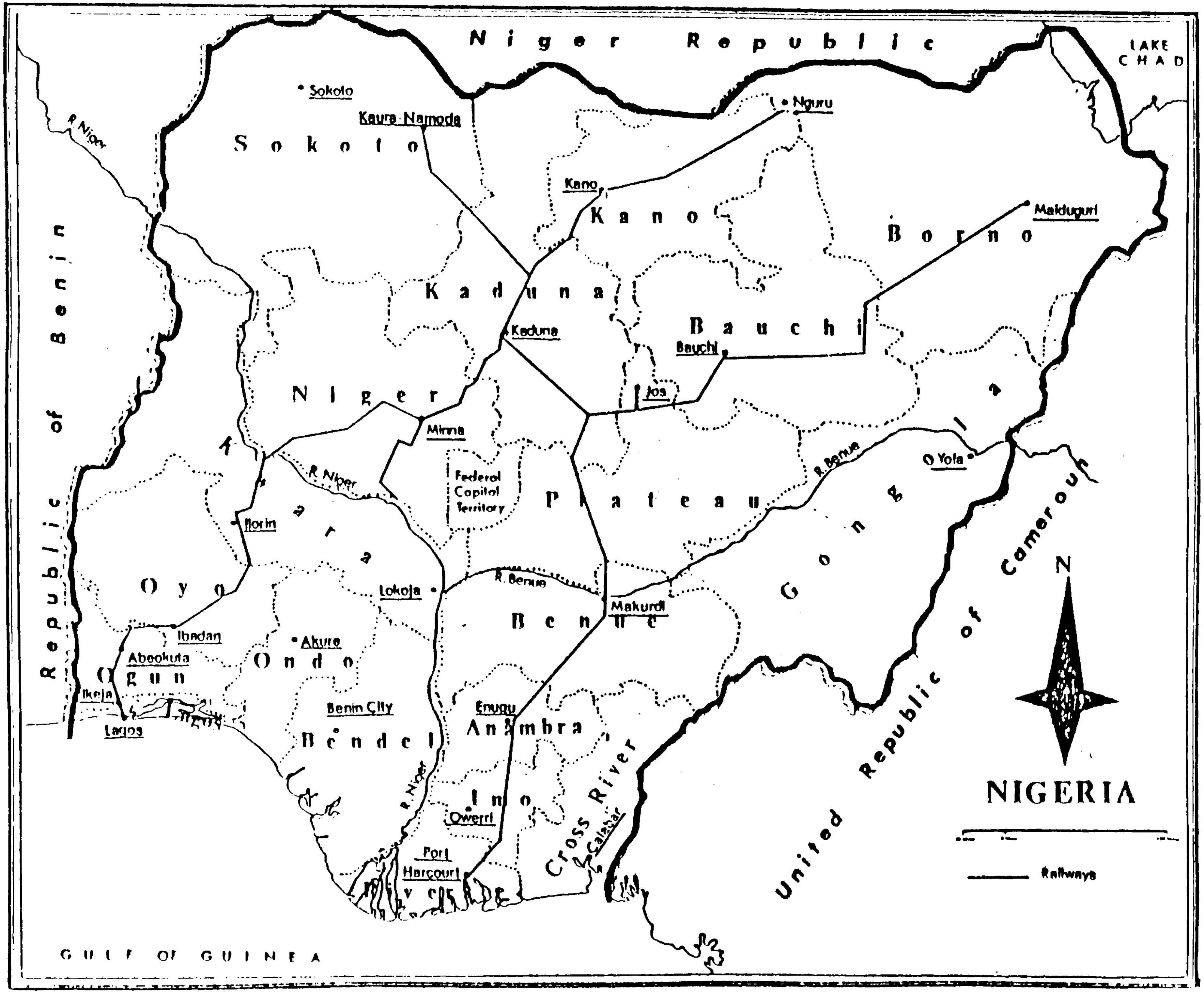
"RURAL FINANCIAL MARKETS" IN ANAMBRA STATE, NIGERIA, WITH SPECIAL REFERENCE TO FIVE LOCAL GOVERNMENT AREAS

Thesis submitted in accordance with the requirements of the University of Liverpool for the degree of Doctor of Philosophy

by KENNEDY CHINWUBA AKABOGU, September, 1986.

NIGERIA: Nineteen States



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TO UCHE, UDOKA, ENU, NNEDE AND EDE-AKABOGU

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DECLARATION

I hereby declare that this thesis has not already been accepted, in whole or in part, for any degree and that it is not being concurrently submitted in candidature for any other degree.

I also declare that the thesis is entirely the result of my own independent investigation, and indebtedness is indicated in the references and elsewhere in the text.

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LIST OF ABBREVIATIONS

1.	ADB	-	Agricultural Development Branch
2.	ACFA	-	Anambra Cooperative financing Agency
3.	ACGS	-	Agricultural Credit Guarantee Scheme
4.	CBN	-	Central Bank of Nigeria
5.	Cmnd	-	Command Paper (UK)
6.	CPO	-	Central Planning Office
7.	CSNRD	-	Consortum for the Study of Nigerian Rural Development
8.	ECA	-	Economic Commission for Africa
9.	FAO/UN	-	Food and Agricultural Organisation (of the United Nations)
10.	FOS	-	Federal Office of Statistics
11.	GDP	-	Gross Domestic Product
12.	HMSO	-	Her Majesty's Stationery Office
13.	IBRD	-	International Bank for Reconstruction and Development (World Bank)
14.	IMF	-	International Monetary Fund
15.	LDCs	-	Less Developed Countries.
16.	LICs	-	Low Income Countries
17.	NACB	-	Nigerian Agricultural Co-operative Bank
18.	NIDB	-	Nigeria Industrial Development Bank
19.	ODI	-	Overseas Development Institute
20.	OECD	-	Overseas Economic Commission and Development

21. OFN - Operation Feed the Nation
22. RFMs - Rural Financial Markets
23. ROSCAs - Rotating Savings and Credit Associations
24. USAID - United States Agency for International Development
25. UNCTAD - United Nation Conference on Trade & Development
26. UNECA - United Nation Economic Commission for Africa
27. UN - United Nations

PREFACE

The purpose of this study is to analyse the activities of the Rural Financial markets in Anambra State of Nigeria given the environment of rigid socio-economic change and the urgency and the importance attached to the improvement of the rural economy by the present Nigerian Federal administration.[1] There are two principal areas involved. First, the analysis of the informal rural financial markets (e.g Pre-cooperative organisations, Esusu, etc.). Second, the role and impact of formal financial markets through the special programmes of the governments and their agents. The analysis of formal markets are divided into two parts: (i) the registered cooperative societies which bear resemblance to pre-cooperative organisations, but which as discussed in Chapter 3 and 4, differ from them in activities and operations; (ii) financial institutions such as commercial banks, development banks, agricultural banks, etc.

In the course of the study, it will be argued that credit is one of the most important factors in the rural development process and that rural financial markets constitute useful vehicles for mobilizing savings and extensions of productive credit in the rural economy (especially among the peasants).

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1. Federal Government <u>Fourth National Development Plan</u>, Federal Office of Statistics, Lagos.

The objectives of Federal government policy in the attempt to improve the rural economy was spelt out in the 2nd National Development Plan and amended in the subsequent National Development Plans as follows:

> "(1) to narrow the gaps between the rural and urban communities and to integrate rural people into the nation's way of life;
>
> (2) to design measures that will improve the attitude and performance of the government field services towards the rural communities;
>
> (3) to involve methods that will bring up-to-date devices within the reach of rural people;
>
> (4) to promote the spirit of initiative and self-reliance in the rural areas by helping to organise them to realise their potentials and
>
> (5) to design and improve methods of mobilizing the rural people and their local resources with a view to increasing their production/income that will help to raise their standard of living."(1)

Furthermore, as noted in the 1983 budget Speech by President Buhari(2) and reiterated by President Babangida in the 1985 budget Speech,(3) there are urgent needs for alternative sources of foreign exchange earnings due to the downward trend of oil

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1. See The 2nd, 3rd, and 4th National Development Plans, 1970-85, Federal Office of Statistic, Lagos.
2. See West Africa, January issues 1984.
3. See Daily Times, 15 December 1985.

price caused by the World recession.[1] Thus, one of the Federal Government objectives, is to increase substantially the production of food expecially yams for export to Western countries. The Government hoped that this will help to reduce the deficit in the balance of trade with Western countries, particularly Britain.

To help the government achieve these objectives, the Federal Minister of Employment, Labour and Productivity has entered into talks with the representative of ILO to set up Youth mobilization and training programmes in rural areas of Nigeria.[2] According to Tchaptchet, the ILO Director for Ghana and Nigeria,[3] the programme will take off in early 1987 and is intended to develop non-farm activities, for example, carpentry, blacksmithing as well as improving other traditional technologies of the rural communities in order to reduce unemployment and minimise migration to urban cities.

It was against this backgorund that this study sought to examine the existing institutional arrangements, the relationship between the formal and informal rural markets, the method of government intervention and the likely short-comings in any new

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1. Ibid.
2. See Daily Times, 10 August 1985
3. See West Africa, 5 September 1986.

institutional arrangement. We therefore concentrate our attention on the last point of the objectives of Federal Government policy (i.e to design and improve methods of mobilizing the rural people and their local resources with a view to increasing their production/income that will help to raise their standard of living). In doing so, we realise that it is imperative to analyse the activities of the RFM's since these markets have been the major sources of finance in the rural economy.(1) It is also important to analyse the possible relationship between formal and informal RFMs which may speed up the development process. We investigated the activities of pre-cooperative organisations, the Esusu Clubs etc., the aim was to portray their importance in the mobilization of funds in the rural areas which has not been given credence by sucessive governments.(2) This investigation was important because all efforts made by the governments in the past to encourage these rural communities to regularize these organisations or switch to formal organisations failed.(3)

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1. W.O. Uzoaga, Agricultural Credit in Financial Institutions and the Business Community, Economic Development Institute, University of Nigeria, Enugu Campus, 1973, P.31

2. Ibid.

3. Ibid.

As evidence collected for the present study and earlier published studies show[1] these informal organisations have remained the crucial and major sources of finance to the rural economy.

The study has been carried out by means of extensive interviews with the farmers and peasants and by the use of questionnaires. Interviews and questionnaires were also used to obtain data for the analysis of the formal organisations. An attempt is made to present the links between the formal and informal sectors of markets, the shortcomings in their activities and the influence of the government.

There are various phases of development of rural economy (particularly farming) that are analogous to the provision of finance, which subsequently depends on the effectiveness of RFMs. According to Obinna,[1] if the level of integration into the economy is taken as the differentiating factor, the rural farmer can be seen to pass through a number of development phases (it is assumed that these development processes are equally applied to other sectors of the rural economy).

The first development phase is dominated by a subsistence approach to living and producing. In this development phase, the aim of the farmer would be to ensure the best possible provision of foodstuffs and other factors contributing to the

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1. O.E. Obinna, Strategy for rural development, <u>Daily Times,</u> Nigeria, November, 19 1975, P.7

wellbeing of his family. With the aid of crude implements, the subsistence orientated farmer seeks to maximise production, not necessarily maximise profits or income. In this case one would expect the first moves towards marketing agricultural products to occur spontaneously in the sense that they are not induced by concerted planning for surplus production.

The second phase can be called a transitional one, from a mainly self-sufficient to a more market orientated farming system. This phase is largely determined by the subjective value attached to new consumer goods introduced to the farming population from outside, the degree and intensity of contact with strangers and the prevailing social structure.

The Third phase, the agricultural investment phase is characterized by a rapid increase in the production of cash crops. In Anambra State as well as Nigeria as a whole, the most important production factor in achieving this increased production are finance and intensive labour, and increasing consumer expenditure leads to the beginnings of capital formation in the agricultural sector. This phase would last as long as land is more abundant than labour. Once the critical point is reached, measures are taken to increase the farmer's production by means of intensified land use and the purchase of improved means of production.

This development step can be regarded as the start of introduction of modern technologies and it can only be feasible if outside support in the form of credit facilities to provide working capital are forthcoming. The small farmer in this situation is disinclined to take risks and is ill-equipped to assume responsibility for such risks. His disinclination to take risks can be measured from both economic and social aspects. Assuming responsibility for economic risk can endanger social status, marriage chances, or other political and cultural provileges which the farmer may enjoy in his village.

The fourth development phase is characterized by the accumulation of cash reserves as a result of a growing tendency to save. In this development phase, the farmers in LDCs seldom reach the transition to extra-agricultural investment, low level of skill and lack of management training imply that a large number of failures are inevitably to be witnessed. In the early stages of phase four, co-operative forms of ownership accelerated capital formation by the pooling of individual capital reserves. This search for capital investment possibilities outside the farmer's holding is not limited to tangible investment only.

This type of investment includes not only deposits in the banks, savings associations and mutual loan societies, but also the granting of private loans and participation in traditional savings and loan societies. If circumstances do not permit the farmer-saver to take part in the former, then the latter form of external investment is an important alternative.

The fifth development phase, that of investment in non-tangible assets in the non-agricultural sector, can be reached once investment in the tangible assets are successfully managed. The typical areas for investment are the marketing and processing of agricultural products. This phase marks the end of development phases and the socio-economic development path.

In the first development phase no goods are traded, and farming people therefore have no need for money as a means of payment. The transition to the agricultural investment phase is accompanied by an initially non-monetary form of barter. As financial development begins to take shape, self financing still pre-dominates. One would then expect direct finance and credit relations between economic agents without the intervention of banking institutions to follow as a result of the setting up of barter relations. This can come in the form of credit in kind, non-monetary payments of workers, and sharecropping. In this direct monetary financing system the main means of payment will be at first gold, cowrie and later coins and notes.

Once the agricultural investment phase sets in, indirect financing, i.e the intervention of banking institutions, gradually takes over from direct financing. For the indirect financing to take-off smoothly, a substantial change in the traditional behaviour patterns of the rural population is necessary.

The transformation of tangible savings into non-tangible savings are at first determined by investment policy of the rural household. The decision as to whether savings be kept in cash at home or put into bank deposits is dependent to a great extent on whether such appropriate bank services are available.

Rural people's willingness and capacity to save are substantiated by a number of empirical findings,(1) which have shown that rural inhabitants are notorious money hoarders, and are at the same time burdened with high interest on loans. This permits us to interpret rural farmers' behaviour as - on the one hand to have access to alternative sources of finance, namely self-finance or outside finance; and on the other hand they intentionally pursue a good risk finance policy, (i.e due to lack of skill and technical assistance, farmers are afraid to take high interest loans). This is probably one of the reasons why public credit programmes do not so much stimulate agricultural production or replace unorganised credit. For example, an investegation conducted in Zambia by Chambers ,(2) showed that credit

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1. David Kleinman, 'Why developing Countries need better domestic capital markets', The Banker, November 1972, P. 1404-1406.

2. Robert Chambers,'Health, Agriculture and Rural Poverty: Why seasons matter', The Journal of Development Studies. Vol. 18, 1982, 2, P.10

was not a suitable instrument for persuading farmers to adopt improved production technology, it was however, able to incite those farmers who had already self-financed experiments in this direction to increased use of improved technology. In other words credit is particularly inclined to accelerate the introduction of technological production if, before and during such an introduction, the farmer disposes of his own capital to serve as the risk-bearing capital.

The work of Patrick[1] in the late 1960s, and the recent work of Sideri[2] in the middle of 1980s analysed the opposite cases of Demand-Following and Supply-Leading Finance. Financial policies that are viewed as ineffective or reaching passively to the growth of the real economy, they termed demand-following finance. Thus as the economy moves from traditional subsistence production grows and becomes monetized (i.e Production Process moves from first phase to the fourth phase), certain demands are generated for the services of financial institutions. Such demands are created by the growing needs of rural economy for external

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1. H. T. Patrick, 'Financial development and economic growth in underdeveloped countries', Economic Development and Cultural Change, Vol. 14, 1966.

2. S. Sideri, "Savings Mobilization in Rural Areas and Process of Economic Development," Savings and Development No. 3, VIII, 1984.

finance as their retained profit falls short of their investment needs. This type of financial development's contribution to economic development is minimal, they argued.

The properties of supply-leading finance are in many ways the exact opposite of those of demand-following financial development. According to Sideri[1], the positive growth-inducing aspects of supply-leading financial developments are attributed to their allocative efficiency and their encouragement of enterprise. This is done by transferring resources from the traditional non-growth producing sectors to the modern sectors of the economy with higher growth potential (move from first phase of development to fifth phase), hence growth of the economy is enhanced. The growth-inducing tendency of supply-leading finance is analogous to the Schumpeterian concept of innovation finance,[2] i.e where innovative producers gain control of the factor resources through bank intermediation only.

According to Patrick,[3] supply-leading finance can also encourage entrepreneurship, and where the enterprise is not developed, he argued, the Banks can stimulate it. The availability

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1. Ibid. p.32

2. See Agu, C.C., 'The Role of Commercial Banks in mobilization and allocation of Resources for Development in Nigeria', Savings and Development No. 2, VIII 1984, p.135-158.

3. Patrick Op. cit., p. 103

of finance alone could affect the operations of the small farmers, merchants and traders with which most developing economies are abundantly endowed.

There is no evidence to prove that the establishment of financial institutions is a pre-condition for growth. But as argued by Sideri[1] financial development and economic growth go hand in hand. Where the financial system is repressed, the growth of the financial system is slowed down and this has the effect of slowing down the growth and development of the overall economy.

However, as empirical evidence[2] has shown, supply-leading finance has not worked in Nigeria, since transferring resources from traditional non-growth producing sectors (i.e rural areas) to the modern sectors (urban areas) of the economy have not yielded the expected results because of highly corruptible officials, lack of technology and management skill, etc. In the light of this, it is our aim in this study to focus on the Demand-following Finance since the Government emphasis now is to improve the rural sectors of the economy (particularly agriculture).[3]

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1. Sideri, S., Op. cit., P.38

2. See A. Osuntogun and Remi Adeyemo, Mobilizing Rural Savings and Credit extension by Pre-cooperative organisations in South-Western Nigeria, Savings and Development, No. 4, V, 1981, P. 247. See also various C.B.N. Reports, 1980-1985.

