AN EVALUATION OF CREDIT FACILITIES AVAILABLE TO RURAL WOMEN IN BUSINESS: A CASE STUDY OF UNITED BANK FOR AFRICA (UBA)- SAMARU BRANCH

BY

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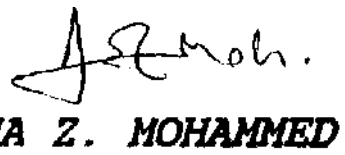
DECLARATION

I hereby declare that this project is original and a product of my study. All materials used have been acknowledged accordingly in the references.



AISHA Z. MOHAMMED (MRS.)

CERTIFICATION

This project entitled "AN EVALATION OF CREDIT FACILITIES AVAILABLE TO RURAL WOMEN IN BUSINESS: A CASE STUDY OF UNITED BANK OF AFRICA (UBA) - SAMARU BRANCH, ZARIA by AISHA Z. MOHAMMED meets the regulations governing the award of the degree of Master of Business Administration of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This project is dedicated to:

URBAN AND RURAL WOMEN IN NIGERIA

ACKNOWLEDGEMENT

I am grateful to Allah (S.A.W.T) for giving me the ability to start and end up the programme successfully.

I wish to acknowledge my supervisor Mallam Abu-Abdissamad whose patience and constructive criticisms made this work a success.

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Finally I want to thank Bala Achika for typing the work for me.

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ABSTRACT

This study investigated the credit facilities available to rural women in business; The case of United Bank of Africa, Samaru Branch. The study also attempted to find out:

1. The lending practices and procedures of the bank, U.B.A. Samaru Branch with the sole aim of identifying lapses if any.
2. The efficiency of the bank's lending policies in terms of bad debts and ways of effecting repayments of the loan and interest when due or in case of default.
3. The problems perceived by both the bank and rural women with respect to credit functions in U.B.A. and make recommendations to improve the functions.

The main research techniques adopted to collect data was mainly personal interview of both the bank officials and the beneficiaries of loans from the bank. The data collected was simply analysed using simple descriptive statistics i.e. (percentage, frequency tables).

It was found that UBA Samaru Branch considered lending as the most important services and thus gave loans for production, general commerce and services, public utilities and transport. The findings also revealed that lending principles of the bank holds character and capability of the customer very important, and that a good security and the ability of the customer to repay the loan

when due was also considered before a lending decision was made by the bank,

However, the findings revealed amongst other things that the beneficiaries of UBA loan complained that the conditions attached to the loan posed a serious constraint to rural business women particularly when most of them are illiterate and thus, were either unaware of such credit facilities or those that are aware cannot grasp the procedure of procuring such credit. Appropriate suggestions and recommendations in view of the findings were also given.

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CHAPTER ONE

1.1 INTRODUCTION

As the Nigerian economy worsen the family's managerial options have focused increasingly on sources of funds,a significant but not readily available resources for both the individual and the family. Almost all women are engaged in one kind of petty trading or the other. Some involve their children to hawk around with either ready made snacks or assist in preparing food by the road side just to make ends meet.

It was in consideration of these facts that women home makers) as consumers in the society are faced with many economic challenges that require some decisions. Challenges like how to use the family resources to achieve what they want, or how to set up small businesses just to make ends meet. Therefore, the need to look for alternative to ready cash becomes necessary. One of such alternatives is credit.

Credit or loan refers to the process of borrowing money, goods and services from a lender to a borrower with the intention of repaying at some future date. Miller (1977) defines credit as a process of obtaining control over the use of money, goods and services in the present, in exchange for a promise to repay at some future date. In other words credit involves the transfer of purchasing power to the entrepreneur, without which development cannot take place Aku, (1983).

In finance the word 'credit', 'loan' and 'borrowing' are often used as synonymous and all connote that the transfer of funds from the lender to the borrower is temporary. Credit can be obtained from financial institutions. One of such financial institution is the bank. Banking is basically a service industry operated by human resources for the benefit of the general public and the banks themselves. Banks services range from less complex to highly complex ones geared towards a global economic transformation. These services may not be one hundred per cent perfect, and the faults may not be entirely that of the operators, but could be due to institutional defects or due to the attitude of both the operators and the customers. The competence of banking is commitment to quality service which gives the bank its corporate image.

To a layman, a bank is a bank whether it is commercial or merchant, the basic function being to lend money for business and act as authorized dealers in foreign exchange. However, a closer look at the functions of various categories of banks reveal that though banks have common functions they have also some differences which are important. One of the main function of the banking industries is to lend money to its customers who need to spend more than their current receipts for that period. Thus the banking industry offers credit to customers which has distinct effect on economic growth and business development.

1.2 Statement of Problem

The role of banks that is of most important to the business men or women is that of providing finance and credit for business. Banks serve as intermediaries between the lenders and borrowers. They are supposed to help directly in the fostering of productivity by offering borrowers a variety of technical services. In recent times, banks in Nigeria have not been seen to be very successful in their lending function. This is obvious considering the fact that many businessmen and women and even farmers applied for loans from these banks but only a few of them actually succeeded in getting the loans. This suggest that bank credit is inadequate to meet the financial needs of business women in Nigeria.

In addition, the supply of loan vis a vis the customers demand as well as the rigid repayment schedules that business women meet and provision of adequate collateral security for bank loans suggests that only big business women stood a better chance of getting financial assistance from commercial banks. The researcher also observed that illiteracy and ignorance may inhibit rural women from seeking for loans from the banking system. Their reasons are either they are not aware of the existence of such credit facilities or they are frightened by the elaborate procedures for making application and conditions or terms of repayment, interest, etc., attached to the loan. It is hoped that the findings of this study will contribute to the empirical evaluation of the credit function and lending policies in United Bank of Africa UBA) plc.

1.3 Objectives of the Study

The objectives of the study are:

1. To identify the credit facilities available to rural women in business.
2. To identify the sources of information on credit facilities available to rural women in business.
3. To study the lending practices and procedures of the bank UBA (Samaru Branch) with the sole aim of identifying lapses if any and to recommend solutions to such.
4. To examine the efficiency of the bank's lending policies in terms of bad debts and ways of effecting repayments of the loan and interest when due or in the case of default.
5. To analyse the problems perceived by both bank and rural women with respect to credit functions in U.B.A. and make recommendations to improve the functions.

1.4 Research Questions

1. What are the credit facilities available to rural women in business.
2. What are the sources of information on credit facilities available to rural women in business?

3. What are the lending practices and procedures employed by UBA Samaru?
4. What are the bank's credit policies and how efficient are they?
5. What are the impressions of the beneficiaries of such credit facilities?
6. What complaints do the bank and debtors make with regards to these services?

1.5 Significance of the Study

It is hoped that this study would be found adequate as reference and useful material in the field of credit and lending policies in Nigerian commercial banks, U.B.A. The study will also help to enlighten rural women and creditors who are ignorant about the rules governing credit facilities, in the bank.

1.6 Scope of the Study

The study is delimited to only United Bank for Africa Nigeria plc, Samaru and it is delimited to the credit department as well as those with credit granted authority in the bank who will be interviewed and observed.

The study is also delimited to the kind of credit granted to customers, why and how they are granted and repaid. The researcher sampled the opinion of fifty beneficiaries of such loans.

DEFINITION OF TERMS

1. Creditor - The person or institution that is granting the credit in goods or value to the other party.

2. Debtor

The person or institution to which the credit is granted either in goods or value).

3. Default

Refers to the inability or failure of the debtor to repay the loan collected from the bank when due.

4. Collateral

Refers to a valuable item/asset that the debtor pledges against the non-repayment of the credit. Assets are used as collateral and in rare cases insurance policy.

5. Credit Policy

Encompasses the credit analysis, approving fund disbursement and loans monitoring to ensure repayment of not only the principal but also the interest rate.

6. Credit Control

It refers to the credit appraisal and administration in a bank.

7. Bad and Doubtful Debts

Refers to a matured debt that for one reason or the other has not been made good yield either in principal or interest or both.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

The selected literature for this study is presented under the following sub-headings:

2.0 Commercial Banking in Nigeria

There are various views as for the origin of commercial activities in Nigeria. One view holds that the origin of commercial banking is traceable to the commercial activities of our colonial master with earlier indigenous Nigerian coastal elites. Acceding to this view, the first banking office was established in a trading ship to serve only the trading business between Nigeria and Europe. Hence the growth in commercial banks still reflects a lot of this historical factor. One can therefore say that the industry was not actually meant to develop our economy but to boast it. (Babs, 1988).

Nigeria has over 70 commercial banks operating in the country with about well over 2000 branches. Commercial banking in this country is tailored towards that of United Kingdom. This can be described as the branch banking system which is characterized by a few large banks with a wide network of branches extending throughout the country. For instance the United Kingdom has only 8 major commercial banks with well over 12,000 branches. This is in contrast to the United States of America systems which has a unique banking structure called unit banking system. That is, numerous individual local banks with limited number of branches or in most cases, one branch only. As a result the United States has about 1,500 individual banks, operating approximately 25,000 branch offices.

Similarly, Nigeria has the 'Big Three' banks which control over 50% of the commercial banking business in the country. These

banks are the First Bank of Nigeria plc, Union Bank of Nigeria and the United Bank for Africa plc.

