

# A CRITICAL EVALUATION OF AGRICULTURAL CREDIT FINANCING IN NIGERIA

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## 1. Introduction

Agriculture, like any other business, requires capital. Capital is needed for various productive purposes and with good entrepreneurship, to ensure efficient combination of resources. The nonchalant attitude towards agriculture in developing countries, whereby farming is regarded as a way of life rather than as a business is gradually changing. This is particularly so in Nigeria. For farming to be a successful business therefore, the need for capital cannot be over-emphasised.

Capital deficiency is one of the more important factors limiting the rate of agricultural development in a developing country like Nigeria. The traditional agricultural sector is incapable of generating adequate savings to finance its own development at a substantial level. It cannot generate adequate resources for farm investment (5). Efforts at initiating more rapid rates of agricultural development have largely involved diversion of resources into agriculture. In most cases, this diversion of resources occurs through access to agricultural credit programmes, usually administered by governments or governmental agencies. Often, these governments and/or their agencies have lacked financial leverage to effect the necessary resource diversions in amounts consistent with actual national requirements. Private financial intermediaries are, therefore, often encouraged to supplement the public efforts in financing agriculture by providing credit facilities to farm operators (14 and 15).

## 2. The Problem

Credit is the acquisition of, and control over funds, at a cost, for a specified time period. At the end of the contract period, the control ceases and the funds revert to the creditor. As a guarantee that credit funds will be returned when due, it is usual practice for the supplier of credit to require a marketable asset as credit collateral. In agricultural credit, land itself has evolved as the traditional collateral. This function of land is however more common under conditions of freehold tenure as obtains in Western European and North American countries than under customary land tenure as exists in many African countries, especially in the rural areas.

At the initial stages of agricultural development, credit to Nigerian farmers usually has a high consumptive component, that is, a large proportion of farmer's produce is consumed by his family. This arises from various factors, some of which are inherent in traditional farming. The factors including poverty as reflected in the lack of adequate

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feed reserves, crop failures, and other calamities (plagues and diseases), a rapid increase in rural population (due to high birthrate), traditional customs of rural life which often involve heavy expenditure on religious and social ceremonies.

It is only at a later stage in agricultural development that the productive element in agricultural development gradually arises but as long as agriculture remains a way of life and not a business, then household farm expenditure remains an inextricable part of farm business because there is no clear line of demarcation between the two that is, consumptive and productive components of credit. Therefore, proper utilisation of credit becomes a complex problem, not only to the creditor but also to the farmer.

In view of the traditional outlook of the Nigerian average farmer and the various socio-economic problems associated with this, the incentives and the possibilities of stepping up agricultural production are more limited at the initial stage of agricultural development. Although a rapid increase in long and medium term credit is essential for continued agricultural development, this evolution, to a very large extent, depends on conversion of a large proportion of farmers who cultivate mainly small units into large scale farm operations which emphasize market production. This conversion is one of the most difficult and complex problems facing developing countries of the world. Solution depends on provision of adequate outlets for farmers' output. Such an expanding market presupposes an adequate expansion of the non-agricultural sector of the economy which in turn depends on the existence of sufficient demand at remunerative prices for industrial products and services.

### 3. Decisions Involved in Borrowing Funds by Nigerian Farmers

Borrowing, as already stated is very important in the development of a farm business, and farmers usually have to make certain decisions to ascertain that loanable funds are efficiently utilised.

Let us consider, for instance, a farmer who borrows for rice farm production. He believes he can increase his Net Returns by expanding his farm, but has not enough capital to do so, and cannot acquire this capital without borrowing. This farmer will be faced with the following decisions:

- i) He has to decide on the *size* of his farm. This decision should take into account, not only the Net Returns of his increased output, but also his repayment capacity, as well as his risk-bearing capacity.

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- ii) He has to decide on the *opportunity cost* of spending the borrowed funds on rice farm expansion, that is, he must consider whether the expansion of rice would pay as much as expanding other farm activities, for example maize, cassava, or poultry.
  - iii) Finally, the farmer has to decide on the *time* of expansion, based on market outlook, current and future prices of his output.

