

## EVALUATION OF THE PERFORMANCE OF AGRICULTURAL LENDING SCHEMES IN NIGERIA

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**ABSTRACT:** *The broad objective of the study was to evaluate the performance of agricultural lending schemes in Nigeria for the period 2009 - 2012. The study was carried out in Benue, Kwara, Kaduna, Abia, Anambra, Rivers, and Ogun states respectively. The method of proportionate random sampling technique was used in selecting 185 borrowers who are registered with their state Agricultural Development Programmes (ADP's). The sampling frame comprised all the registered ADP farmers in the surveyed states who took bank loan. Data collected were analyzed using frequencies, percentages, means, and multiple linear regression analysis. Results of the analysis showed that during the period 2009 - 2012, a total of 27,987 farmers applied for bank loan in Nigeria totalling ₦13,704,965,000.00, while 21,490 farmers were granted loan facility during the same period which totalled ₦7,188,575,000.00 leaving a credit supply gap of ₦6,516,390,000.00. The total amount of loan repaid by borrowers during the same period was ₦3, 523,018,005.00 which gave a repayment rate of 49% and a default rate of 51%. The loan granted to borrowers increased national output by 20.33%, and impacted positively on the income of borrowers. It was recommended that the government should continue to encourage increased funding to the agricultural sector for accelerated food production in Nigeria by small and medium scale farmers through the provision of institutional loans to these categories of farmers using ACGSF and CACS.*

**KEYWORDS:** Evaluation, Performance, Lending Schemes, Nigeria

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## INTRODUCTION

In Nigeria the provision of institutional credit to small holder farmers has been the policy thrust of successive governments. The first attempt at the injection of financial capital into the agricultural subsector in Nigeria was made by the Federal Government in the 1962 – 1968 development plan with the provision of six million naira (₦6m) for the development of that sector of the economy (FMED, 1981). Following this, bank credits to the agricultural sector in nominal terms over the years increased from ₦230 million (then about \$233 million) in 1978 to over ₦262 billion (\$2.23 billion) in 2005 (CBN, 2010 a). This is in realization of the fact that to sufficiently boost food production and adopt new agricultural technologies and

innovations, there is the need for farmers to borrow money from lending institutions (Obasi et al, 1995). Moved by the desire to reduce import dependency, as well as by the need to relieve dependence on the oil sector for economic growth, Federal and state governments stepped up efforts to promote agricultural development through the establishment of a number of agricultural credit schemes. These schemes include the Agricultural Credit Guarantee Scheme Fund (ACGSF), the Special Emergency Agricultural Loans Scheme (SEALS), the Supervised Agricultural Credit Scheme (SACS), the Small and Medium Enterprises Equity Investment Scheme (SMEEIS), the Agricultural Credit Support Scheme (ACSS), and the Commercial Agricultural Credit Scheme (CACS), and recently the Nigerian Incentive based Risk Sharing system for Agricultural Lending (NIRSAL). The NIRSAL though not a scheme at such, encourages farmers to insure their farms against natural disaster, and to borrow from commercial banks guaranteeing the interest paid by the farmer up to 60%. According to Central Bank of Nigeria (CBN)(2010b), between 1978 and 1989 when the government stipulated lending quotas for banks under the Schemes, there has been consistent increase in the lending portfolios of banks to the agricultural subsector. For instance, between 1996 and 2011, the amount of loan granted under the ACGSF increased from ₦225,502.50 to ₦7,623,216.25 with the highest amount of ₦8,349,509.28 being disbursed in 2009(CBN)(2010b). However, experience gained from the implementation of these schemes show that although they have succeeded in increasing the level of funding to the agricultural sector, the impact has not been as significant as anticipated, and moreover, the successes recorded have almost in all cases been constrained by among others, poor loan repayment performance, late disbursement of loans, loan diversion, low output, low productivity, and reluctance on the part of formal lending institutions to finance agricultural production (Njoku and Obasi, 1991). However, the repayment of formal institutional loans by farmers in Nigeria has become such a problem that it has constituted a serious constraint hampering loan mobilization and disbursement in the formal financial markets in Nigeria (Eweka et al, 1979). The repayment problem has manifested itself in the unwillingness of formal financial institutions to grant loan facilities to the agricultural subsector of the economy which it considers a high investment risk area. These therefore suggest that the schemes have been inefficient in fund delivery and recovery. As a result, there is the need therefore for research to evaluate the performance of the various lending schemes in Nigeria, with a view to deriving policy for better performance.

