	-	15	21	6	15
24	Ganji Bank of Nigeria Ltd.	-	-	-	-	-	-	5	-	5	5	-	5
25	Union Bank of Nigeria Ltd.	27	27	-	36	36	-	28	7	21	91	70	21
26	United Bank for Africa	27	27	-	32	32	-	28	13	15	87	72	15
27	Universal Trust Bank of Nig Ltd.	-	-	-	-	-	-	5	-	5	5	-	5
28	Wema Bank Ltd.	5	5	-	6	6	-	6	3	3	17	14	3
	T O T A L	200	200	-	266	257	9	300	72	228	766	529	237

Source: Banking Supervision Department, CBN, Lagos.

TABLE 3.3.4

COMMERCIAL BANKS BRANCHES AS AT 31ST DECEMBER, 1987

NO.	COMMERCIAB BANKS	RURAL OFFICES	URBAN OFFICES	TOTAL
1	African Continental Bank Limited	36	70	70
2	Allied Bank of Nigeria Limited	16	29	45
3	Bank of Credit & Commerce Int. Limited	9	20	29
4	Bank of the North Limited	28	48	76
5	Commercial Bank (Credit Lyonnaise) Ltd.	-	1	1
6	Co-operative Bank Limited	14	23	37
7	Co-operative & Commerce Bank Limited	20	26	46
8	Co-operative Development Bank Limited	-	1	1
9	First Bank of Nigeria Limited	83	169	252
10	Habib Nigeria Bank Limited	-	15	15
11	International Bank for West Africa Limited	31	48	79
12	Kaduna Co-operative Bank Ltd. (Universal Bank of Nig Ltd).	12	6	18
13	Kano Co-operative Bank Ltd. (Tropical Commercial Bank Ltd)	9	5	14
14	Lion Bank of Nigeria Limited	-	3	3
15	Lobi Bank of Nigeria Limited	1	7	8
16	Mercantile Bank of Nigeria Limited	12	24	36
17	National Bank of Nigeria Limited	37	65	102
18	New Nigeria Bank Limited	18	29	47
19	Nigeria Arab Bank Limited	12	15	27
20	Nigeria International Bank Ltd.	-	1	1
21	Owena Bank Nigeria Limited	2	15	17
22	Pan African Bank Limited	8	21	29
23	Progress Bank of Nigeria Limited	1	25	26
24	Savannah Bank of Nigeria Limited	18	19	37
25	Premier Commercial Bank Limited	-	1	1
26	Society Generale Bank Limited	6	10	16
27	Sokoto Co-operative Bank Limited	-	1	1
28	Trade Bank Nigeria Limited	-	1	1
29	Union Bank Nigeria Limited	70	137	207
30	United Bank for Africa Limited	72	87	159
31	Universal Bank for Africa Limited	-	3	3
32	Orient Bank Ltd.	-	1	1
33	Wema Bank Ltd	14	28	42
	TOTAL	529	954	1,483

nking Supervision Department, CBN, Lagos.

3.3.3 INCENTIVES

In order to encourage and to some extent compensate banks for the problems envisaged, the following incentives were incorporated into the Scheme:[2]

1. Waiving the requirement for a feasibility survey report as a pre-requisite for the establishment of rural bank branches.
2. Allowing the banks the monopoly of providing banking services in the allocated centres for a period of three years.
3. Allowing the banks to write off the capital cost of erecting the office blocks and staff quarters within three years.
4. Exclusion of credit facilities extended by a bank in a rural branch during the first two years of existence from the bank's total credit in computing the permissible growth in the bank's loans and advances or in determining the ratio of the bank's adjusted capital to its loans and advances.
5. Bank staff were to benefit from crash training programmes like that of the financial Institutions Training Centre.

3.3.4 ASSESSMENT OF THE TWO PHASES

By the time the first phase of the Rural Banking Programme ended on 30th June 1980, a total of 188 branches were opened. Within 2 years afterwards all the remaining branches were opened. In the case of the second phase, a total of 181 branches were opened when the phase ended on 31st December 1983. Additional 76 branches have been opened since then to bring the number of branches opened to 257 as shown in Table 3.3.3.

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2) Olashore, O, "Rural Banking: Strategies and policies of the government and the Central Bank of Nigeria" - Bullion, July 1979 Page 49.

Unlike the first phase in which there was a lot of optimism on the part of the banks, the banks protested against the commencement of the second phase at the time it started. They were not particularly happy in respect of the number of branches allocated to them and advocated for a break between the phase and the commencement of the second phase because of the financial and human resources required for the implementation. Against this background, most of the banks did not commence early enough the implementation of the phase despite the indicated intention to do so. It is, therefore, not surprising that the overall performance of the banks under the second phase has not been impressive.
The poor performance in the second phase of the programme stemmed from the fact that the second phase embraced towns and villages which are remote from the Local Government Headquarters. Most of these towns and villages lack basic infrastructures like access roads, telephone and communications systems, electricity supply, pipe-borne water, medical facilities etc.

Other problems that led to poor performance of the second phase of the rural banking programme according to the operators include:

1a) Inadequate trained staff because of the bank's unpreparedness for the take off of the second phase.

b) Inadequate publicity on the role and functions of the rural banks,

c) Lack of suitable accommodation both for office and staff as well as difficulty in obtaining land and certificates of occupancy thereof,

d) High cost of renting properties in view of the fact that the prospective tenant is a bank,

e) Lack of security, for instance, Police Stations.

These problems were however, overcome by the banks at a great expense which added to the capital cost of establishing the rural branches. The other major problem of the banks was strain on staff resources.

3.3.5 THE THIRD PHASE: 1ST AUGUST, 1985 - 31/7/1989

The third phase of the rural banking programme (1985 - 1989) was launched on 1st August, 1985. Altogether, 300 centres were identified and allocated to all the 28 commercial banks operating in the country as at 1/8/1985, in proportion to their sizes. The biggest three commercial banks - First Bank of Nigeria, United Bank for Africa Ltd., and Union Bank of Nigeria Limited were allocated 28 centres each while the smallest and newest banks were assigned five (5) centres each.

In 1987, 48 rural branches were opened under the third phase of the Rural Banking programme, compared with 3 and 21 rural branches opened in 1985 and 1986, respectively. This brings the total number of rural bank branches under the third phase to 72 at the end of 1987, leaving a balance of 228 branches to be opened under the third phase. On the whole, a cummulative number of 529 branches out of the 766 allocated under the three phases had been opened as at the end of 1987, with a balance of 237 branches yet to be opened under the second and third phases as can be seen from Table 3.3.3. The total number of commercial bank branches in the country had also risen to 1,483 which gave us a banking density of one bank office to 53,945 people (assuming Nigeria's population to be 80m), and one bank office to 620.4sq. kms. compared with the developed countries of the world, the country is still seriously under banked. Table 3.3.4 shows commercial bank branches as at 31st December, 1987.

KASHIM IBRAHIM LIBRARY
AHMADU BELLO UNIVERSITY
ZARIA, NIGERIA

PART TWO

3.4 THE COMPLEMENTARY ROLE OF THE AGRICULTURAL CREDIT GUARANTEE SCHEME (ACGS) TO THE RURAL BANKING SCHEME

3.4.1 BACKGROUND

The most important category of financial intermediary in the Nigeria economy has been the commercial banks. Unfortunately, however, these institutions have not in the past contributed adequately towards the development of agriculture. They were constrained by two major factors which derive from their ill - adapted mode of operations. In the first place, their branch networks have always had a strong urban bias. For this reason, the banks are not adequately present physically in the rural areas where the 'true' agricultural credits are required and can be disbursed. Secondly, these institutions have traditionally financed commerce and to some extent industries - both of which are mainly urban activities consequently, they have not been able to build up any expense and expertise in rural agricultural financing.

In addition to the two inhibiting factors above, other serious constraints which had militated against the active participation of commercial banks in the finance of agriculture in Nigeria include the high risk involved in extending loans to agricultural production. The high risks associated with agricultural production are attributable mainly to crop management problems, excessive dependence on climatic factors, inadequate infrastructural facilities for storage and distribution and pests and disease problems. Any of these problems would lead to either crop failure or cut - back in anticipated repayment scheme.[3]

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3) Ojo, M. O. & Akanji, O. O. Economic & Financial Review. September, 1983. Page 6

Another important constraint on agricultural lending by banks was the subsistence nature of agricultural activities which could hamper loan repayment.

Agricultural production has generally been undertaken by peasant farmers in small holdings primarily to satisfy their own basic needs. The low commercial orientation of farming was alien to modern banking practice and even if bank, could grant loans to farmer's co-operative, the cost of loan administration might be prohibitive.

The issue of inadequate security for loan in the form of land and other fixed assets which farmers could not present is a major constraint on bank lending to agriculture. Bankers are interested in collateral which are highly liquid and which possess "money value" certainly in the event of non - payment of loan granted. Moreover, the communal system of land tenure in which the rights of ownership are shared between the individual and the community presents difficulties with regard to acceptance of land as a security for bank loans.

The high level of illeteracy among farmers also created institutional barriers in their way and limited their ability to pursue and secure bank loans.

Finally, banks find it difficult to assess the repayment capacity of peasant farmers. This is due to the nature of the industry in which it is not easy to forecast expected returns. In addition, banks often face difficulties in ascertaining the personal intergrity of farmers, borrowers, unlike in the case of commerce where bankers can easily assess the personal intergrity of businessmen who by nature of their activities are well known to the business community which includes the officials of the banks issuing the loans.

The Rural Banking Scheme which was aimed at the creation of credit by way of equity and loans for small scale industrialists and farmers for the development of agriculture and agro - allied industries in the rural areas was evolved against the background of the above enumerated serious constraints in order to enable commercial banks to extend their services to rural areas. In order to induce commercial banks to be more forth coming with loans to farmers, the Federal Government and the Central Bank of Nigeria jointly set up the Agricultural Credit Guarantee Scheme fund to guarantee loans for agricultural production granted by Commercial and Merchant Banks.

The Agricultural Credit Guanrantee Scheme fund was launched just a year after the Rural Banking Scheme on 3rd April 1978 under Decree 20 of 1977. It had an authorised capital of ₦ 100 million to be subsrcibed by the Federal Government and the Central Bank in the proportion of 60 and 40 per cent respectively. As at 1984, ₦ 85.5 million has been paid up, ₦ 51.3 million by the Federal Government and ₦ 34.2 million by the Central Bank. [4]

3.4.2 OBJECTIVES AND PURPOSE FOR WHICH LOANS ARE GRANTED UNDER ACGS

The Scheme was designed to facilitate farmers' access to bank credit and this help to stimulate agricultural expansion:

The agricultural purpose in respect of which loans can be guaranteed by the Fund are those connected with:

1. The establishment or management of plantations for the production of rubber, oil - palm and similar crops.

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4. Ezeugoh, C. C. - "Agricultural Credit Scheme" Bullion June, 1984 page 84

ii) Application should be completed in triplicate, one copy of which will be stamped by the concerned and fowarded immediately to the nearest office of the CBN in the State in which the bank is situated or as may be otherwise directed. Correspondence from the bank to the applicant on the application should be copied to the office of the CBN to which a copy of the application was sent.

iii) Applications received by banks, should be processed promptly and it is hoped that the period elapsing between the submission of an application under the scheme and its disposla will not exceed 60 days. It is appreciated that banks may call for information which has not been sufficiently supplied by the applicant. Officials of the fund may call on the banks which have apparently not acted within a reasonable time on any application submitted to them.

iv) All apllications under the scheme should be treated by banks with the same degree of diligence, good faith and competence with which they would normally be expected to treat all applications for loans received in the normal course of their banking business.

3.4.6 BANKS' ASSISTANCE TO LAON APPLICANTS

For any loan request rejected by a bank, it should give reasons for the rejections to the person making such request in good time. It should also specify the steps the person should take to enable him comply with the bank's requirements. Copies of such correspondence should be sent to the office of the CBN to which the copy of the original application was sent.

3.4.7 EXTENT OF LIABILITY OF THE FUND IN RESPECT OF GUARANTEES

The maximum liability of the fund in respect of any guarantee given under the scheme is fixed at 75% of the amount in default net of any amount realised by the bank from the security he got from the borrower. The maximum loan an individual can obtain under the scheme is ₦ 50,000.00 while loans to a co-operative society or a corporate body can be granted up to a maximum of ₦ 1,000,000.00.

3.4.8. INTEREST RATES ON LOANS TO BE GUARANTEED

The interest rate chargeable by banks on credit facilities provided under the scheme is prescribed by the CBN from time to time.

However, from the first of August, 1987, the CBN announced the deregulation of interest rates. This means that there is no concessionary interest rate for any sector of the economy including agriculture and that commercial banks are free to fix interest rate individually.

KANO STATE AND THE ACGS 1978 - 1987

3.5.1 PERFORMANCE OF ACGS IN KANO STATE

The total number and value of loans guaranteed and enhanced in Kano State were one thousand, one hundred and seven (1107) and ₦ 23,352,243.00 (Twenty - Three Million, Three Hundred and Fifty - Two Thousand, Two Hundred and Forty - Three Naira only) since the inception of the ACGS in 1978 as table 3.5.1 have shown.

3.5.1 PERFORMANCE OF AGRICULTURAL CREDIT GUARANTEE SCHEME IN KANO STATE (1978 - SEPT., 1987)

PERIOD	LOAN GUARANTEED		ENHANCEMENT	
	NO	AMOUNT	NO	AMOUNT
1978-Dec., 1983	534	₦16,196,356.00	21	₦1,891,196.00
1984	88	₦ 642,028.00	2	₦ 28,000.00
1985	110	₦ 857,053.40	2	₦ 20,094.00
1986	163	₦ 972,381.00	4	₦ 67,850.00
Jan-Sep., 1987	212	₦ 2,650,785.00	3	₦ 26,500.00
TOTAL	1107	₦21,318,603.00	32	₦2,033,640.00

Sources: AGRIC OFFICE, CBN, KANO.

3.5.2 STATE - WISE DISTRIBUTION OF PROJECTS

The Agricultural Credit Guarantee Scheme came into operation in April 1987, and by the end of that year the fund had guaranteed 341 projects as shown in TAble 3.5.2. Out of this number, only 22 projects or 6.5% were guaranteed in Kano State. This was indeed a poor performance when compared with 44 projects whose population is far less than that of Kano.

By the end of 1983, as the table have shown a total of 6,085 projects were supported under the scheme. Out of this total Kano State had a share of 534 projects which is only 8.8% of projects guaranteed. Again, even though it is above the normal average of 320 projects per State is far less than that of other smaller States of the Federation.

This however, can be discerned from the way commercial banks are performing with less enthusiasm in the scheme in the State. For example, out of the 25 Banks operating in Kano State, only 8 participated in the Scheme from January to September, 1987.

TABLE 3.5.2

STATE - WISE DISTRIBUTION OF PROJECTS

UNDER ACGS: 1978 - 1983

STATE	NUMBER OF LOANS							
	1978	1979	1980	1981	1982	1983	TOTAL	%
Anambra	16	50	48	77	123	210	524	8.6
Bauchi	15	132	193	223	80	131	774	12.7
Bendel	18	96	49	51	60	70	334	5.5
Benue	3	5	5	24	19	38	94	1.5
Borno	12	21	8	12	7	58	119	2.0
Cross River	13	13	29	39	27	33	154	2.5
Gongola	-	15	15	58	50	63	201	3.3
Imo	26	88	55	39	35	22	265	4.3
Kaduna	77	170	160	176	186	239	1,008	16.6
Kano	22	229	93	82	68	40	534	8.8
Kwara	44	38	25	38	44	25	214	3.5
Lagos	5	16	24	22	14	39	120	2.0
Niger	3	12	31	111	68	80	305	5.0
Ogun	15	22	24	22	18	19	120	2.0
Ondo	1	14	15	8	16	21	75	1.2
Oyo	22	84	60	70	65	37	338	5.6
Plateau	8	41	31	29	51	29	189	3.1
Rivers	16	18	20	18	7	11	90	1.5
Sokoto	25	41	60	195	138	168	627	10.3
TOTAL	341	1105	945	1295	1076	1333	6085	100
AVERAGE	18	58	50	68	57	70	320	5.3

Source: Ezeugoh C. S: Bullion, July, 1984 Page 85.

3.5.3 STATE - WISE DISTRIBUTION OF LOANS

As Table 3.5.3. shows out of the total amount of ₦ 11.3 million that was granted to farmers in the Federation under the Scheme in 1978, only ₦ .6m or 5% went to Kano State, while small States like Bauchi more than doubled Kano with the sum of ₦ 1.3m.

By the end of 1983, a total of about ₦ 179,500 was disbursed as loans to farmers throughout the Federation. Out of this amount about ₦ 15m or 8.4% went to Kano State.

