THE IMPACT OF MICRO CREDIT FINANCING ON THE OUTPUT OF THE NIGERIAN FARMERS

(A CASE OF SOUTH EASTERN STATES OF NIGERIA 1990-2005)

BY

OBALUM, IKECHUKWU EMMANUEL (B.Sc. ACCOUNTING (ABSU) 20024364548)

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DECLARATION

I hereby declare that this research work on the impact of micro credit finance on the output of the Nigerian farmers (A case of South Eastern States 1990 -2005) is original work of Obalum Ikechukwu Emmanuel as my Contribution to knowledge. It was carried out under the supervision of Dr, Linus Eze Akujuobi

Researcher’s Name: Obalum, Ikechukeu Emmanuel.

Signature: ________________________________

Date: ________________________________
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ABSTRACT

The purpose of this study is to determine if there is significant increase in output of the Nigerian farmers after micro credit loan had been obtained. The study made use of secondary data predominantly, especially data from the Nigeria Agricultural Co-operative and Rural Development (NACRDB). The Statistical tool used in the analysis are: Difference between tow means of X and Y variable; spearman correlation coefficient of variations and finally the Z test. At the end of the analysis we found that the Nigeria farmers significantly depend on micro Credit loan to increase out; secondly, there was a significant difference in output after micro credit loan had been obtained. On this basis of our research findings, we recommend that Nigerian farmers should be economically empowered now than ever before; that micro credit scheme should be sustained by all tiers of government (Federal, State and Local Government); that agencies such as NACRDB and NAPEP should involve in public enlightenment program that will educate farmers on opportunities open to them; that private sectors can participate actively on micro credit scheme by setting up agricultural foundation scheme for the provision of micro credit to farmer.
CHAPTER ONE
BACKGROUND OF STUDY

1.1 Introduction
Before 1892 when the first commercial bank came to Nigeria, micro credit financing existed in the form Self-Help Groups of petty traders, artisans and farmers. This Self-Help Groups later formed Co-operative Society of different trades and make weekly contributions which they advance to their members in form of micro credit loans without interest charges. The purpose of micro credit loans then were for procurement of yam seedlings, improvement of petty trading, marriage ceremonies, building of thatch houses, funeral ceremonies etc. After 1892 some these co-operative societies started micro banking in commercial banks and started charging interest at rate of 2% for their borrowers. But majority of them were operating outside the financial system. They have different names like Isusu or Esusu daily contribution, saving and loans, groundnut, co coca, palm oil, Nwannedinamba Co-operative societies etc. These Co-operative Societies elect officers for a tenure of 4 to 5 years. The amount you are to be giving, as loans shall depend on the amount you contributed Onyechere Ike (1892-1992).

When the CBN came into being on 1st July 1959, the board of governors then realize that about 80% of the population that reside in rural areas do not go to conventional banks or that they are completely outside the financial system. They either save or borrow from the conventional banks because they can not provide collateral security expected from the conventional banks. The conventional banks dominated the financial system until 1988 when the Peoples Bank of Nigeria came into being through a budget of that year. Then a decree was promulgated known as decree No 22 of 1990. This decree led the establishment of Peoples Bank of Nigeria Limited (PBN) with an initial capital of N30 million. It was specifically charged with the responsibility to provide micro credit loans to small borrowers who can not satisfy the stringent collateral requirement demanded by conventional
banks (Uzoma Ahamefula (1991). These banks are expected to felicitate access to
credit for small economic operators at the grassroots and thereby increase self-
reliance. They were about 295 branches nationwide. Its existence was short lived
because of mismanagement and misapplication of funds, low capital formation and
the use of unskilled personnel to run their branches made it impossible to survive.

The first community bank commenced operations in December 1990. Since then,
the National Board for community Banks (NBCB) a regulatory body issued
Licenses to 1,366 communities Banks nationwide. A community bank in the Nigeria
context is defined as a self-sustaining financial institution owned and managed by a
community or group of communities to provide financial services to that community.
They have the same function as Peoples Bank of Nigeria (PBN). It was these
community banks that transformed into micro finance bank by increasing there
paid-up capital from N5million to N20million for Unit micro finance bank. Those that
can not meet up the paid-up capital requirement within 24 months were asked to
close. According to CBN bulletin in Dec. 2005 says that all licensed, community
banks seeking the approval of this policy shall transform to Unit micro finance bank
on meeting the prescribe new paid-up capital and other conversion requirement
within the stipulated period or else shall cease to operate as a community bank.

A community bank can apply to convert to a micro finance bank licensed to operate
in a state if meets the capital and other conversion requirement. Specifically,
the Community Banks (CBs) wishing, to transform to Micro Finance Banks
(MFBs) shall meet the following requirements.-

> The minimum shareholders funds must be raised to a minimum of N20
million for LGA coverage while that of state wide coverage shall be N1.0
billion.
Upgrade its management team, internal control, Management Information System (MIS) and procedure and manuals of operations

May wish to have a branded name not limited to the catchments area of original location

Meet criteria for branch network when it applies

Adopt the report formant and policy for income recognition for MFBs

Board and management to undergo certification programme.

Board and management re-orientated on commercial micro finance vision.

In order to enhance the flow of financial services to the Nigeria rural areas, government has in the past initiated a series of publicly financed micro rural credit programme and policies targeted at the poor. Notable among such programme were rural Banking programme, sectoral allocation of credits, a Concessionary interest rate and the Agricultural Credit Guarantee Scheme (ACGS). Other institutional arrangements were establishment of the Nigeria Agricultural Insurance Corporation (NAIC) Peoples Bank of Nigeria (PBN), the community bank (CBs) and Family Economic Advancement Programme (FEAP) and Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB) to enhance the provision of finance to the agricultural sector. It also created the National Poverty Eradication Programme (NAPEP) with the mandate of providing financial services to alleviate poverty. Micro finance services particularly those sponsored by government adopted the traditional supply led subsidized credit approach mainly directed to the agricultural sector and non farm activities, such as trading, tailoring, weaving, blacksmithing, agro-processing and transportation. Although the services have resulted in an increased level of credit disbursement and gains in agricultural
production and other activities, the effects were short lived due to unsustainable nature of the programme.

Since the 1980, the Non-Governmental Organizations (NGOs) have emerged in Nigeria to champion the cause of the micro and rural entrepreneurs with a shift from the supply led approach to a demand driven strategy. The number of NGOs involved in micro finance activities has increased significantly in recent times due largely to the inability of the formal financial sector to provide the services needed by the low income groups and the poor and declining support from development partners amongst others. The NGOs are for charity, capital lending and credit only membership based institution they are generally registered under the Trusteeship Act as the sole package or part of the charity and social programme. The NGOs obtain their funds from grants fees, interest on loans and contribution from their members. However they have limited outreach due largely to unsustainable sources of funds.

The Self-Help Group, the private Co-operative Societies, Peoples Bank of Nigeria, Community Banks Micro Finance Banks, Government Agencies, and Non-Government Organizations have contributed immensely to the development of credit financing in Nigeria especially in agriculture and agro-processing sector.

Some studies have been done in this area in the past, for instance Akujuobi (2008) in his paper revealed that Nigerian community banks failed to promote economic development because of inadequate capital structure. Rather the banks gave nearly half of their credit to commerce sub sector that did not significantly contributed to economic development.

Also according to Okonji (2007) revealed that micro finance banks have impacted positively by empowering and alleviating poverty in Nigeria. However it is evident
that no study has been done in the area of micro finance and its impact on agricultural output.

Hence there is still a need to consider agricultural sector of the economy with emphasis on the effect of micro financing on output of Nigerian farmers and this is what this study intends to do.

1.2. Statement of Problem

Insufficient data and information on micro credit financing in Eastern States of Nigeria. Majority of Nigerian farmers are illiterate and therefore do not have good record keeping of their farm proceeds. The Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB) do not have sufficient data and information on micro credit financing to the Nigerian farmers in the Internet. This has constituted a problem for this research and scholars who may wish to make further research on micro credit financing operations in Nigeria. Data on output before and after micro credit financing in Cross River state, Akwa Ibom state, Bayelsa and Delta states were not within my reach. This has led to the problem statement.

1.3 Objective of the Study

This research is aimed at determining the effect of micro credit on output of Nigeria farmers with particular reference to Eastern States farmers with the following objectives in mind:

(a) To determine whether Nigerian farmers depend on micro credit increase output.

(b) To determine whether there is any significant difference in value of output after micro credit had been obtained.
(c) To determine whether a correlation exist between micro credit and output.

(d) To determine whether those that obtained micro credit met the required output.

(e) To determine whether micro credit met the aspiration of government

1.4 Research Question

1. What are the average values of micro credit loan obtained by farmers?

2. What are the average annual values of output of farmers before micro credit loan?

3. What are the average annual values of output of farmers after micro credit loan?

1.5 Research Hypotheses

Ho1: Nigeria farmers do not significantly depend on micro credit loans to increase output

Ho2: There is no significant difference in output of the Nigeria farmers after micro credit loan

Ho3: Output of the Nigeria farmers do not have any significant relationship with micro credit loan obtained
Significance of the Study

This study is important for several reasons

This study is important to enable us determine the impact of micro credit on Nigerian farmer output.

- It will determine if Nigerian farmers really use micro credit wisely or not.
- It will enable farmers determined the value of output after micro credit had been obtained.
- It will serve as a foundation for further research on micro credit financing in Nigeria.
- It will serve as a guide to agricultural practitioners and bankers that are involved in micro credit.
- It will expose investors on micro credit financing scheme and on what is required to set up micro finance firm.
- It will assist government to know whether their aspirations are met or not.
- It will expose bankers on measures to reduce the incidence of indebtedness for agricultural credit.
- The study is a fulfillment of the award of M.Sc degree in Financial Management.
- It will serve as a reference text on micro credit for scholars studying finance and banking.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction:

Micro credit scheme started in the year 2001 by President Olusegun Obasanjo administration through the Central Bank of Nigeria (CBN.) It is aimed at eliminating and eradicating poverty especially rural and urban dwellers. The scheme is to provide funds to the less privilege members of the society that cannot have access to the conventional banks, and other finance houses due to lack of collateral. Nigeria Agricultural, Cooperative Rural Development Bank (NACRDB) and National Poverty Eradication Programme (NAPEP) were established government, agencies that provide micro 'credit finance to rural and urban farmers; they have their branches in every state capital of Nigeria for easy access to such loans. NAPEP (National Poverty Eradication Programme) has two types of scheme for micro credit financing

Revolving ·Micro Credit Scheme

Multi Partner Matching Funds

Revolving Micro Credit Scheme: It is a scheme that involves the' individual operating his account regularly when you liquidate your debt you can apply for more credit and definitely it will be given to you until you can stand firmly on your own and use your own funds to nun your own business. In Multi - Partner Matching Funds: Two or more persons are involved in the use of funds jointly. The scheme attracts larger funds if the conditions are met. NACRDB (Nigeria Agricultural Co-operative Rural Development Bank) has two types of scheme:
Individual or Corporate loan Scheme Co-operative Society loan Scheme

For the individual or corporate loan scheme the person or company provides collateral to secure such loans. He can seek as much as N5,000,000 and above after proving evidence in the form, of feasibility report of such a project and collateral security. But for co-operative societies, the farmers shall not be less than ten to form a cooperative society of a particular crop such as cassava, maize, rice, chicken, snail etc. They shall provide a resolution letter, open current account, and register the union within the state. Each farmer shall benefit not less N250,000.

2.2 Concept of Micro Credit

Micro credit can be defined as loan or credit that ranges from N50,000 to N250,000 per individuals. It is provided for artisans, petty traders, okada riders etc, who can not provide collateral to secure such credit in case of default. The interest rate is low. It ranges from 5% to 6% per annum. The low rate is to encourage borrowers.

