FINANCING AGRICULTURAL PROJECTS IN NIGERIA:
A STUDY OF THE NIGERIAN AGRICULTURAL AND COOPERATIVE BANK LIMITED

BY

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A PROJECT SUBMITTED TO THE POSTGRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION.

DEPARTMENT OF BUSINESS ADMINISTRATION,
FACULTY OF ADMINISTRATION,
AHMADU BELLO UNIVERSITY, ZARIA.

SEPTEMBER, 1984.

This project has been read and approved as meeting the requirements of the Department of Business Administration, Ahmadu Bello University, Zaria for the award of the degree of Master of Business Administration.

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D E C L A R A T I O N

I hereby declare that this write-up is original and a product of my research findings. All articles used have been acknowledged accordingly in the footnotes and bibliography.

To my parents

A C K N O W L E D G E M E N T S

I wish to express my sincere gratitude to all the people who assisted me in various ways in carrying out this study.

I am particularly indebted to my Supervisor, Alhaji Sheikh Abdullahi who offered a lot of guidelines and suggestions in designing and writing up this project

My sincere appreciation also goes to Mr. Emmanuel Ojo Onipe and Mr. Ben Imuse for giving me relevant materials for this work, Mr. Agbale of the N.A.C.B. for the useful information provided and Buhari Balah for sparing the time to be an interpreter in administering questionnaires to farmers.

A B S T R A C T

Financing agricultural projects has been extremely difficult in Nigeria. Most banks particularly commercial banks have shown a, persistent reluctance to give financial assistance ;to farmers for numerous reasons. Tho various governments of Nigeria have long recognised the fact that the absence of a national agricultural credit institution is one of the major impediments to agricultural developing in the country. The Nigerian Agricultural and Cooperative Bank Limited (N.A.C.B.) was thus established in 1973 to provide the much needed finance to farmers in order to increase their production. .

This study attempts to appraise the performance of the N.A.C.B. in relation to its stated objectives. It attempts to identify the problems faced by the institution in providing agricultural loans to farmers and the problems faced by farmers in obtaining loans from the N.A.C.B. It also attempts to suggest solutions where possible to the problems identified as being encountered by both the fnrrners and the institution.

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CHAPTER ONE

INTRODUCTORY CHAPTER

1.1 INTRODUCTION

Agriculture plays an important role in the economic development of developing countries like Nigeria. It can provide the necessary raw materials for industries thus promoting rapid industrialization of the economy. Through the exportation of agricultural products, foreign exchange can be obtained to finance development projects. It could be a source of capital for economic development and provide revenue for government expenditures. Most importantly, it should satisfy the food requirements of the country.

Agriculture is a very important sector in the Nigerian economy. Before independence, Nigeria was predominantly an agricultural country. In 1960, the agricultural sector contributed about 64.1% of the Gross Domestic Product (GDP) of the country[1]. The exportation of agricultural products generated revenue and foreign exchange earnings which were used to finance post independence development plans. The contribution of this sector to the GDP however declined to 55% in 1966 and 28.1% in 1975.[2] This sharp decline in the seventies was as a result of the so-called oil boom which brought about an impressive growth to the country thus the agricultural sector lost its role as the number one foreign exchange earner to the petroleum industry.

Today, the country's economy is dominated by the oil sector which accounts for 90% of export earnings, 80% of government revenue and 30% of the GDP.[3] The agricultural

sector however is still the leading non-oil sector. The sector provides about 62% of non-oil exports, about 4.5% of total exports, 23% of GDP and support approximately 65% of the population directly.[4] The importance of agriculture in the economy of Nigeria therefore cannot be overemphasized as Nigeria is primarily an agricultural country in spite of the rapid growth in the industrial sector and in spite of changes brought about by the boom in the petroleum industry.

Unfortunately, the agricultural sector of Nigeria is plagued with a lot of problems. The performance of this sector during the past two decades has been below expectations. The sector has been unable to provide enough food to meet the demands of the growing Nigerian population hence the country is spending a sizeable proportion of its foreign exchange earnings on food imports. The manufacturing sector obtains only a very small and insignificant proportion of its raw material requirements from domestic sources. .Agricultural exports are no longer important foreign exchange earners. Several reasons could be given to explain the poor state of the Nigerian agricultural sector. One of the key reasons is that of finance.

Agricultural financing in Nigeria before independence was geared towards the promotion of the cultivation of export cash crops like cocoa, palm oil, rubber and groundnuts for the benefit of the economy of the British government. It was not until after the independence of the country in 1960 that the financing of agriculture in Nigeria became purposeful.

Agriculture has thus been accorded priority in the various development plans embarked by the various governments since independence because these plans always have substantial allocations and various schemes for financing agriculture. Among these schemes are the establishment of the Agricultural Credit Guarantee Scheme and the establishment of development banks like the Nigerian Agricultural and Cooperative Bank which was established to liberalise credit to Nigerian farmers so as to enhance the quality and level of agricultural production in Nigeria.

1.2 THE PROBLEM

Nigeria's agricultural sector is dominated by the peasant system of agriculture which is characterised by primitive techniques of farming thereby resulting in low productivity. There is thus a preponderance of small-scale or peasant farmers, about 90%, in the sector[5] who have very little capital and who use antiquated farming techniques. These small-scale farmers produce nothing less, than 80% of Nigeria's total agricultural output each year.[6] For a large number of these farmers, farming is done at a subsistence level; food production being aimed at directly satisfying the food requirements of the farmer.

One of the goals of the various governments of Nigeria in the development of the agricultural sector is to increase

agricultural production. There is therefore the pressing need to increase the level of production above levels attainable under the peasant system of production. Medium and large scale farmers are the viable instruments of modern agriculture that can make production possible on the long run to sustain the growing Nigerian population. Unfortunately, medium and large scale farmers are at present very few.

A small-scale farmer that wants to grow to become medium-scale and eventually large scale so as to increase production and raise his level of income needs agricultural credit to purchase improved inputs, pay for labour and buy additional crops among other things. There are however no efficient and well organised credit facilities in Nigeria. Commercial banks shy away from issuing agricultural loans. Moreoever peasant farmers can hardly meet the requirements of the commercial banks. Some of the state agricultural credit corporations are inactive because of shortage of funds and other problems.

Because of the lack of interest of commercial banks in farmers, the Federal Government has set up specialized institutions to meet farmers' credit needs. One of the latest programmes of the Federal Government dealing with agricultural credit and finance is the Nigerian Agricultural and Cooperative Bank (N.A.C.B.) whose objectives lay emphasis on the small farmers. Being fairly new, it may be rather early to predict its success or failure but important signals emerging from the performance of the institution warrant a

study into its role, problems and prospects because the bulk of peasant farmers who comprise the majority of the farming population do not seem to be benefitting sufficiently from this credit institution. Because of the importance of the small farmers in Nigeria's agricultural sector it is necessary to give them the attention which they deserve.

1.3. OBJECTIVES OF THE STUDY

The central theme of this study is the problems of financing agricultural projects in Nigeria. Agricultural credit to farmers is important in bringing about agricultural development. Developing the agricultural sector is one of the goals of the government because it is a crucial requirement for economic development of the country.

The specific objectives of the study can be summarised as follows:

1. to examine the available literature on the N.A.C.B. and gain an insight into its functions, operations, growth, problems and role in providing agricultural credit to farmers.

2. to examine the extent to which the N.A.C.B. has achieved the goals for which it was established

3. to identify the problems faced by the institution in providing agricultural credit to farmers.

4. to identify the problems encountered by farmers in acquiring agricultural loans from the agricultural bank.

v. to suggest solutions where possible to some of the problems faced by both the institution and the farmers.

1.4. SCOPE OF THE STUDY

Because the topic could be quite broad it is important to delineate the areas of coverage. The study covers mainly the area of providing agricultural credit to farmers by the N.A.C.B. It is concerned with the extent to which the N.A.C.B. has been able to alleviate the sufferings of Nigerian farmers in attaining agricultural credit from commercial banks and other loan agencies.

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CHAPTER TWO

A REVIEW OF RELATED LITERATURE AND STUDIES

Financing agriculture in Nigeria has been very difficult. Most banks particularly the commercial banks have shown a persistent reluctance to give financial assistance to farmers because of the high elements of risks involved coupled with the high administrative costs of servicing small loans to farmers in scatteredand remote locations. Moreover most farmers usually lack the necessary collateral to back their demands for credit. Thus credit from the commercial banking system for production development on small scale private farms is virtually unobtainable.[1]

There are two district sources of funds available to farmers; these are internal and external sources.[2] Internal funds could be generated from net cash flow from farm operations. Relying on this source of funds however has its own severe limitation because of the seasonal nature of farming. External funds could be obtained from i. loans ii. net sale of real estate iii. equity financing. Equity financing has meaning only for large corporate farmers and they are very few in Nigeria. It is also not a common practice in Nigeria to engage in sale of estate to raise funds so obtaining loans is a dominant source of finance for farmers.

Farmers can obtain credit from two main sources namely non-institutional and institutional.[3] The non-institutional sources which include friends, relations and money lenders are very popular among the peasant farmers because loans are easily obtained without administrative delays and without the need for security and collateral. However, Miller (1977)[4] asserts

that this source has "not supplied the amount of credit needed nor has it provided credit needed on the terms required by farmers to modernize t'e .r farming methods." Institutional sources include credit cooperatives like the traditional credit groups such as Esusu and commercial, merchant and development banks which provide short, medium and long term agricultural credit to Nigerian farmers.

Abe (1981)[5] defines agricultural credit as that which "encompasses all loans and advances granted to borrowers whether beneficiaries of agricultural reform or some other one to finance and service production activities relating to agriculture, fisheries and forestry and also for the processing, marketing, storage and distribution of products resulting from these activities." Agricultural credit is not a non-reimbursable subsidy; it takes the form of loans which have to be repaid sooner or later.[6] Loan repayment depends on the borrowers! present or future earning capacity. Usually three types of credit are required by farmers. These are:-

1. short-term credit which is used to finance the current crop year operations, farm expenses, purchase of seeds and fertilizers.
2. medium-term credit which is longer than one year but less than three years is required for the acquisition of breeding stock and inexpensive equipment.
3. Long-term credit which is necessary to acquire major machines and carry out major improvements on the farm.

Agricultural credit is a powerful instrument in bringing about a change in agricultural practices and productivity especially if it is supplied in sufficient quantity and used efficiently. Jekayinfa (1981)[7] asserts that even in highly developed countries, agricultural credit has been an important instrument for fostering agricultural development and for improving efficiency and expanding production. In supporting this assertion, Galbraith (1952)[8] contends that at a certain stage of agricultural development, agricultural credit clearly does become a strong force for further improvements when a man with energy and initiative who lacks only the resources for more and efficient production is enabled by the use of credit to eliminate the one block on his path to improvement.

The paramount aim of any agricultural credit system is to make the best use of capital resources of various origin with a view to maximizing the contribution to the general economic development of the country. According to Wells (1974)[9] "credit is essential to the working and growth of any economic sector involving substantial private enterprise and the development of effective institutions for mobilizing and allocating loanable funds is a crucial element - perhaps the most crucial element - in promoting economic growth.[11] The problems of agricultural development everywhere is mirrored in the difficulties of creating means to channel capital funds into the agricultural sector and to ensure that they are employed effectively. One of the key reasons why so many projects aimed at strengthening an agricultural credit structure have yielded inadequate results is the tendency to overlook a number of preconditions in the economic, social, political,

psychological and cultural field. Some of the prerequisites for a successful agricultural development policy are:[10]

1. the existence of adequate and efficient socio-economic planning coupled with the desire to implement the plan.
2. an adequate rural infrastructure
3. an efficient system for minimizing price fluctuations for agricultural produce.
4. an adequate system of land tenure
5. adequate and effective arrangements for marketing and supply.
6. a well-organised and effective extension services.
7. continuity in government policies.

No agricultural credit programme is successful unless these prerequisities are adequately developed or unless those which are inadequate are improved simultaneously with the implementation of the program. Agricultural credit cannot be considered in isolation; it must be considered in relation to the agricultural development policy as a whole. It should be noted however that agricultural credit is only one of the many factors playing an important part in the complicated process of stepping up agricultural production.

In most developing countries like Nigeria, credit for agricultural development programmes is provided by government controlled credit institutions which are usually very few and far between. These institutions usually insist on tangible assets as security for loans. Jekayinfa (1981)[11] pointed out that under these circumstances, credit tend to be rationed not according to the needs or prospective net increase in the

production of the farmer but in terms of the availa
security required by ordinary banking practices. T
have adequate collateral has been a major constraint to the provision of loans to most farmers. Osuntogun (1973)[12] held the view that unless production credit was made available in suitable terms the majority of small farmers will be seriously handicapped in adopting a profitable technology. Adams and Nelson (1978)[13] supported this view by noting that formal lenders in many low income countries do a poor job of carrying out the role of intermediary between households with surplus liquid resources and households and enterprises which lack sufficient liquidity to capitalize on economic opportunities.

