# Issues, Problems and Policies in Agricultural Credit: A Review of Agricultural Credit in Nigeria

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**Abstract:** *The importance of Credit to the development of agriculture cannot be over-stressed. To extricate a farmer from the quagmire of poverty and boost food production, storage and supply, agricultural credit is vital. This is the propelling engine behind various government policies and programmes. However, the implementation of Agricultural credit programmes in Nigeria is hampered by many problems. These problems and other issues surrounding the role of Agricultural Credit formed the basis of discussion in this paper. The recommendations are explicit while the conclusion centred on the prospects for agricultural credit policies.*

## Introduction

Credit, has been a main focus of many Research work in Agricultural finance. To some credit is "all in all" for a farmer to produce (productive input) while others hold different opinions. Whichever way it is looked at, credit is an important instrument in the development of Agriculture. In fact, as emphasized by many researchers, the smallholder, already caught in the quagmire of the vicious cycle of poverty, requires not only labour or land but an injection of capital to extricate it from that cobweb. This argument in favour of credit in agricultural development is not the same as assigning it a position of *primus inter pares*. When a farmer is granted loan, so many other things must go with it before the loan can turn out as a productive instrument. Apart from the fact that agriculture is constrained by natural forces, farmer's attitude with respect to the use of loan is also an important factor.

Funds for agricultural finance are met through macro and micro finance aspects. The macro finance aspect pertains to financing agriculture through government capital allocation to agriculture and mobilizing resources for agricultural development using institutional credit agencies such as the Central Bank of Nigeria (CBN) and Nigerian Agricultural, Cooperative and rural Development Bank (NACRDB) up to rural Banking Development Programmes. While the micro-finance aspect of agriculture pertains to the individual farm, especially financing of farm management, which relate to acquisition and use of capital in the farm business using

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commercial banks. Federal Government of Nigeria being desperate to transform the nation's agriculture sector has, since the early 1970s, embarked on substantial capital investment programmes in agriculture, based on the belief and the clamour that credit is the "all in all" productive input required by farmers to transform the productive capacity. The most relevant question to ask then is: Why has the agricultural sector performed so poorly despite the huge government investment programmes in this sector?

This paper attempts a partial answer to the question through a discussion structured into the following sections. Section two discusses concepts and issues in agricultural credits. Types of agricultural credit programmes are discussed in section three. In the fourth section, problems of agricultural credit programmes in Nigeria are considered. Section five specifies sources of farm credit and elucidates their problems.

Section six is devoted to critical issues and problems in government financing of agricultural development. Section seven elucidates approaches to farm credit supply. Section eight provides well pronged recommendations while the paper ends with a concluding section.

**Concepts and Issues in Agricultural Credit**

There are three major nodes in the financial intermediation system – saving, intermediation and borrowing. Saving is the part of income reserved for future use, that is, future production and consumption. In the absence of saving, there cannot be a build up of capital stock to increase production of goods and services. However, savings in a society does not become an investment in capital until it is borrowed and utilized. The savers generally do not know those willing to borrow to increase production. Similarly, potential borrowers also do not know where to obtain required funds from. The passage of savings from mere idle and sterile funds into borrows and productive instrument is affected by financial intermediaries. These consist of formal and informal institutions.

Financial intermediaries are an integral part of the broader concept of rural financial markets which embrace all rural institutions (the rules and regulations of the society) which affect accumulation and use of savings, the allocation of investment capital, the flow and holding of funds and indeed, the integration of rural financial markets with national and international capital markets (Okigbo, 1981). The intermediation process is a reversible flow of funds from savers to users through intermediaries. The borrower must of necessity provide evidence of a debt obligation to the intermediary for the loan. In the same process, the intermediary provides savers a range of products and opportunities for further investments. It is obvious, therefore, that financial intermediation has a key role in channelling funds to agriculture.

The Nigerian financial system is a rather complex system of markets, institutions and financial instruments and it affects all individuals and sectors of the economy. The financial system performs three main functions. It provides a (i) payments mechanism for day-to-day transactions; (ii) means to channel funds from savers to borrowers and for savers to hold different forms of assets; and (iii) mechanisms for the government to exercise control over real output and employment in the economy.

The financial system is made up of two components, the formal and the informal subsystems. The formal wing of the Nigerian financial system consists of commercial banks, finance companies, stock exchanges, government institutions, among others. The informal financial sector is made up of money lenders, the *esusus or ajo* and similar institutions within traditional systems and relations. With respect to agricultural development, it is the behaviour and action (or inaction) of each of the three participants (savers, intermediaries, and farmer borrowers) that create opportunities or problems for accumulation of capital in agriculture. The supply side problems are more associated with savers and intermediaries while the demand side problems are more associated with farmers. The generalized supply side problems of agricultural financing in Nigerian may be paraphrased as follows:-

a) *Inadequate Generation of Income and Savings*

The savings rate in Nigeria is low. If the gross national savings and investment remains at the level it was Between 1991 and 1995, Nigeria's gross national savings and investment ratios would be less than 20 per cent of the Gross Domestic Product (GDP) in 2010, whereas those of the Asian Tigers during the same period averaged between 60 and 70 per cent (Central Bank of Nigeria, 2004). The low levels of savings and investment in the economy translate to inadequate performance of output. For instance, the growth rates in GDP reached 8.3 per cent in 1990 but fell to 2.2 per cent in 1995. It rose again to 9.3 in 2004 and fell to 4.2 in 2007. The simple lesson being that what you do not generate you cannot consume or save.

b) *Unstable Macroeconomic Policies*

Over the years, the macroeconomic policies have failed to secure macroeconomic stability, external balance or a non-inflationary, self-reliant economy. Macroeconomic policies undertaken have always largely included monetary, fiscal, income and wage, as well as trade and exchange rate policies. Specific sectoral policies often derive from macroeconomic policies and are generally articulated in the form of programmes, projects and activities.

