AGRICULTURAL DEVELOPMENT FINANCING IN NIGERIA A CASE STUDY OF NIGERIAN AGRICULTURAL DEVELOPMENT BANK LTD (NACB

BY

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DECLARATION.

I Aisha Suleiman Abdullahi hereby declared that this project entitled Agricultural Development Financing in Nigeria A Case Study of NACB Ltd is the product of my own research effort and it has not been presented nor accepted any where for the purpose of awarding (higher) degree. All materials used have been dully acknowledged by way references and Bibliography.

Aisha Suleiman Abdullahi 17th/Feb/2010

CERTIFICATION/APPROVAL

The project entitled "Agricultural Development financing in Nigeria a Case study of NACB Ltd." meets to regulation governing the award of the degree of Master of Business Administration in (MBA) of Ahmadu Bello University, Zaria and is hereby approved for its contribution to knowledge and literary present action.

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DEDICATION

I dedicate this work to my father Engr. Suleiman Abdullahi who gave me the greatest gift a parent can give a child - the gift of love and knowledge.

ABSTRACT

The financing of agricultural development in Nigeria has all along been given priority especially in all the nations development plans. A substantial part of the nation's resources have been allocated to important sectors. Unfortunately, despite all these efforts, agricultural production has remained low.

This study therefore focuses on the desire to investigate the real problems behind this unfortunate development. It examines the extent to which agricultural financing institutions particularly the NACB have contributed towards agricultural financing in Nigeria.

In carrying out the investigation, the study made use of data from both primary and secondary sources. The data collected were analyzed using percentages, simple averages and descriptive research methods.

Inspite of heavy investment in the sector by agricultural finance institutions, the study discovered some of the problems that contributed to low agricultural production as; delay in the disbursement of funds to farmers, diversion of loans meant for farming to other uses, and lack of proper monitoring and appraisal of loan applications by agricultural finance institutions. This often results in huge bad debt losses and increasing cases of litigation by the bank.

ACKNOWLEDGEMENT.

I wish to express my gratitude to the Almighty Allah without whose supreme guidance I might not have been able to write this project.

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CHAPTER 1

INTRODUCTION

1.0 BACKGROUND OF THE STUDY

Agricultural finance is the economic study of the acquisition and use of capital in agriculture. It deals with the supply of and demand for funds in the agricultural sector of the economy. A knowledge of fundamental economic and management principles and analytical procedures facilitates obtaining control over capital and using it effectively.

Investment analysis helps determine how much capital will pay to allocate to alternative uses. Financial analysis relating to income, repayment capacity, and risk management indicates the total amount of capital the farm business can profitably and safely use. Information on the legal aspects of borrowing, leasing, and contractual arrangements helps the farmer aspects of retirement and estate planning can ensure an orderly transition and transfer of the farm business to the next generation.

An understanding of agricultural credit institutions and the legal and regulating environment in which they operate helps in the selection of leaders who can provide the proper amount of credit along with the terms and related services needed to adequately finance the business.

1.2 STATEMENT OF PROBLEM

In Nigeria, the financing of agricultural development has all along been given priorities in all development plans. Over the yea s, since 1972 when the Federal Government called for agricultural projects throughout the country through a loan obtained from the World Bank. Inspite of all the efforts of the government over the years, agricultural production has remained problematic from the consideration of insufficiency of production levels and escalating prices of farm produce.

The present agricultural productive system which are more capital intensive, are to provide food to the average Nigerians of affordable prices and are incapable of providing the basis raw materials for the Nigeria's Agro-industries at a non- nflationary costs.

In Nigerian Banking syster , attracting funds to the agricultural sector has been difficult especially to small scale farmers who are nc t capable of producing acceptable collaterals to bank up their loan request. Inspite of which the small scale farmers have been identified as the targets of an optional agricultural transformation strategy, the small scale farmer produces 95% of the total domestic production, he is

a rational economic man that is economically efficient at organising available productive resourc

It is, therefore, the intent on of this study to examine possible reasons for our failure in t sector inspite of Government de iberate intentions in the right direction. The research work see to find out the extent of damage to good noble goals banker's skepticism has generated.

1.3 AIMS AND OBJECTIVES OF THE STUDY

The aims and objectives of this study are to look into the extent of the financial institutio more especially the Bank (MACB) contribute towards the boosting or agriculture in the count the urpose for which the Bank has been established, and the lapses or weaknesses of the motive and the problems being encountered by lenders and the borrowers.

Other aims are to look into the ways such problems being encountered by the farmers forms of borrowing could be minimised.

1.4 SCOPE OF THE STUDY

Financing agricultural projects through Development Banks is a very wide area of study. is, therefore, appropriate to delineate the area of Coverage of this study. As can be noted from th topic, the study covers agricultural financing taking Nigerian Agricultural and Co-operative Ban Limited as a Case Study. Hence, in discussing the issue, all efforts will be concentrated on Nigeria Agricultural and Co-operative Bank Limited.

Secondly, it is not an over statement that various efforts have been made to finance agricul tural projects through Development Banks. In this Study, all such efforts will not be discussed i totality. Rather, discussion will be limited to the period, 1973 to date when Nigerian Agricultura and Co-operative Bank Limited came into existence. and that will be based on readily availabl data by NACB.

Thirdly, the study is no way attempted to discuss all the various efforts of Nigerian Agricul tural and Co-operative Bank Limited at financing agricultural projects and the ensuing problems but rather the more conspicuous ones hoping that their understanding will put the reader in a bette position to appreciate the importance of Development Banks in the growth of agriculture in Nige- ria.

1.5 RESEARCH METHODOLOGY

It is quite imperative that every research work has methods through which the computation o its data has been done. Data collection systems are applied where it is necessary to collect data fron dispersed locations within an organisation with a minimum time of recording and in a form suitable fo processing to obtain the desired information.

1.5.1 SOURCE OF DATA COLLECTION:

This research is carried out through the use of secondary source. Most of the information anc statistics required can be obtained in published government documents and other journals, periodicals and allied organisational publication.

In a situation where some information needs to be thoroughly verified, the various agencies and organisations concerned will be contacted for such verification when and where necessary.

The majority of the data used therefore, will be from books and articles written in journals anc magazines and published empirical and statistical data from both the government and the organisec private sector.

1.5.2 METHOD OF DATA ANALYSIS:

The topic deals solely on financing agricultural projects through Development Banks. This, therefore, entails enumerating the performance of the various agricultural projects embark upon to ascertain whether the desired result is obtained. In the course of enumerating the performance of such projects and the activities of the Nigerian Agricultural and Co-operative Bank Limited, which is the case study, diagrams and tables will be effectively utilized to illustrates their performances and activities.

Also, there will be a comparism of the performance of the NACB with other means available to finance such project. at the end of it we will be able to judge whether there is a better alternative to NACB.

1.5.3 JUSTIFICATION OF THE METHOD USED:

Primary source of collecting data would have been used because of its high reliability but it was not possible due to the intervention of the Research Manager of the organisation highlighting the logistic problems behind it.

Questionnaires could h ive been used also, but for the refusal of the organisation and persons contacted for the completion. The reason given which justifiable, is that most of the information and statistics needed can be found in the various publications which they readily provide the assist me in my work.

1.6 LIMITATIONS OF THE STUDY

In any human endeavour, one is bound to be confronted by a number of limitations in the course of one's assignment, some of these limitations are apparent and can thus be identified. Therefore, it won't be surprised that in carrying out this research a number of limitations were encountered. Such limitation, among others, are:

Most of the needed information could be made available by NACB. As an institution that is set out to project its image, the negative aspect of its operations may not be forthcoming. As will be expected, NACB will only make available those information that it wants the public to know.

The validity and reliability of the data and materials used cannot be absolutely guaranteed. Hence, errors arising from subjectivity cannot be ruled out.

There is lack of adequate statistical data. Farmers who are beneficiaries of loans from Development Banks do not keep data or to say the least, are not aware of the importance of data. Therefore, the available information is based on the scanty statistical data.

It is also pertinent to point out that the time factor is not to the advantage of the researcher. For an in depth research work, much time is needed for gathering facts and the like.

Lastly, though not the least, is financial constraints. Considering the nature of the study, the resedrcher is expected to acquit himself with the organisation concerned and the recipient of NACB's services. This involves a large financial commitment which is not forthcoming in the present economics hardship.

The above limitations not withstanding, this study is carried out in the best academic manner possible under the situation.

CHAPTER 2

LITERATURE REVIEW

2.1 THE TERM AGRICULTURAL FINANCE

Agricultural finance is of course only one of the most important input resources vital for agricultural development. These notwithstanding, most agricultural credit programmes are founded as if credit were the limiting factor.

Agricultural finance encompasses all loan and advances granted to borrowers, whether beneficiaries of agricultural reform or some other one relating to agriculture, fisdheries and forestryand also for the processing, marketing, storage and distribution of products resulting from there activities.

Farm credit could be for production, or formeeting the current or land capital expenses of the farmers.

Production credit are usually of short - term duration and could be applied for purchase of seeds, fertilizers, manures, fodder, pesticides, insecticides and fungicides.

Capital loans are of long - term which are of much concerned in this research topic. These are usually required to finance fixed assets such as land, construction of farm building, purchase of livestocks, and for other developmental purposes which brings about changes in the physical and financial assets of the farmer.

Farmer's credit are derived from two main sources:-

1) Non institutional and

2) Institutional. But we are of most concerned with the institution one.

Institutional Sources: These could be categorized into two:-

a) domestic; and

b) foreign

And here again we are concerned with the domestic sources. Before the emergence of banks credit, there exists traditional credit system which reigns supreme in large parts of the rural areas of this

country but the direct intervention by the Federal and State governments in agricultural financing have brought about a significant shift of emphasis to meaningful improvement and expansion of farming. We would therefore, here move on to discuss the bank as a source of farmers' credit. The Development Banks are those we are interested in this project and NACB is one of such banks which is entirely required to finance farmers directly or through other bodies all over the country.