TABLE 3.5.3

STATE - WISE ANALYSIS OF LOANS UNDER ACGS

1978 - 1983

STATE	AMOUNT (₦ MILLION)							
	1978	1879	1980	1981	1982	1983	TOTAL	%
Anambra	0.2	1.3	1.2	1.9	2.4	2.2	9.3	5.2
Bauchi	1.3	1.5	1.3	2.9	0.5	0.5	8.2	4.5
Bendel	0.6	6.7	2.7	1.6	1.5	4.3	1.7	0.9
Benue	0.3	0.1	0.1	0.5	0.2	0.7	1.9	1.1
Borno	0.2	0.7	0.2	0.1	0.3	0.3	1.8	1.0
Cross River	0.5	0.3	0.7	1.3	2.0	1.0	5.7	3.2
Gongola	-	0.5	0.4	3.3	1.2	2.1	7.8	4.3
Imo	0.6	1.7	1.1	1.2	2.0	1.9	8.6	4.8
Kaduna	1.0	3.1	1.4	3.0	3.5	1.7	13.8	7.7
Kano	0.6	3.2	3.2	2.1	3.4	2.6	15.0	8.4
Kwara	2.0	0.8	1.1	1.0	0.5	0.5	6.0	3.3
Lagos	0.3	3.2	3.2	4.0	3.5	5.5	20.2	11.3
Niger	0.1	0.2	0.3	0.8	0.4	1.3	3.1	1.7
Ogun	0.8	2.3	3.3	3.5	1.5	1.9	13.2	7.4
Ondo	-	0.4	1.9	0.6	0.8	1.6	5.4	3.0
Oyo	1.0	4.0	5.3	2.8	4.9	3.1	20.1	11.2
Plateau	0.7	0.9	1.3	1.2	0.7	2.4	7.1	4.0
Rivers	0.4	2.0	1.8	2.2	2.3	0.8	9.6	5.3
Sokoto	0.7	0.6	0.5	1.2	0.7	1.6	5.3	3.0
TOTAL	11.3	33.6	30.9	35.6	32.3	36.3	179.5	100
AVERAGE	0.6	1.8	1.6	1.9	1.7	1.9	9.4	5.3

Source: Economic & Financial Review: September 1983 Page 12
July, 1984. Page 85.

3.5.4 ANALYSIS OF GUARANTEED LOANSBY PURPOSE

The analysis by purpose of loan guaranteed from Table 3.5.4 shows that the bulk of the loan averaging 57.1 per cent of the annual total for the period went to livestock (Poultry) production.

Food crops, on the other hand, recorded 30.4 per cent while cash crops registered 12.4 per cent. This observed distribution of loans by purpose appears to have been lopsided given the fact that agro - allied industries rely heavily on food crops for their intermediate inputs, and the fact that the non-minerial export base of the economy must be well developed to achieve additional foreign exchange savings for self - reliance from foreign loans. A programme for self - reliance should therefore seek to correct this lopsidedness in guaranteed loans - based on demand shift.

TABLE 3.5.4

ANALYSIS OF GUARANTEED LOANS (BY PURPOSE

1978 - 1987 ('000)

PERIOD	LIVESTOCK		FOOD CROPS		CASH CROPS		GRAND TOTAL
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	
1878	6,040.00	53.5	4,423.7	39.2	820.7	7.3	11,284.4
1979	21,442.5	63.8	9,676.1	28.8	2,477.8	7.4	33,596.4
1980	21,064.8	68.1	7,937.6	25.6	1,942.6	6.3	30,945.0
1981	25,147.5	70.6	8,572.6	24.6	1,921.8	5.4	35,641.9
1982	21,875.5	68.8	5,706.4	18.0	4,18 2.0	13.2	31,763.9
1983	23,364.7	64.2	10,201.2	28.1	2,741.6	7.6	36,307.5
1984	12,642.5	51.3	5,012.3	20.3	7,001.0	28.5	24,654.9
1985	14,876.6	33.6	15,749.4	35.5	13,617.6	30.9	44,243.6
1986	27,449.1	40.1	37,309.5	54.5	3,660.8	5.4	68,419.4
1987	33,914.2	33.2	59,008.6	57.8	9,229.7	9.1	102,152.5

Source: Bus. Times, Monday 9, 1988

From 1983 to date both the number and value of projects undertaken under the ACGS are steadily increasing. This is brought about as a result of:

(a) Increase in the number of Agricultural Officers at the CBN agric office in Kano.

(b) Central Bank campaigns among farmers through meetings with them to explain the modalities of the scheme.

(c) Increased awareness among farmers about the scheme.

(d) Formation of agric section with experienced Agric Officers in most of the commercial banks operating in the State.

(e) State - government campaigns particularly with regards to wheat production in the dry - season.

(f) The activities of the Hadejia - Jama'are River Basin Authority and the World Bank assisted project of Kano State Agricultural and Rural Development Authority.

3.5.5 OPERATIONAL PROBLEMS OF ACGS IN KANO STATE

In the course of this study the researcher found that a lot of problems are being encountered in the operation of the ACGS. These problems can be divided into three as follows:

3.5.6 INTERNAL PROBLEMS:

These are CBN agric office related problems and they include:

1) Inadequate number of vehicles for inspecting the projects throughout the State.

2) Inadequate budget.

3) Lack of working measures.

4) Non-availability of books on Agricultural lending, Rural Sociology and Economic and Financial Analysis of projects.

3.5.7 BANK - RELATED PROBLEMS.:

These are problems the CBN office is encountering in relations to commercial banks who give out the loans the CBN is guaranteeing and these problems include the following:

1) Non - participation in the scheme by majority of the banks.
2) Partial and non - disbursement of guaranteed funds.
3) High and differential interest rates charged on loan and overdrafts - guaranteed under the ACGS fund.
4) Non - rendering of returns as and when due.
5) Non - monitoring of projects by the banks.

3.5.8 FARMER - RELATED PROBLEMS:

These are problems emanating from beneficiaries of the loan and the problems include:

1) High default rate.
2) Non-adherence to agreed production programmes.
3) Inadequate supply and high cost of inputs especially feeds.
4) Lack of spare pasts for agricultural machines.

3.5.9 SUGGESTED SOLUTIONS TO THE PROBLEMS:

Having regard to the problems affecting the ACGS and with a view to improving the performance of the scheme for the benefit of rural farmers, the following recommendations to the Government, the Central Bank of Nigeria as the managing agent of the scheme, the lending banks and farmers should be implemented.

3.5.10 SUGGESTIONS TO THE GOVERNMENT

In order to improve the performance of the scheme the Government should:

1) Widen the scope of the scheme to include agro-allied activities.

2) Increase the maximum lending under the scheme to individual farmers above the current ₦ 50,000.

3) Hasten the issuance of certificate of occupancy to farmers, and refrain from revoking certificates of occupancy granted to farmers benefitting from agricultural loans.

4) Ensure timely provision of inputs to farmers at affordable prices, and infrastructures such as transportation, roads, storage facilities and extension services.

5) Develop and strengthen co-operative societies and simplify process of their registration.

6) Avoid instituting conflicting policies that affect agricultural development.

7) Ensure control with respect to livestock inputs, such as feed, concentrates, drugs, day-old chickens, etc.

3.5.11 SUGGESTIONS TO THE CBN

The Central Bank of Nigeria as the managing agent of the scheme should:

1) Hasten the issuance of Guarantee certificates to banks.

2) Hasten the payment of default claims by banks as this will make them more committed to the scheme.

3) Intensify the Bank's operation in the realm of evaluating and monitoring projects and investigating default claims.

4) Increase the limit of Authority to Branch Offices with respect to approval and issuance of Guarantee Certificates.

3.5.12 SUGGESTIONS TO LENDING BANKS

The lending banks should:

1) Take steps to eliminate delays in processing, approving and disbursing loans through innovation and simplication of the lending machinery and process, and granting lending powers to Agricultural Credit Officers and rural Branch Managers.

2) Intensify operation in the area of evaluating and monitoring of projects.

3) Provide appropriate exposure and training in agricultural lending to Agric Credit Officers and Branch Managers.

4) Ensure timely rendering of returns on lending to the CBN.

5) Ensure that adequate and realisable securities are obtained in respect of large loans.

3.5.13 SUGGESTIONS TO FARMERS

The Rural farmers as beneficiaries of the loan should:

1) Make judicious use of loans for approved purposes and ensure good management of the projects.

2) Ensure timely repayment of loans.

3) Adopt modern farming techniques and practices and keep accurate and appropriate farm records.

4) Organise themselves into viable co-operative societies and other forms of farmers' groups to facilitate access to credit disposal of output, exchange of ideas and loan repayment.

5) Encourage savings habits among members.

3.6 THE EXPECTED ROLE OF THE STATE GOVERNMENT

The co-operation of a whole network of large and specialised organisations is required for the successful rural banking and widespread disbursement of loans for rural development.

There is a lot that could be done by the State Government to facilitate the smooth and efficient operation of the Rural Banking Scheme. Among these is the education of rural farmers in modern farming techniques that call for the application of modern technology such as tractors, fertilizers, berbicides, etc. Without this information flow, it becomes very difficult for an illiterate farmer to conceptualize let alone implement innovations that would revolutionalise agricultural production. The majority of the rural farmers in Kano State have little technical knowledge and the means of production, and, as such cannot be expected to innovate as quickly as bigger farmers who are landed, liquid and literate. Moreover, there are some psychological characteristics within the rural farmers in Kano State which can only be broken down throught increased persuation and demonstration. One of such is that the rural farmer must begin to see agriculture beyond his subsistence need. That means he must adopt a commercial orientation and see agriculture as a business to be managed with a profit motive. In this regard the activities of the State Government will extend its campaign to other crops like rice, groundnut and cotton.

Closely related to the technical education of rural farmers in modern farming techniques is the production of those modern inputs, which they would be educated about. These includes the provision of tractor hiring services, sale of fertilizers, insecticides and others which the farmer can hardly acquire in the open market. In the course of this study it eas found that although the State ministry of Agriculture throughout all the local Government areas provides tractor hiring services such services were far from adequate.

It was discovered that many farmers who had paid for these services in advance could not be served. It was also found that a lot of tractors which had broken down due to lack of tyres and other spare parts could not be repaired and put back into operation. Those that were in serviceable condition were fraudulently misused due to inadequate control measures. To minimize thers fraudulent activities by the coordinators the Ministry may be well - advised to hired these tractors directly to the local government council who may be in a better position to assist their farmers in the best way possible. It must be added also that the tractor services need to be expanded to cover a broader range of mechanisation including land-clearing, harvesting, planting, and crop spraying.

Another essential area of information flow is concerned with the source of finance to pay for the services and other inputs (like fertilizer, etc). In this regard the farmers need to be educated about the role of rural banks in particular as well as the Agricultural Credit Guarantee Scheme. The subjects for explanation to farmers should include: the obligation to repay bank loans, the difference between bank loans and government subsidy, possible punitive measures against defaulters, acceptable forms of collateral securities to the banks like legal and equitable mortgage of landed property, the document that farmers are expected to submit to rural banks for loans and how to obtain these documents. Other acceptable securities to the banks like third party guarantee and a lien on savings accounts in a bank should be explained to rural farmers.

3.7 CONCLUSION

In this Chapter it was shown that the Rural Banking Programme was inaugurated in 1977 with a specific aims and objectives. The selection of the locations for the establishment of branches took into account both the economic viability of the centres and the supervising capabilities of the various banks. The State Governments were also involved right from the planning stages. The scheme was divided into stages with a target of 766 rural branches in the three stages so far launched - out of this, Kano State was allocated 49 branches, out of which 29 branches were opened.

We have seen that almost simultaneously with the establishment of Rural Banking Scheme, the Federal Government and the CBB launched the Agricultural Credit Guarantee Scheme in order to facilitate farmers' access to bank credit and thus help to stimulate agricultural expansion. This was in realisation of the parenial problems of agricultural lending which perpetually deprived rural dwellers of bank credit for agricultural purpose. The scheme provides for a Central Bank guarantee of up to 75% of the amount in default net of any amount realised by the banks from the security obtained from the borrower. The Scheme also set a limit in which an individual farmer can borrow up to ₦ 50.000, while corporate bodies can borrow up to ₦ 1,000,000 for on-lending to individuals. We have also seen that in both number of loans granted and amount of money disbursed under the Scheme Kano State did not get a fair share compared to its large size. This was however, attributed to the non-participation of most of the commercial banks operating in the State in the scheme.

In the last part of the Chapter it was shown that the State Government has an important role to play in facilitating the success of the Rural Banking Programmes and the Agricultural Credit Guarantee Scheme by educating farmers in modern agricultural techniques and in the provision of inputs such as tractors and fertilizers. Also the State Government should educate farmers on the existence of the Agricultural Credit Guarantee Scheme and how to reap the benefits of good banking habits.

CHAPTER 4

DATA ANALYSIS

In the first part of this Chapter, we will examine the data collected through the question - naire administered to rural bank managers in Kano State. The primary purpose of this part is to assess the contribution of the rural bank branches to the development of the rural areas where they were situated. To achieve this goal, the questionnaire was designed to collect data on status of bank office, adequacy of such office, specific objective of individual branches, and deposit mobilisation programmes. More specifically, the questionnaire was aimed at data on volume of deposits mobilised, loans granted out of these deposits to rural dwellers, nature of securities demanded by banks for loans, major set - back on loan proposal, control over utilization of loan and other services to rural farmers and small - scale industrialists. In order to assess further the priblems and prospects of rural banking in Kano State, data was collected on the demand for loans, daily transactions recorded, information imput, ability of bank staff and managers to communicate with illiterate farmers directly in local languages. This analysis will provide useful information on how much credit the rual bank branches have made available to rural populace for agricultural an other economic investment generea;;y.

In the second part of this chapter we shall examine the data collected through the questionnaire administered on rural farmers and small scale industrialists in Kano State. The ultimate goal of this part is to assess the impact of rural bank branches in their areas of location and hence their contribution to the development of the rural areas of Kano State.

Data on the educational back - ground of the rural farmers and small - scale industrialists, the amount and sources of information made available to them about the operations of modern banking facilities provided through the scheme, the ability of farmers to provide the necessary collateral securities such as certificate of occupancy on their farmlands, and the difficulty they encounter when trying to secure such certificates from their respective local governments and existing sources of financial agriculture in Kano State.

The main objective of this chapter as a whole is to analyse the data collected so as to determine the impact of rural banking scheme in the development of rural areas and to see to the suitability or otherwise of these rural banks in the provision of the much needed finance for intergrated rural development in Kano State in particular and Nigeria in general. The analysis that follows is therefore, based strickly on the classification of the data collected.

PART 1

RURAL BANKING OPERATIONS

(BANK'S PERSPECTIVE)

4.1.1 STATUS OF BANK BRANCHES AND ADEQUACY OF PHYSICAL FACILITIES

The intention of this section was to find out the status of bank offices as to ascertain the range of services rendered and how regularly these services were available to the general public. Bank managers were asked to indicate whether the bank is operating as a full branch or as cash office. In a related question, they were asked to indicate whether their office premises were owned or rented by the bank and whether premises were adequate or not.

TABLE 4.1.1 BANK STATUS AND PHYSICAL FACILITIES

S/NO	STATUS	NUMBER	NATURE	NO	ADEQUACY	NUMBER
1	Full Branch	8	Owned	6	Adequate	10
2	Cash office	2	Rented	4	Inadequate	0
TOTAL		10		10		10

Source: Computed from Questionnaire for Rural Bank Managers.

Out of the 10 respondent bank branches, only 2 were not operating as full branches. These constitute 20% of the sample as table 4.1.1 shows. This means that the great majority of rural banks in Kano State have settled down to full - time business on a regular basis and their staff are resident in their areas of operations.

This will therefore afford the staff greater interaction with the local community and hence in a better position to understand their problems in order to be of greater help to them.

The two bank offices in the sample that were not operating as a full branch were rendering cash services to the customers twice a week, that is on market days. However, most customers interviewed in the premises were, not satisfied with the operations of the banks. This was because quite often the officers incharge did not bring enough cash to satisfy customers needs and also the staff sent to operate the offices were not employed to discuss loan agreement or to authorise overdrafts.

On the nature and adequacy of physical facilities, 6 out of 10 office premises were owned by the banks while 4 of the respondent banks were renting the building. However, all the ten bank premises both owned and rented were described as adequate to the present needs of the branches.

In the course of this study, however, we discovered that many of the rural branche managers were residing inside Kano metropolis instead of the area in which their branches were situated. In such a situation it is difficult for these managers to understand their customers fully not to talk of their numerous problems since they did not interact with them. Some of them even live about 30kms away from their branches. Besides the problem of lack of interaction with the community there is also the danger of travelling long distances everyday. Head offices of these branches should therefore, try as much as possible to secure a decent residential accomodation for their staff so as to make the full realisation of the objective of Rural Banking Scheme.