3. See The 4th National Development Plan 1980-85, P. 135.

The proposition that the provision of external finance (e.g Loans) increases farm expenditure is based on two assumptions[1]: Firstly, it is assumed that external credit may not prejudice the availability of other forms of finance. However, Stockhausen[2] argued that as soon as external credit begins to reduce contributions from other societal agents, or limit small-holders savings activities, total access to finance can become less than it was before the provision of the external credit. Secondly, it is assumed that the farmer uses the financial resources at his disposal for productive agricultural investments. This assumption depends on the availability of profitable production technology and on the subjective assessment of advantages made by the farmer concerned. It also depends on the right and duties of the farmer in respect of the social environment.

Having noted these considerations, it is clear that a purely static response (i.e lack of modern technology) cannot cover all aspects of productive use of credit within a farming unit. So one could conclude that in the agricultural investment considerable importance is attached to the farmer's own resources as the risk-bearing capital, while outside capital assumed more the role of supplementary financing and guarantee of liquidity.

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1. Stockhausen, J.V., 'Credit for Development' in Savings and Development, No. 2-3 1981, V, P. 175

2. Ibid.

Furthermore, since the Nigerian rural economy is noted for low levels of savings and limited capacity to fund the investment expansion, rapid growth is more likely to be constrained by gaps relating to savings and investment. A major theme of the study, therefore is that RFMs are important in filling these gaps.

The study is based on research carried out in Anambra State of Nigeria (see the attached map) between August and November 1984 (see also the introduction for methodology).

The analytical issues and the theoretical background to rural financial intermediaries is discussed in Chapter one. Also discussed in this chapter are the concept, structure and definition of financial markets as they apply to the rural economy.

The development and growth of Indigenous Savings and Credit Societies in LICs and how they influence the role expected of rural financial markets in the context of savings mobilization is our object of discussion in Chapter two. In Chapter three we investigate and analyse the role and impact of pre-cooperative organizations in mobilizing of capital in the peasants economy in Anambra State.

Chapter five focuses on the problems of Rural Banking as a strategy for rural development in Nigeria.

Chapter six appraises the role of commercial banks and agricultural extension and the linkage between agricultural extension services and rural banks.

In Chapter seven we examine the activities of Rural and Informal capital markets with special attention to the 'Gap' in the Financial System.

Chapter eight analyses this 'gap' in terms of special problems of agricultural and small industrial enterprises.

Finally, Chapter nine concludes the study with a view to portraying areas of further research.

PART ONE 'A'

INTRODUCTION AND ANALYTICAL ISSUES

INTRODUCTION AND DEFINITIONS

It is believed that about one-fifth of the world population is rural. In an estimation of about 2 billion people in Third World countries of Asia, Africa and America, three-quarters live in rural areas, of whom about 1000 million earn less than £45 per annum.

There is much evidence to show their abject poverty, illiteracy, malnutrition, poor habitat etc. (The recent calamities in Ethiopia, Sudan, Chad, etc, though many of these are characterised by chauvinistic power politics, but are indications that these Third World countries have neither skills nor resources to help themselves especially during crises). The rural people are mostly small farmers, landless labourers or those who cling to informal rural service sector or simply those who depended on subsistence farming.

Decision takers, Managers, Economists, Politicians, etc., in Nigeria (as well as in most developing countries), are becoming increasingly aware of the fact that, there would be no real meaningful improvement in social and economic well-being of the country as a whole without a substantial improvement in the rural economy[1].

According to Agu,[2] the major obstacle to development in most Third World countries are underdeveloped rural economy, and that a neglected and underdeveloped rural economy will have retarding effects on efforts to promote accelerated economic development of the overall economy.

As stated by Mazuri,[3] a major identified hindrance to improvement in the rural development is the problem of mobilization of resources. Mobilization of resources is crucial in achieving economic "take off" of the rural economy. A first step to resource mobilization for development purposes is the mobilization of financial resources. The mobilization of financial resources leads to capital formation. Capital formation requires the release of domestic goods and services for real investment and development purposes. Therefore since the rural economy represents[4] a substantial proportion of the Nigeria's human and natural resources, large

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1. See the 2nd and Third National Development Plans 1970-74 and 1975-80. First and 2nd progress reports, Federal Ministry of Economic Development, Lagos.

2. C.C. Agu, Rural Banking: A Strategy for Rural Development in Nigeria - an Appraisal, Savings and Development NO.1 1983 - VII.

3. See J.S.G Mazuri "Some Aspects of the Development of Capital Markets", Banca Nazionale del Lavoro Quarterly Review, XIX, P.263-310, 1980

4. According to the latest report (see the statistical Report - Central Planning Office, Lagos December 1984). Over 75% of the Nigerian population live in the rural areas.

amount of capital is needed to help transform and modernize this sector of the developing economy. It is, therefore, worthwhile to investigate alternatives for encouraging rural savings and channelling them to finance the improvement in the rural economy.(1)

Rural Financial Markets (RFMs) are, therefore relevantly important agents which are expected to encourage and mobilize savings and also channel such savings into productive investment in the rural areas.

<u>What is a Rural Financial Market?</u>

A rural financial market consists of relationship between buyers and sellers of financial assets in rural economies. These relationships are based on transactions that include borrowing, lending, and transfer of ownership of financial assets. Financial assets consist of debt claims and ownership claims. Debt claims are promises to pay. Examples include verbal promises or scraps of paper signed by a thumbprint, as well as more formal evidence of indebtedness by individuals, and deposit accounts that are debt claims on banks. Ownership claims give the holder rights of access, use, or control. Co-operative shares are a common example of this type of rural financial asset.

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1. For similar investigation, see Osuntogun, Some Aspects of Farm Credit in Western States of Nigeria. <u>Savings and Development</u>, 4, 1981,V.

RFMs include informal-sector intermediaries, formal institutions, and private borrowing and lending not involving intermediaries. Financial markets are often characterized by intermediaries between savers and borrowers: banks, government credit institutions, and cooperative savings and loan operations. These organisations are only a part of the markets. However, they would not be able to provide their services, linking buyers and sellers of financial assets, unless there was a demand for intermediation from the rural individuals, households, and the farm and non-farm enterprises that make up the markets.

Intermediation occurs when financial claims provided from the savings of individuals or firms are recycled by third parties to others who seek command over resources by borrowing or by selling ownership claims. Intermediation permits the transfer of these claims through time and space, and intermediaries generally pool funds from savers and disaggregate them among borrowers.

SUMMARY OF RECENT PERFORMANCE OF RURAL FINANCIAL MARKETS

During the past three decades financial services have expanded substantially in the rural areas of many low income countries. This has included the funding of a large number of rural credit projects, major increases in volume of formal loans, building many new financial institutions, and mobilization of financial savings. The overt objectives of these activities have been to increase agricultural output, to ease rural poverty, or to off-set the effects of disasters or public policies that damage rural interests. Despite the very substantial changes realised, the overall performance of rural financial markets (RFMs) is said to be unsatisfactory.(1)

Formal RFM activities in a majority of the low income countries are fraught with problems and they are contributing little to development.(2) In the following discussion we attempt to analyse and clarify the main issues that must be addressed if the performance of RFMs is to be understood and also improved. This includes a brief review of historical

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1. For a review of these problems see the various papers prepared for the Agency for International Development, Spring Review of Small Farmer Credit, 1976. See also G. Donald, Credit for Small Farmers in Developing Countries, Westview Press, Boulder, Colorado, 1976.

2. Ibid.

views on financial markets, a critique of the assumptions that underline many programmes in the area, and summary of common problems and policies.

Evolution Of Views On Rural Financial Markets

Views on the role of finance in economic development have changed substaintially. For centuries, financial market activities were viewed with hostility, and usury was widely condemned. Both 'Bible' and the 'Koran', forbid the taking of interest.(1) These negative attitudes towards financial markets were found in America as well as Africa.(2)

During the past century much of the animosity towards banks and lenders in general has disappeared,(3) at least in most Christian countries. Initially, this was replaced by a feeling that financial markets played largely a neutral or passive role in development. Some have argued that these financial services emerged as the demand for financial intermediation is created by growth in real economic activities.(4)

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1. See B.N. Nelson, The idea of usury: From Tribal Brotherhood to Universal Otherhood, Princeton University Press. New Jersey, 1949.

2. Ibid.

3. The reversion to strict Islamic Laws on interest payments in several Islamic countries, and the blowing up of the Central Bank in Kampuchea suggests that a good deal of suspicion still exist. Ibid.

4. See H.T. Patrick, "Financial Development and Economic Growth in underdeveloped countries", Economic Development and cultural change, Vol 14, No.2, January 1966.

It is argued that loans are merely "lubricants" for real production processes. The introduction of a high yielding wheat variety, for example, may stimulate farmers's demand for purchased inputs. Farm households lacking sufficient liquidity to buy optimum amounts of these inputs seek loans to satisfy their additional needs for liquidity.

In the past 20 years it has become common in many countries to attempt to use financial markets to force the pace of economic development - a "supply led" strategy. According to Adams,(1) policy makers have concluded that rapid expansion in the supply of financial services combined with concessionary interest rates and non-market loan rationing, can be used to accelerate economic development. As would be evident in this study, a few observers have recently focused criticism on the distortions in financial markets caused by this strategy. They have concentrated particularly upon interest rate policies with critics claiming that low and fixed interest rates on financial instruments retard savings and capital formation, fragment financial markets, cause inefficient allocation of resources, and also cause further distortion in income distribution and asset ownership.(2) They go on to argue that policy

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1. Adams D.W., 'Mobilizing Household Savings through Rural Financial Markets': Economic Development and Cultural Change, Vol. 26, No.3 April 1978, P.303

2. See for example, E.S. Shaw, Financial Deepening in Economic Development, Oxford University Press, New York, 1973, R. I. Mckinnon, Money and Capital in Economic Development, The Brookings Institution, 1973

makers should adopt flexible interest rates that adjust with general price changes, and that this would cause financial markets to play a positive role in the development process.

Concerns about the effects of supply led strategy are particularly relevant in low income countries, where RFMs are heavily distorted. In most cases, formal RFM are forced-fed large amounts of funds by Central Banks, and interest rates are set below other rates allowed on non-agricultural loans: it is also common for the policy makers to fix interest rates still lower on loans for the rural poor. Usually, RFMs are more heavily administered, regulated, and distorted than any other set of markets in the country. Unfortunately, many of the policies that strongly affect the performance of RFMs are built on assumptions which have not been verified.

Common Assumptions

A casual observer is often impressed with the uniqueness of RFMs in each country. In part, this is due to the diversity found among financial institutions servicing rural needs. More careful analysis, however reveals a large number of similar assumptions supporting most rural credit-savings programmes. To understand the current maladies in RFMs, it is necessary to expose and evaluate these assumptions.

At the farm-household level it is often assumed that the rural poor face credit shortages, that they pay exorbitant amounts for the use of informal loans, and that they need careful supervision in order to use loans wisely. It is further assumed that most farmers need additional loans in order to adopt profitable new technology, and that concessionary interest rates are needed on formal loans to induce farmers to borrow.[1] It is also assumed that interest charges make up the bulk of the borrowing costs for most farmers, and that the loan demand among most farmers, especially small farmers, is interest rate elastic. Typically, rural households are also stereotyped as having little or no voluntary savings capacities.

Adams[2] in his book argued that several strongly held assumptions relate to lender behaviour. These he argued include the feeling that informal lenders provide the majority of the loanable funds in most low income countries, and that formal lenders are tradition-bound and do not make loans in a socially desirable manner. It is also assumed that formal lenders can effectly ration funds by granting loans only for production or by making loans in-kind. Policy makers also feel that formal credit should not be extended for consumption purposes.

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1. See G. Donald, Op. cit., P.53
2. D.W. Adams Op. cit., P.321

Important assumptions about informal lenders are also prominent. As argued by Ojo,[1] there are general feelings that money lenders regularly extract large monopoly profits, charge exorbitant interest rates, take advantage of the economically weak, and fail to provide legitimate economic services. As a consequence, it is widely felt that they ought to be closely regulated.

There are also some widely held assumptions about the overall performance of RFMs in low income countries. One of the most common is that RFMs can be closely regulated and their performance controlled by administrative fiat. Governments often feel the need to be visibly active in rural areas, and it is common for new agricultural programmes to be established to include loan supply increases as well as concessionary terms. They may also include refinancing or forgiving of previous debt.[2] Some Governments also try to offset product pricing policies or exchange rate policies that are adverse to farmers, by introducing concessionary interest rates in RFMs. As Donald[3] also argued, Foreign aid agencies eagerly jump into this process because it is generally easy for them to prepare and implement agricultural credit projects.

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1. Ade T, Ojo, "Nigerian Financial System" UCNW occasional paper. p.69, 1978

2. See H.T. Patrick, Op. cit., p.32

3. G. Donald, Op. cit., p.32

Common Problems

It is generally accepted that because many of these Third World countries base their RFM policies on similar assumptions, so it is inevitable that their policies are very much alike. This includes low and inflexible contractual interest rates on agricultural credit and deposits, major infusions of loanable funds into RFMs via Central banks, and formation of new specialized institutions to provide financial services to specific segments of the rural population (e.g 'Agricultural Bank' set up in Nigeria)(1). It is also common for governments to attempt to alter the performance of RFMs by some combination of policies.

Two sets of problems tend to be associated with these activities. The first set includes relatively tractable, and widely recognized problems that are often associated with any new business: management and training difficulties. As argued by Rahim,(2) there is always a shortage of adequately trained people to fill positions in financial institutions. As a consequence, there is often slowness in making loan decisions, high cost lending operations, data processing problems, poorly designed loan repayment procedures, and lack of coordination between credit programmes and other development efforts.

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1. Agricultural Bank will be fully discussed in chapter six

2. A.M.A Rahim, "The Performance of the Banking System, 1971-1977", Journal of the Institute of Bankers Bangladesh, Vol.6, December 1977.

He also argued that as financial markets develop, most of these problems are eased off.

According to Harlander and others,[1] the second set of problems is much less widely recognized, though probably more important. These problems may be labelled "unsatisfactory performance of RFMs". They argued that at least ten features of this unsatisfactory performance are present in a large number of low income countries. In most of these countries, those problems have intensified during the past few years. They include the following:

- With significant amounts of inflation, it is often difficult for some governments to increase or even maintain the purchasing power of the formal agricultural credit porfolio. Capital erosion caused by fixed interest rates and substantial inflation is often a major contributory factor;

- Serious loan repayment problems further reduce the vitality of some loan portfolios. In many cases these loan repayment problems emerge in all loan size groups;

- it is often the case that financial markets resist lending to the agricultural sector. In some cases changes in the economic environment may cause financial markets to retract from agricultural lending;

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1. Harlander, Hildegard and Mezger, Dorothea, Development Banking in Africa - seven case studies, Ifo - Institut fur wirtshaftsforschung Munchen Afrika - studienstelle, Weltforum verlag, Munchen, 1971.

- closely associated with this, it is very difficult to induce RFMs to service the rural poor. Under some conditions RFMs may resist lending to small farmers even more strongly than they resist lending to agriculture in general;
- in almost all cases, RFMs do not provide a significant amount of medium and long-term loans. The average term structure of the formal loan portfolio is quite short, and much of the agricultural credit is granted for only a single cropping season;
- in most countries the RFMs are ineffective in mobilizing voluntary rural savings. With only a few exceptions, formal RFMs largely depend on central banks to supply a large part of their loanable funds. Many agricultural banks do not provide savings deposit facilities. In few cases where rural institutions do mobilize financial savings, they are often siphoned out of rural areas for use in urban areas;
- it is also common for formal lenders to pass on at least part of their relatively large loan transaction costs to their borrowers. These costs are transferred from the lender to the borrower indirectly by lending procedures;
- typically, RFMs are badly fragmented. Each lender tends to service a narrow slice of the rural population. There is also relatively little competition between formal and

informal lenders. As a result, a wide range of interest rates and borrowing costs can be found across RFMs and intermediation by RFMs does not result in efficient allocation of resources. Some individuals are forced to consume their "surpluses" or invest them in very low return activities, while others avoid profitable opportunities because they lack additional liquidity;

- in many countries, activities in RFMs adversely affect income distribution and asset ownership. In large part, this is due to the concentration of most formal loans in the hands of relatively few borrowers. These fortunate borrowers may realize an income transfer due to negative real rates of interest on the credit. They may add to this by turning a profit through the productive resources from less fortunate non-borrowers. As a result, non-borrowers are forced to do without. Small savers are almost always denied decent rates of return on their financial savings deposits;

- many current RFMs policies make it very difficult to introduce successful innovations into rural financial markets. Typically a promising RFM innovation is tried on a pilot basis,(1) but ultimately fails because it cannot reduce cost enough to overcome the effects on lender revenues of suppressed interest rates. As a result, many innovations in

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1. For further discussion on the strategies and techniques see Ade T. Ojo, Op. cit., P.40-68.

RFMs are aimed at getting round the regulations. These kinds of innovations increase rather than decrease the costs.

Governments use several general strategies in attempts to alter the performance of RFMs. One of these strategies is creating new specialized financial institutions to service the needs of a specific target group in rural areas. Another strategy concentrates on inducing a major part of the financial system to provide more financial services in rural areas. This latter strategy may include large increases in the supply of formal loans, nationalization of all or part of the financial system, use of loan size limits, and adoption of lending quotas. It may also include policies such as loan guarantees or crop isurance, differential rediscounting spreads, government purchase of equity in financial institutions, and differential interest rates for various ultimate borrowers. A brief critique of these strategies and techniques follows.(1)

New Institutions

It is a general practice in Developing Countries for governments to attempt to achieve certain goals by focussing on one segment of rural population. In many cases target groupsin rural areas, such as small farmers or livestock

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1. See Ojo, A.T., Op.cit, p. 40-68

producers, are thought to have unique need that require a new financial institution. A supervised credit programme, new agricultural banks, co-operatives, or commodity banks are often established to service these needs.

Frustration over this poor performance often results in new facilities being built. Many governments feel that the new facilities will be more flexible, enlightened, and more co-operative in helping governments to achieve public goals. Typically, however, the new institution is staffed with individuals hired from existing financial institutions. Also, the new institution usually is required to operate within rules laid down for other lenders. Governments or foreign agencies usually provide special short-term subsidies to start the institution. A small farmer credit agency, for example will quickly fill its loan portfolio with loan meant for the operators of small farms. In some cases, many of these "new" borrowers are former borrowers of other financial institutions who have been encouraged to seek credit from the new agency. Ironically under this system, governments often feel good about reaching the target group, and foreign agencies feel that the terms of their loans or technical assistance have been met.

