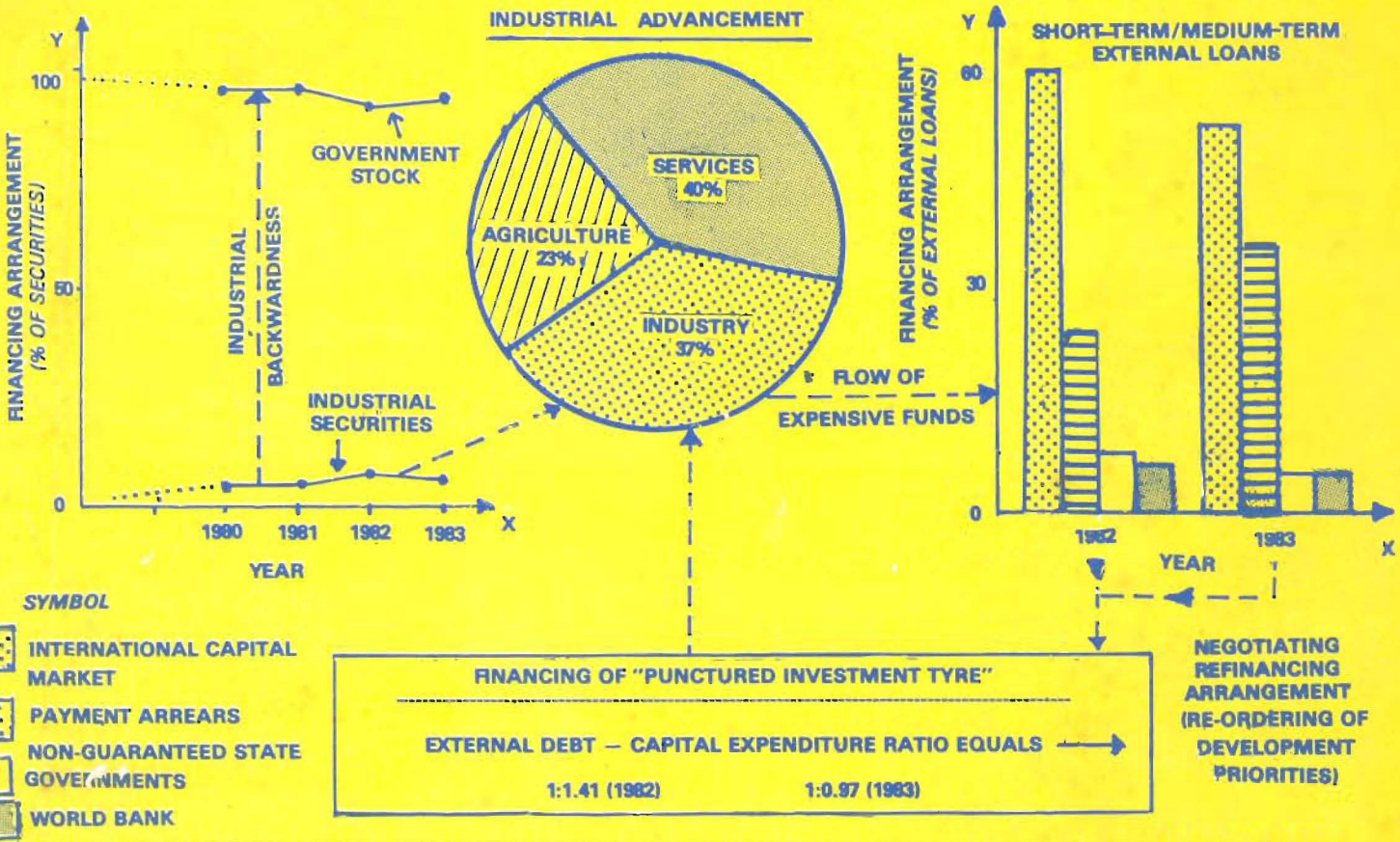


# NIGERIAN JOURNAL OF FINANCIAL MANAGEMENT

INTERNATIONAL REVIEW OF FINANCE

Half-Yearly

## NIGERIA'S EXPENSIVE BORROWINGS BREED MNCs\*



ONE NAIRA OF EXTERNAL LOAN FINANCED CAPITAL EXPENDITURE WORTH ₦1.41 IN 1982 AND ₦0.97 IN 1983  
 → RESULTED IN "PUNCTURED INVESTMENT TYRE" → LEADING TO SALUTARY MEASURES TO REVIVE THE ECONOMY