### **Objectives of the study**

The broad objective of the study was to evaluate the performance of agricultural lending schemes in Nigeria for the period 2009 - 2012. The specific objectives of the study are to:

- (i) examine the socio-demographic characteristics of farmer borrowers in Nigeria for the period under review
- (ii) ascertain the various agricultural lending schemes in Nigeria and the procedure for obtaining bank loan in the country

- (iii) ascertain the various types of agricultural enterprises as well as the categories of farmers (small, medium, or large scale) funded by the lending institutions in the country
- (iv) ascertain the types of collateral demanded by the lending institutions, the interest rate charged and other charges paid by the borrowers in the country,
- (v) determine the volume of loan granted to farmers during the period, the volume of loan repaid by borrowers and the amount outstanding
- (vi) determine the impact of the volume of loan granted to farmers on national farm output and income of beneficiaries in Nigeria,
- (vii) determine the scope of financing problems faced by Nigerian farmers during the period

## MATERIALS AND METHODS

The study was conducted in Nigeria in 2013. The country has an estimated 69.9 million hectares of agricultural land of which 39.2 million hectares are under permanent pasture, with 2.8 million hectares under permanent crops, and 27.9 million hectares under arable crops. Nigeria is divided into six agro-ecological zones namely; the humid rainforest found mainly in the south, the derived savannah, the southern guinea savannah found in parts of the south and the entire middle belt, the northern guinea savannah, the mid altitude savannah, and the dry Sudan or Sahel savannah all in the northern parts of the country. The guinea savannah is noted for the production of cotton, groundnuts, maize, millet, sorghum, soybeans, yam, cassava and vegetables. The humid rainforest, derived and coastal agro-ecological zones produce tree crops such as cocoa, oil palm, rubber and timber, and food crops such as cassava, yam, maize, pineapple, bananas, plantains, papaya, mango, oranges, beans and vegetables. The dry northern savannah is suitable for growing sorghum, millet, maize, groundnuts and cotton, and is also the principal livestock-raising area. In the middle belt and the south, the main food crops are cassava, yam, plantain, maize and sorghum. Rice is grown in the low-lying and seasonally flooded areas, and the main cash crops in the south are palm oil, cocoa and rubber. There are two major agricultural production systems: the traditional production system which is found in all parts of the country, and the improved irrigation production system which comprises of the improved Fadama (Hausa language meaning low lying land) farming. Fadama farming utilizes low lying land or water logged areas for crops and livestock production. The study covered five out of the six geopolitical zones in Nigeria. In the North-Central and North-West geopolitical zones, the states that were covered are Benue, Kwara and Kaduna, while in the South-Eastern, South-South and South-West geopolitical zones, the states that were studied are Abia, Anambra, Rivers, and Ogun respectively. The method of proportionate random sampling technique was used in selecting a sample of 185 borrowers from the seven states. The sampling frame (N) comprised all registered farmers with the states' Agricultural Development Programmes (ADP's) who took loan under any of the lending schemes. In addition, ten (10) commercial banks that advanced loan to farmers in each of the states were studied. These banks are Union Bank, First Bank, Access Bank, Unity Bank, Diamond Bank, United Bank for Africa, Zenith Bank, Eco-Bank,