However, for a few years, things proceed relatively smoothly. Some of the farmers who received credit the first year or two have problems repaying loans, but are refinanced.

However, as the agency starts to question the refinancing of short-term loans, a number of medium-term loans become due, and it shows the expansion in volume of loans, loan repayment problems become much more visible. At the same time, foreign agencies or national governments begin to insist that the lender do without external subsidies. The lender often gets a double blow: default problems escalate about the same time that subsidies are withdrawn.

The existence of the lender is threatened unless these two problems can be resolved. Usually, lenders do this by rotating their loan portfolios towards those borrowers with better repayment records, those cheaper to supervise, those with good loan collateral, and those whose loans result in relatively low marginal costs to lenders. As Adams rightly stated:

> " country after country has gone through the frustrating experience of seeing credit agencies set up to service the rural poor, but later rotate their activities away from the original target group."(1)

Supply Increases

The rationale for using the technique of supply increase is that if sufficient loanable funds are poured into RFMs, eventually some of these funds will filter down to the desired

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1. D.W. Adams, Op. cit., p.330

target groups. Results from the Brazilian experience,(1) however, strongly suggest that large supply increases, when combined with concessionary interest rates, may not reach a large majority of the rural residents. Adams and Tommy,(2) report that very little of the three-fold real increase in formal credit in Brazil over the 1965-1969 period filtered down to small or new borrowers in one area of Southern Brazil. Out of a total of 338 representative farmers surveyed, they found that eleven of the largest farmers received over two-third of the increase in volume of formal loans made to all 338 farmers over the 1965-1969 period. They also argued that because of negative real rates of interest in Brazil, borrowers who have access to the "sweet money" request for a large amounts. Lenders at the same time, have strong incentives to concentrate loans in the hands of borrowers who have substantial wealth, experience with the lender, secure collateral, and who will take large loans. The net result is that very little of the increased supply of cheap loans filters down to small and new borrowers, despite major increases in credit supply.

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1. D.W. Adams and J.L. Tommy, "Financing Small Farms: The Brazilian Experience 1965-1969" Agricultural Finance Review, Vol. 35, October 1974, P.36-41

2. Ibid.

Nationalization

Several countries including India, Bangladesh, Costa Rica, Sri-Lanka and Afghanistan have nationalized part or all of their rural financial markets in attempt to influence their performance directly. Evidence[1] especially from Bangladesh, India, and Costa Rica, suggests that nationalization may have a weaker effect on lender behaviour than many policy makers had hoped. It is relatively easy to draw up regulations for a financial system, but difficult to enforce these regulations where decision-makers affected by these regulations are widely dispersed. In market economies, it appears to make little difference whether lenders are private, mixed or publicly owned; managers are judged by the amount of economic surplus they generate.

Loan Size Limits

A few countries have used loans size limits in attempt to force lenders to alter the make-up of their loan portfolios. These limits often specify a maximum size loan. The policy maker assumes that these limits will force lenders to direct part of their lending to new, or more socially desirable activities. Unfortunately, loan size limits are often ineffective in forcing lenders to alter loan portfolios. If lenders reduce the number of large loans, they will often

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1. See R.I. Mckinnon, *Op. cit.*, P.23

experience a substantial increase in lending costs. To avoid this, lenders may meet the 'letter' of the loan size regulation, but evade the spirit, by making multiple small loans to farmer borrowers of large amounts.

Lending Quotas

Most low income countries use some form of lending quota as a way of allocating loanable funds among sectors of the economy, among lenders and among ultimate borrowers. At a sectoral level, governments may impose certain minimum percentages or amounts that institutions must lend to certain sectors. For example, in Thailand during the middle 1960s, all commercial banks were required to lend a minimum of eleven per cent of their loan portfolio for agricultural purposes. Also in Colombia, banks had to lend a minimum of 15 per cent of all their loans to agriculture.(1)

At the lender level, regulations may state that a certain part of the loan portfolio must go to a specific target group. In the Philipines, for example, banks are required to lend a minimum of 10 per cent of their new loans to agrarian reform participants. At the borrower level, it is common for lenders to allocate credit on the basis of units of money for each unit of land in a given crop.(2)

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1. Anderson, R.T., "Rotating Credit Association in India," Economic Development and Cultural Change, XIV (1965/66) p. 334-339

2. Ibid.

There are at least three major drawbacks to these loan quotas. The first is that lenders may simply redefine loans to meet new loan quota regulations or lenders may ignore the credit plan altogether. Lenders may be able to re-define sufficient number of their loans and meet quota requirements by changing the real pattern of their lending. The second disadvantage emerges when quotas are in fact effective in changing real portfolio make-up. Some specialized lenders may find it difficult to place and administer loans effectively outside their areas of specialization. A third disadvantage results from fixed loan quotas for individual farmers. Some farmers may have profitable investment opportunities that are much larger than their loan quota. Other borrowers may find that their loan quotas exceed their additional liquidity needs.

Loan Guarantee

Some countries, including Nigeria, Mexico, Peru, the Philipines and Sri-Lanka, have used loan guarantees (The current use of this system in Nigeria will be fully discussed in chapter six) or crop insurance to alter lender and borrower behaviour. Loan guarantee transfer part of the risks and uncertainties of lending from one agency to another agency. The most serious disadvantage of these guarantees is the administrative difficulties of assessing, in a timely manner, the legitimacy of claims. Agricultural disasters may affect large number of producers in a very short time. It is very difficult, for example, to correctly assess massive and wide-spread crop damage from hurricanes or typhoons within several weeks after they happen. Loan guarantee programmes, as a result, are costly and cumbersome to administer.

Rediscount Spread

One of the most widely used techniques for altering lender behaviour is preferential rediscount spreads. A major part of foreign capital assistance for RFMs in low income countries flows through these mechanisms. Operationally, the technique is very simple. A central bank may offer to rediscount loans made for selected purposes at rates much lower than normal rediscount rates. This provides lenders with a wider spread between rates paid for loanable funds and rates that can be charged to the ultimate borrower. If the spread, is wide enough, this technique can be very powerful in inducing lenders to rediscount certain kinds of loans with central banks.

This technique has several serious weakness, the first is that rediscounting certain types of loans with central banks may not result in much additional lending in the desired direction. That is, a lender may rediscount most of its small farmer loans and use the additional loanable funds to expand lending to large borrowers.

The second and more serious weakness in this technique, is that it may sharply reduce the incentive for lenders to mobilize part of their loanable funds through savings deposits. In many cases lenders get funds from central banks through rediscount mechanisms at lower rates than they must pay for voluntary household deposits.

Differential Interest Rates

Many countries apply interest rates to agricultural loans that are lower than regular commercial rates. As mentioned earlier, it is also common for policy makers to assign interest rate limits on small farm loans, or loans for special development projects that are lower than regular agricultural loans. Other things being equal, these lower interest rates discourages lenders from servicing the very target group stressed by the policy makers. Why should a lender be excited about lending to small farmers at eight per cent when infact they can lend to wealthier borrowers at a higher rate? Usually, the concessionary priced loan is aimed at a target group which has been difficult for lenders to service and which often involves higher costs of servicing than for other borrowers. The low interest rates, combined with higher costs, give lenders double disincentive to service the intended target group.

Review Of Other Relevant Literature

There is few established literature on the activities of RFMs in general and except for the work of Oludimu and

Fabiyi,[1] which are specifically based on mobilization of credit for agriculture, there are few indepth study of RFMs in Anambra State. One outstanding book in RFMs edited by John Howell,[2] is based on papers presented at a conference on Rural Financial markets and institutions held at Wye College in June 1979. It is divided into three parts. The first covers issues relating to national credit policy; the second looks at the ways the rural financial intermediaries operate, while the final part is focused on the rural household and examines the role and impact of credit within the farm-firm. This book also contains several outstanding articles, notably one by Micheal Lipton[3] which rigorously analysed the complexities of rural credit.

Chaudhuri and Garg[4] in their article were of the opinion that traditional farms would keep pace with modern technology for the adoption of yielding crop strains through laudable

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1. O.O., Oludimu, V.L. Fabiyi, Mobilization of Credit for agricultural Development in Anambra State, Nigeria. Savings and Development - No. 4 - 1983 - VII.

2. J. Howell, Borrowers & Lenders - Rural Financial Markets and Institutions, edited by John Howell, ODI London. 1980

3. M. Lipton, Rural Credit, Farm Finance and Village Households Institute of Development Studies University of Sussex. 1980

4. Chaudhuri, S. and J. Garg, "The Wealth of Nations: An analysis with special reference to underdeveloped countries." World Press, Calcutta, 1967

credit schemes. In a similar way, Das[1] argued that availability of credit to farmers enables 2-4 times yield returns than had been achieved, provided an appropriate level of technology is recommended and proper irrigation schemes utilised where necessary. He therefore conceeded that capital shortages significantly constrain the economic development of small farmers and small firms in developing countries. Baker and Bharavara[2] argued that credit programmes are designed to accelerate the economic development of agriculture and improve the economic welfare of small-scale producers. Improving this point further, Adesimi and Oludimi[3] thought that the crux of the matter is that agricultural development should be designed so as to mobilize and harness the potential productive efforts of farmers and peasants involved in agriculture. They called for measures including the provision of investment and other financial resources and services to enable farmers and small producers to adopt modern productive techniques and adjustments in infrastructural and institutional arrangement.

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1. Das, P.K. "Capital and Credit needs in selected Journals of Cuttack District" Unpublished monograph. University of New Delhi. India.

2. Baker, C.B. and V. Bharavara, "Financing Small Farmer Development in India" <u>Australian Journal of Agricultural Economics</u> Vol.18, 1978.

3. A. A. Adesimi and O.L. Oludimum "The Green Revolution as a Development Strategy: Lesson from Asia and Latin America", <u>Ife Journal of Agriculture,</u> Vol.4. No.2, 1982

Oyenuga[1] argued that there is little scope for rapidly increasing either the total production or productivity per unit of resources within the context of traditional agriculture but very great hope lies in increasing total production and resource productivity through technological change. Thus, there is a great need for farmers to pool their resources together. Farmers need to cooperate with respect to storage, marketing of farm produce and in capital acquisition to supplement whatever credit facilities there are at present.

Hopkin[2] argued along the same line when he postulated that the incentive for a farmer to invest in his farm, to borrow for investment or to save from consumption was directly estimated from the rate of returns he can obtain from his business. Hence, Shaw[3] suggested that the main determination of capital formation was to be found in factors affecting the savings process rather than exclusively in the

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1. Oyenuga, V.A., Agriculture in Nigeria, F.A.O., Rome, 1972.
2. Hopkin, A. An Economic History of West Africa, Longman London, 1973.
3. Shaw, E.R., Financial Deepening in Economic Development, Oxford University Press 1973.

demand for capital funds. On the contrary, Oludimu and Fabiyi(1) argued that rapid capital formation occurred when farmers made substantial investments through a general technical education, in improved technology for farming and successful credit schemes.

The importance of credit in economic development is that it generally enables idle resources to be tapped and to be adequately utilised provided that consumption patterns, the level of technological advances, demographic factors and the attitudes of the farming population actually encourage the use of it. Likewise, Harriss(2) found that in Asia, the use of credit had made feasible the cultivation of high yielding varieties of paddy.

Similarly, Olufokunbi(3) held the view that the provision of credit to farmers could be another way in which marketing systems would be made to operate more effectively. He argued that with adequate credit, post-harvest depression of prices could be avoided and farmers would be placed in a better bargaining position.

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1. O.L. Oludimu, V.L. Fabiyi, Op: cit.,

2. J.C. Harris, Capitalism and Peasant Agriculture: Agrarian Structure and Change in Northern Tamil Nadu, Monograph 3, Overseas Development Group (ODG), University of East Anglia, 1979 and Oxford University Press Bombay.

3. B. Olufokunbi, "Sources of Credit to Agricultural food Markets in South-western Nigeria" Savings and Development. Vol.2/3, 1981.

As Ijere has rightly put it:

> "credit is a powerful agent for good in the hands of those who can use it well. It is equally dangerous in the hands of those who do not understand it."(1)

Simply put, the administration of agricultural credit involves a concrete and precise decision making process on the amount of credit the agricultural sector require and the amount of expected profit, the probability of achieving success despite the risk and the uncertainties involved in the use of credit.

However, our work differs from the studies mentioned above mainly because it is micro-oriented and focuses on the credit, savings and capital formation of rural financial markets. Secondly the role and impact of pre-cooperative organisations in the peasants economy which has been neglected or not given adequate attention by the government and its agents and by the formal financial institutions are fully analysed.

The literature review above has been largely based on the economic condition that was prevalent at the time of such study. As we have already mentioned, there has been steady

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1. M.O. Ijere, 'Credit influence in a small-farmer Development Strategy'. The NTC Nsukka project - The Journal of Developing Economy, March 1976, P. 72-84

growth[1] in the rural populations in the Third World, and consequently, there are real needs to improve the rural economy to accomodate the expansion of the populations. According to the report of the World Health Organization,[2] the population of Nigeria at the moment increases twice as quickly as any other country in Africa. Furthermore, the World recession and natural disasters have further worsened the economic condition of Nigeria (especially the rural economy), therefore, to effect any meaningful improvement in the economic well-being of the rural people, there will be much better understanding between the formal and the informal sectors of the rural economy, and between these institutions and the agents of the Government.

However, this thesis will seek to investigate the problems of the rural people (particularly peasants) relative to the mobilization of finance. Our objective, is partly similar to the work of Osuntogun in the Western States of Nigeria but principally deviates from it, since our study covers the entire RFMs as applied to the rural economy, while Osuntogun's study was based only on agricultural and some aspects of farm level credit.

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1. See the Central Planning Office (C.P.O), and National Development Plan, 1970-74, First Progress Report, Federal Ministry of Economic Development, Lagos, 1970.

2. For detail report, see the Matchet's Dairy, 'West Africa' November 1983.

We shall also for the first time be looking at the relationship between the pre-cooperative organisations and the peasants' economy. We shall try to analyse the linkage between the informal and the formal institutions, between the informal and the Government, and between the Government and the formal institutions, bearing in mind the shortcomings of the literature review above.

There has been no established study on the problems of reconciling the activities of the formal institution (i.e Banks, Registered cooperative societies, etc.), and the informal institutions (i.e Pre-cooperative organisations, Esusu, etc.). Therefore the major departure of this thesis from the body of literature discussed above focuses on the analysis of these problems.

Methodology

The rationale of this thesis is based on the fact that the activities of pre-cooperative organisations constitute a relatively under-researched area. Except Okorie and Miller, Bascom, Mirade and Cohen,(1) very little indepth analytical study of the activities of these organisation has been carried out in Nigeria.

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1. See Okorie, F.A. and Miller, L.F., Esusu Clubs and Their Performance in Mobilizing Rural Savings and Extending Credit, Technical Report, Department of Agricultural Economics, University of Ibadan, January 1976. See also Bascom, W.R. 'Esusu' a Credit Institution of Yoruba' Journal of the Royal Anthropology Institute, Vol. 82, Part I, 1952

As we already mentioned, pre-cooperative organisations are important and useful agents for capital accumulation in the rural areas. Secondly it should also be noted that most of the existing registered co-operatives discussed in Chapter 8 are developed from these pre-cooperative organisations.

Specifically the objectives of the thesis are:

1. to assess the organisations' contributions towards savings mobilization and provision of credit in the rural sectors;

2. to examine the organisational structure, and suggest areas of improvement;

3. to analyse the problems facing the Societies;

4. to examine the gaps in the formal and the informal rural financial markets;

5. to examine the programme of rural banking as a strategy for rural development through the mobilization of rural savings as source of capital formation badly needed for the development of the rural economy in Nigeria.

The research on which this thesis is based was conducted between August and December 1984. The study covers several groups of formal and informal organisations from five local government areas of Anambra State of Nigeria.

The five local government areas of study (Abakiliki, Anambra, Idemili, Nkanu and Nnewi local government areas) are chosen from varied sections of the state with five of them contributing to substantial proportions of agricultural products in the country, especially on staple foods such as Yams, Rice, and casava. These areas were chosen for their wide disparity on the rates of output in agriculture, trading, handicraft, etc. (see 3.2 para. 6), secondly, due to lack of access[1] to other farming areas of the state, and the financial constraint, our research was limited to these five local government areas.

Each of these chosen areas of the study is very famous for at least one of the products stated above. Available data show that Abakiliki local government area tops the list with Anambra local government area second. These areas have a highly fertile soil and the inhabitants are quoted to be very hard working.[2]. According to the latest statistics of farming output in Anambra State[3] Abakiliki produced one-third of the total yam production in Nigeria in 1984.

On the other hand Nnewi and Idemili local government areas are very famous for trading and handicraft, with Nnewi particularly noted for the acme of its enterprise. However, and as will be discussed later, Idemili and Nnewi local government areas are also good in farming but not on the scale of Abakiliki, Anambra or Nkanu local government area.

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1. There was virtually no public access to these farming areas.

2. Interview with the Anambra State Commissioner of Rural Development and Local Government Affairs, Dec. 1984.

3. Official Report, Office of Commissioner of Rural Development and Local Government Affairs, 1984

Nkanu has a particular problem of erosion and a unique type of weeds (ata) which make it difficult to cultivate the soil unless it is cleared and burnt down to reduce the fast growth of these weeds. Even so, on some occasions, for example, in Yams' season a farm has to be weeded three or four times before harvest because of fast growth of these weeds. This is a pains-taking excercise and conforms with the findings of Don Mba.(1)

> "Active male farmers in these areas are forced to take more than one wife because they need enough women to weed their farms, since it is the job of women rather than men to weed in these areas."

As would be shown later, our findings show that the rate of output of farmers in Nkanu local government area are immensely reduced by these weeds and this in effect reduces the prospects of new investments in the area. We shall also analyse why in this area, the activities of Pre-cooperative organisations are weighted higher in non-farming ventures.