\* MULTINATIONAL CORPORATIONS

(KEY TO BE FOUND INSIDE)



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**KEY: NIGERIA'S EXPENSIVE BORROWINGS BREED MULTINATIONAL CORPORATIONS (MNCs)**

<b>INDEX OF INDUSTRIAL BACKWARDNESS:</b>	<b>1980</b>	<b>1981</b>	<b>1982</b>	<b>1983</b>
(measured by development of Capital market; Govt. Stock—industrial securities ratio)	97.9:2.1	98.0:2.0	96.3:3.7	96.7:3.3
Cumulative Securities: of which	1961-1983 (N mn.)			3842
(i) Industrial securities	(N mn.)			257
	(% share)			6.7
(ii) Government stock	(N mn.)			3585
	(% share)			93.3

**A good majority of industrial securities are by MNCs**

**INDEX OF INDUSTRIAL ADVANCEMENT:**

(measured by sectoral distribution of G.N.P.: percentage share)

Industry	37
Agriculture	23
Services	40

**EXTERNAL BORROWING PATTERN TO FINANCE SOPHISTICATED MEN, MATERIALS & MACHINE OWNED/OPERATED BY MNCs:**

	<b>1982</b>		<b>1983</b>	
	N mn.	% share	N mn.	% share
(i) International capital market	5474	60.5	6483	52.8
(ii) Trade arrears	2214	24.5	4448	36.4
(iii) Non-guaranteed state governments	670	7.4	560	4.6
(iv) World Bank	530	5.9	566	4.6
Short-term loans as % of total external debt	24.5		36.3	
Medium-term loans as % of total external debt	75.5		63.7	

**CAUSE:** Trade arrears emerged as a result of overcapitalisation which resulted in sluggish investment cycle.

**OVERALL EFFECT: "PUNCTURED INVESTMENT TYRE".**

	<b>1982</b>	<b>1983</b>
Capital—expenditure—external debt ratio	1.41:1	0.97:1

As trade arrears began to accumulate the result of heavy to heavy expenditure on capital projects which have turned into white elephants, consequent of declining crude oil revenue, the Federal Military Government have taken positive measures to attain self-sustaining economic development by re-ordering development priorities by, at the same time, renegotiating settlement of payment arrears. (see p. 46 of this issue).

**SOURCE:** Analysis based on latest official data released by the Federal Government, World Bank, Central Bank of Nigeria, etc, and presented by SWAMY, M.R.K. (PROF.), "A Financial Management Analysis of Loan Administration in the Nigerian Economy", at the **In-Service Training Course on Credit Administration**, organised by University of Nigeria, May 1984.

A FINANCIAL APPRAISAL OF THE AGRICULTURAL CREDIT  
GUARANTEE SCHEME FUND (ACGSF) IN NIGERIA

BY

DONALD N. IKE, M.A., Ph.D  
READER IN ECONOMICS  
INSTITUTE OF MANAGEMENT AND TECHNOLOGY  
ENUGU, NIGERIA

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INTRODUCTION

The Murtala - Obasanjo military regime in its desire to develop agriculture to a point of self-sufficiency first launched the Operation Feed the Nation programme (O.F.N) and followed this up by promulgating an Agricultural Credit Guarantee Scheme Fund through Decree (Act) 20 of 1977. The Scheme came into effect in April, 1978.

The main purpose of the Scheme is providing financial aid for the development of the agricultural sector and encouragement for increased food production in the country. The Scheme provided guarantee up to 75 per cent in respect of all loans granted by commercial and merchant banks for agricultural purpose with the aim of increasing the level of bank credit to the agricultural sector.