Nigeria has had a long experience with attempts on the part of the government to provide additional sources of credit to aid small farmers in making even modest changes in their techniques of production, unfortunately this experience has been characterised more by failure than by success.[13] The government's provision of credit dates to the initation of small loans for the establishment of mixed farming in Northern Nigeria in 1930. The creation of the Nigerian Local Development Board in 1946 created a nationwide institution for the purpose of providing loans to small farmers and businesses. The various regional development boards and credit corporations which succeeded it continued this practice. Although only a few studies have been carried out on agricultural credit institutions in Nigeria, most of them point out the inability of these institutions to meet a large percentage of the credit requirements of the peasant farmers. Osuntogun (1981)[14] pointed out the institutions

were handicapped by inadequate financial resources so that only a tiny percentage of total loans applied for by farmers were met. Ibru (1981)[15], Famoriyo and Nwagbo (1981)[16] observed that financial institutions particularly agricultural credit institutions have failed to make a great impact on the operational areas of agriculture so they suggested that these institutions re-orientate their operations to the needs of the small farmers. Jones et al (1966)[17] enumerated the short comings of credit programs in Nigeria as follows:

1. failure to establish eligibility of borrower and or to ensure eligibility standards.
2. excessively rigid and time-consuming procedures for processing loan applications
3. inadequate consideration of borrower's repayment ability.
4. ineffective follow up on use of loan proceeds
5. ineffective supervision of loans made on the assumption of close supervision.
6. lack of continuity of personnel of committees responsible for credit decisions.
7. inadequate or complete absence of financial projections and planning
8. failure to establish line of demarcation between policy making and management function within the credit organisation.
9. division of responsibility for loan making and for loan servicing
10. failure to recognise the importance of having adequately trained personnel and the degree to which the factor limits the rate of sound expansion

of any credit program.

The apparent inability of credit institutions, and any other financial institution for that matter, to give agricultural credit to most farmers is not only as a result of the inherent weaknesses in the operations of these institutions. Problems of agricultural financing may be associated with agriculture itself or they may be created by the farmers. Problems inherent in agricultural production include high rate of perishability of agricultural produce, natural hazards like drought, poor and inadequate facilities in the rural areas. Some of the problems created by farmers are exaggeration of loans, unviable agricultural projects, mismanagement of funds and diversion of loans to other purposes. In a survey carried out by Galleti et al (1951)[18] in the cocoa growing areas of the Western Region of Nigeria, it was found that 26% of the loans obtained by farmers were used for non-productive purposes, 43% was used for obligatory purposes while about 30% roughly was used for investment. According to Galleti et al, the motives for borrowing include the desire for prestige, the ambition to build a fine house and get married and the hope of increasing income through farming. Larger loans were taken to meet funeral, marriage and festival expenses. In another survey carried out by Oyatoye (1975)[19] in Ife and Ondo to investigate the availability of farm labour, it was established that only about 30% of loans taken were used for agricultural purposes while approximately 70% were used for consumption purposes.

In developing countries, the small and medium size farmers often fall into the temptation of using loans intended clearly for productive purpose for consumptive aims such as meeting the cost of marriage, funerals etc.[20] This statement is true in Nigeria where development has not yet reached the stage where the average small and medium scale farmer makes a proper use of the credit facilities extended to him due to his traditional approach to socio-economic problems and the conditions in which he lives. The complex obligations of the traditional society (weddings, funerals etc) create an obvious need for lending mechanisms which abound in traditional Nigerian culture. Because of the tendency of traditional credit to finance consumption requirements, this practice has been carried into modern loans. Infact it is often suggested that traditional forms of credit together with the patterns of land tenure create difficulties in the establishment of modern institutions providing loans to individuals for purely productive reasons. As long as subsistence farming prevailing in developing countries including Nigeria has not been replaced by a full-fledged market production, all credit to small and medium size farmers is bound to have both a consumptive and productive element.[21] Belshaw (1959)[22] arrived at similar conclusions when he stated that a large proportion of the demand for credit was for working expenses out of which a large proportion was to meet living expenses. He further stated that in the initial stage of agricultural development, part of the credit extended to farmers must be for purposes of consumption.

Generally speaking, institutional agricultural credit in rural Africa has grown in importance since the 1960s and these have been reflected in increased government activity and large resource transfer from abroad to support these national priorities. Von Pischke and Rouse (1981)[23] observed that this situation had given rise to its own problems, two of which were the growing inequality in income between the truly poor farmers and the rich farmers who tend to derive more benefits from such schemes and the loan repayment problems. Due to lack of data, they contended that it was difficult to assess the real impact of these credit schemes but they were of the opinion that institutional lending to farmers has not significantly helped in mobilizing resources for investment. They concluded in their paper that viable credit institutions can be created when appropriate financial technologies are devised for small holders.

In a survey carried out by the Food and Agriculture Organisation (FAO)[24] to study the possibilities of strengthening the provision of credit to agriculture in developing countries, it was observed that attempts by credit institutions to compete with non-institutional sources of credit had yielded generally very moderate results. This was found to be due to the fact that a good number of agricultural banks took it for granted that the much lower rates of interest charged by their institutions would result in the non-institutional sources being ousted so they overlooked the impersonal character of institutional credit and all that resulted from it. The survey also revealed that the approach of many credit institutions to the problem

of agricultural credit was rather passive and traditional and this prevented them from adopting modern and dynamic methods and policies. Some of the problems enumerated in the survey include the dogmatic approach of these institutions to credit needs; that is that,all borrowings for non-productive purposes should be banned and that all loans should be issued in kind. Other problems include the tendency of agricultural credit insitutions to issue credit only to large landowners and lucrative commercial businesses because of fear of risks attached to the issue of loans to small farmers and severe competition from non-institutional sources.

Ideally an agricultural credit institution needs to be specialized to be efficient in distributing loans according to the needs of the different farmers. Belshaw (1959)[25] was of the opinion that it was advantageous to have specialised institutions for different types of agricultural credit. However he went on further to say that where a country is too small for this type of specialization then the different types of credit may be combined in one institution so that there would be seperate departments for short, medium and long term credits with seperate sources of finance. In supporting this view, Dell'Amore (1973)[26] asserted that specialization was the most efficient system for agricultural credit which every government should work towards as an ultimate aim. Along side specialization, a second prerequisite of a good agricultural credit system is wide geographical coverage through permanent or intermittent offices at all major rural centres,[27] This

way an agricultural credit institution can maintain continual contacts with its clients and arrive at less superficial judgements of the credit requirements and earning capacity of individual farmers. The creation of a centralized or national agricultural institution minimizes differentials in the interest rates charged on loans and it imports unity of purpose to technical assistance which farmers need everywhere. According to Dell'Amore,[28] such a national or central agricultural credit institution should perform the following functions:

1. organize close collaboration among all the banks which go in for agricultural credit.
2. act as a clearing house for these banks
3. control the actual use made of loans
4. facilitate the application of uniform borrowing and lending rates.
5. collaborate in financing land consolidation schemes.
6. spread the benefits of productivity gains as widely as possible among different regions and sectors.
7. act as the official channel for flow of state and central bank funds to agriculture and as the distributor of interest subsidies
8. as a channel of international aid, it offers the best possible guarantee that loan granted to the country are effectively used for the economic and social betterment of the rural population.

In the following paragraphs, selected credit prog... of some countries are reviewed.

Caisse Nationale de Credit Agricole (CNCA) Morocco was established in 1962 as a government owned agricultural bank. It has two types of branch offices at the regional level which serve district borrower clienteles. Caisse Regionale de Credit Agricole (CRCA) offices lend to large farmers, cooperatives and other groups while caisse locale de Credit Agricole (CLCA) offices lend to small farmers. Each branch can approve loans up to a certain value without confirmation from the headquarters. In contrast to the more complex CRCA lending procedures, CLCA small farmer loan appraisals are very simple and based primarily on desk reviews. CLCA clients may borrow any amount based on an assessment of their annual taxable income. Each year, farmers declare for tax purposes the amount of land and number of animals and fruit frees they have. When taking a CLCA loan, a farmer must have the personal guarantee of another farmer in the area or a government official as a consignor and must pledge all his assets to CLCA. Failure to repay the loan without reasonable cause results in expropriation through administrative rather than legal action. CLCA obtains ultimate recovery rates which approaches 100%. The CNCA has thus become a relatively efficient lender to small farmers through the use of organisational innovations which tend to overcome many financial and administrative disadvantages associated with specialized credit institutions. In 1977, 67% of the CNCA borrowers were small farmers.

financial and technical assistance, the decentralixation of operations, and utilisation of group approach for lending. Some of the weaknesses of the Chilean credit programs were scarcity of trained personnel, inadequate follow-up evaluation, lack of integration of credit schemes with marketing services, and inadequate provision of social services.

Small farmers constitute an overwhelming majority of the agricultural sector of the Philippines. This situation has prompted the government of the country to focus more closely on this segment of the population. The small farmer credit programme of the Philippines is a programme of supervised credit under which loans can be granted without the usual collateral but with a stipulation on how the loan should be utilized. This is spelt out in a farm plan and budget which is supposed to be prepared by the farmer and farm management technician. More recent small farmer credit schemes now centre on the improvement of the socio-economic conditions of the farmers. Under these schemes, the small farmer is viewed not merely as a production unit who must be provided with credit so that he can be a vehicle to increase national production but as an object of development whose needs for improvement should be addressed in totality. These needs include an efficient input supply system, essential infrastructure, technical advice on farming, marketing outlets and credit requirements for all production and even consumptive activities when necessary,

In Cameroun, a pilot programe was initiated to test the feasibility of lending to small farmers. The program suggests that credit unions can effectively mobilise small scale rural savings and provide appropriately scaled credit services to small farmers. The unions traditionally place emphasis on mobilizing members' savings. Since the first credit union was founded in 1963, credit unions have maintained a strong rural membership base and had become 222 in number by 1978. Credit unions have grown rapidly because they meet saving needs and satisfy demands for financial services and because they share certain similarities with traditional rural financial institutions. Farm loans are normally short term in amounts up to twice the borrower's savings balances at an interest of 12% per annum and they are disbursed in cash for purchasing seeds, fertilizers, insecticides, animal and labor services. Delinquency rates have been less than 10%.

The five programmes reviewed have from certain perspectives successfully provided financial services to small-holders but none is completely satisfactory in all respects. They were reviewed to show factors that suggest that under certain specific circumstances, viable institutions could be created when appropriate financial technologies are devised.

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22. Belshaw, Horace. Agricultural Credit in Economically Underdeveloped Countries. Rome, FAO Agricultural Studies No. 46, 1959, pp. 43 - 44.

23. Von Pischke, J. D. and Rouse, J. "Agricultural Credit and Rural Finance in Africa: Selected Successful Experiences" The Bullion, Vol. 6, No. 4, Oct./ Dec. 1981.

24. F. A. O. op. cit. pp. 5

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1. PRIMARY DATA

Two sets of questionnaires were designed and administered for the study. One set of questionnaires was administered to farmers (Appendix A) in three Northern States namely Kano, Sokoto and Kaduna States. This sample of farmers was randomly selected in these three states to allow for broad generalizations to be made in the study. The questions asked were mainly for obtaining information about the farmers' opinions of the N.A.C.B. Ltd. and the problems they encounter in obtaining loans from the Bank. The questionnaires were either filled on the spot or were collected at a later date. As a greater percentage of the farmers were illiterates, the researcher had to enlist the help of an interpreter who asked the farmers the questions in the Hausa language and filled up the questionnaires with the answers provided by the farmers. In all, sixty farmers completed this set of questionnaires. The data obtained were not subjected to complex statistical tools of analysis. The data is tabulated and percentages are calculated. The analysis of this data is presented in the fifth chapter.

The other set of questionnaires was administered to the N.A.C.B. Ltd. officials (Appendix B). The questions asked sought to obtain information mainly on the Bank's policies and the problems it faces, as the only national agricultural credit institution in Nigeria, in giving out loans to Nigerian farmers. The data obtained is used to supplement information on the Bank obtained from secondary sources of information. This is also

presented in the fifth chapter. The questions asked in both sets of questionnaires were close ended ones in which the possible answers were supplied. This is to ensure that reliable responses were obtained. The questions were a combination of dichotomous questions and multiple choice questions.

To supplement the data obtained from the administered questionnaires, interviews were held with officials of the N.A.C.B. Ltd. especially in the branch offices to obtain more reliable information on their operations and problems. These interviews provided information that proved useful to the study.