The Federal Government of Nigeria took interest in banking during the early 1950s. This was evident in the passing of the first banking Ordinance in 1952. State governments participation in banking dates back to 1954. In that year, the only three of the mushroom banks faced imminent closure because the three years grace allowed them for licensing under the 1952 Banking Ordinance was fast running out. In order to save the fate of the banks the then Eastern Region Government pumped public money into the African Continental Bank Limited ACB), the Western Region also salvaged the National Bank of Nigeria Limited and later the Agbonmagba Bank Limited now called the Wema Bank Limited.

Commercial banks in all countries offer essentially similar services, but differ in the quality of services provided. These bank services range from current account deposits, saving account deposit, fixed deposit account, loan accounts, overdraft, performance bond, safe custody, safe deposit, night safes,, executors and trustee to housing savings and loan scheme. Accident safeguard scheme, Abuja Residential Housing Scheme, credit scheme for rural areas, women forum and joint liability agricultural credit scheme.

Daniel (1992) studied commercial banking services and customer satisfaction in Nigeria. The study revealed that banks provide such services as: accident safe guard scheme. Credit scheme for women in rural areas, women forum scheme Housing savings and loans

scheme, Abuja residential housing loan scheme, Statement Savings Scheme, Joint Liability Agricultural Credit Scheme, Time Deposit Open Account, Current Account Deposit, Fixed Deposit Account, Performance Bond, Overdraft, Letter of Introduction, Night Safe, 'Safe Deposits, etc. These services are being provided by the banks depending upon their policies and objectives.

Daniel's study revealed that the individual bank's policies and objectives however, effects the type and level of services to be provided to their customer. Thus the customer preference of one bank to another is a function of the type and level of services provided by the respective banks. Other factors such as proximity of the bank location, the place of work of the customer and recommendations by friends, relations colleagues, influences customer's preference of one bank to another. The study also discovered that most of the banks used for the study provided inadequate facilities for customers comfort, while waiting to be served. The bank official tended to be discourteous and adopted non-challant attitudes to their customers. These bank official in most cases were more courteous to customers that perhaps give them some gratification or favoured the wealthy ones who could afford to give them material or financial gifts thus tended to neglect the low income customers.

Rampant cases of fraud, forgery, slow services - provision, over concentration of banking outfits in urban and sub-urban areas of the country etc., were other reasons why bank customers tended to be dissatisfied with bank services. These might probably be the

reasons why rural women in business do not patronize the banking services particularly, the loan scheme. The present study is concerned with the credit facilities available in UBA Samaru Branch for rural business women which falls under the credit scheme for rural areas.

2.1 Definition of a Commercial Bank

To a layman a bank is a bank whether it is commercial or merchant, the basic function being to lend money for business and act as authorized dealers in foreign exchange.

Commercial banks are private and public corporate bodies which, like any other commercial firm, strive to maximise their total profits by carrying on transactions in money. Banks earn some income by providing services, such as opening of the current and saving deposit accounts, providing safe deposit boxes and remittance facilities, collecting cheque monies etc., to their customers. More than 75 percent of commercial bank's profits is, however, earned from interest on loans and investment which the bank makes using the money belonging to its depositors; (Vaish, 1977).

According to Section 41 of the Nigerian Banking At 1996 commercial bank is any person who transacts banking business in Nigeria and whose business includes the acceptance of deposit which are withdrawable by cheque. If we go by this definition only commercial banks can be said to be proper banks, performing actual banking business which includes acceptance of deposit that are

withdrawable by cheque. Though the commercial banks in the course of their business operations receive money on savings and deposit account such as fixed time deposit and short time deposit which are not withdrawable by cheque, they in addition also operate current accounts which are withdrawable by cheque. Commercial banks are commonly referred to as "full service banks. They offer a broad range of services including savings account, checking accounts, trust facilities and virtually all types of loans.

When compared with these other types of financial institutions like acceptance houses, discount houses, and merchant banks do not operate accounts withdrawable by cheques which makes them to fall short of being called proper banks.

Nwankwo (1991) sees commercial banks as generally all purpose retail bankers. These banks deal with both deposits and loans of all sizes, both wholesales and retail. This according to Nwankwo makes commercial banks differ from other financial intermediaries who are specialised in particular loan or deposit markets and in particular economic sectors.

Thus commercial banks are banks that offer a broad range of services ranging from savings account, current accounts to offering virtually all types of loan to its customers or borrowers.

2.2 Function of a Commercial Bank

According to Eric (1983) the whole structure of financial institutions can contribute greatly to the standard of living of the society by helping men to become much more productive. All the

bank does is to collect the surplus from its customers as deposit into their various account and the bank in turn makes these funds available as loans to those in deficit with a condition of future repayment.

Commercial banks, by accepting demand deposits which can be transferred by cheque, create a form of money which can become an important alternative to currency. In addition, by developing a branch system, they assist in the distribution of currency throughout the economy, since notes and coins can be paid into branches in one region and withdrawn through branches in other regions. Commercial banks are also extremely important intermediaries. By offering time and savings deposit, as well as demand deposit, they provide a safe, convenient, liquid, and rewarding outlet for savings, especially where these facilities are available through a nation wide network of branches. At the same time they lend out these savings to the private sector by advances or discount of bills and promissory notes, and to the government sector through the purchase of treasuring bills and government bonds, or by direct investment in government institutions. They are therefore an immensely important source of credit, in many countries including Nigeria commercial banks tend to concentrate on short term lending, particularly for the finance of trade and working capital. Other services provided by these banks include the conduct of foreign exchange transaction on behalf of customers, the provision of safe custody for valuables, trustee facilities,

and perhaps also investment facilities for customers (Furness, 1975).

According to Ettiner and Gollier (1962) commercial banks world over were formerly restricted to two main functions as follows:

1. To advance funds on the basis of loan, and
2. To receive deposit for safe keeping and consequently maintain savings, fixed or current account for their customers.

But in recent past, modern banking have veered into more risky and treacherous terrain. Banks are now known to be engaged in providing facilities for transfer of funds, safekeeping of valuables, brokerage services provision of night safe facilities etc. These have made some banks great and important. However, a great percentage of banks resources exposure are mainly in the loan account which are in most cases for one year and in some rare cases five years.

There are guidelines regulating the operation of the commercial banking business in Nigeria. These guidelines are issued by the Central Bank of Nigeria. These guidelines are issued by the Central Bank of Nigeria from time to time. The guidelines which are known as the 'monetary policy guidelines' aims at achieving the following:

i) the development of a sound banking system

ii) the provision of adequate banking services in all parts of the country

iii) the protection of depositors and other creditors of the banks

iv) the allocation of bank credit in accordance with government economic guidelines and priorities, such as the program of industialisation and indigenisation of the economy, and

v) the maintenance of internationally accepted standards and practices in the banking industry.

These guidelines often affects the following commercial banking operations:

a) aggregated credit to the private sector

b) loans to small scale wholly Nigeria owned enterprises

c) loans to agriculture

d) loan to rural borrowers

e) loans for residential building construction

f) interest rate policy

g) capital fund adequacy and reserve requirements

h) equity holdings in companies

i) sectoral allocation of loans and advances

The Central Bank of Nigeria also conducts an examination on commercial banks book and stiff penalties are metted upon default

2.3 Functions of a Central Bank

All Central Banks fulfill the same functions. These are best looked at under two headings, as the government's bank on one hand and as the banker's bank on the other. To some extent, the functions overlap but nevertheless the division into two list helps to establish the functions more clearly as follows:

As the government's bank:

1. Operating government account
2. Controlling the issue of bank notes
3. Issue and redemption of government stocks
4. The treasury bill issue
5. Operating the exchange equalization account
6. Carrying out the government's monetary policy.
7. Carrying out an international role (i.e. governor) attends international meetings such as those of the IMF.

As the banker's bank:

1. Runs account for the bank
2. Provision of notes and the distribution of coins produced
3. Lender of last resort
4. Supervision of the banks

The Central Bank in its effort to carry out one of its function, i.e. monetary policy, it influences the level of interest rates. A central bank's rate is the rate at which it will act as lender of last resort to the banking system and whose rates of

interest must be influenced by what they have to pay when they are assisted in this way by the central bank.

Thus the Central Bank of Nigeria acts as the regulatory authority of all banks whether commercial or merchant banks and the development financial institutions.

2.3.1 Objectives of Monetary Policy

The main objectives of a government monetary policy is to control the money supply and the cost and availability of credit, so as to regulate demand and through this regulate the rate of inflation, economic growth and employment.

Monetary policy is however, only part of the government's economic strategy and it is vital that monetary policy is pulling in the same direction as other objectives. For instance a firm control of the money supply to restrain the level of monetary demand would be useless if at the same time the government did not control its own expenditure or was to make a big reductions n taxation (Whiting, 1988).

There can be conflict between the various objectives of a government's economy strategy. An example of this is the conflict that occurred in Nigeria in the 1986 of trying to reduce inflation on one hand and to reduce the level of unemployment on the other. To achieve an objective aimed at combating inflation a government would wish to firmly control the money supply and it would to a large extent use the agency - the central bank of Nigeria CBN) to achieve this.

2.4 The Concept of Credit

Credit is defined by Furness (1975) as the means by which an enterprenuer is able to acquire goods and services against a promise to pay later. According to Furness to obtain credit is to obtain control over resources not owned by the user, for certain period of time. Usually at a cost and under specified conditions concerning repayment.