#### 4. Sources of Agricultural Credit

Several sources of credit can be identified from which farmers can obtain finance. These are, savings, family arrangements, Incorporation or Cooperative Organizations, leasing, purchase contract, Vertical integration (that is, farmers from bigger farm units) borrowing.

Farm operators in Nigeria obtain credit from the above variety of sources which are regarded as formal institutional and non-formal institutional lenders. One most important credit source in the agricultural sector is non-formal institution and is represented by the private money lender. A recent survey of Nigerian Agricultural Credit system conducted jointly in 1985, by the Central Bank of Nigeria and the World Bank revealed that 14.3 per cent of the farmers, most of whom were smallholders, sampled in five states, used formal institutional credit while 26.9 per cent used informal credit. Further, some 58.8 per cent said they were not borrowing from any source for farming (10). The report said that farmers were constrained from obtaining institutional credit, and that even those who obtained it were not fully satisfied. According to the report, the average potential total agricultural credit per household for the sampled areas «was not higher than N8,000 for annual crop, N4,000 for tree crop, N13,500 for livestock, and N14,000 for mixed farming». (10).

Up to 1980, the major institutional sources of agricultural credit where the Agricultural Loan and Credit (ALC) Scheme, the Nigerian Agricultural and Cooperative Bank (NACB) and the Agricultural and Rural Development Programme which gave credit in kind rather than in cash. The commercial banks participated in direct agricultural financing to a very limited extent. It is only recently that a substantial amount of commercial bank's funds are entering the rural sector in the form of loans, more directly so, as a result of government coercion. It is not however certain the proportion of these funds invested in agriculture.

Table 1 clearly illustrates the lack of interest in agricultural financing generally exhibited by Nigerian commercial banks.

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Table 1

## SECTORAL DISTRIBUTION OF COMMERCIAL BANK LOANS AND ADVANCES - 1971 - 1983

	Percentages				
	1971	1975	1978	1980	1983
Production	37.2%	43.8%	56.6%	59.8%	57.6%
Agriculture	2.3	2.6	4.9	7.3	
Mining	2.4	1.3	0.9	0.8	
Manufacturing	25.5	27.2	27.6	30.8	
Real Estate & Constn. Service	7.1	12.7	22.2	20.9	
Public Utilities	6.4%	7.4%	8.2%	9.0%	8.3%
	0.4	1.2	1.5	1.4	
Transport & Communication	6.0	6.6	6.7	7.6	
General Commerce	41.3%	30.0%	21.6%	19.0%	16.0%
Exports, Imports, domestic trade & bills	—	—	—	—	—
Others	15.1%	18.4%	14.6%	12.1%	18.1%
	100.0	100.0	100.0	100.0	100.0

Sources: CBN Annual Report and Accounts - various years.

Chart 1 shows the flow of funds to agriculture through non-formal institutional lenders which include licensed money lenders as well as friends, relatives and local traders. The funds that non-formal institutional lenders make available as credit, originate from bank loans, previous savings from alternative endeavours, and retained earnings from current occupations.

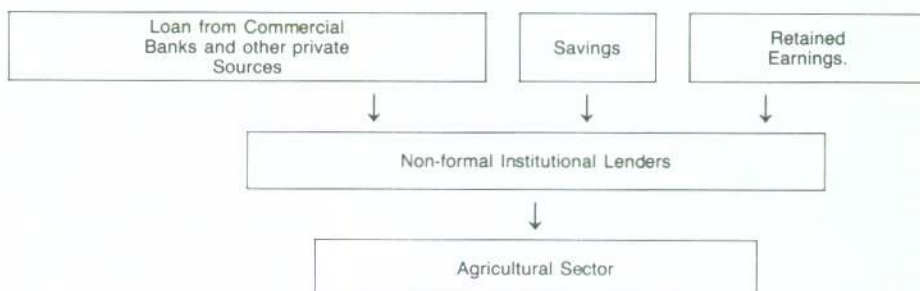


Chart 1: Flow of Non-formal Institutional Fund to Agriculture.