The Decree provided for a fund of ₦100 million subscribed to by the Federal Military Government (60 per cent) and the Central Bank of Nigeria (40 per cent). The Fund is managed by the Central Bank of Nigeria and the distribution agents are the commercial banks. The commercial banks are empowered to lend from their own resources to farmers at a statutory rate of 6 per cent to individual farmers and 4 per cent to co-operatives, but the Fund guarantees of whatever loss results from such lending up to 75 per cent of such losses with maximum ceilings of ₦50,000 for the individual farmers and None million for the co-operative society or a corporate farm body. In recognition of the relative significance of the agricultural sector to the Nigerian economy, the Central Bank of Nigeria stipulates in its credit guidelines to the commercial banks that 10 per cent of their loanable funds be allocated to agriculture (1983).

The Agricultural Credit Guarantee Scheme Fund would serve to help the banks achieve the sectoral target at much reduced risk because of the substantial guarantee from the Fund.

RELUCTANCE OF COMMERCIAL BANKS TO  
FINANCE SMALL FARMERS

Prior to the Scheme, commercial banks' credit facilities to agriculture in Nigeria had often been limited to larger commercial enterprises whose loans were large because they could offer good security. The banks avoided small-holder loans because

- a) small scale farmers were too numerous and were not individually known to banks,
- b) also had no collateral security.

Where commercial banks have granted loan facilities to agriculture directly, it has generally been to the large producers of agricultural exports and to large farmers with the greater majority of small farmers remaining dependent on informal sources such as money lenders, contribution clubs (isusu) and so on.<sup>1</sup>

The reluctance of banks to make long-term loans to agriculture emanate from the liability structure of their funds. Good management dictates that commercial banks invest their funds in accordance with the liabilities lying against such funds.<sup>2</sup> Banks derive the bulk of their funds from short term sources - - current accounts, savings mainly short-term liabilities, this correspondingly affects the maturity structure of their investments. Agricultural production involves long-term investments in equipment, properties, materials and other inputs. The gestation period is high. Thus without compulsory Central Bank Credit guidelines with appropriate sanctions for default the volume and value of commercial bank loans to this sector would be very low.

TABLE - 1

COMMERCIAL BANKS' SECTORAL DISTRIBUTION OF CREDIT TO AGRICULTURE

Year	T O T A L		Agricultural Credit as % of Total Credit by Commercial Banks (%)	Prescribed Allocation to Agriculture by Central Bank of Nigeria (%)
	To the Economy (₦) million	of which: To Agricultural Sector (₦) million		
1971	393.4	11.6	2.9	4
1972	503.9	10.5	2.1	4
1973	579.6	16.0	2.8	4
1974	754.9	25.3	3.4	4
1975	977.1	26.8	2.7	6
1976	1,561.6	51.5	3.3	6
1977	2,208.0	86.1	3.9	6
1978	3,217.4	146.7	4.6	6
1979	4,128.9	258.5	6.3	6
1980	4,728.9	308.5	6.5	6
1981	5,300.0	381.6	7.2	8
1982	5,600.0	436.8	7.8	8
1983	6,300.0	516.6	8.2	10

SOURCE: Central Bank of Nigeria, Economic and Financial Review (Various issues)

ANALYSIS OF DATA

As shown in Table 1, the proportion of loans from the commercial banks to the agricultural sector upto 1978 ranged between 3 per cent and 5 per cent, which was less than the Central Bank's approved ceiling of between 4 per cent and 6 per cent. For instance, the approved ceiling for 1971 to 1974 was 4 per cent and the commercial banks loans to the agricultural sector ranged from 2.9 per cent to 3.4 per cent, all falling short of the prescribed ceiling. From 1975 onwards the prescribed ceiling was raised to 6 per cent but until 1978, when the ACGSF commenced, the percentage of loans to the agricultural sector all fell short of the prescribed limit. For 1979 and 1980, the ceiling was overshoot showing the positive influence of the ACGSF. Since then, the proportion of agricultural loans to the agricultural sector has fallen short of the prescribed ceiling.