Credit can be regarded as a catalyst for accelerating development. If wisely used, it guarantees capital formation for progressive investment in the enterprise and thereby makes it possible for an enterprenuer to expand his business or even introduce innovations that lead to higher efficiency and greater output per unit of given resources.

Credit which is a process of obtaining control over the use of money, goods and services in the present, in exchange for a promise to repay at some future date, can be classified according to its purpose, type, source and term.

The purpose of obtaining a credit might either be for production (when such a credit is needed to finance expenditure necessary for further production) or for consumption (when obtained to finance the essential needs in a household).

Credit could be in kind or cash, it is in cash when liquid money is given to the borrower and in kind when the intended purpose for which the credit is given is production of the items or material for the borrower. Credit for production purpose could

either be in kind or cash, while that of consumption is mostly in cash.

Credit can be classified according to their sources. It could be from a formal or informal institution based on the process of organisation and operation. It is informal when the source of credit involves the localized transactions of money, real goods and services among friends, relatives, neighbour, money lenders, merchants and trades. On the other hand it is formal when guided by laws which follow an organised and regularized lending procedures. The agents involved are cooperative unions, private banks and some specialised government banks. For the purpose of this study the formal credit is considered.

According to Eric (1983) the whole structure of financial institution can contribute greatly to the standard of living of the society by helping men to become much more productive. This forces the customer to go for credit to foster productivity. Similarly, credit is a very important function of the bank. This is because of its distinct effect on economic growth and business development. The banking industry thus, offers credit which provides growth, profitability and liquidity for the society.

In view of the importance of credit in development it is essential that institutions granting credit should be sustained and assisted to grow. One major factor that can lead to the scoping of such institution is a high level of repayment default as the major impediment to credit programme but essentially an unjust phenomenon. This is because the great majority default. It is the

input of defaulters that causes credit programmes to be curtailed, reorganized or abolished.

The present study attempts to examine the efficiency of UBA Samaru Branch lending policies in terms of bad debts and ways of effecting repayments of loan and interest when due or in case of default.

2.4.1 Why Customers Go for Credit

It is known that there are always times when people need to spend more than their current receipts for that period. For example, to purchase some durable goods can be costly and one is expected to pay for it at once. The cost may be more than one's income for a period. To purchase such a thing one has to borrow.

Secondly, the difference between the interval of time required for the completion of a production cycle and the time interval of producer's successive needs provide another reason for borrowing. For example, a farmer may have many months between sowing and reaping during which the farmer receives no income but has daily needs and expenses that have to be met. The customer is then forced to go for credit to foster production. The financial institution must therefore be prepared to offer borrowers the variety of technical services to enable their business enterprise to progress.

2.5 Types of Commercial Bank Lending

Commercial banks being a 'full services" bank offers a broad base of services. According to Nwankwo (1991) commercial bank mobilise deposits of all sizes and from all and sundry in retail as well as in wholesale markets. They lend to all and sundry for all-purpose, both wholesales and retail). This according to Nwankwo makes commercial banks differ from many other financial intermediaries, most of whom specialise in particular loan or deposit markets and in particular economic sectors. Commercial banks' lending is more diverse and can be classified in many ways.

Reed et al (1978) stated that loans can be classified in various ways. They can be classified according to purpose, the type of security, maturity, method of payment and origin.

a) Purpose

Are such loans as commercial and industrial, consumer, agricultural, real estate and etc.

b) Maturity

This consist of the short term loans, medium terms loans and long term loans. The short term loans mature within one year or less, while the medium term loans mature in more than one year and

up to eight years, while long term loans may extent to twenty years or more.

c) Secured and Unsecured Loans

According to Reed et al (1978) secured loans are loans that involve the pledge of a specific collateral. Pledged collateral for secured loans may consist of a variety of assets such as real estate warehouse, equipments, plants, corporate stocks and bonds etc. Here the basic requirement of such asset is marketability. This is to reduce the banks risk on loans in case the borrower is unwilling or unable to repay at maturity.

The unsecured loans are based more exclusively on the borrower's integrity and financial conditions, expected future income, and past record of payment.

d) Method of Repayment

Loans may be repaid in one lump sum or on instalmental basis. Lump sum loans are known as straight loans. The contract here calls for repayment of the entire principal at one final maturity date. Interest payments might be due at various intervals or when the loan matures.

Instalment loans require periodic payments of principal usually of equal amounts. Payments may be monthly, quarterly, semi-annually or annually.

e) Origin

The loan portfolio or commercial bank is derived principally from two major sources:

i) Directly from borrowers by purchase of rates from dealers of

automobiles and other consumer goods.

ii) By purchasing rates from commercial paper dealers.

Similarly, (Nwankwo 1991) stated that the two most popular methods of classification are by purpose and by maturity. These are the methods used n Nigeria. The classification of commercial bank in Nigeria by purpose are in four major categories: production, general commerce, services and others.

Production and General Commerce Loans

They are mainly business loans for financing seasonal working capital, long term working capital needs, and fixed assets.

Other purpose include financing changes in payments patterns, unexpected one time expenses and replacement of funds lost due to unprofitable operations.

Loans for Services

These include those of public utilities, transport and communication and loans to credit and financial institutions. 'Others' refer to loans made to governments, professional and personal borrowers and other miscellaneous loans for sundry purposes.

According to Nwankwo general commerce attracted the biggest proportion of loans in the early 1970's through progressively declined by 1984. While lending for production has been the dominant sector attracting the greatest share of total lending from

1973 to 1985. Manufacturing also stands out as the biggest sector with its share generally rising from 22% in 1970 to 30% and 27% in 1984 and 1985. It is still the dominant sector attracting bank loans. This is followed by real estate and construction 21% and domestic trade 12% in 1985. This dominant position of production lending in general and manufacturing in particular, reflects regulatory emphasis in the CBN's credit policy guidelines, under which the production sector is accorded preferred status. The larger volumes of lending for real estate and construction reflect the importance attached to this sector by all the governments of Nigeria since oil boom of early and mid 1920s (Nwankwo, 1991).

The real estate and construction loans are usually in the form of mortgage loans for land development and construction of real estate properties. The loans are both short and long term. Construction loans are usually interim short-term loans, at times extending up to four years, made to developers of commercial building and apartment complexes. This loan also include loans granted to building contractors undertaking the construction on behalf of government or government agencies pending payments by these agencies. The interim loans to the developers are expected to be repaid from the sale of the plots or houses by the developers.

The agricultural loan gives loan for agricultural production. The agricultural credit scheme launched in March 1977 is designed to assist farmers who produce the bulk of the feed directing with individual loans which are more appropriate to their needs. The

Central Bank of Nigeria (CBN) has been encouraging commercial bank lending to Agriculture. United Bank for Africa (UBA) performance under the Agricultural Credit Guarantee Scheme in 1990 was commendable. At the 1990 Central Bank Annual Conference for Agricultural Credit Officers UBA was adjudged the best amongst all the commercial banks in agricultural lending four farmers granted loans by the bank also emerged the best for the year in their various state under the scheme, (Femi, 1984).

The Central Bank of Nigeria CBN) guarantees a maximum of 75% of the amount of agricultural lending in default under the scheme (Principal and interest) net of any amount realised by the lending bank from the security pledged by the borrowing, subject, in the case of a loan to an individual, to maximum of N50,000 and in the case of a loan to a cooperative society or a corporate body, to a maximum of N1 million.

In July, 1977 the banks lending outlets increased through the rural bank programme thus providing the rural areas branches all with the aim of developing agricultural and agro-allied industries in these rural areas so as to achieve the national objectives of self-sufficiency in food production. By the end of 1989, 646 branches were established under the programme. Other objectives of the rural banking programme include the cultivation of banking habits among the rural population, mobilization of rural savings for rural development and stemming the rural - urban migration Nwankwo, (1991). The present study attempted to investigate whether rural business women have the banking habits, among the

rural population.

The consumer loans is part of the professional and personal loans. According to Nwankwo (1991)there is no any estimate of the extent of this lending in Nigeria. This is due to lack of statistics. With only one or two hire purchase or consumer finance companies in existence in the country, it could only be assumed that commercial banks play a major role and dominate in consumer lending in the country.

Similarly, consumer lending is big in many other countries for instance United.States Commercial banks account for nearly 50% of all types of consumer credit in the country.

The characteristics of the consumer loan market make consumer lending attractive to banks. The market is large and expanding. The demand for consumer loans is less sensitive to business circles than the demand for commercial loans. Consumer lending presents banks with opportunities to sell related services, this helps the banks build up a solid base for clients which contributes to their long term profitability. Consumer credit is mostly in the form of instalment loans. Both lenders and borrowers find the instalment payment preferable to accumulating the funds and retiring the total debts at one time Nwankwo, (1991).

Lending for services transport and communication are to contractors who execute these projects on behalf of the public sector agencies. Some of the loans are long-term and some are short-term including construction loans for road works and fixed

assets. Similarly, lending to credit and financial institutions are to brokers and to long-term development finance institutions such as federal and state housing corporation, development banks as NBCI, NIDB and FMBN.

By and large, commercial banks make diverse types of loans such as: commercial loans, consumer loans, agricultural loans, loans for real estate mortgages, loans for purchasing and carrying securities and other loans. These loans are granted with the hope of making profits from the transactions. Banks thus in their planning should set overall profitability goals which are usually based on expected returns on capital employed. To achieve this, desired return on assets and to achieve the overall objectives of the bank calls for the need to establish profit guidelines. These guidelines are necessary to indicate the kind and number of loans a bank will make and also specify whom the bank will lend to and under what circumstances.