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Private money lenders' loans are usually unsecured. Personal acquaintance between lender and borrower is normally required. Otherwise, a guarantor with whom the lender is acquainted is required to guarantee a loan. Knowledge of, and willingness to invoke local tribal laws and customs is a significant attribute favouring the effectiveness and success of private money lenders in extending unsecured loans to farm operators and other rural residents. When private money lenders credits are secured, one of three types of arrangements may be employed. The first is that already mentioned the guarantor requirement. Normally, the guarantor, besides being an acquaintance, should be a local resident who possesses the ability to repay the guaranteed loan with little difficulty.

The second arrangement involves land pledging agreements. This arrangement is usually employed by lenders who are wealthy «strangers» resident in areas in which they do not possess land use rights. The pledged land never becomes the property of the lender but may be cultivated by him to any extent for the duration of the pledge. Irrespective of whether a pledged estate is exploited or not, the pledge is retired only by full repayment of principal plus agreed interest. Pledging of land may be considered as a form of indigenous mortgage from an owner occupier of land to a pledge-creditor. The latter uses the land pending full repayment of the cash loan. The creditor would normally harvest the crops during the period; the harvest represents his «interest» on the loan.

While it is said that a thing (land) pledged is never lost, in modern times a pledge-creditor may be so heavily indebted that the land is ultimately «lost» to him (5).

Pawn-broking is the third type of arrangement employed in securing non-institutional agricultural loans. This arrangement differs from the land pledge in two basic regards: (1) the asset surrendered is never land, but usually some portable article of intrinsic value (locally) and therefore easily marketable, and (2) the article pawned cannot be used until the expiration of the agreed loan period. Unlike the land pledge, pawning is a time specific agreement and ownership is acquired of pawned articles in case of repayment default. This arrangement has gone into some disuse. Another arrangement involved borrowing from a wealthy person in the locality.

Such borrowing was usually for the purpose of executing a specific farm project. At the end of the project, it was usual for the farmer-borrower to pay back in kind using part of grown crops in payment.

Although the proportion of the harvest due to the creditor is usually pre-determined, there is a high element of risk involved as a result of the vicissitudes of agricultural production.

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#### 4.1 The Flow and Terms of Formal Institutional Agricultural Credit

The flow of formal institutional agricultural credit is summarised in Chart 2. Only a limited amount of commercial banks' funds flow directly into agriculture. The largest amount of credit funds for agriculture are derived from government revenue, either in the form of direct appropriations through the Agricultural Loan and Credit Scheme, or through overdraft guarantee liabilities as with the Registrar of cooperatives loan fund. This latter channel has been reorganized into a national Nigerian Agricultural and Cooperative Bank (NACB) which started operations in August, 1973.

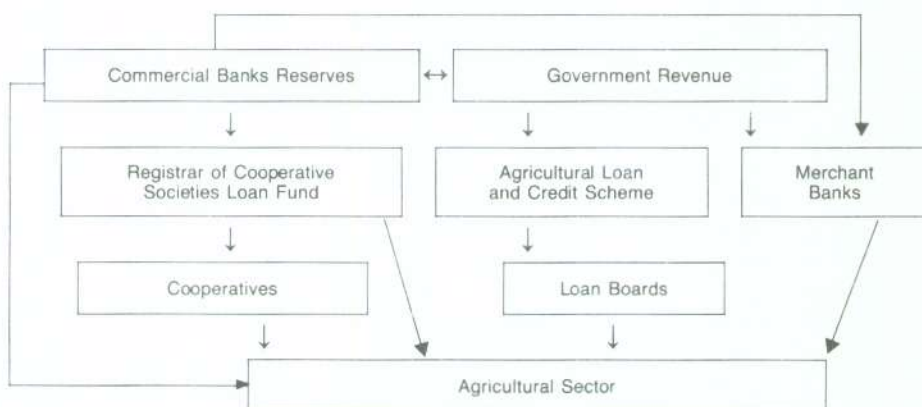


Chart 2: Flow of Formal Institutional Agricultural Credit.

