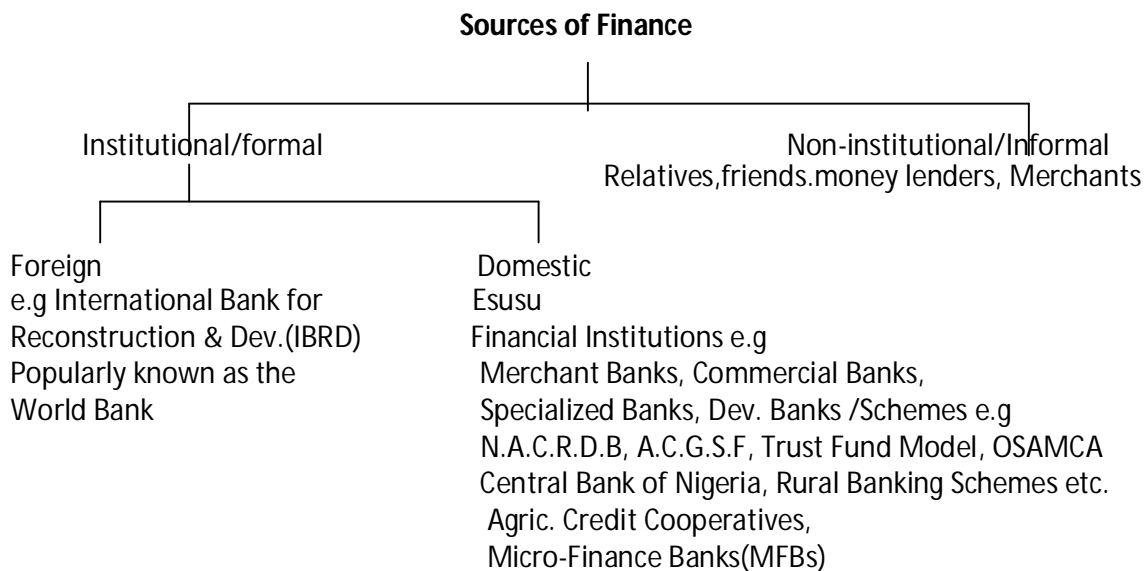


### 3.0. Sources of Agricultural Finance

#### 3.1 Preamble

Sources of finance for agricultural projects are quite many and in this context refer to the lenders, ranging from the relatives of the Borrowers to Government. The various sources are derived from two major sources, namely, Institutional/formal sources and non-institutional/informal sources.

Institutional credit sources can further be divided into domestic and foreign sources.



#### 3.2.1. Non-Institutional /Informal Sources

- \* includes relatives, friends , Merchants, money Lenders
- \* Loans are made directly on personal basis from Lenders to Borrowers, especially where the individuals are familiar with some level of confidence in one another
- \*Methods of obtaining the loans are relatively easier and there is rare tendencies for administrative delays
- \*Non-instistence on security /collaterals by Lenders
- \*Flexibility is associated with repayment schedule with high rates of interest
- \*The flexibility built into the repayment makes this source very popular among peers and famers.

#### Demerits

- \*More expensive supply of credit because of high interest rate

\*Inadequate credit supply and on terms required by farmers for farm expansion and modernization

\* There are differences in the process of acquiring loans from one source to another e.g relatives and friends have no laid down procedures and no repayment arrangements specified. Interest is usually free.

\*Money Lenders charge exorbitant rates of interest, though prompt and timely in disbursement of funds required.

### **Esusu**

Management depends on culture under which they have been organized.

### **Ajo.**

Usually organized by self-appointed itinerant Collectors who keep encouraging individuals to save money. He goes round to collect money according to the financial strength of the participants. Usually, the first day's contributions represent the Collectors; charges on banking services rendered and whatever the Contributor can add during the month will be refunded on the first day of the following month, if so desired. The savings attract no interest but save time and costs.

### **Money Lenders**

Some of the Ajo Collected also perform the roles of money lending, giving out some of the Contributors' to Borrowers who would be expected to pay back fully (Principal + Interest). Before the end of the month, when the Contributors will expect some refunds.

## **2.3.2 Formal/Institutional Sources**

### **2.3.2.1 Financial Institutions (Domestic)**

Essentially "Financial Institutions " refer to:

- (i) Bank Financial Institutions (BFIs) and
- (ii) Non- Bank Financial Institutions (NBFIs) .

In Nigeria, financial system, there are four categories of Banks which are directly or indirectly involved and connected to agricultural financing. These are:

- (i) Commercial Banks
- (ii) Merchant Banks
- (iii) Development Banks
- (iv) Specialized banks

Note: The Central Bank of Nigeria is the apex of the Nigerian Banking System.

### **Commercial Banks**

Dominates the financial intermediation process and are commonly referred to as 'retail banks' due to services extended to farmers as individuals rather to corporate entities. The primary role of the commercial Banks is to intermediate funds between the surplus and the deficit economic units of the economy, especially at the retail segment of the markets. The Banks are to mobilise savings, stimulate investments and economic growth through lending operations, assist in resource allocation and promote domestic and international trades. Therefore, apart from the main lending activities of commercial banks, provision of short-term financing, they also render ancillary services such as keeping safe custody of the customers' valuable items, acting in trust and execution of capacities for customers' will.