Problems of Agricultural Financing

This may be grouped as follows:

1) Problems associated with agriculture itself.

2) Problem created by farmers

3) Other problems.

Problem Inherent in Agricultural Production

These includes:

i) Natural hazards like unfavorable winds, drought, flood, soil factors and pest which are unpredictable, some which of course have no immediate solutions;

ii) Time specificity of activities in agricultural production. Any delay may have serious consequences;

iii) The high rate of perishability of agricultural products;

iv) Absolute inelastic nature of land, relative scarcity and immobility of farm labour also contribute to the risky nature of agricultural projects;

2) **Problems Created By Farmers**

i) There is a deliberate misconstruction of the objective of government in instituting credit programmes. Agricultural loans, especially those which are connected with government, or its parastatals, are regarded by most farmers as a national cake, a bonus, a grant that must necessarily be distributed equally that the masses at the grass root level.

ii) Diversion of loan meant for agricultural project to other selfish purposes;

iii) Mismanagement which may be due to wrong selection of enterprises. At times customers venture into the areas of production in which they have no knowledge.

3) **Other Problems**

i) Insufficient appraisal of agricultural project before approval may lead to project failure.

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ii) Interest rates are too low to cover the cost of administration of the loan;

iii) Inadequate securities is also another problem. Experience has shown that many rural farmers have landed properties, but the drudgery of endless waiting for certificate of occupancy has a frustrating effect on genuine farmers.

2.2 PRINCIPLES OF GOOD AGRICULTURAL FINANCING

Below are listed principles of a good Agricultural financing:

i) Nigerian Agricultural Bank, financing institutions should make loans available to the small farmers through co-operative societies.

By operating through the co-operative societies , banks reduce cost of processing and supervision.

ii) Maximisation of loan repayment would call for supervisions of the use of rural credit. This has helped the Nigerian Agricultural Bank and the success of the loan schemes.

iii) Existing and future financial institution should combine saving schemes for farmers with it's credit programme. Such a scheme would provide further means for financing the bank and create a closer attachment of the farmers to the bank.

iv) Sufficient appraisal of agricultural project. Special consideration must be given to

a) Location of project

b) Combination of enterprises - enterprises must be combined in such a way as to obtain maximum output.

v) Government Policy: Decision made by different government agencies must be co-ordinated so as to avoid possible conflicts.

vi) Provision of adequate and suitable securities.

vii) The beneficiaries of the Agricultural finance credits should be educate on the Agricultural Credit Guarantee Scheme. The topics for discussion should include among other things:

a) The implication of the 75% guarantee

b) The difference between agricultural loans and subsidies;

c) The necessity to refund money borrowed from banks;

d) Appropriate plaintive measures should be taken against agricultural loan defaulters. This should be made known to members of the public. Similarly names of customers who have repaid the loan on schedule should be published and should be awarded certificate.

2.3 HISTORY OF AGRICULTURAL FINANCE IN NIGERIA.

Nigeria with a population of over 88 million covers a land area of 98.3 million hectares; and of this total available land resources an estimated 73.7 million hectares is cultivable and provides excellent land resources for the cultivation of all tropical crops. The available huge land mass and human resources when combined with the extensive water resources offer an excellent resource base for increasing agricultural production in the country through the use of increasing efficiency of biological, chemical and mechanical means of production, storage, processing and marketing.

When Nigeria attained its political independence in 1960, agriculture was the dominant sector of the economy; it constituted over 65% of the country's gross domestic product and provided the bulk of the foreign exchange earnings through the export of "Cash crops." The sector catered adequately for nearly all the requirements and raw materials for industries in the country, the major export crops were groundnuts, cocoa, cotton, palmoil, and rubber.

The situation, however, changed drastically at the beginning of 1970's when agricultural output started to decline rapidly having coincided with the period of oil boom and the severe drought of 972 - '73. The overall agricultural situation deteriorated creating a wide gap between the supply and demand for food, thereby the revenue from agricultural export dwindled and the government was faced with mounting food import bills. Industries restored to the importation of agricultural raw materials thus putting a lot of stress on foreign exchange. In order to tackle these problems facing agricultural sector, the government put in place certain policies and programmes with a view to solving then. Within the context of structural adjustment Programme (SAP), the government produced an agricultural policy for the country which contained a comprehensive package of policy instruments which are to be pursued vigorously for the attainment of the aforementioned objectives.

Since the attainment of independence, institutional credit has been an important source of agricultural finance. Government credit granting agencies, commercial and Merchant Bank constute the main avenues of institutional credit. Among the government agencies, the Central Bank of Nigeria is a very significant source of agricultural finance by contributing funds to institution that finance agriculture.

From 1968 - 1986, the Central Bank of Nigeria (CBN) financial marketing operations of the abolished Commodity Boards by lending to the boards averagely N100 million yearly. But the Boards have recently been replaced with the introduction of the marketing boards.

Under 1975 - '80, Credit guidelines to Commercial and Merchant Bank, the Central Bank of Nigeria (CBN) was authorised to collect from these bank the amount by which they fail to meet the credit target for agriculture and to channel part of the funds to Nigerian Agricultural and Co-operative Bank Limited (NACB). This Bank, NACB was organised as a development to provide credit and loans for agricultural development, it was established to finance all agricultural development projects subject only to the viability of such projects, and the provision of adequate securities - in character or substance. It was intended to charge less than the Commercial Bank rates. Emphasis was to be on small farmers while both repayment capability and security were to be emphasised. Borrower should possess good business reputation and personal and institutional guarantees were acceptable .

Examining the Table I below emphasis seem to have been places on loans to cooperative organisations, and within this group, more marketing loans have been made.

TABLE I

COOPERATIVE MARKETING AND PRODUCTION LOANS

State	Marketing Loan	Production Loan	Total
Anambra	1,061,707	5,856,601	6,918,308
Bauchi	6,009,000	-	6,009,000
Bendel	2,044,642	-	2,044,642
Benue	648,000	-	648,000
Borno	17,562,800	-	17,562,800

Gongola	3,339,500	3,357,921	6,697,421
Imo	1,014,691	7,009,493	8,024,184
Kaduna	23,598,082	-	23,598,082
Kano	5,253,412	-	5,253,412
Kwara	1,830,420	250,000	2,080,420
Ondo	21,558,673	-	21,558,673
Oyo	7,504,000	-	7,504,000
Rivers	624,750	-	624,750
Plateau	2,000,000	-	2,000,000
Sokoto	3,879,000	-	3,879,000
Lagos	-	753,320	753,320
GRAND TOTAL	**97,928,641**	**17,227,335**	**115,115,976**

Source: NACB

Table II

GROSS DISBURSEMENT OF LOAN BY THE NACB

Year	Gross million	To Coops.	%	To Govt.	%	Others	%
1976/77	40.5	N.A	N.A	N.A	N.A	N.A	N.A
1977/78	52.5	24.4	46.5	19.6	37.3	8.50	16.2
1978/79	44.6	35.0	78.5	7.2	16.1	2.4	5.3

Source: Complied from NACB Annual Reports, 1977/78, 1978/79.

N.A Means Not available.

Now and then, the Bank complains of shortage of fund to meet its loan obligations of the total loans opproved and disbursed during 1977/78 period, 46.5% was for co-operative (mainly marketing) organisations. Government agricultural institutions received 37.3%. 16% went to direct borrowers, who were more likely to be the larger farmers. In 1978/79 period, the cooperative organisations increased their share of the disbursed fund. They received 78.5%. Government and other borrowers received 16% and 5% respectively. The rise in the proportion of loans received by the co-operative organisations is not accidental, rather it was a deliberate policy.

From the above, we discern that the thrust of one major source of agricultural finance is the bigger organisation - cooperative societies. It is obvious that only few small farmers have been reached by NACB.

In order to induce commercial and Merchant Bank to further improve their compliance with the guidelines on credit allocation to agriculture, the Federal Government in co-operation with the CNB established the Agricultural Credit Guarantee scheme (ACGS) in 1977. The scheme was design to protect the banks against some of the risks inherent in agricultural lending to guarantee a refund of 75% of defaulted loans not of the amount recorded by the banks from the defaulting framers. The Guarantee Scheme operates through the commercial banks. Security requirements are the same as well as the objectives with the NACB, interest rate is determined by the Ministry of Finance, but are generally lower than the rate for non agricultural loans. In 1980, the rete was 6.0 percent for agricultural projects. The greater compulsion for the banks to lend to agriculture is the Central Bank Credit guideline that as a minimum proportion, 6% of all bank credit should be for agricultural projects.

The maximum loans which can be guaranteed under the scheme are N100,000 to an individual farmer and N1 million to a Cooperative Society. The scheme covers the production of all crops, fish farming, animal husbandry, crop storage and integrated agricultural projects. The number of loans granted under the scheme was increased from 341 valued at N11.3 million in 1978 to cumulative 91542 valued at N1666.9million in December 1989, about 86% of which went to food production

Number and Amount of Loans Guaranteed by ACGSF

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Table III

Year	No. of Loans	Amount of Loans
		(N'000)
1978	341	11,284.4
1979	1,105	33,596.7
1980	945	30,945.6
1981	1,295	35,642.4
1982	1,076	31,763.9
1983	1,333	36,307.9
1984	1,642	24,645.9
1985	3,337	44,243.6
1986	5,203	68,417.4
1987	16,209	102,152.5
1988	24,538	118,611.0
1989	34,518	129,300.3
1990	30,704	98,494.4
1991	22,014	82,100
1992	21,206	88,031.8
1993	15,514	80,845.8
1994	16,572	103,186.0
1995	18,079	164,160
1996	19,036	225,502.5
TOTAL	234,667	1,509,231.1

Source: (i) ACGSF Annual Report.