2.6 Lending Policy

Policies are identified as guides to thinking in decision making. It is assumed that when decisions are made, they fall within certain boundaries. Policies do not require action, however, they guide managers in their decisions. Thus banks lending policies can be seen as simply anything that guides a bank or bank manager in taking lending decisions (Kootnz et al, 1983).

According to Nwankwo (1991) a bank lending policy should set out the bank's lending philosophy and objectives including the

modalities for implementation, monitoring, appraisal and review. Thus for clarity and case of ease of communication to all concerned, the policy should be in a written form.

Similarly, well conceived lending policies and careful lending practices are essential to facilitate the credit creating function and minimize risk in lending.

A careful articulated lending policy is also essential in ensuring that the lending is effective in the sense of the quantum that maximize the bank's objective and obligations of liquidity and profitability with the economy's objective of development.

Thus, lending policy can be said to be an indicator of the quality of management of a bank.

2.7 Formulating/Lending Policies

All bank management are concerned with formulating and directing of a sound credit policies. This is because unless the policy is sound and well articulated the whole structure of credit administration control of loans and advances) will eventually crumble and this will consequently have an adverse effect on the overall operations of the bank. All sound lending policy of Nigerian banks recognizes and respect the provisions of the guidelines issued by central Bank of Nigeria.

A bank lending policy is anything that guides a bank manager in taking lending decisions. According to Grosse (1963) a well conceived lending policies and prudent credit practices would contribute to an effective and efficiency performance in credit as

well as minimize or eliminate the risk inherent in any credit. For this reason, it is difficult to say that banks have hard and fast rules for lending or fixed lending policies. This is because the objectives of liquidity and profitability of any bank and the economy's objectives of growth and development change over time. Thus by implication, it could be said that the lending policies of any bank are also never static. They change over time.

Many banks however, lend to well deserving customers who satisfy the requirements of the bank. These requirements include among other things the followings:

a) The monetary policy and credit guidelines of the Central Bank of Nigeria as directed by the National Economic Policy from time to time.

b) The laws of the Federal Republic of Nigeria of legal capacity of the borrower, perfection of security etc.

c) The shareholders profitability measure against other considerations such as safety and liquidity being handed down through the board, the management and finally to the lending officers.

In formulating credit policy in Nigeria, banks use the restriction of banking decree and the monetary policy circular to achieve corporate goals bearing in mind the constraints imposed by the government. A well articulated lending policy should generally have three sections as follows:

1. The general objectives and modalities
2. Machnery for loan administration and for routine

administration.

3. Guidelines for credit analysis.

For this reason, it is difficult to say that banks have hard and fast rules for lending or fixed lending policies. This is because the objectives of liquidity and profitability of any bank and the economy's objectives of growth and development change over time. Thus by implication, it could be said that the lending policies of any bank are also never static. They change over time.

1. General Objectives and Modalities

Nwankwo (1981) stated that naturally, the objective of the loan policy is to contribute maximally to reconcile the bank liquidity profitability syndrome by ensuring that the bank funds are fully profitably employed, making sound and collectable loans and effectively addressing the legitimate credit needs of the community. Bedi (1993) stated that it is not enough that money will come back, it is also necessary that it must come back on demand or in accordance with agreed terms of repayment. The borrower must be in a position to repay within a reasonable time after a demand for repayment is made. This can only be possible if the money is employed by the borrower for short-term requirements and not locked up in acquiring fixed assets, or in schemes which take a long time to pay their way. The source of repayment must also be definite. The reason why bankers attach as much importance to 'liquidity' as to 'safety' of their funds is that a bulk of

the risk they are taking and whether the customer would be able to repay the loan offered to him.

Another factor to be considered in the loan policy is the specification of the quality of loan to be made either secured or unsecured, the type and quality of acceptable securities, and loan and securities that should not be made or accepted. The loan policy should also specify where authority and responsibility for the loan portfolio besides which obviously resides with the board f directors. These board of directors delegate authorities to board committee and management committees. The policy should also specify the modalities for loan appraisal and review (Nwankwo, 1991).

2. Machinery for Loan Administration

When the loan policy has been formulated, provision has to be made for its proper execution, it is necessary that individual in charge of executing the loan policy should have periodic review and evaluation so as to effect changes if need be as the economic condition changes. The loan administration department must be very effective with proper assignment of responsibilities and accountability from the department to the bank's general management. The machinery for routine administration should be specified. Several factors determine the actual machinery a bank adopts. These include:

1. The attitude of the Board of Directors towards the extent of authority to be delegated.
2. The character and quality of the lending officers
3. The size of the bank and of the loan portfolio
4. Types of loan being made.

While the legal responsibility and authority reside in the board, some boards play more important roles than others. However, larger banks generally delegate lending authority and specialism in lending more than small banks (Nwankwo, 1991).

A good loan policy should have not only routine administration' but machinery for handling problems loans, appraises and review. The procedure for review is based on the uniform documentation which is also specified in the loan policy. A file is normally created for the purpose to contain detail information about a borrower's total liability, the limit which a loan committee can approve and types of loan. A good policy according to Nwankwo (1991) should also contain a miscellaneous section which stipulates the procedure for dealing with and monitoring loans to directors and staff of the banks and other inside transactions including code of ethics. The importance of close monitoring of this aspect of the loan policy derives from the fact that insider transaction in the form of extensions and concentration of credit has been a major cause of bank failures. The need for effective monitoring is to ensure the integrity of the bank not only to shareholders and the community it serves but also to the bank examiner. This is because

the first thing the bank examiner ask for in examining the bank is the loan policy then he examines the books of accounts to ensure compliance with the loan policy and the adequacy of internal controls and checks and balances including sound management policies.

3. Guideline for Credit Analysis

Credit analysis is the third part of the loan policy. Its essence is to minimize loan losses. It is only through credit analysis that a bank attempts to determine the ability of the borrower to repay legitimate loans extended to him. This section also deals with the financial statements, security analysis and evaluation and what lending officers should know for example environmental appreciation, judgement ability, concept of credit decision making and loan packaging. Thus a god lending policy with proper loan administration, monitoring mechanism and credit analysis would provide growth profitability and liquidity for the society.

2.7.1 Factors in Loan Policy Formulation

1. Bank's Capital

The bank's capital serves as a cushion for the protection of deposit and its relation to deposit influences the amount of risk the bank can afford to take and the amount of loans it can commit to a single borrower or to a group of related borrowers. If the bank wants to take more risks and grant more loans, the bank can

increase its capital funds, subject to market sensitivity and receptivity.

2. Bank's Earning

All banks consider earnings as an important factor in formulating their loan policies. This is because earnings supplement the capital fund and in fact constitute the principal method of increasing net worth of the bank, depending on how each bank sees it. Banks that emphasize earnings might have a more aggressive lending policy. Such banks commit more funds to long term lending or consumer loans since these earn higher than short term loans. However, such banks may increase their risk exposure and therefore subjecting them to prudential limits.

3. The Structure of their Deposit

Bank also consider the structure of their deposit in formulating their loan policy, in terms of sources, mix and volatility. The banks provide for loan funds only after providing for primary and secondary resources. Nevertheless, banks are usually not mindful of liquidity considerations in allocating their loans (Nwankwo, 1991).

4. The Technical Competence of Management

This refers to the ability, technical knowledge and experience of the bank's personnel in lending. For example, a bank may have competence in one area that is industrial lending and may have

little or none in say real estate lending and these may be the emerging horizon in lending.

5. External Constraints

According to Nwankwo (1991) banks cannot generally influence the external constraints since they are generally exogenous and beyond their control. These exogenous factors include the macro-economics elements in the economy such as the political and economic conditions, the impact of monetary and fiscal policies, the balance of payments and the credit needs of the state or zone the banks serve. These forces influence deposit inflows and outflows in the loan portfolio. While the macro-economic factors may have been forecast and incorporated in the bank's overall cooperate plan, the fact that they cannot be predicated with exactitude means they cannot be ignored in formulating the loan policy. Perhaps the only factor in the macro-economic environment the banks can influence is the credit needs of the area they serve or intend to serve. This according to Nwankwo (1991) can be done by adopting an aggressive marketing policy to identify and an aggressive lending policy to satisfy the credit needs.

Thus by implication, it could be said that formulating loan policy depends on the technical know-how of the management of bank in handling both the internal and external constraints identified above and change over time.

2.8 Lending Rules and regulations

The lending rules and regulations are known as the bank lending principles which is normally a combination of the following five Cs of credit evaluation.

1. Character
2. Capability
3. Capital
4. Condition
5. Collateral

These five Cs go along with some four basic questions.

i) How much is required?

ii) What is to be done with the money?

iii) What are the plans for repayment?

iv) What will be the bank position if the plans for repayment go wrong?

All the above help the banker to take a loan decision.

2.8.1 The Character

The basis of any credit system rests upon good faith of those who trade upon their credit. Honesty and integrity outweigh any

judgement they may make on any analysis of any financial information which may be available. Character is difficult to evaluate. It refers to attributes of honesty, integrity, industry and morality. As it relates to the credit transactions, it means not only the willingness but also a strong desire to repay the debt and to honour all the obligations under the loan contract. This is usually revealed through three Channels, face to face interview, an examination of his past records, and character references. The analysis of character hinges on the borrower's economic and financial profile, the objective being to determine whether the borrower is a good citizen to be trusted with the loan and obligation to honour the terms of the loan agreement Nwankwo, (1991).