First City Monument Bank, and Bank of Agriculture. In addition to the ten (10) commercial banks, a Non-Governmental Organization (NGO) and a Micro-finance bank (MFB) were surveyed in Ogun state in particular. The reason for the inclusion of the Micro-finance bank (MFB) and the Non-Governmental Organization (NGO) in the list of lending institutions in Ogun state was informed by the situation on the ground, whereby the Commercial banks do not lend directly to the farmers but through farmer associations and cooperative societies. Two sets of data were collected for the study. These are primary and secondary data. The primary data were collected directly from the field through questionnaire administration. The period of data collection lasted between September 1<sup>st</sup>, 2013 and November 2<sup>nd</sup>, 2013. The variables on which data were collected are; farmers socio-demographic characteristics (such as age, membership of cooperative society, years of farming experience, household size, farm size, expenditures on farm inputs (seeds, fertilizers, herbicides, insecticides, animal feeds), educational attainment, occupation etc), types of enterprises practiced, types and quantities of inputs used, quantities of outputs produced, annual income (farm and non-farm), main sources of income outside farming, interest rate charge, volume of loan applied for and the amount granted, amount of loan repaid to date and amount outstanding, time of application for loan and date of disbursement, loan transaction costs, repayment period, collateral pledged, awareness of the Nigerian Incentive based Risk Sharing system for Agricultural Lending (NIRSAL), use of insurance facilities by farmers, labour use (family and hired), wages paid, extension contact, problems faced by farmers. The secondary data needed were collected from publications of the Central Bank of Nigeria.

In order to determine the effects of formal financial institutional loans on income of beneficiaries, eqn. (1) was estimated.

$$Y_i = \alpha + \beta X + e \quad \dots \dots \dots \text{eqn. (1)}$$

Where

$Y_i$  = Total income (farm plus non-farm income) of the  $i$ th loan beneficiary (₦)

$X$  = Amount of loan borrowed by the  $i$ th beneficiary (₦)

$\alpha$  = Constant term

$\beta$  = Regression coefficient

$e$  = Stochastic error term

The repayment performance of the lending schemes and the default rate were calculated using the formulae:

$$\% \text{ Repayment} = \frac{\text{Volume of loan repaid} + \text{interest charged}}{\text{Volume of loan granted} + \text{interest charged}} \times \frac{100}{1} \quad \dots \dots \text{eqn. (2)}$$

$$\% \text{ Default rate} = \frac{\text{Outstanding loan balance}}{\text{Volume of loan granted}} \times \frac{100}{1} \quad \dots \dots \dots \text{eqn. (3)}$$

### Procedure for obtaining Bank loan in Nigeria

To obtain bank loan in Nigeria under any scheme, the farmer will submit an application form with his or her passport photograph attached. After this he will be required to complete 4

copies of formal application forms from the bank. The forms are appraised by an agricultural desk officer of the bank. The agricultural desk officer then inspects the farm, after which he writes a report to the zonal manager who then vets the forms and make his/her recommendations to the head office for approval. If the applicant is a civil servant he will be required to submit a letter of undertaken from his or her employer. If the applicant is not a civil servant, he will be required to submit a feasibility study report of the activity he/she wants to embark upon; his/her bank statement and an evidence of collateral. The collateral will usually be a landed property or a building. In the case of a landed property, a Certificate of Occupancy will be needed. The bank will invite an estate valuer to value the property. If the application is approved he will then be required to sign an agreement. The repayment period varies depending on the type of agricultural enterprise being embarked upon. Agricultural projects such as poultry, fisheries and arable crops will be given a repayment period of 1 year, while enterprises such as tree crops will be given a repayment period of 2 to 3 years.

### **Cost of borrowing and Collaterals demanded by Lending Institutions**

The cost of borrowing across the states surveyed varied from 12% to 22% among the commercial banks including the Bank of Agriculture (BOA). Micro agricultural projects attracted an interest rate of 12%; macro agricultural projects were granted loan at a rate of 14%, while non agricultural projects paid an interest of 20%. Apart from the interest rate, borrowers were charged between 1 % to 2.5 % on processing of loan application form, and loan administration respectively. This implies that for a farmer who is borrowing the sum of one hundred thousand naira only (₦100,000.00) for a period of one year for instance will have to pay the sum of fourteen thousand naira (₦14,000.00) as interest on the loan plus three thousand, five hundred naira (₦3,500.00) as handling charges and unspecified percentages on Charge on Transfer (CoT). Apart from the charges on processing of loan application form and administration, another variable that seems to add to the cost of borrowing in Nigeria is the repeated visits to the lending institution during the period of processing loan application. The study showed that on the average, it takes a bank between 3 to 4 months to process an application for loan facility in Nigeria. During this period, the intending borrower makes repeated visits to the lending institution to ascertain the status of his/her application. Each time this borrower visits the lending institution, he/she spends a certain amount of money transporting him/her self to the bank, and this helps to increase the overall cost of obtaining the loan facility. The collaterals requested by lending institutions across the states are landed property, buildings, National Agricultural Insurance Company Certificate (NAIC), 25% of loan amount in savings deposit, legal mortgage, shares in companies, shop papers, stocks (goods), Asset Debenture, and personal Guarantor or letter of undertaken from employer (for a civil servant), CBN Guarantee and Union assurance. Though collaterals serve to secure the loans granted and thereby encourage lending institutions to grant loan facilities to farmers, the lending institutions use them as instruments to screen out the poor that have no assets to present as collateral.