In financing agriculture, financing institutions have operated a variety of alternative security terms. Commercial banks' loans for agricultural marketing (mainly produce buying agents dealing with Agricultural Production Development, or Commodity Boards) are covered by IOUS whose liquidity are related to accounts receivable for produce delivery. Alternative commercial banks' funds for agriculture are secured by government guarantees. Under this scheme, (Agricultural Credit Guarantee Scheme - ACGS), loans and advances by commercial banks to agriculture are guaranteed up to 75 per cent by the government and Central Bank of Nigeria (2). Towards this end, a sum of N100 million



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naira has been subscribed to the fund, of which 60 per cent is contributed by the Federal Government while the Central Bank is responsible for providing 40 per cent. The Agricultural Credit Guarantee Scheme Fund which was set up in 1977 was to guarantee loans for

- (a) plantation agriculture
- (b) field crop production, and
- (c) livestock production.

The Agricultural Credit Guarantee Scheme authorities had classified their conception of problems confronting the scheme as follows:

- (a) Farmer-related problems: In this category were absentee farmers who abandoned their projects and deliberately avoided the Agricultural Credit Officers (ACOS) of the scheme. Furthermore, some farmers regarded the loan given them as their own share of the national cake, hence their negative attitude towards repayments.
- (b) Bank-related problems: Prominent amongst these were lack of interest in the scheme by Commercial banks, because of low interest rate and high risk involvement, improper evaluation of projects by banks; late loan disbursement; and a dearth of agricultural officers in the commercial banks, to evaluate projects.
- (c) Government-related problems: Inconsistency in agricultural policy and inadequate supplies of farm inputs and services due to lack of infrastructural facilities.
- (d) Weather-related problems: Drought affected effective operation of the scheme, because drought in some cases resulted in very poor yields, thus causing the inability of some farmers to make good instalmental repayments to the banks (13).

#### *4.2 Government Credit Allocation to Agriculture*

Until about 1960, the main sources of agricultural credit were the government-owned Agricultural Production Development Boards.

Out of their total capital expenditure, Wells (9) estimated that the former Eastern, Western and Northern regions of Nigeria spent 4 per cent (N1.46m), 5 per cent (N1.16m) and 4 per cent (N0.64m) respectively, on farm credits, while the aggregate for the nation was 4 per cent (N3.36m). Table 2 below shows capital allocation by various governments to credit, relative to aggregate planned capital expenditure. Credit allocation excludes credit in kind in the form of subsidised fertiliser, land clearing for cultivation and other farm input subsidies.

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Table 2

SHARE OF AGRICULTURAL CREDIT IN PLANNED CAPITAL ALLOCATIONS, 1970-1980

	1970 - 1974			1975 - 1980		
	Total Allocation (N Mill.)	Agric. Sector Allocation (N Mill.)	Agric. Credit (N Mill.)	Total Allocation (N Mill.)	Agric. Sector Allocation (N Mill.)	Agric. Credit (N Mill.)
Federal	1932	79.49	12.0 (15.2%)	33921.10	1300.1	150 (11.5%)
States	1418	252.15	10.5 (4.2%)	9392.90	1020.1	15 (1.5%)
Total	3350	331.63	22.5 (6.8%)	43314.00	2320.2	165 (7.1%)

Source: Awosika and Nwoko (1)

An overview of Table 2 reveals the following:

- total agricultural sector allocation has increased sixfold, while farm credit allocation has increased seven fold, from 1970-1980.
- the farm credit share of agricultural allocation remains the same (on ratio-basis) in the period covered by the two plans. This could be traced to government's increased direct investment in agriculture, and its persuasion of commercial banks to increase their loans to agriculture. It should be noted that figures in the 1975-1980 Plan include capital grants to the Nigerian Agricultural & Cooperative Bank which has been the main government lending institution. However, it is the Central Bank of Nigeria, the Federal Government's monetary authority, which influences the flow of credit directly or indirectly to the agricultural sector. It has been the sole source of credit to commodity Boards.