When a banker lends, he must feel certain that the advance is safe, that is the money will definitely come back. For example, the borrower invest the money in an unproductive or speculative venture, or if the borrower himself is dishonest, the advance would be in jeopardy.

2.8.2 Capability

Refers to the ability of the debtor to repay is credit. Most businesses are capable in manufacturing sense and producing things but often they are much less capable in financial sense. They have little understanding of the financial state of their business and so depend on pressures from outside e.g. advance from a bank manager. Borrowers capability to obtain the funds with which to

effect repayment is very important to the bank. Banks always insist that primary source of payment comes from earnings derived from the cash flow of the borrowers business. Similarly, if the borrower suffers losses in his business due to his incompetence, the recovery of the money may become difficult. The banker ensures that the money advanced by him goes to the right type of borrower and is utilised n such a way that it will not only be safe at the time of lending but will remain so throughout, and after a useful purpose in the trade or industry where it is employed, is repaid with interest (Bedi, 1993).

2.8.3 Capital

This involves the quantity of resources that are at the debtor's disposal. Bankers will always be concerned with ensuring that their investment bears a reasonable relationship to the amount of the proprietors stake. According to Nwankwo, (1991) capital and collateral are best assessed through financial statement and security analysis. The borrowers financial statement as it relates to the project and as it relates to the amount asked for should be analysed. The first establishes the end and need for the loan as well as the repayment ability, while the second will establish how much is required, for how long, when required and whether the loan demand conforms to the existing directives and guidelines both of Head Office and of the Central Bank.

2.8.4 Condition

This refers to the extent to which a debtor may be aided or hindered by business condition in converting his assets into cash or making a success of his project before the maturity of the debt. Another point to consider is economic conditions. These may be beyond the borrower but nevertheless affect his ability to honour his obligations. The good character and ability to pay may be there but it may be unwise or unreasonable to grant the loan in view of the prevailing or prospective economic conditions. In addition the short and medium term fluctuations in the economy and changes in technology may affect the ups and downs of business.

2.8.5 Collateral

This involves a valuable assets that the debtor pledges against non-repayment of the credit. Collateral may be in either guarantor or as in most cases a valuable assets that can easily be disposed off through sale or auction in order to offset the loan.

It has been the practice of banks not to lend as far as possible except against collateral. Collateral is considered as an insurance or a cushion to fall back upon in case of emergency. The banker carefully scrutinizes also the different aspects of an advance before granting it. At the same time, he provides for an unexpected change in circumstances which may affect the safety and liquidity of the advance. It is only to provide against such contingencies that he takes security so that he may realise it and

reimburse himself of the well-calculated and almost certain source of repayment unexpectedly fails. It is incorrect to consider an advance proposed from the point of view of security done. An advance is granted by a good banker on its own merits, that is to say, with due regard to its safety, likely purpose etc., and after looking into the character, capacity and capital of the borrower and not only because the security is good. Apart from the fact that taking of security reserves as a safety value for an unexpected emergency it also renders very difficult, if not impossible for the borrower to raise a secured advance from another source against the very security.

According to Nwankwo (1991) the essence of the financial statement analysis is to establish that, all things being equal the loan will be safe, properly used, and repaid on schedule. But this is a gamble in the future. All things being equal and things may go wrong such that the basis and optimum established and expected do not materialism. This is why the banker should not be left uncovered. He must ask for and take adequate collateral securities as a manifestation of the customer's confidence in his own project and as something upon which the banker can fall if things go wrong and expected results are not achieved. Thus bankers should ensure that they have something in return to show whenever they lend other people money. However, the type of security asked for and the valuation placed on it, depends on the nature and circumstances of the loan and of the customer. Importantly the collateral should be taken, secondly, this comes after the technical and economic

feasibility as well as the profitability of the project has been established.

Thirdly, the collateral security need not always be a tangible form. Finally the securities must be deposited before the loan is given out.

Furthermore, after the five Cs are considered management evaluation is necessary. This is because a thorough appraisal and evaluation will give the bank its financial decisions and will help identify trustworthy individuals who are capable of promoting the objectives of the bank and of course the nation.

2.9 Banks Interest Rate

According to CBN Briefs (1994) interests are the rental payments for the use of credit by borrowers and return for parting with liquidity by lenders. Interest rates are like other prices in the sense that they perform a rationing function which serves to allocate a limited supply of credit among the many competing demands for it.

The primary role of interest rate is to help in the mobilization of financial resources and to ensure the efficient utilization of such resources in the promotion of economic growth and development. Interest rate affect the level of consumption on one hand and the level and pattern of investment on the other hand. They are crucial in financial intermediate which involves transferring funds from surplus within an economy to deficit units.

In general, interest rates are useful in gauging financial market conditions and they are a major tool of monetary policy. Thus it performs one of the vital functions in monetary economy and is to some extent regulated by the Central Bank.

2.9.1 Structure of Interest Rate

In the financial system interest rate are generally classified into two categories:

1. Deposit Rate

Deposit rates are paid on saving and time deposit of different maturities. Examples of such rates include saving deposit, one-month, three-month, six-month and twelve-month fixed deposit rates.

2. Lending Rates

Lending rates are interest rates charged on loans to customers and they vary according to perceived risks, the duration of loans, the cost of loanable funds, and lending margins, etc. Other rates of interest in the financial system include the treasury bill rate, the inter-bank and minimum rediscount rates.

3. The Treasury Bill Rate

It is the discount offered by the government to savers who purchase treasury bills issued to cover its short-term borrowing needs.

4. The Inter-bank Rate

It is the rate paid in the inter-bank market when banks borrow from and lend to one another in order to adjust their liquidity position.

5. The Minimum Rediscount Rate

This refers to the amount that is charged by a Central Bank for lending to banks in the performance of its function of lender of last resort.

Structure of interest rate refers to a situation where the term to maturity is assumed to be the major factor affecting the rate of interest. In this instance, short-term securities attract lower rates of interest than long term securities. Long term securities occasionally attracts lower rates of interest than the short term ones, a phenomenon referred to as an inverse yield curve. This situation may arise when there is acute shortage of fund in the financial system or when the rate of inflation is rising - (CBN Briefs, 1994).

Similarly, when the structure of interest rate changes, the resulting relative rates of return will include shifts in the asset portfolio of both the public and the banks. Thus the direction and magnitude of changes in market interest rate are of primary importance to economic agents and policy makers - (CBN Brief, 1994).

2.9.2 Factors Influencing Interest Rates

According to CBN Briefs (1993) a number of factors influence the behaviour of interest rates in an economy. Prominent among these are: savings investment, inflation, government spending, monetary policy stance and taxation. It is generally agreed that the price of any factor of production that is land, labour and capital) in a market system is determined by the forces of supply and demand, savings constitutes the major source of credit while investment represents the main demand for credit. Consequently, the amount of savings by individuals, businesses and government partly determines the level of interest rates. For example, if there is a decrease in the accumulation of loanable funds/savings, this will likely exert an upward pressure on interest rates just as a reverse situation would tend to have a moderating effect.

Inflation also affect the level of interest rates. It reduces the normal value of money. Thus financial institution encourage savings so that the nominal interest rates is higher than the expected rate of inflation.

Monetary policy can also influence interest rate through the expansions and contractions in money stock. For example, if money supply is increased with the demand for money remaining unchanged, portfolio shifts from cash to securities lead to lower interest rates. Similarly restrictive monetary policy may lead to a rise in interest rates while an expansionary policy may result in lower interest rates.

Income tax is another factor that has some influence on market

interest rate. For instance when borrowers are allowed to deduct interest payments in deriving taxable income, the after tax cost of funds are less than the prescribed rates. The effect is that the demand for credit is larger than would have been the case in the absence of tax provisions. Similarly, since lenders are expected to include interest received as taxable income, the offer in tax return is less than the contract rate, reducing, as it were, the supply of loanable funds. The combine effect of income tax is to raise the market rate of interest (CBN Briefs, 1994).

Another factor that influences interest rates is government activities. This is because Government supplies credit by running fiscal surpluses and demands credit to finance fiscal deficits. Other factors that influences interest rates include: expected changes in exchange rates differentials between domestic and international interest rates, the influence of the oligopolistic structure of the banking system and continued operation of distressed banks in recent times have affected interest rate development in Nigeria (CBN Brief, 1994).

Finally, the Central Bank of Nigeria controls the amount of interest chargeable by banks on loans and advances granted by them. During the pre-SAP era the level of interest rate was determined by the Central Bank of Nigeria. Both deposit and lending rates were fixed by the bank based on policy decisions. Then the major reasons for administering interest rates were the desire to obtain the social optimum in resource allocation, promote order growth of the financial market, combat inflation and lessen the burden of

internal debt servicing on the government.

To enable the government to direct financial resources at concessionary interest rate to different sectors of the economy. Agriculture, manufacturing and residential housing etc., were categorised as the preferred sector. This is evident even in recent times where emphasis in the CBN's Credit Policy Guidelines, under which the production sector is accorded preferred status. The less preferred sectors consisted of import and domestic trade, while 'others were credit and financial institutions government and personal and professional' sectors.