2.3. Definition and History of Agricultural Credit in Nigeria:

In Nigeria, different people have defined agricultural credit financing scheme in different ways. Nwaru, (2004) defined it as the present and temporary transfer of purchasing power from a person who owns it to a person who wants it, allowing his opportunity to command another person's capital for agricultural purpose. but with confidence in his willingness and ability to repay at a specified later date. Adegeye and Ditto, (1987) defined agricultural credit as the process of obtaining control over the use of money, goods and services in the present, in exchange for a promise to repay it at a future date: Mellor, (1966) however defined Agricultural credit as a device for facilitating the temporary transfer of purchasing power from one individual or organization to another.
Udeozo, (1998) in his definition explained that Agricultural credit is the funding, financing or provision of the needed facilities on deferred payment basis for the, support and promotion of agricultural production. Agricultural credit has long history in Nigeria though some are conflicting. According to Ajakaiye, (1993), first 'attempt to provide loan to farmers was made in Northern Nigeria in the 1930's 'for the specific purpose of promoting mixed farming. Besides, the scheme, which was managed by local authorities, also extended credit for the purchase of draught oxen and plough. The scheme was later taken over' by Northern Nigeria Ministry of Agriculture to increase it scope and area of coverage to include horticulture and fishery projects. Lot, (1998) seem not to agree with the above, he has it that agricultural credit dates back to the 50s and was recorded on average scale in the defunct Western Region and later to the East before the' North. In 1964, the Nigerian Local Development Board was established. This board was nationwide credit institution. In 1949 the Regional Development Boards replaced the Nigerian Local Development Board. The Regional Boards include West Regional Finance Co-operation (1955); Western Nigerian agricultural credit co-operative (1962); Fund for Agricultural and Industrial Development (FAID) in the Eastern Region (1963); and Mid Western Nigeria Agricultural Credit co-operation (1964). Ajakaiye, (1993) described the establishment of the above Agricultural credit co-operation in different region as unfortunate and colossal failure because they did not make impact, In terms of increasing the quantum of credit available for agricultural developments reasons being because of:--

a. Insufficient fund to satisfy the credit need of farmers.

b. Cumbersome and time consuming loan processing procedure.

c. Loan appraisal and lack of proper, consideration of borrower's repayment ability.
d. Insufficient loan supervision

e. Inadequate or complete absence of financial projection and planning, and political interference, which usual outweighed sound investment criteria. According to Ajakaiye, (1993) the above problems led to establishment of 'Nigerian Agricultural and Cooperative Bank (NACB) in 1972 as an organized credit Institution to farmers as when as various government policies to banks to extend credit to farmers

2.4 **Classification of Agricultural Credit** Ogunbayo, (2003) classified agricultural credit into formal and informal agricultural credit. Formal agricultural credits are those issued by formal financial institution and are subject to banking laws and other specific regulatory agencies governing the financial sectors' which include the Central Bank of Nigeria, public and private sector banks, capital markets. While informal agricultural credits are' those 'forms credits obtained from financial institutions which operate outside legal framework and are controlled by social mechanisms and norms. These are made up of 'moneylenders, friends, and relatives, informal savings groups called Esusu or Isusu Oni, (1973) is in line with Ogunbayo, (2003) but went further to classify agricultural credit based on sources, size, and duration, purpose, form, and security specifications. Agricultural credit could be classified into tie and untie: The agricultural credit is tie, when 'the lending agencies grant credits in kind e.g. fertilizer, farm machinery and equipments. Lending agency to prevent loan diversion often uses this form of credit: Untie credit is granted in monetary form in terms of duration. He classified agricultural credit into short, medium and long term agricultural credit. This depends on how long it takes for repayment to become due. Odufalu, (1994) emphasized on the above by saying that short term credits is credit with maturity period not more than one year; medium term credit is credit with maturity period of one to five years while long term credit is five years and above. Odufalu, (1994) went ahead to classify
agricultural credit based on purpose and this includes investment, commercial or consumption purpose. Investment credit is obtained by agricultural enterprise to acquire fixed assets such as machineries; plants and equipment, which are usually, have long life expectation. Commercial credit is usually meant to finance current operations and marketing of goods. This type of credit is usually short term debt and is usually repaid with proceeds of the current sells of the agricultural enterprise. Consumption credits are normally for consumer products by the farmer before he starts to realize his farm output. It is also short term. Oni, (1973) collaborated with Odufalu, (1994) on this, issue but argued that most credit institutions as no grant for consumption' except when loan for production is diverted for consumption, thereby making repayment difficult. Oni, (1973) further classified agricultural credit into institutional and non- institutional. This type of classification is based on sources of credit. Agricultural credit can be classified based on size, small-scale loan and major agricultural loan. Classification of credit could be based on security (collateral) to include secured' and unsecured loan: Those backed up by securities are called secured loan while those not backed up by securities are called unsecured loan. Those backed by security can be further divided into personal security and collateral demand, promissory note as well as one or two sureties to guarantee the repayment. Some farmers are also credit worthy that is have capacity to repay loan even with collateral. For the purpose of this research, classification, of credit based on source as presented by Oni, (1973); Odufalu, (1994); Ogunbayo, (2003) as regards formal financial institution will be the main focus. Oni, (1973) grouped financial institutions operating in the Nigeria Agricultural Credit system into:

a. Cooperative society
b. Public credit institution such as development and financial corporations and
c. Bank
2.5 Banks And Agricultural Credit In Nigeria Odufalu, (1994) defined bank credit to agriculture as loans and advances, equipment leasing, and net inter-bank float in respect of call money, certificates of deposits, banks acceptances, commercial papers, bills discounted and promissory notes granted in favour of agriculture. He went further to stress that monetary and credit policy guideline of Central Bank of Nigeria in each fiscal year stipulate the sectoral percentage of the total loans and advances which commercial and merchant banks should extend to agricultural sector of the economy. Banking which according to Fry, (1976) and Sanusi, (1993) started in Nigeria with First Bank, Plc 1892; Union Bank Plc 1917 and United Bank for Africa 1949 with the aim to facilitating foreign trade and cater for relations with little or no attention to indigenous business which was mainly farming then. Since then, banks had moved to a tremendous height of mobilizing deposits from surplus sector of the economy to the deficit sectors of the economy like agriculture. Bank credit to agriculture will be viewed from two important areas:

i. Regulated Era

ii. Deregulated Era

REGULATED ERA This era was between 1969 - 1986. Sanusi, (1993) described this era as a contrast in the evolution of Nigeria’s banking system. It is contrast in the sense that the devastating effect of the civil war had great impact of the banking system while on the other hand the fortuitous gain from oil boom marked a new beginning of an economic era with little or no emphasis on agricultural sector. This turn of event led to several policy initiatives that could enhance agricultural development through credit accessibility. Nwajiuba, (2000) is consistent with the above assertion but further stated that such credit policies include the following:
i. Government fiscal policies and budgetary allocations including recurrent and capital expenditures prominent amongst these are subsidy for fertilizer and supervised credit and loan scheme.

ii. The Central Bank of Nigeria monetary policies and the guideline controls the creation and management of credit in the economy.

iii Commercial and merchant banks implementation of central bank guideline through interest rates; agricultural credit guarantee scheme; rural banking scheme and sectoral prescription.

iv. Development and specialized banks and other agencies like Nigerian Agricultural and Cooperative bank. Olisambu, (1993) described the above era as the pre-structural adjustment programme period. According to him the era witnessed a more determined effort by the authorities to ensure strict observance of governments monetary and credit guideline by the banks. During this era banks were asked to give 6-8% of their advance as credit to agricultural sector and failure to oblige will be force the bank to deposit such amount with the CBN and at interest free. Such amount so deposited does not form part of the liquid assets of the bank. Besides, during this period the government also made it mandatory for banks to devote a minimum of 50% of their advances to Indigenous borrowers as at beginning of 1978/79. The level was increased to 70% in April 1979. Small Scale enterprises whose turnover do not exceed N50, 000 were to be allocated 10% of the credit volume set for indigenous business. The rural banking programme in which government directed banks to open branches in the rural areas also characterized the era with about 200 branches opened in the rural area within a period of three years i.e. June 1977 to June 1980. The second phase was slated to cover another three years beginning from 1980 to December 1983 with 181 branches out of 266 rural branches
expected. Reasons why the target was not met was due to poor infrastructure and dearth of human resources. Under the third phase, 1985-1989, 300 branches were to be opened. According to Nnanna, (2003) and Palmer, (1986), another good development in agriculture enhancement during the regulated era was the Agricultural Credit Guarantee Scheme established under Decree 20 of 1977 but commenced operation in April 1978. The scheme's capital based as at then was N100 Million subscribed by the Federal Government (60%) and CBN (40%). In general term, Nnanna, (2004), summarized the pre-SAP era or regulated period by saying that monetary management depended on the use of direct monetary controls in order to influence banks lending behavior. Specifically these include credit ceiling, direct control of interest and exchange rate. Sectoral credit allocations were also designed to the productive sectors and low interest rates were charged to encourage investment and growth.

DEREGULATED ERA

The deregulated era is the post SAP era covering the period from 1987 till date. This period is characterized with abolition of all compulsion on banks to lend to agriculture. The rural banking scheme, concessionary interest rates and portfolio prescription were discontinued, (Nwajiuba, 2000). According to CBN, (2005) the Agricultural Credit Guarantee Scheme Fund still exists but was reorganized in several aspects to meet up with the growing trend. With the deregulation of the economy, banks became free to channel their resources to Investments options of their choice. Agricultural sector because of inherent risk and uncertainties associated with it was unfavoured. Such reorganization was adopted to reduce level of the default in loan repayment and meet up trend in the deregulation as well as make the scheme more attractive to the participating banks were:
i) **The Self Help Group Linkage Banking:** - This was launched under the ACGS in 1991 and became operational in 1992, under this farmers of the same objective ranging from 5 to 15 forms a group to undertake regular savings, which are deposited in a commercial bank. After operating the account for about 6 months, the group can now apply to the partner bank for a loan. The group could be informal or formal (registered). Such loans are normally more than the balance in their savings account at the time of loan application. Account at the time of loan application under this situation, the lending bank holds the group savings as security, which will not be drawn until the loan is fully repaid. The aim of the ASHGLB is to inculcate the culture of saving and banking in group; this will help members build up resources for financing their farm projects without recourse to bank borrowing at the long run.

ii) **The Trust Fund Model:** - This is the model in which oil companies in the case of Niger-Delta area; State Local governments, and Non Governmental Organizations (NGOs) place funds in trust with the lending bank to supplement group savings of the farmers as security for agricultural credit. The trust fund secures 25% or more of the intended loan of the prospective borrower while farmer's savings secure another 25% and AGGSF guarantees 75% of the remaining 50% thereby leaving the bank to only 12.5% risk. Shell Petroleum Development Company (SPDC) has adopted this model to their host community farmers. A Memorandum of Understanding (MOU) between the partners (Shell, lending banks and the CBN) specifying the duties and obligations of each of the parties and obligation of each of the parties has been signed on the programme. code-named MISCAD (Micro Credit Scheme for Agricultural Development). Besides Nigeria Agip Oil Company (NAOC) has also signed MOU for their own programme for similar agricultural credit code-named GREENCARD. Some State Government like that of Jigawa State has also set up state government Trust Fund.
for Agricultural Development with value of N50 million to enable farmers take loan for production of cotton and sugar cane. The outputs of which provide raw materials for the state-owned sugar company and cotton ginnery. In another vain, Nasarawa and Ebonyi State Government have pledged N10 million and N30 million respectively as security for farmers under similar model.

iii. The Interest Drawback Programme (IDP): - This is one of the reorganization of ACGSF under the deregulation policy of the government. Under this farmers will borrow from the lending bank at market determined Interest rate but the programme will provide interest rebate of a determined percentage if loans are repaid as and when due. The IDP is to be funded jointly by federal Government of Nigeria and CBN in the ACGSF capital. The sum of N2 billion required to effectively support the IDP has been estimated and approved by the federal government and CBN management. The fund called IDP fund separate from ACGS will be invested in Nigeria Treasury Bills (NTBs) and income on investment will be used in settling IDP claims on the interest rebate.

iv. Refinancing Scheme: - This is complement to the ACGS for lending to farmers of long gestation projects. Under this, government, banks, oil companies and the CBN in which banks can draw and lend to farmers of tree crops or livestock to raise funds. This will help solve problems associated with long gestation investments like tree crops and livestock farming.

v. Bank Lending to Part-Time farmers: - Ucheagwu, (1995) in his own view included, bank lending to part-time farmers as one of the reorganization of ACGS to avoid default in loan repayment. This had been the case since 1990 to 1993 in which bank channel bulk of their agricultural loan fund to part-time farmers who are also civil servants. Deduction for loan repayment from this
category of borrowers normally commence within the following month of drawing down to end of repayment period.

vi. Credit facility. Olisambu, (1993) and CBN, (2005) concluded that interest rate was now determined by market forces leading to abrogation of concessionary interest rate policy. Sanusi, (1993) in his view said that the era is characterized by the replacement of direct control with indirect control like Open Market Operation (OMO), Minimum Rediscount Rate (MRR) etc. Many banks were established in his era. As at December 1991, the number of commercial banks rose to 65 while Merchant Banks rose to 54 which was about 24% and 350% increase respectively. This increase in number of banks led to serious competition and various banks adopted various banking aggressive marketing strategies for fund as well as improve their services. Some of the improved new products and services introduced to attract customer were UTB's - investments certificates introduced by Universal Trust Bank in 1992; Western Union Money Transfer by First Bank PLC. Many new generation banks adopted the strategies of quick service delivery in the banking hall to alleviate problem of frustrating and agonizing delays at bank counters as well as the very long, tedious and time consuming procedures for obtaining credit as evidenced during the regulated era Akomolafe, (2001). Agricultural sector seems not to be favoured in obtaining this credit since most banks prefer granting credits to commerce 'because of the quick return to investment. This is so because banks (especially the new generation) mobilize deposits on a higher interest rate and offer same to borrower at a higher lending rate and will prefer fast/quick turnover. Babalola and Odoko, (1996) collaborated the above assertion' that deregulation of the banking sector favours commerce more than agricultural and manufacturing sector. Though criticized the mandatory allocation of credits to some selected priority sectors of the economy of which agriculture was one of them. CBN, (1993)
and Bamisile, (2004) seem to confirm the above and also contributed that most of specialized/development financial institutions were established or undergone some reforms. This included Peoples Bank of Nigeria, Nigeria Agricultural Credit Bank (NACB); Community Banks, NERFUND, Bank of Industries, Urban Development Bank etc to take care of channeling credit to the priority sectors of the economy. The above banks have the advantages of good terms of low interest rate, low equity, little or no collateral requirement in loan administration, (Usman, 1999). Their fund came as subvention from Government.