Data were collected from primary and secondary sources.(2) Through the use of structured questionnaires, primary data were collected from interviews of pre-cooperative members of five local government areas. The secondary data were collected from the officials of governments and the managers of

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1. Donatus Mba - unpublished dissertation for the MSc. in Geography at the University of Nigeria, Nsukka, 1983

2. See Tables I-1 and I-2.

banks and private enterprises. In the analysis of the pre-cooperative societies, two questionnaires were used, the 'Official' and the 'member' questionnaires. The 'Official' questionnaire centred on the organisation and general working of the society while the 'members' questionnaire was designed to obtain information on the socio-economic activities of members in the group, their reasons for joining the group, their savings and sources of payments including the use of their winnings and other benefits they derive from the organisation as a whole.

The table I-1 and I-2 below show the lists of questionnaires and interviews conducted, the times and places of the interviews and the response rates. (See Appendix 3 for more details and the influence of the method adopted).

Table I-1 The Questionnaires

Type of Questionnaire	No. given out	No. Returned
1. Individual members of Pre-cooperative Organisations, Esusu Club, etc.	300	248
2. Officials of Pre-cooperative Organisations, Esusu Club, etc.	60	60
3. Individual farmers, Small-scale Industries and Peasants	320	250
4. Small-scale Industries(1)	48	38
5. Banks Management	6	5

1. The Small-scale Industries questionnaire was the same as No. 3 above but targeted to obtain answers from specific questions in the questionnaire.

Table 1-2 The Interviews

Interview (Banks)	Time	Place
African Continental Bank	8.30 a.m (5/11/84)	Abakiliki branch
Co-operative bank of Eastern Nigeria	11.00 a.m (5/11/84)	"
United Bank for Africa (Nig.) Ltd.	8.30 a.m (6/11/84)	"
First Bank (Nig.) Ltd.	9.00 a.m (8/11/84)	Awka branch
National bank of (Nig.) Ltd.	9.00 a.m (7/11/84)	Enugu branch
Co-operative bank of Eastern Nigeria	12 noon (10/11/84)	Nnewi branch
Commissioner for Local Government and Chieftancy Affairs (Anambra State)	10.00 a.m 24/10/84	Enugu
"	11.30 a.m (3/11/84)	"

SMALL-SCALE INDUSTRIES[1]

13 Small-scale Industries	Mornings/Afternoons	Abakiliki LGA*
5 " " "	" "	Anambra LGA
5 " " "	" "	Idemili LGA
5 " " "	" "	Nkanu LGA
5 " " "	" "	Nnewi LGA

Source: Records of Interviews

* Local Government Areas

1. There were no appointment for these interviews, hence no specific time were recorded.

The informal interviews involved visiting farmers, peasants, Small-scale businesses and in some cases attending the organisations' general meetings to talk to the members and officials with the explicit aim of asking and obtaining answers to specific questions. Due to the financial constraint and lack of access to the remote farming areas, our interviewees and those who completed the questionnaires were selected randomly in the five Local Government Areas of the Study.

However, the informal organisations' general meetings attended by the researcher were influenced by the time factor. For example, those that were held during the course of the field work.

The questionnaires were not circulated in some of the remote villages of the area of the research especially where there is no school(1) or enough people who can read and write. People from these areas declined to take part in the Study because they cannot find any one to read to them and fill-in the questionnaires. As mentioned in the Appendix 3, the design of informal questionnaires in Ibo vernacular and the fact that the informal interviews were in Ibo vernacular helped the researcher to obtain good response.

The questionnaires were simple and designed to achieve the purpose and objectives of the study. Care was taken to avoid

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1. Due to urban migration, it is very difficult to find people who can read and write in the remote villages, especially where there is no school.

personal questions, but a few specific questions were asked to ensure that the respondents represent the cross-section of the society.

The researcher did not experience any problem during the interviews with the informal sector because the farmers and peasants were very willing to listen and cooperate with the researcher. But as we have mentioned earlier, the formal interviews were hard to come by due to the reasons explained in appendix (3).

Table I-1 summarises the responses to the questionnaires. The responses can be considered to be good especially in the informal sector where there is difficulty in finding people who can read and write.

It is also important to note that we intended to use more banking branches in our survey, but due to lack of response and time factor, we had to settle with six banks (see Appendix 3).

Table I-2 also summarises the interviews. As we mentioned earlier, many interviews were conducted in Abakiliki area, in the banks and small-scale industries because of availibility of data and the response rate. For example there were more banks and small-scale industries in these areas than in the other areas of our research.

It was impossible for us to use all of the data obtained during the field work because of strict confidentiality and the fact that some answers to the questions(1) were grossly exaggerated. Some of the information that could not be substantiated even though they sounded very useful were left out of the discussion.

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1. This problem was very insignificant.

The Role Of Financial Markets

The role of financial markets in development has not been explored in detail until recently. There is still much to be learned about this topic and about the relationship between overall economic conditions and the performance of financial markets. Attempts to use these markets to issue cheap credit to offset low agricultural prices and yields, for example, have worked to the detriment of savers and those who cannot get cheap credit, and have vitiated the financial system itself. Other problems caused by insufficient knowledge of how finance interacts with development may be traced to the use of the financial system as a one-way street for moving financial resources to borrowers. This approach provides illusions of control, but it is often frustrated because it ignores an essential property of financial instruments. In addition, the development potential of voluntary savings mobilization through financial markets has been neglected, eclipsed by the emphasis on providing cheap loans to special interest groups.

Modern finance may not be very relevant in subsistence economies where trade consists of small amounts of barter. The usefulness of financial instruments increases rapidly however, as household and firms begin to specialise in production, diversify consumption, and make investments. Although the use of money as a medium of exchange is taken for granted, benefits derived increase with the growth of specialisation. Farmers, for example, would find it inconvenient to exchange dozens of eggs, flocks of ducks, sacks of rice, stems of bananas and piles of coconuts for cloth and modern inputs such as chemical fertilizers. Public servants, professors and editors of books would find it virtually impossible to exchange their services directly for transportation, food and shelter. Similarly, the benefit of using financial instruments such as loans and property shares increases with the scale of production and trade.

The contribution of financial intermediation to economic development is subtle and complex; secondary effects and indirect relationships abound, often creating very powerful forces that are easily misunderstood. Money lending, for example has been looked down on throughout recorded history in many parts of the world. Regulation results in part from these qualities of finance. In most countries financial markets are more heavily regulated than other markets.

Until recently, most economists believed that financial markets play largely a passive role in economic development. Those concerned with rural development usually view these markets as channels for moving cheap loans, which were regarded as farm inputs. These markets were thought to be a thin veil lightly connecting real economic activities in an economy, and it was believed that this veil could be controlled and its behaviour largely regulated by government actions.

In the late 1960s and early 1970s a few economists became uneasy with traditional views about the contribution of financial market to the development. Goldsmith's early work(1) called attention to the rapid expansion of financial activities in developing countries suggesting unsuspected dynamism.

This was followed by Shaw, Gurley, McKinnon and Patrick, who argued that financial markets operations and policies could have substantial effect on the pace as well as the direction of development.(2) Subsequent work in developing countries began to document problems in rural financial markets. These include misallocation of resources, unsatisfactory implications

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1. Goldsmith, R.W. - Financial Structure and development, New Haven Conn. Yale University press, 1969.

2. See McKinnon, R.I. Money and Capital in Economic Development, Washinton, D.C.: Brookings Institution 1973.

for income distribution, and the poor performances of financial institutions. The income distribution problem is particularly disturbing. Many public policies try to force financial markets to provide a service for the poor. Though despite this, little of the cheap credit in low-income countries has reached the bulk of the poor. Similarities among these problems in a large number of countries led to searches for common causes.

Recent research has documented that decision-makers in financial markets may not always react to policy directives and regulation in the manner desired by the authorities. The subtle and geographically nature of financial activities makes it very difficult to enforce policy directives. Formal lenders and borrowers often end up evading the intent of administrative fiats through financial innovation, or through their diversion from the purposes specified in regulations. Evading the intent of controls may be necessary if financial institutions are to sustain themselves in certain environments, or if borrowers are to obtain acceptable returns from liquidity provided by loans.(1) Evasion is increased by policies that fail to reflect realities - financial institutions must generate more revenues than costs if they are to survive without subsidies, and borrowers tend not to invest in unprofitable activites.

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1. For example, import of many of the farming inputs as well as other manufacturing raw materials is currently under restriction by the Nigerian Federal administration. And in most cases these raw materials cannot be obtained in the country.

Policy directives are often also ineffective in controlling the role of financial markets in allocating resources among regions and economic sectors. Financial markets move substantial claims on resources from one area of the sector or region to another by lending more or less to a sector or region than is mobilized there. Government and foreign assistant agencies frequently attempt to direct more funds into agriculture while financial markets often persist in lending to agriculture only a fraction of the deposit balances rural customers voluntarily entrust to banks. Thus claims on resources are moved out of agriculture for use in other activities. While measurement of these flows is frequently difficult, and problems arise from arbitrary classification of depositors and borrowers by region or sector, recent research suggests that the use of selective controls to alter these flows in any significant way is often not successful.(1)

Faulty assumptions in research and evaluation have added to the confusion about the contribution of finance to development. There have been many attempts to measure the impact of credit use of the farm level to justify agricultural credit projects. At the same time relatively little research has been done on lending behaviour, and on how credit projects affect the overall performance of rural financial markets.

Many researchers(2) have not realised that the primary effect of credit is to increase the liquidity of bank and ultimate borrowers, and that the effect of additional liquidity can

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1. See D.W. Adams, Op. cit. P. 201

2. Ibid.

be measured only by looking at the changes in the entire behaviour of the unit gaining liquidity. Because of substitution and diversion of loan funds, the purpose stated in the loan application or contract does not necessarily coincide with the borrowers' actual use of the additional liquidity. Credit impact cannot be measured merely by tabulating and analysing the investments listed on loan applications or contracts. Some would have occurred without the loans, others may not occur at all. While significant improvements in research have occurred, the full extent of the role of financial services in development is not yet understood.

Therefore, the introduction of this thesis makes several important points. The first is that there has recently been a substantial evolution in thought about the role of financial markets in development. Second, many of the traditional views held about financial markets are suspicious. Third, financial markets may play a much larger role in the development process than generally thought. Fourth, the contribution of financial markets to development is not limited to providing credit; mobilizing savings and facilitating transactions are also important. Fifth, improvements in research are required before the contribution of finance to development can be clearly understood. This includes collecting more information about the impact of overall economic policies on the performance of financial markets.

CHAPTER ONE

APPRAISAL OF RURAL FINANCIAL MARKETS IN LOW INCOME COUNTRIES

It is evident that only in a few cases are RFMs doing an adequate job of meeting equity and efficiency objectives, and far too many agricultural credit agencies are 'black holes' into which large amounts of money, managerial time and talent disappear.(1)

These results, according to Meyer(2) are disappointing given the emphasis made by the governments and donor agencies on expanding the quality and quantity of farm credit facilities during the last three decades; donor agencies have granted or lent in excess of 15000 million U.S. dollars over this period for agricultural credit.

Difficulties in each agricultural credit programme have been thought to be unique and diversity in the agencies providing loans helped to reinforce this impression. Problems

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1. For more details on these problems see Adams et al., (Eds.) Why Cheap Credit Undermines Rural Development, Economic Development Institute of the World Bank, Washington, D.C July 1982.

2. R.L. Meyer, 'Measuring the Farm Level Impact of Agricultural Loans' in Borrowers & Lenders: RFMs & Institutions in Developing Countries, ed. by J. Howell, London ODI 1980.

were mainly individual in nature and blame attributed to diverse reasons such as incompetent managers and staff, or too corruptible and inefficient government officials. Measures such as re-organising and renaming the credit agencies, nationalising the lenders, shifting credit programmes from troubled agencies to new organisations, management replacement and additional regulation and controls have been adopted widely to remedy these problems. But despite these measures, there are still serious problems on loan recoveries. Secondly reluctance of loan officers to lend to farmers and to the peasants prevails; political considerations continue to influence agricultural lending procedures and many of the lending agencies hesitate because the costs of lending plus defaults by far exceed revenues. Therefore it is clear that the traditional measures for ills in rural financial markets are not attacking the roots of the problems.

There are several reasons for the ineffective treatment of RFM ills. Firstly there are many misunderstandings about the operation and nature of these markets. The diffused nature of RFMs makes it difficult to understand their operations and traditional assumptions and policies are widely applied but seldom tested. Many important policy decisions are regarded as political slogans and many people view financial intermediaries as independent decision makers who adjust easily to meet changing conditions. Therefore we can argue that because the rural financial intermediation is geographically dispersed and involves a very large number of participants, and because financial instruments are highly divisible, the feeling of control that many policy makers have over these markets is illusory. Secondly, defective and incomplete problem diagnoses are persistent difficulties found in RFMs and this will form the main focus of this Chapter.

Our principal objective in this Chapter is to update and outline some diagnostic steps that might better allow investigators to identify the sources of problems plaguing RFMs. We will also discuss how the diagnostic process can be used to stimulate policy changes. We will also conclude this Chapter by outlining the factors that contribute to the poor performance of RFMs, and argue that the supply side of financial services ought to receive much more diagnostic attention.

1.1 Prelude To Diagnosis

Before proceeding with the diagnosis of the RFMs, it is imperative to clarify four important issues. First, we must try to understand what financial markets really do. Second, we must try and identify the relevant decision-making units associated with rural financial intermediation. Third, the strengths and weaknesses of RFMs data must be recognised. Finally, we must try and outline the steps that must be followed in a physical examination of particular RFM.

Until recently, relatively little attention has been given to financial intermediation by Keynesian economists and development economists. Ground work by Goldsmith, Gurley,(1) Shaw and Patrick during the 1960s and early 1970s helped to clarify the support that finance gives to economic development. According to Adams, finance makes four important contributions to a commercial economy:

i) it provides efficient means of exchange;

ii) it encourages and improves resource allocation through transferring claims on resources from surplus to deficit units;

iii) it provides for the transformation and redistribution of risk among units and

iv) finance can be used as an important tool in economic stabilisation activities.(2)

The operations of financial markets can also influence income and asset ownership distribution and can affect multipurpose organisations that provide rural financial services. Many agricultural marketing and supply cooperatives have been weakened by their agricultural credit activities.

Also, **in many cases, between the political systems and finance markets. .In some** there are very close relationships

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1. See Gurley and Shaw "Financial Aspects of Economic Development" American Economic Review, December 1955, Vol. 45, No. 4, P. 513. See also R. Goldsmith, Op. cit. Patrick, Op. cit. P. 39

2. Several essays by Adams, Adams & Tommy, Gonzales-Vega and Vogel in Adams et al; Op:cit., P. 73

cases financial markets, especially those in rural areas, may be important vehicles for allocating political patronage (see Kane, Ladman and Tinnermeier, and Robert for further details.[1]

There are decision-making units associated with financial markets whose nature and behaviour must be properly understood for diagnostic purposes. Among these units are farm-household savers and borrowers, non-farm rural firms that borrow and save, formal and informal financial intermediaries, the central bank, the government,[2] and the donor agencies. In addition, to fully understand the behaviour of these units, we must also consider the collective behaviour of all these units rather than rely only on single credit project or institutions. For example, a donor funded project may stress making additional long-term loans to farmers and be successful in doing so through one segment of the financial market.

Financial markets are also information gathering systems. The information that moves through the formal system is usually loan (or deposit) specific. The formal lender gathers data to establish the credit-worthiness of potential borrowers and to keep track of loan repayment. Information processed includes loan size, justification given for the loan, some loan terms, and the source of funds used to make the loan.

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1. In Adams et al., (eds.), Op: cit. p.234

2. Through government intervention and control.

Well-managed credit agencies also should have information on the repayment status of loans. In some cases this does not include readily available details on delinquent loans that have been refinanced or information on the length of time loans are overdue. In those cases where external donors agencies are involved, it is common for a good deal of information to be gathered for periodic project reports to donors on the progress made in disbursing and collecting 'the funds' made by donors.

Although we may argue that these reports have little value to managers of the credit institution, they serve to keep the administrators informed and provide ample indication to donors that the funds are well utilised.

It is dangerous to draw firm conclusions about the characteristics of borrowers and savers from aggregate information published by most credit agencies or Central Banks. We have to be careful not to arrive at erroneous conclusions about the number of low income borrowers served by using the number of small loans made, for example, people who are well off may borrow small amounts, and they may also have multiple small-to-medium loans, sometimes from several agencies. In extensive farm level research carried out by the Ohio State University in Brazil during the late 1960s and early 1970s[(1)] they found multiple loans to be very common. In one area, Sao Borja, the average farmer who has obtained or is seeking a loan had about five outstanding loans at the time of interview. One

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1. See U.T. Wai, Financial Intermediaries and National Savings in Developing Countries, New York; Praeger, 1972

farmer had a total of 15 loans outstanding.[1] We must also be very careful in drawing conclusions about the impact of loans based on the reasons given to justify loans. In some cases a loan is diverted to other uses. In many other cases loan justification and loan use may not be closely associated with concurrent changes in liquidity use in the borrowing unit. For example, a farmer must justify a loan for the purpose of purchase of a cow, and may, with the loan, buy a new animal as specified in the loan documents. It is possible, however, that the farmer would have purchased the cow without the loan but rather with his own funds. In this case, the net effect of the loan is not the purchase of an additional cow, but the new activity undertaken by the borrower with his own funds liberated by the loan. Therefore clarifying the strengths and weaknesses of the data that are available and laying out additional information that must be collected from primary sources is a major step in RFMs diagnosis.

There are at least five steps that should be included in any RFMs diagnosis. The weights placed on each of those steps and the sequence in which they are done are largely time and place specific and depend heavily on local policy concerned. The major part of the process of developing the

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1. Adams, D. W., <u>Op: cit</u>., P.82

work plan for RFMs sector assessment must involve local technicians, researchers, and policy-makers. The assessment itself must include historical information on (1) the structure and make up of the rural financial market, (2) details of RFMs public sector objectives and RFMs performance, (3) a careful inventory of the major policies that influence the activities of RFMs is also a vital part of the diagnosis. These should include details of how RFMs policy decisions are made. Background information on the overall financial market and monetary policies in the country must also be analysed.[1] In those cases where donor agencies and/or governments have directed a number of programmes or projects through RFMs these efforts should be detailed. Finally, it is important to design the assessment so that policy-makers are stimulated by the diagnostic process to make appropriate policy adjustments. Policy changes, not a final report, ought to be the end product of the RFMs diagnosis. Major considerations in each of these steps are briefly outlined in the following sub-headings.