(ii) CBN Annual Report and Statement of Account.

TABLE IV

MERCHANT BANKS LOANS TO AGRICULTURE

Year	Prescribed distribution	Actual Loan	Deviation
1978	4.0	4.1	+0.1
1979	5.0	3.9	-1.1
1980	5.0	5.6	+0.6
1981	5.0	5.0	-
1982	5.0	4.7	-0.3
1983	5.0	5.3	+0.3
1984	5.0	6.7	+1.7

Table V

COMMERCIAL BANK LOANS TO AGRICULTURE

Year	Presented % Distribution	Actual Loan	Deviation
1978	6.0	6.5	-0.5
1979	6.0	7.1	+1.1
1980	8	7.3	-0.6
1981	8	6.9	-1.0
1982	8	7.7	-0.2
1983	10.0	8.5	-1.5
1984	10.0	9.1	-0.9

Source: Central Bank Annua Report and Statement of Account.

Figures are April - December / verages

Table IV and table V summarised the performance of the institutions. The Commercial and Merchant Banks failed to meet he prescribed minimum, except in 1978, 1980, 1983 and 1984 when the

merchant bank exceeded the minimum and also in 1979, the Commercial Banks too also exceeded its own prescribed minimum. It was not possible to classify commercial bank credit to agriculture as for marketing, merchandising, production, etc, but one could speculate that most of the loans have gone to the bigger, as opposed to the smaller farmer, and may have been for marketing functions rather than production functions. Without making much ado about this profile, we can say here that there is every indication that the small farmers are still left out. The problem persists.

As a supplement to ACGS, the Federal Government established the Nigerian Agricultural Insurance Company (NAIC) in 1984 to protect farmers against losses owing to natural harzards.

The Federal Government also pursues a policy of finding agricultural extension, research and development through grants to universities of Agriculture and other institutions. A sum of N50,000 was given to universities of Agriculture in 1990 for that purpose. Lending to agriculture has also been done through a policy of stipulating credit guidelines to the Commercial and Merchant Banks. Commercial Banks credit to agricultural sector averaged 15.3% of their total loans and advances in 1989 compared with maximum target of 15% by the monetary authorities for the year. In value terms, this involved loans and advances of about N367.2 million in that year (1989), in 1990, a lending average of 15.8% amounting to N663.6 million. The Merchant Banks allocated 14.3% of their total loans/ advances to agriculture in 1989. The total total loans approved by NACB in the year 1990 amounted to N515.7 million involving 30,727 agricultural projects.

Budgetary Allocations:

Direct government spending on agriculture amounted to N152million in 1962/75 and 1966/ 97:601.4 million in 1970/71 - 1974/75 and N1201.5 million in 1975/76 - 1978/79 with the Federal Government accounting for 51.2% of total spending during the period.

Federal Government Capital Expenditure on

Agriculture As a Percentage of Total Federal Budget

(1970 - 1991) (N Million)

Year	Agricultural Capital (I) Expenditure	Total Federal Capital Expenditure (II)	(I) As A % of (II)

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1970	5.6	22	2.5
1971	8.4	173.8	4.8
1972	20.7	457.3	4.6
1973	35.4	565.7	6.3
1974	87.4	1,5549.5	5.6
1975	211.2	3,578.2	6.0
1976	129.2	4,219.5	3.1
1977	113.7	5,442.3	2.1
1978	125.0	5,197.0	2.4
1979	98.3	4,837.4	2.0
1980	467.3	8.395.5	5.6
1981	400.4	5,696.9	7.0
1982	278.9	7.950.2	3.5
1983	291.1	5,868.6	5.0
1984	160.9	3,812.2	4.2
1985	87.9	1,707.4	5.1
1986	60.3	8,473.9	0.7
1987	232.4	16,458.0	1.4
1988	213.0	6,179.7	3.4
1989	173.2	15,034.1	1.2
1990	117.1	13,452.1	0.9
1991	267.1	13,085.4	2.0

2.4 AGRICULTURAL LENDING FOR RURAL DEVELOPMENT: PROBLEMS AND PROSPECTS

The rural sector in Nigeria is defined in a boards sense as consisting of all economic activities outside the urban econo ny. In the Nigeria context, agriculture form the bulk of economic

activity of the rural population, in contrast, all other activities like crafts (Wearing, dyeing, pottery an so on), processing particularly food processing and other cottage or family unit industries and trad forms a line of activity second to agriculture.

Evidence from the National Development Plans suggests that the contributions of Agricultur to Gross Domestic Product (GDP) declined from 55.6% in 1967 to 45% in 1970/71 and 23.4% in 1975 However, this contribution has been fluctuating of late. At 1984 - constant factor cost, the contributior of agriculture to the GDP were 40.20, 39.82 and 40.03 percent in 1987, 1988 and 1989 respectively.

Also, it is estimated that in 1966/67, agriculture accounted for about 71.7% of all gainfully employed persons. However, with rapid unbanisation and increasing opportunity for employment in the urban - based industrial expansion and consequent migration from rural to urban areas, these numbers have greatly diminished in recent years.

Inspite of the continued migration and the declining number of persons gainfully employed in agriculture, an estimated 85% of Nigeria's population lived in the rural area in 1973.

RURAL DEVELOPMENT

Rural development can be defined as:

(a) a process of not only increasing the level of per capital income in the rural area, but also the standard of living of the rural population, the standard of living depending on such factors as food and nutrition level, health, education, housing recreation and security.

(b) Development of the rural people in such a continuous manner as to enable them to most effectively and efficiently utilize their intellect, technology and other resources for further development of both themselves and their resources.

(c) The process of rural modernisation and the monetization of the rural society, lending ti its transition from traditional solution to integration with the national economy.

NACB AND RURAL LENDING

The bank was able to santion loans totalling N304,222,000 from 1973 to 1980 under the direct lending and the on lending scheme. The approved figures for the direct loans for the period was N126,156,000 and under the on-lending scheme, the figures was N178,066,000.

Under the on-lending scheme. Credit was channelled through co-perative societies, state and Federal Government on-lending agencies and the River Basin Authorities. The object of this scheme is for the on-lending agencies to endeavour to reach as many rural farmers as possible since the bank lacked the infrastructure, personal and facilities to penetrate the rural area sufficiently.

However, appraised of the on-lending strategy revealed that many rural farmers could not be reached through th existing machinery

In order to remedy the situation, the NACB introduced the small Holder Direct Loan Scheme in March 1981, on a pilot scale. Under this scheme, each farmer could get credit up to a maximum of N5,000 without resources to the provision of either collateral or little to land.

As a result of the economic hardship in which the country found itself in 1984, and which led to large scale retrenchments in both the public and private sectors of the economy, the bank widened the scope of its direct Small Holder Scheme to take care of retrenched workers who wanted to take up farming as a occupation. Also the widening of the scope took care of those still in employment in both the public and private sectors but who are interested in farming.

By 1986, it was generally realised and acknowledgment that this type of scheme of delivering credit to farmer directly by the bank is most beneficial.

Because of the success recorded by the NACB in the execution of the small holder direct loan scheme, the Federal Government in 1986 directed the Commercial banks to incorporate lending to small holders under the Agricultural Credit Guarantee Scheme Fund (ACGSF). The operation of the small Holder direct loan scheme by the banks has further increased access of rural farmers to farm credit. In 1989 for instance, a total of 34,518 loans valued at N129.3 million were guaranteed under ACGS. This represented increases of 21 and a percent respectively over the number and value of loans guaranteed in 1988.

PROBLEMS OF RURAL LENDING

(a) Lending to small rural enterprise is perceived as being risky. The uncertainties that face a small rural industry, the high mortality rate the susceptibility to market changes, and any economic fluctuations make banks reluctant to deal with these clients.

(b) There is a parallel reluctance on the part of small rural enterprises to borrow from banks. The administrative the paper work involved, are a formalities of obtaining bank finance, particularly the paper work involved, are a formidable different to most small businesses.

(c) There is a distinct institutional bias towards lending to the large corporate sector.

(d) Small enterprises are unable, or are unwilling to present full accounting records and other documentation called for by banks. In most cases such records just do not exists, making appraisal of loan application difficult.

(e) Usually small borrowers are unable to provide the collateral and security demanded by lending institutions before approving loans.

PROSPECTS OF RURAL DEVELOPMENT

(a) Farmer Co-operatives:- Rural farmers could enhance their chances of obtaining institutional credit through the formation of farmer co-operatives. Infact, the cost of credit delivery is reduced if lending is made to the co-operative society which will in turn on-lend the credit to its members. One advantage of co-operatives is that they provide group support, security and stability to administer small loans in isolated areas.

(b) **Marketing:-** Any effort made at improving and increasing the output of the rural farmers should include arrangements for the disposal of the farmer's produce through an organised market arrangement. Such markets will help assure the farmers of easy disposal of produce, more importantly at remunerative prices.

An organised market like a Commodity Exchange Market will assist in this direction. This Commodity Exchange Market provides an avenue for the bulk purchases of any tradeable agricultural commodity all the year round, removing the disfunctions to seasonal peaks and valleys and therefore smoothening demand and supply relationships.

(c) **Interest Rate:-** The reluctance of institutional credit sources from lending to small farmers is due to the high cost of administering credit to these category of borrowers, we had make assertion to this earlier. However, this cost can be reduced if the interest charged on such small farmers loans are sussidized by the government. Infact as interest rate subsidy is just like a fertilizer subsidy - or any other susidy, subsidies are sometimes efficient tools for getting things moving. Farmers will be more prepared to adopt a new crop or a new technology if the cost of innovation and therefore the risk, is reduced. Soft loans are one way of providing that incentive.