Touching briefly on two items of macroeconomic policies, the interest rate and exchange rate policies, both came under the influence of the liberalization policy. Interest rates were liberalized to allow market forces to influence the inflow of savings and allocation of credit. As a result of liberal interest rate policy, there were unprecedented increases in interest rates in the economy. The average nominal interest rates between 1986 and 2010 are as shown in Table.1.

**Table 1. Nominal Interest Rates, 1986 - 1992**

| Interest **Rates** | **1986** | **1992** | **2000** | **2008** | **2010** |
|---|---|---|---|---|---|
| Prime Lending Rate | 9.6 | 24.8 | 17.1 | 21.2 | 22.31 |
| Maximum Lending Rate | 11.5 | 26.5 | 14.9 | 24.5 | 24.7 |
| Savings Deposit Rate | 9.5 | 15.5 | 8.3 | 12.3 | 2.0 |
| Minimum Rediscount Rate | 10.0 | 17.5 | 9.8 | 10.2 | 6.25 |

***Source:*** Central Bank of Nigeria *Annual Report and Statement of Accounts (various issues)*

Under liberalization, it was impossible to prescribe interest rates for the agricultural sector. As such, agricultural sector projects had to compete for credit at the so-called market determined interest rates. The implication is that agricultural sector may be at a disadvantage in the liberalized credit market.

c) *Transaction Costs*

A credit agency incurs three kinds of costs: (i) the costs borne in obtaining loanable funds, (ii) the likely loss of capital if borrowers default and (iii) the administrative costs of operating the credit agency. These costs when added together can be substantial. Unless the total interests charged are able to cover these costs, the credit agency will run its operations of making loans of the size needed by small farmers available on an individual basis and keep administrative costs at a tolerable level. However, group loans tend to reduce administrative costs substantially.

**Types of Agricultural Credit Programmes In Nigeria**

Credit can be obtained for agricultural purposes from formal and informal sources. The informal type of agricultural credit refers to credit from moneylenders, friends, relatives and the like. Whenever small farmers need emergency loans or small investment funds, they often resort to moneylenders. The rates charged on such loans are very high. It can reach 10 per cent a month or even one per cent a day. Borrowers are normally unable to pay back debt contracted in this manner. They end up having to give up their small land holdings, agricultural produce, and sometimes household goods and personal savings of their family. Although several farmers still rely on informal sources of credit, the focus of credit impact assessment is on the formal sector.

This is not surprising because unlike in the formal system, there are considerable built-in mechanisms in the informal system which ensures effectiveness of operations. The various credit programmes which often require assessment are within the public –sector domain.

In the formal setting of most developing countries, including Nigeria, commercial banks and other specialized agencies are charged with the responsibility of providing credit to farmers. Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB) is a typical example of a specialized bank established for the purpose of advancing agricultural credit. Through this bank, agricultural lending rates are regulated by government and at times subsidized. In addition to NACRDB, Agricultural Credit Guarantee Scheme (ACGS) was introduced in 1977 to encourage the trading banks to increase their supply of agricultural credit through the provision of suitable loan guarantee. In 2005, Obasanjo administration evolve the 50 billion naira agricultural loans to farmers in which the state government were made to contribute counterpart fund for citizens of their state to participate. The government has also involved a number of institutions in the provisions of agricultural credit. For instance, Agricultural Development Projects (ADPs), the river Basin Development Authorities (RBDAs), National Directorate of Employment (NDE), and so on have implemented various forms of agricultural credit programmes.

As a result of the poor financial situation of small farmers especially in terms of low income and low savings, both national and international organizations have embarked on various programmes to boost the supply of agricultural credit in several developing countries. As one of her mandate, the International Fund for Agricultural Development (IFAD) ensures that credit goes to those who have been traditionally left out by credit programmes – the small farmers, landless poor and women. To identify target group for such credit programmes, ceilings are placed on land ownership and annual household income for the landless. A number of such agricultural credit programmes that have benefited from IFAD's assistance in several developing countries are discussed below

In Bangladesh, Grameen Bank embarked on such credit programmes with the sole purpose of giving the landless poor a chance to buy income-earning assets and break out of the vicious circle of "low-income, low savings and low-investment". IFAD as part of its Small Farmers Credit Project gave support to Grameen Bank to the tune of USS$ 3.4 million in 1980, by 1984 increased the amount to US$ 23.6 million and helped the bank to achieve its five years target of setting up 500 branches. Loans are obtained by joining a group of five borrowers, who meet weekly with a Grameen Bank Officer. The groups serve as collateral for loan repayment. Initially, two members of the group are allowed to apply for a loan. The next two borrowers can apply and the fifth member depending on their repayment performance.

Furthermore, under the government's transmigration programme, cows are given as in-kind credit to Indonesian smallholders. With the financial assistance of IFAD, International Bank for Reconstruction and Development (IBRD) and the Government of Indonesia, cattle are shipped from the inner Islands to the outer Islands, where they are scarce. Cattle serve as repayment; implying that delivery and recovery of loan under the programme are both in kind. The beneficiaries are to return two calves for every cow or bull they receive within five years of the loans.