3.2. SECONDARY DATA

The researcher made extensive use of secondary data in the study. The major source of information was the N.A.C.B. Ltd. records which included annual statements, statement of accounts, unpublished lectures and Guide to Applicants. Other sources were published proceedings of seminars organised by the Central Bank of Nigeria, Journals, periodicals, magazines and newspapers.

Simple statistical computations were made on some of the data obtained from the N.A.C.B. Ltd. records as tools of analysis. The growth rate of loans approved by the Bank from 1973 - 1983 was computed, it was calculated from the following formula:

$$A = P(1 + R)^n$$

Where A = value of project at current period

P = initial value approved

R = compound annual rate of growth in value of

project.

n = number of years under review.

The coefficient of variation, which is a relative measure expressed as a percentage, was also calculated to compare the variability of loans approved by the Bank on project basis and on the basis of geographical distribution. This was calculated from this formula.

$$\text{coefficient of variation} = \frac{\text{standard deviation}}{\text{mean}} \times 100\%$$

The standard deviation(σ) is obtained from the following formula

$$\sigma = \sqrt{\frac{\Sigma(x - \bar{x})^2}{n}}$$

where σ = standard deviation

x = individual items of the series

$\bar{x}$ = their mean

n = total number of items in the series

3.3. LIMITATIONS OF THE STUDY

This study is limited to the financing of agricultural projects in Nigeria by the N.A.C.B. Ltd. It does not include the role played by other commercial, merchant or development banks in financing agricultural projects. The study covers a period of ten years from when the N.A.C.B. Ltd. was established in 1973 to December 1983.

The coverage of the study is limited to the three Northern States in which the study was carried out. However attempts are made to generalise for the whole of the Northern part of Nigeria.

As a larger percentage of farmers questioned were illiterates, the researcher had to enlist the help of an interpreter to ask the questions in Hausa. This proved to be a very long and tedious process thus it was very difficult for the researcher to make the Research as exhaustive as it should be due to constraints of time and finance.

CHAPTER FOUR

THE NIGERIAN AGRICULTURAL AND COOPERATIVE BANK LIMITED (N.A.C.B.)

4.1. HISTORICAL BACKGROUND

Developing the agricultural sector has been the priority of the various governments of Nigeria. Everywhere in the world, the problems of agricultural development are usually mirrored in the difficulty of creating effective means of channeling capital funds into the agricultural sector. Nigeria has had a long experience with attempts on the part of the government to provide credit to the agricultural sector. Government's provision of credit dates back to the 1930s when the Native Advance System was established in the former Northern Nigeria to encourage mixed farming. This was followed by the establishment of series of development boards which continued the practice of granting agricultural loans to farmers. The experiences of these agencies has been generally characterised more by failure than success owing largely to their low finance base.

Following decades of dissatisfaction with the system of agricultural credit and financing in the country, an attempt was made by the government to correct the situation by providing ₦6 million in the 1962-1968 National Development Plan for the establishment of an agricultural credit bank. The first feasibility study was carried out in 1968 by a joint team of the International Bank for Reconstruction and Development (World Bank) and the U.S.A.I.D. experts. This project however could not be implemented due to the civil war in the country. In 1969, a second attempt was made by the World Bank on the

request of the Federal Government. A fresh study was carried out resulting in the Stoneham Report which contained a recommendation for the establishment of the Nigerian Agricultural Bank (N.A.B.). This recommendation was accepted and included in the 1970-74 National Development Plan for implementation.

The N.A.B. was inaugurated on 6 March, 1973 and it started effective operations in August, 1973. The ensuring structure, policy and machinery of the Bank followed precisely the recommendations of the Stoneham Report which noted the inadequate infrastructures and other necessary conditions for successful agricultural lending in Nigeria. In 1976, the Federal Government set up a committee to review the financial system of the country. In the report submitted by this committee to the Federal Government, some recommendations on the N.A.B. were made. Among the recommendations made were the following:[1]

a. The bank should review its lending policies with a view to relating its requirements for security, personal stake, proof of title to land etc. to Nigerian circumstances.

b. A personal stake of not less than ten percent but not more than twenty percent should be required by the bank.

c. The bank's board should give priority to its plans to open state offices with sufficient delegation of functions in terms of project appraisal, approvals and fund disbursement.

All these recommendations were accepted by the Federal government in 1977 and implemented in the bank's policies. In 1978 the bank was renamed the Nigerian Agricultural and Cooperative Bank (N.A.C.B.) to embrace cooperative activity. The N.A.C.B. thus was the government's response to the much felt need for a national credit institution for financing agriculture in Nigeria.

The N.A.C.B. Ltd which was incorporated as a private limited liability company was registered on 24, November 1972 under the companies Decree 1968. The bank was fully owned and financed by the Federal Government since its inception in 1973 until 1979 when the Central Bank became a joint owner in the ratio of sixty to forty percent. At inception it had ₦12 million from the Federal Government: it had a paid-up share capital of ₦1,000,000 made up of 500,000 shares of ₦2.00 each and ₦11,000,000 in loan funds. In 1978 when the bank was renamed, a decision was taken to increase the share capital of the bank substantially to ₦50 million. The bank is allowed to raise funds from the financial market.

4.2. OBJECTIVES OF N.A.C.B. LTD.

The N.A.C.B. is a development bank whose role is to contribute to the overall growth and development of the Nigerian economy specifically in the field of agriculture. It is not involved in directly productive activities but it finances agricultural development aimed at contributing effectively towards making the nation self-sufficient in food production.

The specific objectives for which the bank was established are two-fold:

1. to promote agricultural production and rural development.
2. to improve the incomes and quality of life of Nigeria's rural population.[2]

To attain these objectives, the bank does the following:

i. grants loans to states or state institutions for on-lending to individual farmers, groups of farmers or corporate bodies subject to the states or state institutions guaranteeing repayment of the loans.

2. grants loans directly to individual farmers, cooperative societies and other bodies, which are corpporate or incorporated, provided there is adequate security to cover the loan and that the bank is satisfied that the projects for which the loans are required are viable. Thus the objectives of the bank are to finance agricultural production and development which when interpreted include horticulture, poultry farming, pig breeding, fisheries, forestry and timber production, arable crops, tree crops, animal husbandry and agro-allied activities like storage, distribution and marketing connected with such production.

4.3. FIELDS OF OPERATIONS

In fulfilling the aforementioned objectives, the bank has devised the following lending procedures.

1. On-lending

The Bank lends to intermediaries like established institutions against repayment guarantee for on-lending to third parties. Such institutions include cooperative and governmental bodies and companies that have credit facilities with the N.A.C.B. The ultimate beneficiaries do not have direct contract with the bank.

2. Direct lending

This is a lending procedure in which the bank deals directly with individual farmers and farmers' organisation without going through an intermediary or agency. Beneficiaries are in direct contact with the N.A.C.B. Individual farmers could be granted production loan up to a ceiling of ₦200,000 while cooperative bodies as well as incorporated bodies could be granted loans up to and in excess of ₦200,000.

3. Small-holder direct loan scheme

This is a newly established scheme where bank loan is given directly to small farmers. This scheme is handled exclusively by the branch offices.

The loan beneficiaries of the bank are individual farmers, cooperative organisations, limited liability companies, financial institutions, government owned agricultural corporations and other government bodies.

4.4. SOURCES OF FINANCE

Initially at inception, N.A.C.B.'s sources of finance were mainly government subscribed equity capital and statutory allocations from the Federal Government. However with time, the government had been compelled to expand the scope of the bank's finance accordingly. The bank's approved sources of finance now include:

a. loans and advances from the government
b. loans from the World Bank which are granted on specific projects through negotiations with the Central Bank of Nigeria. An example of such a loan is the one granted to the Federal Livestock Department.
c. Shortfalls from the Agricultural Credit Guarantee Scheme Fund.
d. Loans from domestic money markets.

4.5. ORGANISATION OF THE N.A.C.B.

The bank is governed by a Board of Directors appointed by the Federal Government in exercise of its discretional statutory right as the sole subscriber to the funds of the bank. The head office of the Bank is located in Kaduna, the capital of Kaduna State and branch offices have been set up in all the states of the Federation.

The bank has seven departments which are:

1. Managing Director s Department

- this department is headed by the Chief Executive of N.A.C.B. Attached to this department are the following divisions.

a. Research and Planning Division
b. Public Relations Division
c. Internal Audit Division

The Managing Director is supported by three executive Directors. They are:

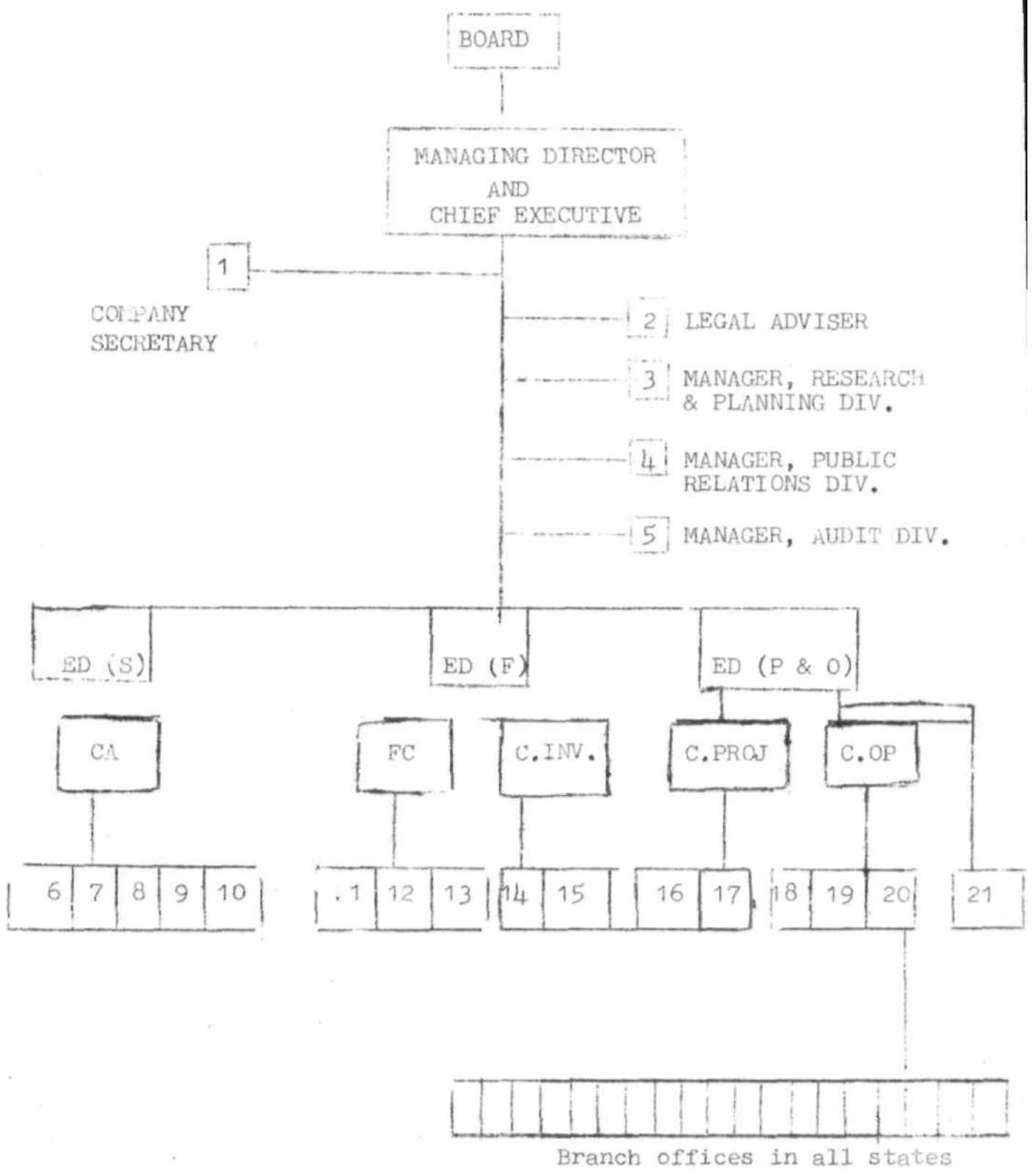
a. Executive Director (Services) - Coordinates the work of legal and Administration Departments
b. Executive Director (Finance) coordinates the work of Investment and Accounts Departments.
c. Executive Director (Projects and Operations) coordinates the work of Projects and Operations Department.

Other departments in the bank are:-

2. Administration Department
3. Legal Department
4. Accounts Department
5. Investments Department
6. Projects Department
7. Operations Department

The total staff strength of the organization comes to about 658 with 376 members of staff at the headquarters in Kaduna and 282 in the branch offices scattered throughout the Federation.