The other reasons for the unattractiveness of agricultural loans are:<sup>3</sup>

- a) competition from the industrial sector for loan finance. The efforts of entrepreneurs seemed biased in favour of industrial projects where returns were higher and both gestation and payback periods lower.
- b) lack of management skills and trained manpower in the agricultural sector.
- c) high risks involved, coupled with low return and long gestation period of agricultural projects.
- d) the lack of proper feasibility studies to attest to techno-economic viability of most agricultural projects.
- e) lack of adequate security due to the land tenure system in the country. The Land Use Act of 1978 did not provide solution to this problem.<sup>4</sup>
- f) risk of diversion of funds for other purposes with resultant high bad and doubtful debts as experienced by the Regional Agricultural Development Corporations in the 1960s.
- g) limited resources of the branch network and skilled manpower at the disposal of the banks to monitor and control lending in the agricultural sector.
- h) inadequate financial resources at the disposal of the commercial banks because of their low deposit base and poor economic conditions of the country.

Efforts timed to stimulate the agricultural sector as a result of above problems include tax relief via pioneer certificates for agricultural or agro-allied projects using local raw materials, investment allowance of 10 per cent in addition to existing capital allowances on agricultural equipments to encourage increased investments in agriculture and the setting up of Commodity Boards in 1977 for cocoa, groundnuts, cotton, palm produce, rubber, grains, and root crops. The ACGSF is one of the continuing efforts of the Government to stimulate the agricultural sector. The ACGSF loans as percentage of total loans to agriculture since 1978 has ranged from a low figure of 4.9 per cent to a high limit of 18.8 per cent.<sup>5</sup>

Thus the scheme is still a small but significant portion of Agricultural Financing and a lot more need be done by the various governments of Nigeria for this sector in order to facilitate and maintain increased output and productivity.

OPERATIONAL PERFORMANCE OF ACGSF

The Act establishing the scheme defines agricultural purposes for which the scheme would provide a guarantee as including.<sup>6</sup> - -

- a) The establishment or management of plantations for the production of rubber, oil palm, cocoa, coffee, tea and similar crops.
- b) The cultivation or production of cereals crops tubers fruits of all kinds. cotton, beans, groundnuts, sheanuts, beniseeds, vegetables, pineapples, bananas and plantains.
- c) Animal husbandry, that is to say, poultry, piggery, cattle rearing and the like and fish farming.

TABLE - II

LOANS GUARANTEED BY ACGSF BY PURPOSE:  
1981 - 1983

Purpose	1981		1982		1983	
	Amount (N '000)	% to Total	Amount (N '000)	% to Total	Amount (N '000)	% to Total
<u>Livestock</u>						
Poultry	20,802.9	58.3	20,345.1	64.1	20,167.4	55.5
Cattle	3,297.4	9.3	446.6	1.4	587.7	1.6
Fisheries	-	-	39.6	0.1	1,575.0	4.3
Other Livestock	1,047.2	2.9	1,044.2	3.3	1,034.6	2.9
<u>Food Crops</u>						
Grains	6,085.9	11.1	4,920.5	15.5	5,858.1	16.1
Tubers and Root Crops	1,358.8	3.8	785.9	2.5	2,344.5	6.5
<u>Mixed Farming</u>	1,128.4	3.2	77.7	0.2	1,998.6	5.5
Other Crops	1,921.8	5.4	4,104.3	12.9	2,741.6	7.6
<b>Total</b>	<b>35,642.4</b>	<b>100.0</b>	<b>31,763.9</b>	<b>100.0</b>	<b>36,307.5</b>	<b>100.0</b>

SOURCES: (1) ACGSF, Annual Report and Statement of Accounts, 1982,  
(2) Central Bank of Nigeria, Annual Report and Statement of Accounts for the Year Ended December 31, 1983

### ANALYSIS OF DATA

As shown in Table II, of the ₦35,6 million granted in 1981 the poultry sub-sector accounted for 58.3 per cent followed by the grains sub-sector (17.1 per cent) and the cattle sub-sector (9.3 per cent). In 1982, poultry sub-sector increased its share of total loan in the scheme to 64.1 per cent followed again by the grains sub-sector (15.5 per cent) and other crops (12.9 per cent). The same pattern was repeated in 1983.