1.2 Structure Of The Market, Objective And Performance

Most studies of RFMs collect a substantial amount of information on the make-up of the formal market, for example,

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1. See Von Pischke, J.D. *et al.*, *Rural Financial Markets in Developing Countries*: Their use and abuse, Baltimore: Johns Hopkins Press, 1983

Graham and others[1]. This includes an inventory of the agencies that provide loans for agricultural purposes and the amount of agricultural loans provided. Most central banks collect this information from the commercial banks and major government agricultural banks. It is sometimes necessary to supplement this information with additional data on loans made by co-operative organisations, credit unions, crop development agencies, area development programmes, agrarian reform agencies, and risk capital organisations. Where possible this information should be collected for the past decade and should include both year-end balance (stock), and new loan (flow) figures in both nominal and real terms.

It is generally more difficult to get a clear idea about the operations of unorganised rural financial markets. Large cross-sectional studies documenting the extent and nature of informal market in Anambra fell short of this objective due to hidden details and the cost involved.[2] It is also common

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1. Graham, Douglas _et al_., 'An Assessment of Rural Financial Markets in Honduras' - 2 volumes, an unpublished report prepared for the Agency for International Development in Honduras, December 1981.

2. See Adeniyi, Osuntogun and Remi Adeyemo, Mobilizing Rural Savings and Credit extension by Pre-cooperative Organisation in South Western Nigeria, _Savings and Development_, 4, 1981, v, p.247.

in such analysis to miss a good deal of lending that takes place among friends and relatives, and to fail to pin down short term loans that are mixed with the buying and selling of inputs and products. While it is useful to do limited surveys to establish a general idea about the relative importance of informal finance and to establish the range of arrangements made, it is rather more important to clarify the economics of informal lending. What kinds of marketing and other services do informal lenders provide? What are the costs of lending and borrowing in informal markets? What is the opportunity cost of the money lent by informal lenders? What is the level of competition among informal lenders? What types of informal lending practices are useful for formal lenders to emulate? What is the relationship between formal and informal credit activities? In addition to collecting information on the volume of loans made by formal and informal lenders, information should also be collected on the various types of deposits handled by RFMs.

The usefulness of RFM is measured by the degree to which its activities help meet public policy objectives. It is very important to recognise that firms and individuals providing financial services in rural areas are usally involved in multiple activities and thus produce several products and services. Therefore under these circumstances, it should not be surprising that these firms and individuals can change the form of financial services offered relatively easily, if they find it in their interest to do so.

Sometimes there are some specific objectives that a government attempts to achieve through rural financial markets which mostly reflects the degree of importance of the area concerned. At least there are four common objectives that are pursued through most RFMs: 1) To help the poor; 2) the operation of financial markets should result in more agricultural output through efficient allocation of resources; 3) to boost government efforts in other productive sectors; and 4) to bring financial intermediaries into strong and self-sufficient institutions.

There are two groups of performance measures that are necessary to the proper diagnosis of RFMs. The first focuses on the performance of the entire RFMs, while the other sheds light on the performance of individual credit programme . Historically, evaluations of RFMs activities have stressed the performance of individual credit programme or intermediary at the expense of the performance of the entire RFMs, but both types of information are necessary to establish cause and effect in financial activities. The specific performance measures used must be those that show the extent to which financial markets are helping to achieve public goals. For example, if an objective is to provide more financial services to the rural poor, performance measure must clarify the characteristics of those who borrow and save in financial markets, and the extent of their benefits. Also if an objective is to expand the amount of agricultural lending, performance indicators must measure the real as well as nominal amounts lent for agricultural purposes, and show what is happening to this type of lending compared to loans in other economic sectors.

Due to the difficulties of obtaining hard data (data problems will be fully discussed in the next Chapter), it is not generally clear who is receiving the major benefits from RFMs operations. Clearly those who receive no loans and hold no financial deposits do not directly benefit from these services. It is also clear that those who are able to obtain large loans at concessionary interest rates or who default on large loans benefit substantially from borrowing. A large part of what a financial market does is masked by the large number of small to medium sized loans and deposits involved. It takes a good deal of digging to clarify the economic characteristics of those who use these services and to measure the benefits they receive.

The benefits from use of loans fall into three categories; firstly, normal gains from use of leverage; secondly, income transfers that result from below equilibrium real rates of interest on loans; and thirdly, benefits that go to those who default on their loans and take the money as a once-and-for-all transfer. The amount of benefit realised from loan leverage is very difficult to document across a large number of borrowers. It is proportional to the amount of money borrowed, the more money borrowed, the greater the gain. Because of the possibility of one borrower holding more than one loan, loan size distribution information will give only a lower estimate of loan concentration. Some borrower interviewing must be done to document the extent of multiple loans. Some aggregate measures of the amount of income transferred to borrowers through default and below equilubrium rates of interest, along with the 'tax' placed on financial savers through below equilibrium rates of interest, can be useful performance measures.

It is very difficult to measure directly the extent to which RFMs are helping to allocate resources more efficiently because these economic gains occur in wide dispersed areas of markets. Several indirect measures are easily used to give a general ideal of efficiency performance. The first measure shows how well financial activities are integrated in rural areas. This is best measured by the borrowing costs from various sources in RFMs. If there are substantial variations in borrowing costs for similar quality loan services, this indicates that RFMs are fragmented and that loans are being rationed among borrowers, are being excluded and losses in efficiency are taking place.

Detailed examination of total costs of financial intermediation, including both borrower and lender portions of these costs will reveal the extent of the fragmentation.

The method of allocation of loan transaction cost are used by the lender to ration credit under interest rate controls.

A number of direct measures can be used to indicate the degree to which RFMs respond to government priorities in terms of farm enterprises, term structures of loans and lending to priority sectors. Several measures can also be used to indicate the overall growth of the rural financial system. Several credit-to-output ratios, for example, can be used to show changes in the relative amounts of agric ultural credit over time. Credit to credit ratios can be used to show changes in relative amounts lent to various sectors of the economy. Details on the term structure of loans made by the formal RFMs can also indicate the extent to which intermediaries are helping to reinforce government priorities in medium and long-term investments. Some interviewing with employees may be necessary to show how many loan justifications are simply redefined to meet policy objectives.

There are a few effective measures that can be used to indicate the vitality of the financial intermediaries handling credit and deposit activities in rural areas. These measures include loan collection records, the extent to which they are able to maintain and expand the real amount of funds they lend, institutional renaming and reorganisation, the extent of political interference, manager turnover and the extent to which the system is self-financing and able to cover its own costs of operation.

There are many governments policies that are unpalatable to the effective functioning of RFMs functions; among them are three sets of policies that strongly affect RFMs operations: Firstly, those directed at influencing the money supply, the overall monetary system, and financial activities in general; secondly, those directed at rural financial markets; and thirdly, those policies that affect the rates of return that producers in rural areas expect from their investments. Gathering information on the first two types of the policies are usually straight-forward. Decrees by the monetary authority, the Ministry of Finance, or the Central Bank generally document the intent of these policies. The policies include changing the ownership of banks from private hands to the government, various loan portfolio quotas, reserve requirements, interest rate controls, loan insurance schemes on building new institutions and various reporting and accounting requirements. However, it is very difficult to establish the extent to which various economic policies affect the returns to investments in the rural areas (See Chapter 3, Section 3.9). These policies include those that influence the prices paid to the rural producers, those that affect the prices rural producers pay for purchased inputs, and those policies that affect farm yields. Information on these rates of return are critical in RFMs studies because of several important and too often neglected issues: rates or return affect income and thus repayment capacities, and expected income also strongly influences the amount individuals are willing to borrow, with obvious implications for economies of scale in financial operations. In addition, rates of return affect incomes, which in turn also strongly influence the liquidity of the rural individuals and their propensities to save.

In many low income countries relatively few farm and non-farm enterprises in rural areas expect to receive high and stable returns from their investments. In some cases low returns are due to unproductive resources and to harsh climates. While in many cases, however, these low returns are due to policies that depress farm product prices, policies that raise the prices of purchased input, and lack of public investment in public goods, for example, irrigation facilities and agricultural research that could increase yields. Therefore it is impossible to develop a healthy and expanding financial system if most rural producer services are not economically healthy.

It is argued that because of the heterogeneity that exists among producers in rural areas, it is quite difficult to measure directly the rates of return that might be expected from the numerous activities carried out in rural areas. Normal proxies for these rates of return, loan demand and repayment rates are often useless because of concessionary rates of interest on formal loans and the intrusions of politics into loan repayment. Even with harsh price controls on agricultural products and low yield, there will always be a few rural producers who can make profitable use of loan services, pay market rates of interest on their loans and have an excellent chance of repaying their loans. In some cases governments may give certain segments of the agricultural sector special treatment that results in relatively high returns to producers in that sector, while many other parts of the agricultural system may have poor investment possibilities.

In most cases unfavourable price policies in the agriccultural sector and the lack of government investment stem from economy wide policy considerations. Cheap and abundant credit is often used by policy makers to offset the adverse effects on income distribution and resource allocation of these broader repressive policy measures. As Adams and others argued, cheap credit fails on both efficiency and equity grounds.(1) Low interest rates force lenders to concentrate placing cheap loans on the hands of relatively few people, and low interest rates do not make unprofitable investments profitable.

A number of measures can provide general answers to the rates of return questions. If a few major products like sugar-cane or rice are important in the rural economy, production functions and budgeting studies of representative farms can give insights into potential returns from additional liquidity provided by loans. Other more general proxies, for

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1. See Adams D. W., Op. cit., P. 33

example, term-of-trade services between the agricultural and non-agricultural sectors, historical yield information, and price information on product and inputs are also useful determinant of size of expected farm profitability. The rates of return realised by informal lenders in rural areas might also be useful to indicate the returns that at least some borrowers realise from borrowed assets.

1.3 Role Of Donor Agencies

Now to conclude on this section and of course the Chapter, we shall discuss the involvement of donors and of policy makers.

In some developing countries, donors have provided a very large part of the total fund lent through agricultural credit programmes. In some cases donors have also helped set up agencies that are important parts of the formal credit system. In other cases donors may have been involved in the development or funding of only a portion of the rural financial market. In a few of the low income countries, donor assistance has been only a small part of overall build-up in the agricultural credit system. Where the World Bank, the regional development banks, or bilateral aid agencies are significantly involved, it is necessary to understand that involvement as part of the physical examination of RFMs.

It is typical for donor agencies to divide territories in LICs into areas of interest. Understandably, donors like to establish long-term working relationship with agencies and fund a series of projects through these agencies. A representative country arrangement would be for the World Bank to move its fund into a central bank or lead bank for rediscounting to other elements of the banking system for agricultural loans, for a bilateral aid agency like the Agency for International Development to provide funds for a supervised credit programme for farmers, and for one of the regional development banks like the Inter-American Development Bank to privide a number of loans and technical assistance to an agricultural bank. In some cases the behaviour of financial intermediary is strongly shaped and influenced by its financial patron. In a few cases aid technicians may have a strong influence on the operation of the intermediary. In virtually all cases the donor-supported credit programme will be heavily flavoured by the orthodoxy that prevails in the donor agency.

It is also to establish the degree to which donor agencies are involved in setting up policies in rural financial markets. As a result, it is mainly a problem of getting appropriate policies adopted. A well done, written diagnosis of RFM is far from sufficient, in most cases, to get some of these very unpopular, yet critical policies changed. It generally takes a good deal of convincing of a relatively large number of policy makers, technicians and politicians before these policy adjustments are seriously considered. A very important part of the RFMs appraisal is getting key decision makers in the LICs involved in the diagnostic process. This includes representatives of the involved donor agencies. Due to the fact that the main result of the diagnosis must be policy change and not just a written report, disseminating the result of the diagnosis should be a vital part of the process. Local researchers, local technicians and mid-level policy makers must feel involved in the diagnostic process and agree with the conclusion reached. Periodic workshops, seminars and conferences with policy makers during the diagnosis to keep them up-to-date and involved are very important. The analysis must be adjusted in some cases along the way to meet special concerns that emerge among policy makers. It is also useful to strengthen the capacity of the local people to do analytical work on RFMs as part of the diagnosis. Ideally, these should include helping to develop a small research group in one of the local institutions, like the Central Bank, that can continue to do evaluations of the RFM after the initial examination of the RFM is completed.

CHAPTER TWO

INDIGENOUS SAVINGS AND CREDIT SOCIETIES IN LOW INCOME COUNTRIES

During the last two decades, increasing number of writers and researchers have observed the growing importance of the Indigenous Savings and Credit Societies in Low Income Countries (LICs.). Although there have been a few studies in this field, there has not been any in-depth study on the subject apart from some notable comparative analysis by Geertz,(1) Ardener,(2) and more recently by Bouman.(3) These researchers reveal the rotating credit association as a worldwide phenomenon, appearing in many parts of Africa, Asia, America, the Caribbean area, the Middle East and even in Europe. However, the extent of membership is seldom explicitly mentioned. A few cases cited below, serve to illustrate the substance of the phenomenon.

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1. Geertz, C., The Rotating Credit Association: a 'Middle Rung' in Development; Economic Development and Cultural Change, I, No. 3., 1962.

2. Ardener, S. The comparative study of Rotating Credit Associations: Journal of the Royal Anthropological Institute, 94(2)., 1964.

3. Bouman, F.J.A., Indigenous Savings and Credit Societies in the Third World. A message - Savings and Development 1980

Among the Bamilike in East Cameroon, each adult is a member of at least one saving association. The popularity of the rotating credit association among this ethnic group is confirmed by Ardener.[1]

In the Grassfield of West Cameroon, at least three-quarters of Babanki village belong to one or more 'djanggi' (Harteveld).[2] According to him, Brokensha arrived at a similar estimate for the "60,000 people in employment in Bulawayo", Southern Zimbabwe. In Illako Igboroko and in Taffo, two close villages in Southern Benin, almost every man and woman above 18 years join a 'tontine'.[3] In Addis Ababa, Ethiopia, membership is estimated to be 60% of the urban population, while among craftsmen, especially weavers, it may go as high as 90%.[4] In Indonesia "almost every woman belongs to several societies".[5] It was also observed recently by Bouman that indigenous societies were popular with rice farmers in Central Java. He also noted that in one district, newly established KUDS[6] contributed 5% of profits to an indigenous society, with the explicit aim to build for each KUD in turn, an office by rotating the Society's fund among the twelve participating co-operatives.

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1. Ardener, S. <u>Op; cit</u>., P. 13
2. Harteveld - summarised in Bouman, F.J.A., <u>Savings and Development</u> 1980. PP. 181-220
3. Bouman, F.J.A., <u>Op. cit</u>., P. 194
4. Ibid.
5. Geertz, <u>Op. cit</u>. P. 43
6. KUD = Korporasi Unit Desa, i.e village level co-operative

All these reports confirmed that rotating credit associations are popular with men and women, even children, in rural as well as urban environments; among the rich and the poor, the white and the blue collar workers and different social and occupational groups. Even when enjoying regular employment, or using modern banking and saving facilities, people retain their links with this traditional Institution. For example, 'Mba-ise Family Union' in Liverpool at the moment has a well established Esusu Club. (See Chapter 4, Section 4.3).

The rotating credit association has been defined as a group of participants who make regular contribution to a fund which is given, in whole or in part to each member in turn (Ardener)[1]. Ten participants, each contributing ten pounds monthly, will thus eventually receive one hundred pounds each. After ten months the cycle is completed. This is the simplest form, where no deductions are made to compensate the organiser for the responsibilities, no competitive bidding for the fund takes place, and no other agreement interferes with the fund's distribution or volume. The first collector receives an interest-free loan from all others. While the last in line is only saving money as he extends credit to his fellow members. The others alternate between debtor and creditor positions.

According to Bouman, this alternating positions discredits the term "rotating credit association".[2] He argued that a member saves until he receives the fund, after which he starts to repay

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1. Ardener, Op. cit. P. 21
2. Bouman, Op. cit. P. 233

a loan in instalments, unless he is the last participant to receive the fund. Thus, not only the credit rotates, the savings positions rotate too. Therefore he preferred the term "rotating savings and credit association (ROSCA)".(1) In our view, the term is more applicable to the system because most participants find the saving discipline imposed by ROSCA membership an attractive part of the scheme.

2.1 Rotating Credit Associations And Their Qualities

The research done on ROSCAs by Ardener, Amogu,(2) Geertz, etc. have been generally very descriptive rather than analytic. However, the recent work by Bouman has given us some food for thought.(3) The literature offers the basis for formulating some hypotheses concerning common ingredients of ROSCAs success among cultures as diverse as Nigeria, Ethiopia and Indonesia, Benin and India. According to him, these may be classified as features relating to accessibility procedure, flexibility, adaptability and multi-functional aspects.

(a) Accessibility - Every village, hamlet, or farm family compound can form its own association bringing saving and credit facilities right down to the most basic level. This contrasts with formal finance, to which large segments of the rural population have no ready access. One major reason is geographical

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1. Bouman, Op. cit. P. 210
2. Amogu, O.O., Savings in an African Economy. Social and Economic Studies, 5, No. 2 1956.
3. Bouman, Op. cit. P. 210

isolation: a walk to the nearest Post Office, credit union office or rural bank can be equivalent to a day's work or more. But more important is the psychological barrier. The impersonal approach, institutionalised suspicion and red tape that normally accompany the procedure of formal agencies scare away many prospective clients. Some co-operative officials take advantage of timid fellow members. For example, loan application forms, particulraly if not in the vernacular, may provide a vehicle for such intimidation.

Even where the institutional facilities are within easy reach, the small savers still have to cope with an uninterested management. Dealing with the small saver and borrower is hardly lucrative at interest rates and fee structures found in formal finance: It means expensive overheads relatively high risks and close supervision (These problems will be discussed fully in Part Two of this Thesis). Some commercial banks as in Cameroun and Kenya demand minimum deposits to stave off the small saver. The administrative machinery of the formal banking system in LICs in most cases is not equipped to deal with the requirements of the small farmer.(1) On the other hand, traditional savings and credit associations are open to even the poorest segments of the society.