N.A.C.B. ORGANIZATIONAL CHART



SOURCE: RESEARCH AND PLANNING DIVISION, N.A.C.B. LTD. KADUNA

KEY

6. Manager, General Administration Division
7. Manager, Personnel Division
8. Manager, Maintenance and Property Division
9. Manager, Manpower and Training Division
10. Librarian, Library Services
11. Manager, Finance Division
12. Manager, Management Services Division
13. Manager, Loans Division
14. Manager, Loans Recovery Division
15. Manager, Inputs and Inventory Division
16. Manager, Agriculture Division
17. Manager, Cooperative Division
18. Manager, On-lending Division
19. Manager, Direct Lending Division.
20. Manager, Branch Offices Division
21. Manager, Consultancy Services

ED(S) - Executive Director (Services)

ED(F) - Executive Director (Finance)

ED(P&O) - Executive Director (Projects and Operations)

CA - Controller, Administration

FC - Financial Controller

C.INV - Controller, Investment

C.PROJ. - Controller, projects

C.OP. - Controller, operations.

4.6. LOAN TERMS AND CONDITIONS OF BORROWING

The duration of loans are of three categories:-

1. Short-term loans

These loans are mostly granted to marketing boards, cooperative societies and farmers organisations which engage in the seasonal purchases and production of agricultural goods. They are usually granted for seasonal and occassional purchases of agricultural inputs at the beginning of planting seasons. Loan beneficiaries are usually expected to pay back within two years.

2. Medium-term loans

These loans are granted for quicker maturing crops and livestock production such as poultry and pig production. They are repayable within two and five years.

3. Long-term Loans

These loans are granted for crops with long gestation periods such as cocoa and palm and also for beef production. They are granted for periods of more than 5 years. Due to the long term nature of these loans, they are as much as possible made in kind to minimize risks.

The loan period runs from the date the first disbursement

is made to the date the final instalment of the loan is paid. This loan period includes what is called the "grace period" during which the client pays interest without paying the principal. Present interest dates are 6% on production loan and 11% on marketing loan, this is very low as opposed to the comparable market rate which is 9 - 12%. The interest rates of the N.A.C.B. can be changed at any time by the bank without prior notice. The bank usually reserves the right to appoint a representative on the board of the borrowing company but this does not apply to individual borrowers.

The standard conditions for borrowing are:-

a. The project should be sound. By this it means that the project for which the loan is sought should not conflict with any Federal or state policies or acts, be commercially viable and capable of showing satisfactory returns on investment and be economically desirable.

b. The applicant has to have a proven ability to manage the project in a competent manner, have agriculture as its main object if the applicant is a company, have a good business reputation and in the case of companies, the Memorandum and Articles of Association should satisfy the bank. Applicants also have to keep within the framework of their financial capacities when applying for a loan.

c. The client has to have land available before he applies for a loan. Legal title to such a land must not be in doubt.

d. the client would also have to make a contribution of a minimum of 10% of the total cost of the project in cash and or in kind.

e. client has to provide securities such as first legal mortagages of project land, real property, endowment insurance policies, stocks and bonds of reputable companies, and government guarantees acceptable to the N.A.C.B.

When applying for a loan, applicants are required to submit the following:

a. Two copies of the feasibility study of the project. When the total cost of feasibility studies prepared by the bank is in excess of ₦200,000, the applicant is required to pay some fees.

b. Tax clearance certificate for the last three years.

c. Survey plans signed by a licensed surveyor or registered certificate of occupancy covering farm land.

d. Detailed curriculum vitae as well as diplomas of the proposed farm manager.

e. A copy of the valuation report on each of the properties offered as securities

Applications are to be made at least six months before the envisaged take off date of the project. Borrowers are required to keep proper books of account which could be inspected by bank officials at anytime, prepare and forward progress report in a form acceptable to the bank, insure the organization or farm assets with a reputable company and take an endowment insurance

policy acceptable to the N.A.C.B. with the bank as first beneficiary in case borrowers are individual farmers.

The standard conditions of borrowing required by the bank such as details of project, suitable proof of title to land, collateral and promoter's counterpart funds, which must be satisfied before loans are granted, are too rigorous and may inhibit borrowing by farmers. Proof of title to agricultural land can be a source of difficulty to most farmers. The traditional land tenure system in most parts of the country does not allow for the kind of finesse the N.A.C.B. needs regarding identifying the boundary of a farmland, documenting land ownership claim and availability of statistics for assessing value of land. Even the land use act which came into operation as a few years, ago, idealistic as it was, has not significantly helped the situation because it was concieved without careful examination of the fundamental issues involved. The endless waiting for certificate of occupancy has a frustrating effect on genuine farmers. It seems unreasonable to reject the loan application of a farmer because he has no clear title to a land he has been farming on for years. The most important criterion for approving or rejecting loan application should be repayment capacity of the borrower. There are a lot of disadvantages in a credit policy which considers security of land as the only reliable basis for granting loans.

On the issues of collateral, the Bank has to demonstrate some flexibility. The 100% security cover required by the Bank is unreasonable and inimical to the agricultural development of the country. Liberalising the security requirements of the Bank would definitely facilitate agricultural financing because

few Nigerian farmers can produce securities which would satisfy the Bank's criteria as to the adequacy of value vis-a-vis the loan. Most farmers also encounter difficulty in complying with the Bank's demand for feasibility studies on the projects for which credit is required. Although it is necessary for both a borrower and a lender to ascertain the viability and profitability of a proposed project which involves a large financial outlay but there is the issue of the huge cost for procuring such a report which the farmer incurs and there is the issue of the attendant delay in the preparation of this report which can upset the timetable of the farmer.

When the bank was established in 1973, one of the conditions for borrowing was that farmers had to provide 25% of the investment as the promoter's counterpart funds. This was too high a contribution to require of farmers. The Okigbo Financial System Review Committee recommended in 1976 that the personal stake be reduced to between 10% and 20%. The Federal Government accepted the recommendation that the personal stake of promoters should not be less than 10% but rejected the 20% upper limit because it argued that over time it is expected that such personal stakes will be increased to 100% so as to free funds for expansion of financing.[3] This argument is highly illogical because a promoter that can put up 100% of the investment would not need finance from the N.A.C.B. At present 10% equity participation is required as contribution from farmers and this amount is fair enough.

It is however possible to justify some of the conditions which the bank requires to be satisfied before granting loans to farmers especially that of security. The resources of the bank are not unlimited neither is the bank free from policies and restrictions mandatorily imposed by monetary authorities. Agricultural lending also is a risky business so the bank needs some protection against its borrowers some of whom are irresponsible and against the natural hazards associated with agriculture. Without this security, the bank would be short-lived. There would not have been any need for the government to establish the N.A.C.B. as a development bank if its primary purpose were to give grants to farmers and without adequate security the N.A.C.B. will die early by drowning in a sea of bad debt. Despite these facts however, the important point is still that the security requirement of this Bank has to be relaxed to achieve the government's goal of self-sufficiency in agriculture. There is no risk-free way to achieve major success. The government through the Bank must be willing to undertake more risks arising from lending to Nigerian farmers. On the issue of obtaining the certificate of of occupancy for land, there is very little the Bank can do to reduce this difficulty because without the certificate it is impossible for the Bank to lay effective claim on the land.

4.7. SMALL-HOLDER DIRECT LOAN SCHEME

Since the inception of the bank in 1973, loans had been extended to small farmers using the on-lending procedure. Under this scheme, the Bank lends to intermediaries such as state government agencies and cooperative societies who then combine credit with rural education, extension services and marketing in a package as services to farmers. To supplement this effort the Bank has implemented the small-holders direct loan scheme. This programme represents a new dimension in agricultural financing. The centre-piece of this scheme is the small-scale farmers who produce the bulk of the food requirements of the country.

Under this scheme, most of the Bank's fundamental requirements are waived. The key features of the scheme are:

a. Applicants must be full-time farmers or be willing to take on farming on full-time basis
b. Applicar s must be willing to avail themselves of the use of modern inputs which include improved seeds, fertilizers and plant protection measures.
c. The 10% equity participation requirement is completely waived.
d. Requirement for security is also waived
e. The provision of credit worthy guarantors is accepted as sufficient security for loan.
f. Emphasis is laid only on viability of project and availability of good management as against collaterals.
g. The approval limit per farmer is ₦5,000
h. Loan granting, processing and approval have

been completed decentralised to the branch offices located in all the states of the Federation.

This scheme has recently been launched (1981) and it is yet to be fully implemented. The scheme is now in operation in all the states of the Federation. The Bank's experience with the scheme will determine how much of its resources will be allocated to it in future. The scheme has great potentials. This is because most of the fundamental conditions of the bank which tend to inhibit farmers, particularly small farmers, from borrowing have been waived.

Moreover, by the decentralisation of the operations of this scheme to the branch offices in the state the Bank would be able to overcome many administrative disadvantages that are associated with such an institution and it would be able to deal directly with thousands of small farmers highly dispersed in remote areas.

4.8. N.A.C.B.'S ACHIEVEMENTS

The performance of the bank is remarkable. Since the inception of the Bank in 1973 to December 1983, it has approved a total of ₦563,037,000 for 2,840 projects. Total amount disbursed came to ₦394,738,000 out of which ₦130,946,000 has been repaid.

The breakdown of the annual volume of operations from 1973-1983 are shown in Table 4.8.1.

In 1973, the Bank approved ₦3,752,000 and by 1983 the amount approved had grown to ₦15,606,000. The compound annual rate of growth of loan approvals from 1973 to 1983 was computed to be about 15%.[4] If, the Bank wants to achieve the government's goal of self-sufficiency in agriculture by promoting agricultural production, through its activities, it would have to improve on this.

TABLE 4:8:1

ANNUAL VOLUME OF OPERATIONS 1973 - 1983
AMOUNT IN ₦'000

YEAR	NUMBER OF PROJECTS	GROSS APPROVALS (₦)	NET APPROVALS (₦)	DISBURSE-MENTS (₦)	REPAY-MENTS (₦)
1973/74	1	3,752	3,752	3,752	-
1974/75	47	46,831	48,491	7,713	4,083
1975/76	55	52,392	49,989	19,982	5,720
1976/77	67	139,850	106,090	40,507	13,293
1977/78	7	20,253	18,146	52,452	24,799
1978/79	38	48,848	45,979	44,588	25,131
1979/80	44	22,855	22,605	29,658	25,512
1980	66	46,841	44,796	28,816	9,124
1981	138	105,021	105,021	75,717	10,984
1982	970	60,540	60,540	68,177	6,479
1983	1,407	15,948	15,606	23,356	5,821
	2,840	563,037	515,015	394,738	130,946

NOTE: (1) Net approval is gross approval less un-utilised loan volume and cancelled loans of ₦48,022 million at December 31, 1983.

(2) Number of projects includes 2,252 small holder loan scheme beneficiaries

SOURCE: RESEARCH AND PLANNING DIVISION, N.A.C.B. LTD. KADUNA.

The largest amount of loans was approved in 1976/77. This amount, ₦139,850,000 accounts for 24.8% of the total amount of loans the bank had approved since its inception. The largest number of projects was financed in 1983 - about 49.5% of the total number of projects the bank has financed in ten years.

The breakdown of loans on projects basis are shown in Table 4:8:2

TABLE 4:8:2

CUMULATIVE VOLUME OF OPERATIONS AS AT 31 DECEMBER, 1983 ON PROJECT BASIS

TYPE OF PROJECT	NUMBER	AMOUNT APPROVED (₦)	AMOUNT DISBURSED (₦)	AMOUNT REPAID (₦)
ON-LENDING				
Marketing	49	163,253	113,181,180,00	89,077
Tree Crop	1	196	-	-
Arable Crop	32	102,424	15,896,631.30	31,547
Integrated Project	8	20,396	13,351,675.00	5,215
River Basin Development Authority	11	55,000	55,000,000.00	-
Sub-Total (A)	101	341,269	257,429,486.30	125,839
DIRECT LENDING				
Tree Crop	20	52,601	45,557,000.00	26
Mixed farming	41	15,989	12,717,000.00	1,070
Feedmill	5	2,237	1,961,000.00	69
Arable Crop	116	42,057	16,917,000.00	1,190
Poultry	222	37,507	24,756,000.00	1,637
Rabbitry	2	199	196,000.00	-
Cattle	61	16,350	12,610,000.00	372
Horticulture	2	74	73,000.00	45
Forestry	2	6,824	3,224,000.00	8
Fishery	8	41,789	14,623,000.00	76
Piggery	4	717	600,000.00	29
Oil Palm	4	428	21,000.00	-
Small Holder Loan Scheme	2252	4,996	4,054,000.00	585
Sub-Total (B)	2739	221,768	137,309,000.00	5,107
GRAND TOTAL(A&B)	2840	563,037	394,738,000.00	130,946

SOURCE: RESEARCH AND PLANNING DIVISION, N.A.C.B. KADUNA.