#### 4.3 Agricultural Credit Allocation by Non-Government Institutions

The major non-government institutions that are expected to play a key role in agricultural lending in Nigeria are the banking institutions. Commercial banks in Nigeria have played a relatively small role in making credit facilities available to the rural sector, where the farmers predominate, compared to government ministries and other public institutions. They had thus not encouraged the development of this sector. This has been associated with the nature and organization of the rural sector, on the one hand, and the accessibility,



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banking practices and the general perspective of the banks, on the other. The mobilisation of savings by banks depends, among other things, on the efficiency of banks and their services, the degree of monetisation of the economy, the level of income, savings, habit and the distribution of banks among the population within the economy. These factors appear to have militated against the extension of credit facilities by banks to the rural farmers.

From the point of view of the banks, too many factors make investment in agriculture relatively less attractive. Apart from the risk and uncertainty involved in agricultural production, and the lack of provision of crop insurance, seasonality of agricultural projects complicates the problem of loans and its supervision. This results in administrative pressure for the credit agencies and explains the long procedure involved in loan approval and disbursement. It also partly explains why some banks prefer to give loans to farmers' cooperatives rather than servicing a large number of small loans. Besides, the supervision of credit is much easier when loans are large and concentrated. The problem is further compounded by the dearth of extension services which has prompted some banks to deal directly with cooperatives. Agricultural Extension service is supposed to educate farmers on the practice and management of progressive agriculture which involves articulating farmer's credit needs in a manner acceptable to both the banks and the farmers. In this way, risks to the banks are thus minimised.

We may now examine the contributions of financial institutions to agricultural financing in Nigeria.

Commercial bank loans to agriculture have increased steadily over the years. Propelled by the guidelines set forth by the Central Bank of Nigeria, banks have been actively involved in agricultural lending and development over the last decade. Hitherto, banks have played significant roles in the activities of commodity marketing boards by making credit available to licensed buying agents who in turn make credit available to farmers.

As indicated earlier, the Agricultural Credit Guarantee Scheme was established in an attempt to stimulate the commercial banks to expand their banking facilities to the agricultural sector, since the scheme provides a measure of protection and incentive to the banks.

Table 3 shows the sectoral allocation of credit by commercial banks, since 1960. Apart from 1960, where Sectoral allocation to agriculture was highest, credit allocations have shown steady increases over the years.

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Table 3

## COMMERCIAL BANKS LOANS AND ADVANCES TO AGRICULTURE (INCLUDING FORESTRY AND FISHERY)

Year	Loans to Agriculture (N Million)	Total Commercial Bank Loans (N Million)	Percentage of Agric. Loan to Total Bank Loan	Prescribed percentage (Lending ratio)	Performance Index C/d x 100
1960	22.6	114.00	19.8	—	—
1970	6.9	351.30	1.9	—	—
1971	9.3	502.00	1.8	—	—
1972	19.2	619.50	3.1	—	—
1973	21.6	953.50	2.8	4	70.00
1974	27.2	938.10	2.9	4	72.50
1975	37.3	1,537.30	2.4	4	60.00
1976	79.6	2,122.90	3.7	6	61.66
1977	139.1	3,074.60	4.5	6	75.00
1978	224.4	4,109.70	5.5	6	91.70
1979	329.6	4,624.40	7.1	8	88.80
1980	462.2	6,309.10	7.3	8	91.30
1981	590.6	8,582.90	6.9	8	86.30
1982	709.8	9,737.40	7.3	8	91.30
1983	837.2	10,536.60	8.0	10	80.00

Source: S.A.O. Sule (6)

The prescribed sectoral allocation to the agricultural sector increased from 4 per cent in 1973 to 10 percent in 1983 and 12 percent in 1985. In the 1986 fiscal year, the prescribed ratio has increased to 15 per cent in accordance with the Federal government pronouncement on agriculture as the «preferred Sector» (7, 8 and 10).