## RESULTS AND DISCUSSION

The results of the analysis of the socio-demographic characteristics of the borrowers show that 78% are males while 22% are females. Further analysis of the data based on gender distribution across the lending schemes show that 17% of those that obtained loan under ACGSF are females while 83% are males, under CACS, 23% are females while 77% are males. Similarly, 29% females and 71% males obtained loan under SMEEIS, 46% females and 54% males obtained loan under SACS, 8% females and 92% males obtained loan under ACSS and NGO's/MFB's respectively. Highlighting the socio-demographic characteristics of borrowers in a study of this nature is very necessary because studies (Kuhn et al, 2000; Akinbode, 2013) have linked loan repayment performance to borrower personal and employment characteristics, previous loan histories or micro lender traits. The results also show that 78% of the borrowers belong to co-operative societies while 22% do not. Farmers associations are informal groups usually formed by farmers involved in a given line of production. They are formed more often than not to serve as plat forms for members to benefit from government financial assistance to such associations. Similarly, membership of co-operative society enhances members' access to institutional credit through group lending with or without collateral. The study showed that 61% of the borrowers were visited by extension agents while 39% had no extension contact. A vibrant extension service system is necessary for the delivery of improved agricultural inputs and for the communication of vital information to the farmers. For instance, some of the farmers that are aware of NISAL knew about it through the activities of their state ADP's. The few farmers that are aware of the package knew about it either by radio or television programs or the training programs of state ADP's sponsored by the Growth Enhancement Scheme (GES) activities of the Agricultural Transformation Agenda (ATA) of the government. This suggests that greater awareness is needed to adequately inform the farmers of the benefits of the NIRSAL program. The results further show that 29% of the farmers obtained loan through ACGSF, 26% got loan through CACS, 12% obtained loan through ACSS and SACS respectively, while 7% got loan through SMEEIS. This may imply that loans are more easily accessible, affordable, and available to farmers under ACGSF and CACS. For instance, the interest drawback program of the CBN under ACGSF which offers a rebate of 40% on the amount paid as interest on the loan by the borrower provided full repayment was made as and when due, with a grace period of three months for delayed repayments after which a farmer is ineligible for the rebate is a very big incentive to farmers to borrow and repay on time under the scheme, while the requirement that loans to eligible entities under CACS should be disbursed at a maximum interest rate of 9% is a great incentive to farmers to borrow money from CACS. These guidelines appear to be responsible for the greater number of beneficiaries under ACGSF and CACS lending schemes. The policy implication of this is that government may continue to encourage the disbursement of funds to farmers through the ACGSF and CACS lending schemes.