(b) Procedures - Rotating savigs and credit association, although simple, flexible and rather informal,(2) nevertheless

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1. Bouman, Op. cit. p. 233

2. There are exceptions as with the institutionalised Chitties in India - MAURI, A., A Policy to mobilize rural savings in LDCs. Savings and Development, 1977,1.

contain effective machanisms which regulate membership eligibility, credit rating and employment. The ingenious 'Djanggi' system of variable contribution is a case of everyman a banker, regulating his contributions according to his own financial condition and opinion of the others as credit risks. The smallness of the group (participants generally number between 10 and 30) ensures members knowledge of each other's characters. Furthermore, the forceful social control is a formidable barrier against fraud and defaulting. According to Bouman, almost all observers agree that obligations are taken very seriously. In many parts of Anambra State members who had already collected the fund and witheld further contributions were brought into line by such penalty as determined by the society e.g fines and possibility of loss of membership after the recovery of such debt.(1) According to Mauri(2) this is also the case in Benin where a cow may be kidnapped or threat to set fire to a granary.

There are other methods to counter default. Unlike some Asian ROSCAs run by professional organisers, most African groups collect contributions in public at meetings of the full membership. Hence, failure to contribute is immediately noticed and with expressions of collective disapproval.

According to Ardener, the most effective component and the foremost reason for joining a ROSCA is the 'forced' saving element.

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1. Chief Nwaebiem; Personal Interview 23/11/84. (President of 'Otu Amaeke').
2. Mauri, A. Op. cit. P. 32

Through the regularity of small deposits, which otherwise might be spent on trivial things, one is able to accumulate a sizeable sum of money for a worthwhile cause. Levin(1) found that Esusu participants in Trinidad had preference for being the last to take the distributions of the fund, thus maximising savings potential. In other associations where competitive bidding is customary, credit candidates desiring early collection of fund pay a premium that as a rule, is distributed as interest to reward late collectors. The interest paid for ROSCA is well below the going rate for loans to individuals in the formal market.

The fact that loan repayments are also in instalments appeals to participants. This contrasts favourably with short-term institutional loans that have to be repaid in one lump sum at maturity, which may cause some problems to borrowers.

(c.) Flexibility - flexibility is the hallmark of ROSCAs. Although the principle remains the same, there are innumerable variations to the basic pattern outlined above. Participants may range from a handful to a few hundred, they can join more than one association. Some participate in up to five clubs at the same time. The order of rotation (mostly in Africa) may be decided by lot, consensus, seniority, negotiation, bribery or by the decision of the president/chairperson. Different criteria are in popular use for membership eligibility. Financial standing (e.g assets and liabilities), payment obligations and sanctions. Contributions may be in kind, but are generally in cash, ranging from a few pennies to more than

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1. Levin, Survey on the Susu funds in Trinidad, 1975, Surmmarised in Bouman Op. ct. p.322

£100 per meeting. Regular wage earners can pay through their employers. Interest may or may not be charged. Contributions may be fixed or variable. When in need, a participant may even borrow his contributions from a ROSCA with special savings fund for recurring expenses, such as tax and education fees, this is very common in West Africa. While this special fund accumulates, members may borrow from it, but in that case have to pay interest (see Bouman).

Payments may be daily, as with shoeshine boys in Addis Ababa or the market traders and street vendors in India (see Ardener), it may also be weekly, monthly or any other agreed period. The life-time of a ROSCA and, concomitantly, the duration of a loan or savings period, depends on the number of participants and the length of intervals. Participants themselves decide what type of association to form, according to their opportunities to use credit and their savings potential. For example, daily labourers have different cash flow patterns than farmers. In rural India, credit associations with three and six months intervals concide with harvest times, and monthly associations of thirty members (life cycle 30 months) are considered short-term. Those running for six months are considered medium-term associations.[1] The longer the duration, the greater the risk of default by members who migrate out of the region. The most popular life cycle run from one to two years. According to Ardener, however, most ROSCAs have devised some methods to counter inflation. The Bamilike in East

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1. Mauri, A., Op. cit. p. 38

Cameroon have reduced membership to a handful, thus shortening the life-cycle of the society, and participants also change positions in subsequent cycles.

(d) Adaptability - this is the great strength of the ROSCA. Adaptation to inflation is part of the process of accommodation to the changing environment. Before the introduction of Western currency and monetization of economy, the 'dianggi' in Cameroon operated on brass bracelets, livestock, food and other commodities; Liberian ROSCAs substituted money for rice in the 1920s after the Fire-Stone plantation started paying employees in cash.(1) The substitution of cash for kind seems to have taken place smoothly enough. Clubs in Ethiopia are said to have proliferated with the growth of the market economy.(2)

While ROSCAs originally appeared instrumental in meeting traditional expenses of religious and social ceremonies, such as funeral and weddings, and helped in the collection of dowry, members now save for modern necessities, such as Education fees, brick and zinc houses and sophisticated furniture and for yearly taxes.

Whereas saving, specifically 'forced saving', appears the prime mover of these societies, the credit element may have been added only later as and when promising economic opportunities demanded an immediate layout of capital (in whatever form). The lottery system (apparently the most original form) is then inadequate, not allowing participants a say in the rotation of

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1. Robert Chambers quoted by Bouman, Op. cit. p. 327

2. Ardener, Op. cit, p.17

the fund. The ROSCA obliged, changing from a strictly savings into a savings and credit institution. And according to Nayar,

> "From the modest primary group in a village quarter, the traditional chitty in parts of India has blossomed into a modern banking enterprise; based on written rules and a constitution, keeping regular books and accounts, accepting title deeds, promissory notes, but also the right to a future chit fund and collateral".(1)

In Africa, developments have been less spectacular. Ceremonies during 'djanggi' meetings at Babanki, although slightly changed, still follow traditional patterns, mixing business with pleasure. Being President of a society is still a matter of trust and prestige rather than of business acumen and economic gain. This does not imply that 'djanggi' have been static in technical procedures. Recently, a new type, the fertilizer fund has been introduced in Abakiliki - Nigeria (Mazi Okereke - Personal communication 15/12/84). Indigenous Savings and Credit Societies flourish not only in a traditional rural setting, but abound in towns and cities of all sizes as a focal point for ethnic enclaves, new occupational groups, recent settlers and migrants. They also form a link between the old and new, rural and urban areas, and increasingly take on new dimensions.

(e) The multi-functional dimension: As observed by most writers and researchers named above, the multi-functional dimension of indigenous savings and credit societies offer members a variety of reasons for faithful participation. These dimensions include the financial, social and the economic.

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1. Wai, U.I., Op. cit. p. 21

2.2 Savings Credit and Investment

Most development economists no longer uphold the once popular stereotype that peasants in LDCs cannot and do not save. Yet, empirical data on actual savings performance is still hard to find, although studies in Asia have produced fresh evidence.

Farming households in Taiwan in the early 1960's were saving roughly 20% of their income (on-and-off farm). Savings rate increased to 25% in 1964/68 and decreased sharply thereafter, probably due to a combination of adverse weather, lower returns to on-farm investment and the fact that attractive consumer goods began to enter rural market.(1) And according to Adams and Singh;

> "Although large farmholders on the average saved more than smallholders, the marginal propensity to save appeared not to differ much between the two groups."(2)

A study of data from the annual South Korean Farm Household Economy Survey revealed an average saving rate of 12% in 1963, increasing to 33% by 1974. A similar study of savings deposits in three agricultural co-operatives (with a combined membership of over 5,000) during 1961-1975 arrived at equally startling conclusions, that showed a much larger potential

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1. Adams, D.W. & I.J. Singh - Capital formation and Farm-household decision making process. Dept. of agricultural economics and rural sociology, Ohio State University. 1972.

2. Ibid p.312

savings capacity of low-income rural people than previously thought.(1) Through a survey of 50 selected rural families in the Ogoja farm settlement (rice), Nigeria, Paul Ikpan calculated an average savings rate of roughly 22% of farm income in 1983, with no significant differences between small and large farmers.(2) Admittedly, all three examples are cases of growth economies.(3) Moreover the agricultural co-operatives in South Korea, through an aggressive savings policy that offered depositors interest rates of up to 30% succcceded in making saving a highly attractive proposition.

On the African Scene, Jellicoe(4) reported a 12% savings on cash income in the rural areas of Central Kenya. A most detailed analysis, however, came from Zambia where Chambers(5) systematically kept records of 239 rural households for consecutive years and found that sample farmers, on the average, saved more than 30% of their income. He also reported indentical saving rates in a sample of villagers with other occupations.

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1. See Adams, D.W. & I.J. Singh, Op: cit; p.23
2. Paul Ikpan, Personal Communication - Project taken as part of unpublished dissertation for an Ms.C. Agricultural Economics at The University of Nigeria, Nssuka.
3. E.G.; average per capita income of farm house-holds in the Taiwan Survey increased in real terms by almost 50% over 1960/1970 - Adams & Singh, (1974) Op: Cit; p.25
4. Jellicoe (1968) Research on Kenyan rural economy summarised by Bouman - Op: cit; P.324.
5. Robert Chambers, Health, Agriculture and Rural Poverty: Why seasons matter, The Journal of Development Studies. Vol. 18, 1982, 2, P.10

Elsewhere in Africa,(1) particularly and more recently in Nigeria, Central Banks were taken by surprise by the large amounts of cash that turned up in rural areas when old currency had to be exchanged for new issues.(2)

The role that indigenous savings and credit associations play in this amazing performance is still hard to assess. It is known that in Taiwan, the farmers organisations coexist with rotating credit societies.(3) This South Korean study almost incidentally mentions that traditional 'system' - a mixture of mutual aid and ROSCA, has become, over the past few years, an important part of the co-operatives' financial activities. This suggests that the traditional 'forced' savings system is still appreciated by farmers, even as a means of profiting from the high rates of interest offered by the co-operative.

According to Ethiopia's Development Plan 1968-1973, the annual estimates of savings in 'ekubs' about $200-250 million (£96.8-£121 million), represent eight to ten per cent of 1973 GDP. This is a formidable performance for an indigenous ROSCA in an economy commonly recognised as stagnant. Here, the 'ekub' is also popular with urban craftsmen, who are said to save more

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1. See R. Chambers, Op: cit; p.32

2. See Financial Times, 21/6/84

3. DONALD, G. (1976) - Studies on co-operative movement in Taiwan, summarised by Bouman, Op: cit; p.312

than one third of their monthly income, the weavers save as high as 40 per cent.(1) And as stated by Tschakert

> "In Babanki village in Cameroon, hardly an area typifying rapid Economic growth, Harteveld calculated that 740 'djanggi' members together accounted for a turnover CFA millions in 1971 or US $90 per member (Harteveld 1972). Also in India chit funds form 20% of all bank deposits (Nayar, 1973)."(2)

Very large amounts of cash are involved in typical Merchants' ROSCAs in both urban and rural economies. Dan Soen and de Comarmond,(3) compared these merchants associations to Institutionalised banks. To this can be added Jellicoe's numerous examples of rich urban mutual aid societies of ethnically-based unions in East Africa which apart from providing a substitute for former kinship and village bonds among migrant groups, have taken up functions of savings and credit.

By and large, the available evidence suggest that the savings capacity and potential savings capacity of rural people in LDCs are easily underestimated and that indigenous societies no doubt play a crucual role in generating rural and urban savings in many countries. Where do these savings originate? Information on this issue is neither specific nor conclusive.

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1. Tschakert, S., Savings & Interest - farm-households in Babanki village in Cameroon, Savings and Development, 4, 1977, 1, p. 14.

2. Ibid., p. 191

3. See Dan Soen and de Comarmond, Op. cit., p.184

The most commonly cited sources of savings are crop and live stock receipts, non-farm or wage income and 'careful living'. Such generalisations, however, provide no answers to such questions as how rural people with irregular farm revenues make continuous contributions to a ROSCA. Are various ROSCA started at particular times to coincide with expected harvest revenues? Do participants borrow or forego saving in order to honour their obligations? If so from where and to what extent?

'Careful living' may be practised to such extremes as to be detrimental to health (See Donald)[1]. The obligations incurred by participation in a ROSCA may, however, stimulate extra activities, for example, rubber tapping, the tapping of palm oil and palm wine trees or the cultivation of fresh fruit garden (P. Ikpan 1984, personal communication). The more entrepreneurial minded may embark on new ventures, women may increase petty trading activities etc.

Contrary to the experience of "compulsory" savings associated with ROSCA to which members commit themselves voluntarily, forced savings-plans devised by administrators in LICs as a condition of farmer's participation in government sponsored credit programmes have not been very successful. The attractiveness of 'forced' ROSCA savings to a small farmer have been

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1. Donald, Op. cit., p.208.

summed up by Donald:

1. "to have his money go to an organisation of his fellow farmers, people he knows and can keep an eye on;

2. to ensure that the farmer has some say in the running of his organisation;

3. to require that all its members must contribute, so that the unfamiliar risk can be shared and become customary".(1)

2.3 Determinants of Savings and Investment Behaviour

Savings and investment behaviour is conditioned by the time at which such decision is effected for production and consumption; these in turn, are governed by the current ideas and values about capital accumulation and spending in the particular society. Investment for private gain may meet with general disapproval in one,(1) and be loudly applauded in another. The attitude of peasants in LICs towards debt conforms, in general, to the universally popular ideal of being debt-free.(2) Yet heavy borrowing may be considered imperative to meet the expenses of funerals or weddings that seem wastefully exorbitant to the outsider.

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1. The search for private gain may imply that the investor is trying to disentangle himself from the web of mutual obligations within the extended family. See Ardener 1964, Op. cit., p.49

2. Of course there are agricultural systems characterised by perpetual indebtedness, particularly on the Indian sub-continent. This does not, however, necessarily refute the debt-free ideal. See Bouman, Op.cit., p. 311

Savings imply deferred consumption. The willingness to save depends, in part, on the availability of investment opportunities (on-and-off-farm) that promise sufficient returns to justify deferment. Not all families in a community have identical time preferences. This could be seen by the variances in the household composition and age structure, in the levels and regularity of income, in the liquidity preferences and acquired security levels, and in the consumption alternatives that face the family at any given time.

Adams and Singh[1] have argued convincingly that the production and consumption decision-making process should be analysed at the rural farm-household level. Detailed case studies of ROSCAs could be very helpful here too. Most ROSCAs appear as self-selected micro units that form the ideal setting for analysis of members true needs and aspirations. Level of contribution, duration and starting time of cycles, order of rotation, extent of competitive bidding. purposes for which funds are used, all may contain clues to production and consumption preferences of the participants. Unfortunately, only few ROSCAs have been explicitly studied from this angle.

Harteveld,[2] in analysis of 69 'djanggi' cases summarised the uses to which funds are put as follows:

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1. Adams and Singh, Op. cit., p. 48

2. Harteveld, Op. cit., p. 209.

(in percentage of totals).

Family consumption	28	dowries, obligations to in-laws	8
Education fees	17	trade and investment	7
Tax	14	Zinc roof	4
Medical care	8	debts (djanggi 7, others 6)	13

There is not much here to indicate the time preferences for consumption and investment of the different participant groups. Harteveld, however, made an interesting observation. He noted that 15 per cent of members agreed that participation in a 'djanggi' enabled them "to save money." This might confirm Adeyeye's theory of illiquidity preference,(1) i.e money kept in the liquid form can be claimed by blood relatives. By shedding liquidity through circulation in a ROSCA, one is temporarily safe from demands for support from the extended family.

Adeyeye also commented on the widespread practice among medium and high-level African Civil Servants,

> "in Kenya and Tanzania, higher paid Civil Servants purchased a month's supply of food and related items immediately after cashing their pay cheques. By ensuring that the needs of their families are met first, they avoid a possible traumatic value conflict later on."(2)

1. Adeyeye, O. - Co-operative development through Institutional adaptation, the Nigerian experience. <u>Co-operative information nr. 2.</u> 1972.

2. Ibid.

This contrasts with Robert ' conclusion that the volume of cash reserves held by many of his sample farmers in Zambia was greater than could be productively applied to on-farm investment.(1) These farmers showed a liquidity preference as a protection against sudden calamities. Roberts' analysis, however, leaves the impression that ROSCAs are not prevalent in his research area. If they were, they might have been used exactly for the purpose of shedding liquidity temporarily. 'Otu'(2) in Abakiliki, Nigeria, chit in India and many others in Africa are definitively utilised for the transfer of savings to increase economic activities. Prospective investors preferring the first rounds in 'chitties' are prepared to pay substantial premium (up to 30%) for credit extended by late drawers, ('Otu' system is interest free).

BASCOM from his social survey of Yoruba villages(3) found that people attach high value to matters that enhance status and prestige. He listed the use of 'tontine' proceeds, in order of priority as the purchase of (a) a house (b) wife(4)

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1. Chambers, R., Op. cit. P. 11

2. 'Otu' stand for distinctive group, e.g 'Age group'.

3. Bascom, W.R. (1952) The Esusu: A Credit Institution of Yoruba, Journal of Royal Anthropological Institute No. 82, pp. 63-69

4. Dowry - settlements among Ibos at the moment could go as high as ₦5,000 or more depending on the educational qualification of the bride.

(c) a bicycle, (d) a watch or radio, (e) a zinc roof.(1) He believes that special-purpose 'tontines' are rare(2) and are used only for the collection of drinks to add spice to home improvement ceremonies.

After ROSCA members' primary objective are fulfilled, their preferences grow in diversity. Some are eager to obtain modern conveniences e.g European-styled houses and (furniture), others invest in apprentice contracts(3) or go into business and trade.

Amogu(4) appreciates that time preferences for production and consumption vary with age. The above pattern was prevalent particularly among the younger generation. His conclusion was: "status first, productive investment later." From the moment the zinc roof comes within sight, the older villager is inclined to think of agricultural investment: purchase of land or cattle; acquisitions of acreage through the pledging system, and hiring labour for more demanding crops such as cotton, tomatoes and chilli. Investment in agriculture, however, usually comes later; first, money is

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1. As in Babanki, Cameroon, zinc sheets are purchased collectively at a discount.

2. ROSCA has done more to the rural community than have so far been recognised by the researchers, e.g at Ugboka - Anambra State, Nigeria, the livelihood of so many families depends on the initial 'takings' from the ROSCA to start their petty farming.

3. To ensure that a family member learns a certain trade or profession.

4. Amogu, O.O. Op. cit. P. 7

put into purchase of a cornmill or the building of a house in the nearby town. These modern acquisitions, besides enhancing one's status, increase the capital (profit margin between non-agricultural venture and Agriculture is very high) when the profit is re-invested. It may be only the proceeds of these initial investments that are recycled into agriculture.