After a decade of operations, ₦341,269,000 had been approved for 101 projects under the on-lending scheme. This comes to 60.6% of the total amount of loans approved over the period of ten years that the Bank had been in operation. This shows that the Bank seems to prefer the on-lending scheme to the other scheme. Under the direct-lending scheme, 3,739 projects have been financed by the Bank. 82% of this number (2,252 projects) were financed under the small-holders direct loan scheme. The amount accounts for about 79% of the total number of projects financed over the same period. Next in line is Poultry; 22 (7.8% of total) poultry projects were financed by the bank which involved a total sum of about ₦37.5 million. This project seems to be the most active of N.A.C.B.'s portfolio for the livestock sub-sector. This is probably because it is usually the most successful of the various types of livestock enterprise embarked on.

₦5 million was granted to each of the eleven River Basin Authorities in the country to assist them in fulfilling their obligations. The loans were to be used to develop small farms at the grassroots. The loan of ₦55 million given to these River Basin Authorities is yet to be repaid. In the period under review, the largest amount of loan was approved for marketing. The amount, ₦163,253,000, accounts for 29% of the total amount of loans approved during the same period. This is followed by ₦103,424,000 (18%) for arable crops under the on-lending scheme. Under the direct lending scheme, a total of ₦42,057,000 was approved for 116 arable crop projects. Altogether, a total of ₦144,481,000 was approved for 48 arable crop projects in ten years.

This is fair enough. Financing arable crop projects should be one of the priorities of the N.A.C.B. mainly to supplement the efforts of farmers in providing food and fiber for the country.

The breakdown of the Bank's operations from 1973-1981 when looked at the state level is presented in Table 4:8:3.

ch.3

TABLE 4:8:3

GEOGRAPHICAL DISTRIBUTION OF CUMULATIVE LOAN OPERATIONS AS AT DECEMBER 31 1983

STATE	NO. OF PROJECTS	AMOUNT APPROVED (₦)	% OF TOTAL	AMOUNT DISBURSED (₦)	% OF TOTAL	AMOUNT REPAID (₦)	% OF TOTAL
Anambra	97	29,739	5.28	28138324.26	7.13	4105	3.13
Bauchi	187	29,949	5.32	16674977.11	4.22	11060	8.45
Bendel	197	38,185	6.78	35783779.16	9.07	446	0.34
Benue	222	21,293	3.78	15721468.22	3.98	2554	1.95
Borno	199	41,848	7.43	33112652.16	8.39	14060	10.74
C/River	109	23,057	4.10	20858871.09	5.28	1127	0.86
Gongola	290	51,283	9.11	27249693.83	6.90	8236	6.29
Imo	141	21,871	3.88	18728281.83	4.67	4436	3.39
Kaduna	179	49,791	8.84	36581017.76	9.27	26257	20.05
Kano	144	20,736	3.68	13316313.37	3.37	2244	1.71
Kwara	125	22,720	4.04	15286055.99	3.87	1693	1.29
Lagos	142	42,443	7.54	4018033.08	1.02	223	0.17
Niger	66	12,990	2.31	12022464.99	3.05	4755	3.63
Ogun	88	13,036	2.32	10758006.63	2.73	38	0.03
Ondo	116	53,439	9.49	38187172.11	9.67	22942	17.52
Oyo	86	29,991	5.33	20244139.99	5.13	11737	8.96
Plateau	95	7,907	1.40	6162615.16	1.56	1445	1.10
Rivers	80	19,084	3,39	15459530.50	3.92	182	0.14
Sokoto	279	33,675	5.98	26734660.12	6.77	13406	10.24
	2840	563,037	100	3947338057.36	100	130946	100

SOURCE: RESEARCH AND PLANNING DIVISION, N.A.C.B. LTD. KADUNA.

The largest number of projects financed by the Bank between 1973 and 1983 was 290 (10.2%) in Gongola State. This was followed by 279 projects (9.8%) in Sokoto State and 222 projects (7.8%) in Benue State. However during this period, the largest amount of loan approved was ₦53,439,000 (9.49%) in Ondo State. Gongola

state came second with ₦51,283,000 (9.11%) and third was Kaduna with ₦49,791,000 (8.84%). The least amount of loan approved was ₦7.907,000 (1.4%) in Plateau State.

Out of the total amount disbursed during the period under review, Ondo State got the largest which was ₦38,187,172.11 (9.67%), then Kaduna State which had ₦36,581,017.76 (9.27%). This was followed by Bendel State to which ₦35,783, 779.16 (9.07%) was disbursed. A total of ₦130,946,000 has been repaid by all the nineteen states of the federation out of the total amount repaid, Kaduna State repaid ₦26,857,000 (20%), Ondo State repaid ₦22,942,000 (17.52%) and Benue State repaid ₦14,060,000 (10.74%).

Table 4:8:4 shows the breakdown of total loan repayments according to the different loan terms.

TABLE 4:8:4

CUMULATIVE LOAN REPAYMENTS FROM 1973 - DECEMBER 31, 1983

(AMOUNT IN ₦ MILLION)

TERM OF LOAN	REPAYMENTS		
	TOTAL DUES	ACTUAL REPAYMENT	REPAYMENT AS % OF TOTAL DUE
Short Term	99.4	97.3	55.7
Medium Term	49.8	26.7	15.28
Long term	25.5	6.9	3.95
Total	174.7	130.9	74.93

SOURCE: RESEARCH AND PLANNING DIVISION, N.A.C.B. Ltd. KADUNA.

A total of ₦174.7 million is due for repayment by borrowers; ₦99.4 million (57% of total dues) are short-term loans. Medium loans and long term loans account for 28.50% and 14.50% of the total dues respectively. 55.7% of the short-term loans that

are due have been repaid, 15.28% of due medium term loans have also been repaid while just 3.95% of due long term loans have been repaid. All together 74.90% of loans that are due have been repaid. This figure looks encouraging because it shows that borrowers, particularly of short term loans, pay back their loans promptly at the scheduled period. It seems farmers that borrow long-term loans default more in repaying their loans than borrowers of medium and short-term loans. However if a comparison is made between the total amount repaid and the total amount the Bank has disbursed in ten years, the figure obtained which is 33.17%, does not look good; only about 33% of the total amount disbursed by the bank has been recovered. The repayment experience of the N.A.C.B. Ltd. can thus be said to be unsuccessful.

In further analysis of the cumulative volume of operations of the N.A.C.B. from 1973 - December 1983, a comparision of the variability of total amount of loans approved during this period on project basis and on state basis was made. This comparision which is made with the use of the coefficient of variation is presented in Table 4:8:5.

TABLE 4: 8 : 5

COMPARISION OF THE VARIABILITY OF TOTAL LOAN APPROVALS ON PROJECT BASIS AND ON BASIS OF STATE BETWEEN 1973 AND 1983

	Mean	Standard deviation	Coeffient of variation
(a) Loan approvals on project basis	31279.833	41673.697	133
(b) Loan approvals on state basis	29633.526	13140.043	44

From the table, it can be seen that the coefficient of variation of loans approved on project basis is very high (133%), much higher than that of loans approved on the basis of state (44%). This means that the relative dispersion around the arithmetic mean is greater for loans approved on project basis than those approved on state basis. In other words, loans approved on state basis are more concentrated around the mean loan approved thus they exhibit much less relative variations than loans approved on the basis of projects. The high coefficient of variation of loans approved on project basis indicate differences in project identification while the comparatively lower coefficient of variation of loans approved on the basis of state indicate homegeneity or non-differentials of state which is really a failure in policy. The Bank should realise that the different states are endowed with different resources and loan approvals should as much as possible be made to reflect these differences.

F O O T N O T E S

1. Federal Military Government's views on the Report of the Committee on the Nigerian Financial System. Federal Ministry of Information Lagos, 1977, p.19.

2. Nigerian Agricultural and Cooperative Bank Limited "Guide to Applicants," p.3.

3. Ibid: Footnote 1.

4. The compound growth rate of loans approved by the N.A.C.B. Ltd. from 1973 to 1983 was computed as follows:

$$A = P\ (1 + R)^n$$

$$15{,}606 = 3{,}752\ (1 + R)^{10}$$

$$\text{Log } 15{,}606 = \text{Log } 3{,}752 + 10 \text{ Log } (1+R)$$

$$\text{Log } \frac{15{,}606}{10} = \text{Log } \frac{3{,}752}{10} = \text{Log } (1+R)$$

$$\frac{4.1932916 - 3.5742628}{10} = \text{Log } (1+R)$$

$$0.0619028 = \text{Log } (1+R)$$
$$1.1531953 = 1 + R$$
$$0.1531953 = R$$

$$\therefore\ R = 15.32\%$$

CHAPTER FIVE

THE FINANCING OF AGRICULTURAL PROJECTS IN NIGERIA AND THE N.A.C.B. LIMITED.

In this chapter, an attempt is made to present the problems the N.A.C.B. faces in financing agricultural projects on one hand and those problems faced by farmers in obtaining loans, from the Bank on the other hand.

5.1. N.A.C.B.'S PROBLEMS IN FINANCING AGRICULTURAL PROJECTS

The data used for presenting these problems were gathered through the use of questionnaires and interviews. The questions asked sought to obtain more information on the operations of the Bank than could be obtained from the secondary sources of data. The additional information obtained from the questionnaires and interviews are summarised as follows:

Specialization of Operations

In catering for the varying credit needs of the different categories of farmers, the N.A.C.B. does not have specialized departments as such for the different types of agricultural credit. It however has different loan schemes with different borrowing requirements for the different categories of farmers.

These loan schemes are:

a. Small-scale loan scheme which has a loan ceiling of ₦5,000. Under this scheme, most of the standard borrowing conditions have been waived particularly the security requirement.
b. Medium-scale: ₦5,001 - ₦100,000
c. Large-scale: Above ₦100,000

Borrowers of medium and large scale loans have to satisfy the same conditions.

The small-scale loan scheme has been completely decentralised from the headquarters of the Bank to the branch offices in the states. Granting, processing and approval of small-scale loans are made in the branch offices without confirmation from the headquarters. The Bank believes that by decentralising this scheme to the branches, the staff of the Bank in its branches would get to know the really progressive farmers of any community. This knowledge generated the confidence that is vital to the success of such an institution.

The Bank does not provide literature on its activities in local languages for the benefit of farmers in rural areas.

EVALUATION OF LOAN APPLICATION

The time it takes to evaluate a loan application from date of submission varies according to the size of the loan required.

A completed application form seeking a loan is submitted to the manager of the project department. The completed form and other information furnished will be used for proper project identification. If the study indicates that the envisaged project is viable, the N.A.C.B. will send one of its project officers to the proposed site for an on-the-spot assessment and to discuss all aspects of the project with the applicant. If this visit discloses a worthwhile project, the project department will then prepare a management discussion paper. If the loan sought is medium scale, it is approved by a management committee comprising the general management and Heads of department. Evaluation and final approval of such an application can take less than three months. An application for a loan greater than ₦100,000 is approved by the Board of Directors which meets once a year

evaluation and final approval of the application may take as long as three to six months. A completed application for a small-scale loan is submitted directly to the nearest N.A.C.B. branch office. The application can be evaluated and approved in two weeks.

Supervision of Loan Utilisation

The N.A.C.B. usually specifies how a loan is to be used in the agricultural project committee paper. The final form and size of the project and the loan designed to suit both the client and the Bank is made in this paper. A loan repayment schedule is usually worked out in the agreement which is dependent on the projected income from the project to ensure the loan is paid at a rate tied to the yield of the farm. This way savings can be made through the loan period of the project so that it can be financed internally thereafter without further loans.

The Bank Supervises loan utilisation. It is usually done by field officers who pay regular visits usually a little while after disbursements to evaluate the progress of these projects. Duringthese visits, the officers advise farmers on modern techniques of farming and record and book-keeping. Thus apart from granting loans, the Bank also provides, extension services. Clients are also required to submit quarterly progress reports of their projects to the Bank for evaluation. Any discrepancy discovered in these reports are corrected by field experts through repeated visits. The supervision procedures are used to reduce, opportunities for diversion.

When the inflation rate of the country is higher than the

lending rate of the Bank, clients have the tendency to divert loan funds into consumptive activities because postponement of such actions may result in the client paying more later than the interest cost of the loan. To avoid diversion of loans therefore, the N.A.C.B. emphasizes kind disbursement more than cash. The Bank has a kind of relationship with suppliers of several farm inputs so that clients benefit if the Bank places orders on their behalf. The discounts recieved from such loans actions are credited into the clients' accounts. The Bank also disburses cash in instalments, maintains close continous contacts with borrowers and advises them on how to use the loans.