Moreover, as a way to create village funds for sustainable development in Mali, villages in Segou were asked to establish and operate a fund to be used for commercial purposes, and as security to cover debt repayment. The funds' aim is to attract village saving and direct them towards productive investments. The nature and terms of loans are decided solely by the villagers. Credit from these funds is used by villagers for a variety of purposes such as fertilizing, vegetable gardens, improving the stock of small ruminants and so on.

In an attempt to develop the fishing industry in Dominica, the Dominica Fisheries Cooperative Society (DFCS) was given loan by IFAD to refurbish their boasts, buy spare parts, nets and outboard motor. The loan was also used to improve beaching sites to provide great security for small vessels. Also in Marigot, part of the loan is used to blast a reef to construct a small jetty to protect small boats from hurricane gales. Small co-operatives consisting of 6 to 60 men operate throughout the Island.

Furthermore, to curb erosion, the Governments of Kef and Siliana of Tunisia, IFAD provided seasonal, medium and long-term credit to the farmers for soil conservation and the improvement of rangeland. As part of agricultural credit programmes, the Agriculture Development Bank of Nepal with the financial assistance of IFAD, trained group organizers who encourage the formation of farmers' group and arrange loans for them. The organizers help the groups to choose their activities and act as intermediaries between them and the agencies that provide loans, extension, farm supplies necessary for production and other support services. Women motivators organize women's groups and channel loans through them to improve their economic activities. The members of the groups put aside a little money each week for the group savings scheme. These funds are deposited in the local branches of the Nepal Agricultural Development Bank, earn interest and may be borrowed by members for emergency needs.

In the 1970s, subsistence farmers in Down West of Malawi group themselves into farmers clubs to pool agricultural production inputs. These clubs were used to distribute credit in 1981 when

IFAD supported the Malawi Government project to increase agricultural yields and to provide credit facilities to the farmers of the Dowa West region.

From the foregoing, it is clear that directed credit programmes can be grouped into various categories in terms of purpose, loan duration, and mode of disbursement. In general, the programmes are focused on production activities, but several enterprises are often involved. For instance, credit programmes can be designed for crop production, livestock production and fish production. Credit can be provided for short-term, medium-term and long-term production activities (such as arable crop production, tree crop production and irrigation project). Marketing credit falls under short-term credit. With regards to mode of disbursement, credit programmes can grant loans in cash and in kind.

**Problems of Agricultural Credit Programmes in Nigeria**

In spite of the achievements of the various agricultural credit programmes reviewed above, it is clear, as we noted earlier, that more problems of agricultural credit have evolved in the last fifteen years. As objective assessment of the credit programmes is that, while the known achievements have been modest, the problems encountered have demonstrated to policy makers and those involved in policy implementation the direction in which the various agricultural credit policies should move in future. For a better understanding of the adjustments which are necessary, the problems of the various credit programme should be briefly examined. The most obvious ones are:

a) inadequate number of beneficiaries;
b) interest rate problem;
c) uneven distribution of agricultural credit;
d) inadequate monitoring and evaluation;
e) underdeveloped production base;
f) weak agricultural policies;
g) high default rate; and
h) uncoordinated credit policies.

There is no doubt, as we noted earlier, that a good number of farmers have benefited from current credit programmes as against the pre-1970 situation. That measure of success has however to be discounted by the large number of prospective credit users who cannot be accommodated within the present credit programmes. Viewed as a whole, it may be correct to state that most farmers who employ modern techniques and show some degree of commitment can now obtain one form of credit or another. The same cannot be said of the majority of smallholders who are responsible for about 98 per cent of total agricultural production in the country. Denied of access to credit and hence access to the use of essential inputs, the predominant smallholder subsector can hardly make any visible impact on total agricultural production. Definitely, whatever impact the current agricultural credit programmes have made, has been isolated and not comprehensive as implied in credit policy objective. The state of affairs is largely due to the continued poor status of the agricultural sector and the minimum impact made on that status by the adopted agricultural policy framework.

If the present agricultural credit programmes have managed to reach only a negligible proportion of farmers, it is debatable whether there is need for fixing interest rates on agricultural loans at much lower levels than on other types of loans. The modern farmers who have obtained the bulk of the loans for livestock and fishery projects could have done without the subsidized interest rate as long as their enterprises were visible. However, it may be thought that in the long run when most farmers have been brought into some form of credit programmes, the interest subsidy element may probably be justified. Even if it is legitimate for government to want to continue to use this policy instrument, it may be desirable to raise the lending rate so as to cover administrative and procurement costs. This may assist the public credit institutions in particular. Raising the lending rate can also be buttressed by the fact that most farmers continues to patronize private moneylenders and this may suggest that effective supply of credit is the most important issue in agricultural credit programmes for small farmers.

The problems of uneven distribution of credit are present at both levels of subsectoral allocation and various borrowers. The latter problems have been touched upon and have to do with the fact that most credit programmes have tended to discriminate against the smallholders. The other aspect of credit distribution is the large imbalance in subsectoral on distribution of credit. By and large, the livestock subsector, and especially poultry, has been favoured both in the programmes of the public and private credit institutions. The effect of this on the spatial distribution of agricultural credit has been an undue concentration of credit users in many urban locations and the neglect of the main centers of agricultural production, particularly in the middle belt of the country.

Another undesirable aspect of the agricultural credit programmes is the low level of monitoring and evaluation of implementation. As of today, most of the problems of the credit programme have not been adequately documented and this has often resulted in a superficial discussion of such problems. Most projects financed by credit are subjected to some serious analysis and evaluation which is a requirement for obtaining the credit. However, the ex-post evaluation has been very poor and, very often, default cases just surface without an adequate background of how they came about. Apparently, the credit institutions have not had the size of manpower needed for the evaluation and monitoring exercise. The efforts of many credit institutions in shaping their agricultural credit units are nevertheless commendable, but it does not seem that the institutions have done enough justice to this problem.