2.6 Comparative Analysis of; Performance of. Quoted and unquoted Banks in Agricultural Credit Disbursement/Recovery.

The importance of banks in any economy is well established. Banks occupy a critical position in a complex financial system by supplying the money and credit needs in the economy. The commercial banks are the main sub sector of the banking system which are involved in the above activities. This is because of their network of the branches nationwide. (Ogunbayo, 2003). The commercial banks are distinguished into quoted and unquoted banks. The quoted banks are those listed in the Nigerian Stock' Exchange. There are mostly public liability companies. Some of the foremost quoted banks include Union Bank Plc, which was listed 1970 has 300' Branches; First 'Bank Nigeria Plc 300 branches;' Afribank Plc 151 branches; United Bank for Africa Plc 280 branches. (NSE, 2004). The research may not consider those banks, which recently rushed to Nigeria Stock Exchange because of the increase in minimum capital base to N25 billion as well as those not having their shares traded at the floor of the market on daily basis. The performance of' the quoted and unquoted banks in enhancing· agricultural credit will be considered with various parameters. These two categories of banks will be' considered' in their
performance in credit delivery to agriculture and recovery from the farmers. According to ACGS, (1994) the banks, which granted credit to agriculture, were seventeen as at 1993, no merchant bank was involved according to the author,' the reason may be the lending pattern, which was skewed towards individual, and group of small borrowers did not favour merchant banks, which are wholesales marketers of fund. Among the loan granted, Union bank of Nigeria Plc (a quoted bank) granted the highest number, and value of loan by recording 8,011 loans valued at N48.7 million. The level of performance accounted for 48.3% in terms of number and 47.2% in terms of value of loan guaranteed in 1994. an unquoted bank, Bank of the North Ltd came, second with 3,278 loan (19.8%) valued N15.7 million (15.2%) United bank for Africa Plc (1,766 loan, valued N11.8 million); AfriBank Plc, 1,728 loans, valued N9.8 million) came third and fourth respectively, bank of the North Ltd came second because of the Northern interest in the bank and their involvement in agriculture. One important issue with the loans from quoted banks is the spread and the percentage margin compared with the unquoted. All the quoted banks like Union bank for Africa Plc in 18 'states. An unquoted banks i.e banks of the North Ltd came fifth with 14 states. All the above banks granted loans to farmers in Abuja (FCT). In the case 'of percentage margin, the summation of the percentage margin of the quoted banks by far out weight that unquoted banks.

In terms of loan recovery from farmer in the year 1993 and 1994 loan numbered 18,099 and 16,145 valued N91.1 million and 92.3 million were recovered respectively. Total loan default claims were put at 1,263 valued N60.56 million for year 1994. In 1995 a total of 18097 'loan valued at N 164.16 million were granted the figure represent 9.1% increase in number and 59.1 % in value, the increase recorded according to ACGSF (1995) was attributed to:-
a. The introduction of award of the best performing bank under the ACGS, which engendered healthy competition among the banks.

b. Identification of reliable farmers, whom the participating banks reposed confidence on; warranted appreciable increase their volume of loans.

c. The renewed effort of CBN Agricultural Credit Officers in enlightenment campaigns; and

d. The pegging of highest rate at 21% which encourage demand for credit by farmers. Under the 1995 year, 117 commercial banks participated in the lending activities in which Union Bank of Nigeria Plc took the lead by accounting for more than 55% of the total loan number granted: 10,011 (55% valued at 92.9 million (56%). The second was Bank of North Limited with 3,751 loan (20.7%) valued at N18.6 million (11.3%) and Afribank Plc recorded 664 (3.7%) valued. N5.4 million (3.2%) while Habib 'Nigeria Bank Limited with 643 loan (.5%) valued N6.8 million (4.1%) and First Bank of Nigeria Plc 627 loans (3.5%) with a relatively high value of N18.3 million (11.1%). No Merchant Bank participated. Reason being liquidity squeeze and lack of interest in financing agriculture. Many banks prefer to finance quick yielding ventures like trade and transaction in foreign exchange. The total number and value of fully repaid loan was 18,038 loans and valued at N129.8 million was fully repaid', this represented increase of 11.7% and 30.9% in number and value, respectively.

The loan default claims totaled 598 valued at N60.2 million and this represented decrease of 53.7% in number and 0.5% in value when compared with the level obtained in 1994 (ACGS, 1995). The quoted banks in each of the periods granted more than 80% of the total loan in terms of number and value. The spread among 36 states of the federation and Abuja was more. Each of the quoted banks spread their loan to more than 50% of the states and Abuja. The reason may be because the quoted banks are mainly the big banks which obeyed the Rural Banking
Scheme. The banks have more network of spread nationwide. Oboh, (2004) support the above reason by saying that the Union Bank of Nigeria Plc is a foremost and the most diversified financial institution in Nigeria with over 300 branches with over 90 years of experience in the Nigeria Banking terrain. NSE, (2000) confirmed Oboh, (2005) by saying that Union Bank Plc won the Central Bank Nigeria (CBN) Agricultural Credit support award of the year for six consecutive times because of their general performance. The quoted banks commutative value of loans granted was far above that of unquoted banks. This is a clear indication that the quoted banks are more solid in terms of liquidity than the unquoted banks. Udegbunam, (2001) is in conformity with the above. He maintained that capital adequacy of solid banks provides cushion against risk; protect uninsured portion of the depositors funds. He concluded that most 'banks are grossly undercapitalized, while mounting' problem loan and losses worsened the situation. Oboh, (2005) explained that Union Bank Plc has designed a special product named Global Limit for micro credit farmer with total disbursement of N8.23 billion between 1988 and 2005, in addition to other government policies on agricultural credits.

2.7 Quoted Banks and Quality Management of Agricultural Credit The success of a bank in delivery of credit to agriculture or any other sector is largely dependant on the quality of its personnel. It is worthy to note that bank with high capital adequacy may turn to be inadequate with bad management. It is very important for banks to determine credit channeling, monitoring and evaluation of project and recovery of invested fund. According to Akomolafe, (2001) bad management will lead to a deeper crisis through compounding of losses as well as misallocating resources. The soundness of a bank reflects the weakness and failing of its management. According to Udegbunnam, (2001), quality of management determines" the' borrowers' credit- worthiness. Most times, granting
loan that has high probability of default may be a deliberate plan of management. Every commercial bank has its own operating strategies and management style which reflect credit policy; risk preference; capital adequacy; structure of loan portfolio; level of abuses, frauds and embezzlement. Udegbunam, (2001) attributed loan default to lack of skill personnel or inexperienced bank managers due to increase in number of new bank since deregulation. This poor management especially, in new banks explains reason for high rate of problem of loans or loan losses by these banks. Agu, (1998) mentioned that to determine credit worthiness, banks should insist on financial statement of an estimated earning from the use of the loan in past and previous earning records. Orji, (1989) argued that loan management is a function of adhering strictly to the cannons of good lending, which involves proper documentation, disbursement and monitoring of the project in which funds is used for. This ensures the desired objective of achieving the well being of the borrowers and also the, profitability of the lending bank. Orji, (1989) said that in other to achieve good loan management, a number of resources like men, materials, and money are needed. In the case of human resources, there is need to have personnel who are professionally qualified and experienced in projects appraisal/investment analysis, so that they can make sound recommendations and wise decisions on lending. Agu, (1998) concluded that for a credit institution to assume a dynamic and innovative role in agricultural financing they require special expertise. The successes of credit delivery depend largely on quality of the staff. In the case of material, there is need for good accounting machine, computers and supporting software etc. Besides, banks need sound capital adequacy to enable them have fund to lend. Apart from equity base of banks, there is the, need to scout for large deposit in the face of stiff competition. A bank with a large deposit base will have a far greater bargaining power than other bank with slim deposit. The larger your loan portfolio, the more complicated your loan management becomes. It could be because of the above importance of fund to banking business that some
authors lend their support to continuous increase in minimum equity reserves of bank which they said can lead to high profitability. Increased capital base provide' a cushion to withstand abnormal loan losses. (Achinivu, 1993; Donli, 2004;' Nyong, 1996). Oboh, (2004) maintained that for you to achieve greater commitment from the staff, improved welfare package of its workforce is required. He added that training and retraining of staff is required to meet the challenges of credit management. Agu, (1998) added bank customer relationship will be fostered better if the credit institutions are rural based, and not out for profit maximizing financing institution located in the urban centres as in the case in Nigeria. In being rural based the bank will understand the need of the rural farmer in terms volume and purpose' of loans

2.8 Measurement' of Financial State/Performance of Agric Business Enterprises

Many financial indicators are; used to measure the financial performance / state farmer borrower. According to Awoyungbo, (2004), if a company is borrowing 'money from a bank, the bank will want to' be satisfied that credit· is being responsibly utilized and generating an acceptable return. The bank will also look for indicators that the farmer will be able to continue to meet the interest and capital repayment. He went further to say that two financial statements are important:

a) The profit and loss account
b) The balance sheet.

The profit and loss accounts is historic and shows all earning achieved by the company for all year to date i.e cover only one year balance sheet is a financial statement of a company, which shows its financial position on a particular day by stating the values of its assets and liabilities on that day. Arene, (2002) added that cash flow analysis is a statement which shows the cost and benefits in value terms
on a year-to-year basis over the lifespan of a project, as another indicator to show performance of an agribusiness enterprise. Arene, (2002) also included that payback period and the accounting rate of returns are also used to measure viability of project

<table>
<thead>
<tr>
<th>a) Payback Period</th>
<th>( \frac{\text{Cash Outlay}}{\text{annual Cash inflow}} )</th>
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<tr>
<td>b) Accounting rate of return</td>
<td>( \frac{\text{Average cash inflow}}{\text{Original cost of project}} \times 100 )</td>
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Edong, (2001) observed that the above financial accounting statement only provides information to test for success or failure of an agribusiness firm. The standard measure to test the performance of the agribusiness firm performance is the financial ratio. The financial ratio measures the liquidity, solvency, stability and profitability of an agribusiness firm. The categories of financial ratio that will be considered are the liquidity and credit worthiness.

**Liquidity and Credit Worthiness Ratio:** - This can be used by bank to judge the performance, of the farm. It includes:-

<table>
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<th>c) Current Ratio</th>
<th>( \frac{\text{Current Assets}}{\text{Current Liabilities}} )</th>
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<tbody>
<tr>
<td>( = \frac{\text{Cash + Receivables + Inventories}}{\text{Payables + Current fraction of long-term long}} )</td>
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Above check measures ability of the farm firm to meet its current obligation

<table>
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<tr>
<th>ii) Quick Ratio or Acid Test Ratio</th>
<th>( \frac{\text{Cash + receivables less stock}}{\text{Current Liabilities}} )</th>
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<tr>
<th>iii) <strong>Debt Equity Ratio:</strong></th>
<th>This term expresses debt as a percentage of total capital</th>
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or owners equity as a percentage of total capital usually expressed as a relationship between the two percentages. e.g. 50:50.

**Debt Service Ratio:** The amount of interest and principal falling due on a loan during any given accounting period. It is the ratio of operational fund to debt service.

\[
\text{Debt service ratio} = \frac{\text{Operation Fund Debt}}{\text{Debt Service}}
\]

The use of above to measure the performance and credit worthiness of farm firm is wrong since it is only historic and does not take into consideration effect of inflation. It is difficult for a lending bank to use previous history of a farm firm to ascertain its creditworthiness since some other factors may change the trend of business when loan is granted. Udegbunam, (2001) is in conformity with the view that financial statement and financial ratio can be used to measure performance but they are found to have trivial effect on the problem of loan. He concluded that these models do not exert any statistical significant effect on the size of problem of loan at the banks.

### 2.9 Factors That Influence Rural Credit Procurement

According to several authors like Ijere, (1998; Ojo, (1998); Okorie, (1998) Nigeria Government through various policies and programme induced money markets like commercial banks to grant credits to rural farmer’s. The establishment of Nigerian Agricultural and Cooperative Bank Agricultural Credit Guarantee Scheme Fund, Concessionary Interest Rate, Rural Banking Scheme as well as direct funding of agriculture through budgetary provisions were policies and programme that helped to make available fund for agriculture during the pre-SAP Era. However, the
liberalization to the financial market under SAP since 1986 meant that most of the compulsions on bank to lend to agriculture were abolished thereby negatively influencing rural credit procurement (Nwajiuba, 2000). The Agricultural Credit Corporations in the states which is owned by the State Governments and many of them under different proprietorship began operation as far back as the 1960s first to make rural credit readily available. Government is a major player in the enhancement of rural credit availability (Agu, 1998). Adams (1979) look closely to issues like interest paid on agricultural loan and concluded that interest rate and other borrowing cost have a high influence on rural credit procurement. When the nominal interest rate charged on a loan and other additional loan transaction costs incurred by the borrower is high, borrowing becomes useless because expected return is not high enough to pay for the cost of the loan and leave a reasonable margin of profit. Agu, (1998) observed that the important thing in money market is not low interest that will influence farmers to obtain credit even when they do not need it but satisfactory market for farm output that will make farmers have good returns on borrowed fund invested in agriculture. This ‘will make them borrow more and be able to repay loan when due. Nwaru (2004) is in line with above by concluding that cheap credit policy for agriculture can ration credit away from agriculture into more profitable use for the lender. By implication, low interest rate can discourage savers and financial institutions from involving themselves with agricultural credits. When interest rate is low for agricultural sector, many opportunistic businessmen will take advantage of it and use loan meant for agriculture for non-agricultural use. Ijere and Mbanasor, (1998); Onweagba and Okafor, (2000); and Okorie, (1998) recognized that the influence of rural credit procurement is collateral security. They observed that the major type of security a rural farmer can provide for agricultural loan is land. Most often the farmer may not own the land on which they farm or do not have clear title to them, thereby making it impossible for such land to be presented as collateral.
This situation becomes more glaring because of difficulty associated in obtaining the certificate of occupancy from either Local Government Authorities or from the State Government. A situation of this nature makes loan procurement difficult.