Loan Recovery

Loan recovery in the N.A.C.B. was rated by officials questioned as poor and unsatisfactory. To ensure that overdue loans are recovered, the Bank naturally barrs the defaulter from further credit. It also takes legal action against the defaulter and sells off the properties he had put up as security. The Bank pleads with small-scale farmers who default in payment and threaten to publish their names in the newspapers. If they still fail to repay their loans, they are written off as bad debts. The Bank does not provide penalties as such for overdue loans except those mentioned above. It however provides incentives for early payments such as granting subsequent loans easily to applicantson self-recognition and requiring less security than normal.

Cooperation From the Government and Other Agencies.

N.A.C.B. officials rated the cooperation the Bank receives from the Federal and State Government as full and partial cooperation respectively particularly in recovering loans from borrowers under the on-lending scheme. The N.A.C.B. lends to established institutions such as state governments against repayment guarantees for on-lending to third parties. This simply requires that the state government concerned should indicate its confidence in the project by appending its signature on a piece of paper while the N.A.C.B. indicates its confidence by granting loans. Sometimes some state governments are reluctant to assume the small risk of giving their guarantees in projects and in this kind of situation, it would be highly irresponsible of the Bank to assume a greater risk of financing the projects concerned. Projects financed under the on-lending scheme are also poorly supervised by state governments. This has led to a high rate of default among the borrowers.

Major Constraints.

According to the respondents one of the major constraints of the Bank in performing its functions is its poor recovery rate. In the previous chapter, it was computed that only about 33% of the total amount of loans disbursed from 1973 to 1983 had been repaid by farmers. It is important that the Bank recovers as much of its loan funds as possible so that they can be recycled back into the agricultural sector.

The recovery performance of a credit institution is extremely important for further credit expansion. Unless a credit institution has a satisfactory loan recovery rate it

can not increase its credit supply. If it is unsatisfactory the working capital of the institution is frozen and lack of working capital is a serious problem for an institution wishing to expand its credit business. The volume of credit distributed by such an institution may decrease each year although the amount of loans outstanding may remain the same or increase slightly. Loan recovery is not only a precondition for the expansion of agricultural credit, it determines whether the Bank would die prematurely by drowning in a sea of bad debts. It is an important criterion for assessing the effectiveness of the Bank's credit operations and its contributions to the development of agriculture.

Another major constraint of the Bank mentioned by the Bank officials was lack of sufficient funds. Although the N.A.C.B. is a private limited liability company, the government has been its main funding agency. The Bank is funded mainly by government subventions and equity contributions. Its impact is therefore restricted to the amount of funds made available by the government. Its experience over a decade of operations has made it imperative for the Bank to expand its resource base outside public funds if it is to play a decisive role in financing private investment in agriculture. The respondents were of the opinion that the Bank still has to find some ways to augment the inadequate sources of funds available for lending. They were of the opinion that if farmers promptly repay their loans when due, the liquidity problem of the Bank would be minimised.

A third major constraints of the Bank indicated by the respondents is the partial cooperation the Bank receives from state government in granting and recovering loans which was mentioned earlier. Some state governments delay in guaranteeing loans for financing agricultural projects in their territory and without the guarantee the N.A.C.B. cannot finance the projects concerned. Projects in some states are also poorly supervised thereby resulting in high default rates by bofrowers.

5.2. PROBLEMS FACED BY FARMERS IN OBTAINING LOANS FROM THE N.A.C.B.

In identifying the problems encountered by Nigerian farmers in obtaining loans from the N.A.C.B. the questionnaires distributed would be analysed to provide information on the background of the farmers and on their opinions of the loan terms and procedures of the Bank. For purposes of analysis, the farmers are classified into five groups according to the size of their farms.

TABLE 5 : 2 : 1

MAIN OCCUPATION OF RESPONDENTS

Size of Farm	Number of respon-dents	Farming	Craft	Training	Other
Less than 5ha	14	9	1	-	4
5-10ha.	17	13	-	2	2
10-50ha	12	7	-	1	4
50-100ha	12	12	-	-	-
above 100ha	5	5	-	-	-
	60	46	1	3	10

Out of the sixty respondents that completed the questionnaires, forty-six (76.67%) had farming as their main occupation, one (1.67%) was a craftman, three (5%) were traders and ten (16.67%)

had other main occupations which include teaching.

Nine farmers (19.57%) out of the forty-six who were fully farmers had farms which were less than five hectares in size, thirteen (28.26%) had farms which were between five and ten hectares in size while seven (15.21%), twelve (26.08%) and five (10.87%) belonged to the third, fourth and fifth group respectively.

It is obvious that apart from the forty-six respondents whose main occupation is farming, all the others take up farming on a part-time basis.

TABLE 5:2:2

KIND OF FARM IMPLEMENTS USED BY RESPONDENTS

SIZE OF FARM	NUMBER OF RESPONDENTS	ANTIQUATED	MODERN	BOTH
Less than 5 ha	14	14	-	-
5-10has	17	15	-	2
10-50has	12	4	5	3
50-100ha	12	-	10	2
above 100ha	5	-	4	1

All the fourteen respondents (100%) that had farms less than five hectares in size use only antiquated farm implements on their farms.

In the second group, fifteen respondents (88.24%) use antiquated implements while the remaining two (11.76%) use a combination of both antiquated and modern farm implements.

Five respondents in the third group (33.33%) use antiquated implements, five (41.67%) use modern ones while three (25%) use both.

In the fourth group of respondents with farm sizes between fifty and a hundred hectares, no respondent uses only antiquated implements, ten (83.33%) use modern implements while two (16.67%) use both modern and antiquated farm implements.

It appears as if the size of the farm determines the kind of farm implements used on the farm. As farm size increases, there is a shift from the use of antiquated tools to modern farm implements.

TABLE 5:2:3

MAJOR AGRICULTURAL CROPS GROWN

Size of farm	Number of respon-dents	Maize Only	Maize, Rice and others	Maize & other crops without vegetables	Maize and others with vegetables
Less than 5ha	14	2	-	7	5
5-10ha	17	-	2	9	6
10-50ha	12	-	2	7	3
50-100ha	12	-	-	10	2
above 100ha	5	1	-	1	3
	60	3	4	34	19

In the first group, two respondents (14.29%) grow only maize, none grows rice, seven (50%) grow maize and other crops but no vegetables while five (35.71%) grow maize, vegetables and other crops.

No respondent in the second group grows only maize. Nine (52.94%) grow maize, rice and others and six (35.29%) grow maize, vegetables and other crops.

In the third group, no respondent grows only maize on his farm. Two (16.67%) grow maize, rice and other crops, seven (58.33%) do not grow vegetables with other crops and three (25%) grow vegetables, maize and others.

None of the respondents in the fourth group grows maize only and maize with rice and other crops. Ten of them (83.33%) do not grow vegetables while two (16.67%) grow vegetables with maize and other crops.

In the fifth group, one respondent (20%) grows just maize, one respondent (20%) grows maize and other crops but no vegetables, three (60%) grow vegetables with other crops and none grows rice.

Altogether, out of the sixty respondents, a total of three (5%) grow only maize, five (6.67%) grow maize, rice and other crops, nineteen (31.67%) do not grow vegetables while thirty-five (56.67%) grow vegetables and maize with other crops. It can therefore be deduced from the table that maize is the major crop grown by the respondents. Rice is not a popular crop grown by the respondents. Other crops grown include millet, groundnuts, beans and sorghum.

TABLE 5:2:4

USE MADE OF HARVESTED CROPS

Size of farm	Number of respondents	For consumption	For sale	Both	for processing
less than 5ha	14	10	-	4	-
5-10ha	17	3	-	14	-
10-50ha	12	-	1	10	1
50-100ha	12	-	5	7	-
above 100ha	5	-	2	3	-

In the first group, ten respondents out of fourteen, that is about 71.43%, use their harvested crops for consumption purposes. The remaining four (28.57%) use their harvested crops for both consumption and selling purposes.

Fourteen respondents in the second group (82.35%) consume as well as sell their harvested crops; the remaining three (17.65%) just consume their harvested crops.

In the third group, ten respondents (83.33%) use their harvested crops for both consumption and selling purposes, one respondent (8.33%) only sells his harvested crops while the remaining one (8.33%) processes his harvested crops which happens to be maize into poultry feeds.

In group four, five respondents (41.67%) sell their harvested crops and seven (55.33%) consume as well as sell their crops.

In the last group made up of five respondents, two (40%) sell their crops while the remaining three consume their crops and sell off the surplus.

These findings show that farmers with small farms, for example less than five hectares, farm mainly for consumption, purposes. However as farm size increases, farming is carried out for consumption as well as for other purposes such as selling.

TABLE 5:2:5

APPROXIMATE VALUE OF HARVESTED CROPS OR THE ESTIMATED VALUE OF HARVEST

Size of farm	Number of respondents	Less than ₦1,000	₦1,000-₦5,000	₦5,000-₦10,000	Above ₦10,000
Less than 5ha	14	11	3	-	-
5-10ha	17	2	14	1	-
10-50ha	12	1	3	6	2
50-100ha	12	-	-	8	4
above 100ha	5	-	-	1	4

Eleven respondents (78.57%) in the first group would derive an income of less than ₦1,000 from their harvested crops while three (21.43%) would derive an income between ₦1,000 and ₦5,000. None of them can net an income from ₦5,000 and above.

TABLE 5:2:6

APPROXIMATE VALUE OF LIVESTOCK AND POULTRY

Size of Farm	Number of respondents	Have Livestock	Do not have livestock	Cattle	Sheep	Goats	Chickens	Approximate value
Less than 5ha	14	6	8	-	10	10	85	₦3,870
5-10ha	17	4	13	5	29	2	30	₦6,550
10-50ha	12	9	3	100	81	28	7,550	₦181,500
50-100ha	12	4	8	11	104	52	100	₦23,500
above 100ha	5	4	1	20	68	4	6,500	₦76,180
	60	27	33	136	292	96	14,265	₦291,600

In the first group, six respondents (75%) have livestock and poultry on their farms. None of them owns cattle. They however own ten sheeps or 3.42% ($\frac{10}{292}$ x 100) of total sheep owned by the five groups, ten goats (10.4% of total number of goats) and eighty-five chickens (0.59% of total number of chickens). Altogether, the sheep, goats and chickens are worth approximately ₦3,870 which is 1.37% of the. total worth of all the animals belonging to the group.

Only four respondents out of seventeen (23.58%) in the second group have livestock and poultry. These four own five cattle (3.6%), twenty sheep (9.93%), two goats (2.08%) and thirty chickens (0.2%). These animals are valued at ₦6,500 representing 2.25% of the total value of animals and livestock owned by the respondents.

In the third group, nine respondents (75%) own livestock and poultry on their farms. They own a hundred cattle (73.53%),eighty-one sheep (27.74%), twenty-eight goats, (29.17%) and seven thousand five hundred and fifty chickens (52.93%). Total value of these animals and birds comes to ₦181,500 (62.24%).

In the fourth group, four respondents (83.33%) have livestock and poultry on their farms. These respondents own eleven cattle (30.56%), a hundred and four sheep (25.6%), fifty two goats (54.17%) and a hundred chickens (0.70%). These animals and birds have an approximate value of ₦23,500 (8.06%).

In the fifth group, four respondents out of five (80%) own animals and birds. They own twenty cattle (14.70%), sixty eight sheep (23.29%), four goats (4.17%) and six thousand, five hundred chickens (45.57%). Value of these livestocks and poultry is ₦76,180 or 26.12% of total value.

Findings show that farm size does not determine as such the number and value of livestock and poultry owned by respondents. Respondents in the first group had animals and birds with the least worth among all the groups while the third and not the fifth group had animals and birds with the highest worth.

TABLE 5:2:7

SOURCE OF LOANS IN PAST THREE YEARS

Size of Farm	Number of respondents	Loan not taken	Loan taken	Source			
				money lenders	Friends and relatives	Banks	Other agricultural loan agencies
Less than 5ha	14	8	6	2	4	-	-
5-10ha	17	8	9	3	6	-	-
10-50ha	12	6	6	-	-	5	1
50-100ha	12	1	11	-	-	9	2
above 100ha	5	-	5	-	-	5	-
	60	23	37	5	10	19	3

Six respondents out of the fourteen (42.86%) belonging to the first group have taken loans in the past three years. Two of these respondents (33.33%) took the loans from money-lenders while four (66.66%) obtained the loans from friends and relatives.

In the second group of seventeen respondents, nine (52.94%) have taken loans in the past three years. Three (33.33%) of them obtained the loans from money-lenders while the remaining six (66.66%) obtained theirs from friends and relatives.

Six respondents (50%) in the third group have obtained loans in the past three years; five of them (83.33%) obtained them from banks and one (16.67%) obtained his from other agricultural loan agencies.