There were also frequent changes of rural bank managers as some of them confessed. Rural bank managers were said to spent from 1½ to 2 years only in a particular branch and this period was not enough for them in most cases to know their customers well enough to be able to help them. This is to the disadvantage of both the customers and the bank because while the customers loose the opportunity to get credit even for viable projects, the bank loses the opportunity to participate in viable projects and earn income through interest on loans as they get most of their income through the provision of loans and services. This has certainly contributed to the low level of financial assistance to the rural farmers and small - scale industrialists by way of loans and hence the low profitability of most rural branches.

4.1.2 STAFF STRENGTH AND APPROPRIATE AREA AND POPULATION SERVED

One of the reasons that lead to the inauguration of the Rural Banking Scheme was to reverse the total neglect the rural communities suffered in the scheme of bank expansion and the inadequacies of banking services generally in the rural areas. The aim of this section is to find out to what extent did modern banking services brought nearer to the rural dwellers. Here, rural bank managers were asked to state the approximate population and area of operation of their branches.

TABLE 4.1.2

APPROXIMATE POPULATION AND AREA OF OPERATION

NAME OF BANK	DATE BRANCH WAS OPENED	NO OF EMPLOYEES	AREA OF OPERATIONS	APPROX.POPULATION/ BRANCH
A	1975	12	2 LGA	491,000
B	June, 1982	6	Over 50 Villages	250,000
C	Oct., 1986	6	2 LGA	1,000,000
D	July, 1983	8	Not specific	Not specific
E	April 1979	12	40 villages	Not specific
F	Dec., 1980	6	1 LGA	509,000
G	1980	7	2 LGA	800,000
H	1979	6	1 LGA	500,000
I	1979	6	2 LGA	600,000
J	1985	5	1 LGA	Not specific
TOTAL		74		4,150.000
AVERAGE		7		592,857

Source: Questionnaire for Rural bank managers.

4.1.2(a) BRANCH OPENING AND STAFING

As Table 4.1.2 shows, only one rural bank branch was in existence before the introduction of the Rural banking programme in Kano State. The majority of the rural branches were opened in the 1980s. This shows that banking services in Kano State was confined to Kano metropolis before the inauguration of banking programme serving very small population while majority of the people in the State were left without modern banking services. The ten respondent bank branches have average of seven staff per branch. They were adequate due to the low attendance of the customers in these rural branches.

4.1.2(b) POPULATION AND AREA OF OPERATION

The area of operations of these banks is generally not specific, but from past contacts the various managers have attempted to state their approximate area of coverage except one which is not specific about his area of operation. Four branches control two local government areas each while the other five each control one local government area.

From Table 4.1.2., seven of the respondents stated their approximate population while the other three were not specific about the number been served. On the whole the seven respondents that specified the approximate population of their areas of operationa have 4,150,000 people. This means on the average one bank branch serving 592,857 people. This goes to confirm that the rural areas of Kano State are still greatly underbanked. It is hoped that by the end of 1989 when the third phase of the rural banking scheme might have been completed and when those commercial banks that have not completed their second phase have done so the present number of people per bank will be greatly reduced.

4.1.3. OBJECTIVES OF RURAL BANK

The main objectives behind the inauguration of the rural banking scheme by the Federal Government and the Central Bank were: to cultivate banking habits amongst the rural dwellers, deposits mobilisation, to develop agriculture and agro-allied industries in the rural areas with a view to achieving self-sufficiency in food production, and to reduce to a comfortable extent the drift of young men and women from the rural areas to the urban areas. In order therefore, to ascertain if these rural branches had any specific objectives and whether these objectives were similar to what the Government and the Central Bank had intended, the rural bank managers were asked to state the objectives of their branches.

TABLE 4.1.3

OBJECTIVES OF RURAL BRANCHES

S/NO	OBJECTIVES	NUMBER
1	Comply with government objective	2
2	To make profit	1
3	Offer Banking Services to rural people	3
4	Encourage Banking habit	2
5	Uplifting & developing the rural economy	1

Source: Questionnaire for managers.

As Table 4.1.3 shows, out of the nine branch managers who responded to this question, two stated their objectives as simply to comply with government directive while one said it was to make profit. Three respondent managers stated their objectives as offering banking services to rural people while two stated their objectives as encouraging banking habit among rural dwellers. One of the respondents stated his branch objective as uplifting and developing the rural economy.

It is important to note that six of the respondents' stated objectives were similar to those intended by the government and the Central Bank. However, the two managers who stated their objectives as simply comply with government directives would probably adopt a lukewarm attitude to the business because openning the branch by itself is compliance with the government directive. So in this wise, his objective is already met.

The manager who stated the objective of his branch as simply to make profit must take a deliberate effort to attract customers, mobilise savings and extend credit before his objective can be met. The implications from the above analysis is that majority of rural bank managers in Kano State were aware of the government stated objectives in embarking on rural banking programme only that the rural banks being sub - set of commercial banks conforming to their old - age banking practices as in urban centres have not envolve a simplified way of meeting the Central Bank stated objectives in extending enough financial assistance to rural areas.

4.1.4 SAVINGS MOBILISATION PROGRAMME

One of the main objectives of Rural Banking scheme is the mobilisation of deposits. In this section, an attempt was made to ascertain if the rural banks had any programme for deposit mobilisation and the nature of such programme. Table 4.1.4 contains the responses.

Table 4.1.4: Savings Mobilisation Programme

S/NO	PROGRAMME DESCRIPTION	NO. OF RESPONSES
1	Canvassing for deposits by all members of staff from village to village	3
2	Enlightenment of the rural populace on banking habits by personal contacts	4
3	Advertisement on Radio and T.V. by Bank Headquarters	1
4	None	2

Source: Questionnaire for Managers

As Table 4.1.4 shows, out of the ten respondents, eight were positive. They programme for deposit mobilisation and only two Managers indicated that they had no programme for deposit mobilisation.

Out of the eight who responded on the positive, three described their programmes as canvassing for deposits by all members of staff from village to village. Four of the respondents were using enlightenment compaigns on banking through personal contacts, while one described his programme as "Advertisement on Radio and TV by the Bank Headquarters.

In the course of this study we found that the rural areas in which the banks were located all reached by radio, but some could hardly be reached by Television. Campaigns through Radio and personal contacts therefore, remained the only alternative to rural bank branches for mobilisation for deposits. It was however, found that the Head Offices of these rural branches do not give any allowance for such extra duties covering a large number of villages scattered over wide areas and which can only be made outside official working hours.

The conclusion to be drawn therefore, was that these programmes existed only in the imagination of the Managers, but not in practice since such programmes were not backed by any incentive scheme by the Head Offices of these branches.

4.1.5 GROWTH AND COMPOSITION OF DEPOSITS

The purpose of this section is to find out the performance of these rural branches in terms of deposits generation and also to know the composition of deposit that were most acceptable and popular in these rural areas.

Out of the respondent banks only five were prepared to release details of their deposits. The rest declined on the grounds of official secrecy. Three of the branches were prepared to release the details since the establishment of the branches while the remaining two gave out details for five year periods only.

The details of deposits for the five branches is therefore displayed in Table 4.1.5. The Table shows a steady growth of deposits and high levels of deposits. It must be noted however, that all these branches except one were located at the Local Government Headquarters where they held demand deposits for the Local Governments and other institutions like schools, hospital and other State Government agencies. The demand deposits of these branches often fluctuate widely depending on whether Local Government grant have just been brought from the State capital and not yet disbursed or not. The most appropriate indication of deposit levels in these rural branches is therefore savings deposit, which is made up mostly of individual accounts of farmers and small-scale industrialists. One of the Bank which was opened in October 1986 and had an outstanding balances on its savings accounts at the end of that same year of ₦27,741 had increased to ₦209,096 by the end of the following year, that is 1987. Another bank recorded outstanding balances in savings accounts of ₦95,499, ₦163,641, ₦202,233, ₦203,023 and ₦278,862 at the end of 1983, 1984, 1985, 1986 and 1987 respectively. Only one bank had showed a decreasing balance of savings accounts of ₦67,930, ₦61,892 and ₦59,650 at the end of 1985, 1986 and 1987 respectively. Both banks with the exception of one witnessed a substantial growth rate in savings deposits between 1986 and 1987 with one bank having a growth rate of as much as 654%. This may be due to the deregulation of the interest rate by the Central Bank in which case depositors now get a higher interest on their savings than before.

It is to be noted that none of the respondent branches have recorded fixed deposits.

This may be due to the nature of the economy of the rural areas. By the end of 1987, those five branches that responded to giving details of their deposits had generated deposits totalling ₦4,242,000, which is an average of ₦848,400 per branch. This performance does not compare favourably with the national average of ₦1.1 million[1] recorded per branch by end of 1981. It is noteworthy however, that savings deposits were more popular in the rural areas. The implication of this finding is that money supply outside the economy is still large in Kano State which suggest that the development of banking habits amongst the rural populace of Kano State is still low.

1. CBN: Bullion June 1984, Page 82.

TABLE 4.1.5: GROWTH AND COMPOSITION OF DEPOSITS WITH RURAL BRANCHES (₦,000)

YEAR	TOTAL DEPOSITS															
	BANK A			BANK B			BANK C			BANK D			BANK E			TOTAL
	Savings	Current	Fixed	Savings	Current	Fixed	Savings	Current	Fixed	Savings	Current	Fixed	Savings	Current	Fixed	Deposits
1987	209	120	-	-	-	-	279	202	-	60	939	-	-	-	-	1,809
1986	28	79	-	-	-	-	203	525	-	62	68	-	-	-	-	965
1985	-	-	-	-	-	-	202	660	-	68	345	-	-	-	-	1,275
1984	-	-	-	-	-	-	164	93	-	48	409	-	-	-	-	714
1983	-	-	-	-	-	-	95	41	-	39	124	-	-	-	-	299
1982	-	-	-	-	-	-	77	158	-	7	2	-	-	-	-	244
1981	-	-	-	-	-	-	63	52	-	5	8	-	-	-	-	128
1980	-	-	-	-	-	-	35	53	-	1	6	-	-	-	-	95
1979	-	-	-	-	-	-	23	727	-	-	-	-	-	-	-	727
1978	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

YEAR	BANK F			BANK G			BANK H			BANK I			BANK J			TOTAL
	Savings	Current	Fixed	Savings	Current	Fixed	Savings	Current	Fixed	Savings	Current	Fixed	Savings	Current	Fixed	Deposits
1987	640	1,200	-	87	306	-	-	-	-	-	-	-	-	-	-	4,242
1986	530	1,516	-	79	960	-	-	-	-	-	-	-	-	-	-	4,050
1985	509	980	-	75	660	-	-	-	-	-	-	-	-	-	-	3,499
1984	413	1,400	-	69	1,540	-	-	-	-	-	-	-	-	-	-	4,136
1983	150	650	-	46	980	-	-	-	-	-	-	-	-	-	-	2,125

Source: Questionnaire for Managers.

4.1.6 AMOUNT OF LOAN GRANTED

As one of the objectives of the Rural Banking Scheme is the creation of credit by way of equity and loans for small scale industries and for agricultural production, attempt was made to find out how much loans and advances were granted out of the total deposits generated in these rural areas.

TABLE 4.1.6: Loans and Deposits Relationship for 1987 (₦'000)

BANK	LOANS GRANTED	TOTAL DEPOSIT	LOANS AS % OF DEPOSIT
A	200	329	60.8
B	-	-	-
C	78	481	16.2
D	59	999	5.9
E	450	-	-
F	500	1,840	27.2
G	350	593	59.1
H	-	-	-
I	-	-	-
J	-	-	-
Total	1,637	4,242	
Average	273	848	32.2

Source: Questionnaire for Managers

As Table 4.1.6 shows, six Bank Managers agreed to release information on the loans and advances granted for 1987. Amongs them is one of the Bank Managers who refused to state his Branch total deposits for the same period. Bank B granted loans totalling ₦200,000 for 1987 which was 60.8% of the total deposits collected for the same period.

This even exceeded the CBN prescribed percentage of 40% of the total deposits collected by any rural bank to be granted as loans.

Bank G also granted a total of ₦350,000 as loans which was 59.1% of the total deposits collected in the same period. This also exceeded CBN prescribed percentage. However, four of the respondents who provided information pertaining to both their deposits and loans for 1987 did not get even as near as CBN prescribed percentage as the table shows. For example, Bank D granted only ₦59,000 as loans against the total deposits of ₦999,000 collected. This was only 5.9% of the total deposits. On the average each bank is only granting 32.2% of its total deposits as loan to farmers and small-scale industrialists.

The implementation of this was that only a very small proportion of deposits is used for granting of loans and the rest of the money is transferred to Head Offices of these rural branches and invested outside the rural areas where the deposits were generated. It also meant the Central Bank directive of investing 40% of the deposits generated by any rural branch as loans to rural areas where that branch obtains its deposits is not being followed by majority of the rural banks in Kano State.

4.1.7 NATURE OF SECURITIES ACCEPTABLE TO RURAL BANKS

It is obligatory to take some form of security for loans granted. But lack of adequate securities was one of the traditional constraints to agricultural lending not only in Kano State but in Nigeria generally. The rural Bank Managers were asked therefore, to indicate the type of acceptable securities to them before loans were granted rural dwellers.

TABLE 4.1.7: ACCEPTABLE SECURITIES

S/NO	TYPE OF SECURITIES	NO. OF RESPONSES
1	Savings Account/fixed Deposit A/C	5
2	Landed property	10
3	Life Insurance policy	4
4	Government Guarantee	10
5	CBN Guarantee	10
6	Share Certificate	4
7	Employers Guarantee	8
8	Hypothecation of goods	2
9	Contract agreement	2
10	Legal mortgage	3
11	Personal guarantor	4
12	Third Party Guarantee	2

Source: Questionnaire for Bank Managers

As Table 4.1.7 shows, the most common collaterals acceptable to the banks were Government Guarantee, CBN Guarantee and landed property as all the respondents stated them as part of their acceptable securities. Employers guarantee and savings account and or fixed deposits were acceptable by most of the rural banks as security. Only two banks mentioned hypothecation of goods, contract agreement and third party guarantee. Four banks listed share certificate, life insurance policy and personal guarantor and three banks listed legal mortgage. Certainly, some of the collateral listed such as share certificate and Life Insurance Policy, were not known to most people in the rural areas. For Agricultural loans, the introduction of CBN and Government guarantee as security is important and the issue of collateral securities

should no longer be a major constraint to agricultural lending since under the agricultural credit Guarantee Scheme fund farmers do not require any other security for loans below ₦5,000 than CBN guarantee. However, in the course of this study we discovered that some of the rural branches demanded securities even for amount less than ₦5,000 before they processed such agricultural loans. This prevented many eligible farmers from benefitting from the scheme in the State. This should therefore, be checked to enable more farmers benefit from such scheme.

4.1.8 LOAN PROPOSALS' MAJOR DRAWBACKS

Since one of the objectives of the Rural Banking Scheme was the creation of credit especially to the agricultural sector and that lack of collateral securities was the traditional constraints to agricultural lending, we attempted to find out whether lack of acceptable securities is still a constraint to lending in the rural areas. The Bank Managers were therefore, asked to indicate the major drawback in loan proposals.

TABLE 4.1.8: DRAWBACK IN LOAN PROPOSAL

S/NO.	DRAWBACK	NUMBER
1	Lack of proper formulation of proposals	2
2	Lack of adequate collateral	5
3	Credit worthiness	2
4	Character	1
5	Economic Conditions	3
6	Lack of agricultural expert advice	0
	TOTAL	13

Source: Questionnaire for Bank Managers

As Table 4.1.8 shows, only 2 out of the ten respondents regarded lack of proper formaulation of proposals as a major drawback. This was because in most cases it was the bank staff who assist applicants in proposal formulation. None of the managers saw lack of agricultural expert Advice as a drawback. Only one respondent saw character as a major drawback. However, majority of the respondents - 50%, saw lack of adeqaute collateral as the major drawback in formulation of loan proposals. Thirty per cent (30%), of the respondents saw economic conditions as a major drawback. This was not of course unexpected because of the slump in economic activities not only in the State but the whole Country.

4.1.9 CONTROL OVER UTILIZATION OF LOANS

In this section, an attempt was made to find out what measures rural banks adopted to forestall any possible misuse of agricultural loans as was the practice in the past. Bank managers were therefore asked to state how they control the utilization of loans they granted.