The concessionary rates were typically below the minimum rediscount rate which was quite low averaging about 7.25 per cent between 1978 and 1985. This rates did not keep pace with inflation as such high negative real interest rates was charged. Other implication of the low interest rate policy was that even preferred sector "could not access funds partly because financial institutions were unable to raise sufficient loanable funds through savings or from the money market at the favoured rate of interest.

In 1986 during deregulation of the economy so as to enhance competition and allocation of resources the CBN introduced a market based interest rate policy in August 1987. It was agreed that low interest rates did not encourage savings and that high interest rates which were likely to accompany deregulation might stifle investment. The deregulation of interest rate allowed banks to determine their deposit and lending rate according to market conditions through negotiations with their customers. The CBN

however, continued to fix the minimum rediscount rate. This minimum rate kept decreases, so as to stimulate investment and growth in the economy. It was in 1989 that minimum rediscount rate MRR) was raised to 13.25 per cent in an effort to moderate monetary expansion.

It was also observed that there were wide disparities in the interest rate structure of the various banks. The deposit rate of the newly licensed banks were higher than those at the old and well established ones, though the rate was a lot closer. It was also observed that while banks were willing to raise their lending rates, deposit rates were deliberately keep low resulting in a wide speed between lending and deposit rates.

Consequently, in 1989 the CBN reached an accord with the banks that the spread between the saving deposit rates and lending rates was fixed at 7 percent points, while 4 percentage points was fixed between the prime and the maximum lending rates for each bank. The inter-bank rates had 1 percentage point below the prime lending rates. In the same year (1989) the CBN introduced an auction-based system for the issue of treasury securities (treasury bills and certificates). As a result of lack of responsiveness of the structure deposit and lending rules to market fundamentals, particularly the decline in inflation in 1990 and the increase in domestic liquidity forced the authorities in 1991 to fix 4 percentage points spread between the cost of funds of commercial and merchant banks and their maximum lending rates. Thus the maximum lending rate of 21 per cent and a minimum deposits rate of

13.1 per cent was fixed. This idea was not welcomed by the banking community. Thus the ceiling on interest rates become a thing of the past in January 1991 until 1993, when interest rates were distorted and rose to unprecedented levels due to the following factors:

1. The high rate of domestic inflation arising from the huge fiscal deficit of the FGN which was financed mainly by CBN.
2. The undue discretion which the deregulation of interest rate conferred on key market players in pricing their funds as well as the outrageous activities of market speculators.
3. Technical insolvency and serious cash flow problems on the part of some weak banks resulting in distress borrowing and
4. The use of stabilization securities and the system of allocation of foreign exchange both of which induced the sterilization of large funds at the CBN -(CBN Briefing, 1994).

In 1994, some measures of regulation was introduced by CBN whereby deposit rate were set at 12-15 per cent per annum while a ceiling of 21 per cent per annum was fixed for lending. Finally, the charges in interest rate management are significantly different from what prevailed during the era of regulation. While the new policy allows for a band within which deposit interest rates can be negotiated. In addition, lending rates, unlike in the past are

specified for activity sectors, and allows room for negotiation of up to a limit of 21 percent per annum.

One can conclude that interest rate in Nigeria has been flexible, this to some extent has made the environment conclusive for financial intermediation. However, there is need for the government to reduce its reliance on the central bank of Nigeria in financing its fiscal deficits and make greater use of the financial markets.

2.10 Sources of Credit Information

The major sources of credit information used by banks are:

a) The Audited Account

This is the most used lending tool of all. It can answer many questions on lending proposition.

b) The Banking

This shows the payment records on previous loans, the balance carried in cheque and savings accounts and the habit of the applicant in overdrawing these accounts.

c) External Sources of Information

These include credit reporting agencies that collect information on business and make it available to banks on a fee.

2.11 A Brief History of the United Bank for Africa - UBA)

The United Bank for Africa Plc UBA) is one of the Nigeria's top three and oldest commercial banks. It originated from the British and French Bank Limited. The British and French Bank began operations in Nigeria in May 1894, at 117 Broad Street, Lagos. It was later in December that year that the bank was officially opened to business. The bank went public in 1960 in accordance with the policy and intention of the French owners to sell their shares to Nigerians.

The year 1961 saw the take over of the assets and liabilities of the British and French Bank by U.B.A. The bank was incorporated by a consortium of five international banks. These founding international banks were:

1. Banca Nazionale del lavene of Italy
2. The British and French Bank
3. Bankers Trust of New York, USA
4. Moute dei paschi di Siens, also of Italy
5. Amsterdam Rotterdam Bank of Holland

By 1961, the bank had grown from one office structure to ten branches located in Lagos, Kano, Kaduna, Port-Harcourt. From 1962 to 1976 22 more urban branches were opened while from 1997 till date the bank has assets of over N18 billion and over 1990 branches spread all over Nigeria.

United Bank for Africa is active in all aspects of commercial banking and provides international banking, trusteeship share

registration, corporate finance, an computer services through specialized divisions and subsidiaries. Nigerians now control 60 per cent of the shareholding of the bank, while four of the international banks, namely Banque Nationale de Paris, Bankers Trust Company, Banca National de Havaro and Moute dei Paschi de Siena, altogether own 40 percent of the shareholding.

2.11.1 Services Rendered by UBA Limited

United Bank for Africa is known to be active in all aspects of commercial banking and provides international banking share registration, corporate finance, etc. These services include:

1. Commercial

The bank engages in classical branch banking services such as taking deposits giving loans and advances, foreign exchange services, collection of imports and exports and offering advice on investment.

2. Agricultural Credits

The Bank gives farmers credit, monitor and supervises farm projects and passes information to farmers on farm inputs and equipments.

3. International Banking Services

Organisation and multi-nationals rely on U. B. A. advance and

expertise.

4. Financial Services Division

U.B.A. engages in financing projects with appropriate post feasibility study, etc. It also provides consortium lending which are coordinated efforts of groups of banks to raise huge sum to finance start-up projects.

Other special services that UBA provides include Housing Saving and Loan Scheme and Abuja Residential Housing Loan Scheme, UBA Card and Floating rate of interest.

2.12 Summary of Review of Related Literature

The Review has highlighted the general functions of banks, definition of credit and commercial banks, the function of commercial banks, why customers go for credit, types of loan available in commercial bank, the lending policies and how it is formulated, banks interest rate, the sources of credit information, and brief history of UBA.

It could be said that commercial banking sector has continued to witness rapid growth, especially in terms of the number of institutions and innovation in the market. Similarly, commercial banks have also continued to dominate the banking sector in granting various types of loans to its customers.

It has been observed that Nigerians who engage in agricultural production, general commerce and services have benefitted immensely from commercial bank's loans which has made them become successful

in their business pursuits.

It is within the above context that the present study attempted to evaluate credit facilities available at the UBA Plc, Samaru Branch, to rural business women.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter presents the design and procedure for the study. The presentation is discussed under the following headings:

3.1 The Design

The study was designed to investigate the credit facilities available at the UBA plc Samaru Branch to rural women n business. Attempt was made to find out:

1. The lending practices and procedure employed by UBA
2. Examine the efficiency of the bank's lending polices in terms of bad debts, repayments of the loan and interest

3. To analyse the problems perceived by both bank and the beneficiaries of such credits.

Field work was conducted and interview method was used as the instrument of research in this study.

3.2 The Sample

The United Bank of Africa (UBA) Samaru branch was selected for this study. The bank selected is amongst the oldest and experienced bank and as it is claimed, it is one of the most "Big Three".

Rural women sample was drawn from business women that have at least enjoyed business loans from UBA Samaru. Fifty women were used for the study. The sample collection of the bank and few rural women for this study was due to the time constraint.

3.3 The Instrument

Interviewing techniques with the help of designed questions in a form of questionnaire (copy attached) for the bank official was used to gather information for the study.

The bank questionnaire focused mainly on lending procedures and conditions, the types of security demanded from borrowers, repayment experiences of the borrowers and difficulties faced by the banks and their penalties, while the interview techniques

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sought the opinions of the beneficiaries of loans from UBA on the conditions and repayment of such loans.

3.4 Data Collection Procedure

Due to the nature of the study, the source for relevant information was mainly the secondary method of data collection.

The primary data were obtained from the bank officials through personal interview. At the same time interview was conducted where the views of customers (beneficiaries of such loans) were obtained as regards their personal views and experience on services they obtain from this bank.

The primary and secondary data collected form the sources of data for the study.

3.5 Data Analysis Procedure

The data collected from the bank officials was simply reported using simple descriptive statistics, percentage and frequency table was used to analyse response from rural women who had at least enjoyed business loan from UBA Samaru.

CHAPTER FOUR

RESULTS AND DISCUSSION

Result and discussion of the data obtained for the study are reported in this chapter. However, a brief historical background of UBA Samaru Branch is reported n this chapter along with the data analysis.

4.1 Historical Background: UBA Samaru Branch

United Bank of Africa (UBA) Samaru Branch was officially opened to customers on 20th November, 1980 with 17 pioneer staff. Mr. Niyi Osibuluwo was the first manager of the branch. The branch has currently a staff strength of ten due to the recent retrenchment exercise.