2.10 Determinants of Loan Repayment

According to Nwaru (2004) a critical issue in credit administration is how to ensure that the borrower restores the purchasing power temporarily handed over to him within the specified frame of time and other conditions met. This depends a lot on several factors which border on the borrowers ability and willingness to live up to the terms: of the credit granted to him as well as the lenders' loan repayment/recovery strategies. Loan repayment is the act by which money lent out, flow back to the lending institution as the transaction being financed is consummated or liquidated. The terms of repayment should be related to the form and nature of the transaction being financed and a definite repayment programme should be established for every loan no matter how well secured (Agu, 1998). According to this author, loan repayment depends on the farmers' credit worthiness (farmers ability and willingness to repay) which is measured by value of collateral offered and increases income.- Increased in income is measure by the borrower's occupation, nature of industry in which he is employed and continuity of his employment. Njoku and Odii, (1991); and Osuntogun and Oludimu, (1982); discovered that apart from borrowers' occupation, increase income, amount borrowed, years of farming experience, years of formal education, house hold size, loan period, time of loan disbursement, farm size, farm output, value of assets, - interest paid on loan and number of supervisory visit paid on farmer are other factors which influence repayment of loan Bottomely, (1983) discussed repayment under the following headings among others:

(i) Loan Size: Other things being equal, the more a farmer borrows, the larger
will be the probability of his being unable to repay.

(ii) Borrowers net income:- Level of loan repayment increases with borrower's net income.

(iii) Income variance: variations in borrower's incomes may be a major cause of his inability to repay borrowed funds. This could be due to difference in income among farmers in a given area in a given year or yearly variations because of weather variation, natural disasters, diseases, pest, price factor, death etc.

(iv) Value of collateral: The collateral offered will normally be of grater value in the case of the higher-income/higher asset farmer while borrowers in poor countries often have no security to offer against a loan. As borrowers' income rise the 'normal expectation is that value of collateral will rise and repayment will increase. Beet (1990) observed that some times low repayment is recorded because of poor intension by farmer borrowers to repay because of the thinking that loan granted to them is their own share of "national cake" therefore need not to be repaid back.

2.11 Problems of Agricultural Credit

There are several' problems, which: faces agricultural credits and causes of poor repayment of credit. The problem could be those that hinders the banks from granting credit to farmers as well those that make it difficult for farmers to access credit and those that make repayment difficult.

a) Limitation of Fund: Quoted banks do not have enough fund to meet the credit demand, of all competing sectors of the economy; The allocation of credit to various sectors of the economy is skewed in favour of commerce than agriculture. Reason being high risk due to natural hazard; long gestation
period required for crop or livestock to reach maturity period. Interest rate is often high to the farmer due to low supply and high demand for it. Bank will prefer to grant credit to area that can meet up with high interest rate. (Ijere and Mbanasor, 1998 and Orji, 1989).

b) **Demand for Collateral:** - Demand for collateral by bank discourages prospective farmers from applying. Many farmers who are, willing to take risk may not have tangible collateral while those that may have will not be ready to present-it for fear of loosing such to bank. These have been reported by various Authors (Usman, 1999; Ogba, 1993; and Palmer, 1986).

c) **Long Cumbersome’ and Time-Consuming procedure for processing’ Credit:** - Bank needs a lot of documents showing history of previous state of farm firm that will enable bank do loan appraisal. The other problems are lack of proper accounting record; poorly prepared feasibility studies; inadequate information and, knowledge about the farm business. All these are compounded by illiteracy. Sometimes banks deliberately asked for all the papers till farming season had passed to avoid granting such loan. (Ajakaiye, 1993 and Oni, 1973).

d) **Poor Management:** - Banks often may, not have good/ experience management staff that can do proper loan appraisal and supervision when granted. This also leads to loan diversion and default. Some farmers deliberately’ defaults in loan repayment under the mistake impression that loan constitute their own share of "national cake". Loan diversion is often , into unproductive areas e.g. paying children's school fee, marriage dowry, funeral etc. (Odebode, 1993).

e) **Banks are Normally not within the Reach of Farmers:**

Besides, farmers in Nigeria maintain small sized and scattered farm. This makes loan administration and management difficult and expensive this has been reported
extensively by (Ijere and Mbanasor, 1998).

f) **Legal/Judiciary System:-** The judiciary system has not been particularly favorable from the point of view of seeking and obtaining redress by banks in respect of either unpaid credit or perfection title of document used to secure credit. Sometimes borrowers even use court to stop bank from selling collateral to recover their fund. This makes loan recovery to be delayed. Many banks have lost confidence in Nigerian borrower because of use litigation to stop credit recovery.

g) **Excessive Credit:-** This could be inimical to the economy in a situation of full employment continuous injection of credit into the system could lead to inflation. This is the case when the existing productive capacity cannot sustain the swelling spending stream. No wonder Nnanna, (2004) reported that cash Reserve requirement (CRR) is used by CBN as both a prudential requirement and a monetary policy instrument to control the quantum of cash available to banks for credit creation.

2.12 **Overview of Microfinance Activities in Nigeria**

According to CBN (2005) the practice of microfinance in Nigeria is culturally rooted and dates back several centuries. The traditional microfinance instructions provide access to credit for the rural and urban, low-income earners. They are mainly of the informal Self- Help Groups (SHGs) or Rotating Saving and Credit Associations (ROSCAs) types. Other providers of microfinance services include saving collectors and co-operative societies. The informal financial institutions generally have limited outreach due primarily to paucity of loan able funds.

In order to enhance the flow of financial services to Nigerian rural areas,
Government has, in the past, initiated a series of publicly-financed micro/rural credit programmes and policies targeted at the poor. Notable among such programmes were the Rural Banking Programme, sectoral allocation of credits, a concessionary interest rate, and the Agricultural Credit Guarantee Scheme (ACGS). Other institutional arrangements were the establishment of the Nigerian Agricultural and Cooperative Bank Limited (NACB), the National Directorate of Employment (NDE), the Nigerian Agricultural Insurance Corporation (NAIC), the Peoples Bank of Nigeria (PBN), the Community Banks (CBs), and the Family Economic Advancement Programme (FEAP). In 2000, Government merged the NACB with the PBN and FEAP to form the Nigerian Agricultural Cooperative and Rural Development Bank Limited (NACRDB) to enhance the provision of finance to the agricultural sector. It also created the National Poverty Eradication Programme (NAPEP) with the mandate of providing financial services to alleviate poverty. Microfinance services, particularly, those sponsored by government, have adopted the traditional supply-led, subsidized credit approach mainly directed to the agricultural sector and non-farm activities, such as trading, tailoring, weaving, blacksmithing, agro-processing and transportation. Although the services have resulted in an increased level of credit disbursement and gains in agricultural production and other activities, the effects were short-lived, due to the unsustainable nature of the program. Since the 1980s, Non-Governmental Organizations (NGOs) have emerged in Nigeria to champion the cause of the micro and rural entrepreneurs, with a shift from the supply-led approach to a demand driven strategy. The number of NGOs involved in microfinance activities has increased significantly in recent times due largely to the inability of the formal financial sector to provide the services needed by the low income groups and the poor, and the declining support from development partners amongst others. The NGOs are charity, capital lending and credit-only membership based institutions. They are generally registered under the Trusteeship Act as the sole package or
part of their charity and social program of poverty alleviation. The NGOs obtain their funds from grants, fees, interest on loans and contributions from their members. However, they have limited outreach due, largely, to unsustainable sources of funds.

**Justification for the Establishment of Microfinance Banks:**

From the appraisal of existing microfinance-oriented institutions in Nigeria, the following facts have become evident:

**Weak Institutional Capacity:** The prolonged sub-optimal performance of many existing community banks, microfinance and development finance institutions are due to incompetent management, weak internal controls and lack of deposit insurance schemes. Other factors are poor corporate governance, lack of well defined operations and restrictive regulatory/supervisory requirements.

**Weak Capital Base:** The weak capital base of existing institutions, particularly the present community banks cannot adequately provide a cushion for the risk of lending to micro entrepreneurs without collateral. This is supported by the fact that only 75 out of over 600 community banks whose financial statements of accounts were approved by the CBN in 2005 had up to N20 million shareholders' funds unimpaired by losses. Similarly, the NACRDB, with a proposed authorized share capital of N50.0 billion, has N10.0 billion paid up capital and only N1.3 billion shareholders' funds unimpaired by losses, as at December, 2004.

**The Existence of a Huge Un-Served Market:** The size of the unserved market by existing financial institutions is large. The average banking density in Nigeria is one financial institution outlet to 32,700 inhabitants. In the rural areas, it is 1:57,000, that is less than 2% of rural households have access to financial
services. Furthermore, the 8 (eight) leading Micro Finance Institutions (MFIs) in Nigeria were reported to have mobilized a total savings of N222.6 million in 2004 and advanced N2.624 billion credit, with an average loan size of N8,206.90. This translates to about 320,000 membership-based customers that enjoyed one form of credit or the other from the eight NGO- MFIs. Their aggregate loan and deposit, when compared with those of community banks, represented percentages of 23.02 and 1.04, respectively. This reveals the existence, of a huge gap in the provision of financial services to a large number of active but poor and low income groups. The existing formal MFIs serve less than one million out of the over 40 million people that need the services. Also, the aggregate micro credit facilities in Nigeria account for about 0.2 percent of GDP and less than one percent of total credit to the economy. The effect of not appropriately addressing this situation would further accentuate poverty and slow down growth and development.

**Economic Empowerment of the Poor, Employment Generation and Poverty Reduction:** The baseline economic survey of Small and Medium Industries (SMIs) in Nigeria conducted in 2004, indicated that the 6,498 industries covered currently employ a little over one million workers. Considering the fact that about 18.5 million (28% of the available work force) Nigerians are unemployed, the employment objective/role of the SMIs is far from being reached. One of the hallmarks of the National Economic Empowerment and Development Strategy (NEEDS) is the empowerment of the poor and the private sector, through the provision of needed financial services, to enable them engage or expand their present scope of economic activities and generate employment. Delivering needed services as contained in the strategy would be remarkably enhanced through additional channels which the microfinance bank framework would provide. It would also assist the SMIs in raising their productive capacity and level of employment generation.
The Need for Increased Savings Opportunity: The total assets of the 615 community banks which rendered their reports, out of the 753 operating community banks as at end-December 2004, stood at N34.2 billion. Similarly, their total loans and advances amounted to N11.4 billion while their aggregate deposit liabilities stood at N21.4 billion for the same period. Also, as at end-December 2004, the total currency in circulation stood at N545.8 billion, out of which N458.6 billion or 84.12 per cent was outside the banking system. Poor people can and do save, contrary to general misconceptions. However, owing to the inadequacy of appropriate savings opportunities and products, savings have continued to grow at a very low rate, particularly in the rural areas of Nigeria. Most poor people keep their resources in kind or simply under their pillows. Such methods of keeping savings are risky, low in terms of returns, and undermine the aggregate volume of resources that could be mobilized and channel to deficit areas of the economy. The microfinance policy would provide the needed window of opportunity and promote the development of appropriate (safe less costly, convenient and easily accessible) savings products that would be attractive to rural clients and improve the savings level in the economy.

The Interest of Local and International Communities in Micro financing: Many international investors have expressed interest in investing in the microfinance sector. Thus, the establishment of a microfinance framework for Nigeria would provide an opportunity for them to finance the economic activities of low income groups and the poor.

Utilization of SMEEIS Fund: As at December, 2004, only N8.5 billion (29.5%) of the N28.8 billion Small and Medium Enterprises Equity Investment Scheme (SMEEIS) fund had been utilized. Moreover, 10% of the fund meant for micro credit had not been utilized due to lack of an appropriate framework and confidence in the
existing institutions that would have served the purpose. This policy provides an appropriate vehicle that would enhance the utilization of the fund.

2.13 The Microfinance Policy

Policy Objectives

However, the CBN (2005) spelt out the specific objectives of this microfinance policy are the following:

i. Make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services;

ii. Promote synergy and mainstreaming of the informal sub sector into the national financial system;

iii. Enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs;

iv. Contribute to rural transformation; and

v. Promote linkage program between universal / development banks, specialized institutions and microfinance banks

vi. Promote linkage program between universal/development banks, specialized institutions and microfinance banks.

Policy Targets

Based on the objectives listed above, the targets of the policy are as follows:

i. To cover the majority of the poor but economically active population by 2020 thereby creating millions of jobs and reducing poverty.
ii. To increase the share of micro credit as percentage of total credit to the economy from 0.9 percent in 2005 to at least 20 percent in 2020; and the share of micro credit as percentage of GDP from 0.2 percent in 2005 to at least 5 percent in 2020.

iii. To promote the participation of at least two-thirds of state and local governments in micro credit financing by 2015.

iv. To eliminate gender disparity by improving women's access to financial services by 5% annually; and

v. To increase the number of linkages among universal banks, development banks, specialized finance institutions and microfinance banks by 10% annually.