2.3 THE COMMODITY EXCHANGE MARKET (COMEX)

A commodity exchange market is an institution (usually corporate) which is established by its founders in order to provide trading facilities to producers and end-users of commodities. Some commodity exchange

markets serve their immediate locality, while others enjoy substantial regional and international patronage. The sellers meet to transact business. The exchange also has a clearing house which has the responsibility of recording daily business done at the exchange and more importantly, clearing all traded transaction at the exchange. The exchange itself does not but or sell on its own account in the market, it occupies itself with regulating the activities of traders checking the commodities traded, supplying information about the market, research, developing new commodities for trading and setting disputes among traders.

There are two types of con racts or markets that pre-dominates the operations of the commodity exchange market namely; the spot (cash) contracts and Future contracts

A cash contract is for imm diate delivery of a commodity. It is used by food processors or other who need the commodity immedi tely to fulfil an order.

A Future contract is an agi eement that involves deli ry of a specified amount of a stated commodity at a designated time in the uture (if the contract is not liquidated before maturity).

The essence of the CONEX is the futures contracts. Most futures contracts are bought and sold as a means of hedging and there is no intention of taking delivery.

An individual may enter a hedge transaction to reduce the risk of loss from price fluctuations. The standard procedure is to take position opposite to the one you are already in.

Example: Consider the cas of a flour producer who signs a contract in April with a food processing firm to deliver 20 tones of flou r the following July. Because the contract is for July wheat price. At the quoted will be bases upon the July wheat price. At the time the contract is signed, the price fore a July wheat contract is 440 (N4.40 kilogram). Therefore the commodity processor will quote a price for the flour that assumes he will buy the wheat required at N4.40 a kilogramme. Once the contract is signed the processor is

basically short 20,000 kilogramm s of wheat and he does not own the wheat. To hedge his position he would immediately buy four July wheat contracts on the COMEX. Assume that between April and June (when the processor must buy the wheat in the cash market to fulfil his flour contract) the price of wheat has increased to N4.75 a kilogram me. The processor's cost will be as shown below:

cost of 20,000kg at N4.75		N95,000
cost of 4 contracts at N4.40	- N88,000	
sale of 4 contracts at N4.75	- N95,000	
Gain on future contracts		7,000
Total cost of whea for flour contract		88,000

As shown, although he processor has to pay more for his cash wheat than the contract price, he made a profit on his futures contract. As a result, his net cost was N88,000 or N4.40 a kilogramme, which is consistent with his contract.

IN contract assume that the price of wheat declined from N4.40 to N4.20, the processor's cost will be as shown below:

cost of 20,000kg at N4.20		N84,000
cost of 4 contracts at N4.40	= N88,000	
sale of 4 contracts at N4.20	= N84,000	
loss on futures transaction		(4,000)
Total cost of wheat for flour contract		N88,000

In this instance, the processor did not have to pay as much for the wheat, but lost on his futures transaction so that the total cost was N88,000 or N4.40 a kilogramme. Again, one might say that he would have been better off in this case if he had not entered into the futures contract because he would have made more on the flour contract. The fact is, this would have required the processor to speculate on the future price of wheat. The whole point of the hedge is to avoid speculation. The processor wants to make his income from processing the wheat and does not want to be required to accept the possible price risk related to his basic commodity. The use of the hedge allows him to avoid this price risk. Beside using the futures market to hedge a position, an investor can speculate in commodities futures (options). But this is the realm of the professionals and should not concern us at this point in time.

The Nigerian Agricultural and Co-operative Bank Limited through proposed commodity Exchange Market is trying to evolve such a facilitative organisation. This would encourage division of labour and specialization, the gains of specialization through the COMEX would arise because of scale of economics.

The bank, because of its heavy financial and socio-economic responsibilities, decided to lead a consortium comprising National and Regional Development Institutions and State Investment Companies all over the country to establish Nigerian Commodity Exchange Market which will provide facilities for the organised trading of the nation's agricultural commodities.

IMPORTANCE OF COMEX

Full appreciation of what a commodity exchange market is can be derived by not only understanding how the market is organised and operated, but also understanding the important role which the market plays. Commodity Exchange Market is an enlightened organised and free market system in which agricultural products could be traded on very large scale. It provides an avenue for the bulk sales and purchases of any tradeable agricultural commodity all the year round, removing the disfunctions of seasonal peaks and valleys thereby smoothening the demand and supply relationships.

Through the futures market operations, the exchange also provides a favourable environment for investors who may or may not be farmers or users of farm products. The COMEX gives massive boost to an economy in many respects thus:

(i) it brings the interest of the buyers and sellers together, and helps to develop rapid unfitted and efficient two-way communication between the market forces of demand and supply through the future market. This enables the farmers who are often at Risk of falling prices of their produce "lock in" prices even before harvesting their crops.

(ii) prices determined in the commodity exchange markets, especially the futures markets represent consensus of industry opinion as to likely trends which events in the industry will assume in the future.

(iii) the futures market offers attractive opportunities to investors to employ their commercial act men and make money from trading in future, it helps manage the risks that are part of doing business. The fewer the risks a business has to take the lower the cost it needs, to break-even and possibly make profit.

Furthermore, Commodity Exchange Markets provide enormous employment opportunities, the marketing channel of agricultural products traded at the exchange markets, from farm gates to the end-usage points, creates numerous jobs for what could otherwise remain idle labour force. This gives commodity exchange a pride of place in the developed and developing economics of the world. That is why the introduction of an effective Commodity Exchange Market in Nigeria is how eminently desirable.

however, that fund used on a collective farm stands a better utilization since the possibility individu members that can be diverted to unproductive means.

AGRICULTURAL MARKETING

The process of agricultural marketing includes all those activities, arrangements, and prepar tions which assist the co-operative farmer in disposing of his marketable produce. This area is rather th most important area where co-perative role is very marketable. Co-operative agricultural produc marketing is usually associated with agricultural credit.

Co-operative unions easily provide pre-seasonal loans to farmers, repayment of such loans wa usually tied to the members produce marketing. More important in this arrangement is that member do not necessarily have to wait until the produce are sold before collecting their money.

The need for members to provide collateral securities in form of developed properties does nc arise. All the members have to provide is two guarantors who are also financial members of the sam Co-operative Society. The borrowers must have contributed shares and savings deposits before the qualify for a loan.

In case of default, both the savings/deposits and share capitals of both the debtor and his guar antors are forfeited and applied to repay the loan.

OTHER SERVICES PROVIDED BY CO-OPERATIVE SOCIETIES

(i) Storage: The Co-operative can provide the storage facilities centrally at reduced charges.

(ii) Transportation or produce hanlage: Co-operative unions usually purchase relevant vehicles t collect their members' produce from agreed collection points for delivery to the appropriate unions warehouses, and the cost of such services are deducted from embers produce prices.

(iii) Packing: Co-operative organisations also provide standards containers or other packing materials to the farmers before the season to ensure uniform packing.

(iv) Processing: In some cases, the Co-operative Society will undertake to process the crops of thei members before sales Necessary processing machines and equipment are purchased and in stalled by the society for members' use.

(v) Tractor Hiring Scheme: Establishment of Co-operatives hiring unit charged to acquire machiner ies and equipment through either own or borrowed capital by Co-operative Societies so that such equipment are within the reach of peasant farmers is a great service to their members.

NIGERIAN AGRICULTURAL AND CO-OPERATIVE BANK LIMITED

In 1978, the bank highlighted the role it can play in financing co-operative projects. The bank reaches its beneficiaries either through direct or on-lending methods.

On bank direct lending, co-operative society that can provide material securities benefit from the bank. In most cases individual members who agree to offer their personal properties as securities end up asking for a share of the loan to cover the risk of their properties which normally lead to disagreement within the society to the detriment of the success of the project.

Co-operative organisations have benefited more from the bank through the on-lending scheme. In this case a central co-operative organisation to which primary societies are affiliated will obtain a loan from the bank to be no-lent to its members. In most cases these apex societies have enough developed properties to offer as security to the bank, and where the co-operative fails to offer a property as collateral security, the bank insists on the state government guaranteeing the loan.

Other government establisl ments that have adopted the policy of financing agriculture through co-operative include:

- The River Basion Development authorities
- The Agricultural Development Projects (ADP) which channelled funds through kind disburse ment to co-operative members. During the Babangida regime, the "Better Life for Rural Women" Programme, and the proples Bank of Nigeria insisted that intending beneficiaries of govern ment l9oan under the programme should form themselves into co-operative societies. This idea was also put in place in the present regime of General Sani Abacha e.g. The Family Economic Advancement Programme (FEAP) also encourages forming of Co-operative Societies.

The advantage of this polic y lies in the fact that membership of co-operatives societies is limited to their geographical location. Members have intimate knowledge of each other. The society's loan committee is in a better position to assess or properly appraise members' needs in term of credit or

agricultural input. Because loan to the group will be treated as a single loan, the cost of processing, etc will be reduced. The fact that the farmers live in the same environment, they guarantee each other's loan, makes it easy to monitor their projects and loan repayment.

CHAPTER 3

OPERATIONAL REVIEW

3.1 HISTORICAL BACKGROUND OF NACB

Nigerian Agricultural and Co-operative Bank Limited (NACB) was established as a National agricultural credit institution on November 24, 1972 and went into operation March 6, 1973.

Its establishment was hinged on the new vindicated conviction that the Bank will enhance the income level of farmers and thus make farming more attractive.

Today's NACB started off as the Nigerian Agricultural Bank Limited (NAB), and actually took its new name in 1978 at the instance of the Nigerian Government. This in the government's view, was to reflect more vividly, the Bank's commitment to agricultural development through promotion and financing of co-operatives.