The agricultural sector of the economy has witnessed some structural changes since 1970, but such changes have been isolated and insignificant in relation to the size and potential of the sector. The dual structure of production, consisting of a small modern sector and a large traditional sector, appears to have been accentuated by the developments in the economy which have generally been in favour of non-agricultural activities. Development efforts have been concentrated in non-agricultural activities like commerce, construction and services to the detriment of the agricultural sector which continued to lose its manpower to these sectors. Development efforts in the agricultural sector itself have been lopsided and of limited relevance to a systematic transformation of the sector. Unduly large projects were embarked upon without due regard to their long-run financial requirements, while many subsidy programmes were initiated and turned out to benefit middlemen rather than the farmers. In view of these developments, the base of the agricultural sector has remained largely underdeveloped. Under the circumstance, some of the agricultural credit programmes being currently executed appear to be out of context of the general level of agricultural development in the country and hence have made only little impact (Olowa, 2005).

The continued underdeveloped status of Nigerian agriculture is, as has just been suggested, due largely to the defective general economic policy framework of the country. But there have been some ineffective agricultural policies which have not lent sufficient support to the agricultural credit programmes. For instance, the development of virile agricultural cooperatives and effective extension services is vital for the success of these agricultural credit schemes. In fact, the ACGS and the NACRDB credit programmes were expected to depend to a large extent on the involvement of farmers' cooperatives through which credit would reach individual farmers. From the Second National Development Plan period, government initiated bold policies to support the cooperative system through the improvement of training facilities for cooperative personnel and credit for executing cooperative projects. The available evidence is that, actual government efforts have made only marginal impact. Total membership of cooperatives increased from about 0.5 million to 1 million at the end of 1980. This is obviously a negligible proportion of the total farming population. Educational facilities for cooperative personnel were modestly expanded, but could not adequately cope with the problem of inadequate qualified personnel to manage the existing cooperatives. The problems of inadequate finance for cooperatives have also remained intractable. What may be observed is that cooperative development policies have not been adequately backed up by effective programmes, while implementation of current programmes has been very poor. Another serious gap which has affected the credit programmes is the weak position of many extension services throughout the country. The extension system could have been very effective in monitoring the activities of borrowers and hence provide a good feedback to the credit institutions. The extension service system has traditionally been under the control of the State Governments. But owing to lack of funds, the extension services in the states have virtually collapsed and are generally ill-equipped to perform effective intermediary roles between farmers and other agencies such as credit institutions.

Largely as a result of many loopholes in the agricultural credit system such as inadequate monitoring and evaluation, and ineffective agricultural policies which have not adequately complemented the use of agricultural credit, there has been an alarming increase in default rate. For example, at the end of 1984, under the ACGS, about 63 claims on default worth N0.4 million had been settled. There were 313 default claims outstanding valued at N10.4millon out of which 41 valued at N0.4million had been recommended for settlement and 34 were regarded to be in respect of deliberate defaults. By 1980, the NACB (now NACRDB) had a total of 142 loan defaulters owing N27.4million (CBN, 1984). The data for recent years have not been made available, but it is roughly estimated that loan repayment arrears could be about 10 per cent of total approvals. The State Governments and their agencies have been the major defaulters of NACRDB loans and extensive diversion has been observed in NACRDB loans to State Governments and their agencies. Many loan schemes of the State Agricultural Credit Corporations have collapsed because of huge loan repayment arrears. The state credit schemes have long been notorious in this regard. A high rate of loan default, such as we have observed in many agricultural credit programmes, does not augur well for such programmes. It generates caution on the part of leaders and this attitude has for instance adversely affected the on-lending programme of the NACRDB. A high default rate also affects potential borrowers who may face stiffer lending conditions from the credit institutions. The credit institutions, especially the public agencies, tend to adopt survival strategies in the management of funds because of limited sources of funds. The overall effect is that targets outlined in various credit programmes cannot be met.

Finally, the extent of coordination among the various credit programmes has been small and this adversely affects the total impact of the programmes. The lack of coordination in these programmes stems from the inadequate cooperation in agricultural policy formulation and implementation by the Federal and State Governments, each of which had tended to pursue certain lines of action without the regard to what the other was doing. This has been the pattern since the Federal Government assumed some basic responsibilities for agricultural development. At the same time, the states seemed to have voluntarily abandoned their own responsibilities in the realm of agricultural development probably due to their poor financial position. The states have attempted to benefit from the Federal credit programme of the NACRDB. But their own credit programmes, managed by their credit corporations have not been coordinated in any meaningful way with those of the NACRDB. With proper coordination of Federal and State credit policies, the NACRDB programme would probably have reached a larger number of farmers and many of the defaults by states arising from NACRDB loans might have been avoided. In the same vein, the loan programme of the commercial and merchant banks might have reached many more farmers if that programme had been properly coordinated with those of the states. For the sheer cost of administration, there was no basis for the banks to cover so many farmers in their schemes. But if states could effectively mobilize funds from the banks, farmers could more effectively benefit from the bank schemes. There was only little coordination among the credit programmes at the Federal level. For instance, if a way could be found to permit an easy flow of credit from the banks to the NACRDB without employing coercive instruments, it might have produced a salutary effect on the agricultural credit system.