**Policy Strategies**

A number of strategies have been derived from the objectives and targets as follows:

i. License and regulate the establishment of microfinance Banks (MFBs)

ii. Promote the establishment of NGO-based microfinance institutions

III. Promote the participation of government in the microfinance industry by encouraging States and Local Governments to devote at least one percent of their annual 'budgets to micro credit initiatives administered through MFBs.

IV. Promote the establishment of institutions that support the development and growth of microfinance service providers and client; strengthen the regulatory and supervisory framework for MFBs;
v. Promote sound microfinance practice by advocating professionalism, transparency and good governance in microfinance institutions;

The Goals of Microfinance Banks

The establishment of microfinance banks has become imperative to serve the following purposes:

(i) Provide diversified, affordable and dependable financial services to the active poor, in a timely and competitive manner, that would enable them to undertake and develop long-term, sustainable entrepreneurial activities;

(ii) Mobilize savings for intermediation;

(iii) Create employment opportunities and increase the productivity of the active poor in the country, thereby increasing their individual household income and uplifting their standard of living;

(iv) Enhance organized, systematic and focused participation of the poor in the socio-economic development and resource allocation process;

(v) Provide veritable avenues for the administration of the micro credit program of government and high net worth individuals on a non-recourse case basis. In particular, this policy ensures that state governments shall dedicate an amount of not less than 1 % of their annual budgets for the on-lending activities of microfinance banks in favour of their residents; and

(vi) Render payment services, such as salaries, gratuities, and pension for various tiers of government. Private sector-driven microfinance banks shall be established. The banks shall be required to be well-capitalized, technically sound, and oriented towards lending, based on the cash flow and character
of clients. There shall be two categories of Micro Finance Banks (MFBs), namely:

(i) Micro Finance Banks (MFBs) licensed to operate as a unit bank, and

(ii) Micro Finance Banks (MFBs) licensed to operate in a state. The recognition of these two categories of banks does not preclude them from aspiring to having a national coverage, subject to their meeting the prudential requirements. This is to ensure an orderly spread and coverage of the market and to avoid, in particular, concentration in areas already having large numbers of financial institutions. An existing NGO which intends to operate an MFB can either incorporate a subsidiary MFB, while still carrying out its NGO operations, or fully convert into a MFB. MFBs Licensed to Operate as a unit bank (a.k.a. Community Banks) MFBs licensed to operate as unit banks shall be community-based banks. Such banks can operate branches and/or cash centres subject to meeting the prescribed prudential requirements and availability of free funds for opening branches/cash centres. The minimum paid-up capital for this category of banks shall be N20.0 million for each branch.

(iii) MFBs Licensed to Operate in a State

MFBs licensed to operate in a State shall be authorized to operate in all parts of the State (or the Federal Capital Territory) in which they are registered, subject to meeting the prescribed prudential requirements and availability of free funds for opening branches. The minimum paid-up capital for category of banks shall be N1.0 billion.

Organic Growth Path for MFBs

This policy recognizes that the current financial landscape of Nigeria is skewed
against Micro, Small and Medium Enterprises (SMEs) in terms of access to financial services. To address the imbalance, this policy framework shall promote an even spread of microfinance banks, their branches and activities, to serve the un-served but economically active clients in the rural and semi-urban areas. The level of spread and saturation of the financial market shall take into consideration before approval is granted to an MFB to establish branches across the Local Government Areas and/or States, in fulfillment of the objectives of this policy. Specifically, an MFB shall be expected to have a reasonable spread in a Local Government Area or State before moving to another location, subject to meeting all necessary regulatory and supervisory requirements stipulated in the guidelines. This is to avoid concentration in already served areas and to ensure extension of services to the economically active poor, and to micro, small and medium enterprises.

In order to achieve the objectives of an organic growth path, a Microfinance bank licensed to operate as a unit bank shall be allowed to open new branches in the same State, subject to meeting the prescribed prudential requirements and availability of minimum free funds of N20.0 million for each new branch. In fulfillment of this requirement, an MFB licensed to operate as a unit bank can attain the status of a State MFB by spreading organically from one location to another until it covers at least two-thirds of the LGAs of that State. When an MFB has satisfactorily covered a state and wishes to start operations in another state, it shall obtain approval and be required to again grow organically by having at least N20 million free funds unimpaired by losses for each branch to be opened in the new state. An MFB licensed to operate in a State shall be allowed to open a branch in another State, subject to opening branches in at least two-thirds of the local governments of the State it is currently licensed to operate in the provision of N20.0 million free funds and, if in the view of the regulatory authorities, it has satisfied all
the requirements stipulated in the guidelines. The regulations to be issued from time to time shall be such that would encourage the organic growth path of the MFBs at all times. However, an MFB may wish to start operations as a State Bank from the beginning and therefore not wish to grow organically from branch to branch. Such an MFB may be licensed and authorized to operate in all areas of the state from the beginning subject to the provision of a total capital base of N 1 billion. In other words, the preferred growth path for MFBs is the branch by branch expansion to become State Banks. But anyone wishing to start as a big state institution from the beginning can do so subject to availability of N1 billion and proven managerial competence.

Ownership of Microfinance Banks

Microfinance banks can be established by individuals, groups of individuals, community development associations, private corporate entities, or foreign investors. Significant ownership diversification shall be encouraged to enhance good corporate governance of licensed MFBs. Universal banks that intend to set up any of the two categories of MFB as subsidiaries shall be required to deposit the appropriate minimum paid-up capital and meet the prescribed prudential requirements and if, in the view of the regulatory authorities, have also satisfied all the requirements stipulated in the guidelines. No individual, group of individuals, their proxies or corporate entities, and/or their subsidiaries, shall establish more than one MFB under a different or disguised name.

Participation of Existing Financial Institutions in Microfinance Activities

Universal Banks: Universal banks currently engaging in microfinance services, either as an activity or product and do not wish to set up a subsidiary shall be required to set up a department unit for such services and shall be subjected to the provisions of the MFB regulatory and supervisory guide lines.
Community Banks: All licensed community banks, prior to the approval of this policy, shall transform to microfinance banks license to operate as a unit bank on meeting the prescribed new capital and other conversion requirements within a period of 24 months from the date of approval of this policy. Any community bank which fails to meet the new capital requirement within the stipulated period shall cease to operate as a community bank. A community bank can apply to convert to a microfinance bank license to operate in a State if it meets the specified capital and other conversion requirements.

Non-Governmental Organization Micro Finance Institutions (NGO-MFIs): This policy recognizes the existence of credit-only, Membership-based microfinance institutions which shall not be required to come under the supervisory purview of the Central Bank of Nigeria. Such institutions shall engage in the provision of micro credits to their targeted population and not to mobilize deposits from the general public. The registered NGO-MFIs shall be required to forward periodic returns on their activities to the CBN. NGO-MFIs that wish to obtain the operating licence of a microfinance bank shall be required to meet the specified provisions as stipulated in the regulatory and supervisory guidelines.

Transformation of the Existing NGO-MFIs: Existing NGO-MFIs which intend to operate an MFB can either incorporate a subsidiary MFB while still carrying out its NGO operations or fully convert into an MFB. NGO-MFIs that wish to convert fully into a microfinance bank must obtain an operating license and shall be required to meet the specified provisions as stipulated in the regulatory and supervisory guidelines.

Justification for the Capital Requirements

The present capital base of N5 million for community banks has become too low for
effective financial intermediation. Indeed, to set up a community bank, at least N5 million is required for the basic infrastructure, leaving zero or a negative balance for banking operations. From a survey of community banks, an operating fund of N50 million is about the minimum capital (own capital and deposits) a community bank needs to provide effective banking services to its clients. However, it is recognized that since many community banks are based in rural areas, their promoters may not be able to effectively raise N50 million as shareholders' funds. Hence the stipulation of N20 million as shareholders' funds for the unit microfinance banks. The banks are expected to engage in aggressive mobilization of savings from micro-depositors to shore up their operating funds. A State coverage microfinance bank that would operate multiple branches would be expected to take off with funds sufficient to operate a full branch in at least two-thirds of the Local Government Areas in that State. Hence, a minimum paid-up capital of N1.0 billion shall be required to obtain the license to operate a State coverage MFB. Expansion to another State shall be subject to the provision of N1.0 billion minimum shareholders' funds unimpaired by losses, and after opening branches in at least two-thirds of the Local Government Areas of the State it is currently licensed to operate in, and if in the view of the regulatory authorities, it has satisfied all the requirements stipulated in the guidelines. The experience of other countries sheds light on the level of capitalization required for microfinance banks. In most countries, the level of capitalization depends on the geographical coverage of the banks, and for some countries, even for a particular scope of coverage (district or province), the population and volume of business of the area further determine the level of capitalization. The capitalization requirements in other countries were also considered in arriving at the capitalization levels for the two categories of MFBs in this policy.

2.15 Framework for the Supervision of Microfinance Banks Licensing and
Supervision of Microfinance Banks: The licensing of microfinance banks shall be the responsibility of the Central Bank of Nigeria. A licensed institution shall be required to add "microfinance bank" after its name. All such names shall be registered with the Corporate Affairs Commission (CAC), in compliance with the Companies and Allied Matters Act (CAMA) 1990.

Establishment of a National Microfinance Consultative Committee

A National Microfinance Consultative Committee (NMFCC) shall be constituted by the Central Bank of Nigeria (CBN) to give direction for the implementation and monitoring of this policy. Membership of the committee shall be determined from time to time by the CBN. The Microfinance Support Unit of the CBN

Credit Reference Bureau: Due to the peculiar characteristics of microfinance practice, a credit reference bureau, which shall provide information on microfinance clients and aid decision making, is desirable. In this regard, the present Credit Risk Management System in the CBN shall be expanded to serve the needs of the microfinance sector.

Rating Agency: The CBN shall encourage the establishment of private rating agencies for the sub-sector to rate microfinance institutions, especially those NGO-MFIs which intend to transform to microfinance banks.

Deposit Insurance Scheme Since MFBs are deposit-taking institutions and in order to reinforce public confidence in them, MFBs shall qualify for the deposit insurance scheme of the Nigeria Deposit Insurance Corporation (NDIC).

Management Certification Process In order to bridge the technical skills gap, especially among operators of microfinance banks, the policy recognizes the need to set up an appropriate capacity building program for MFBs. To this end, the CBN
shall put in place a microfinance bank management certification process to enhance the acquisition of appropriate microfinance operational skills of the management team of MFBs. A transition period of twenty four (24) months shall be allowed for the take-off of the program, with effect from the date of launching the policy.

**Apex Associations of Microfinance Institutions** The establishment of an apex association of microfinance institutions to promote uniform standards, transparency, good corporate practices and full disclosures in the conduct of MFI businesses shall be encouraged.

**Linkage Programme** The policy recognizes the importance of the provision of wholesale funds for microfinance banks to expand their outreach. Pursuant to this, the CBN shall work out the modalities for fostering linkages between universal development banks, specialized finance institutions and the microfinance banks to enable the latter source for wholesale funds and refinancing facilities for on-lending to their clients.

**Establishment of a Microfinance Development Fund** In order to promote the development of the sub-sector and provide for the wholesale funding requirements of microfinance banks, a Micro Finance Sector Development Fund shall be set up. The Fund shall provide necessary support for the development of the sub-sector in terms of refinancing facility, capacity building, and other promotional activities. The Fund would be sourced from governments and through soft facilities from the international development financing institutions, as well as multilateral and bilateral development Institutions.

**Prudential Requirements:** The CBN recognizes the peculiarities of microfinance practice and shall accordingly put in place appropriate regulatory and prudential
requirements to guide the operations and activities of the microfinance banks.

**Disclosure of Sources of Funds:** Licensed MFBs shall be required to disclose their sources of funds, in compliance with the *Money Laundering Prohibition Act 2004*.

**Corporate Governance for Microfinance Banks** The board of directors of MFBs shall be primarily responsible for the corporate governance of the microfinance banks. To ensure good governance of the banks, the board of directors shall be responsible for establishing strategic objectives, policies and procedures that would guide and direct the activities of the banks and the means to attain same, as well as the mechanism for monitoring management’s performance. Thus, while management of the day-to-day affairs of the banks shall be the responsibility of the management team, the board of directors shall, however, be responsible for monitoring and overseeing management’s actions. Consequently, the licensed microfinance banks shall be expected to operate under a diversified and professional board of directors.

**Regulatory Incentives** The new window of opportunity for the emerging microfinance banks in bringing financial services to people who never had access to such services before, would require the support of government and those of regulatory authorities. The CBN shall collaborate with the appropriate fiscal authorities in providing a favourable tax treatment of MFBs' financial transactions, such as exemption from value added tax (VAT) on lending, or tax on interest income or revenue. Similarly, the principle of exemption from profit tax shall be applied to any MFB that does not distribute its net surplus but ploughs it back and reinvests the surplus to finance more economically beneficial micro, small and medium entrepreneurship. Furthermore, a Rediscounting and Refinancing Facility (RRF) shall be made available to MFBs for purposes of providing liquidity.
assistance to support and promote microfinance program. This would enable MFBs that have met the CBN prudential requirements up-to date on a sustainable basis provide and render micro credits and other services to their clients.