In the fourth group, eleven farmers (91.67%) have obtained loans in the past three years. Nine respondents (81.82%) obtained their own loans from banks while the remaining two (18.18%) obtained theirs from agricultural loan agencies.

All the five respondents (100%) in the fifth group took loans in the past three years and these loans were all obtained from banks.

Altogether thirty-seven respondents (61.66%) have taken loans in the past three years. Respondents in the first and second group prefer to obtain loans from money-lenders, friends and relatives while those in the last three groups prefer banks and other agricultural loan agencies. As farm size increases, three is a shift from non-institutional sources to institutional ones.

TABLE 5:2:8

PURPOSE (S) FOR WHICH LOAN WASTAKEN

Size of Farm	Number of respondents that took loans	To buy seeds	To buy Fertilisers	To buy Farm implements	To pay hired labour	To buy fertilisers and other farm inputs	Other
Less than 5ha	6	-	5	-	-	1	-
5-10ha	9	-	6	-	-	3	-
10-50ha	6	-	-	-	-	6	-
50-100ha	11	-	-	-	1	19	-
above 100ha	5	-	-	-	4	1	-

Six respondents in the first group have taken loans. Five of them (83.33%) took the loans mainly to buy fertilisers and one

(16.67%) took the loan for the purpose of buying fertilisers and other farm inputs.

In the second group, six respondents out of nine (66.67%) that obtained loans in the past three years got the loans to purchase fertilisers only. The remaining three (33.33%) got the loans to purchase fertilisers and other inputs.

All the six respondents (100%) in the third group that obtain loans, got them for buying fertilisers and other farm inputs.

In the fourth group, ten respondents (90.9%) took loans to purchase fertilisers and other farm inputs and one (9.10%) obtained the loan to pay for hired labour.

Four respondents out of five (80%) in the fifth group obtained loans to pay for hired labour while the remaining one (20%) took the loan to purchase fertilisers and other farm inputs.

Some respondents also took loans to hire tractors and other machinery, to buy raw materials, to acquire more land and to purchase poultry feeds. The purchase of fertilisers seems to be the most popular purpose for which loans were taken especially by respondents in the first and second group. This shows that small-scale farmers are becoming more aware of the importance of modern inputs in their farming operations. However, due to the very low income they derive from farm production and due to the high rate of inflation prevailing in the country, these farmers have to take loans to purchase the fertilisers.

TABLE 5:2:9

KNOWLEDGE OF THE ACTIVITIES OF THE N.A.C.B.

Size of Farm	Number of Respon-dents	Knowledge		Source		Bank Officials	Other
		Do not have	Have	Friends & Rela-tives	News-papers		
Less than 5ha	14	-	14	8	3	2	1
5-10ha	17	2	15	11	3	-	1
10-50ha	12	-	12	4	7	1	-
50-100ha	12	-	12	2	10	-	-
above 100ha	5	-	5	1	4	-	-
	60	2	58	26	27	3	2

All the fourteen respondents (100%) on the first group have heard of the N.A.C.B. Eight of them (57.14%) heard from friends and relatives, three (21.43%) read about the Bank in newspapers, two (14.29%) heard from bank officials and one (7.14%) heard from other sources.

In the second group, fifteen respondents (88.2%) have heard of the N.A.C.B. Eleven of them (73.33%) heard from their friends and relatives, three (20%) read about them in newspapers and one (6.67%) heard from other sources. None of them heard from bank officials.

All the respondents in the third group (100%) have heard of the Bank. Four respondents out of twelve (33.33%) heard

from friends and relatives, twelve (58.33%) read about it in newspapers and one (8.33%) heard from the Bank's official.

In the fourth group of twelve respondents, all (100%) have heard of the N.A.C.B. Two of them (16.67%) heard from friends and relatives while the remaining ten (83.33%) read about it in newspapers.

In the fifth group, all the five respondents have heard of the N.A.C.B. Four respondents (80%) read about the Bank in newspapers and one (20%) heard about it from friends and relatives.

Altogether, fifty-eight respondents (96.67%) out of sixty have heard of the N.A.C.B. Twenty-six of these respondents (44.83%) heard from friends and relatives, twenty-seven (46.55%) read about it in newspapers, three (5.17%) heard from bank officials while two (3.45%) heard from other sources including radio, television and clerks in their State Ministry of Agriculture. It can be seen from the findings that newspapers are the most important source of information followed by friends and relatives. Bank officials which account for only about 5% are one of the least popular sources of information. Apparently the Bank does not send out its officials to educate farmers on its activities.

TABLE 5 : 2 : 10

OBTAINING A LOAN FROM THE N.A.C.B.

Size of Farm	Have Obtained	Have not Obtained	REASONS WHY LOAN HAS NOT BEEN OBTAINED					
			Never Tried to	Location of bank is far	Discouraged by procedures	Inadequate collateral	Prefer other sources	Other
Less than 5ha	1	13	4	3	1	-	1	4
5-10ha	2	15	4	-	1	1	2	7
10-50ha	3	9	-	-	5	2	-	2
50-100ha	9	3	-	-	2	-	1	-
above 100ha	4	1	-	-	-	1	-	-
	19	41	8	3	9	4	4	13

Only one respondent (7.14%) in the first group has obtained a loan from the N.A.C.B. The remaining thirteen have never obtained loans from the Bank for various reasons. Four of them (30.77%) have never tried to obtain a loan from the Bank, three (23%) said the Bank was too far from their villages, one (7.69%) was discouraged by the administrative procedures involved in obtaining a loan, one (7.69%) prefers obtaining loans from non-institutional sources to banks while four (30.76%) gave other reasons. Some of the other reasons given by the respondents were that they had applied for the loans and had still not got them, some said they do not need loans and others said they had not apply for loans because they believe the Bank does not give loans to poor men.

In the second group, only two farmers (13.33%). out of seventeen have obtained loans from the N.A.C.B. Out of the fifteen left, four (26.67%) have never tried to obtain loans, one (6.67%) was discouraged by the administrative procedures involved (completing application forms in particular), one (6.67%) could not provide adequate collateral and seven (46.67%) gave other reasons. Some of the reasons given were similar to those given by respondents in the first group. Some also said they did not know where the Bank was located and others said they did not apply for fear that they may not be able to repay the loans.

In the third group, one fourth of the respondents (25%) have obtained loans from the N.A.C.B. Nine respondents have not obtained loans from the Bank. Five of them (55.55%) were discouraged by the administrative procedures of obtain obtaining loans, two (22.22%) could not provide adequate collateral and two (22.22%) gave other reasons like they had applied and were still waiting for feedback from the Bank.

In the fourth group nine respondents (75%) have obtained loans from the Bank. Only three respondents in this group have not because two of them (66.67%) were discouraged by the loan procedures and one (33.33%) would prefer going to money-lenders, friends and relatives to take loans.

Four respondents (80%) in the fifth group have obtained loans from the Agricultural Bank. Only one respondent on this group has never obtained a loan from the Bank because he could not provide adequate collateral.

Altogether, forty-one respondents out of sixty (68.33%) have never obtained loans from the N.A.C.B. for various reasons. Nine of them (21.95%) were discouraged by administrative loan procedures, eight (19.5%) have never tried to obtain loans from the Bank. Four (9.77%) could not provide adequate collateral, four (9.77%) prefer non-institutional sources to institutional ones while three (7.31%) thought the location of the Bank was far from theirs. Findings show a larger percentage of the respondents who have never obtained loans from the N.A.C.B. did not do so because they were put off by the procedures involved in obtaining loans from the Bank.

TABLE 5 : 2 : 11

LOAN PROCEDURE, ADVICE FROM BANK OFFICIALS AND ATTITUDES OF BANK OFFICIALS TO CUSTOMERS

Size of Farm	Number of respondent who have take loans	Advice from official		Loan terms & Procedures		Attitude of Officials			
		Yes	No	Satisfied	Not Satisfied	Very Good	Good	Fair	Poor
Less than 5ha	1	1	-	1	-	-	-	1	-
5-10 ha	2	2	-	1	1	1	-	1	1
10-50ha	3	2	1	-	3	-	-	2	1
50-100ha	9	6	3	2	7	-	1	6	2
above 100ha	4	3	1	1	3	-	-	-	-
	19	14	5	5	14	-	1	14	4

A total of nineteen respondents out of sixty (31.67%) have obtained loans from the N.A.C.B.

Only one respondent in the first group has ever obtained a loan from this Bank. The respondent agrees to have received advice from bank officials. He is also satisfied with loan terms and procedures and he rated the attitude of officials fair.

Two respondents in the second group have obtained loans from the Agricultral Bank. Both respondents received advice from bank officials. One was satisfied with the terms and procedures of the loan while the other was not. One of them rated the attitude of the bank officials fair while the other rated it poor.

In the third group, three respondents have benefited from the loan schemes of the N.A.C.B. Two of the respondents agreed to have received advice from bank officials while the other disagreed. The three were not satisfied with the loan terms and procedures. Two of them rated the attitude of officials fair while the other rated it poor.

In the fourth group nine respondents have obtained loans from the N.A.C.B. six of them received advice from bank officials while three did not. Two respondents in this group were satisfied with the loan terms and procedures while seven were not satisfied. Only one of the respondents rated the attitude of bank officials good, six rated it fair and two rated it poor.

Four respondents in the fifth group have obtained loans from the Bank. Three of them received advice from bank officials while one did not receive any advice.

Three of the respondents were not satisfied with the terms of the loan and their procedures but one was satisfied. All the four respondents rated the attitude of bank officials fair.

Out of the nineteen respondents who have taken loans from the N.A.C.B. fourteen (73.68%) received advice from bank officials while five (26.32%) did not. Fourteen respondents (73.68%) were not satisfied with the loan terms and procedures while the remaining five (26.32%) were satisfied. Only one respondent (5.26%) rated bank officials' attitude good, fourteen (73.68%) rated it fair while four (21.05%) rated it poor.

The findings show that only a few respondents (about 32%) have benefited from the N.A.C.B. loan schemes. Most of them were not satisfied with the loan terms and procedures; they felt they were too rigid. Among the beneficiaries of the loan schemes in this study only 5% were small-scale farmers, that is belong to the first group. The greater percentages of the beneficiaries were large-scale farmers, that is, they have farms of between fifty and hundred hectares in size.

Suggestions Made By Respondents

Some suggestions were made by respondents that have obtained loans from the N.A.C.B. regarding the procedures of obtaining a loan from the Bank. These suggestions are:

1. The procedures are too cumbersome and as such some of the rules should be relaxed.

2. The rules should be made known to customers prior to signing any agreements.
3. The Bank should speed up in processing loan applications and in implementing approved loan agreements so that timely responses can be entained.
4. Loan document should involve clients more in preparation.
5. The Management/Board papers should be prepared by client under the guidance of Bank staff only.
6. The Bank should provide supplementary financing when shortfalls are discovered.
7. The Bank should always be ready to reschedule loan repayment because of the variability of the revenue obtained from the farm.
8. Fund releases should be decentralised.
9. The Bank should allow for variations based on the position of the national economy.
10. Indigenes should be allowed to head the branch offices in their states.

CHAPTER SIX

SUMMMARY, RECOMMENDATIONS AND CONCLUSION

Agriculture plays a significant role in the overall development of Nigeria's economy. Before independence, Nigeria was purely an agricultural country but today its economy is dominated by the oil sector. Agriculture is now a depressed sector of the economy. It is a well known fact that the agricultural sector of Nigeria is plagued with a lot of problems, mainly that of raising the level of productivity in all its subsectors. Related to this main problem is the problem of financing which has become extremely difficult and complex because the constant factor is the peasant farmer at the production end.

The main features of Nigeria's agriculture are the small-scale nature of farm operations, little application of modern technology, poor management practices of farmers and little capital investment all of which have resulted in low production of various commodities. An important reason frequently mentioned as contributing to low productivity is the non-availability of production credit on favourable terms to these peasant or small-scale farmers. Agricultural production credit is essential in increasing agricultural output and in raising the level of income. As a result of the emphasis on the provision of credit to farmers, the government at different levels resorted to establishing specialized institutions for agriculture. One of such institutions is the Nigerian Agricultural and Cooperative Bank Limited which was established in 1973 to provide credit

to all aspects of agricultural production, enhance the availability of storage facilities and promote the marketing of agricultural products through the liberalization of credit to farmers.

This study was an attempt to appraise the performance of the N.A.C.B. in relation to its stated objectives. The study aimed at examining the role of the Bank in providing credit to Nigerian farmers, its operations, organisation and problems and subsequently offers possible suggestions where necessary to alleviate some of the problems that are identified. Information used for analysis was gathered through primary and secondary sources.