These increases have been due largely to the Federal government's definite orientation towards agriculture and the development of the rural sector of the economy in recent years, in the wake of drastic decline in oil revenue which has been the major source of foreign exchange earnings for Nigeria since the seventies (2 and 4). In line with this objective was the Central Bank's formulation of the rural banking scheme (1976) with the basic philosophy of extending commercial banks' presence to the rural areas, as a means of mobilising rural savings for the issuance of credit to the rural operators, farmers and traders (2).

We reproduce Table 4 to show the role played by merchant banks in making credit facilities available to agriculture, for the period reviewed. From a modest beginning of 1 percent of total merchant banks' loans going to agriculture in 1975, there has been a steady improvement. Thus, with a poor performance index of 16 percent in 1975, merchant banks were able to meet the prescribed ratio of 5 percent only once in 1982.

According to Table 5, the agricultural credit guarantee scheme loans to total bank agricultural loan varied from 4.9 percent in 1978 to 19.4 percent in 1984, showing a steady increase but a very poor overall performance. According to Sule (6) the bulk of the loans under the scheme went to small farmers (95.8 percent), whereas the actual allocation of loans to them (40 per cent) compared to what went to the large farmers was out of proportion to the contribution of the small farmers to total agricultural production.

Table 4

## MERCHANT BANKS LOANS AND ADVANCES TO AGRICULTURE (INCLUDING FORESTRY AND FISHERY)

Year	(a) Total Merchant Bank Loans to Agriculture (N Million)	(b) Total Merchant Bank Loans (N Million)	(c) Percentage Share in Total Loans	(d) Prescribed Lending Ratio	(e) Performance Index (C/d × 100)
1975	0.9	80.7	1.0	6.0	16
1976	1.6	96.4	1.7	6.0	28
1977	3.2	109.6	2.9	4.0	72
1978	5.2	194.2	2.7	4.0	67
1979	6.8	226.2	3.0	5.0	60
1980	19.6	400.2	4.9	5.0	98
1981	32.7	711.9	4.6	5.0	92
1982	59.5	1190.2	5.0	5.0	100
1983	53.8	1345.6	4.0	5.0	80

Source: S.A.O. Sule (6)

Table 5

## THE RELATIONSHIP BETWEEN TOTAL BANK CREDIT TO AGRICULTURE AND ACGS FINANCING

Period	Bank's Total Agric. Loan (N '000)	Agric. Credit Guarantee Scheme Loan (N '000)	Percentage Guaranteed
1978	230,496	11,284	4.9
1979	337,242	44,910	13.3
1980	462,175	75,548	16.3
1981	590,641	111,180	18.8
1982	786,601	143,509	18.2
1983	940,401	179,809	19.12
1984	1052,101	204,509	19.43

Source: Agricultural Credit Guarantee Scheme: Annual Reports.

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Also, disproportionately large share of the loans went into poultry production: 57.4 percent of total amount and 20.8 percent of the total number. This was to the relative neglect of other agricultural sub-sectors, such as food crops, fisheries cattle and other livestock. This anomaly is apparently to be rectified through the credit guideline in the 1986 budget which stipulates that allocation of credit to the different sectors of agricultural production should be 50 percent for grains production and distribution, 15 percent for livestock production (including poultry), and 35 percent for others.

The agricultural credit guarantee scheme has not achieved the desired level of success for several reasons, prominent among which are:

- (a) lack of adequate bank branch network in the rural areas;
- (b) shortage of man-power;
- (c) inadequacy of securities;
- (d) insincerity of some farmers;
- (e) lack of feasibility reports by farmers to support request;
- (f) incidences of increased loan default and delay in settlement of default; and finally,
- (g) guarantee cover given to loans does not give any specific incentive to the banks, since loans under the scheme are retrieved under the same legal procedure as other bank loans. (2, 9 and 11).