2.16 (The Roles and Responsibilities of Stakeholders) The roles and responsibilities of stakeholders shall include the following:

Government: - Government shall be responsible for:

(i) Ensuring a stable macro-economic environment, providing basic infrastructures (electricity, water, roads, telecommunications, etc), political and social stability;

(ii) Fostering adequate land titling and other property rights sufficient to serve the collateral needs of borrowers and financial institutions;

(iii) Instituting and enforcing donor and foreign aid guidelines on microfinance to streamline their activities in line with this policy; and

(iv) Setting aside an amount of not less than 1 % of the annual budgets of state governments for on-lending activities of microfinance banks in favour of their residents.

Central Bank of Nigeria (CBN): The roles of the CBN shall include the following:

(i) Establishing a National Microfinance Consultative Committee;

(ii) Evolving a clear micro-finance policy that spells out eligibility and licensing
criteria, provides operational/prudential standards and guide lines to all stakeholders;

(iii) Evolving a microfinance sub-sector and institutional policies aimed at providing regulatory harmony, promoting healthy competition and mainstreaming micro financing with formal intermediation;

(iv) Adopting an appropriate regulatory and supervisory framework;

(v) Minimizing regulatory arbitrage through periodic reviews of the policy and guidelines;

(vi) Promoting linkage program between universal development bank, specialized finance institutions and the microfinance banks;

(vii) Continuously advocating market-determined interest rates for Government-owned institutions and promote the channeling of government microfinance funds through MFBs; and

(viii) Implementing appropriate training program for regulators, promoters and practitioners in the sub-sector, in collaboration with stakeholders.

**Micro Finance Institutions (MFIs):** Microfinance service providers shall:

(i) Provide efficient and effective financial services, such as credit, deposits, commodity/inventory collateralization, leasing, and innovative transfer/payment services;

(ii) Undertake appropriate recruitment and retention of qualified Professionals through transparent and competitive processes;
(iii) Adopt continuous training and capacity building program to improve the skills of staff; and strictly observe their fiduciary responsibility, transparent and accountable in protecting deposits remain savers'.

**Public Sector Poverty Alleviation Agencies:** The MFB policy recognizes the roles of public sector MFIs and poverty alleviation agencies such as the National Poverty Eradication Programme (NAPEP) in the development of the sub sector. They shall be encouraged to perform the following functions: Provision of resources targeted at difficult-to-reach clients and the poorest of the poor; Capacity building: Development of MFIs' activities nation-wide;

i. Nurturing of new MFIs to a sustainable level; and

ii. Collaborating/partnering with other relevant stakeholders.

**Donor Agencies:** Donor agencies offer free or subsidized funds, donations or technical assistance for the development of the microfinance industry in Nigeria. They include bilateral and multilateral institutions, NGOs and missionaries with a pro-poor orientation. The services provided by donor agencies include grants, donations, technical assistance, etc. The donor agencies, in conducting their microfinance activities, shall comply with the relevant provisions of this policy. The target clients for donors' support may include: MFIs, NGOs, regulators and other relevant agencies. However, for the purpose of leveraging the evolving micro financing initiative, donors are expected to direct most of their assistance to licensed MFBs to ensure an orderly resource injection, transparency and synergy.

**Conclusion:** There exists a huge untapped potential for financial intermediation at the micro and rural levels of the Nigerian economy. Attempts by Government in the past to fill this gap, through supply-driven creation of financing institutions and instruments, have failed, due to the poor capitalization of such schemes and
restrictive regulatory and supervisory procedures, among other factors. The community banks were designed to fill the gap, but their low capital base and isolated mode of operation have not enabled them to make meaningful contributions to micro financing. The microfinance banks being established in line with this policy framework shall be adequately capitalized, appropriately regulated and supervised to address the need of financing at the micro levels of the economy. The two categories of microfinance banks shall be Microfinance Banks licensed to operate unit banks (a.k.a. community banks) and Microfinance Banks licensed to operate in a State. Microfinance Banks licensed to operate unit banks shall require a minimum paid-up capital of N20 million and shall operate branches and/or cash centres. A Microfinance Banks licensed to operate in a State shall require a minimum paid-up capital of N 1.0 billion and shall operate multiple branches within a State, subject to satisfactory prudential requirements and availability of free funds for branch expansion. The existing community banks shall transform to Microfinance Banks within 24 months of approval of this policy, by increasing their shareholders' funds unimpaired by losses to a minimum of N20.0 million. Any community bank which does not meet the new capital requirement within the stipulated period shall cease to operate as a community bank. The Central Bank of Nigeria shall supervise and regulate the microfinance banks. The Nigeria Deposit Insurance Corporation shall insure the deposits of microfinance banks. The provisions of this policy shall be subject to review from time to time at the full discretion of the regulatory authorities.

2.17 Regulatory and Supervisory Framework for Microfinance Banks (MFBs) In Nigeria

The CBN (2004) assert that the growing awareness of the potential of microfinance in poverty reduction, economic growth and development couple wit the emergence
of several highly successful and fast growing Micro Finance Institutions (MFIs), has effectively put the issue of microfinance on the political agenda of most developing counties. Consequently, the supervisory authorities have taken active measure to address the issue of microfinance through the development of an appropriate regulatory and supervisory framework based on the particular features and risks associated with this activity. The challenge supervisors face, which is sometimes complicated by a multitude of legal initiatives in this area, is how to accommodate or reasonably encourage microfinance within a framework of generally accepted norms and prudential standards for the financial services industry. In general, a framework that does not adequately address the features and risks of microfinance would not effectively serve these institutions or the people who depend upon them. Therefore, bank supervisors should ensure that the supervisory framework in place is such that would result in innovative, rapid and balance growth of the industry as well as consistent with accepted banking practices. The issue of savings/deposits is central to the regulation and supervision of microfinance. Supervisory authorities are supposed to ensure that the poor clients do not lose their savings in failing institutions. A new challenge for developing an appropriate regulatory and supervisory framework for microfinance lies in the great diversity of institutions that offer microfinance services. A comprehensive framework significantly based on micro lending as an activity should, therefore, be developed and made applicable to all supervised institutions that offer this service, regardless of whether they are licensed as a bank or new institutional form created specifically for microfinance. The regulation should be defined to include standards for portfolio classification, loan documentation, loan loss provisioning and write-offs for microfinance operations. It is instructive to note that the characteristics of microfinance clients are distinct, the credit methodology different and, in many cases the ownership structure of the institutions is not the same as that typically found in conventional financial institutions. These and other factors give rise to a unique risk profile that
needs to be addressed through the regulatory framework and supervisory practices. In this regard, a risk based supervision shall be implemented which would focus mainly on (a) governance and ownership structure (b) lending methodology (c) borrower characteristics (d) appropriate management information system (e) internal control mechanisms and procedures. A simple and rational regulatory and supervisory framework which would achieve a balanced growth, promote transparency, control risks faced by the institutions engaged in microfinance, eliminate barriers and unnecessary requirements has therefore, been developed and would be implemented for the sector.

**Power to Regulate:** These supervisory and regulatory guidelines are issued by the Central Bank of Nigeria [hereinafter referred to as CBN or the Bank] in exercise of the powers conferred on it by the provisions of Section 28 subsection (1) (b) of the CBN Act 24 of 1991 [as amended] and in pursuance of the provisions of Sections 56 to 60A of the Banks and Other Financial Institutions Act [BOFIA] 25 of 1991 [as amended]. The guidelines are to regulate microfinance activities and the establishment and operations of Micro-Finance Banks [MFBs] that seek to take savings/deposits from members of the public and engage in microfinance intermediation services for their clients in Nigeria. For the purpose of clarity, the following terms and definitions shall be used in the applicable sections of these guidelines.

f. **Micro Finance Bank**

A Micro Finance Bank [MFB], unless otherwise stated, shall be construed to mean any company licensed to carry on the business of providing micro-finance services such as savings, loans, domestic fund transfers and other financial services that economically active poor, micro-enterprises and small and medium enterprises need to conduct or expand their businesses as defined by these guidelines.
g. **Micro Finance Client**: A client of MFB that generally possess the following characteristics shall qualify as micro finance client:

(i) Have a monthly income of not more than twice the monthly per capital income of Nigeria or minimum wage, whichever is higher.

(ii) Have a total productive assets [inclusive of those arising from loans but excluding the cost of land] of not more than five hundred thousand Naira (N500, 000.00) only

(iii) Is not a regular employee of any organizations

(iv) Age between 18 and 60 years.

h. **Poor Person**: A poor person shall be defined as one who has meager means of sustenance or livelihood and whose total income during a year is less than the minimum taxable limit set out in the law relating to income tax.

i. **Micro-Enterprise**: A micro-enterprise is a business that requires micro credit/loans to operate. The operations and management are often built around the sole owner or micro entrepreneur. The micro entrepreneur usually works alone or provides employment for few people mainly the immediate family members and others over time. It does not often require formal registration to start, but tend to operate as sole proprietorship. The management and accounting requirements are very simple and flexible. Generally, micro entrepreneurs work informally, without business licenses or formal records of their activities or earnings. The scope of economic activities of micro-enterprises typically includes primary production and crafts, value added processing and distributive trades.

j. **Microfinance Loan**
A microfinance loan is a facility granted to an individual or a group of borrowers whose principal source of income is derived from business activities involving the production or sale of goods and services. The maximum principal amount shall not exceed N500, 000 or and as may be reviewed from time to time by the CBN. Generally, a microfinance loan is granted to the operators of micro-enterprises, such as peasant farmers, artisans, fishermen, women, senior citizens and non-salaried workers in the formal and informal sectors. The said loans are usually unsecured, but typically granted on the basis of the applicant's character and the combined cash flow of the business and household. Ordinarily, the tenure of microfinance loans is 180 days [6 months]. However, in the case of crops with longer gestation period, a maximum tenure of twelve (12) months shall be permitted. Microfinance loans may require joint and several guarantees of one or more persons. The repayment may be on a daily, weekly, bi-monthly or monthly basis in accordance with amortization schedule in the loan contract.

**Permissible Activities:** A MFB shall be allowed to engage in the provision of the following Services to its clients:

a) Acceptance of various types of deposits including savings time target and demand from individuals, groups and associations; except public sector deposits [government

b) provision of credit to its customers, including formal and informal self-help groups, individuals and associations;

c) promotion and monitoring of loan usage among its customers by providing ancillary capacity building in areas such as record keeping and small business management;

d) issuance of redeemable debentures to interested parties to raise funds from members of the public with approval of the CBN;
e) collection of money or proceeds of banking instruments on behalf of its customers through correspondent banks;

f) provision of payment services such as salary, gratuity, pension for the various tiers of government;

g) provision of loan disbursement services for the delivery of credit program of government, agencies, groups and individual for poverty alleviation on non-recourse basis;

h) provision of ancillary banking services to their customers such as domestic remittance of funds and safe custody;

i) maintenance and operation of various types of account with other banks in Nigeria;

j) investment of surplus funds of the MFB in suitable instruments including placing such funds with correspondent banks and in Treasury Bills;

k) pay and receive interests as may be agreed upon between them and their clients in accordance with existing guidelines;

l) operation of micro leasing facilities, micro finance related hire purchase and arrangement of consortium lending and supervise credit schemes to ensure access of micro finance customers to inputs for their economic activities;

m) receiving of refinancing or other funds from CBN and other sources, private or public, on terms mutually acceptable to both the provider of the funds and the recipient MFBs;

n) provision of micro finance related guarantees for their customers to enable them have greater access to credit and other resources;

0) buying, selling and supplying industrial and agricultural inputs, livestock,
machinery and industrial raw materials to poor persons on credit and to act as agent for any association for the sale of such goods or livestock;

p) investment in shares or equity of any body corporate, the objective of which is to provide microfinance services to poor persons;

q) encouragement of investment in cottage industries and income generating projects for poor persons as may be prescribed by the CBN

r) provision of services and facilities to customers to hedge various risks relating to microfinance activities;

s) provision of professional advice to poor persons regarding investments in small businesses; rendering managerial, marketing, technical and administrative advice to customers and assisting them in obtaining services in such fields;

t) mobilize and provide financial and technical assistance and training to micro-enterprises

u) provision of loans to microfinance clients for home improvement and consumer credits; and

v) performance of non-banking functions that relate to micro finance related business development services such as co-operatives and group formation activities, rural industrialization and other support services needed by micro enterprises. No MFB shall undertake any business other than those permitted as stated above or activities as may be prescribed by the Central Bank of Nigeria from time to time. supervise credit schemes to ensure access of micro finance customers to inputs for their economic activities;

o) receiving of refinancing or other funds from CBN and other sources, private or public, on terms mutually acceptable to both the provider of the funds and the recipient MFBs;
p) provision of micro finance related guarantees for their customers to enable them have greater access to credit and other resources;

l) buying, selling and supplying industrial and agricultural inputs, livestock, machinery and industrial raw materials to poor persons on credit and to act as agent for any association for the sale of such goods or livestock;

w) investment in shares or equity of any body corporate, the objective of which is to provide microfinance services to poor persons;

x) encouragement of investment in cottage industries and income generating projects for poor persons as may be prescribed by the CBN

y) provision of services and facilities to customers to hedge various risks relating to microfinance activities;

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bb) provision of loans to microfinance clients for home improvement and consumer credits; and

cc) performance of non-banking functions that relate to micro finance related business development services such as co-operatives and group formation activities, rural industrialization and other support services needed by micro enterprises. No MFB shall undertake any business other than those permitted as stated above or activities as may be prescribed by the Central Bank of Nigeria from time to time at the full discretion of the regulatory authorities.
CHAPTER THREE
RESEARCH METHODOLOGY

3.0 INTRODUCTION:

The research was based on survey carried out in Nigeria Agricultural Cooperative Rural Development Bank (NACRDB) South Eastern States of Nigeria duly authorized to give micro credit loans to farmers that formed co-operative societies for various crops such as cassava, rice, maize, beans, plantain, pineapples and livestock such as chicken, snail, fishery, piggy, goat and cow, rearing. That aim of this research is to collect necessary data for purposes of analysis.