TABLE 4.1.9: LOAN UTILIZATION

S/NO	CONTROL TECHNIQUES	NO
1.	Through draw downs and follow ups	2
2.	Release of money direct to Suppliers	6
3.	Effective supervision of the projects for which loan was granted	5
4.	Disbursement according to ACO Recommended Schedule in case of Agric loan	8

Source: Questionnaire for bank managers.

As the TAble shows, two or 20% of the respondents used drawbacks and follow ups to control utilization of loans granted.

Six or 60% used to release the money direct to suppliers to avoid any misuse by loan beneficiaries. Five or 50% of the respondents used effective monitoring and supervision of the project for which loan was granted, while eight or 80% of the respondents disbursed the money according to Agricultural Credit Officers recommended schedule of the CBN for agricultural loans.

4.1.10 RECOVERY OF LOAN LEVEL

The concern of this section is to ascertain whether there were high loan default ratae as expressed by some bankers especially with regards to agricultural lending. Bank managers were asked to classify their loans recovery rate - whether they were satisfied with the way loan beneficiaries were responding to repayment of such loans or not and state the reasons. Out of ten respondents, 7 or 70% were dis-satisfied with the loan recovery level. Only 3 0r 30% of the respondents were satisfied. However, this three did not participate much in the Agricultural Credit Guarantee Scheme. Some of the reasons the managers gave include the fact the loans beneficiaries do not in most cases, comply with terms of the loan repayment and that in the event of bad debt it it difficult to dispose of the customers' pledged properties for recovery.

The high default rate has forced one bank branch to take more than 100 farmers to Area court for recovery. As was discovered most of those taken to court were not real farmers and had therefore diverted the money they were granted to other purposes.

TABLE 4.1.10 LOAN RECOVERY LEVEL

S/NO	RESPONSE	NO	%
1.	Satisfactory	3	30
2.	Unsatisfactory	7	70
	TOTAL	10	100

Source: Questionnaire for bank managers.

4.1.11 UTILIZATION OF LOANABLE FUNDS

In order to achieve the objective of developing the rural economy by way of extending credit to farmers and small - scale industries, the Central Bank had directed that all rural branches should extend credit by way of loans and advances to the tune of 40% of the deposits so collected in these rural areas. To ascertain how far this objective have been achieved bank managers were asked to state whether they were utilizing their loanable funds within the area of their operations and if not what they were doing with extra funds. The response is analysed in Table 4.1.11.

TABLE 4.1.11: LOANABLE FUNDS UTILIZATION

S/NO	RESPONSE	NUMBER	PERCENTAGE
1	Yes	3	30
2	No	7	70
TOTAL		10	100

Source: Questionnaire for bank managers.

As Table 4.1.11 shows, only 3 or 30% of the respondents were utilizing their loanable funds within their areas of operations. However, as TAble 4.1.6 shows, only two banks of the three were fully utilizing their loanable funds in their areas of operations.

Seven or 70% of the respondents were not using their loanable funds in their area of operations. They used to transfer the deposits collected to their Head Offices. This is not definetely what it should be. As these banks were set up to help develop rural areas, they should conform to the CBN directive of extending at least 40% of the deposits so collected as credit to rural dwellers whose deposits they have collected.

4.1.12 LOAN PROCEDURE, GOVERNMENT AID IN LOAN RECOVERY AND THE WEIGHT OF EXPERT ADVICE

It is important to determine the type of procedure of acquiring loan before applying for the loan. Of all other factors this is the most difficult for farmers. The farmers in the rural areas find the procedure for getting loan very tedious. In this section, therefore, we attempted to find out the nature of forms used for loan applications, the role of government in loan granting and recovery process as well as the weight of expert advice before granting such loan.

TABLE 4.1.12: LOAN PROCEDURE, GOVERNMENT AID AND EXPERT'S ADVICE

BANKS	LOAN FORMS		GOVERNMENT AID IN LOAN GRANTING & RECOVERY		EXPERTS ADVICE	
	IN ENGLISH	LOCAL LANG.	YES	NO	YES	NO
A	✓	-		✓	✓	
B	✓	-		✓	✓	
C	✓	-	✓		✓	
D	✓	-		✓	✓	
E	✓	IN PROCESS	✓		✓	
F	✓	-	✓		✓	
G	✓	-	✓		✓	
H	✓	-		✓	✓	
I	✓	IN PROCESS	✓		✓	
J	✓	-		✓	✓	
TOTAL	10	-	5	5	10	-

Source: Questionnaire for bank managers.

As Table 4.1.12 shows, all the ten respondents have printed forms and loan forms in English Lanuage. None of the banks provided forms in the Local Language. However, two of the respondents who were from the same base indicated that printed forms and loan forms in the local language were in process. In Kano State where there were no divergent languages such forms in local lanuage will help to ease the problems of the rural dwellers.

Five out of the ten banks agreed that government especially local governments and Area Courts helped them in the process of both granting of loan and in loans recovery. It is important for banks in such rural areas to seek the co-operation of both government and Area Courts since most of the farmers were better known by government through their village Heads.

All the respondents banks also receive the advice of experts particularly agricultural experts on agricultural loans and such advices were necessary as indicated by all the respondents before granting loans.

4.1.13 DEMAND FOR LOANS AND PURPOSES FOR WHICH LOANS WERE SOUGHT

The purpose of this section is to find out the frequent demand for loans and the purposes for which such loans were put to in rural areas. Bank managers were therefore, asked to state the number of loan applications they received in a year and to state the purposes such loans were put to.

TABLE 4.1.13 DEMAND AND PURPOSE OF LOANS.

BANKS	LOAN APPLICATION IN A YEAR	PURPOSE FOR LOANS				
		LAND CLEA-RING	TRACTOR HIRING	TRADING	COTTAGE INDUSTRY	AGRIC-IMPLE-MENTS & INSECTI-CIDE
A	200	✓	✓	✓	✓	✓
B	na	✓		✓		✓
C	640	✓	✓	✓		✓
D	1200	✓		✓	✓	✓
E	1000	✓	✓	✓	✓	✓
F	40	✓	✓	✓		✓
G	50	✓	✓	✓		✓
H	na	✓	✓	✓		✓
I	60	✓	✓	✓		✓
J	na	✓	✓	✓	✓	✓
TOTAL	3190					
AVE-RAGE	336					

Source: Questionnaire for bank managers.

As Table 4.1.13 shows, seven or 70% of the respondents disclosed the number of loan application received in 1987 while 3 or 30% said they received many applications but refused to disclose the total number. The seven banks received a total of 3190 applications in 1987. On the average each of them received 356 applications in 1987. They all lowerer declined to state the number approved and those rejected. However, as Table 4.1.6 shows, many of these applications were rejected as could be deduced from the total amount granted as loans by these banks in 1987.

With the regards to the purpose for which loans were sought, table 4.1.13 shows that agricultural loans, trading, land clearing and tractor hiring were dominant and it was unfortunate that cottage industry did not receive much attention of the rural dwellers. The development of cottage industries is important in that besides the creation of entrepreneurial talents, it will also provide employment opportunity to unemployed primary leavers in the rural areas. It is therefore, the duty of the State Government to encourage the development of cottage industries by giving a sort of incentives to such entrepreneurs. The State Governments' intention of building a small-scale factory in each of the local government in the State in the current development plan will help greatly on this direction. However, rural banks should take up the challenge by going into partnership with Local entrepreneurs in the establishment of small-scale industries in the rural areas.

It is evident therefore, that the demand for investale funds in the rural areas of Kano State is increasing.

However it shows that the presence of banks in the rural areas has not started generating the desired entrepreneurial response that will take advantage of the credit facilities provided by the banks to initiate the growth process. This also partially explains the meagre amount of loans granted relative to the huge deposits generated.

4.1.14 TRANSACTION RECORDED DAILY

In order to find out the level of patronage of the rural banks by the rural dwellers, the bank managers were asked to indicate on the average the daily transactions recorded per day and to rate the attendance as high, average, low or poor.

TABLE 4.1.14: TRANSACTIONS PER DAY.

BANK	NO OF TRANSACTIONS	RATING
A	100	AVERAGE
B	20	Low
C	50	Low
D	100	Average
E	20	Low
F	150	High
G	30	Poor
H	40	Low
I	60	Low
J	45	Low
TOTAL	615	
AVERAGE	62	Low

Source: Questionnaire for bank managers.

As Table 4.1.14 shows, Bank A was recording an average of 100 transactions but was rated as low by the manager while Bank B was recording a very low transaction of 20 per day but was rated as average by the manager. Bank F was recording 150 transactions per day on the average which was a high rate but was rated by the manager as average. What this meant was that rural banks in Kano State were not being sufficiently patronised. This can be confirmed by the low deposits generated by these rural banks in table 4.1.5. It also confirmed our view that majority of the rural dwellers were not aware of the services of these rural banks due may be to non-publicity about the services of these banks by both the government and the banks themselves. For these rural banks therefore, to achieve the objectives for which they were established - both the government, especially various local banks and the management of the banks - has a lot to do to make rural dwellers aware of the tremendous benefits of the services provided by these banks. As said earlier, it becomes imperative for rural banks to educate the farmers in the language they could understand about modern banking practices and habits or on the benefits they could derive from the banks established in their localities. Without this communication link, the general suspicion of banks among the illiterates rural dwellers will continue to alienate the banks from the people for very long time and the desired banking habit will not be achieved fast enough in the rural areas.

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4.1.15 PROFITABILITY OF RURAL BANKS

On of the arguments put forward against the establishment of rural branches was the fact that rural branches could hardly be viable enough to justify the investment.

KASHIM IBRAHIM LIBRARY
AHMADU BELLO UNIVERSITY
ZARIA, NIGERIA.

In this section, we attempted to ascertain whether or not these rural branches have started making profits. The Bank managers were asked to indicate whether their branches were making profits, breaking even or making losses.

TABLE 4,1.15: PROFITABILITY OF RURAL BANKS.

S/NO	RESPONSE	NUMBER	%
1	Making profits	2	22
2	Breaking even	2	22
3	Making losses	5	56
TOTAL		9	100

Source: Questionnaire for bank managers.

As Table 4.1.15 shows, only 2 out of the 10 respondents banks were making profits. These two branches were established since 1979. Also, 2 branches were breaking-even. These branches were established 1982 and 1983 respectively. Five of the respondent banks were making losses. We however, found that one of the respondent banks which was making losses was established in 1980. We also discovered that this bank has not been granting loans to customers. It gave out only 6% as loans out of the total deposits collected in 1987. Since deposits are the source of banks principal assets - its loans, and since this bank has the deposits it follows, that it has failed to make profit because it has not granted enough loans. One of the respondent bank refused to state whether it was making profit or not.

This bank also refused to state its total deposits and loans granted and therefore we could not assess its potan-liabilities. It should however, be making profits since it was established since 1975, even before the inauguration of the Rural Banking Scheme.

4.1.16 INTEREST RATE STRUCTURE

The rate of interest prevailing either discourages or encourages borrowing. At lower interest rates more money could be borrowed than at higher interest rates. The Federal Government through the Central Bank used to direct the interest to be charged on agricultural credit guarantee scheme. However, with the deregulation of the interest rate by the CBN as from August, 1986, individual commercial banks were left to fix their interest rate including that on agriculture. In this section we attempted to find out whether the rate charged on loans had any effect on borrowing on the part of the rural farmers and small scale industrialists. Bank Managers were therefore, asked to state their interest rates on agriculture, commerce and manufacturing and to state whether they charge penal interest for overdue loans or provide rebate for early loan payment.

TABLE 4.1.16: INTEREST RATE STRUCTURE

BANK	PERCENTAGE OF INTEREST			PENAL/REBATE INTEREST	
	AGRICULTURE	COMMERCE	OTHERS	YES	NO
A	$13^1/_2$	$17^1/_2$	$17^1/_2$	✓	
B	$16^3/_4$	$18^3/_4$	$18^3/_4$	✓	
C	$16^3/_4$	$18^3/_4$	$18^3/_4$	✓	
D	17	18	18		✓
E	-	-	-		✓
F	-	-	-		✓
G	-	-	-	✓	
H	-	-	-		✓
I	-	-	-		✓
J	-	-	-		✓

Source: Questionnaire for bank managers.

As Table 4.1.16 shows, out of the ten respondent banks, only four were willing to state their interest rates, the rest declined on the ground of official secrecy. An analysis on the four banks that revealed their interest rates showed that agricultural loans can now attract from $13^1/_2$% to even 17 %. Bank D almost doubled the rate from what is used to be when CBN was regulating the interest rate on agriculture. What this meant was that agricultural loans is now more costly to farmers whose major preoocupation is farming This could perhaps affect agricultural production in the state.

However, as our findings show, the effect may not be much since majority of the rural farmers are illiterate and did not concerned themselves much on what the interest rates were.

On the questions of penal interest charged on overdue loans, four out of the ten respondents indicated that they were charging penal interest on overdue loans at the rate of 1%. Seven of the respondents indicated that they were not charging penal interest on overdue loans.

4.1.17 CONTRIBUTIONS OF RURAL BANKS TO THE DEVELOPMENT OF RURAL AREAS

One of the main objectives for inauguration of the Rural Banking Scheme was to help develop the rural economy of those areas in which the rural banks were established.

In this section, we attempted to find out whether the establishment of rural banks has in any way helped developed these rural areas. Bank managers were therefore, asked to state ways in which their banks has helped in the development of the area they were situated. The response is analysed in Table 4.1.17.

TABLE 4.1.17 CONTRIBUTIONS OF RURAL BANKS TO RURAL AREAS.

S/NO	CONTRIBUTIONS	RESPONSE
1.	Increased production through agricultural lending by banks	10 10
2	Discouraging out-dated method of saving	5
3.	Consultancy services on agric and small scale industries	6
4.	Boasting other economic activities through provision of credit	6
5.	Provision of employment to rural populace	10
6.	Reduced Rural - Urban migration	5

Source: Questionnaire for bank managers.

As Table 4.1.17 shows, the rural banking scheme is achieving the objectives for which it was established. Some of the contributions of these rural banks in the development of rural areas include provision of credit to agricultural and cottage industries and commerce. It also encourages savings mobilisation. The bank also provided consultancy services to rural dwellers on farming and other economic activities in the rural areas. Other contributions of rural banks in the rural areas include provision of employment and therefore indirectly reduces rural-urban migration. All the respondents indicated that they provided agricultural loans and provided employment to rural populace. Consultancy services on agriculture and provision of credit to other economic activities were undertaken by six of the respondent banks.

Five of the respondents indicated their contributions as including savings mobilisation and reduction of rural - urban migration.

4.1.18 SUGGESTION FOR IMPROVEMENT

Having identified the problems thus far, it was necessary to find solution to those problems for the purpose of improving the Scheme. In this wise, bank managers were asked to suggest what in their opinion, their Head Offices could do to ensure the success of the scheme. The suggestions advanced by the bank managers are contained in Table 4.1.18.

TABLE 4.1.18 SUGGESTIONS FOR BANKS

S/NO	DESCRIPTION	NUMBER
1	Provision of good working conditions	4
2	Step-up their marketing strategies	3
3	Post well trained staff and those with language bias of the area they were posted to	5
4	General public enlightenment on banking habits and benefits	6
5	Liberalise loans requirement procedure	5
6	Assign loan portfolio to rural branches and increase powers of rural branches Managers	4
7	Simplify method of operation adaptable to rural areas	5
	T O T A L	32

Source: Questionnaire for Bank Managers

As Table 4.1.18 shows, 6 or 60% of the respondents suggested that banks should step-up general public enlightenment and campaign on banking habits and on benefits to be derived from these banks by rural dwellers

This suggestion was borne out of the fact that the Managers themselves realise that they were not compaigning and enlighten the public enough on the banking habits and on the services generally provided by the banks. Also 5 or 50% of the respondents each suggested posting of well-trained staff to rural areas, liberalisation of loans requirements procedure and a simplify methods of operation adaptable to rural areas This was in realisation of the fact that the cumbersome nature of loans procedures adapted by these banks as in urban centres prevented most rural farmers from getting credit facilities provided by these banks.

Flexible regulations and procedures should be adopted by these banks in order to make credit facilities accessible to people in rural areas. Provision of good working conditions and increasing rural Bank Managers discretionary powers in terms of lending were each suggested by 4 or 40% of the respondents. Three of the respondents suggested stepping-up their marketing strategies as means of ensuring success of the rural banking scheme.

4.1.19 SUGGESTIONS FOR GOVERNMENT

On what the Government should do to ensure success of the rural banking scheme, 8 or 80% of the respondents suggested the view that public enlightenment campaign should be launched in the rural areas to educate the people on mode of operation and the practices of the modern banking system which is still alien to most rural populace. Some of the respondents even suggested formation of an enlightenment Committee at both the districts and villages level on which rural Branch Manager of that particular district to be the Chairman and Members drawn from district council office, information department of the Local Government and Village Head.