And after 25 years of existence, NACB can unequivocally be said to have lived up to this objective. It has provided diverse credits to improve the whole ambit of the country's agricultural and agro business. Thus, the NACB is today a welcome relief to Nigerian farmers. The Bank's inauguration marked an important landmark in the history of the nation's agricultural development and it has continued to serve as a national financial institution devoted entirely to investing in all aspects of the agricultural industry. And more importantly, it has continued to serve as source of fund to Nigeria farmers.

As a development finance institution, the Nigeria agricultural and Co-operative Bank Limited (NACB) was established to deliver credit to agricultural sector of the Nigerian economy having the following specific objectives as its central focus:

- Promotion of agricultural production and rural development
- Assisting in the improvement of the income and quality of life of the Nigerian rural population.
- Contributing to the overall growth and development of the Nigerian economy.

Between 1973 and today, the share capital of the Bank has increased four times, starting with a share capital of N1 million in 1973, it was increased to N2 million in 1974. It was later realised that

consequent upon the increase in the volume of Bank's operations, a wide capital base would be needed. This necessitated the second increase which was effected in 1978, when the share capital was raised from N2, million to N150 million. This amount later proved inadequate because it could not put the Bank in a comfortable position to mobilise funds from the capital and money markets - a step which became very necessary in order to have enough revenue base to satisfy the increasing demands of the Nigerian farmers. The Federal Government therefore approved that the share capital be increased from N150 million to N500 million in 1988 and from N500 million to N2.5 billion in 1992. Thereafter the share capital keeps on increasing in order to meet the demands of the increasing Nigeria farmers.

NACB has two major sources of funds. They are the Local and International Sources. The Local Sources could be further broken into two- The Federal Government of Nigerian and the Central Bank of Nigeria.

3.2 OPERATIONS OF NACB

Organisationally, the Bank has witnessed a tremendous growth in its 25 years of existence. Starting operations only from its Head Office in Kaduna with just three departments - projects. Operations and Administration and Finance in 1973, Nigerian Agricultural and Co-operative Bank Limited now has nine departments . These are Finance, Planning and Development, Operations Training and Company Secretary's officers or controllers. Nigeria Agricultural and Co-operative Bank Limited has also spread its tentacles to all nooks and craines of Nigerian through the Establishment of Seven Zonal Offices, 70 Branch offices and about 490 Representative offices nationwide. Accordingly, more power has been given to these offices on various aspects of the Bank's operations in order to eliminate unnecessary and effective credit delivery services. At present, the Bank is being managed by a management team comprising of the managing Director and Chief Executive of the Bank, four Executive Directors, and nine General Managers.

The above general management team is under the supervision and control of the Board of Directors of the Bank. It also decides on executives matters that the management team cannot finalize within the confines of its power The Management of the Bank is headed the Managing Director and

Chief Executive, assisted by the Executive Director (Administration/Services), Executive Director (Finance), Executive Director (Operations), and Executive Directive (Research and Development).

ORGANISATIONAL CHART

CHAPTER 4

DATA ANALYSIS AND PRESENTATION

4.1 NACB DIRECT SMALL-HOLDER LOAN SCHEME

Direct Small -Holder Loan Scheme came into operation in March, 1981 on a pilot scale. At inception th Small-Holder Scheme (SHS) was defined as any loan amount limited to a maximum of N5,000 per client. Unde this scheme each farmer could obtain credit up to a maximum of N5,000.00 without resource to the provision o either collaterals or little to land. The scheme took of with the allocation of the sum of N100,000.00 to each o the nineteen Branch Offices of the Bank at all state capitals of the Federation. This was progressively increas until the total fund allocation hit the sum of N1.3 million in 1985, for each state office and N0.65 million for th Federal Capital Territory (Abuja) on a revolving basis.

In 1986 an additional sum of N700,000.00 was made available to each of the state offices while the Abuj Branch Office received N350,000.00 only.

To meet the increasing cost of inputs brought about by the introduction of Structural Adjustment Pro gramme (SAP) the amount that could be granted to a farmer was increased to N10,000 in 1988. However, a fres applicant is eligible to obtain up to N5,000 at the first instance and subsequently N10,000 after the first loan ha been liquidated.

After operating this scheme for eight years (1981-1988) it gained much prominence in the bank's opera tion that the need for a well documented operating manual became necessary.

The creation in August, 1989 of an office co-ordinating the activities of Small-Holder Scheme and Specia Projects in the office of the Executive Director, operations provided greater impectus towards improving effi ciency and effectiveness of this scheme. The functions include the effective co-ordination of SHs activities na tionwide, collection and collection of SHS returns and reports as well as assisting management to review ap proaches to reaching small scale farmers.

THE ACHIEVEMENTS OF THE DIRECT SMALL-HOLDER LOAN SCHEME

Statistics of its performance for the period 1981 to June, 1990 shows that NACB received a total o 313,549 applications for loans amounting to N647,388,461 under the scheme. Out of the above figures, the ban was able to sanction N319,978,262 to a total of 144,250 beneficiaries, meaning that 46 percent of applicants fo loans were successful while they were actually granted 49 percent of the amount they applied for. Also during th

period under consideration, while fund disbursement was in the order of N274,162,856 total repayment (principal and interest) was N89,570,063.

Available records also reveals that while in 1981 only 414 projects amounting to N870,000 were approved under SHS, by June,1990 the number of approved projects had jumped to 144,250 and for the of N319,978,161. Similar trends were achieved in the area of fund disbursement and repayment.

In evaluating the gains from SHS one should not overlook sight of Federal Government's appreciation and recognition of NACB initiative and the successful operation of the Direct Small Holder Loan by the bank which convinced the Federal Government that the Direct Small Holder Loan Scheme was the best approach to deliver credit to the masses. Consequently in 1986 it directed Commercial Bank to incorporate lending to small farmer under the Agricultural Credit Guarantee Scheme (ACGS). The decree establishing ACGS was accordingly amended in 1988, to include the said Federal Government directive.

This development has meant not only that, more money has been pumped into agriculture but also that more small scale farmers now have easier access to agricultural credit than hitherto.

PROBLEMS OF SHS

(I) Inadequate Funding: During the period January - June 30, 1990, some 40,157 applications for loans amounting to N179,920,788 were received. After thorough consideration the bank sanctioned only N64,114,000 for 21,759 applicants , this shows that NACB was able to deal with only 54 percent of its applicants and 36 percent of the loan requested.

(ii) High Administrative Cost: The recruitment of the Assistant Supervisors Credit and their consequent deployment to the Local Government Area has drastically increased the cost of administering the Small-Holder Scheme (SHS).

(iii) Fraud: In a number of isolated cases there has been some incidence of fraud in the operation of SHS which posed serious concern to the bank and the SHS in particular.

(iv) Inadequate Staffing: The recruitment of 267 Assistant Supervisors Credit to the Local Govern-

ment Area is inadequate and to enhance the coverage of the motion in terms of credit delivery will not be done effectively.

FUTURE PROSPECTS OF THE SCHEME

The future is brought for SHS if the problems highlighted are adequately addressed. If all parties to the scheme namely the Small Scale farmers and the NACB play their roles well, agriculture is no course for repaid development provided granting of credit is accompanied by complementary measures such as provision of adequate infrastructural facilities and efficient marketing for their produce, etc.

Also the signs are already in the sky that much of SHS activities in future may be through the group approach. The outstanding performance of out-grower-farmers programme introduced in Yola and Gombe in terms of repayment and lesser cost of administration recommends this approach.

NIGERIAN AGRICULTURAL AND COOPERATIVE BANK LIMITED

SMALL HOLDER DIRECT LOAN SCHEME

ALL THE STATISTICS NATIONWIDE 1981 -1995

No	NACB Branches	Number of Application Received	Loan Volume Applied For	Number of Loans Approved	Loan Volume Approved	Amount Disbursed	Amount Repaid (Principal +Interest
1	Abuja	5,043	7 399,500	1,809	3,298,223	2,672,627	736,668
2	Abeokuta	8,560	6 023,400	3,698	8,559,414	6,865,645	2,287,027
3	Akure	20,591	1 ,983,721	6,198	11,324,428	11,324,428	4,883,76
4	Ayangba	900	1 ,069,500	413	1,328,685	1,211,285	728,293
5	Bauchi	17,315	4 ,057,780	5,938	11,842,892	8,518,377	4,304,202
6	Benin	9,272	1 ,486,490	3,864	10,662,617	8,549,167	1,334,597
7	B/Kebbi	1,328	7 176,200	3,187	8,223,970	7,953,088	2,713,600
8	Calabar	11,716	2 ,176,200	7,968	17,696,047	12,541,382	3,260,871