**Specific Sources of Farm Credit and their Problems**

**(***a) Problems Associated with Non-Institutional Sources of Agricultural Credit*

Non-institutional sources include relations, friends, merchants and moneylenders. Loans from these sources are usually made directly to the borrowers by the lender. They are prevalent in areas where individuals are quite familiar with and share confidence in one another. The relative ease of obtaining loans and flexibility built into repayment has made non-institutional sources extremely popular among stallholder farmers (Nwankwo, 1980). But non-institutional sources have their problems.

a) Non-institution financial agents tend to be small and proprietary in size, confine activities to small neighbourhoods, and restrict activities to only well-known people in order to avoid default. Thus, non-institutional sources of credit can only cater for a limited number of trusted clients.

b) Volume of lending is very small and may not meet the needs of the borrower.

c) Endemic in non-institutional credit system are monopoly abuses. Many of the loans from money lenders, middlemen, landlords and merchants are at exceedingly high rates of interest, as well as purchasing of farmers output at unreasonably low prices. It is not uncommon for farmers to pledge their economic trees like cocoa, kolanut, rubber, oil palm and even entire farmlands as collateral for money borrowed from moneylenders.

d) Adoption of third party guarantees as a technique of overcoming problem of collateral is defective in that enforceability is difficult and ineffective.

*(b) Problems Associated with Institutional Sources of Agricultural Credit*

Institution sources include commercial banks, specialized banks, cooperative institutions, savings and credit institutions and agricultural development projects. These institutions have specified and written procedures to administer farm credit and do have a legal backing. The main problems associated with these sources include the following.

1. *Scarce Collateral*: Physical assets that the lender can seize if the borrower defaults are usually hard to come by in the rural areas partly because the borrowers are too poor to have assets that could be collateralized, and partly because poorly developed property rights make appropriating collateral in the event of default difficult in rural areas.
2. *Underdeveloped Complementary Institution*: developed communication networks in the rural areas make the use of institutional banking arrangements costly for many individuals. It makes transaction costs of dealing with small loans, and geographically widely dispersed large numbers of borrowers too high for institutional lenders. Also low returns from investment in agriculture discourage institutional sources from providing loans to farmers. From the borrowers' side, there are high transaction costs in form of travel costs to lenders, application fees, collateral requirements, restrictions on loan usage, concerns about the timely delivery of credit, inflexibility in loan repayments and the need to make applications for the loans.
3. *Covariant Risk:* There is high risk of income shocks in agriculture. These include weather fluctuations as well as changes in commodity process. Such shocks affect operation of credit institutions as shocks create the potential for loan default.
4. *Enforcement Problems:* The issue of enforcing loan repayment constitutes a serious constraint to channelling credit to the agricultural sector. Costs of sanctions such as seizing collateral may be too high in the light of poor development of property rights. In some respects, in their pursuit of other objectives, particularly distributional objectives, governments have often failed to enforce loan repayment the worst default rates.
5. *Imperfect Information:* Two significant problems that arise from imperfect information are adverse selection and moral hazards. Adverse selection occurs when lenders do not know particular characteristics of borrowers while moral hazard problems arise when lenders are unable to discern borrowers' actions.
6. *Bureaucratization:* of lending slows down loan processing and exposes credit to political or religious pressures and impedes proper working of credit institutions.
7. *Lack of Adequately Trained Personnel*: with agricultural background to supervise agricultural projects.
8. *Management Problems*: leading to inefficient application of funds and diversification of funds to non-agricultural and sometimes non-productive uses.

9. *Counterproductive Government Fiscal Policies:* For example, encouraging increase in production of poultry while at the same time banning poultry feeds and allowing importation of frozen chickens.
10. *Misconception about Loans:* Loans are often regarded as part of the national cake instead of depositors' money.

Several inadequacies have been noticed on the part of state credit institutions. These include, faulty initial concept, lack of initial groundwork, wrong training and experience, lack of continuity, shortage of technical staff and over-complacency.

Empirical investigations have shed more light on the effects of the various factors enumerated above on agricultural credit supply and administration, for instance, employed econometric techniques to analyse the effect of credit policies on agricultural credit supply. It was assumed that the lending behaviour of financial institutions is influenced by credit allocation and interest rates policies, rural savings mobilization and available incentives such as guarantees and refinance facilities. They found that at the national level, credit quota and allocation policies had failed to inspire both borrowers and lenders commitment to investment specified in loans contracts. Moreover, failure to integrate mobilization schemes into credit programmes militated against effectiveness. This often created serious bottlenecks in management of loans portfolios. It denies lenders access to financial transactions of borrowers and has often depended on extension service agents to determine level of credit worthiness of farmers. It makes loan recovery difficult, a factor which may be instrumental to the high rate of loan delinquency.

**Critical Issues and Problems in Government Financing of Agricultural Development**

Contrasting the amount of financial resources provided for agriculture and general agricultural performance in the last 15 years, brings us back to the question raised at the beginning of this paper. However, two issues need to be resolved before an attempt is made to discuss the fundamental factors involved. First, the inference that increased government financing of agriculture would necessarily result in higher agricultural performance should not be carried too far. Irrespective of the levels of financing, the agricultural sector may not perform well because it is subjected to natural and man-made factors such as recurring droughts and misappropriation of resources. Also a sizeable portion of total capital generation is by the private sector whose performance depends on several other factors. However the whole macro-economic policy framework of the government does critically influence not only the general economy but also the trends in individual sectors, particularly agriculture which is, for practical purposes, the dominant sector of the economy.