Remarkably, custom forbids using 'tontine' funds for repayment of debts. The usual practice to overcome this inconvenience is to insert imaginary person into the ROSCA memberships, and a full contribution paid as would the existing member. In Asia, on the other hand, it is quite common that one goes into the money-lending business via ROSCA proceeds.(1)

Useful information is supplied by Baxter(2) as Adams noted from his data on Indian 'chitties'. Baxter also concludes that, as the 'hand' (fund) gets larger, the greater is the tendency of members to invest the proceeds. The size of the hand increases with number of participants. Prospective investor who cannot afford large contribution will therefore join 'susu' with many participants. Baxter further noted an interesting relationship between occupational status and investment: blue collar worker interested in self employment must invest in repairs, replacements, and expansions to keep his business going and his income coming. There is also a

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1. Geertz, C., Op. cit., p. 29

2. P. Baxter (1975), Survey of the use of 'Susu' funds in Trinidad - summarised in Adams & Singh. Op. cit., P.92

marked difference between various age groups and no 'susu' participant below the age of 30 encountered by Baxter whether blue or white collar worker, invests. This correlates with Amogu's findings in Nigeria. Young members are engaged in establishing a household, gathering money for a dowry, house, furniture, or utensils. Beyond that, there is little surplus capital for investment. The 'susu' participant above 30 years of age has less propensity to consume, particularly the older blue collar worker, who may invest in houses in order to enjoy rental income later, or in the establishment of small cottage industries.[1]

2.4 Investment in Agriculture

There are three forms of on-farm investment distinquished by Adams and Singh :[2] (a) investment of the family's labour in activities which directly enhance the capital stock of the farm; (b) expansion of operating capital to create additional productive activity, either by using his own or borrowed funds; (c) the purchase of various forms of fixed capital which provides productive services over various time periods - here again the farmer may use his own liquid assets or additional credit.

Throughout the studies on indigenous savings and credit societies, there is little mention of productive investment in agriculture. A few cases refer to purchase of land. In economic terms, however, this is not necessarily a productive investment, i.e it can be a simple transfer of resources from

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1. Bouman, Op. cit., p. 312
2. Adams and Singh, Op. cit., p. 320

one person to the other, a mere "reshuffling of control over wealth".(1) Land can be purchased for security, prestige, speculation and hedge against inflation. It does not, by itself, constitute innovative behaviour. Peasants' hesititation to invest in agricultural innovations, especially when borrowing is implied, has been explained as risk aversion, a dislike of indebtedness, as subsistence-mindedness (Bascom), and as a matter not used to the purchase of inputs in traditional agriculture.(2) Social constraints can be equally prohibitive; fear of arousing jealousy within the community, reluctance to share increased wealth with preying relatives - and hence a preference for consumption over production.

As for investment in traditional agriculture, Adams and Singh, argued that traditional agriculture has already been so tried out and perfected over time that further investment in traditional inputs generally provides returns below the level of the going interest rate. This, along with a desire for precautionary balances as a protection against emergencies, may partly explain Zambian farmers' liquidity preference.(3) It may also account for a time preference for consumption.

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1. Ardener, Op. cit., p. 23

2. This attitude to purchase inputs is changing rapidly. Compare the evidence on the Green Revolution in South East Asia. See Adesimi and Oludimum, Op. cit. p. 14

3. Chambers, Op. cit., p. 31.

According to Bouman, we have come to accept the farmer of the Third World as equally shrewd and rational as his Western counterpart when it comes to taking advantage of agricultural and other opportunities. What students of development have to understand is the farmers' set of priorities and the extent and nature of constraints in the farmers' resource endowment. His approach to investment opportunities and to development is conditioned by the socio-economic context of his environment. Development perception at the local level probably deviates far from the interpretation of planning authorities behind the drawing boards in the Capital City.

Large and small farmers invest in productive agriculture, but only when it is profitable to do. There has always been some lingering doubt whether underdevelopment can really be attributed to lack of resources at the village level. As argued by Adeyeye ,[(1)] much of African small farm development in cash and livestock production has come about without any outside assistance from institutional finance. In his study of agricultural growth in Ogoja, Ikpan,[(2)] similarly noted the small holders positive response when the

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1. Adeyeye, O., <u>Op. cit.</u>, p.34

2. P. Ikpan <u>Op. cit.</u>, p.43

availability of new technology led to profitable production opportunities. Here again, hardly any institutional finance was involved. Rather than borrowing from outside agencies, investment in irrigation equipment took place in a somewhat less fashioned way. In order to accumulate the necessary capital, farmers first raised pigs or hired water from a neighbour to grow a second crop. With these accumulated savings, they took the plunge.

> "A major portion of farm expenses has been finances out of retained earning, with farmer relying on credit for only a small percentage of their production and consumption needs."(1)

Rotating savings and credit associations have been instrumental in the provision of this credit, for example, 29% was supplied by 'Ozo'(2) while family credit accounted for 41%. Ikpan added that family funds possibly become available also through the 'Ozo' system.

In Cameroon, Ardener noted that special fertilizer funds have recently been combined with the traditional 'tontine'. In Abakiliki, Nigeria, 'Otu' funds are auctioned to the highest bidder, who then buys fertilizers or uses the money as a trading capital (Ikpan 1984, Personal Communication). According to his study ROSCAs in general has been highly valuable in Ogoja and Abakiliki.

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1. Adeyeye (1970), <u>Op. cit.</u>, p.34
2. 'Ozo' is a cultural Club, (Close society).

We may now sum up as follows: (a) rural people do have propensities to save: they invest in productive enterprises both on and off the farm. The choice between the two is decided by the farmers' own perceptions of prospective economic returns,[1] and the nature and extent of constraining factors. Investment in productive agriculture sometimes is inadequate and wrongly timed.

(b) Private lending and borrowing is not a major factor in farm investment, According to Adams, farmers favour the use of retained earnings over the inconveniences of going into debt and having to reciprocate at inopportune moments.[2] There is a vital lesson here for institutional credit. Borrowers, who have no personal relation to outside agencies, may feel less embarrassed to accept liberally offered institutional credit. Cultural embarrassment has to be carefully avoided in translating the commercial ethic into familiar concepts. Is there a role here for the ROSCA? For example, members of the communities with high expectation often think that they would lose their place in the society and especially so in the family organisations if it is found that they have been operating on loans from formal organisation. Thus, in

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1. Prestige also can produce highly valued returns besides strictly economic ones: respect, authority, and position of power.

2. Inopportunity could be caused precisely by obligation to a ROSCA. See Adams, D.W., Op. cit., p. 112.

Anambra State, it is a tradition for people to "show off" their wealth by the number of luxury goods they can purchase (e.g Mercedes car) or by organising an expensive ceremonies. However, such people often lose their respect if it is found that they are spending a loan from the bank or other financial institution.

(c) The ROSCA, through its "forced" savings mechanism, is instrumental in resource accumulation. Its role in productive agricultural investment might be larger than hitherto assumed because:

i. Conventional credit surveys do not explicitly cover ROSCAs as potential sources of credit;

ii. Indirect financing e.g through relatives and friends, may obscure the initial source;

iii. Farmers consider ROSCAs as savings rather than credit institutions. Investment through participation in a ROSCA could be viewed as a result of one's saving efforts and thus escape a credit survey.

ROSCAs appear World wide as an acceptable institution savings and credit at the most basic level. Surely, then, ROSCAs must have something of value to offer? Whether their functions should be viewed as primarily answering the needs of a subsistence type economy is a matter of debate. The answer depends on the criteria used to distinquish the subsistence from the market economy. Looking at ROSCA performance and its apparent ability to adapt to the changing needs of its clientele, the question arises: if credit to increase agricultural output is so vital for raising rural welfare, do ROSCAs perform this useful function more often?[1] Development agents are encouraged to pay careful attention to such needs and not to create an artificial dichotomy between production and consumption goals, a trap in which institutional credit is often caught. Can we really draw a sharp distinction between production and consumption in an environment where business and household are closely intertwined? Why should payment to hired labour be regarded as production oriented and the purchase of food for the family (farmhands) as pure consumption? When ROSCA funds are used for zinc roofs or medicine, for meeting educational fees or social obligations, is this then consumption or investment in health (improving the quality of labour force), in knowledge and in life insurance?

If ROSCA funds are not primarily used for investment in agriculture as development strategies would have it, i.e to increase output and, thus increase income, there surely must be logical explanation.

2.5 The Attitude Of Governments

Few countries have enacted ROSCA legislation. Jellicoe[2] reports a widespread lack of knowledge at the higher levels

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1. Unfortunately, an analysis of available literature fails to disclose at what time most groups originate and wind up: before planting time and after harvest or vice versa) It may well be that available family capital - in the acquisition of which ROSCA may have been instrumental - have already been spent on seeds and other necessary inputs to keep the farm production going.

2. Jellicoe, summarised in Bouman, Op. cit. P. 324

in the Civil Service in East Africa about indigenous savings and mutual societies of all kinds: a lack of knowledge that is liable to lead to misapprehension.

Some top government officials believe that ROSCA meetings are occasions for drunkenness and the display of conspicous consumption,[1] that fraud and embezzlement of funds are the rule, and that defaulting is apt to become widespread once improved communication facilitates migration. Traditional village ties would have a restraining effect on rural development. In some African countries, for example, Nigeria and Ghana have a policy that prohibits senior Civil Servants and Politicians from participating in ROSCA.

This negative outlook is supposedly fed from several sources:

(a) a firm belief in the dominancy of Western economic institutions and theories of development;

(b) a preoccupation with nation building involving different ethnic groups giving local associations the stigma of tribalism;[2]

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1. This problem will be discussed fully in the next Chapter.

2. This problem is widespread in Nigerian industrial cities for the following reasons:

    i. due to the complexity of its ethnicity;

    ii. Nigeria's policy of 'One Nigeria' which was the premise adopted during the Biafran War;

    iii. Nigeria's monstrous policy of nation building and gigantic capital project of industrialisation. See Jellicoe - summarised by Bouman, Op. cit., p. 324

c. a certain measure of opportunism. Those who stand to gain employment and power by bureaucratic[1] function of financial intermediation are liable to find the ROSCA a suspect.

"To read in a Credit Union Manual that 'djanggi' are out to exploit the people has the suspicious ring of an 'oratio pro demo': but to find credit union officials who participate in ROSCA and yet preach this gospel is utterly hypocrisy."[2]

2.6 The Ambiguity In The Attitude Of Students Of Development

Bouman and Harteveld Review of small farmers credit contains only three specific case studies of indigenous savings and credit societies.[3] All three cases are reprints, starting with Geertz classic work of 1962. Systematic research on the subject by the World Bank and similar development organisations has never been undertaken. There is only one comprehensive study of the institutionalization of ROSCA, that of 'chit' funds, in India, which are integrated into the Commercial banking system.[4]

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1. In most African countries (e.g Nigeria) The governments have major shares in their financial institutions, which means some levels of political control.

2. Bouman, F.J.A. and Harteveld Op. cit., p.312

3. Ibid.

4. Nayer, S., Survey of Chitties Fund in India and Asia, Savings and Development, no. 2., 1973, V.

Apparently, development theory remains sceptical[1] about the potential contribution of traditonal society to development,[2] despite the evidence to the contrary in comparative analysis of Geertz, Ardener and Jellicoe. The major functions, the flexibility and adaptive potential of indigenous savings and credit societies cited here cannot fail but provide attractive alternatives to the rigid formulas of institutions like co-operatives, credit unions, commercial banks, and government sponsored credit agencies. The Cornmill Societies, the digging of fishponds on a voluntary rotation basis, the application of economies of scale in the collective purchase of zinc sheet and fertilizer suggest the range amenable to organization along 'djanggi' lines and the potential role that traditional groups might play in the design of development projects. (See Bouman and Harteveld).

Some of the arguments raised against ROSCAs are:

a. Traditional societies are apt to maintain the present balance of power. But do modern institutions fare any better when we compare the cases of African and Latin American co-operatives. ROSCAs offer the opportunity to enhance the status of the rural people.

b. Improved communications and increased migration will weaken internal social control and encourage defaulting. But emperical evidence from the most critical environment, the urban one, does not support the assertion (Bouman quoting Jellicoe). However, this argument appears to weaken the former one.

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1. A likely basis for this scepticism is that much information about ROSCAs appears sketchy and inaccurate, with little effort at detailed analysis.

2. Adams, D.W. & I.J. Singh, P., <u>Op. cit.</u>, p.81

2.7 The Arguments For And Against Integration

There has been some speculation on the future prospects of indigenous savings and credit associations and the possibility of their integration with the modern financial institution. (Current policies in most African governments will be discussed in the next Chapter). Chambers[1] ponders at the merits of a credit union in Zambia that negotiated loans from a public credit institution on behalf of its members. This example might be followed by a traditional association, whose experienced office-bearers could relieve peasant farmers of the worries of dealing with an institution whose methods bewilder them. Robert himself remains sceptical about the issue mainly because of an assumed lack of local expertise.

Baxter remarks that ROSCA is inadequate for people who have a proclivity for productive investment and need to have large sums of money (Long-term loans) at their disposal. Admittedly, large sums could be created by having more participants in one cycle. But the greater the number of participants and the longer the duration of the cycle, the higher the possibility of default

He therefore argues for a kind of hybrid mechanism that combines the best of two institutions. Members of a ROSCA could borrow from a bank by using as collateral their continued participation in a respectable 'susu'. The fact that in parts of Africa and Asia claims to a ROSCA fund are accepted

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1. Chambers, R., Op. cit., p. 43

c. In the lottery and some other schemes the individuals cannot decide the exact time he will receive his money. But this is precisely why competitive bidding has been introduced. In other cases, one may take a loan from a special reserve fund. Both systems accommodate borrowers, but at the "penalty" of an interest or discount rate.

d. Savers do not receive interest on their deposits. As for other schemes, this applies only to the last few people to receive the contribution. First drawers can always deposit their funds in the rural capital market or establish themselves in the lending business. Then again, relative positions may alternate in the subsequent cycles.

e. "Forced" savings may embarass a participant who suddenly find himself without income. But, there are devices to counter such inconvenience. Thus, one may withdraw from the group and receive his savings at the end of the cycle; appoint a substitute; borrow from the organizer or a fellow participant (sharing turns in the cycle) or from a special emergency fund.

f. Indigenous credit sources can only rarely offer special expertise in the field of farm credit (See Chambers). The extent of such expertise can only be appreciated in the proper context. To some extent local knowledge (of borrowers as well as farming conditions) constitutes part of this expertise, indigenous societies are far better equipped than many outside agencies that now operate in the field of small farmer credit. Much also depends on the type of farm requirements. When demand for fertilizer arose in Cameroon, villagers successfully organised special fertilizer 'tontines'.(1)

g. Once participants have drawn the fund and see no immediate use for it, ROSCAs offer no place to deposit the money. Truly, this is one reason why some 'djanggi' members appreciate the presence of a credit union in 'Babanki' (Harteveld), thus members save part or whole fund received from the 'djanggi' if they have no immediate use for it. i.e the credit union is created to provide such services to the community. Mission posts in Africa have served the same function. In East Africa, Asian shopkeepers, too, used to act as custodians (See Bouman). The safe-keeping function of modern financial institutions forms part of the basis of the plea for integration of the traditional and modern capital markets.

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1. Bouman, quoting Weyde, Op. cit., p. 331

as negotiable instruments supports this view. One may borrow, either from outsiders or from a special group funds, against a future ROSCA fund as collateral (See Ardener, Bouman and Harteveld). Indian banks(1) that organise 'chitties' of the competitive bidding type accept such collateral. Institutional organisation of ROSCAs has advantages for both parties. Thus, for the bank, a ROSCA mobilizes savings,(2) and attracts a new type of clientele, normally too shy to cross its threshold. Commissions and fees from running a chitty can be very high.(3) Participants, on the other hand, will have the benefit of the organisational expertise,(4) efficiency and financial reserves of the bank. According to Nayar,(5) the failure rate of 'chit' funds caused by a lack of reserves to cover defaults

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1. In Kerala State even the government has entered the field of 'chitties' - Nayar, Op. cit., p. 22

2. The bank, as the organiser, draws the first hand. There are also time lags between collection of contributions, drawing of funds and paying out to the winning bidders. Some members, particularly those drawing the last few rounds, will prefer to leave their savings with the bank.

3. The Trarancore Banking Enquiry Commission 1951 revealed that 85 Banks, or 68% total bank within the State, organised 'chitties'. Of these, 75 operated at a profit. Chitty profits accounted for 48% of net profits — Nayar, Op. cit., p. 29.

4. Promoters of the complex fund auctioning type of ROSCA must find the proper balance between prospective borrowers and savers to make the scheme attractive to both groups.

5. Nayar, S., Op. cit., p. 31

is lower for chit funds organised by banks than for those established by individual promoters. Banks also charge lower commissions than individual organisers. Finally, once in contact with a bank, ROSCA members can profit from its full range of services.

Tschakert[(1)] also uses the latter argument when discussing the possibilities of a merger of several Ethiopian craft ekubs into an industrial cooperative enterprise. Besides participating in the initial capital, the bank could exercise control, budget and audit functions and meanwhile familiarise members with its services.

Because credit agencies can hardly afford to spread local branches all over the countryside,[(2)] the use of traditional associations to channel public funds into the rural economy is one of the central elements of the integration question. The argument put by advocates of rural cooperatives also apply to the case for an extended role for ROSCAs: i.e local knowledge, supervision and control; accessibility and familiarity with the local institution; lower overheads (more valid here than in the case of institutionalised co-operatives); and the lack of administrative capacity to deal profitably with individual small scale borrowers.

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1. Tschakert, Op. cit. p. 53

2. Full details on the Nigerian case will be discussed in Part Three.

To this is added the intermediate function; the socialising mechanism of a ROSCA that facilitates adaptation in a period of rapid socio-economic transition. Evidently, ROSCAs and analogous associations are capable of performing this function in both urban and rural settings.

A massive influx of large money from outside sources has potentially dangerous repercussions on the broader social framework if not carefully related to the absorptive capacity of the community. The more one moves away from what is traditionally acceptable, the greater the chance of disrupting the system and of social control in face-to-face relations. Disruption starts when members lose control over their own institutions. Liberal financial assistance can easily provoke fraud, jealousy, corruption and evasion of obligations and thus destroy the potential for the development of a new "commercial ethic."