This if done will infact improve the education of the rural populace on the importance of banking habits and the services provided by these rural banks. Three of the ten respondents also suggested improved provision of infrastructural facilities in the rural areas.

TABLE 4.1.19: SUGGESTIONS FOR GOVERNMENT

S/NO	DESCRIPTION	NO.
1	Provision of infrastructural facilities such as water, electricity, health care service and accessible roads linking villages.	3
2	Launch public enlightenment campaign	8
3	Guaranteeing of Agric. Loans	5
4	Markets for Agricultural produce	1

Source: Questionnaire for Bank Managers

The fewer percentage of the respondents that suggested provision of infrastructural facilities implied that infrastructural facilities in the rural areas of Kano State were fairly adequate. One of the respondents suggested that Government should provide markets for agricultural produce which was brought about by increased agricultural loans to farmers in the rural areas. In addition, the State Government should in conjunction with rural banks and some rural industrialists establish small-scale processing industries in some of the rural areas for processing some agricultural crops like tomatoes processing industry and sugar cane processing plant. Some of the respondents suggested guaranteeing of agricultural loans by Government which is already being done.

4.1.20 CONCLUSION

In this part I of the Chapter, we have examined the data collected through a questionnaire administered among rural bank Managers in Kano State. This data has provided very useful information on the basis of wichh we can draw some conclusion. The study has revealed that 29 or 59% of the rural branches allocated to commercial banks were completed and 20 or 41% have not been established including those allocated in the 3rd Phase of the scheme which is to be expired by the end of 1989. The banks that were established have settled down to business in adequate physical facilities and mostly owned by the banks.

The data also revealed that Kano State is still greatly under-banked as about 600,000 people are being served by only one branch.

Although most of the rural Bank Managers do not have any specific objectives for their branches which would gear their operations, most of them have generated substantial deposits especially savings deposits which have been growing steadily over the years. Unfortunately, the number and amount of loans granted in those rural areas out of their deposits fall far short of expectation. Only two banks met the Central Bank guidelines for extending 40% of the deposits collected by rural banks as loans.

The data revealed that the demand for investment loan is low due to the types of collateral securities demanded by rural banks in the rural areas under the Agricultural credit Gurantee scheme, where third party guarantee is enough for a loan of up to ₦5,000.00, the demand for loans has been low due to lack of information of such a scheme by majority of the farmers in the rural areas.

During the course of the study it was found that there has been no programme for enlighten people about the ACGS. This lack of information flow coupled with the illiteracy of most of the rural dwellers has created a communication gap and confidence problem which have kept away many people from these rural banks.

It was also found that many of the rural banks were not making profits and it was discovered to be as a result of the low level of loans granted in the rural areas, the interest of which is the principal source of income to the banks. This also implies that deposits generated in the rural areas of Kano State were transferred and loaned to investors in urban areas and thereby starving the rural areas of the State of investment funds.

PART II - RURAL BANKING OPERATIONS:
(FARMERS PERSPECTIVE)

4.2.1 EDUCATIONAL BACKGROUND

Among the factors traditionally militating against agricultural lending in Nigeria generally is the high level of illiteracy among the rural farmers. In order to assess the situation in Kano State against this background, respondents were asked to indicate their level of education.

TABLE 4.2.1: EDUCATIONAL BACKGROUND OF HEAD OF FAMILY

Size of Family	No. of Family	Formal Education	Informal Education
1 - 5	8	1	7
6 - 10	19	8	11
11 - 15	9	5	4
16 - 20	10	3	7
21 - 30	2	2	0
3 - 40	1	0	1
Above 40	1	0	1
TOTAL	50	19	31
Percentage (%)	100%	38%	62%

Source: Computed from Questionnaire for farmers

As Table 4.2.1 indicates, out of 50 respondents, 19 or 38% had formal Education while 31 or 62% did not have any formal education. In real life situation however, the percentage of those without any formal education would be much higher than the table shows.

This is because some of the respondents in the above sample were met in the bank offices. The sample does however, confirm the low literacy level of most of the farmers in Kano State. It is therefore, evident that lack of knowledge of the bank as a source of credit of the terms of loans including the agricultural credit guarantee scheme is due to lack of effective communication. It was discovered that majority of the farmers do not even understand the significance of interest rates - the rates they were being charged on their loan. And in some cases, the mere completion of loan application forms was considered as an impediment to their effort to procure loans from their banks under the ACGS.

The lack of formal education and its resultant communication problems limit the rural dwellers' scope, perception and innovative ability which are essential for them to take full advantage of the opportunities offered by rural banks.

4.2.2 SIZE OF LANDHOLDING

One of the problems besetting agricultural financing in Nigeria generally is the preponderance of small farmers cultivating small holdings. In an attempt to assess the situation in Kano State, farmers were asked to state the size of their farm holdings. However, due to the low literacy level of most of the farmers in the State, they could not conceptualise their farms in acreage. Also majority of the farmers do not have one continous large piece of farm instead they cultivated various crops in small farms scattered around. It was difficult for them therefore to quote accurately the size of their farms in total.

Although the average acreage of farmers could not be accurately determined, it was quite clear that the allegation of small holdings was true of farmers in Kano State And this adversely affect agricultural productivity and production.

4.2.3 MAJOR AGRICULTURAL CROPS

Here, an attempt was made to find out the major agricultural crops grown in both rainy and dry seasons in Kano State. The farmers were asked to indicate their major crops.

TABLE 4.2.3: MAJOR AGRICULTURAL CROPS

Crops	Rainy Season		Dry Season	
	No. of Responses	% of Total	No. of Responses	% of Total
Guinea Corn	50	100	-	-
Millet	30	100	-	-
Maize	5	10	4	8
Ground Nut	24	48	-	-
Rice	15	30	10	20
Wheat			22	44
Others	20	40	5	10
TOTAL	164	100	41	100

Source: Computed from Questionnaire for farmers

From Table 4.2.3 it can be clearly seen that guinea corn and millet are the major agricultural crops produced in Kano State as they are produced by 100% of farmers in the sample. They are purely regarded as food crops in the State, though recently some brewing and bread making industries started making use of them.

Groundnut which used to be the most popular cash crop in the whole of former Northern Region and for which Kano is well known has declined in importance. This was however, due to inadequate rainfall and pests. It was only recently that farmers in the State began to reactivate the production of groundnut due to state Governments programme and campaigns on groundnut reactivation in which farmers were getting groundnut seeds at subsidised price. Out of 50 respondents only 24 or 48% produce groundnut to day. Other cash crops that are growing in importance in the state are rice and wheat. 15 or 30% of the respondents grow rice in the rainy seasons which 10 or 20% grow rice through irrigation in the dry season. The State Governments campaign on wheat production is gaining ground as 22 or 44% of the respondents grow wheat. Wheat and rice are becoming a more popular cash earning crops in Kano State especially with the Federal Government ban on their importation. Other crops growing in large quantities in the State include sugar cane, tomatoes, pepper and onions. Maize which used to be just a backyard crop for immediate consumption in roasted, or boiled form has become one of the major food crops.

4.2.4 SOURCE OF INFORMATION ABOUT BANK

The intention in this section, was to find out from what source rural dwellers got to know about the rural bank branches opened in their localities. The aim was to evaluate the effectiveness of any public enlightenment campaign that might have been carried out. Another dimension was to know the effect of information source on the quality of such information.

TABLE 4.2.4: SOURCE OF INFORMATION ABOUT BANK

SOURCE	NO. OF RESPONDENTS	PERCENTAGE
Friends/Relations	28	56
Bank Officials	8	16
School Teacher	4	8
Village Head	6	12
Co-operative Society	1	2
Radio/Television	1	2
Government Officials	2	4
TOTAL	50	100

Source: Computed from questionnaire for farmers.

As Table 4.2.4 indicates, the bulk of the respondents, that is, 28 out of 50 or 56% knew about the banks through friends and relatives. 8 out of 50 or 16% got to know about banks through bank officials, 4 out of 50 or 8% through School Teachers, 6 out of 50 or 12% through village heads, 2 out of 50 or 4% through government officials while only 1 respondent each got to know about banks through co-operative society and Radio respectively. This assessment therefore confirms the view that neither the banks nor the government had made serious attempt to properly inform people about the rural banking scheme. The majority of the rural dwellers got their information from friends and relatives. The implication of this source of information is that the story could be so diluted that people would be put off especially if the bank is painted black

The banks and the government should initiate a public enlightenment programme on the Rural Banking Scheme and the message should be framed in such a way that the recipients would adopt a more positive attitude to the modern banking system. The people shall also be informed about the loan facilities available, especially under the ACGS and other benefits of acquiring the banking habit.

4.2.5 CERTIFICATE OF OCCUPANCY FOR FARM LAND AND THE DIFFICULTY OF OBTAINING SAME FROM LOCAL GOVERNMENTS

One of the demanded collateral securities by banks for granting agricultural or other loans is land property. For landed property to be acceptable by banks, however, it must be covered by a certificate of occupancy. In our sample farmers were asked to indicate whether or not they had those certificates and also to indicate whether or not they had difficulty in obtaining such certificates from their respective local governments.

TABLE 4.2.5: CERTIFICATE OF OCCUPANCY

S/NO	HAVING CERTIFICATE			DIFFICULTY IN OBTAINING CERTIFICATE		
	RESPONSES	NUMBER	PERCENTAGE	RESPONSES	NO	PERCENTAGE
1.	Yes	12	24	Yes	5	10
2.	No	38	76	No	45	90
TOTAL	=	50	100	=	50	100

Source: Computed from questionnaire for farmers.

As Table 4.2.5 shows, only 12 out of 50 respondents or 24% had certificates of occupancy for their landed properties.

The bulk of the respondents, that is 38 or 76% did not have certificates of occupancy. This is not surprising however, considering the traditional method of land tenure where an individual does not in most cases own the land. The family in which he is part owns the land, while individuals have the right to its use. Besides, the level of education of farmers generally in the rural areas does not enable them to endure the long process of obtaing the certificates.

Besides the traditional methods of land tenure which restricts the fledging of land, there is also the difficulty in obtaining such certificates from local governments. Here out of 50 respondents only 5 or 10% of the respondents said they had no problems in obtaining the certificates from their respective local governments. The bulk of the respondents, that is, 45 or 90% indicated that they had difficulties in obtaining the certificates. This allegations were confirmed to be true. The researcher had served as rural branche manager for over five years and many farmers used to complain of such cases, sometimes branch managers had to interview before such certificates were issued. Some local governments officials felt they were doing a favour to such farmers instead of a right. Farmer had the right to be issued certificates provided such property were confirmed to belong to them. In this wise some local governments were hindering the progress of rural banking scheme by refusing to issue certificates of occupancy on landed property to farmers.

The absence of certificate of occupancy, which could serve as acceptable collateral securities for bank loans is indeed a handicap to the success of the Rural Banking Scheme.

Without the landed property, farmers have hardly any security to offer for agricultural loans. Banks need these securities to ensure the liquidity of their loans and to cover the high risk of default associated with agricultural loans.

4.2.6 EXISTING SOURCE OF FINANCING AGRICULTURE AND COTTAGE INDUSTRY IN RURAL AREAS

As one of the major objectives of the Rural Banking Scheme was to provide credit by way of equity and loans for the development of agriculture and agro-allied industries in the rural areas, we set to find out, how much the rural banks have become a source of agricultural financing and rural industry financing on Kano State. Farmers were asked to indicate their sources of financing both agriculture and other economic activities in their respective areas.

TABLE 4.2.6: SOURCE OF FINANCE

SOURCES	NO OF RESPONDENTS
Family	35
Co-operative Society	10
Rural Bank	16
Money Lender	6
Friends	2
Governments Loan	8
TOTAL	77

Source: Computed from questionnaire for farmers.

Note: Total responses exceeded total respondents due to multiple choices.

From Table 4.2.6 we could see that 35 or 70% of the respondents depended on family savings for agricultural and other economic activity financing. Whereas local banks came second with 16 or 32% of the respondents. This means that the impact of rural banks in rural areas of Kano State is still not impressive. This might not be unconnected with the low level of education of most of the farmers, difficulty in obtaing certificates of occupancy which must be given before banks grant loans and lack of knowledge on the part of the farmers about the existence of the ACGS. Other sources of existing finance to the farmers in the state include co-operative society with 10 or 20% of the respondents as having depended on such organisation for their source of finance. Also the state government's agricultural credit scheme accounted for only 8 or 16% of the respondents. However, it was discovered that the state government's agricultural credit scheme used to be abused as the real farmers were not been given in most cases. Only favourites of the local government officials obtained such loans. The last source of credit in the rural areas is through friends and money lenders as they constituted only 2 or 4% and 6 or 12% respectively.

4.2.7 ATTITUDE TOWARDS BORROWING

In this section, the attitude of the rural dwellers towards borrowing is analysed. It was an attempt to find out how often rural dwellers have been going out to look for additional funds to finance agriculture and other economic activities. The farmers were asked to indicate if they ever borrowed money from any source.

TABLE 4.2.7 ATTITUDES OF RURAL DWELLERS TOWARDS BORROWING

S/NO	RESPONSE	NUMBER	PERCENTAGE
1.	Yes	29	59
2.	No	21	42
TOTAL	=	50	100

Source: Computed from questionnaire for farmers.

As Table 4.2.7 indicates, 29 out of 50 or 58% of the respondents indicated having borrowed money from source to finance their economic activities while 21 or 42% indicated otherwise. Moreover, out of the respondents who admitted having borrowed from some source, more than 50% of them indicated that they have borrowed from their local banks. This showed that rural farmers and small - scale industrialists in Kano State have positive attitude towards borrowing from rural banks but what stand on their way are those factors mentioned earlier like illiteracy, lack of information about the activities of rural banks, difficulty in obtaining certificates of occupancy on their farmlands and the lack of participation of many commercial banks in the Agricultural Credit Guarantee Scheme in the State.

4.2.8 DEMAND FOR EXTERNAL FINANCING AND FARMERS PREFERENCES

The objective here is to find out how many people were in need of external financing and from which source for agricultural production and other economic activities. This would help in determining the level of aggregate demand for loanable funds in the rural areas and to achieve this objective, farmers were asked to show whether or not they needed external financing, from which source and in what form.

TABLE 4.2.8: EXTERNAL FINANCING DEMAND AND FARMERS PREFERENCES.

S/NO	RESPONSES	NUMBER	TOTAL AMOUNT	PREFERENCE		TOTAL PERCENTAGE
				IN KIND (%)	IN CASH (%)	
1.	Yes	34	₦576,000.00	79	21	100
2.	No	16	NIL			
TOTAL		50	₦576,000.00	79	21	100
Average amount required =			₦ 17,000.00			

Source: Questionnaire for farmers.

As Table 4.2.8 shows, out of 50 respondents, 34 or 68% indicated that they needed financial assistance in order to undertake their activities successfully. Taking the population of Kano State rural areas as a whole, this would amount to a very large figure. Only 32% of the respondents indicated that they have no need for financial assistance. Also the financial requirement suggested by farmers come to average of ₦17,000 per person

However, given the low level of education of most respondents as found earlier, we should not expect a very accurate estimate of their financial requirement. It would therefore, be reasonable to suggest that the sum of ₦5,000 ceiling which an average farmer can borrow without any more collateral security than a third party guarantee would serve the requirement of an average farmer in Kano State rural areas. From the table also, 79% of the respondents who indicated their financial needs prefer such assistance in kinds, that is in form of fertilizer, agricultural equipments, chemicals and seeds. This preference if adopted by government and banks would avoid the situation in which some farmers diverted the loan they secured to other purposes other than those on which such loans were secured for.

Moreover, over 50% of the respondents indicated their preference to bank loan to other sources. This, according to them is because of the secrecy involved in dealing with banks. It is therefore, safe to conclude that the failure of rural banks to grant credit by way of loans to farmers and small - scale industrialists in Kano State is not due to lack of demand for financial needs on the part of the people. The reasons for the low level of loan granted out of the total deposit may be due to other factors.

4.2.9 PURPOSE FOR LOAN AND UTILIZATION

Here we set to find out for what purpose farmers and small - scale industrialists sought finance and how they intended to utilize such external finance if given.

TABLE 4.2.9: PURPOSE FOR LOAN AND UTILISATION

S/NO	PURPOSE OF FINANCIAL NEEDS	NUMBER
1.	Clearing of land	0
2.	Buy Agricultural Equipment	34
3.	Buy / Rent Tractor	28
4.	Start a new business / Expansion	26
5.	Cottage industry	4
6.	Labour Hiring	10

Source: Questionnaire for farmers

Note: Number of resources exceed number of respondent due to multiple choices.