4.2 Structure of the Bank

4.2.1 Number of Departments

UBA Samaru has five Departments namely the Savings Department, the Cash Department, Computer Department, Commitment Department and the Accounts Department. Each Department is created to serve a particular function and as such these departments have slight variations in their operations. Since the focus of this study is

on credit facilities the researcher has chosen to concentrate on credit administration and credit decisions of the bank.

4.2.2 Credit Administration and Procedure for Credit Decision

The credit administration of UBA Samaru according to the bank official is headed by only an officer called the Commitment Officer who is directly accountable to the Manager of the bank. Whenever, a customer applies for a loan the procedure for credit decisions does not allow the bank to give approval for any facilities requested at the branch. The Commitment Officer writes a proposal which is countersigned by the manager and is forwarded to the bank senior consumer banking Kaduna. The Senior Manager will then write additional proposal in which he recommends to the Head Office for approval. The approval is later passed to the branch - UBA Samaru) through the Senior Manager. The Head of the Credit Department liaise between the bank and the customer.

As already observed loan policy sets down the machinery for the days to day administration of the loan which include routine administration. However, the actual machinery a bank adopts depend on the attitude of the Board of Directors towards the extent of authority delegation, the quality and character of the lending officers, the size of the bank and the types of loan being made. Analyzing the time a customer in need of loan have to wait for the Commitment Loan Officer to write his proposal which has to be forwarded to the bank service consumer Banking Kaduna before the

Senior Manager writes his proposal to when the Head Office approves could put the customers off or even discourage them to seek for loan. One would expect that the Officers Loan Committee should be set up and given the authority to review and approve loans up to a specified amount. By so doing customers anxiety and demand could be met as early as possible.

4.3 Credit Facilities In U.B.A. Samaru

The branch was asked by the researcher to indicate the types of credit facilities available for its customers. According to the bank official, United Bank for Africa plc among other banks grants the following credit facilities to their customers and rural women too. Such credit facilities ranges from overdraft, agricultural loan, manufacturing loan, commerce, real estate to personal and professional loans.

1. Overdraft

According to the bank official, overdraft is the most common and simplest form of credit facility. The bank gives the customer a limit within which his/her account may be overdrawn. Overdraft is mostly granted for working capital purpose and the amount granted is expected to fluctuate over the life of the facility depending on the customer's needs at a given time. This is reviewed annual and is payable on demand and can be canceled without prior notice. A customer's statement of accounts and

application for credit facilities constitute evidence of indebtedness to the bank.

It is observed that UBA Samaru Branch in most cases give a limit of one - two weeks - when one's salary comes into his/her account) the money is normally withdrawn.

2. Loans

The types of loan granted by the bank are: personal loan, agricultural loan, credit scheme for rural women and housing loan scheme. However, the bank has for quite some time not offered the agricultural credit scheme and housing loan scheme. The branch indicated that only current account holders are qualified to be granted loans. And that savings account holders are qualified for credit scheme for rural women and agricultural loan. The branch also indicated that it does not grant loan to non-customers. This implies that one has to be a good customer before he/she is qualified to be granted a loan.

The bank agreed that lending is one of the most important services rendered by the bank because it aids economic growth.

The researcher also interviewed rural business women of their perception on the availability of credit facilities in UBA and its usefulness to their small business. Their responses are presented in Table 4.1 of the study.

TABLE 4.1: Rural Business Women Perception on the Availability of Credit Facilities in UBA plc

PERCEPTION	SCORE	PERCENTAGE
It has expanded their business scope	25	50
It help them to purchase equipment	10	20
It helps them pay for hired labour	10	20
To furnish their houses	3	6
To pay for children's school fees	2	6
To manage their home expenses	-	-
Total	50	100

In this survey Table 4.1 shows that almost all the business women (50%) in the sample interviewed believed that the availability of credit had increased their small scale business. Twenty percent of the respondents admitted that credit enabled them to purchase most of the equipments and raw materials needed for their business. Twenty percent said it enabled them pay for hired labour which increases productivity. Others said that credit facilities help them to furnish their houses and pay for children school fees - 6% and 4% respectively) while none of the respondents use credit from the bank to maintain their homes. However, such favourable response are more relevant and indicate clearly that rural women can develop their business at a much higher scale if

credit is made more accessible to them. This can go a long way to alleviating poverty amongst rural women since more job opportunities would be readily available for many women at the rural level.

4.3.1 Various Terms of Loans Granted by UBA Plc

UBA plc, Samaru indicated that it granted the short term loan, the medium term loan and the long term loan to its customers. However, the most commonly used is the short term loan. This loan is extended to customers for a purpose and for a specific period. Normally, shorter periods. The reason for preferring the short term loans according to the UBA officials is simply because it is easier to monitor the performance of the customers that receives short term loan than one that receives the medium or long term loan. This is in line with Nwankwo (1991) opinion who said that, preference for short term lending derives from the fact that it is more easily managed and generally more lucrative, and it has less credit and money risk than long-term lending. Besides, banks are able to convert short term loans more quickly into cash to meet demand or adverse clearing balances. More significantly short term lending imposes minimum burden and risk on the lending banker in terms of financial and investment analysis.

Before a loan is granted to a customer the person must have an account with the bank as earlier stated, he must have a good security and be of good character.

4.4 Types of Security Required from the Customer by the Bank

Banks generally ensure that securities provided by the customers must have the following characteristics.

a) That the security is easily realizable

b) It is not defective in title

c) It is not perishable

d) It should not depreciate in value

The United Bank for Africa Samaru indicated that they prefer landed property as customer's security, however, they accept other securities like guarantees, share certificates, balance of deposit etc. However, when the researcher interviewed the rural women, they felt that the issue of security should be reviewed by the management of UBA plc because not all rural women in business have landed property, share certificates or balance of deposit particularly, when such business women are in the initial stage of expanding their small businesses.

4.5 Lending Principles that are Most Important to the Bank in Taking a Lending Decision

The bank officials were asked to rank according to importance the lending principles required before lending decisions are taken.

The ranking was done in the following order:

1. Character
2. Capability
3. Purpose of loan
4. Amount of Loan
5. Loan Security
6. Loan Repayment

The explanation here is that bank needs to know the customer's character, meaning the customer has to be of good character for any loan to be granted to him. His capability and purpose of such loan, etc help the bank to know precisely how the customer has been performing, it also helps the bank to forecast the future performance of such beneficiary, all these help the bank to decide whether or not such customer is qualified to take loan from the bank.

However, the researcher feels that this ranking can best be utilized in the following order. The loan officer should first ascertain the credit worthiness of the borrower, that is her character. Secondly, ask for her capital, that is what she has as her initial take off sum of money or assets for that business. Thirdly, her capacity to judiciously use the loan effectively. Fourthly, the customer;s collateral - security) and lastly her willingness to repay the loan granted to her as agreed, that is bearing in mind the conditions attached to the loan.

The amount of loan a customer seeks for depends on how satisfied the bank is with all the above five principles mentioned. If the bank finds all the five principles satisfactory then obviously the customer would be given any amount she requested. It should be noted that all the principles mentioned above are taken as a package by the bank since all of these principles are very important when dealing with both new and old customers.

4.6 Amount of Loan Granted to Customers

The minimum and maximum amount of loan UBA can grant to its customer depends on the customer's request. Once the bank certifies the customer's status as satisfactory such a customer can be granted the amount he requested for.

However, when the investigator interviewed some of the beneficiaries of such loans, they complained that they could not enjoy much from the bank as per their requested loan. See table 4.2 below.

Table 4.2: Amount of Loan Granted to Rural Women

AMOUNT	NO. OF RESPONDENTS	PERCENTAGE
N15,000	45	90
N20,000	5	10
N30,000	-	-
N40,000	-	-
TOTAL	50	100

Most of them 45 (90%) said that they only enjoyed a maximum of N15,000, 5 (10%) of the respondents enjoyed N20,000 for the agricultural loan, and that these loans were even based on groups.

However, the Family Economic Advancement Programme (FEAP) established by the Federal Government of Nigeria for the purpose of uplifting the nation's industrial advancement has UBA as one of the banks approved by FEAP board to disburse funds as loan. About N500,000 to N1,000,000 can be approved per cottage industry (Aliyu, 1997).

4.7 How UBA Samaru Monitors the Progress of Loans Advanced

The monitoring of the progress of loans advanced is done in the following order of importance.

- 1st monitor behaviour of accounts
- 2nd Personal assessment
- 3rd Demand monthly report
- 4th Periodic review of projects by professionals

4.8 The Interest Rate Policy for UBA Samaru

The bank officials indicated that interest in loan and overdraft was negotiable but the rate at the time of this study was 24.5%.

4.9 Conditions Under which UBA Samaru Considers a Loan as Bad Debt

The bank indicated that when a customer refused to repay the loan after one year or on the agreed date of repayment such loan is considered bad. The bank further explained that classifying loan as bad debts does not necessarily mean that the bank has forgotten about the debt but is done to avoid incurring loss on what they have not got. However, the bank continues with its efforts for the collection of such loan.

4.10 How UBA Attempts to Recover Loan and Interest In Cases of Default

The bank was asked to rank in order of importance and procedure i.e. how it attempted to recover loan and interest in cases of default. It ranked n the following order.

1st - A strong worded letter to its customer

2nd - Legal action, that is, the customer would be sued to court

3rd - Sale of the security if secured.

4th - Sale of the venture

5th - Declared the loan as bad debt.