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9	Enugu	8,898	37,298,208	4,483	10,297,485	9,428,484	34,009274
10	Funtua	19,963	10,241,100	5,987	13,899,399	13,487,980	5,475,170
11	Ganye	576	1,364,000	3,578	7,531,280	7,155,204	3,087,243
12	Gombe	2,622	9,226,500	1,777	5,077,871	4,538,596	3,884,444
13	Gusau	1,423	3,697,500	1,873	5,860,800	5,222,106	3,636,126
14	Hadejia	1,449	3,943,214	2,124	4,878,614	4,756,962	2,485,150
15	Ibadan	10,919	32,546,372	12,103	17,968,477	16,304,099	4,147,965
16	Ilorin	15,144	8,579,539	8,888	19,050,786	15,776,408	3,656,029.0
17	Iseyin	1,431	10,937,900	974	2,920,445	2,793,424	2,019,551
18	Jalingo	1,689	13,323,000	648	2,155,200	2,155,200	2,334,630
19	Jos	8,959	3,066,955	6,550	13,406,100	11,135,283	4,565,272
20	Kabba	882	3,849,900	812	2,216,280	2,216,280	1,214,419
21	Kaduna	1,525	765,500	1,216	3,532,500	3,163,893	1,144,509
22	Kalanchan	30,242	114,297,895	10,103	27,606,899	23,883,497	4,004,275
23	Kano	8,443	16,111,640	5,059	12,443,433	10,615,008	4,288,947
24	Katsina	2,614	18,480,400	4,596	12,407,294	12,144,140	5,247,537
25	Keffi	1,615	3,760,880	1,919	4,142,617	3,117,242	1,146,253
26	Kontagora	2,062	11,801,700	1,008	2,109,937	1,988,539	1,219,973
27	Lagos	2,591	5,7099,300	2,015	6,127,009	5,060,529	1,617,375
28	Maiduguri	21,396	21,775,455	6,912	17,743,065	12,997,440	5,736,740
29	Makurdi	18,908	9,863,261	4,706	13,393,156	11,292,367	1,926012
30.	Minna	9,871	22,801,100	4,743	6,767,405	6,299,926	3,432,065
31.	Ogoja	472	3,714,850	667	1,552,759	1,552,759	784,388
32.	Owerri	18,265	72,047,015	6,194	16,543,597	14,897,666	3,447,857
33.	P/Harcourt	8,576	20,524,890	4,418	12,641,513	8,573,622	1,357,717
34.	Potiskum	1,323	3,525,560	1,361	3,163,555	3,070,696	1,944,765
35.	Sokoto	13,064	41,764,182	7,746	16,271,840	15,553,528	4,699,568
36.	Uyo	4,215	17,748,827	1,980	7,085,104	3,959,515	1,213,214
37.	Warri	643	2,633,000	273	5,621,516	3,676,103	739,808
38.	Yola	25,767	48,899,251	10,309	17,099,773	13,991,607	5,419,05
	TOTAL	328,317	718,900,795	158,098	364,451,985	310,444,407	109,084,

SOURCE: NACB Records

4.2 FINANCING THE OIL PALM INDUSTRY: THE ROLE OF NACB

The palm oil trade dates back to the year 1830. Nigeria was a major participant in this trade. By 1853, Nigeria's share of the world market for palm produce was 58%. There has been a gradual decline in production over the years, for instance in 1950,225,000 metric tonnes of palm oil were exported. This dropped to 3 tonnes in 1968. By 1974, Nigeria became a net importer of palm oil.

The production of palm oil and kernels have been on the decline since 1965. It was projected way back in 1958 that without major new planting/rep[lanting, the country would become a net importer of palm oil and palm kernels for her industrial and domestic uses. 1965 palm produce constituted 15% of the country's export earnings, but by 1971 this had dwindled to about 2% with palm oil becoming increasing insignificant.

In 1983, Nigeria had about 2.2 - 2.4 million hactares of mild oil palm groves. On the other hand there were planted. It had been estimated by the Defunnct Nigerian Palm Produce Board and recently by the Federal Department of Agriculture that at 100% exploitation, the country would be producing about 764,164 -1 million tonnes of palm oil and about 323,041 - 800,000 tonnes of palm kernel per annum.

NACB ROLE

In 1974, the first NACB "Jumbo" loan of N12 million was to he oil palm sector. The loan granted to the oil palm Company Limited, Ajagbodudu, was fir the establishment of the Nsukwa Estate with a total land area of 3175 hectare. The loan package also included the installation of a 20 tonnes per hour mill at Nsukwa.

Thus, during the period , a total of N1,198,951,470 had been sanctioned for 63,532 agricultural projects nationwide out of which N58,238,716 was for tree crops including oil palm. The share of the oil palm industry in the tree crop sub-sector amounted to N29,307,747 or 50.32%. Overall the share of oil palm in the total loan portfolio is 4.86% . The figure excludes loans sanctioned for palm oil marketing. At the same time the total disbursement and repayment amounted to N852,610,418 or 71.11% and N346,172,971 or 40.60% respectively. As the various oil palm projects financed by

NACB come on stream in the ye: rs ahead, there is no doubt that the impact of the contribution to the oil palm industry has becom : much more amplified. In this regard the bank is particularly satisfied with, having associated with the following oil palm corporate giants.

	COMPANY	NACB CONTRIBUTION
(I)	The oil palm company Limited, Edo State	N22,451,683
(ii)	Ada palm (Nig) Limited, Imo State	N7,082,664
(iii)	Rison Palm (Nig.) Limited Rivers State	N5,075,998

Under the Small-Holder Direct Loan Scheme for oil palm cultivation, the scheme is specially designed for the Small Scale peasant farmers. It has a loan ceiling of N10,000. No security is required under the Scheme but the provision of two guarantors. The loan period is usually two years. The peasant farmer, can however, be granted a loan under the scheme for the maintenance of his wild groves, harvesting of the fruits and processing of some. The establishment of a viable oil palm plantation and the processing of the fruits that are capital intensive due to its nature, it is very difficult, if not impossible, for the peasant farmers to obtain a loan under the scheme.

Under the Direct Lending Scheme, and individual can obtain a loan up to N250,000 while a Limited Liability Company can obtain much more. Interested entrepreneur can obtain loans to establish, expend or

revive their oil - palm plantation Peasant farmers in a locality can come together to obtain a loan for purchasing a mill for processing the oil palm fruits, if the production from their wild groves can sustain such a mill economically. Those who are interested in marketing of palm oil and other oil - palm products can also obtain a loan, all expected beneficiaries under the scheme are required to provide some form of security.

THE ROLE OF THE GOVERNMENT

Before reviewing the efforts of the government to revamp the oil palm industry, permit me to comment briefly on the Nigerian Agricultural Scene.

Beginning with the Civil War Years (1968 - 1970) through the post war reconstruction period (1970-74), to the "Oil boom" and its afermath (1975 -78), the attempts by the Federal Government to take over the "commanding heights" of the Nigeria Economy through a series of Legislation like the Indigenization Decree (1972 - 1977), to the Various fiscal and monetary policies culminating finally in the Structural Adjustment Programme, have had tremendous impacts on the performance of the agricultural sector. What all these policies a\had in common was that they were geared towards internal self sufficiency in food but they failed to achieve that objective.

In oil palm industry, the Federal Government Commissioned a study on the rehabilitation of the industry after the civil war. Resulting from the study, the World Bank assisted Nuclens Estates and Small Holder Oil Palm Projects and a number of Federal and States projects were established in the third National Development plan. Targets were set for total hactares to be planted in the period spanning 1981 -1985. Total financing commitments for the projects as at 1981 were as follows:

a)	World Bank assisted Nuclens Estate and Small Holder Projects	-	N5,234 million
b)	federal Oil Plam Estates	-	N8,250 million
c)	For rehabilitation of oil palm groves	-	N4,600 million

The four types of oil palm development programmes pursued in Nigeria in the last decade or so could be summarized as follows:

(a) the development of Small Holder and estate projects partly with loans from the International Bank for the construction and Development (World Bank) and allocations from the Federal and State Governments.

(b) The development of Small Holder Project Jointly by the Federal and State Governments.

(c) Estates projects development financed solely by the Federal Government.

(d) Oil Mills Installation Programme.

According to the Monitoring and Evaluation Unit of the Federal Department of Agriculture, these were not successfully executed during their planned implementation periods.

The effort of NIFOR, to establish a 400 hectares commercial oil palm plantation through bank finance must not escape mention.

4.3 FINANCING OF POULTRY PROJECTS IN NIGERIA: ISSUES AND PROSPECTS

The poultry industry in Nigeria is an indispensable arm of the livestock sub-sector in the overall agricultural sector. This ascertain derives from the fact that of all farm animals, poultry can yield the quickest returns, they are efficient feed converters to meet (broiler) and eggs (layers) in a short period of time, poultry eggs rank second to cow's milk in terms of nutritive value. Poultry can be established with a minimum cost and even as a side project.

The recognition of the enormity of the potentials and the advantages derivable from the industry led many entrepreneurs to invest in the industry in the early 70's up to the mid - 80's

Th ease of adoption of these exotic and improved poultry breeds and the opportunities created by the government in support of the industry provided the required impetus for large, medium, and small scale investors.

Unfortunately, there was a set - back in 1983/84 when the Federal Government banned the importation of a major feed ingredient maize.

Infact, since then, the industry has become a shadow of its old self - many small and medium scale producers have folded up and only a few large producer have managed to remain in business.

NEED FOR FINANCE IN POULTRY PROJECTS

Prior to the introduction into Nigeria of improved breeds of poultry like the white Leghorn, Rhode Island, Red, Anak, etc, poultry keeping in the country was essentially done in family back yards.

The main features of the system then were such that the birds were poor feed converters; usually has staunted and unimpressive growth; egg production was esseentailly related to procreation. The

need to transform our agriculture from peasant and subsistence level therefore brought in its wake the need to overhaul the entire production process.

The sources of acquiring resource capital in the farm of poultry business include savings and retained earnings, through inheritance, pooling of equity capital, leasing, contract farming and borrowing.

In the Nigerian context, the most reliable of resource capital acquisition is borrowing, especially from institutional sources.

The marginal propensity to save of the peasant farmers is low, sometime even close to Zero and therefore has little scope to expand his business. Invariably, he requires credit to expand his business. Invariably, he requires credit to expand his farm operations, the expansion can only be meaningful and worth it with the acquisition of new and improved technology.

REVIEW OF PAST EFFORTS IN POULTRY FINANCING

(a) Financing under the ACGS Scheme

The status of loans approvals under the Agricultural Credit Guarantee scheme (ACGS) for the period 1978 to 1986 revealed that for the period 1978 - 1982, out of a total approval of N143,232,400 about 60% or N86,268,900 was for poultry projects.