#### *4.4 An Appraisal of Formal and Non-Formal Credit Institutions*

The average small scale or medium farmer in Nigeria still relies on non-formal credit institutions. This implies that the average Nigerian farmer still relies on the money-lender, trader or shopkeeper. Formal institutional credit tends to take rate of interest into prime consideration. One of its characteristics has also been its highly impersonal nature. This seems to be a very serious handicap which had tended to dampen the enthusiasm of the farmer towards formal institutional credit. It cannot simply be counterbalanced by the low rate of interest charged. To the average farmer, it is usually much more important that his loan is adequate, and that it is granted without complicated loan procedures and disbursed with minimum delay. Selecting the proper lender therefore becomes a very important consideration to the farmer, as regards success of his business.

To all intents and purposes, formal institutional credit provides the most appropriate source of loanable funds. What the farmer needs is a well-informed lender with adequate experience, and capable of keeping the farmer abreast with current developments, and also, capable of monitoring his projects over time. Such a lender serves as a «balance

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wheel», cautioning the farmer against excesses, over-enthusiasm, and limits expansion to safe bounds, dictated by repayment and risk-bearing capacities. Formal institutional credits are not only cautioning, they also, should encourage farmers to expand operations.

On most other points, non-formal institutional credit has advantages over the formal ones in the perception of the average Nigerian farmer.

But from the economic stand-point, formal institutional credit may be more advantageous to the average farmer, inspite of cumbersome and delay procedures. Available evidence seems to indicate that the level of available new investment debt load and level of education and therefore enlightenment are more positively related to the demand for credit rather than the interest rate. If this assertion is so, then it follows that interest rates need not be set very low (15, 16 and 17).

Whereas in the developed countries, agriculture is a business and is separated from the family, in developing countries such as Nigeria, agriculture is merely a way of life which is integrated with the family. Thus, in the developed countries, agricultural credit is utilised for productive purposes only, as against consumptive purposes in developing countries.

In developed countries, the average farmer is conscious that credit contributes to maximum profit which usually is his main goal. He also knows that the interest rate constitutes an essential part of his produce cost price and that by reducing his produce to manageable proportions, he would be reducing his cost of production and thereby, achieving his main objective of maximising his profits. In developing countries, the credit institutions are interested in limiting their credits to what is strictly necessary for meeting the legitimate needs of the farmers, but the average farmer, whose motives are not based on cost of production and maximum profit only, does not feel a strong incentive to reduce the amount borrowed to the minimum required for raising his crops or livestock. This is because his numerous credit needs including those for religious and social purposes are so pressing that he does not limit his credit needs to the minimum required for the development of his farm.

## 5. Conclusion

This paper has endeavoured to analyse and discuss the important role which credit facilities play in Nigerian agriculture. The various constraints and bottlenecks posed

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by the lending institutions and government's role in minimizing these obstacles have been discussed.

It was observed that much interest has been shown in the agricultural sector in recent years by both government and private investors. From recent measures taken, the Federal government expects that agriculture would record a substantial growth in the fiscal year 1986. Of note are the favourable credit conditions contained in the CBN monetary guidelines directive to the commercial banks, in relation to agricultural loans. The effects of these measures are yet to be seen. It was also stated that NACB had introduced the «Smallholder Direct Loan Scheme» aimed at granting loans up to N5,000 directly to small farmers, purely on the grounds that they are full time farmers. Thus, Security (Collateral) in terms of certificate of occupancy, as well as the minimum 10% applicant's contribution to total project costs requirements, are waived. It is likely these may facilitate approval and disbursement of loan.

Furthermore, the NACB has just recruited personnel, known as Agricultural Assistants (six from each state) who will be trained in extension services, and will thus monitor the progress of rural agricultural projects in which it has invested loanable funds.