However 14% of the borrowers obtained loans from Non Governmental Organizations (NGO's) and Micro Finance Banks (MFB's). The Non Governmental Organizations and Micro Finance Banks serve as plat forms through which Farmers' Multipurpose Cooperative Societies obtained loan and disbursed to their members under loan schemes such as Fadama, National Programme on Food Security (NPFS), Rural Finance Institution (RUFIN), and National Poverty Eradication Programme. This information is very vital for policy formulation as it calls for the strengthening of the NGO's and MFB's that grant loan facility to farmers especially in states like Ogun and Abia. The results also show that majority of the farmers are within the age brackets of 51 to 60 years and 41 to 50 years respectively. The figure further shows that only 10% of the borrowers are farmers who are within the ages of 31 to 40 years. This suggests that only a small fraction of Nigerian youths are engaged in food production. The mean age of the farmers is 50.4 years. The analysis further shows that 52% of the borrowers have household sizes that range between 6 to 10 persons. The mean household size of borrowers is 9 persons. Although large household sizes are needed to boost food production, it exacerbates poverty level among families. The figure shows that 43% of the borrowers had secondary education, 22% had primary education, and 31% had tertiary education, while 4% had no basic education. The policy implication of this is that agricultural mechanization in Nigeria is possible if the 96% with basic education are supported by government with tractors, planters, harvesters and high yielding seeds and breeds of animals. The mean year of education of borrowers is 11years. Access to basic education is vital for the adoption of improved farm technologies. According to Henri-Ukoha et al (2011), the age of the farmers, level of education, farming experience, farm size and marital status significantly affected the amount of loan acquired by small scale farmers in Ohafia Agricultural zone of Abia State, South-east Nigeria because formal credit providers evaluate borrowers using these socio-economic characteristics. The analysis further shows that 60% of the borrowers have farm sizes that range from 1.1 to 2hectares, 16% from 2.1 to 3hectares, 9% from 3.1 to 4 hectares, 8% from 4.1 to 5hectares, while 7% cultivated 5.1 hectares and above. The mean farm size is 2.54 hectares. This implies that majority of Nigerian farmers are small scale operators that cultivate less than 5 hectares of farm land. The findings of this study is consistent with Projects Coordinating Unit (PCU)(2002) which found that small-scale farms in Nigeria (which range from 0.10ha of farm holdings to 5.9ha) constitute about 81% of all farm holdings in the country. This emphasizes the need for farmers in co-operative associations to pull their farm lands together so as to cultivate large hectares of farm land under mutual agreement using modern farm equipment. In doing this, the farmers will be able to attract assistance in the form of modern inputs from the government. This is necessary if the agricultural subsector of the country must be transformed. The implication of this is that agricultural production in Nigeria may not be commercial oriented. This has wider policy implication for the country as the citizens may face severe food insecurity should a situation trigger off global food crises. As a result, it is suggested here that efforts should be made to attract wealthy Nigerians into commercial agriculture so that the country may produce enough food to feed her teeming population.

### **Agricultural lending Schemes in Nigeria and loan disbursement by Enterprise and Category of Farmers**

The Agricultural lending schemes in operation in Nigeria are the Agricultural Credit Guarantee Scheme Fund (ACGSF), Commercial Agricultural Credit Scheme (CACS), Agricultural Credit Support Scheme (ACSS), Supervised Agricultural Credit Scheme (SACS), and the Small and Medium Enterprises Equity Investment Scheme (SMEEIS). Analysis of the amount of loan granted by these credit schemes show that the highest amount of ₦21,223,750.00 was disbursed by CACS, while ACGSF and SACS disbursed ₦16,936,700.00 and ₦5,376,000.00 respectively. The least amount was disbursed by SMEEIS.

The main enterprises funded by these lending institutions across the states are Crop Production, Fisheries, Poultry, piggyery, and Crop and Livestock production. With regard to the amount of loan granted to the enterprises in 2012 by the lending institutions, the highest amount of ₦22,369,000.00 went to crop enterprise. This is followed by crop and livestock enterprise that received ₦19,337,000.00, fisheries which got ₦3,710,000.00, poultry production with ₦2,830,000.00 and piggyery enterprise that received ₦1,925,000.00. The result obtained here suggests that the lending banks are keeping to the guidelines establishing the lending schemes. For instance the guideline establishing CACS states that the key agricultural commodities to be covered under the Scheme are cash crops such as Cotton, Oil Palm, Fruit trees, Rubber, Sugar Cane, Jatropha Carcus and Cocoa, while the food crops are Rice, Wheat, Cassava, Maize, Soya, Beans, Millet, Tomatoes and Vegetables. In addition to crops, Poultry production including broilers and eggs Production should also be funded, while livestock production in the form of meat, dairy and piggyery, and aquaculture in the areas of fingerlings and Catfish should be encouraged.