The dominance of the poultry sub-sector is understandable because the returns from poultry are high and the gestation period low. However compared to the grains sub-sector, the returns from the poultry sector has been shown to be lower although it attracts the highest investment in the Scheme.<sup>7</sup>

A sample survey of projects under the Scheme in 1982 showed that returns to investments of ₦16.3 million in the poultry sub-sector was of the aggregate value of ₦6.1 million or 37.4 per cent, while the returns on investment of ₦5 million for the grains sub-sector in the same year had approximate value of ₦17.5 million or 350 per cent. The differential returns may be due to expensive fixed assets in the poultry field and a number of failures recorded in poultry business due to over-investment in structures to the detriment of production. In contrast the grains sub-sector needed heavy investments only in tractors, buildings and silos were of the native low cost variety. Since the returns from the grains sub-sector is very high an optimal investment strategy should channel more of the loans to this sub-sector vis-a-vis the poultry sub-sector.

### CASES OF LOAN DEFAULT

Many cases of default were recorded. The defaulters fell into four farmer-related categories as follows:

- a) Cases of deliberate default by farmers who had adequate capacity and means to repay but refused to do so.
- b) Cases where farmers did not properly assess their loan requirements and as a result approved figures fall short of actual need.



- c) Cases of disproportionate spending on infrastructures to the detriment of actual production.
- d) The problem of poor record keeping by farmers was universal.

In financial terms, the defaults amounted to ₦0.61 million in 1981 and ₦3.39 million in 1982.<sup>8</sup> A breakdown of the defaults reveal that 146 loans or 85.9 per cent were made in respect of loans made to individuals and 24 loans or 14.1 per cent were made in respect of limited-liability companies or co-operatives. Thus individuals are more likely to default when compared to corporate groups or co-operatives. Udo Okoroaun<sup>9</sup> has argued for financing of group-farming in order to reduce the high risk of default in the Nigerian agricultural sector. The differential rate of defaults in favour of co-operatives as against individual farmers would seem to validate this hypothesis. The high incidence of defaults in 1981 must have worked to reduce the total loan sanctions in 1982 to a level below the 1981 figure (₦31.76 million in 1982 as against ₦35.64 million in 1981). In spite of not encouraging attempts to recover loans, loans sanctioned increased to ₦36.31 million in 1983.

#### DISTRIBUTION OF ACGSF PROJECTS: STATEWISE

The projects financed by the ACGSF Scheme are spread out in the 19 States of the Federation of Nigeria. The projects increased erratically from 341 in 1978 to 1,105 in 1979, fell to 945 in 1980 and increased to 1,295 in 1981. From 1,076 projects financed by the Scheme in 1982, the number increased to 1,333 in 1983:

In financial magnitudes loans disbursed were ₦11.28 million for 1978, ₦33.60 million for 1979, ₦30.95 million for 1980, ₦35.64 million for 1981, ₦31.76 million for 1982 and ₦36.31 million for 1983. The total financial disbursement for the period 1978 - 1982 was ₦143.23 million as compared to a total disbursement of ₦179.54 million for 1978 - 1983.

TABLE III

STATE - WISE LOANS GUARANTEED BY THE AGRICULTURAL  
CREDIT GUARANTEE SCHEME FUND: 1978 - 1983

(# '000)