In order for credit facilities to be useful and meaningful in Nigerian agriculture, the following suggestions are made:

- i) Continuous effort should be intensified in rural banking. Where permanent bank branches are not practically feasible mobile banking should be encouraged. This may bridge the gap between rural credit demand and supply in Nigeria.
- ii) Bottlenecks in the bureaucratic system of banking and lending should be removed, particularly for small scale farmers.
- iii) Government should not view the issue of loans disbursement to smallscale farmers as a social obligation to the depressed, degraded and dehumanised rural people but rather, as an economic policy designed to boost food production and encourage agricultural development.
- iv) Formation of cooperatives should be encouraged, since agricultural loans, for security reasons, tend to favour them more.
- v) Agricultural infrastructure, such as storage, transportation and marketing should be well developed and linked up with production. Vertical integration should be promoted and expanded.
- vi) The role of extension services should be emphasised, to take care of the transfer of modern farming techniques and innovations.
- vii) Progressive smallfarmers should be encouraged both in the use of modern



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technology, and in the gradual expansion of their farm sizes in order to take advantage of economies of size. Constant education and use of extension and advisory services are necessary.

- viii) Subsidies and minimum guarantee prices for agricultural produce should be encouraged by the government.

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**Abstract**

*Nigerian agriculture has not yet reached the stage where the average small scale farmer makes efficient use of formal credit as a matter of routine. This is attributable to his traditional approach to farming, and other socio-economic problems such as land-tenure system, the condition under which the farmer works, poverty and illiteracy. Also, the risks involved in modern farming appear to weigh heavily on the traditional farmer's decision making. These risks are associated with acquisition of capital, storage, transportation, insurance and marketing. The small farmer is therefore left in a situation where he finds it difficult to make proper use of credit and credit institutions.*

*The paper first reviews Nigerian agricultural credit utilisation and the types of institutional agricultural credit policies and strategies that have been devised. The welfare and economic implications of agricultural credit in Nigeria is subsequently analysed in a generalised presentation, in the context of character of agricultural production and credit needs. Finally, the degree of success of agricultural credit in Nigeria is summarised and recommendations made, for achieving further egalitarian successes in agricultural credit financing in Nigeria.*

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## UNE ÉVALUATION CRITIQUE DU SYSTÈME DU CRÉDIT AGRICOLE AU NIGÉRIA

### RÉSUMÉ

*L'agriculture du Nigéria n'a pas encore atteint le stade dans lequel l'exploitation agricole de petite dimension utilise régulièrement et de façon rationnelle le crédit des institutions formelles. Cela est dû d'une part à une approche traditionnelle à l'activité agricole et d'autre part à des facteurs socio-économiques tels que le système de propriété-exploitation des terres, les conditions dans lesquels les paysans évoluent, le degré de pauvreté et le niveau d'instruction. Il ne faut pas oublier le risque concernant l'activité agricole moderne qui joue un rôle négatif en ce qui concerne la prise des décisions des exploitations traditionnelles. Les risques ci-dessus mentionnés concernent plusieurs secteurs de la gestion tels que, par exemple, l'achat des biens d'équipement, les transports, le stockage, l'assurance et le marketing. L'exploitant de petite dimension se trouve donc dans une situation dans laquelle difficilement le crédit et les institutions financières peuvent être utilisés de façon adéquate.*

*Cet article, en premier lieu, examine l'utilisation du crédit agricole et les différentes catégories de politiques et de stratégies de crédit agricole adoptées par les institutions concernées. En deuxième lieu, en tenant compte des caractéristiques de la production agricole et des besoins de crédit, on met en lumière les effets du système actuel de crédit agricole sur l'économie du Nigéria et sur le bien-être des agriculteurs. Enfin, on détermine le degré de succès des politiques de crédit agricole au Nigéria et en même temps on suggère pour le futur de nouvelles directions pour le financement du secteur agricole.*