The distribution of amount of loans granted in Nigeria in 2012 by category of farmers show that ₦43,471,000.00 (86.64%) of the ₦50,171,000.00 disbursed to farmers during the period went to small scale farmers, while ₦6,700,000.00 (13.36%) went to medium scale farmers. This could suggest that the loan facility may have been granted to the intended beneficiaries, as these categories of farmers are the major food producers in the country.

### **Repayment of loans by Enterprise and Category of Farmers**

Analysis of the distribution of agricultural enterprises according to amount of loan repaid in 2012 shows that crop production repaid ₦16,174,526.00, while crop and livestock enterprise repaid ₦9,060,000.00 of the ₦19,337,000.00 it was granted. Similarly, poultry, fisheries and piggyery repaid ₦1,761,000.00, ₦1,405,000.00 and ₦1,025,000.00 respectively. With respect to repayment according to category of farmers, small scale farmers repaid only ₦25,420,526.00 (58.48%) of the ₦43,471,000.00 granted to them, while medium scale farmers repaid ₦4,010,000.00 (59.85%) of the ₦6,700,000.00 granted to them. The outstanding balance against small scale farmers is ₦18,051,000.00 (41.52%), while the



amount outstanding against medium scale farmers is ₦2,690,000.00 (40.15%). The overall repayment for the year 2012 is 58.66%, while 41.34% of the bank loans granted is outstanding. However, for the period 2009 – 2012, 49% of the bank loans granted to farmers were repaid, while 51% is outstanding. The repayment and default rates respectively were estimated using eqns. (2 & 3).

### **Impact of the amount of loan granted on beneficiaries' income**

In order to determine the impact of the loan granted to farmers on their income (farm plus non-farm income), eqn. (1) was estimated using the linear, double-log, semi-log and exponential functions. Following Olayemi and Heady (1981), the double log function was chosen as the lead equation and used for further analysis of the data.

$$\text{Ln}Y_i = \text{Ln}10.45 + 0.25X_i \quad \dots\dots\dots \text{eqn. (4)}$$

(12.52)      (3.60)\*

$$r^2 = 0.70 \quad F\text{-cal} = 43.75 \quad n = 185$$

\* Significant at 1% level

Ln = Natural logarithm

Figures in parentheses are t-ratios

The result of the regression analysis shows that the amount of loan granted to the farmers had positive impact on total income (farm income plus non-farm income) of the beneficiaries. The estimated coefficient associated with amount of loan granted is positive and statistically significant at 1% level. The positive relationship between amount of loan granted and total income of beneficiaries obtained in this study further confirms the response given by borrowers that the loan granted to them improved their output, and thereby improving their economic status. Some of the reasons given by farmers for the positive impact of the loan on their output include, increase in income through enhanced output, accumulation of more capital and savings, increased investment in agriculture through purchase of improved inputs, fertilizer and agrochemicals, and enhanced investment in income yielding non-farm activities. The result obtained here is consistent with Feijo (2001) who found that there was a positive impact on the lives of farmers who benefitted from the credit facilities of the program to support family farming (PRONAF) in Brazil by facilitating economic transactions, accessing services that improve quality of life, protecting against economic vulnerability, making productivity enhancing investments, and leveraging assets. With regard to the impact of the loan on farm output, it was observed that the loan increased national farm output by 20.33%.

### **Scope of Financing Problems faced by the Agricultural subsector in Nigeria**

In addressing the issue of the scope of financing problems faced by the agricultural subsector in Nigeria, it was considered pertinent to view it from the demand and supply sides of the problem. First, from the demand side by considering the total number of farmers that requested for bank loan in Nigeria during the period 2009 – 2012 and the amount of loan

requested for. Second, from the supply side by considering the number of farmers granted loan facility by banks during the period under review and the amount of loan granted to them. In line with this we have the following:

- (i) Number of farmers that requested for Bank loan, 2009 – 2012 = 27,987 persons
- (ii) Number of farmers that were granted Bank loan, 2009 - 2012 = 21,490 persons
- (iii) Number of farmers that were not granted Bank loan, 2009 - 2012 = 6,497 persons
- (iv) Volume of loan requested by farmers, 2009 - 2012 = ₦13,704,965,000.00
- (v) Volume of loan granted to farmers, 2009 - 2012 = ₦7,188,575,000.00
- (vi) Volume of loan applied for but not granted to farmers, 2009 - 2012 = ₦6,516,390,000.00