Secondly, the inference that government financing of agriculture might not have been adequate to produce sufficient impact should also be cautiously made. During the national plan periods especially with respect to last four plan periods. Government capital allocations to agriculture averaged 10.3 per cent of total allocations to all sectors, while actual capital expenditures on agriculture in 1962/2/68, 1970/74 and 1975/80 averaged 11.6 per cent of total actual expenditures on all sectors. Many observers would have preferred higher proportionate allocations and expenditures, but this issue has to be looked at in the context of past experience. In recent years, most government agricultural development programmes and projects have been implemented under conditions of inadequate executive capacity. There is also the possibility that if more government funds were invested in agriculture, the level of waste would have increased significantly. Also, the deteriorating level of the external reserves would have limited further growth in government financing since the successful implementation of most projects and programmes has been dependent on the availability of foreign exchange because of their high import content.

This preliminary discussion seems to point to two critical areas which may be examined to provide some insight into the recent adverse trends in Nigerian agriculture in the midst of increased government financing of the sector. These are:

a) the nature and outcome of government macroeconomic policies; and
b) the nature of the development strategy for the agricultural sector.

*a) Macroeconomic Policies.*

Since the early 1970s, the so-called oil boom has been at the centre of government macroeconomic policy framework. The boom has meant in recent years a dependence on the oil sector for an average of about 95 per cent of foreign exchange earnings and over 70 per cent of federally-collected revenue, thereby making the development of the oil sector the most important determinant of Nigeria's economic growth. It became obvious that government was determined to use all available resources from the oil sector and this led to greater involvement of the government in the economy.

The macroeconomic policy framework had at least four undesirable features. Firstly, there was a rapid growth in the size of government budgets. For example, the size of the Federal Government budget increased from ₦ 7.4 billion in 1979 to ₦ 4.6 trillion in 2010 which indicates a total increase of over 1,000 per cent within thirty-one years. Also, State Government's budgets increased in size by 500 per cent between 1979 and 2010. In order to maintain their expenditure patterns, governments accumulated deficits, particularly when there were shortfalls in revenue. Between 1980 and 2010, the Federal Government budget deficits increased by 155.9 per cent, while those of the State Governments increased by 58.2 per cent. The second feature of recent macroeconomic policies was the large distortion in the pattern of investment in favour of construction, transport, communications and other service sectors which have had better returns on investments than agriculture and industry. Thirdly, it helped to sustain an industrial sector, which did not have its base in the domestic economy. The result was an insignificant value-added and linkage effect. Fourthly, the whole policy framework appeared anchored on the external sector because of the large spill-over effect of government and private investments on the external payments' position.

These developments have had debilitating effects on the economy generally. There was a large growth in money supply arising from huge government expenditure, which accounted for the bulk of monetary expansion. Coupled with large deficits, domestic prices have escalated. Both internal and external debts increased substantially, while balance of payments deficits have similarly built up. In general, the recent macroeconomic policies and measures have tended to produce disincentive effects on the agricultural sector. For example, the pattern of investment had a bias for urban areas. The result has been a gradual increase in rural-urban migration. Also rising costs have increased labour costs in the agricultural sector. And, in any event, the wage earner most probably prefers to stay in urban employment. There was also the liberal food import policy since the early 1970s. Some imported food items have landed costs, which have been well below domestic costs and so put local food items at a disadvantage. Also, because of the over-dependence on oil revenue, the rehabilitation programmes for cash crops have not been pursued very vigorously until recently when President Obasanjo launched the cocoa revitalization programme headed by the Deputy Governor of Osun state.

The review of these development has been undertaken to illustrate the two-pronged problem of the agricultural sector – that produced by the macroeconomic policy framework and that produced by the development strategy of the agricultural sector. It must be conceded however that what government does in the agricultural sector may be more crucial for its performance.

*(b) Agricultural Development Strategy.*

Government financial plan for the agricultural sector should be based on two interrelated criteria. First, such a plan ought to strive to attain some of the objectives of national development. In Nigeria, such objectives include increased and more evenly distributed income, reduction in the unemployment level, increase in the supply of skilled manpower and greater balanced development. Secondly, such a plan must be worked out with due regard to the nature and structure of the agricultural system. In the early stages of agricultural development, it is felt that the priority in policy should be to remove the basic constraints on production through research, extension, education, material inputs and institutional. Evidence also abounds of the need to adopt a gradual transformation process whereby the dominant small-scale farmers will be mobilized to increase their productivity and management techniques (Wells, 1974; Sinha, 1976). To apply this framework into the Nigerian situation, we can examine the nature of the various agricultural development projects and programmes, as well as the general attitude towards the small-scale farmer in these programmes.

With respect to the nature of the programme, one can examine some of the important ones like the River Basin Development Schemes, the state farm, the fertilizer scheme and tractor hiring service. One common feature of all these programmes is their capital intensity and tendency to support more of large-scale farming than being tools of removing basic constraints. In the Fourth National Development Plan, the Federal Government planned to spend about N2 billion or 35 per cent of its total allocations on the River Basin Development Authorities (RBDAs) schemes. The schemes involve a massive development of the nation's water resources on land provided by the RBDAs(Olowa and Omonona, 2008). Farmers are also to be supported with other inputs and services. From the current operations of the RBDAs, it does appear that they are expected to operate large-scale mechanized farms in which the small-scale farmers would be wage-earners or at best partially integrated into the production system. The state farms form a unique feature of recent agricultural policies because they developed on the assumption that the state can as well produce most of the requirements of our agricultural products. This found expression in the development of cash crop plantations in the early 1960s and the setting up of state food production enterprises such as those embarked upon by the National Grains Production Company. In fact, a good portion of officially-procured inputs has been channelled into these state farms. Very often, they require for their take-off, not only heavy equipment, but also technical partners from abroad. The importance of tractors mostly for hire and use in state projects tends to portray the anxiety to force modernization on the system. In 1979, over 1500 tractors were estimated to be in the hands of all the states and roughly 60 per cent of these were operational, the rest being out of use because of maintenance and spare parts problems. The fertilizer procurement programme is another programme which has a laudable objective but which has probably been overemphasized. Its implementation went far ahead of the necessary complementary role it was supposed to play, such as the provision of adequate infrastructure for fertilizer distribution and storage.