From TAble 4.2.9, 34 or 68% of the respondents indicated that they would utilize the money for buying agricultural implements such as fertilizer, seeds and insecticides. Twenty-six (26) or 52% of the respondents indicated starting a new business and expansion of existing one. Twenty - eight or 56% indicated buying or renting tractor, ten (10) or 20% of them indicated using the money for hiring local labour on their farms, and 4 or 8% of the respondents indicated using the money for cottage industries. It is observed that no single respondent wanted money for clearing of land.

These responses are significant in the sense that they indicate the level of awareness, popularity and also the high demand for agricultural implements. This is a very important development because the knowledge of and acceptance of modern methods, techniques and inputs are necessary pre-requisites for agricultural innovation and increased production. It is therefore, important that the state government and local governments should ensure that there is adequate supply of tractor services and other agricultural implements to farmers so as to increase agricultural output.

However, the high percentage of respondents indicating starting a new business and expansion of existing ones which were mostly trading of shop items and clothing confirmed the allegation made by some rural bank managers of having high incidence of diverting finance meant for agricultural purpose to other purpose by some rural dwellers. This could only be checked by having banks supervising frequently agricultural projects been financed by them.

4.2.10 IMPRESSION ABOUT LOAN PROCEDURE

Here attempt was made to sample the opinion of farmers and small - scale industrialists about banks procedures for obtaining loans. The farmers were therefore, asked to rate the procedures for obtaining loan as satisfactory or unsatisfactory.

TABLE 4.2.10 LOAN PROCEDURE

S/NO	RESPONSES	NUMBER	PERCENTAGE
1.	Satisfactory	22	44
2.	Unsatisfactory	28	56
TOTAL		50	100

Source: Questionnaire for farmers.

As TAble 4.2.10 shows, 22 out of 50 respondents indicated the procedures as satisfactory. 28 or 56% of the respondents considered the procedures as unsatisfactory. Even some of those found in the banking hall indicated the procedures as unsatisfactory.

Some of the reasons they gave included the long time it takes to process a loan application, lack of communication for rejected loan application, and agricultural loans under ACGS were not disbursed in good time by banks even if approvals were obtained from the CBN. The long time it takes to process a loan application is, however, mostly due to the fact that the rural bank managers have very little powers to external credit to farmers in the rural areas. In most cases their discretionary powers were no more than ₦2,000. For agricultural loans especially every application has to be forwarded to the area offices from where it processed to the Central Bank. Every communication on such loan must follow this channel because the rural bank branches have no authority to take any decisions on these applications. Farmers must therefore, be educated on the formation involved in acquiring credit from rural banks. This is because in most cases farmers inability to withstand the processes involved or lack of awareness of the existence of such facilities prevented them from benefitting of the services rendered by these rural banks.

4.2.11 CUSTOMERS SERVICES ASSESSMENT

Customers services in the banking industry has been a subject of severe criticism, especially in the urban centres. Customers have often complained of the care-free attitude of bank staff which have been contributory factor to long waiting hours in the bank, noncompliance with standing instructions or payment orders, delayed payment advice and non response to enquiries relating to status of reports.

This has been partly responsible for the poor banking habits in the country as potential customers prefer to keep their money at home as a result. It was therefore, against this background that we set to assess the quality of customers services in the rural banks. Farmers were asked to rate the quality of services rendered by rural banks with special emphasis on bank official's behaviour as very good, satisfactory, co-operative or arrogant.

TABLE 4.2.11 CUSTOMERS SERVICES ASSESSEMENT

S/NO	RATING	NUMBER	PERCENTAGE
1.	Very good	10	20
2.	Satisfactory	12	24
3.	Co-operative	28	56
4.	Arrogant	0	0
TOTAL		50	100

Source: Questionnaire for farmers.

Table 4.2.11 indicates that 10 out of 50 or 20% of respondents feel that customer service is very good. 12 or 24% described the behaviour of bank staff as satisfactory while the bulk of the respondents 28 or 56% would descibe bank staff behaviour as cooperative. None of the respondents feel the behaviour of bank as arrogant. From the data it is obvious that on the whole 100% of the respondents feel the behaviour of bank staff in rural banks of Kano State as satisfactory and co-operative. This may be due to the fact that the rural banks were characterised by low attendance and hence the absence of congestions compared to urban branches.

4.2.12 FACTORS CONSTRAINING FARMERS/SMALL-SCALE INDUSTRIALIST'S EFFORT

In this section, an attempt was made to find out what factors constrained farmer and small - scale industrialists in rural areas in achieving increased agricultural production and the setting up of cottage industries. Farmers and small - scale industrialists were asked to indicate in order of importance which factors constrained them most among weather for example, rainfall, drought etc., raw materials, credit and loans, markets for their produce, and agricultural equipment.

TABLE 4.2.12 FACTORS HINDERING FARMERS EFFORT

S/NO	FACTORS	NUMBER
1.	Drought	15
2.	Raw material	8
3.	Credit and loans	35
4.	Markets	5
5.	Agricultural Equipment	20
6.	Others	4
TOTAL		87

Source: Questionnaire for farmers

Note: Total number of responses exceed total number of respondents due to multiple choices.

As Table 4.2.12 shows, 15 or 30% of the respondents indicated that drought is their major constraint in their effort for increase agricultural production. These were mostly respondents from the Northern part and some Eastern part of Kano.

8 or 16% of the respondents feel that lack of raw materials is their major headache. These were mostly small - scale industrialists in bread-making industries. The majority of the respondents 35 or 70% indicated lack of finance in form of credit and loans from banks is their major constraint. Other factors that constraint farmers and small - scale industrialists in rural areas include lack of good markets for their produce with 5 or 10% of the respondents, lack of agricultural implements with 20 or 40% of the respondents and others which include lack of good roads for transporting their agricultural produce to the markets with 4 or 8% of the respondents. On the whole therefore, lack of finance in form of credit and loans from the rural banks is the major constraint of the majority of the respondents. There is therefore the need for rural banks to widen the scope of their activities to all knok and corners of the rural areas in the state.

4.2.13 QUALITY OF INFRASTRUCTURAL FACILITIES

Infrastructural deficiency has been one of the major reasons advanced by banks for not extending their operations to the rural areas. The bankers' concern is not without reason. As a service industry, banking depends very much on information. Communication is of vital importance not only within a bank or between banks but also between the banks and their customers. For instance, a branch manager will like to know, through the fastest means available, the position of a customers' loan application from his head office. Similarly, he needs to know as soon as possible the fate of a cheque he is collecting for a customer.

It is therefore, against this background that we set to find out in this section whether or not the state government and local government have made their rural areas as accessible as possible for the successful operation of the rural banks. Farmers were therefore, asked to rate the quality of infrastructural facilities available in their areas as very good, satisfactory or poor.

TABLE 4.2.13 INFRASTRUCTURAL FACILITIES

S/NO	INFRASTRUCTURE	RATING			TOTAL
		VERY GOOD	SATISFACTORY	POOR	
1.	Roads & Communication	12	26	12	50
2.	Electricity Supply	8	24	18	50
3.	Water Supply	22	21	7	50
4.	Education	10	14	16	50
5.	Health Services	18	20	12	50

Source: Questionnaire for farmers.

As TAble 4.2.13 shows, 12 or 24% of the respondents indicated roads to be very good in their areas while 26 or 52% and 12 or 24% indicated roads to be satisfactory and poor respectively. 32 or 64% of the respondents feel that electricity supply in their areas is satisfactory and 18 or 36% said it is poor. In terms of water supply only 7 or 14% of the respondents indicated as having water problem whereas the majority of the respondents are satisfied with the provision of water. Education has 34 or 68% respondents as satisfied while 16 or 32% are not satisfied with educational services in their areas

In terms of health services 38 or 76% of the respondents are satisfied while 12 or 24% were not satisfied with health services in their area.

On the whole therefore, the infrastructural facilities in the rural areas of Kano State are satisfactory and there is no justification for any bank to refuse to open rural branches. There are at present many rural towns in the state with fairly good drinking water, motorable roads, electricity supply and with a reasonable economic activity but without a bank. This was because some banks have not opened branches allocated to them in the Second Phase of the Rural Banking Scheme. I gathered however, the course of this study that some roads used to be unmotorable in the rainy seasons. The state and local governments should therefore take steps to remove these obstacles to the affected areas especially in the southern part of the state.

4.2.14 CONCLUSION

In this part of the chapter, we have examined the data collected from the farmers and small - scale industrialists in the rural areas of Kano State. The data has provided very useful information, among other things, on the level of education, source of information, existing sources of finance, demand for external financial assistance, customer service, factors hindering farmers effort in achieving increased production and quality of infrastructural facilities on the basis of which inferences and conclusions can reasonably be made.

The information gathered in the course of this study confirms the preponderance of mass illiteracy among rural dwellers which has created communication gap between the farmers and bank officials. This illiteracy has limit the demand for banking services, especially the demand for financial assistance from banks.

We have also seen that the lack of proper information network to educate the people on the operations of rural banks and what opportunities are open to people if they patronise these banks and the existence of the Agricultural Credit Guarantee Scheme has limited the performance of rural banks.

The study has also found that the Rural Banking Scheme has started to make important impact in the rural areas of Kano State as farmers have shown great preference to banks assistance compared to existing source of finance because of its secretive nature. This was inspite of the difficulties they have been encountering in obtaining certificates of occupancy over their farmlands.

The study has also revealed that the infrastructural facilities in the rural areas of Kano State were fairly adequate for the successful operation of the Rural Banking Scheme.

Moreover, the working hypothesis of this study that there is an inadequate financial support in the rural areas of Kano State have been established from the data gathered. This is because 35 or 70% of the respondents indicated lack of financial support as being the major factor that constraint them in their effort in increased agricultural production and other economic activities

CHAPTER FIVE

AN EVALUATION OF THE RURAL BANKING PROGRAMME

5.1 INTRODUCTION

Having examined the introduction of the Rural Banking Scheme and the measures that the Nigerian monetary authorities have taken to facilitate the objectvies of the scheme and having examined the view points of farmers and rural small - scale industrialists on the one hand and the rural bank managers on the other hand, we shall in this chapter attempt to evaluate the scheme relative to each of the objectives for which the scheme was established.

In evaluating the success of the Rural Banking programme in Kano State in particular and Nigeria in general, it is necessary to recount the objectives of the scheme which will provide the yardstick for any meaningful evaluation.

These objectives were:

(a) Cultivation of banking habits amongst the rural dwellers,

(b) Mobilisation of savings from the rural areas for the purpose of channelling same to profitable ventures,

(c) Creation of credit by way of equity and loans for small - scale industries,

(d) 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,

(e) Reducing to a comfortable extent, the drift of young men and women from the rural areas to the urban areas.

5.2 CULTIVATION OF BANKING HABITS

Cultivation of banking habits amongst the rural populace is one of the major objectives that led to the formulation of the Rural Banking Scheme. However, in Kano State, and Nigeria generally, the factors responsible for poor banking habit in the rural areas can be summarised as follows:

(a) Inadequacy of banking facilities and the poor services provided by banks to customers.

(b) The hardships and difficulty of opening and operating a bank account.

(c) The high level of illiteracy in the society and the lack of understanding by the general public of the modern financial system and the opportunities it offers.

(d) Unreliability and unacceptability of cheques as instrument of exchange in the economy due mainly to low moral standards, lack of trust and difficulty of clearing cheques.

(e) The high degree of superstition about safe - keeping of money in general.

The Rural Banking programme, despite the above factors, has indeed improved the availability of banking facilities in the rural areas of Kano State in particular and Nigeria in general. And as the research has shown customers are generally satisfied with the quality of service rendered by the rural banks. However, the high level of illiteracy still persists with the consequent lack of understanding by the rural populace of the modern financial system and the opportunities it offers.

Moreover, cheques are still unreliable and unacceptable as a medium of exchange in the economy due to the same reasons mentioned above.

On the basis of the findings in this research, we cannot with any level of significance conclude that banking habits have been inculcated in the rural populace considering the ratio of the rural population that have bank accounts.

5.3 SAVINGS MOBILIZATION

It is generally believed that the existence of a greater number of banks may evoke a greater volume of real savings by encouraging the saving habit. In other words, savings are "institution - elastic" so if saving institutions are brought to their door-steps, individuals would save more than if the nearest saving institution was some distance away. Some of the reasons advanced for this elasticity are the facts that financial institutions enable savings to take place without an concomitant act of investment in stock of goods. The process of savings is therefore freed from the problem of investment opportunity bank deposits represent a new form of saving with less riskness and greater liquidity, and finally, that in a stagnant rural economy where savings previously earned a low or even negative yield, the interest rate on bank deposit may attract net savings.

Because of the high level of illiteracy in the rural areas of Kano State it is reasonable to assure that the rural dwellers know little or nothing about interest rates, and their effect on saving. Nevertheless, the study has revealed that substantial amount of deposits have been generated.

Of the five branches that made their deposits available for the study, a total deposit of ₦ 4,242,000 was outstanding by end of 1987. Over 30 per cent of their deposits was in savings accounts. The total deposits gave us an average of about ₦ 848,400 per branch. Since there was no target deposit for any branch, a comparison of this performance with records of other branches at the Central Bank of Nigeria shows that the deposits mobilised from an average branch in Kano State are below the national average. On this score therefore we may safely conclude that the objective of savings mobilization is not being achieved in Kano State. This implies that rural bank managers have a lot to do by way of encouraging rural dwellers in Kano State to patronise their bankers.

5.4 CREATION OF CREDIT

Since the ultimate aim of the Scheme was to assist and transform the rural economy which is predominantly agricultural, the government in formulating the scheme did not see mobilisation of savings as an end in itself. Savings must be converted into investment in order to achieve the ultimate goal. The third objective was therefore the creation of credit by way of equity and loans for small scale industries.

An examination of the loans granted by the rural branches out of the deposits generated in the rural areas revealed very discouraging results. Out of the six branches which made their records available for the study, only two branches granted loans and advances to their customers which even exceeded CBN prescribed 40% of the deposits so collected by each rural bank.

Four of the respondents did not get even as near as the CBN prescribed 40% of the deposits they collected. For instance, one of the respondents granted as loans and advances only ₦ 59,000 out of the total deposits of ₦ 999,000 collected in 1987. This was only 5.9% of the total deposits. During the period under review the Central Bank regulation stipulated that each bank had to loan out at least 40% of its deposits in the locality where those deposits were mobilised. From the findings it is obvious that banks in Kano State are not lending up to the required percentage of deposits to the rural dwellers. On this same also, we can conclude that the scheme is not meeting its objectives in Kano State.

One of the virtues of the Rural Banking Scheme is that it has the potential of increasing the fraction of the savings that is channeled into investment through the intermediation of the banking system which in turn may lead to a more efficient collection of investment project. Without a well - organised market for investment funds in the rural areas, there are a multitude of completely independent "markets" whose number depends on the number of friends, relatives and money lenders involved in supplying credit to rural dwellers of Kano State. Such segregation is inefficient in the sense that some undertaken investment projects will be of a lesser merit than some rejected projects. Only by coincidence would the marginal investment have the same productivity in each of the compartments of the market. The rural branches rather than unifying the market for investment funds, have only altered the size of the various compartments of the market.

To make things worse, the study has revealed that deposits are growing more rapidly than the number of "bankable" loan customers so the supply of investment finance is reducing (given the total volume of savings) in the other credit markets like money lenders, relatives and friends.

Banks generally have a practice of not keeping idle cash balances in any branch. Their deposits are usually pooled together and redistributed according to need depending on which branch has the highest effective demand for investment financing. It means therefore that the savings of Kano State rural areas are transfered to finance investment elsewhere with a higher entrepreneurial talent while the rural sector especially agriculture and small - scale industries are ever more starved of credit.

5.5 DEVELOPMENT OF AGRICULTURE AND AGRO - ALLIED INDUSTRIES

The fourth objective of the Rural Banking Scheme was to develop agriculture and agro - allied industries in the rural areas with a view to achieving the national objective of self - sufficiency in food production. The ultimate objective of the scheme was therefore to increase total production by making farmers more productive and efficient through the provision of credit facilities. In evaluating this aspect of the scheme we have to examine the number of agricultural projects supported and the amount of loans granted by rural branches in order to assess the impact of the scheme on agricultural production.

Since all banks are guaranteed under the Agricultural Credit Guarantee Scheme, an analysis of loans under this scheme would serve our purpose.

As Table 36 and 37 have shown, for a period of six years from 1978 to 1983, while other states of the Federation had over one thousand projects guaranteed, Kano State had only 534 projects. Similarly, while some states borrowed and invested over ₦ 20 million in agriculture under the scheme, Kano State, with its large population borrowed only ₦ 15 million. Even though this amount exceeded the national average of ₦ 5.3 million, the amount is not significant enough especially if one realises that this amounted to just ₦ 2.5 million per annum on average. The amount or production which this sum could generate is certainly very small considering the size and population of Kano State.