State	1978	1979	1981	1982	1983	1978-1982 Cumulative
Anambra	247.4	1,283.1	1,933.7	2,319.9	2,401.3	6,937.2
Bauchi	1,271.2	1,543.3	2,927.8	546.3	519.0	7,637.0
Bendel	558.2	6,701.3	1,623.6	1,554.7	1,316.5	13,124.8
Benue	290.5	140.5	489.3	165.7	732.1	1,149.0
Borno	178.4	739.2	95.9	292.6	314.0	1,471.1
Cross- River	483.5	288.8	1,255.5	2,005.2	1,021.5	4,723.4
Gongola	-	501.5	2,566.3	1,193.5	3,140.2	5,698.1
Ino	605.3	1,704.4	1,216.3	2,047.8	1,877.7	6,721.0
Kaduna	985.6	3,138.6	3,034.9	3,453.8	1,726.7	12,061.5
Kano	627.8	3,185.4	2,114.6	3,351.6	2,570.0	12,455.3
Kwara	2,043.1	814.8	1,039.9	479.9	498.4	5,479.8
Lagos	300.0	3,203.1	4,007.0	3,996.0	NA	14,692.9
Niger	83.0	202.6	770.3	368.2	NA	1,758.3
Ogun	772.8	2,291.0	3,461.4	1,544.3	1,933.3	11,343.3
Ondo	25.0	358.9	643.1	880.0	1,607.4	3,757.5
Oyo	1,013.6	3,976.9	2,804.0	3,906.5	2,079.0	17,019.6
Plateau	688.7	854.3	1,216.7	684.3	2,374.2	4,726.5
Rivers	434.6	2,036.0	2,225.1	2,294.0	795.1	8,785.8
Sokoto	675.7	633.0	1,217.0	679.6	1,570.0	3,690.3
Total	11,284.4	33,596.7	35,642.4	31,763.9	36,307.5	143,232.4

- Notes:
1. State-wise figures for 1983 do not add up to total as data for Lagos and Niger States are not available.
  2. As a result, State-wise cumulative data are presented for the period 1978 - 1982.

- SOURCES:
1. For 1978, 1979, 1981 & 1982,  
ACGSF, Annual Report and Statement of Accounts, 1982.
  2. For 1983,  
Central Bank of Nigeria, Annual Report & Statement of Accounts for the Year Ended December 31, 1983.

### ANALYSIS OF DATA

A look at Table III would show that the percentage distribution of the projects is quite uneven spatially. In 1981 Borno State got less than one per cent of total disbursement and in 1982 Borno and Benue States got less than one per cent each of the disbursement respectively. Borno and Benue States are large agricultural states and the differential grants to these States would seem discriminatory.

A further look at the distribution would show that in 1981 the highest allocation went to Lagos, Ogun, Kaduna, Bauchi, Cyo States in that order. In 1982, the largest allocations went to Lagos, Oyo, Kaduna, Kano and Anambra States in that order. With the exception of Bauchi State, these States with the largest cash disbursements are industrialized and urbanised States in Nigeria. It would seem that the loans go more to areas with men and materials equipped with adequate capacity to put the loan to proper use. The requirement for collaterals which should dictate an urban bias in loan saction is not an important prerequisite for the ACGSF Scheme since it is funded and guaranteed by Government. The most probable link between urbanisation/industrialization index and the loan is the literacy and income factor. There is a correlation between urbanization and literacy and between industrialization and income. Benue and Borno with little or no cash disbursements are rural and poor. Lagos, Kano, Kaduna and Oyo with highest allocations are urban and relatively rich.

Looking at the last column, the highest aggregate allocations went to Oyo, Lagos, Bendel, Kano and Kaduna States. These are clearly some of the most industrialized and urbanized States. Industrialized and urbanised States, appear more able to absorb further agricultural investment.

#### PROBLEMS FACED BY SMALL FARMERS (RURAL-BASED STATES DO NOT BENEFIT ADEQUATELY UNDER ACGSF SCHEME)

According to Udo Okoro<sup>10</sup> the small farmer is characterised by:

small size of farm holding; illiteracy and ignorance; little capital; lack of tangible assets and clear title to land; low level of productivity; low income; generally rural milieu.

With the above characteristics the small farmers' absorptive capacity for more investment is low. The high incidence of illiteracy will reduce their ability to process loan applications. The rural-based States with a preponderance of small-farm operators have benefited least from the ACGSF Scheme. Paradoxically the need for such assistance is greater with the small farmer population since they are enmeshed in a vicious circle of poverty originating from low income and low productivity, needing a given high quantum of investment to propell them from the low level income. Efforts should be made to redirect loan finance from the "haves" in the cities and industrial contributions to the "have nots" in the rural environs.