It seems some of the above programmes which consumed substantial government resources were only remotely linked with a systematic development. Some of the basic needs of the sector such as the application of research results, provision and expansion of extension services, pest control, supply of adequate and improved seed varieties, soil conservation and smallholder tree crop development were somewhat relegated to the background.

Partly as a result of the poor results of the various state-operated projects from the first through the third plan period, the policy stance was to shift emphasis to the mobilization of the small-scale farmers from the beginning of the Fourth National Development Plan. The reference made to some programmes mentioned suggested that, unless these programmes were completely replaced, it was practically impossible to accommodate small-scale farmers in them. Some of the projects, like the state farms, either had little or nothing to do with small-scale farmers from the start, or, like the RBDA, the tractor and the fertilizer schemes, could only aid the small farmers if they were properly reoriented. The only exceptions which we have not mentioned so far are the Agricultural Development Projects which were specifically designed to mobilize the small-scale farmers and have been fairly successful.

Government funding of tree crop rehabilitation programmes which were capable of mobilizing a significant proportion of the sector's smallholders was rather disappointing. During the Fourth Plan, the states, for example, allocated only 10 per cent of their investment to tree crops, while the Federal Government allocated only 6 per cent. Allocation to the cocoa rehabilitation programme is not known; whereas, the states allocated 40 per cent of their resources to food crop development, compared with over 60 per cent of the Federal Government. Similarly, the livestock and fishery subsectors have been relatively neglected in government development efforts and consequently sidetracked a significant cross-section of small –scale farmers in those subsectors. In 1981/85, only 7.6 and 1.9 per cent of Federal and State Government allocations respectively went to the livestock and fishery subsectors. Actual expenditures for 1975/80 indicated that about the same ratios – 8.7 and 1.6 per cent of total actual expenditures of Federal and State Governments went to those two subsectors (Wells, 1974; CBN, 1984)

The credit schemes which have been articulated by government as part of their contributions also tend to sidetrack the small-scale farmers. The commercial banks lending programmes for agriculture have hardly come within the reach of the small farmers (Ijere, 1986). The public credit schemes have not fared much better because the much talked about cooperative development schemes have only contributed marginally to the agricultural credit system. The default rates in some of these credit schemes have been alarming because credit has either been improperly used or originally allocated to the wrong farmers.

**Approaches to Solving Farm Credit Supply Problems**

The basic issues concern a change in the attitudes of both lenders and borrowers. Agricultural credit suppliers are not likely to be persuaded to extend credit which fails to generate substantial return in form of interest or is not fully secured. Suggestions to reduce the problems encountered by financial institutions in their small-farmer lending programmes include the following:

*(i) Group Loans*

This approach focuses on groups rather than on individual farmers. The expectation is that this approach reduces administrative costs of reaching borrowers. Group credit is extended to farmers who form some sort of associations, credit unions, cooperatives and so on. Such organizations play the role in the securing, sharing and repayment of such funds. Group loans may lower interest charges and make loans better secured. Group loans operate most successfully if the following conditions prevail:

a) Existence of a viable group in the farming community with a credible record of successfully working together.
b) In the absence of an existing group. Under such conditions, a potential exists for individuals to form a group to jointly address common economic and social interest.
c) A good and credible leadership within the group.
d) Credit must be committed to profitable and productive enterprise that the farmers are sure is potentially rewarding.
e) Productive inputs (credit, fertilizer, seeds, etc) must be available at the right time.
f) There should be a marketing arrangement that aids collection of loans when products are disposed off.

(ii) *Credit Arrangement That Incorporates Education, Input Supply and Marketing*

When credit to small farmers is accompanied with extension education, input provision and advice on marketing, farmers are likely to use credit profitably. Similar experience has been shared in several African countries. Multipurpose cooperatives and agricultural service centers have proved quite useful.

(iii) *Linking Savings with Credit*

The role of capital formation in economic development cannot be overemphasized. Without savings the volume of loanable funds remains limited. To encourage savings by farming communities the following strategies have been proposed and tried in several countries, (i) cooperative savings schemes, (ii) credit unions – linking savings and credit to meet the short-term and seasonal credit needs of farmers and (iii) local savings credit societies which could be effective if well organized and in the absence of formal savings institutions nearby.

(iv) *Subsidized Inputs and Education but No Credit.*

Substituting extension education and subsidized inputs for credit has also been proposed. This approach may be suitable to development agencies and project authorities but may not be acceptable to commercial credit providers. The effectiveness of these approaches has varied from one country to the other and from one type of financial institution to the other. What is undisputable and clear is that the commercial segment of the credit market is yet to devise a means by which it is to contribute much more significantly than it has done so far. It is unlikely that participants in this segment of the market will be persuaded to accord agriculture any favour that falls far short of the price of capital, that is, an adequate interest on loans disbursed to any of the economic sectors, including agriculture.