The total approvals for the period 1983 - 1995 were as follows:

1983	N36,307
1984	N24,654,900
1985	N44,343,600
1986	N68,417,400
1987	N102,152
1988	N10,848,500
1989	N4,657,700
1990	N3,127,100
1991	N1,559,700
1992	N4,022,700
1993	N3,314,300
1994	N4,080,400
1995	N6,950,120

By way of comparison, the percentage of approvals for poultry projects in relation to the total approvals for periods were:

1978 - 82	60%
1983	56%
1984	43%
1985	26%
1986	30%
1987	21%
1988	39.4%
1989	16.9%
1990	11.3%
1991	5.6%
1992	14,6%
1993	12.0%
1994	17%
1995	19.5%

There was an uneasy decline in the proportion of credit that has been channelled to the poultry industry from 1983 to date.

(b) NACB Financing of Poultry Projects

The yearly status of NACB loan sanctions to the poultry from 1980 to 1990. The total sanctions for all projects for the years were:

1980	N22,330,000
1981	N102,730,000
1982	N69,425,000
1983	N20,349,000
1984	N32,536,000
1985	N73,820,000
1986	N43,835,805
1987	N150,374,734

1988	N405,083,582
1989	N606,327,583
1990	N126,336,197 (Jan. - June).

The investment loans approvals for poultry projects for the period were:

1980	N1,893,000
1981	N10,150,000
1982	N11,445,000
1983	N3,637,000
1984	N2,287,000
1985	N4,813,000
1986	1,804,052
1987	N6,707,867
1988	N9,491,633
1989	N8,085,019
1990	N3,049,500 (Jan - June)

These figures are exclusive of the amount approved for Small Holder Poultry Projects.

An analysis of the figures above show that in relation to the total approvals for the period, the approval for the subsequent years goes thus:

1981	9.88%
1982	16.49%
1983	17.87%
1984	7.03%
1985	6.52%
1986	4%
1987	2%
1988	3%
1989	1.33%
1990	2.41% (Jan-June).

For one we see from the analysis of both the ACGS operated by commercial and merchant Banks and the investment Loan Scheme of the NACB that loans sanctions for poultry projects have been on the decline over the years. If nothing dramatically happens shortly, then it is not likely that the industry can pick up in the nearest future.

ISSUES IN POULTRY FINANCING

(a) The availability of imputs: The major imputs in poultry project are day - old chikcks, feeds, durings, and medicaments, machinery and equipment, e.t.c. prior to the introduction of the Structural Adjustment Programme in 1986, there was not much problem of imputs for the industry, except for the ban on the importation of maize, (a major feed component - up to 50% - 70% in poultry rations), which later led to the folding up of many medium and small scale poultry projects. The industry had to grapple with the problem of the maize ban which could not be rescued by Local Producers. The maize ban had the multiplier effect of also affecting poultry breeders who then has to cull most of their stock to minimize obvious losses resulting from the decline in the demand for their day - old chicks.

(b) Cost of machinery and equipment: The cost of machinery and equipment is crucial in poultry production especially when matched against the background of the fact that for intensive and large enterprises, most operations are automated.

The average increase in price of the incubators works out to about 318 per cent. There is, therefore, no gain saying that this trend has in no small way made poultry breeding and multiplication highly capital intensive, so much beyond the easy reach of most entrepreneurs and by implication reduced the number of requests made to banks for funding.

PROSPECTS OF POULTRY FINANCING

Government Policy: The Federal Government has launched a perspective plan for agriculture called " Agricultural policy for Nigeria" up to the year 2000.

In the a rea of poultry production, the policy implementation document has 30,157,679 as the total number of adult layer commercial stock in 1987. The projection for same for 1992 is 51,253,859. The figures for parent stock are 631875 and 1,073,890 for 1987 and 1992 respectively and for the two years under review. The current position is gloomy but is not entirely hopeless.

The government can intervene seriously by adopting a number of measures and a number of urgent actions must be taken. There includes:

(a) Increased Grain Production

(b) Production of Agro-Chemical and Drugs

(c) Investing and encouraging the local production of vaccines and most drugs used in the poultry industry by the Government

(d) Establishments of Breeding farms

(e) Agricultural Incurance.

ROLE OF FARMERS

The Small and medium scale poultry farmers are of immense importance to the poultry industry because they produce a very significantly percentage of the products of the industry.

Since their financial resilience is low, there category of farmers must be provided the necessary impetus to enable them revive the poultry industry. Furthermore, since the average poultry farmer is also rational, he should be able to make his living from the business.

THE ROLE OF BANKS

Since non-institutional sources have made no significant impact in lending generally, our concern by implication is on the institutional sources - the banks, etc.

The channelling of credit to the poultry industry has witnessed a steady decline from 1983 to date, it is only logical that for the industry to be revived more capital has to be injected by way of credit, etc. But financial institutions are unimpressed by unviable and unprofitable projects, hence they are usually unenthusiastic. That is the bane of the poultry industry. However, this trend could be reversed.

The following suggestions come in handy in this regard.

a) Credit should be provided for a few selected poultry breeders who while also be expected to instal hatcheries for day - old chick multiplication.

b) It is also necessary to provide balance ration for the chicks produced and sold by the breeders

c) The banks should further explore the possibility of providing grants to research institutes for the evolution of new breeds of poultry.

THE ENTERPRENEURS

The entrepreneurs refer to the large scale poultry farmers. These group of farmers are indispensible in the industry because they provide most of the imputs required by other producers. The farmers in this category are the business farmers and they are naturally motivated by the profit margin of their business.

Essentially, the entrepreneur is expected to use the available infrastructure and harness the available resources of parent stock, grains and other feed ingredients and of course men, in very economical, efficient and effective manner to enable us have day-day chicks, feeds, etc for the other small and medium poultry farmers.

4.4 FINANCING THE PRODUCTION AND MARKETING OF SOYABEAN IN NIGERIA

Food is man's first basic need. Nations the world over clamour for food self-sufficiency. Nigeria is not an exception.

According to United Nations Fund for Populations Activities (UNFPA) Nigeria's population is growing at 3.5 per cent per annum. Nigeria's food production on the other hand has been growing at less than one per cent per annum during the greater part of the last two decades. Estimates indicate that by the year 2044, Nigeria's population would climb to about 560 million. Feeding this mass of people requires massive increases in our present levels of productivity.

The introduction of new crops are bringing into greater acceptance hitherto unknown crops, present other viable options for increasing available food supplies. Among the crops with this potential in Nigeria today is Soyabean. Soyabean was introduced into Nigeria in 1908. As the crop was not widely known, the crop was growing mainly for exports in the former Benue State. Interest in the crop was rekindled in the 1970s with active research gaining ground.

Today the crop is gradually gaining wide acceptance, noting the contribution of Institute of Agricultural Research and Training (IAR & T), Obafemi Awolowo University, Ile-Ife and the International Institute of Tropical Agriculture, Ibadan in this regard. As a result of the pioneering works of these institutions most of the genetic and agronomic impediments to the production of Soyabean in the tropics have been overcome.

NACB is poised to be a n ajor participant in this regard.

FINANCING THE PRODUCTION AND MARKETING ASPECTS OF SOYABEAN

As scientists gradually overcome the constraints to Soyabean production in the tropics and the uses to which the bean can be put both at the home-level and industry increase, demand for Soyabean would accelerate.

Massive financing is required to harness to the full, the great potential of the crop. While Nigeria's agricultural development is hampered by a multitude of factors, lack of capital is widely acknowledged as the central factor around which other factors exert there influence. In a survey carried out by NACB in 1996 a significant majority of the farmers interviewed identified lack of finance as the most acute problem facing them.

The availability of credit will enable the traditional farmer to adopt yield increasing innovations. Such innovations include new production techniques, mechanizations, improved seed varieties, herbibides, etc.

New technological opportunities lead to financial stringencies because they require more financial resources. It is at this point that access of credit from eternal sources become critical. Without it, farmers' investment strategy and especially that of small farmers, will be biased toward marginal variations within the known traditional systems. The key, therefore, to farmers having access to credit is more creative financing in structuring a project so that it fits the market, the people and the realities. This is more so in Nigeria of today where the economic climate has changed so drammatically that comparing prices today even with a few years ago would seem an exercise in futility, as the table below illustrates:

PRICE OF SELECTED AGRICULTURAL INPUTS

(1985 - 1990)

NAME OF INPUT	U/PRICE (1985)	U/PRICE (1990)	% INCREASE
Tractor Head/Implements	45,000	500,000	1011
Fertilizer (50kg)	8	120	1400
Contract Labour (Man-day)	4	22	250

Improved Seed (1kg)	5	50	900
Herbicide (5 Liters)	22	280	1172

Finance, production and marketing form a trinity of interest. Neither can be truly effective without a right balance of the other two. The present supply of Soyabean in the country according to estimates stand at 0.1% of total requirement. Between the period 1980 and 1987, a total of N10.56 billion was invested in the agricultural sector of the Nigerian economy. We guesstimate that investments of this magnitude would be required over a period of ten years to achieve self sufficiency in Soyabean production in the country.

SOURCES OF FINANCE FOR PRODUCTION OF SOYABEAN GENERAL:

Finance is required for:

1. Working capital for purchase of inputs and payment for labour.
2. Long term loans for land acquisition.
3. Medium to long term credit machinery and equipment acquisition.

The following conventional and non-conventional sources of finance will satisfy one or more of the above needs.

1. **Commercial and Merchant Bank:**

There will generally offer working capital loans, trade instruments and term loans. Their tech niques are based on phased draw of loans funds in accordance with the budget forecast of produc tion costs for each stage of farming cycle. There are no ready figures on the amount of loans advanced by these sources for Soyabean production in the country.

2. **Development Banks:**

There are four development banks in Nigeria but only Nigerian Agricultural and Co-operative Bank Limited (NACB) is the development bank engaged in agricultural financing. It engages in no business that is not supportive of agriculture. The bank has facilities for small scale, medium scale and large scale loans.