The survey conducted by the author<sup>11</sup> among some participating banks in the Scheme in Anambra State reveal that,

\*All the banks indicated that illiteracy of farmers militated against the effectiveness of the Scheme.

\*Also all the banks indicated that lack of security was a problem in lending under the Scheme. Since security is not required for the ACGSF Scheme the 25 per cent unguaranteed portion of the loan must be responsible for this insecurity and risk, as participating banks would have to bear this portion of default.

\*On the contrary only 50 per cent of the banks felt that low interest rate was a problem in lending under the Scheme,

\*83 per cent of the banks mentioned high default as the major problem.

\*50 per cent of the banks felt that small size of farm operations was a problem.

Thus the serious problem areas are illiteracy, high default and lack of security. The other less serious problem-areas are low interest rates and small size of farm operations.

Some farmers would not want to pay back loan even when they have the capacity to discharge their loan obligations, while some farmers did not properly assess their loan requirements and consequently loans approved fell short of actual need. Still further some more farmers spent more on infrastructures leaving insufficient resources for actual production while most farmers could not keep records.

## R E C O M M E N D A T I O N S

\*Apart from the need for farmer education, proper farmer contact through extension services would help bring to their doorsteps the necessity to discharge loan obligations and enhance their credit worthiness, increase their ability to assess their loan requirements, induce proper investment decisions on the part of farmers regarding relative spending on infrastructures, materials and equipment and facilitate better book-keeping habits.

\*Increased bank guarantee for the Scheme. If the Scheme is cent per cent guaranteed commercial banks would be attracted to channel more funds to the Scheme. The State Governments may bear the remaining 25 per cent security in form of their own guarantee.<sup>12</sup> As earlier reported in the Bank Survey of Anambra State, 100 per cent of the participating Banks indicated lack of security as militating against lending under the Scheme. Also following large scale loan defaults in 1981, the amount of lending in 1982 fell appreciably. Hundred per cent guarantee would reduce the source of insecurity and the high risk attendant to this agricultural finance **Scheme**.

\*Increased interest rate for loans under the Scheme: Under the Scheme, Banks are obliged to reallocate part of their investible funds to lending at a rate of say 6 per cent when some of such funds (customers' deposits) are raised at a rate of 5 per cent. This makes lending in this sector almost unprofitable and possibly loss-bearing when one considers that loan to co-operatives under this Scheme attracted 4 per cent interest rate. It is recommended that minimum lending rates be made applicable to all loans in the agricultural sector in view of the high risks and high administrative charges of managing agricultural loans. The applicable interest rate in the Scheme was raised in 1982 to 7 per cent. This is still not enough.

\*More loans should be channeled to small-scale farmers in rural environs. The distribution of the ACGSF Scheme has been disproportionately in favour of urban/industrialised centres at the expense of poorer rural centres. The poorer rural centres with their low capital base by virtue of their low income and low productivity seem the proper candidates for more agricultural finance. The small-scale farmers in rural enclaves would need such financing in order to get out of the vicious circle of poverty in which they are enmeshed.

\*Inasmuch as the co-operatives and corporate groups in the scheme have shown greater financial prudence and registered less default when compared to individual beneficiaries of loan finance in the Scheme, co-operatives and farm groups

should be organised on an increasing scale to benefit from increased agricultural finance. Further through joint policy of inputs co-operatives could help transform traditional agriculture in Nigeria.

\*Simplification of complex application process.

The application process for the loan should be made less complex and cumbersome to be within the reach of the small and less-literate farmer. This should serve to increase access to the loan scheme.

\*More loans to grains production. Since the yield in this sub-sector is very high relative to other sub-sectors as earlier indicated, this is a viable candidate for injection of more ACGSF loan finance. The concentration of loans on poultry may be reaching diminishing returns vis-a-vis grains production. Optimal investment strategy would demand a re-allocation to the more high yield sub-sector. <sup>13</sup> Further increased grains production would feed a wide variety of import-substitute industries in the Nigerian economy.

A review of the ACGSF Scheme in the direction of above recommendations would help channel more bank finance to the agricultural sector and facilitate increased agricultural production.

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