3.1 SCOPE OF THE STUDY:

The study is limited to South States farmers that are interested in micro credit scheme available to the Nigerian farmers at various states of the federation. The areas of interest are:-

2. The South states Farmers output in relation on their input

3.2 SELECTION OF DATA: The data selected was purely: secondary data:

(1) QUESTIONNAIRES: The questionnaires were limited to specific needs of the hypothesis lest.

1. What are the average values of micro credit loan obtained by farmers?
2. What are the average annual values of output of farmers after micro credit
loan?

What are the average annual values of output of farmer before micro credit loan?

(2). **PERSONAL INTERVIEWS:** Personal interviews were based on research questions. The interviewers includes:- the manager, the accountant and 3 inspectors of Nigeria Agricultural Co-operative Rural Development Bank, Umuahia Abia State. The questions unanswered were based on, inability to identify appropriate answer. The questionnaire answered formed the basis of data presentation.

(3). **OBSERVATION:** The observation was based on the following:

- Physical inspection of farmland of some farmers in each state
- Physical inspection of proceeds from the farm
- Physical inspection of customer's ledger of farmers
- Literature review of lending guidelines to farmers
- Inspection of loan repayment ledgers etc.

3.3 **DATA COLLECTION:** The main sources of data collected were Secondary data from NACRDB on micro credit financing scheme official list 1990 - 2005.

3.4 **SAMPLE SIZE DETERMINATION:** The number of respondents sampled were 100 farmers. From each six Eastern States of Nigeria the sample size was limited to 100 farmers which were considered sufficient for the purpose of this research.

3.5 **DESIGN AND ADMINISTRATION OF QUESTIONNARIES:**

The research was' designed to test a specific hypotheses based on research result
and to draw inference from the hypotheses tested. It is also designed to achieve the effect of credit financing on the Nigeria farmer’s performances with references to Eastern States of Nigeria.

3.6. METHOD OF DATA ANALYSIS

The scientific tool used in data analysis are spearman correlation coefficient; the difference between two mean population of X and Y variables and Z - test.
CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction:

The data used in this analysis are secondary data from Nigeria Agricultural Cooperative and Rural Development Bank Limited (NACRDB) for the purpose of this research.

4.1 Data Presentation The data to be analyzed is secondary data collected from NACRDB Umuahia, Abia state. We want to measure there is any significant difference between output of farmers who obtained credit and who do not and also if there is any relationship between output and loan obtained.

4.2 Comparative values of output before and after micro credit financing in South Eastern States of Nigeria TABLE 1:

<table>
<thead>
<tr>
<th>South Eastern State</th>
<th>No of Farmers</th>
<th>Output before Credit N’ 000</th>
<th>Output after Credit N’ 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abia State</td>
<td>100</td>
<td>10,654</td>
<td>14,648</td>
</tr>
<tr>
<td>Anambra State</td>
<td>100</td>
<td>13,025</td>
<td>17,971</td>
</tr>
<tr>
<td>Eboyi State</td>
<td>100</td>
<td>13,025</td>
<td>21,321</td>
</tr>
<tr>
<td>Enugu State</td>
<td>100</td>
<td>10,814</td>
<td>14,098</td>
</tr>
<tr>
<td>Rivers State</td>
<td>100</td>
<td>10,635</td>
<td>14,098</td>
</tr>
<tr>
<td>Imo State</td>
<td>100</td>
<td>13,605</td>
<td>17,510</td>
</tr>
<tr>
<td></td>
<td></td>
<td>72,235</td>
<td>99,977</td>
</tr>
</tbody>
</table>

Source: Sample Survey 1999-2005

Table ii
the mean of Comparative Values of micro Credit Financing for 100 Nigeria farmers in each State of South Eastern States of Nigeria

<table>
<thead>
<tr>
<th>No of farmers</th>
<th>Output value before Credit</th>
<th>Output value Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>₦’000</td>
<td>₦’000</td>
</tr>
<tr>
<td>1-24</td>
<td>17,336</td>
<td>23,994</td>
</tr>
<tr>
<td>25 - 53</td>
<td>20,225</td>
<td>27,993</td>
</tr>
<tr>
<td>53 - 82</td>
<td>20,948</td>
<td>28,993</td>
</tr>
<tr>
<td>83 - 100</td>
<td>13,235</td>
<td>18,997</td>
</tr>
<tr>
<td></td>
<td>72,235</td>
<td>99,977</td>
</tr>
</tbody>
</table>

Source: Sample survey 1999 · 2005

Table iii

Trend Analysis of value of output before and after micro credit financing in South Eastern States of Nigeria.

<table>
<thead>
<tr>
<th>Period</th>
<th>Average Output Before credit N'000</th>
<th>Average Output After credit N'000</th>
<th>Difference in Output After credit N'000</th>
<th>Percentage increase %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>11,620</td>
<td>12,825</td>
<td>1,205</td>
<td>42</td>
</tr>
<tr>
<td>1991</td>
<td>12,825</td>
<td>13,934</td>
<td>1,109</td>
<td>28</td>
</tr>
<tr>
<td>1992</td>
<td>14,835</td>
<td>14,835</td>
<td>0</td>
<td>19</td>
</tr>
<tr>
<td>1993</td>
<td>14,835</td>
<td>16,040</td>
<td>1,205</td>
<td>20</td>
</tr>
<tr>
<td>1994</td>
<td>16,040</td>
<td>18,090</td>
<td>1,105</td>
<td>14</td>
</tr>
</tbody>
</table>
HYPOTHESIS TESTING

4.2. \( H_{01} \): Nigeria farmers do not significantly depend on micro credit loan to increase output

Research Question: what are average values of micro credit loan obtained?

Table I: Output Table 100 Farmers

<table>
<thead>
<tr>
<th>No of farmers</th>
<th>Output value before Credit</th>
<th>Output value Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>( N' 000 )</td>
<td>( N' 000 )</td>
</tr>
</tbody>
</table>

Source: Statistical Data from Nigeria Agricultural co-operative and Rural Development bank Ltd for the South Eastern States of Nigeria. Sample survey 1990-2005
<table>
<thead>
<tr>
<th>No of farmers.</th>
<th>Output value Before credit</th>
<th>Output value . After credit</th>
<th>Different ln Output</th>
<th>$d^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-24</td>
<td>17,336</td>
<td>23,994</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25 - 53</td>
<td>20,225</td>
<td>27,993</td>
<td></td>
<td></td>
</tr>
<tr>
<td>53- 82</td>
<td>20,948</td>
<td>28,993</td>
<td></td>
<td></td>
</tr>
<tr>
<td>83 -100</td>
<td>13,235</td>
<td>18,997</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>72,235</td>
<td>99,977</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Sample Survey 1990 - 2005

**Hypothesis Testing $H_{01}$**

In this testing we used the Spearman Bank correlation coefficient represent by this formula

$$R_s = 1 - \frac{6 \sum_{i=1} d_i^-}{n (n-1)}$$

$\sum$ = Sum of the variables.

$d_i^-$ = difference in rank

$n$ = sample size

This is a measure of association based on ranks of the measurement for each variables rather than on the values assumed by the variables themselves where $d_i$ is the difference between the assigned ranks to $X_i$ and rank assigned to $Y_i = 1,2, \ldots, n$ the sample size
Using spearman correlation coefficient

\[ R_s = 1 - \frac{6(7112)}{100(10000-1)} \]

\[ = 1 - \frac{42672}{999999} \]

\[ = 1 - 0.0426 \]

0.96

**Decision Rule:** The results of hypothesis testing indicate that a null hypothesis is rejected. The effect is that Nigeria farmers depend significantly on micro credit loans to increase their output. It also shows that Nigeria farmers are mere subsistent farmers majority of who are poor and needs financial assistance to improve their output.

Credit loans to increase their output. It also shows that Nigeria farmers are mere Subsistent farmers, majority o~ who are poor and needs financial assistance to improve their output.

**IMPLICATION OF THE FINDINGS**
The result of the hypothesis test is positive. It therefore means that if real farmers were to have access to large funds, the aggregate positive effect will reduce the food shortage in Nigeria and thus will improve the standard of living, create employment opportunities, increase savings which will have a positive effect on investment, generated revenue for government in the form of land tax or personal income tax and in overall reduce object poverty in Nigeria.

4.3 (ii) **TREND:** The trend of a time series is the smooth upward and downward movement of a time series over a long period. The trend gives a picture of a general tendency in the development process.

**Description of the Graph**

The graph analysis shows that the higher the credit loans obtained, the higher the output. The farmers that had obtained micro credit invariably had output that are commensurate with their level of credit obtained and vice versa.

The trend analysis shows that with the government funding, agriculture adequately in Nigeria, there must be abundant food supply in the economy. The research goes on to reveal that agriculture had not been given the priority attention it deserves in Nigeria. The government had rather diverted its interest in cruel oil exploration at the expense of agriculture development as its major sources foreign exchange earner. The onus of the result of the research is that all tiers of government should invest yearly 20% of its annual budget in agriculture and allied produces until we attain food sufficiency in Nigeria.
Hypothesis

4.4 $H_0$ : There is no significant difference in output of Nigerian farmers after micro credit loan had been obtained.

Research Question:

What are the average annual values of output of farmers after micro credit loan?

The difference between two means $X$ and $Y$ variable

Table 2:

<table>
<thead>
<tr>
<th>Values</th>
<th>X (N'000)</th>
<th>Y (N'000)</th>
<th>X</th>
<th>Y</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>72,235</td>
<td>99,997</td>
<td>268.76</td>
<td>316.22</td>
</tr>
<tr>
<td>Standard deviation $S_1$</td>
<td>X</td>
<td>268.76</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard deviation $S_2$</td>
<td>Y</td>
<td>316.22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>n</td>
<td>n</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Sample survey 1999 - 2005

The tables above show the computer result of standard deviation $S_1$ and $S_2$ where $X$ represent value before credit

$Y$ represents value after credit
\[ R = \sqrt{\frac{S_1^2}{n} + \frac{S_2^2}{n}} \]

Where \( a = 1.96 \)

\[ n \quad \text{sample size} \]

\[ S_1^2 + S_2^2 \quad \text{Standard Deviations of the mean variables X and Y} \]

\[ a = 0.05/2 = 0.025 = +1.96 \]

Decision Rule:

\[ a = 5.85 \]

Alpha a falls outside the acceptance region the null hypothesis is rejected. By this result, it means that micro credit loan influences this output of farmers. In other words, there is a significant difference in value of output of Nigerian farmers after micro credit loan had been obtained.

**IMPLICATION OF THE FINDING**

The result of the hypothesis test is positive. It therefore means that if the real farmers had access to micro credit loan, the aggregate impact would be felt by the Nigerian society. The prices of food stuff shall be low and standard of living improved. The arrow signs are the multiplier effect food sufficiency will have in our
The above multiplier effects in the economy of Nigeria as indication that the Nigeria farmers are doing their best given the level of loan obtained. If the micro credit scheme for farmers improve from N250,000 to N500,000 per farmers, hunger will be a thing of past.
Hypothesis

4.5 **Ho**: Output of Nigeria farmers do not have any significant relationship with micro credit loan obtained

Table III

<table>
<thead>
<tr>
<th>Values</th>
<th>X N’000</th>
<th>Y N’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>X</strong></td>
<td>72235</td>
<td></td>
</tr>
<tr>
<td><strong>Y</strong></td>
<td>99997</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standard Deviation $S^2_1$</th>
<th>X</th>
<th>268.76</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Deviation $S^2_2$</td>
<td>Y</td>
<td>316.22</td>
</tr>
</tbody>
</table>

Sample Size n | N | 100 |

**Source:** Sample survey 199~ - 2005

The standard deviations are from computer result for $S^2_1$ and $S^2_2$

\[
Z = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{S^2_1}{n} + \frac{S^2_2}{n}}} = \frac{D_0}{\sqrt{n}}
\]

where $\bar{X}_1$ and $\bar{X}_2$ = mean population

$S^2_1$ and $S^2_2$ = standard deviation

$n$ = sample size

$D_0$ = difference in mean population

$X = \frac{0.5/2}{0.25} = 1.96$
\[
Z = \sqrt{\frac{99997}{100} - \frac{72235}{100}} = \sqrt{\frac{27762}{100}} = \frac{166.62}{100} = 1.6662 \\
= \sqrt{\frac{268.76}{100} + \frac{316.22}{100}} = 1.6662 \\
= \frac{584.98}{100} = 5.8498 \\
= \frac{1.6662}{5.8498} = 0.2848 \\
= 0.28
\]

**Decision Rule:-**

\(Z = 0.28\) fall in the acceptance region therefore the null hypothesis is accepted. This means that the output of Nigerian framers do not solely depend on micro credit. The Nigerian Farmers can raise funds from other sources e.g sale of existing farm proceeds, sale of land, grants from friends and relations to finance their farm work etc

**IMPLICATION OF FINDINGS**

The Nigeria farmers do not need only cash to increase output but other essentials like electricity, water for irrigation of farms proceeds, tractors, harvesting machines, and preservation technology. All these shall come form both the States and Federal Government if the dream of food security by the year 2020 can be attained. Other factors responsible for increase in output are weather conditions, fertility of soil, supervision and care of plants etc.
4.6 SUMMARY OF THE RESULTS OF HYPOTHESES TEST

Ho₁: \( R_s = 0.96 \)
   Ho₁ is rejected

Ho₂: \( a = 5.85 \)
   Ho₂ is rejected

Ho₃: \( Z = 0.28 \)
   Ho₃ is accepted

4.7 DISCUSSION OF THE FINDINGS

The impact of micro credit loan on output of Nigeria farmers has a positive effective. The increase in output has economically empowered Nigerian farmers and consequently alleviated poverty among them. The economic empowerment and poverty reduction amongst Nigerian farmers has improved their standard of living by creating savings for payments of electricity bills, payment of school fees, purchases of monocycles for the carriage of farm proceeds, building of bungalows for their families etc.