Even in 1987, Kano State was guaranteed only 295 projects amounting to ₦ 3.6 million. Primary data analysed on the sources of financing agriculture in Kano State as contained in Table 4.2.6 also reveal that the rural bank branches in Kano State are generally unknown as far as agricultural or economic financing generally is concerned. The study also reveal that out of the more than twenty - five commercial banks operating in Kano State, only eight participated in the Agricultural Credit Guarantee Scheme from January to September, 1987.

On the question of the development of the agro - allied industries in Kano State, the rural bank branches are even less helpful.

We can therefore conclude that as far as the Rural Banking Scheme is concerned the objective of developing agriculture and agro - allied industries in the rural areas of Kano State has not yet been achieved and the hope of self - sufficiency in food production for the nation in general may yet be a mirage for a longer period to come.

However, the efforts of states and federal agencies and world Bank assisted agencies like ministry of agriculture, Hadejia - Jama'are River Basin Development Authority and Kano State Agricultural and Rural Development Authority (KNARDA) and Kano State Agricultural Supply Company (KASCO) are commendable. These agencies have contributed alot in the development of agriculture and rural development generally in Kano State. These agencies supply farmers with improved seedlings and other agricultural equipment at subsidised prices and give them advice free of charge. What therefore, hinders rural dwellers progress in Kano State is lack of finance and it is in this direction that the rural bank branches will be seen to be making effort if their impact is to be meaningfully felt.

5.6 REDUCTION OF RURAL - URBAN MIGRATION

The reduction to a comfortable extent, the drift of young men and women from rural areas to urban areas was the final objectives of the Rural Banking Scheme. There are no statistics to show us whether or not there has been a reduction in rural - urban migration during the past decade of the introduction of the Rural Banking Scheme.

However, it will suffice to examine the factors that encourage the migration to see whether the scheme has caused any changes to take place which might lead to the reduction of the drift. These factors are both social and economic in nature. Some of the social factors responsible for the migration of young men and women from rural to urban centres board on institutional development which could improve the quality of life of the people in the rural areas and subsequently the level of efficiency of farm production. These include the provision of good drinking water, electricity supply, recreational and health facilities. So far there has been no indication that any of these developments has taken place anywhere at the instance of the establishment of a bank in any locality. Infact, it is the presence of these social factors that will bring about the establishment of a bank branch.

The economic factors responsible for rural - urban migration relate to job apportunities and relative incomes both in and outside the agricultural sector. Some of the young men and women who migrate to urban areas do so in search for white collar jobs which are generally lacking in the rural areas. If the Rural Banking Scheme through the creation of credit by way of equity and loans to small - scale industries succeeded in creating viable industrial sector in the rural areas and thereby producing opportunities for white and blue collar jobs, the drift would indeed be reduced. Similarly, some young men and women migrate to the urban centres in search for greener postures where incomes are higher and therefore support a better quality of life.

If therefore, the Rural Banking Scheme succeeded in raising the income of rural dwellers through the provision of cheaper finance for the procurement of modern farm inputs thereby raising the productivity and income of farmers, life in the rural areas would become more meaningful and capable of retaining people on the farms

From the evidence available in the study so far, the Rural Banking Scheme impact in the provision of job opportunities or in increasing the productivity of farmers and rural small - scale industrialists in the rural areas is nothing to write home about. This stem from the structure of these rural banks as they are sub-set of commercial banks whose orientation is profit - making. Profit, essentially is the essence of most economic undertakings. Without it, economic activities will be at a very ruddimentary stage. If profit is important to other businesses, it is the life-blood of commercial banking. On this point, Sayers said:*

> The commercial bank thinks primarily of profit making--- can not afford degrees of farsightedness and altruism far beyond those of its competitors. It has its shareholders and must do the best it can for them!

It seems obvious from what is said above that commercial banks are not in the best position to provide finance for rural development. One of the most important steps that can be taken to increase the supply of rural investible funds, if the government decided to embark on monetery measures for the purpose, is the establishment of 'rural development banks' or 'Rural Credit outpost' as they were known in Brazil. Unlike other leading institutions, which are concerned primarily with the security the loan applicant can offer, in rural development banks emphasis should be placed mainly on the prospects for success of the projects for which finance is sought.

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* Sayers R. S. Modern Banking, 3rd Ed., Oxford Clarendon press, 1951, page 20

This step will thus ensure a more adequate flow of funds of those farmers who have sound investment opportunities, but insufficient equity to obtain finance on reasonable terms and conditions from other sources. The banks will be expected to gear their rural lending operations fairly closely to the needs of primary producers. Finance should be made available in the form of both hire purchase and term loans. The hire purchase rate of interest on items designed specifically for agricultural purposes should be a flat rate of so much per cent and considerably below the rates charged by private finance companies. Repayments should also be geared to the special conditions of agriculture - for instance, rather than ask for monthly repayments, farmers may choose to make them seasonally. For example, a farmer buying a plough may wait for the proceeds of his crop to arrive before making any repayment to the bank. Capital repayment may not be required for a few years in cases where the investments do not yield a cash return in the first few years, and provisions should also be made for deferment of payments in years of abnormally low income.

Commercial banks could be made to be interested in such services if the major commercial banks are persuaded to come together and establish revolving term loans funds insulated from the liquidity controls which influence the provision of overdraft finance. These funds could be made available to borrowers on terms and conditions which are more suited to their development needs.

Because these loans should cater specifically and borrowers requiring medium term credit facilities, they should be made for period of three to about eight years. Repayment should be made at regular intervals, although initial repayment holidays may be granted in some cases where the investments financed are not initially income - producing.

Moreover, with the increasing use of capital in agriculture, these banks could employ men trained in agriculture to work on this part of their business. As part of their work on agricultural loans, the bank agricultural specialists will work with customers on their farms, analysing their credit needs and providing information and counsel on the use of capital in their business. This is the only way in which the banking system could be meaningfully involved in increasing the level of farm investment in order to accelerate rural development.

As for the provision of a guarantee by the Federal Government, experience has shown that there is always a lag between intention and implementation. One foresees a situation in the not too distant future when the money for the guarantee will not be forth - coming as fast as one envisages.

We must not lose sight of the fact that it is possible to achieve the same goal - increased level of farm investment - by alternative means. Thus the banking system is called upon only when we specifically choose to employ monetary measures or monetary tools. The goals of rural development could also be achieved by budgetary measures and, to some extent, through schemes like price stabilisation.

With budgetary measures, taxation allowances could be granted - for instance, farmers could be allowed to deduct from income assessed for tax purposes the full costs of certain investments, including land clearing, pasture improvement and the provision of water facilities. They should be able to claim depreciation on plant equipment and structures used exclusively for farm production of a certain fixed rate per annum. Investment allowance on new plant and equipment could also be granted. Bounties of so many naira per ton on fertilizer could be used to stimulate increased use as a means of improving the productivity of farm lands and pastures. On the other hand, greater stability of income would presumably reduce the need to hold liquid assets, and encourage caution in incurring debt. Further, greater stability would reduce the risk of investment.

Thus the existence of price stabilisation measures might cause farmers to invest a greater proportion of their savings in real farm capital. It would be hoped that with increased modernisation and commercialisation of agriculture in Kano State in particular and Nigeria in general, these non - monetary measures will be increasingly increased, while the banking system is left to carry out its business in the best way compatible with its objectives as a profit - maximising organisation.

5,7 CONCLUSION

So far we have succeeded in evaluating the performance of the Rural Banking Scheme with respect to the objectives for which the programme was launched. In each case we have defined what would constitute successful achievement of an objective and the evaluated performance against the standard and passed a judgement. The study has revealed that although the scheme has not made much impact in cultivating banking habits in rural areas, substantial savings are being mobilised. However, the study has revealed that the banks have not succeeded in creating credit for small scale industries in the rural areas for the development of agriculture and agro - allied industries for the achievement of self - sufficiently in food production. It was found rather, that due to low entrepreneurial talent and mass iliteracy coupled with lack of information among the rural dwellers, deposits have grown more rapidly than "bankable" loan customers. This resulted in the syphoning of the savings from rural areas of Kano State to finance investment elsewhere particularly urban centres to the detrimental of rural development of the state.

One can safely conclude that the Rural Banking Scheme as designed by the Central Bank has not yet provided the much needed finance for agricultural and agro - allied industries development in particular and integrated rural development in general in Kano State.

CHAPTER SIX

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

The major findings of this research work will be summarised in this chapter and based on the analysis of the findings some recommendations will be made for the improvement of rural banking scheme in Kano State in particular and Nigeria in general.

6.1 SUMMARY OF CONCLUSIONS

The concern of monetery authorities about the inadequacy of banking facilities and poor banking habits in Nigeria is indeed justified. The justification arises from the significant role banks can play in the development process of the country as a whole, and the stagnant rural economy in particular through the processes of mobilisation and intermediation. The study has found that given the backwardness and generally uninformed rural populace of Kano State with very low entrepreneurial talent, the "supply - leading" approach adopted through the rural banking scheme is welcome. This is because it has the potential for mobilising and transfering resources from the traditional (non - growth) sectors to modern (high - growth) sectors of the economy, and for promoting and stimulating entrepreneurial response in rural sectors of the economy.

Generally, the Rural Banking Scheme aims at assisting and transforming the rural economy of Nigeria. The scheme is in effect an attempt to stimulate agricultural production by making credit available to rural farmers. The scheme was formulated with the following specific objectives:

(a) Cultivation of banking habits amongst rural dwellers.

(b) Mobilisation of savings from the rural areas for the purpose of channelling same to profitable ventures.

(c) Creation of credit by way of equity and loans for small - scale industries.

(d) 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.

(e) Reducing to a comfortable extent, the drift of young men and women from the rural areas to the urban areas.

The Scheme is being implemented in stages and we are now in the third stage. Altogether 766 rural branches were to be established throughout the country. Out of this figure Kano State had a share of 49 branches out of which 30 branches were established as at 31/12/1987.

The study has also found that almost simultaneously with the establishment of the Rural Banking Scheme the Federal Government and the Central Bank jointly launched the Agricultural Credit Guarantee Scheme in order to facilitate farmers' access to bank credit and thus, help to stimulate agricultural expansion. The establishment of this scheme was in realisation of the perenial problems of agricultural lending which perpetually deprived rural populace of bank credit for agricultural production. Some of these problems arose from environment factors such as unpredictable climatic conditions, incidence of pest and disease and other natural hazards.

Other problems were due to the high level of illiteracy among farmers, management problems leading to inefficient application of funds and also the diversion of the funds to non - agricultural and unproductive uses, land fragmentation and misconception about bank loans being regarded as national cake instead of depositors money.

There were problems, on the part of bankers too. These include delays in the processing of application forms, lack of adequate trained agricultural personnel to supervise agricultural projects, unjustifiable - insistence on particular types of collaterals and inadequate interest shown towards agricultural lending due to mainly high risk and low interest rates chargeable on agricultural credit guarantee scheme succeeded only in removing some of these bottlenecks by providing guarantee for 75% of the amount in default net of any amount realised by the bank from the security obtained from the borrower and enabling farmers to borrow with only a third party guarantor. The rest of the problems have however remained.

As assessment of the performance of Kano State under this scheme reveal that Kano State did not get a fair share compared to its size and population in terms of both number of loans granted and amount of money disbursed. This was however, attributable to the non participation of most of the commercial banks operating in the state in the scheme.

The study has also reveal that although rural bank managers do not have any specific objective for their branches which would gear their operations, most of them have generated substantial deposits especially savings deposits which have been growing steadily over the years.

Unfortunately, the number and amount of loans and advances granted in these rural areas out of their deposits needs much to be desired. On the average the Central Bank required 40% has not been met. An examination of the causes revealed that the rural dwellers in Kano State who are preponderantly farmers lack the necessary collateral securities demanded by the rural banks. The farmers also experience great difficulty in obtaining even certificate over their farmlands from their respective local government administration. Secondly, most of the banks lack the necessary agricultural experts who would evaluate projects and advise both farmers and the bank on agricultural loans requirements.

It is found that the demand for investment finance is relatively high but the lack of adequate collateral hampers the achievement of investment finance from the banks. This shows that the rural banking scheme has so far failed to induce rural entrepreneurial response due to lack of flexibility in type of collateral securities demanded in the rural areas. Further investigation revealed that there is a serious communication and information between the people and the banks. This problem is borne out of the fact that most of the rural bank staff do not live in the rural areas they operate. Thus the staff do not in most cases live with rural dwellers to inform them about their operations and to appreciate the rural dwellers' problems. This in most cases created confidence problem and alienated the banks from the local farmers whom the banks are supposed to serve

Since interest on loans is the principal source of income to banks, the low level of loans granted has limited the profitability of some of the rural bank branches in Kano State. It also means that deposits generated in the rural areas were transfered and loaned to investors in urban areas and thereby starving the rural areas of the State of the much needed investment funds. To this extent, the Rural Banking Scheme is doing more harm than good to the rural areas they were established to serve. The way to reverse the trend is to increase the information flow to the rural dwellers and increase substantially the amount of loans to them by relating some of the unpracticable demands banks are generally used to making on loans to their enlightened urban industrialists.

The information obtained in this study also confirms the preponderance of mass illiteracy among farmers in Kano State which has created communication problems between the farmers and bank officials. Simple procedures like the mere completion of application forms become impediments to their effort to secure loans from the banks. Due to the lack of formal education and the resultant illiteracy, farmers do not understand the significance of government incentive programmes in terms of lower interest rates and soft terms for loan under the Agricultural Credit Guarantee Scheme. The consequence of all these for the Rural Banking Scheme is that the scope, perception and innovative ability of farmers limits their demand for banking services, especially the demand for financial accommodation.

The study has therefore found that the Rural Banking Scheme has not made much impact in the rural areas of Kano State.

This is because due to its cumbersome nature in securing the much needed finance by farmers, the rural dwellers still depend predominantly on personal savings, loans from relatives and friends and 'money lenders'.

We can therefore safely conclude that the failure of Rural Banking Scheme in achieving its objective of extending credit to the rural areas for agricultural and other economic activities is neither due to lack of financial requirement nor a negative attitude to borrowing on the part of the people, but rather due principally to ignorance and partially to the long and cumbersome procedures for obtaining loans from the banks.

When stock is taken of the performance of the rural banking scheme vis-a-vis the stated objectives, the study has revealed that although the scheme has not made much impact in cultivating banking habits in the rural areas, substantial savings are being mobilised.

Besides the lack of information flow already discussed, one of the major factors responsible for failure of the scheme is the structure and attitude of the banking system operated in this country. Our banking system with its colonial heritage has a tradition of a non-challant attitude toward businesses. They are ready to extend credit only when a business is thriving. They are quick to withdraw their support the moment they see evidence of difficulty. In other words, they provide shelter when the sun shines and withdraw same during the rains when it is most needed.

As earlier noted where the "supply leading" approach was adopted, banks were prepared to provide entrepreneurial talent and guidance as well as the finance. It is therefore, necessary, that our banking system should accept the less orthodox role of promoting businesses especially in the rural

areas by providing entrepreneurial talent and guidance. The banks should themselves engage in equity participation in both agricultural and industrial ventures in the rural areas. This will ensure viability of such ventures.

6.2 RECOMMENDATIONS

The recommendations listed in this section are those we feel if fully implemented will improve the performance of rural banking in Kano State and Nigeria generally thereby accelerating the rate of rural development in the country.

6.2.1 STATE GOVERNMENT

1. As it is the responsibility of the State Governments to provide the list of towns and villages which in their opinion required priority consideration they should make sure that they give accessible towns. This is necessary because some of the town identified by some State Governments under the previous phases have been found to be unviable because of lack of population concentration and economic activities. Some are even inaccessible during a long period of the year.

2. Our investigations have shown that the State is producing commercial crops in great quantity especially wheat, tomato and other related vegetables. This therefore desirable that action commences towards the setting up of agro-allied industries in the rural areas. This, the State Government can do in conjunction with Local Industrialists and the rural banks.

   The current unemployment situation in the State and the country in general does not need any detailed elaboration.

Among those who are unemployed we have, people who have acquired some measure of industrial expertise but are retrenched, graduates of technical colleges and universities etc. The role of small-scale industries in the solution of unemployment problems appears obvious.

This will greatly reduce wastages of these crops as most of them are perishable, thereby creating and boosting economic activities in the rural areas.

3. The State Government Ministry of Agriculture should expand tractor hiring services to include land clearing, herbicides, crop spraying and mechanical harvesting. The provision of existing services should be improved to ensure that farmers get them promptly when and where they are needed.

4. The State should ensure stable and adequate prices for agricultural products. This will increase the income of farmers and facilitate the viability of rural banks.