### **Merchant Banks**

Commonly referred to as the "wholesale banks", Merchant banks engage in the intermediation between the surplus and the deficit sector through wholesale banking to large scale investors/Corporate bodies and Institutional clients by financing medium and long term credits. They do this through activities like equipment leasing, loan syndication, debt financing , apart from rendering assistance as issuing agents and advise on funds sourcing.

### **Development Banks**

#### **Micro-finance Banks**

Micro-finance Banks in Nigeria are self-sustaining financial institutions owned and managed by local communities to render services to their respective communities. They are meant to promote agriculture, rural as well as economic growth through development at grassroots level. Though their activities are geared towards rural banking, they are also noted for accepting deposits, running other banking services and investing funds in agriculture apart from providing facilities to farmers.

### **Nigerian Agricultural Credit and Rural Development Bank (NACRDB)**

In view of the short comings of the Commercial and Merchant banks, the Nigerian Agricultural Bank Limited was established in 1973 by the federal Government to deal exclusively with agricultural loans. The bank was established to meet the needs of the national agricultural credit institutions following regional establishments. The provision for

the establishment of the bank was “knotted in the bud” during the 1<sup>st</sup> national development plan period of 1962-1968 but was not implemented until the 2<sup>nd</sup> period which spanned between 1970 and 1974.

The establishment of this specialized bank was actualized following the acceptance of the recommendations made in Stoneham’s report and subsequent inclusion in the 1970-1974 Development plan. By the plan, the proposed agricultural cooperative bank which was meant to operate in all states of the federation, will assist farmers in the area of cooperative farming and agricultural marketing cooperatives.

The bank was meant to make funds available directly to cooperatives, credit-worthy individuals and Governments. The objective for which it was established was therefore to “ provide credits and loans for agricultural development projects thereby enhancing the level of and quality of agricultural production.....”. The name of the bank was changed to the Nigerian Agricultural Cooperative Bank (NACB) in 1978 with a mandate to give loans to cooperative societies as on-lending and in turn to individual farmer-members. No collateral security is expected to be charged though the bank charges reasonable amount as interest based on its policy of subsidy on agric. loans and operated 100% security on loans except those granted to small-holder farmers under the Small Holders Loan Scheme (SHLS). The requirements for the Certificate of occupancy, survey plans and real assets securities are usually waived.

As a result of the merger policy on the Peoples’ bank of Nigeria, the Better Life for rural Dwellers Scheme and the NACB, the bank was transformed into the Nigerian Agricultural Credit and Rural Development Bank (NACRDB) in the year 2000 to cater for other aspects of rural development.

### **Agricultural Credit Guarantee Scheme Funds (ACGSF)**

The funds was established by the Federal Government of Nigeria Decree No. 20 of 1977 to guarantee in respect of loans granted by commercial and merchant banks for agricultural purposes, with the ultimate aim of increasing banks’ lending to agricultural sector. The scheme took off with a joint contributory grant by the Central Bank of Nigeria and the Federal Government at 40 % and 60% respectively. Under the Scheme, bank loans

were guaranteed at 75% of the amount in default, net the amount of the security. The is operated using the working guidelines to cover the financing of all crops including tree crops fish farming and fish capture and animal husbandry, farm machinery, hire services as well as integrated agricultural projects.

Security require included charge on land, movable properties of borrowers, life insurance policy stocks and shares of personal guarantee on security acceptable to the facilitating commercial banks. Loans were initially guaranteed under the concessionary interest rate up to August 1978, when the de-regulation of interest started.

### **Other Development Banks in Nigeria**

These include:

- (a) The Nigerian Industrial Development Bank (NIDB)
- (b) The Nigerian Bank for Commerce and Industries (NBCI)
- (c) The defunct Federal Mortgage Bank (FMB)

### **Specialized Bank**

Created by the Federal Government to cater mainly for the banking needs of the relatively suppressed segments of the Nigerian society. Examples include:

- (i) The defunct peoples' bank of Nigeria (PBN)
- (ii) The Community Banks (now transformed into the micro-finance Banks)
- (iii) Urban Development Banks (UDB)

### **Non-Bank financial Institutions (NBFIs)**

Commonly called "other financial Institutions and funds", they intermediate in the wider financial system. Examples are Nigerian deposit insurance Corporation (NDIC), Insurance companies, finance houses, Discount houses, Bureau de Change, National Providence Funds etc.

### **Other Domestic Sources.**

#### **Financial Markets**

Represents a forum where surplus funds are channeled into productive use through a process of financial intermediation. It consists of the money markets for short term funds and capital market for long term funds . Not necessarily a physical location as we have in the goods market but a mechanism through which funds are transferred (bought and sold) through the banks (physical location) or through telecommunication system (non-physical location), using financial instruments.

Note that the process through which funds are channeled from the surplus (depositors) to the deficit (borrowers/Needs) units for a return (interest) is called financial intermediation.