This improvement in their standard of living created employment opportunities for their children and other extended families. They can now retain some of their children to continue farm work after secondary education.

The successful ones amongst them can save money and make investments in some other trade like purchase of motorcycles for mass transit, open petty business for their wives and being in partnership with other ventures. The government stands to gain from the scheme through payment of faxes in the form
of value added tax (VAT) on exports of farm proceeds, excise duties, personal income tax etc and the sale of fertilizer to farmers with little margin of profit

With all these benefits accruing from these findings, the gross domestic product (GDP) shall have marginal growth if the scheme is sustained on long term basis by the government and non-governmental organization (NGOs)

above all the dream of food security for Nigeria populace by the government shall be achieved if the scheme is sustained and Nigeria will join the league of food exporters in the word the way it was before the discovery of crude oil in 1956
CHAPTER FIVE

SUMMARY, CONCLUSION & RECOMMENDATION

5.1. SUMMARY OF FINDINGS

The micro credit-financing scheme for the Nigerian farmers ought to be sustained by all tiers of government and non-government organizations since it has positive effect on the economy.

The individual farmers stands to gain by increasing their purchasing power and creating opportunities to improve their standard of living as long they have access to micro credit loan.

The Nigerian society that depends on these farmers for their living can afford to buy these foodstuffs at affordable price as result of increase in food supply. This will improve the health condition of the youth, middle age and old men and women.

The government stands to gain from Value Added Tax (VAT), excise duties, personal income taxes through export of farm proceeds.
5.2 CONCLUSION

The result of the findings are that if real farmers have access to micro credit funds the aggregate effect is that food shortage in Nigeria shall be a thing of the past.

It will create employment opportunities for the teeming youths from secondary schools, polytechnics, universities. The real farmers shall have capacity to make savings, expand their farmwork, pay their proceeds and personal income taxes, and above all contribute towards attaining self-sufficiency in food production by the year 2020.

5.3 RECOMMENDATION

- The Micro credit scheme be sustained by all tiers of government (federal, state and local)

- Nigeria farmers should be economically empowered now than ever before

- The middle men such as traders and civil servants should not have access to micro credit fund reserved for Nigerian farmer

- The agencies such as NACRDB and NAPEP should involve in public enlightenment program that will educate farmers on opportunity open to them.

- Agricultural Development Tax chargeable to income be introduced in Nigeria tax system to sustain agricultural credit scheme as well as its development in Nigerian
• The private sector can participate in a micro credit scheme by setting up an agricultural foundation scheme for the provision of micro credit to farmers.

• That micro credit scheme will credit employment opportunities for rural farmers.

• It will improve the standard of living of rural farmers by empowering them economically.

• It will increase the savings capacity to enable them and their children pay school fees and solve problem of malnutrition.

• It will promote investment.

• It will contribute to the growth of GDP of the economy.
REFERENCES


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Ibadan pp 151 – 179  

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APPENDIX 1
GUIDELINE FOR BENEFICIARIES & BANKS

Establishments of the Scheme:

The Small and Medium Enterprises Equity Investment Scheme is a voluntary initiative of the Bankers' Committee approved at its 246th Meeting held on 21st December, 1999.

The initiative was in response to the Federal Government's concerns and policy measures for the promotion of Small and Medium Enterprises (SMEs) as vehicles for rapid industrialization, sustainable economic development, poverty alleviation and employment generation.

The Scheme requires all banks in Nigeria to set aside ten (10) per cent of their Profit after Tax (PAT) for investment and promotion of small and medium enterprises.

Purpose of the Scheme:

The 10% of the Profit After Tax (PAT) to be set aside annually shall be invested in small and medium enterprises as the banking industry's contribution to the Federal Government's efforts towards stimulating economic growth, developing local Technology and generating employment.

The funding to be provided under the scheme shall be in the form of loans or equity investment or a combination of both in eligible enterprises.
Activities covered by the Scheme:

1 Every legal business activity is covered with the exception of:

(i) Trading/merchandising

(ii) Financial Services

Definition of a Small & Medium Enterprise:

For the purpose of this scheme, a small and medium enterprise is defined as any enterprise with a maximum asset base of N 1.5 billion (excluding land and working capital), and with no lower or upper limit of staff.

This is subject to review by the Bankers' Committee from time to time.

Eligibility for Funding:

To be eligible for funding under the Scheme, a prospective beneficiary shall:

(i) Comply with the provisions of the Companies and Allied Matters Act (1990) such as filing of annual returns, including audited financial statements; and

(ii) Comply with all applicable tax laws and regulations and render regular returns to the appropriate authorities.

Modalities of the Scheme:

Funds invested by participating banks shall be in the form of loans or equity investment or a combination of both in eligible enterprises.

Interest on loan shall be single digit subject to a maximum of 9%.
Definition of Equity:

Equity is defined as ordinary and preference shares.

However, the coupon rate for preference share shall not be more than 9%.

Limit of Equity Ownership:

The limit of equity ownership shall be in compliance with the provisions of SOFIA.

Maximum Amount Investable in any Enterprise:

Maximum amount investable in any enterprise is limited to 20% of the bank's annual set aside funds subject to a maximum of N500 million.

Sectoral Allocation:

Real/Service Sector 90% maximum; and Microfinance 10% minimum.

Deadline for Investing Funds/Investment Exit:

(i) The time limit to invest the funds set aside shall be 12 months after the AGM of the bank.

(ii) Banks shall remain equity partners in the business enterprises for a minimum of 3 years after which they may exit anytime.

Incentives/Sweeteners:

There shall be annual award in various categories to the best performing banks under the SMEEIS.
Sanctions and Penalties:

On expiry of period of grace, after the date of setting aside of the funds: The CBN shall debit the banks that have not invested and invest such funds in treasury bills for six (6) months after expiry of the deadline. The interest earned would be used to administer the scheme.

Thereafter, existing venture capital companies and banks could bid to manage and invest the funds through proposals made to the Bankers' Sub-Committee on the SMEEIS for final approval by the Banker's Committee.

Continuity of the Scheme:

The Scheme shall continue after the first five years but banks' contributions to SME reserves to thereafter reduce to 5% of Profit after Tax.

Mode of Investments and other Related Issues: Equity under the scheme may be in the form of fresh cash injection and/or conversion of the existing debts owed to participating bank. A participating enterprise may obtain more funds by way of loans from banks in addition to equity investment under the scheme.

Eligible enterprises are free to approach any bank, including those they presently have relationship with, to seek funding under the scheme. Prospective beneficiaries should note that the banks may operate the scheme directly, through their wholly owned subsidiary venture capital companies or through venture capital companies floated by consortia of banks or through independent venture capital companies.

Prospective beneficiaries are advised to seek the opinion of third party consultants such as lawyers, accountants and values in determining the value to be placed on the assets and capital of their businesses in order to determine a fair price before
or during negotiations with the banks.

**Requirements by Beneficiaries:**

**Beneficiaries will be expected to:**

(a) Ensure prudent utilization of funds;

(b) Keep up-to-date records on the companies' activities under the Scheme;

(c) Make the companies books, records and structures available for inspection by the appropriate authorities (including banks and the CBN) when required;

(d) Comply with guidelines of the Scheme; and

(e) Provide monthly financial and operational reports to the investing banks before the 15th of the next succeeding month. The recommendations of industrial associations, particularly Manufacturers Association of Nigeria (MAN); National Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA); National Association of Small and Medium Scale Enterprises (NASME); and National Association of Small Scale Industries (NASSI) will be mandatory for members of these associations. Membership of recognized NGOs engaged in entrepreneurial development and promotion of small and medium scale enterprises will also be an advantage.

---

**Presidential Consultative Advisory Committee (PCC):**

A PCC comprising members from the following institutions shall be set-up for the
scheme:

(a) The Central Bank of Nigeria (Chairman)

(b) The Bankers Committee;

(c) The Presidency;

(d) Federal Ministry of Finance

(e) Federal Ministry of Industry;

(f) Manufacturers Association of Nigeria (MAN);

(g) National Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA);

(h) National Association of Small Scale Industries (NASSI)

(i) National Association of Small and Medium Enterprises ((NASME) and

(j) Development Finance Department of the CBN shall be the Secretariat of the Committee.

**Bankers’ Committee Sub-Committee on the SMEEIS:**

There shall be a Standing Sub-Committee on the SMEEIS appointed by the Bankers' Committee to determine issues relating to the SMEEIS and report to it for final determination and approval. Ad-hoc Sub-Committees could also be appointed from time to time as the need arises to determine specific issues relating to the SMEEIS.

Membership of the Bankers’ Committee Sub-Committee on SMEEIS shall include:
(i) Bankers' Committee Representative - Chairman (ii) The Central Bank of Nigeria - Member

(iii) Selected representatives of banks - Members

**Secretariat for Bankers' Committee Sub-Committee on the SMEEIS:**

There shall be a Secretariat for the Bankers' Committee Sub-Committee on the SMEEIS on PCC on the SMEEIS at the Development Finance Department of the Central Bank of Nigeria.

**Identified Key Stakeholders:**

The identified key stakeholders include:

(i) The Federal Government;

(ii) The Central Bank of Nigeria;

(iii) The Bankers' Committee;

(iv) Individual banks;

(v) Independent Fund Managers;

(vi) The Securities and Exchange Commission; and (vii) Promoters of Small and Medium Enterprises.
Responsibilities of Stakeholders:

The Federal Government:

(i) Stable macro-economic environment;

(ii) Stable and reliable regulatory and legal framework;

(iii) Adequate Physical Infrastructure;

(iv) Prudent fiscal regime; and

(v) Capacity building.

Specifically, the responsibility of the Government with respect to the implementation of the SMEEIS is to pass the enabling legislation to provide the following tax reforms and incentives:

- Make the bank's contribution to the Scheme enjoy 100% investment allowance;
- Reduce tax paid by SMEs to 10%;
- Provide 5 years tax holidays to the SMEs under the Scheme; and
- Exempt divested fund under the Scheme from Capital Gain Tax.

The Central Bank of Nigeria:

(i) Ensure sound financial system;

(ii) Liaise with the Federal Ministry of Finance to ensure that the required tax incentives are granted;

(iii) Monitor the implementation and gather statistics to quantify the impact of the scheme;

(iv) Articulate clear guidelines for the implementation of the Scheme;
(v) Liaise with the SEC to facilitate and simplify the registration of venture capital operators;

(vi) Ensure each bank’s compliance with the guidelines of the Scheme and penalize erring banks in accordance with the penalty stipulated for non-compliance;

(vii) Capacity building;

(viii) Disseminate information on the scheme to SMEs and the larger public;

(ix) Prepare annual progress report; and

(x) Provide data for the review of the Scheme after 5 years for the Bankers’ Committee.

The Bankers’ Committee:

(i) Obtain the cooperation of the major stakeholders;

(ii) Disseminate information on the Scheme to SME Promoters and the larger public;

(iii) Oversee joint collaborative efforts under the scheme; (iv) Monitor the implementation of the Scheme;

(v) Capacity Building; and

(vi) Review the Scheme after five (5) years.

Individual Banks:

(i) Provide funds for investment in SMEs;

(ii) Comply with the guidelines of the Scheme;

(iii) Report on the activities of the Scheme on monthly basis to the Development Finance Department of the Central Bank of Nigeria; and

(iv) Capacity building.
Independent Fund Managers:

(i) Manage equity investment in SMEs on behalf of the banks;
(ii) Report on the activities of the investment to the banks on a monthly basis;
(iii) Provide strategic support to Small and Medium Enterprises to minimize the risk of the investments;
(iv) Exit the investment at the instance of the bank; (v) Comply with the guidelines of the Scheme; and (vi) Register with the SEC.

Promoters of Small and Medium Scale Enterprises:

(i) Ensure prudent utilization of funds;
(ii) Keep up-to-date records on project activities for inspection by the appropriate authorities when required; and
(iii) Comply with the guidelines of the Scheme.

21 The Securities and Exchange Commission (SEC):

(i) Facilitate and simplify registration of venture capital operators;
(ii) Provide enabling environment, specifically, the development of the capital market; and
(iii) Liaise with other arms of Government to ensure that SMEs have access to the market.