The bank however tried as much as possible not to rush into legal action so as to maintain its goodwill with customers. The

researcher interviewed the rural women on their perceived problems with the loans gotten from UBA Samaru Branch (See Table 4.3).

Table 4.3: Problems Encountered by the Beneficiaries -Rural Women) of Business Loans

PROBLEMS	NO. OF RESPONDENTS	PERCENTAGE
Inability to produce security for the loan	20	40
Non-payment of loan	10	20
High interest rate score rural business women from taking loan	10	20
Illiteracy of most rural business women prevents them from taking loan	10	20
TOTAL	50	100

Most of the rural women (40%) complained that they did not have landed property to pledge as security as demanded by the bank. This created serious obstacles to the effective provision of credit. Ten of them (20%) said their inability t repay loan within the specified period made the bank to take serious action on them. Some where even sued in a law court. Twenty percent of the respondent complained of high interest rate charged by the bank which scared them away, while twenty percent said illiteracy on the part of the rural business women made them not to cope with the banks laid down rules and regulation.

4.11 Summary of Problems Encountered with the Bank and the Beneficiaries of Business Loans

The researcher discovered that both the bank and the beneficiaries of such loan encountered the following problems:

1. Lack of Security

Lack of security was the main difficult bank faced in dealing with rural women. Many women did not have landed property to pledge as security as demanded by the bank. This created serious obstacles to the effective provision of credit.

2. Default

When customers refused to pay back their loans within the specified period the bank then sued them in a law court. Most of the beneficiaries of such loans did not have money to even withstand court charges.

3. Interest Rate

Both the customers and the surveyed bank complained that the interest in most cases scared the customers away. The customers suggested that low interest rate should be considered when dealing with rural women on small scale business.

4. Illiteracy

Most rural women in business were ignorant and illiterate so the bank found it difficult to explain the laid down procedures to them. On the other hand, the beneficiaries complained that the sources of information about such loans were mostly not available to them. Some of them got to know about such loans through their friends who are literate. Hence, effective communication barriers between such beneficiaries and the bank could constitute a serious problem to customers in their bid to follow the laid down bank procedures.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The study was undertaken to examine the availability of credit facilities to rural women in business. The study found out the lending practices and procedure of the bank the efficiency of the bank lending policies in terms of bad debts, repayments of loan and the interest when due or in case of default. The study dealt with the problems perceived by both the bank and the rural women with respect to credit functions in UBA. The study also identified the sources of information on credit facilities available to rural women in business.

The research questions raised for the study which were later analysed include:

1. What are the credit facilities available to rural women in business?
2. What are the sources of information on credit facilities available to rural women in business?
3. What are the bank lending practices and procedure?
4. What problems do the bank and the debtors encountered with regard to these services?

The scope of the study and the significance of the study was also highlighted among other things in Chapter One.

Chapter two of the study dealt with the review of related literature on the topic under study. This was necessary so as to expose and acquaint the readers with the existing state of knowledge within the subject matter. Some working definitions were highlighted, banks lending policies and principles, classification of loan, interest, loan default etc, were all highlighted.

Chapter three of the study dealt with the design and procedure for collecting data for the study while Chapter four of the study gave historical background of UBA Samaru Branch along with the data analysis. In addition, chapter four looked at the structure of loans and advances granted by the bank UBA) types of security, lending principles, interest rate policy, monitoring payment of loan and the conditions under which UBA Samaru consider a loan as bad debt.

5.2 Limitations of the Study

A severe limitation of the study was that rural business women, even those who operate on a fairly large scale, hardly kept any record or account of their business. Thus most of their responses during the interview were memory work which may be distorted or wrongly stated.

In addition, some of the questions raised in the questionnaire were either ignored by the bank official or they cleverly dodged

them, because to them such answers were confidential in nature, and this posed a serious constraints for the study.

5.3 Conclusion

Based on the findings and within the constraints of this study the following conclusions may be drawn:

1. UBA Samaru Branch considers lending as the most important services by the bank.
2. UBA Samaru gives loans for production, general commerce and services: Public utilities, transport.
3. In terms of sources of information available to rural women on credit facilities, most women got to know about such loans through their literate friends.
4. UBA Samaru prefers giving short term loans to its customers and that it does not have any minimum or maximum amount granted to a customer. The amount given to a customer depends on his/her request.
5. In terms of the lending principle that are most important to the bank in taking a lending decisions. UBA Samaru rates them in this order:

   1st - Character
   2nd - Capability
   3rd - Purpose of Loan
   4th - Amount of Loan

5th - Loan Security

6th - Loan Repayment

6. In terms of security, UBA Samaru prefers landed property as customer's security, however other securities such as guarantees, share certificates balance of deposit may be accepted.

7. In terms of the conditions for granting loan to its customer, the bank insists on the following conditions:

i) the person must have an amount with the bank

ii) she must have a good security

iii) must be of good character.

8. UBA Samaru monitors the progress of loan advances in the following order of importance:

1st - Monitor behaviour of accounts

2nd - Personal assessment

3rd - Demand monthly report

4th - Periodic review of projects by professional

9. The interest rate policy for UBA Samaru on loan and overdraft is negotiable but currently it is 24.5% at the time of the study.

10. UBA Samaru considers a loan as bad debt when customer is unable to repay the loan after one year or on the agreed date of repayment.

11. UBA Samaru adopts the following procedures to recover loan and interest in cases of default as following:

    1st - Strong worded letter written to the customer
    2nd - The bank takes legal action
    3rd - The bank sells off the security if secured
    4th - the bank sells the venture
    5th - the bank writes off the loan as bad debt.

12. UBA Samaru encountered problems with beneficiaries of loan much as lack of security and lack of repayment.

13. The beneficiaries of such loans complained that:

    i) The amount of money given is not enough to manage their small scale industries/business.
    ii) that interest rate is too high and that this discourages customers taking loans
    iii) the conditions for operating a current account to qualify women for borrowing are too strict for them. Because money for initial investment before long for working capital is a serious constraint.
    iv) UBA emphasized character in their lending principles. Here, the small borrower is relatively

unknown which is a disadvantage.

v) Most rural women are illiterate and are unaware of such credit facilities. While, these that are aware cannot grasp the procedure of procuring such credit.

5.4 Recommendations

Based on the findings of the study the following recommendations are made:

1. The policy of granting loans to rural omen should be reviewed and implemented. This is because most of the beneficiaries of such loans are small business women who are mostly illiterates.
2. The local government should mount a massive enlightenment campaign to educate rural women on the availability of such loans for small scale business and the need to repay loans according to arrangements.
3. There should be bank-customer dialogue to educate customers before and after applying for loan. This will go a long way in preparing the mind of the customer for the intricacies involved in credit dealings.
4. The bank should review the amount of money granted to rural women and the interest rate. This will encourage

more business women to rely on this bank to expand their businesses.

5. UBA Samaru should also try to revisit some of the conditions attached to loan procurement such as operating of account with the bank since most of the customers do not have the initial money but may have assets to run the business with the financial assistance from the bank. Such assets can be used instead of insisting on having an account with the bank.

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APPENDIX: QUESTIONNAIRE

Dept. of Business Administration
Ahmadu Bello University
Zaria

Dear Sir,

I am undertaking a project work as part of my partial fulfilment for the award of Master in Business Administration degree. The project is "An Evaluation of Credit Facilities Available to Rural Women in Business: A Case Study of UBA Samaru". It is my sincere hope that you will give me all the kind cooperation by providing me with all the necessary data required in this questionnaire.

I want to assure you that the outcome of the study will be useful to your branch. And all the information will be used for academic purpose only.

Thank you.

Aisha Z. Mohammed

QUESTIONNAIRE

1. What type of credit facilities do you have in your bank?

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2a. What are the various terms of loans granted by UBA according to the order of preference:

i) Short term loan

ii) Medium term loan

iii) Long term loan

b) What are the reasons for preferring one type to another?

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3a. What qualifies a person to take a loan from your bank?

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b) What are the types of security that are demanded from your customers?

4a. In taking a lending decision what are the lending principles that are most important to your bank. Rank according to importance:

- Character
- Capability
- Capital
- Loan repayment
- Loan security
- Purpose of loan
- Amount of loan

b) What are the credit policies of your bank?

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5. What is the minimum amount of loan your bank can grant for rural women?.....

6. What is the maximum amount of loan your branch can grant?

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7. What do you request from a business customer before you grant her loan?

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8. How do you monitor the progress of loans advanced. Rank according to the order of importance to you.

-Demand monthly report

-Personal assessment

-Monitor behaviour of account

-Periodic review of project by professional

9. Under what conditions) do you consider a loan as bad?

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10. What is the interest rate policy for UBA Samaru?

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11. How do you attempt to recover loan and interest in cases of default? Rank according to the order of importance and procedure:

- Sell security if secured
- Legal action
- Write strong worded letter
- Sell the venture
- Write off as bad debt

12. Brief historical background of UBA Samaru Branch

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13. Structure of the bank

a) How many departments are there in the bank?

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b) What is the administrative procedure of the bank?

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c) State the procedure for credit decision?

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14. Do the Central Bank's credit guidelines as contained in the Monetary Circular have any effect on your lending policy.

a) Yes

b) No

15. What are the sources of information: Rank in order of preference:

- Customer banking account
- Audit accounts of a customer
- External information

16. What other problems do you encounter with your customers with respect to credit functions in your bank?

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17. What do you suggest to these rural women to improve your credit functions/services?

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