**Recommendations**

To make government credit policy more effective we recommend the following:-

1) A clear-cut credit policy which ensures a long-term financing of agriculture. Short-term, discriminations policies cause confusion and prevent farmers from investing in agriculture.
2) Efforts should be made to regulate the legal aspects of credit, particularly the laws relating to loan agreements and enforcement, moneylenders and transfers. The Land Use Decree should be amended to make it easy for farmers to acquire, cultivate land and feel secure on the land. This also implies that adequate compensation should be paid to those whose lands are acquired by government for development purposes.
3) Since credit does not exist in a vacuum, it is imperative that government should support its credit policy with the provision of infrastructure, good marketing facilities, storage, processing and manpower training.
4) An intensive cooperative and credit education should be imparted to those using credit before being entrusted with it. Educational institutions such as the Centre for Rural Development and Cooperatives of the University of Nigeria, Nsukka are relevant here. They should be adequately supported to provide the necessary training to farmers, school leavers and credit managers in the administration of credit and better farming practices.
5) There is need to revive and strengthen such laws as the Guaranteed Minimum Price and Agricultural Credit Guarantee Scheme to make them workable, so that farmers and banks can have enough incentives to invest in agriculture.
6) The same applies to the issue of the Certificate of Occupancy and the general question of the Land Use Decree. These deserve to be up-dated and made more functional. The present administration seven point agenda should address this.

7) It is imperative that a law on rural savings should be promulgated to regulate indigenous credit institutions as veritable agencies for savings mobilization. The same law should regulate against all forms of ostentation (expensive weddings, feasts, funerals etc). It is also imperative that one or other rural saving institutions (post office savings banks, cooperative banks etc) should be established in every autonomous community in Nigeria. This is because it is useless to blame people for squandering their earnings when there are no reliable institutions to help them save their money.

**Conclusion**

The implementation of agricultural credit programmes in Nigeria in the recent past has been associated with many problems, which have tended to make the impact of such programmes insignificant. The agricultural credit problems and their sources can be classified into two groups. First are those problems, which arise from ineffective agricultural policies which have a more direct relationship with the successful implementation of the agricultural credit programmes. The implication of this is that there is need to redefine and articulate our agricultural development strategy in the country. Government has no doubt continued to emphasize the fact that agriculture is a priority sector, but the issue of a development strategy for the sector, backed up by appropriate policy instruments and programmes, appears to have defied proper articulation. Once an appropriate agricultural development strategy has been defined, agricultural credit policies and other policies will be formulated within that strategy. There will emerge a national agricultural credit system that is responsive to the needs of every potential credit user and the outlets for achieving this will also be determined. The main elements of the national credit system will be worked out, taking into consideration the current problems. Approaches may vary from region to region. But the evidence from the limited experience in past credit programmes suggests that there is merit in granting loans to groups of farmers such as through cooperatives, integrating credit with input supply and marketing and loan administered in special agricultural development programmes. These approaches have tended to reduce loan repayment problems.

The second group of problems of agricultural credit programmes has its roots in incoherent agricultural credit policies due in large part to missing links in the policy cycle. The cycle of agricultural credit policies begins with policy design which includes the statement of objectives, the definition of the policy instruments and the design of appropriate credit programme, and finally the execution stage during which constraints which tend to limit the performance of the programme are identified. The identification of the constraints will then necessitate a review of previous policy objectives and instruments which will then call for adjustments to the credit programmes. We have observed that every stage of the agricultural credit policy cycle in the country has been inadequate either in formulation or execution. The most disturbing gap has been the inadequate monitoring and evaluation. What one has generally observed is that certain agricultural credit programmes have been embarked upon without a precise knowledge of what the impact would be and how they have performed. The main implication of these factors is that agricultural credit policy design and execution must show a definite departure from the present position. In particular, there is need to have a national agricultural credit system whose potential or actual effect can be assessed at any given point in time.

From the foregoing, the two major pre-conditions for more effective agricultural credit policies in Nigeria are the need to evolve an agricultural development strategy which can ensure total transformation of the agricultural sector within which credit policies will be formulated, and the need to streamline agricultural credit policy design and execution to make for continuous evaluation and adjustments. These two basic requirements underline the primary role of top managers in government and financial institutions throughout the country.

Agricultural credit policy design and evaluation are largely undertaken by top managers in the public sector. It will be their duty to plug the holes in policy design which has been sufficiently emphasized in this paper. There is need for top level administrators to conceive credit schemes within the framework of other agricultural programmes. The implementation of agricultural credit programmes is supervised by top managers in public sector, specialized credit agencies and private financial institutions. The most glaring loophole in policy is the inadequate monitoring and evaluation. There is need for top managers to design relevant assessment criteria for agricultural credit programmes which will enable the monitoring exercise to be carried out at acceptable intervals. There is also need for more objectivity on he part of assessors in an attempt to give correct advice to the top management of these institutions. Very often, many institutions that implement credit programmes only see problems from their own standpoint: which tend to suggest, though erroneously, that both policy makers and those implementing policies have conflicting aims. As indicated earlier, as effective evaluation of credit programmes will be an asset to policy makers. If necessary adjustments are made to such programmes they may help the implementing agencies to achieve their specific institutional objectives.

There is increasing awareness among the banking community that adequate knowledge of the rural setting is vital for assimilating the rural areas into their operations. Top managers should foster this trend. Some rough economic analysis of areas in which relevant institutions operate will help in determining credit demand, development plans and the general business environment. In the developed countries, many banks are generally dependent upon for certain types of economic data and information, particularly in respect of localities which may not have been covered in national statistical sample surveys. This type of activity will require more manpower than at present. It may be necessary for top managers to recommend the relevant expansion programmes and to convince their institutions that the greatest potential for expanding bank activities lies in the rural areas where agricultural production and hence the credit needs has to be seen alongside other small-scale enterprises in which they should also be interested.

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