5. The State Ministry of Trade and Industries should undertake feasibility studies for all types of industries that will be feasible in the rural areas. Special emphasis should be placed on agro-allied industries. The availability of these studies should be advertised and made available to the general public. This will stimulate entrepreneurial response.

6. The State Ministry of Agriculture should continue with their on-lending scheme since most of the farmers prefer it than to go to rural banks because of its cumbersome procedures.

7. The Local Governments should endeavour to build and rent suitable accommodation to bank staff in the rural areas.

8. The State Government in conjunction with Local Governments should embark on public enlightenment campaign in the rural areas to educate rural dwellers on the benefits of rural banks and the advantages of cultivating the banking habit. Such campaign should be designed to reach the people in their natural habitat like at market places and other social gathering. The messages to be delivered should lay emphasis on the bank as a source of finance, the opportunities available through the Agricultural Credit Guarantee Scheme and how to secure such loans. The public campaign committee should include a staff of a rural bank in each locality.

9. Many Local Communities in the State are known for expertise in a number of ventures, including textile weaving and pottery. Such communities need encouragement and assistance. Ensuring access to finance for investment purpose is one way of doing this. It is not difficult to enter into agreement with rural bank branches for small scale loans to its business people. The State or Local Governments should guarantee such loans after satisfying themselves of the ability of those recommended to put such monies into proper investment. This one way of developing rural economy and at the same time will reduce the drift of rural dwellers to cities in search of employment.

6.2.2 COMMERCIAL BANKS

1. Commercial Banks should play a more active role in providing entrepreneurial talent and guidance by identifying viable opportunities and participating in such ventures in partnership with indigenes.

2. They should strengthen their agricultural departments with technically trained agriculturalists and agricultural economists.

3. The banks should ensure that the personnel posted to the rural branches are mostly indigenes of the areas to remove communication problems and thus encourage rural dwellers to patronise the banks.

4. They should also send trained staff to such rural areas not staff on training and they should stop constant transfers of rural bank staff.

5. In order to mobilise deposits particularly from the lower stratum of the society, rural banks should create the banking awareness and improve their communication system, through new marketing techniques.

   The following techniques must be included in the overall marketing strategy:

   (a) Rural banks should connect their services with some existing need among the populace and emphasise the facts of safety of money from pilferage and the interest yield which is not existent when money is kept at home or pooled together with colleagues in the Adashi system locally practiced in the rural areas.

   (b) They should distribute information in the local dialects on the banking services available and the benefits derivable from them. The most effective promotional tools for this purpose would be handbills in local dialects, market square meetings, house to house campaigns, counselling to customers in the banking halls and prompt services rendered with utmost humility, films or plays on banking services could also be shown to the communities through arrangement with State Ministry of Information.

(c) The banks should identify with rural community programmes such as festivals and fund raising ceremonies and use such opportunities to sell its services to the populace.

(d) They should identify and relate with opinion leaders such as Emirs, District Heads, Village Heads and hamlet heads in the local community. Sales promotion techniques such as gifts of calendars, diaries etc. to these leaders could go a long way in influencing the local populace in enforcing banking services.

(e) The banks should plan out ways of simplifying the process of lending to individuals and groups in the community. A study of the society should be undertaken by the banks with a view to using existing traditional institutions to facilitate lending to individuals and where there is a strong traditional institution with much integrity, the local Imam or Village Head could be involved in granting loans to individuals and groups up to a specified maximum.

6. Commercial Banks should not only confine their activities to meet the present demand of the existing clients, but always strive to generate the credit demand by developing bankable projects.

7. Rural banks should train their staff in processing loan applications in such a way and manner that applications are speedily processed and loans granted to farmers with the least delay possible.

8. Rural banks should also embark on co-financing of rural industries. In addition to providing employment and incomes and hence effective demands, rural industries can also make a significant contribution to the supply of basic needs for rural communities.

9. Banks should monitor all projects financed by them and follow up to appreciate whatever development the customer might be experiencing.

6.2.3 CENTRAL BANK OF NIGERIA

1. In considering allocation of rural branches to commercial banks, the Central Bank of Nigeria must take account of individual bank's liquidity position, adequacy of capital, effective management and staff and overall the profitability trends over a period of at least five years. This will guard against the drain of already drained liquidity of commercial banks especially the indigenous State Banks (i.e. Co-operative Banks) whose operations is mostly confined within their State of origin.

2. The Agricultural Credit Guarantee Scheme should be reviewed with a view to simplifying the process of obtaining a loan under the scheme so that small-scale peasant farmers can benefit from the programme.

3. The Central Bank of Nigeria should increase the number of agricultural experts in Kano to facilitate the supervision of the ACGS.

4. There is a need to re-define and articulate our Rural Banking Programme Strategy in the country for more meaningful rural development. One of the major problems confronting Rural Banking Programme is that in most

cases those making the policies do not consult the main operators of the scheme (Commercial Banks). And very often many commercial banks that implement rural banking programmes only see problems from their own standpoint which tend to suggest though erroneously, that both policy makers and those implementing policies have conflicting aims.

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APPENDIX I

c/o The Postgraduate School
Department of Business Administration
Ahmadu Bello University
ZARIA

June 9, 1988

_____

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_____

_____

Dear Sir,

QUESTIONNAIRE ON "RURAL BANK AND RURAL DEVELOPMENT IN KANO STATE"

I am an M.B.A. (Master of Business Administration) Student of Ahmadu Bello University, Zaria, for the 1987/88 Session.

I am writing my project on "Rural Banking and Rural Development in Kano State. I therefore, enclose herewith, a copy of the questionnaire drawn up about the topic, which you should please complete, noting the following:-

(a) Mark a tick or write where appropriate.

(b) Early return shall be highly appreciated please.

(c) Your opinions, views and responses are strictly confidential as the result will be reported as a group data without any reference to you or any other. So, please, complete as frankly as possible.

Thank you for your anticipated Co-operation.

Yours faithfully,

(Sgd.)
GARBA BELLO

APPENDIX II

DEPARTMENT OF BUSINESS ADMINISTRATION

AHMADU BELLO UNIVERSITY

Z A R I A

TOPIC: RURAL BANKING AND RURAL DEVELOPMENT IN KANO STATE

A Project in Partial Fulfilment of M.B.A. Programme

QUESTIONNAIRE FOR RURAL BANK MANAGERS

PART A

1. Name and Location of the Branch: _____

2. Date Branch was Opened: _____

3. Status: (a) Full Branch ☐

   (b) Cash Office ☐

4. Total Staff strength: _____

5. Specific known objectives of your branch if any: _____

   _____

   _____

6. Nature and adequacy of Bank building:

   (a) (i) Bank owned ☐ (ii) Rented ☐

   (b) (i) Adequate ☐ (ii) Inadequate ☐

7. What is the approximate population and area of operation of your branch i.e. Number of villages/Local Government Area served by your branch: _____

   _____

8. Do you speak the local language? Yes ☐ No ☐

9. How many of your staff speak the local language: _____

   _____

10. How do you communicate with your customers? _____

    _____

PART B

1. How many transactions do you record per working day on the average? _____

_____

2. How do you rate this attendance?

(a) High ☐ (b) Average ☐ (c) Low ☐ (d) Poor ☐

3. Deposit at end of year:

YEAR	TOTAL	CURRENT		SAVINGS		TIME DEPOSIT	
		Amount	% of Total	Amount	% of Total	Amount	% of Total
19---							
19---							
19---							
19---							
19---							
19---							
19---							
19---							
19---							
19---							
19---							
19---							

4. Any target fixed for Deposit? Write N. A. if not applicable:

YEAR	TOTAL	CURRENT	SAVING	TIME DEPOSIT
19---				
19---				
19---				
19---				
19---				
19---				
19---				
19---				
19---				
19---				
19---				
19---				

5. Was the target deposit achieved? Yes ☐ No ☐

6. If no, state the likely reasons:

   (a) _____

   (b) _____

   (c) _____

   (d) _____

7. Do you have a programme for deposit mobilization? Yes ☐ No ☐

8. If yes, describe briefly the nature of the programme:

   _____

   _____

9. Are you utilizing your loanable funds within the area of your operation? Yes ☐ No ☐

10. If no, what do you do with the extra funds?

    (a) Transfer to your Head Office?

    (b) Loan to either branches

    (c) Any other purpose

11. How profitable is your branch?

(a) making profits ☐ (b) Breaking even ☐

(c) making losses ☐

PART C

1. How many loan applications do you receive in a quarter/year?

_____

_____

2. How long does it take you in processing a loan proposal from the date of receipt of application?

(a) Less than 3 months ☐

(b) 3 - 6 months ☐

(c) 6 - 9 months ☐

(d) Over 9 months ☐

3. For what purpose are loans sought?

(a) clearing of land; (b) Tractor hiring services;

(c) Purchase of fertilizer; (d) Trading;

(e) Cottage industry; (f) Others (indicate) _____

_____

4. Total amount of loan granted:

YEAR	TOTAL	LIVESTOCK	FOOD CROPS	COMM-ERCE	MANUF.
1987					
1986					
1985					
1984					
1983					
1982					
1981					
1980					
1979					
1978					
1977					

5. How do you control utilization of loans granted? _____

_____

_____

6. State nature and types of security acceptable?

(a) _____ (b) _____

(c) _____ (d) _____

7. If any Guarantor required?

Personal ☐ Official ☐ Others ☐

8. How is loan recovery made?

(a) monthly ☐ (b) quarterly ☐

(c) half yearly ☐ (d) annually ☐

9. State the rate of interest chargeable on:

(a) Agriculture _____ (b) Commerce _____

(c) Small Industry _____ (d) Manufacturing _____

(e) Others _____

10. Are you satisfied with the recovery of loan? Yes ☐ No ☐

11. If no, give reasons _____

_____

12. Do you charge penal interest for overdue loan or provide rebate for early payment? Yes ☐ No ☐

13. If yes state the percentage _____

14. Any amount of bad debt written off during the last five years?

Yes ☐ No ☐ If yes, state the amount

_____

15. What are the main drawback in the loan proposals? (TICK):

(a) Lack of proper formulation of proposals;

(b) Lack of adequate collateral;

(c) Credit worthiness;

(d) Character;

(e) Economic conditions;

(f) Lack of agricultural/small scale industrial expert advice;

(g) Others, state _____

PART D

1. Do you provide printed forms and other literature in local language? Yes ☐ No ☐

2. Do you got reasonable co-operation from government/Area Courts in the loan granting process or recovery efforts?
   Yes ☐ No ☐

3. Do you get or have any agricultural/small scale industrial experts advice before granting loan? Yes ☐ No ☐

4. If yes, what is the weighting of such advice towards loan granting?
   (a) very necessary (b) necessary (c) not necessary

5. What other services do you render to your customary?
   (a) _____ (b) _____
   (c) _____ (d) _____

6. In what ways do you think your bank have helped in the development of the area it is situated?
   (a) _____ (b) _____
   (c) _____ (d) _____

7. What do you think the Government can do to achieve the objective of the rural banking scheme?
   (a) _____ (b) _____
   (c) _____ (d) _____

8. What do you think the bank can do to ensure success of the rural banking scheme?
   (a) _____ (b) _____
   (c) _____ (d) _____

Thank you very much for sparing your time to respond so promptly to this questionnaire.

APPENDIX III

DEPARTMENT OF BUSINESS ADMINISTRATION
AHMADU BELLO UNIVERSITY
Z A R I A

TOPIC: RURAL BANKING AND RURAL DEVELOPMENT IN KANO STATE

A Project in Partial Fulfilment of M.B.A. Programme

QUESTIONNAIRE FOR FARMERS AND SMALL-SCALE RURAL INDUSTRIALISTS

PART A

1. Name of Town/Village: _____

2. Name of the Head of the family: _____

3. What is your formal qualification?
   Primary ☐ Secondary ☐
   Technical ☐ Others ☐

4. Main occupation: Agriculture ☐ Craft ☐ Others ☐

   Total Annual income of family from:
   (a) Commercial Agricultural Crops: _____
   (b) Small Industry _____ (c) Others _____

6. Approximate acreage of farmland: _____

7. Do you have certificate of Occupancy for this land? Yes ☐ No ☐

8. Do you have difficulty in obtaining certificate of Occupancy from your Local Government? Yes ☐ No ☐

9. Are you engaged in dry season's farming? Yes ☐ No ☐

10. If yes, State main crop grown:
    Wheat ☐ Rice ☐ Maize ☐ Others ☐

11. Value of Harvest last two seasons:
    (a) Rainy season's farming ₦ _____
        Dry Season's farming ₦ _____
    (b) Rainy season's farming ₦ _____
        Dry Season's farming ₦ _____

PART B

1. Are you aware of a bank in your locality? Yes ☐ No ☐
2. Have you ever visited a bank? Yes ☐ No ☐
3. What is the name of the Bank? _____
4. Do you have a bank account? Yes ☐ No ☐
5. For how many years have you operated the account? _____

_____

6. What do you think the bank can do for you: _____

   (a) _____ (b) _____

   (c) _____ (d) _____

7. If you get a bank loan, what specifically would you do with the money?

   (a) Buy agric implement ☐

   (b) Buy/Rent Tractor ☐

   (c) Start a new business/expansion of existing one ☐

   (d) Small Scale Industry. ☐

8. What are your existing Sources of financing agriculture/Small Industry?

   (a) Family Savings ☐ (b) Co-operative Society ☐

   (c) Rural Bank ☐ (d) Money Lender ☐

   (e) Friends ☐ (f) Government Loan ☐

9. Have you ever borrowed money from any Source? Yes ☐ No ☐
10. If yes, source?

    (a) Individual ☐ (b) local bank ☐

    (c) Money Lender ☐ (d) Others ☐

11. How much was the Loan? ₦ _____
12. What did you spend the money for?

    (a) _____ (b) _____

    (c) _____ (d) _____

13. How did you repay the loan?

    (a) _____ (b) _____

    (c) _____ (d) _____

14. How did you know about banking services in your area?

(a) Through Friends ☐ (b) Bank Officials ☐

(c) School Teacher ☐ (d) Village Head ☐

(e) Government Officials ☐ (f) Others. ☐

15. Do you need financial assistance for the next 2 to 3 years? Yes ☐ No ☐

16. If yes, state the amount ₦ _____

17. From which Source? _____

(a) Bank ☐ (b) Money Lender ☐

(c) Friends ☐ (d) Others ☐

18. Are you satisfied with the loan procedures adopted by your bank? Yes ☐ No ☐

19. If no, give reasons:

(a) _____ (b) _____

(c) _____ (d) _____

20. What collateral is normally required before loan is granted by the bank?

(a) _____ (b) _____

(c) _____ (d) _____

21. How would you utilize the proposed loan?

(a) For buying agricultural implements

(b) For starting a new business

(c) For cottage industry

(d) Others.

22. Would you like or prefer to get loans in kind; e.g. Seeds, Fertilizers, or Chemicals? Yes ☐ No ☐

23. How would you repay the loan?

(a) Out of agricultural products

(b) Out of profits from business

(c) Others (specify) _____

24. How would you rank Bank Official's behaviour?

(a) Very good ☐ (b) Satisfactory ☐

(c) Co-operative ☐ (d) Arrogant ☐

25. Is the rate of interest charged by your bank reasonable? Yes ☐ No ☐

26. If no, would you make some suggestion? _____

_____

27. Would you like to make any suggestion (s) as regards Bank loan terms? _____

_____

_____

PART C

1. Which of those do you think constraints your effort in agricultural production/rural small industry? (In order of importance):

(a) Weather e.g. rainfall, drought etc. ☐

(b) Fertilizer ☐ (c) raw materials ☐

(d) credit and loans ☐ (e) Lack of good road ☐

(f) markets for produce ☐

(g) farm equipment ☐ (h) Others (Please specify)

_____

2. Are applications for loan approved in good time?

Yes ☐ No ☐

3. If no, please recommed time: _____

_____

4. How do you rank the following services provided in your area:-

(i) Roads and Communications:

(a) Very Good ☐ (b) Satisfactory ☐

(c) Poor ☐

(ii) Electricity Supply:-

(a) Very Good ☐ (b) Satisfactory ☐

(c) Poor ☐

(iii) Water Supply:

(a) Very Good ☐ (b) Satisfactory ☐

(c) Poor

(iV) Education:

(a) Very Good ☐ (b) Satisfactory ☐

(c) Poor ☐

(v) Health Services:

(a) Very Good ☐ (b) Satisfactory ☐

(c) Poor ☐

5. What do you think about the contribution (s) of rural bank in the development of your area?

(a) _____ (b) _____

(c) _____

6. Do you have any Suggestion (s) as to what the bank would do to serve your area better?

(a) _____ (b) _____

(c) _____ (d) _____

Thank you very much for sparing your time to respond so promptly to this questionnaire.