In an attempt to achieve the objectives of the study related literature and studies on agricultural credit and finance were examined. It was observed that financing of agricultural projects in Nigeria had been very difficult. The nature of agricultural production in Nigeria made it difficult for commercial bank lending. For many years, government in Nigeria had been making efforts to provide credit facilities to all categories of farmers; unfortunately, such attempts have not been able to meet more than a tiny percentage of the credit requirements of the farmers. The early institutions which were established to grant loans for agricultural purposes did not perform well because majority of the loans given were written off as bad debts. A number of prerequisities for a successful agricultural credit program were mentioned in the review. Some of these prerequisites are adequate rural infrastructure, adequate system of land tenure and continuity in government policies. Specialization of operations and wide geographical coverage were said to be important factors for an efficient

agricultural credit institution. Some selected credit programmes in five countries were summarized in the review; it was hoped that in bringing about the general experiences of these countries, useful lessons which could be applicable to Nigeria could be learnt.

The study highlights the following problems as the major constraints to the N.A.C.B.'s objectives of promoting agricultural production and rural development.

1. Poor loan recovery rates which have reduced the viability of the Bank's loan portfolios. Low recovery rate also has reduced the ability of the Bank to generate resources internally for institutional growth.

2. The institution is handicapped by inadequate funds so that its impact is restricted to the limited amount of funds made available to it from the government. The financial assistance the Bank gives is therefore restricted to a small number of highly subsidised farmers instead of a larger clientele of farmers.

3. Partial cooperation recieved from state government particularly in guaranteeing projects under the on-lending scheme and in supervising project and recovering back loans impedes the Bank from effectively carrying out its operations.

4. Farmers, particularly the peasant farmers, had unfavourable opinions of the Bank. Most of the farmers thought the procedures of obtaining loans

from the Bank were too cumbersome. They also felt the rules of the Bank were too strict and should be relaxed.

In the light of the research findings, the researcher makes the following recommendation:

1. Although the N.A.C.B. has branches in all the states of the federation it is regrettable that these branches are all in the state capitals and not in the rural areas where they are needed most. It is therefore strongly recommended that the Bank, decentralises its control and give priority to developing district branches throughout the country.
2. The Bank should provide literature on its activities in local languages for the benefit of the farmers on the rural areas. Most of the farmers questioned heard about the Bank from newspapers, friends and relatives. Bank officials were one of the least popular sources of information. Bank officials should be sent out to the rural areas to educate the farmers on the activities of the Bank and printed literature in local languages should be made available to these farmers.
3. Agricultural production can best be improved through cooperative societies. If the lot of peasant farmers is to be improved in this country, cooperative development is a must. There is a cooperative

division in the N.A.C.B. It is recommended, that the N.A.C.B. should have closer working relationship with the Federal Department of Cooperative in the Federal Ministry of Agriculture and State Cooperative Banks. Appropriate cooperative authorities should also make some efforts to establish credit unions all over the country as it is done in Cameroun to mobilise small scale rural savings. Mobilization of savings is an important source of funds for lending in rural areas.

iv. The composition of the Bank's Board of Directors does not include any member of the farming community. As the Bank was designed specifically to serve this community, efforts should be made to have representatives of the community on the Board as they are capable of making suggestions which management may find helpful.

v. The N.A.C.B. should be strengthened in terms of financial support to enable it meet with greater demands for loans. The Bank should establish a savings department to augment the inadequate source of funds available to it for lending. If the Bank can mobilise resources internally, its liquidity problem would be minimised.

vi. In order to reduce the administrative cost of lending to small farmers the Bank should resort to group lending as it is done in Chile and Malawi. Under this system, farmers are encouraged to form themselves into joint liability groups preferably along traditional kinship

lines. Each member of the group would be severally and jointly responsible for loan repayment of his group so that chances of default are minimised.

vii. There is a need for a change in the credit policy of the Bank to make it flexible both in policy and in practice. The Bank should use meaningful sanctions which can be easily exercised against defaulters whether they are small or large scale farmers.

viii. The Bank should provide consultancy and management services to its clients and the farming community as a whole.

ix. Finally, it should be mentioned that credit is necessary but not sufficient to increase the value of farmers' output. There are many complementary factors which have to be available to farmers seeking credit for their operations; such factors include adequate infrastructure, essential input supply system, technical advice on farming, farming outlets and so on. The provision of some of these factors are outside the control of the N.A.C.B. but the appropriate organs of the government should make great efforts to ensure that those factors they can provide are available to these farmers.

The effectiveness of an agricultural credit institution is judged by the extent to which it makes its impact felt by farmers especially the small-scale farmers. It is not judged purely by financial criteria in terms of the amount approved, disbursed, paid and recovered. It is also judged by additional criteria other than financial goals such as physical improvement

in productivity as a result of the establishment of this institution. The performance of the N.A.C.B. can therefore be best judged in relation to the fullfilment of its objectives. However, given the broad nature of the objectives of the N.A.C.B. and also because statistics about food production in Nigeria are hard to come by, it may be difficult to isolate the contribution of the Bank to the overall development of the country's agricultural sector. Financing of agricultural projects is also not a monopoly of the N.A.C.B.; other institutions provide credit services to farmers and promote agricultural development. Moreover, the ability of the Bank to perform depends on the limited funds available to it; a problem which is compounded by the situation, where demand for agricultural credit exceeds its supply, in which the Bank finds itself. The Bank however has made modest contributions to raising the level of private investment in agriculture as well as helping in alleviating the problems of Nigerian farmers in obtaining agricultural credit from other banks. The N.A.C.B. has also contributed to the technical change taking place in agriculture brought about by access to improved technology and farming practices. The low recovery rate however shows that the credit operations of the N.A.C.B. are not very sound as it would hinder further credit expansion of the Bank.

In conclusion, it can be said that the problem of agricultural finance in Nigeria is one of finding adequate funds for agricultural development and devising ways of chanelling the funds at terms acceptable to both the borrowers and the lenders. This problem is not new it has

been recognised by policy makers for many years. It is also not peculiar to Nigeria alone. This problem exists in other countries with developing economies as well. It is a problem of having a viable organisation for the administration of credit to the peasant farmer which would reach him on time and on an appropriate scale to be used efficiently. To perform this function, the N.A.C.B. needs to pool the complementary services of all the different levels of government.

The Nigerian's experience with credit granting institution parallels that of other countries in suggesting that credit programs which have effectively reached individual farmers require administrative requirements which are redoubtable in developing countries. This means that if alternatives to granting loans to farmers exist, they should be given careful considerations.

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APPENDIX 'A'

QUESTIONNAIRE

FINANCING AGRICULTURAL PROJECTS IN NIGERIA.

Please place a tick where appropriate.

PART A

. 1. What is your main occupation?

a. ☐ Farming

b. ☐ Craft

c. ☐ Trading

d. ☐ Other.

2. How big is your Farm?

a. ☐ Less than 5 hectares

b. ☐ 5 - 10 hectares

c. ☐ 10 - 50 hectares

d. ☐ 50 - 100 hectares

e. ☐ above 100 hectares.

3. What kind of farm implements do you use on your farm?

a. ☐ Primitive ones such as hoes and cutlasses

b. ☐ Modern ones like tractors and other machinery

4. What major agricultural crops do you grow on your Farm?

a. ☐ Maize

b. ☐ Millet

c. ☐ Rice

d. ☐ Beans

e. ☐ Groundnuts

j. ▱ Vegetables

g. ▱ Others

7. What do you do with the harvested crops

a. ▱ Sell them

b. ▱ Consume them

c. ▱ Process them

8. What is the estimated value of your harvested crops.

a. ▱ Below ₦1000

b. ▱ Between ₦1,000 - ₦5,000

c. ▱ Between ₦5,000 - ₦10,000

d. ▱ Above ₦10,000.

9. Do you have Livestock & Poultry on your farm?

▱ Yes ▱ No.

10. If you do, please specify the number.

Cattle.....

Goats.....

Sheep.....

Fowls.....

Others.....

11. Please state their approximate value ₦.....

PART 'B'

1. Have you taken any loan in the past three years?

   ☐ Yes ☐ No

2. If the answer is yes, from whom did you obtain the loan?

   a. ☐ Money lenders

   b. ☐ Friends and relatives

   c. ☐ Banks

   d. ☐ Other agricultural loan agencies

3. For what purpose(s) was the loan taken?

   a. ☐ To buy seeds

   b. ☐ To buy fertilisers

   c. ☐ To purchase farm implements

   d. ☐ To pay for hired labour

   e. ☐ Others.....

4. Do you know that there is a national agricultural Bank that provides loans to farmers?

   ☐ Yes ☐ No

5. From what source did you hear about this bank?

   a. ☐ Friends and Relatives

   b. ☐ Newspapers

   c. ☐ Bank officials

   d. ☐ Village head

   e. ☐ Other (please specify).....

6. Have you ever obtained a loan from this agricultural Bank.

☐ Yes ☐ No.

7 If the answer is No, Why?

a. ☐ Because you never tried to obtain one?

b. ☐ The location of the bank is quite far from yours, no you cannot go.

c. ☐ You went to the bank but was discouraged by the administrative procedures involved.

d. ☐ You could not provide adequate colleteral.

e. ☐ You prefer obtaining loans from non-institutional sources such as moneylenders, friends and relative

e. ☐ Other (please specify).....
Reason.....
.....

.....

.....

8. How do you propose to repay the loan?

a ☐ Out of the net cash flows obtained from farm Operations

b. ☐ From some business income

c. ☐ Other sources (please specify).....
.....

9. Did you receive any advice from bank officials on the formalities of obtaining a loan ?

☐ Yes ☐ No.

10. Were you satisfied with the loan terms and procedures of the bank?

☐ Yes ☐ No

11. How would you rate the attitude of the bank officials?

a. ☐ Very good

b. ☐ Good

C. ☐ Fair

d. ☐ Poor

12. Please state any suggestions you would like to make as regards the procedures of obtaining loans from the N.A.C.B.

a. .....

b. .....

c. .....

d. .....

APPENDIX :

QUESTIONNAIRE

FINANCING AGRICULTURAL PROJECTS IN NIGERIA.

Please place a tick where appropriate

1. How do you cater for the varying credit needs of the different categories of farmers?

a. ☐ There are different loan schemes for the different categories of farmers.

b. ☐ There are specialized departments for the different types of agricultural credit

c. ☐ Other ways.....

2. How long does it take to evaluate an application for a loan from date of submission?

a. ☐ Less than 3 months

b. ☐ 3 - 6 months

c. ☐ 6 - 9 months

d. ☐ above 9 months

3. Do you specify how a loan is to be used?

☐ Yes ☐ No

4. Do you supervise loan utilisation

☐ Yes ☐ No

5. How do you avoid diversion of loans?

☐ by giving loans in kind

☐ by giving cash in instalments

☐ by maintaining close continuous contact with the borrower

☐ Other ways (please speciy).....

.....

6. Do you provide literature on your bank in local languages for farmers in the rural areas.

☐ Yes ☐ No

7. How would you rate loan recovery on your organisation?

☐ Good ☐ Poor

☐ Satisfactory ☐ Very poor

8. Apart from granting loans to farmers does your bank also provide extension services to these borrowers?

☐ Yes ☐ No.

9. If the answer is no, please state why.

☐ it would be too costly

☐ it is not one of the functions of the bank

☐ there are no adequate trained personnel

☐ Other reasons (please specify).....
.....

10. What measure(s) do you adopt to ensure that overdue loans are recovered by your bank?

☐ take prompt action against defaulter by tapping his other sources of income

☐ barr defaulter from further credit

☐ Other measures.....
.....

11. Do you provide any incentives for early payments or penalties for overdue payments?

☐ Yes ☐ No

12. How would you rate the cooperation your bank recieves from the government and other agencies in granting and recovering loans from borrowers?

- ☐ Full cooperation
- ☐ partial cooperation
- ☐ no cooperation

13. What would you say is/are the major constraint(s) of the bank in performing its functions?

- ☐ lack of sufficient funds
- ☐ lack of adequate trained personnel
- ☐ lack of adequate equipment
- ☐ the apparent apathy of Nigerian farmers to the bank.
- ☐ poor loan recovery rate
- ☐ others.....
  .....

APPENDIX C:

Department of Business Administration,
Ahmadu Bello University,
Zaria.

August, 1984.

The.....Manager,
Nigerian Agricultural and Cooperative Bank Limited,
Kaduna.

Dear Sir,

A REQUEST TO ADMINISTER A QUESTIONNAIRE

Attached is a questionnaire in respect of a study on financing agricultural projects in Nigeria. The study is intended to satisfy a requirement for the award of a Master of Business Administration degree.

Your organisation has been chosen as the object of the study. It is in this respect I am requesting your kind assistance to fill in the answers to the issues raised in the questionnaire.

I wish to state that the information that would be provided would be treated in strict confidence.

Yours faithfully,

Adejumoke Afolayan