Therefore, to address the financial needs of the agricultural subsector in Nigeria, the problems created by denying 6,497 farmers access to institutional loan has to be addressed by addressing the factors that prevented the farmers from having access to institutional loans ab-initio. In doing this, the financial problems of the farmers in Nigeria would have been solved. This can be done through the following recommendations. First, the issues that relate to collateral requirements by banks must be reviewed. Second, the lending rate to the agricultural subsector must be addressed; while the apex bank should ensure that participating banks comply fully with the CBN guidelines on lending to the agricultural sector. For instance, how many of the rural farmers in Nigeria possess such collaterals like all asset debentures, legal mortgage, and evidence of farm land / landed property(C of O). If These recommendations are implemented, they will have the effects of filling the credit supply gap of ₦6,516,390,000 created between 2009 - 2012.

### **Review of the performance of the Lending Schemes in loan disbursement and recovery**

A critical look at the performance of the lending schemes in loan delivery and recovery during the period 2009 – 2012 showed that the schemes succeeded in making credit available to the targeted group of farmers, small and medium scale. A major factor that may have accounted for this could be found in the guidelines of each of the lending schemes. For instance, the ACGSF guarantees credit facilities extended to farmers by banks up to 75% of the amount in default net of any security realized. In addition to this, an interest drawback program was established to further encourage farmers' repayment of loans, reduce default and provide free funds for use by farmers in agricultural production. Under the interest drawback program, the CBN offers a rebate of 40% on the amount paid as interest on the loan by the borrower, provided full repayment was made as and when due, with a grace period of three months for delayed repayments after which a farmer is ineligible for the rebate. Apart from the interest drawback, there is also the collateral component to the lending institutions which does not only create incentives for borrowers to repay their loans, but shifts the risk of loss from the lenders to the borrowers. Under ACSS, applicants (practicing farmers and agro-allied entrepreneurs with means) can access funds by approaching their banks for loan through the respective state chapters of farmers associations and State Implementation

Committees. ACSS funds are disbursed to farmers and agro-allied entrepreneurs at a single-digit interest rate of 8.0 percent. Applicants who pay back their facilities on schedule enjoy a rebate of 6.0 per cent, thus reducing the effective rate of interest to be paid by farmers to 8.0 per cent, while under CACS interest on loan shall not exceed 9.0 per cent inclusive of all charges. These guidelines to a reasonable extent were responsible for the success recorded by the lending schemes in delivering credit to small and medium scale farmers. However, a closer look at the recovery/repayment of borrowed funds between 2009 – 2012 showed that the lending schemes may not have fared well. A repayment performance of (49%) of the borrowed funds for the period is not satisfactory. Considering the year 2012, small scale farmers repaid (58.48%) of the loan granted to them, while medium scale farmers repaid (59.85%). Although the repayment performance improved considerably in 2012, it is important that the performance of the schemes over a longer period be considered in order to make for a better understanding. However, it is recommended that the government should continue to lend to the agricultural sector.

## CONCLUSION

Based on the results of the analyses, it was concluded that the lending schemes have performed creditably well in loan delivery and recovery, and that the problem of lack of access to institutional loans in Nigeria could be solved by addressing the issues that relate to collateral requirements by banks, the lending rates to the agricultural sector, and the apex bank ensuring that participating banks comply fully with the Central Bank of Nigeria (CBN) guidelines on lending to the agricultural sector.

## RECOMMENDATIONS

- (i) It was recommended that the government should continue to encourage increased food production in Nigeria by small and medium scale farmers through the provision of institutional loans to these categories of farmers via ACGSF and CACS.
- (ii) Agricultural mechanization in Nigeria could be achieved through government intervention by the provision of agricultural equipment needed by farmers to mechanize.
- (iii) Farmers in co-operative associations should be encouraged to pull their farm lands together so as to cultivate large hectares of farm land under mutual agreement using modern farm equipment

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