3. **Leasing and Higher Purchase Companies:**

These forms of credit are restricted to machinery, equipment and vehicle purchase. Leasing and higher purchase are similar, except that in Leasing the lessee never becomes the owner of the leased item. Apart from direct government funding, the commercial and merchant banks under the ACGS and the NACB remain the primary sources of agricultural credit in Nigeria.

4. ***Venture Capital:***

In this category would qualify such schemes as NERFUND and SME loans. It its traditional sense venture capital refers to putting money usually in return for an equity stake into a new business start up scheme. Venture capital would be useful to an entrepreneur who sees an opportunity to produce one or more of the major derivative products of Soyabean, e.g. baby food, soya oil, soya milk etc.

5. **Insurance Company Loans:**

Some Insurance Companies make long-term loans to farmers against the security of a mortageg on farm property.

6. **Syndicated Credit:**

This is credit to a syndicate i.e. a group of farmers who club together, for the purchase of an item of machinery. The syndicate will contribute part of the cost, say 20%, while a bank lends the balance of 80% payable over a period of up to seven years.

The trust is that under the present economic conditions, large scale farming is a most difficult venture to embark upon. This, therefore, leaves us with the small scale farmer. What options does the small scale rural soyabean farmer have in financing his production?

There are options available to him. These are:

(i) personal savings which could be cash or seeds from previous harvest;

(ii) cash or inputs gifts from members of one's family, friends or a benevolent government;

(iii) Free labour from community cooperative efforts;

(iv) Borrowing.

Borrowing is the most important source of financing which a soyabean farmer could utilize.

A non-institutional source is the money lender.

The procedure for borrowing is not cumbersome. It is fast but very expensive, up to 100% interest rate. It could be very convenient for the farmer who for reasons of illiteracy may feel very uncomfortable going to the bank. This source is common in the rural areas.

A soyabean farmer could borrow from a Commercial or Merchant bank under the Agricultural Credit Guarantee Scheme (ACGS) of the Central Bank of Nigeria.

The Small Holder Soyabean farmer can obtain finance through the NACB's Small Holder Loan Scheme for the following reasons:

(i) No tangible security is required; only two guarantors;

(ii) An individual could bor ow up to N5,000 in the first instance; and up to N10,000 in subse quent applications if the first loan is successfully utilized and repaid.

(iii) Interest rate is low compared with other Lender's rates.

Another source of finai cing Soyabean production is through out-growers schemes by a big company utilising soyabean as its major raw materials, e.g. Taraku Oil Mills. The company could utilize its finance or borrow from a bank like NACB.

Soyabean is a very important crop and its importance in this country will continue to increase with time. There is, therefore, need to look into ways and means of evolving cooperative marketing societies that will have producers as members.

SUMMARY OF NACB OPERATIONS

NIGERIA AGRICULTURAL AND COOPERATIVE BANK LIMITED

LOAN APPROVALS BY PROJECT TYPE (AMOUNT IN N)

(1973 - 1990)

	YEAR				
PROJECT TYPE	1973-1987	1988	1989	1990	TOTAL
1. Arable crops	242,747,000	13,907,000	10,276,058	9,588,444	276,518,502
2.Tree Crops	59,191,000	318,000	9,097,440	5,289,900	73,896,340
3.Horticulture	626,000	697,000	250,000	64,000	1,637,000
- Vegetable					
- Gardening					
- Orchads					
4.Mixed Farmings	24,815,000	10,291,630	10,291,630	994,000	61,881,260
5.Cattle farmings					
-Breeding	31,389,000	4,819,000	2,707,530	2,674,056	41,562,586
6.Poultry	49,403,000	9,497,000	8,085,019	3,915,100	70,900,119
-Broiler					
-Layer					
-Hatchery					
7.Other Livestock	2,193,000	3,836,000	3,676,120	210,000	9,915,120
-Piggery				908,684	908,634
-Rabbitry					
-Sheep/Goat					
8.Fishery:	47,874,000	7,805,000	6,498,315	4,035,045	66,215,396
-Aduaculture					
-Deep Sea					
-Artisanal					
9 On -Lending	23,800,000	11,783,000	6,000,000	10,100,940	51,683,940

-Production					
-Marketing				29,935,282,54	29,935,282,54
10. Integrated Project	23,007,000				23,007,000
11.Aggro-Allied	7,258,000	23,068,000	44,061,450	17,327,900	91,715,350
- Procesing					
- Feedmills	4,774,000				4,774,000
12. Agro-Services	1,896,000	70,342,000	188,678,912	40,756,000	301,672,912
-Input Supply					
-Tractor/Equipment Hiring					
13. Direct marketing					
- Domestic	240,266,000	77,968,000	65,162,759	6,210,200	389,606,959
- Export					
14. Irrigation		76,000,000	75,459,705		151,459,705
15. Forestry	3,600,000				3,600,000
16. River Basin Dev. Auth	55,000,000				55,000,000
17. Small Holder Scheme	44,592,000	93,150,000	134,128,929	86,430194	358,301,123
18. Second Livestock Dev. Programme		1,608,000	26,464,680	1,20,360	29,193,040
TOTAL	862,431,000	405,089,630	606,327,583	219,326,105	2,093,174,319,00.

Soruce: NCAB Records

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY AND CONCLUSION

The importance of agriculture in any economy cannot be over emphasised. The next millenimium will witness a tremendous growth in the agricultural sector occasional by the increasing demand of the population and industries on the sector. This will call for a lot of finance in form of credit and other forms of capital in order to achieve the requires production. As a result of the Structural Adjustment Programme, agriculture is gradually becoming an industry to invest in . The signs are that if the present trend is maintained, it will soon became a superflows exercise to mandatorily prescribe a minimum percentage of total advance that must go into agriculture.

Since finance "Pursue" cannot improve agricultural production, government needs to come in and provide a the ancillary services that are required to provide a conducive atmosphere for investment in agriculture. Agriculture is faced with very great challenges in the next decade as it has to adequately feed the teeming population and provide raw materials for the growing industries. These will be impossible without adequately combat the challenges faced by agricultural is the challenge of agricultural finance in the new decade. One can only hope that the banking industry, government and other sources of financing agriculture will be equal to the challenges of realising the bright future prospects for agricultural development in Nigeria.

The review is limited to the past of government and the institutional sources of finance to agriculture. The government allocate a lot of money to agriculture annually in its budgets, a review will enable us determine. The developmental impact or lack of it; such large allocation have been made on the Nigerian Agriculture. Rural development is a challenge of most developing economics like ours. We have tried within the limits of the available information to address the concept of rural development which is summarised as any effort at eradicating rural poverty. Such effort should be of necessity to integrate the rural poor into the social, political and economic like of the country.

In Nigeria, the small farmer occupies an important position in the search for increased food production. Heavy investments in rural infrastructure, agricultural research and extension are among the support efforts of government to improve the welfare of the small farmer and satisfy the food needs of the industrial and commercial urban population. This requires the development of the small farmer's ability to increase food and firbe per unit area of land through the application of approved technology.

The Direct Small Holder Scheme as known to have been developed in NACB; its performance since its birth

in 1981 by the bank has show that the scheme, if properly executed holds the key to opening Nigerian agriculture to rapid development since one of its major constraints namely credit is being brought to the door step of our peasant farmers who form over 80% of our farming population.

Inspite of a number of problems including inadequate funds which have been identified, the performance of the scheme so far is commendable. This has been appreciated by the Federal Government to the extent that through appropriate legislation the scheme has been incorporated into Agricultural Credit Guarantee scheme Fund for adoption by Commercial Bank.

Apart from the Small Holder Loan Scheme, NACB also operates other more scheme namely:-

(a) **On - Lending :**

Under the Scheme, lending is made to established institutions against repayment guarantees for on - lending to small farmers. The on - lending institutions are e.g. state government, cooperative organisations, agricultural Development Projects. etc.

(b) **Direct Lending:**

Under this scheme, the bank deals directly with individual farmers and farmers organisations without intermediary.

(c) This is a special on - lending scheme designed to reach the small scale farmers. The disbursement is supervised by the state ministries of Agriculture and directly controlled by offices State Governors

(d) Marketing loans:- Under this scheme, marketing loans are granted to clients to enable them purchase excess farm produce during harvesting seasons.

5.2 RECOMMENDATIONS

To provide adequate finance on agriculture in order to aid and encourage th farmers in increasing their productivity, the financing bodies ought to adopt certain things, e.g.

1. Different ways must be devised to reach the farmers at a reasonable cost (especially the Small Scale farmers)
2. The financing institutions should be accessible to the farmers because they are not familiar with office and are intimidated by official procedures; thereby bringing the farmers close.
3. Selection of beneficiaries should be based on credit worthiness, e.g. individual reputation, technical reasibility or expected cash flow from the investment.
4. Disbursement of facilities should be done in time (cash or in kind), this encourages the farmer to repay on time so that he can apply for fresh one.
5. The communal and societies should be appraised, this can effectively reinforce the honest performance of

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the individual farmers.

6. Periods of unexpected adverse events or crop failure should be taken into consideration by being flexible with the farmers to repay fully.

7. On the Government point of view, the raw materials of most companies should be sourced locally, in relation there is the need to provide more bank credit to local Producers to enable them purchase the farm produce form the farmers.

The implication of this development is that banks now must finance only projects that show satisfactory level of return on investment. This calls for effective project appraisal machinery to be able to identify viable and profitable proposals that need to be funded.

The decentralization of the financial institutions need to be accelerated in order to establish their presence in the rural areas where farming actually take place. This will enable the bank improve on the timeless or credit delivery and enhance project monitoring and supervision

Decentralization will further improve farm produce marketing and help stabilise market and by drastically reducing past harvest losses occasioned by lack of good storage.

In addition, when the banks are fully established in rural areas, they will be in a position to mobilise the excess liquidity in the areas, inculcate banking habits thereby instilling the confidence of the rural people in the banks

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