To a certain extent this has already been the fate of some state sponsored agricultural credit programmes. Agricultural growth has proved less a matter of persuading people to change their ways of life through the carrot of cheap financial assistance than one of creating the necessary conditions that make growth feasible and attractive. Provision of credit has still to be kept within the context of the socio-economic environment of the borrower and here, there is much to learn from traditional credit suppliers, especially in terms of what criteria to apply and what policy procedures to follow.

If the channeling of public funds via traditional circuits requires handling with great care, what about the reverse, the channeling of rural savings into the formal capital market? Governments and financial institutions have repeatedly voiced concern over the mobilization of rural savings as if this fundamental service is nowhere yet performed very effectively. Typically, the formal capital market has largely chosen to ignore the existence of traditional savings and credit associations. As catalysts of rural savings, these associations could link the informal and formal monetary markets.

But could such link be desirable? It would not necessarily increase the amount of savings, i.e the rural savings habit is already there. It could merely imply a transfer of resources from the informal capital market. This, in itself, is not a guarantee of optimum use of resources. Moreover, financial intermediation by banks in LICs' avoiding risks and insisting on good collateral is normally not performed in the interests of small scale entrepreneurs, farmers, traders craftsmen. In the absence of reliable entrepreneurs and/or projects, banks may prefer to keep their funds idle rather than to channel them to second-best customers.(1)

In contrast, ROSCAs are the little man's bank. Here, money is not idle for long, but changes hands rapidly, satisfying both consumption and production needs. Where banks, co-operatives or credit unions have tried to serve people at this level, low repayment rates and substantial losses have often resulted.

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1. IMF Staff Papers, 1975.

Under the triple shelter of local knowledge, collective support and social control, traditional institutions usually have managed to avoid disaster.

There is enough evidence to suggest that rural people preserve liquid assets as insurance against future eventualities. The need for 'instant' capital may keep these assets out of traditional channels of savings and credit. Here the institutional market can provide a convenient alternative by offering a safe place to deposit money where it earns interest. The examples of India (Nayar),[1] and South Korea (Adams and Singh),[2] demonstrate the possibility of attracting savings that are accumulated via the ROSCA mechanism.

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1. Nayer, S., Op. cit., p. 42

2. Adams and Singh, Op. cit. p. 82

PART ONE 'B'

PRE-COOPERATIVE ORGANISATIONS IN ANAMBRA STATE OF NIGERIA

CHAPTER 3

AN APPRAISAL OF PRE-COOPERATIVE ORGANISATIONS

3.1 Introduction

Researchers on rural financial markets and small producers have concentrated largely upon two issues: the use of credit and savings in Small farm economy, and the effect of credit policy upon agricultural development. There has been rather less research on capital formation and credit delivery. Apart from a few studies of particular initiatives undertaken by banks, co-operative societies, or project agencies,(1) there are no realistic statistical data on this important area of the economy. Furthermore (on a theoretical and comparative basis) there has been little attention paid to the institutional aspects of credit provision.

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1. See Helen Kimble, Report on Agricultural Co-operative Credit in Botswana, Plunkett Fundation, 1978.

Partly as a result of this neglect, planners and managers of small farmer development projects and programmes can find little guidance from the large body of credit literature when they are called upon to recommend on the organisation of credit and financial services within a particular programme. Small farmer programmes may give priority to a specific crop, land settlement, intensified service provision, farmer service centres, etc., but in most cases there is also a substantial credit component. Obviously, decisions on organising a programme are likely to be determined by the existing patterns of service provision, the strength of private sector institutions, the existence of farmer organisations, etc. Yet even where the range of institutional options is narrow, there are still choices to be made by planners and managers on alternative ways of strengthening those institutions which already exist. Our main objective therefore, in this part of the study is to explore the activities of those informal organisations that are complementary to the capital formation and credit delivery of formal organisations, and the ways these can be improved.

Pre-cooperative societies as defined in chapter one, are indigenous societies in which members are encouraged to save a fixed amount of money weekly or monthly etc. For example, members are required to meet once a week/month as the case may be for the purpose of collection of dues and other business matters, (see Chapter one). The amount collected at each meeting may be assigned to an individual member in rotation. In addition, some organisations operate retention fees which can be invested in properties for the society, used to buy shares or simply credited to the society's account. The retention fees are made up of extra levy on members (usually smaller than the normal dues), donations, raffles, fines, etc.

Some organisations prefer to lend their retention fees to their members at an interest rate fixed by the society (usually below the bank rate). In most cases this service is available to non-members, but at a rate of interest higher than that to the member borrower. In each case, the accumulated interests are shared among the members at certain times of the year rather than in rotation.

As may have been gathered from the definitions above, these pre-cooperative organisations are informal organisations, which means that their activities are not registered or controlled by the government. But they are legitimate organisations that are well recognised in Nigeria as a major source of finance for the rural economy. In Anambra State these organisations are mainly used by junior and middle employees, self-employed, gainful employed and peasants. They are also widely used by housewives and apprentices, among different social and occupational groups, even in places where modern banking and saving facilities exist.[1]

Since Pre-cooperative organisations are informal organisations, the problems of paper work, filling forms (majority of members are illiterate) and red-tape in management and decision making are removed. Request for loan is usually made by word of mouth. Secondly, since members know each other very well, there are usually no provision for collateral security. But loan made to a non-member must be seconded by a full member.[2]

Basically the main difference between the pre-cooperative societies (informal) and the cooperative societies (formal), is that the cooperative societies are officially registered, therefore they receive grant from the government and in return must operate within the government guidelines.

Pre-cooperative societies do not receive grant from the government or its agents. They are not bound by the government guidelines, though they are bound by the moral and rules of conduct of the community. Operationally, pre-cooperative societies are very flexible, accessible and they provide

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1. See Lewis, W.A., Reflections on Nigeria's Economic Growth, O.E.C.D. Development Centre Studies, Paris 1967.

2. 'Full member' is defined as a financial member in credit or with up to date dues.

multiple functions. In contrast to formal financial intermediaries, pre-cooperative organisations bring savings and credit facilities down to the most basic levels.

As our findings will show the pre-cooperative organisations are major source of funds in Anambra State, and crucial to the continuity of petty trading, farming, education, and social activities, etc., in the rural as well as urban areas. The work done by Seon and de Comarand[1] reported that 'among the Bamileke of Eastern Cameroun every adult is a member of at least one such organisation.' Secondly, Okorie and Miller[2] proved recently that these organisations are the life-line of the rural and urban population of the East Central State they studied, and according to their records, 63% of the adult population in this area belong to Pre-cooperative organisations.

Therefore this Chapter will analyse the activities of Pre-cooperative organisation with particular emphasis on the savings and mobilization of funds in Anambra State. With the use of data obtained from questionnaries and personal

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1. Dan Seon and Patrice de Comarand, "Savings Association Among the Bamileke: Traditional and Modern cooperation in South West Cameroun", American Anthropologist Vol. 74, 1972

2. M. Okorie and S. Miller, Esusu clubs and their performance in Mobilizing Rural Savings and Extending Credit; Technical Report EETR/76, i, p.2

interviews, we shall analyse the importance of pre-cooperative organisations in providing the much needed funds to peasants, petty traders, farmers, and to housewives in the rural as well as urban communities.

Chapter 4 will analyse the activities of other institutional channels associated with the rural economy and especially those similar to the Pre-cooperative organisations. Effort will be made to explore any direct link between these institutions. Data will also form the basis of this Chapter, though some amount of secondary data will be used.

3.2 Objectives and Methodology[1]

The justification of this study as stated in the introduction, centres on the fact that the activities of informal pre-cooperative organisation constitute a relatively under researched area. Except Okorie and Miller,[2] very little indepth analytical study of the activities of these organisations has been carried out in Nigeria.

As will be seen later from the field study, pre-cooperative organisations constitute important agents for mobilising savings

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1. Refer to the Introduction, for more details on Methodology

2. M. Okorie and S. Miller, Esusu Club and their performance in mobilizing Rural Savings and extending credit, Techincal Report EE TR/76. 1. p.2

and productive credit in Nigeria. Most of the existing registered cooperative credit societies are developed from these pre-cooperative organisations.

Specifically the aim of this field research includes;

1. To assess the organisations' contributions towards savings mobilization and provision of credit in the rural sectors;

2. to examine the organisational structure, condition for membership and withdrawal, and the frequency of meetings of pre-cooperative organisations in five local government areas of Anambra State;

3. to analyse the problem facing the societies;

4. to assess the influence and policy of non-monetary intermediaries;

5. and above all to analyse the contribution of this informal sector the rural economy.

Data were collected from primary and secondary sources. Through the use of questionnaires primary data were collected from interview of pre-cooperative members, from five local government areas. The secondary data were collected from the officials of managements of the private enterprises. In the analysis of the pre-cooperative societies, two questionaires were used, the 'official' and the 'member' questionnaires.

The 'official' questionnaire centred on the organisation and general operations of the societies while the 'members' questionnaire is designed to obtain information on the socio-economic activities of members in the group, their reasons of joining the group, their savings and sources of payments including the use of the fund received from their contributions and other benefits they derive from the group as a whole.

The rationales for the choice of the areas of research (see Section 3.1) are that they constitute very distinctive qualities in Anambra State in Agriculture, Labour markets, Trading, Handicraft and Fishery, etc., which are the main important areas of the rural economy. Secondly, the areas chosen cut across the entire Anambra State with one local government area chosen from the North, two from the South and one each from the East and West. It is believed that, if more areas in the State were covered, it would have given more accurate data, but our research was limited to five local government areas because of financial constraint, problems of transport and communication and above all the time factor because of lack of response.

In the selection of these local government areas for field research we have endeavoured to cover the entire area of the State (see section 3.2) and the following reasons have influenced our decision on the choice of these areas: firstly, the obvious decline of some sectors of rural economy is due to lack of finance. Secondly, the inabilities of peasants, farmers, traders labourers etc. to utilise the available resources effectively because of inadequate information and training. A comparative analysis will also be carefully presented on these areas because of their wide disparities in some sectors of rural economy.

New Development

There was an introduction of so called revenue tax in some States in Nigeria by Buhari administration (1984) which drastically hindered some privately financed rural projects and private schemes.[1] For example private bore-hole schemes were charged at ₦100 per annum for a house-hold as registration fees and further ₦50 per annum as standing charge.

This policy was very unpopular to the people especially to the rural population since it were in rural areas that bore-holes are needed, because there were no other form of water supply by the authorities. This also dangerously lowered further the standard of living and well-being of the rural populations.

This policy is also a direct attack on the rural economy and especially on the farmers because many farmers depend on bore-hole and 'well' as the main source of water supply both for farming (especially during the dry season) and for their domestic use.

3.3 Features Of Pre-cooperative Societies

Capital accumulation normally involves two related processes: savings and investment. It occurs when output exceeds consumptions; and it is sustained when the margin between output and consumption is reinvested in the productive process. However, when the latter does not occur, capital

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1. See West Africa, December 1984 issues.

accumulation may still take place through an alternative process - short-term or long-term loan. But it often happens that the cases with which loans are raised largely depends on the savings and investment potential of the borrower, for example, on the ability to redeem indebtedness. Then it would follow that the frequency of capital shortage as well as the difficulty of raising loans from lenders would be greater in developing countries such as Nigeria, where savings and productive investments are relatively slight. According to Hunter,(1)

> "The African is apt to be an expensive customer (of commercial banks), depositing £20 one day and withdrawing the whole amount by a series of small cheques within a week. When it comes to financing individual entrepreneurs and traders, the banks have fallen back on the strictest orthodoxy - that this is not, in fact, the bank's business - the greatest difficulty has been lack of mortgageable security."

Nevertheless, field study in Anambra has shown that the problem of raising loan is not as serious as the above observation seems to suggest. This is largely because extensive recourse in this market is to informal institutions, for example the available data show that in Anambra state Pre-cooperative organisations provide over 60% of capital in rural economy.

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1. C. Hunter, The New Societies of Tropical Africa, O.U.P 1963, pp.136-7

As we observed earlier (see Section 3.1) the majority of Pre-cooperative organisations have no written constitution to guide their day to day business. However, the policies of some organisations are formulated to suit the traditions and the customs of the groups involved. Some have group bye-laws that set out the aims and objectives of the society. The duties of the officers are usually determined by the society in a general meeting, these will include the behaviour expected of every member within and outside the society meetings and of course the penalties for any misconduct. In the majority of the societies we interviewed, these bye-laws were implied, though in a few of these societies the bye-laws were written. In some organisations where there is much money involved, there is evidence of documented constitution, particularly if there were a few literate members, for example, Eke Traders Association(1) in Idemili local government area. We also discovered that in most of these organisations where the by-laws are written, members are usually only male or a mixture of a few female. However, we found that at Ugboka in Nkanu local government area, 'Nnyom Umuejim'(2) has fully written constitution. This pre-cooperative organisation is unique because not

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1. 'Eke' Traders Association is a union of market traders in Idemili, named after the biggest Market Day.

2. Nnyom Umuejim is an association of wives of the clan of Ejim. (Nnyom means wives: Umuejim means children of Ejim).

only that the members are all women, but the nature of their operations are that, they are capital formation society, and local businessmen contract for labour with the organisation rather than with individual members. For example, in addition to their normal functions as a pre-cooperative society (raising capital and providing loans) Nnyom Umuejim acts collectively to provide much needed labour for the local businesses, such as builders, farmers etc., and most importantly, they are the labour force behind any community programme in the area.

They are usually cheaper than hiring individual labourers and there are usually no additional cost to their clients, because every member brings along her own food. Their clients also receive value for money because this association always demand that the client provides independent supervisor to make sure that members work hard, especially when they are engaged on daily basis (day's work is from 8.00 a.m to about 4.00 p.m)[1].

In December 1984, the researcher was priviledged to be an independent observer when the contract between Umubagwu,[2] and 120 strong Nnyom Umuejim to weed their cassava farm was

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1. Starting and finishing time depends on the distance of the work from their residence.

2. Umubagwu is an association of Ubagwu's clan. Their objectives include cooperative farming, community projects such as building roads and bridges, clinics, etc.

in progress. The experience was invaluable, and it helped the researcher immensily to widen his knowledge about the operations of the society.
The proceeds to Nnyom Umejim from this work was ₦100 (about £80) If this is compared with the average cost of hiring such labour (₦1.2 per person) we find that it would have cost Umubagwu a total of ₦144 (about £122).

Judging from the reasons stated above, it could be seen that Nnyom Umuejim helps to off-set the cost of labour for local businesses, especially those businesses at the infant stage, and it also provides the free labour needed for the community programmes.

The main objectives of surveyed groups of pre-cooperative organisations include financial aid through loans to members contribution to rotatory collection, village project development and savings towards the purchase of luxury goods. Other important economic roles include promotion of members business with savings, cooperative joint work when occasion demands and multiple objectives as finances of members for meeting children education funds. For example at Nnewi local government area, there are few pre-cooperative organisations which operates on the basis of contributing money to build a house for one another until the cycle is complete. If a member has already built a house before joining the organisation and does not wish to build another one, he may choose to spend his money in any other venture such as bore-hole and electricity plant both for the farm and domestic use. In any case the amount spent for every member is the same.

Although pre-cooperative organisations in general have a long history, the life span of an individual organisation may be fairly short because of changes in leadership and/or membership; internal disagreement and external village development may lead to the disbanding of a society and formation of a new one. Another important reason for this is migration to urban areas. In this study, organisations between four to twelve years old constitute the largest percentage (39.59%) of all the organisations surveyed. This is indentical to the study of Osuntogun and Adeyemo[1] in the Western states of Nigeria. They found that the average life span of pre-cooperative organisations in Western States was between five to ten years.

3.4 MEMBERSHIP

Pre-cooperative organisations are structurally of two main types, (1) Open organisations and (2) Closed organisations. Membership in Open organisations is unrestricted, cutting across age, sex, occupational groups and socio-economic status. For example, the Nnyom Umuejim described

1. Adeniyi Osuntogun and Remi Adeyemo-Mobilizing of Rural Savings and Credit Extension by Pre-cooperative Organisations in South Western Nigeria, Savings and Development No. 4. 1981. V.

in Section 3.3 above, is an open organisation. Although as the name suggests, it was formed by the Umuejim wives, but nevertheless it is open to every other person. However, the nature of their job are usually considered feminine - (catering, weeding etc.), therefore the men are not likely to join.

On the other hand, the close system organisation were built around occupational groups such as labourers, farmers etc, and persons involved in the same or similar job. We found that this group could be separated into two sections. The first section though would prefer to limit their membership to their occupational groups but may welcome outsiders who are genuinely prepared to abide by their by-laws and work in the interest of the organisation. One good example of these type of organisations is the Eke Traders Association described in Section 3.3. This Union constitutionally admit any person (man or woman 18 years and above) who is interested in the club and agreed to abide by the club's constitution.

However, there are distinctive type of close system organisations whose rigid policy would not admit anyone outside their ranks. For example, Ozo Clubs(1), these clubs are made up of mainly elderly statesmen of the village. Membership is strictly on merit, and one will only gain admission to this club after he has attained certain achievement, for example, customary and ceremonial performances according to

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1. These Clubs are cultural organisations for people of senior age groups with same traditional achievement behind them.

the village tradition. Being the richest or the oldest person around does not earn you the right of membership, except of course if one has performed those measured traditional ceremonies involved. There are also similar clubs for the females with exactly the same principles.

Their critics argue that these types of organisations are working against the progress of the community since their expensive habits outweigh their good intentions. Secondly it is a general belief that their objective of highly expensive ceremonies to obtain traditional titles are wasteful, though one important benefit members enjoy is the insurance services they provide. Thus if any member is faced with petty disaster or natural disaster, such as flood or death, the Club will provide aid to the victim; such aid could be in form of cash, labour or fixed capital such as machinery etc. They also provide advice and moral support to members in other kind of difficulty.

Another group of organisations that are very rigid about their policy of membership are Otu clubs.(1) These organisations are made up of age groups, sex or people from the same clan or family (see for example, Umubagwu described in Section 3.3). Thus any member of Umubagwu's organisation must come from the Ubagwu clan or married to it.

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1. These are also cultural unions made up of age groups, sex or occupational groups.

In our study, over thirty per cent of the societies in the five local government areas we surveyed have age, sex and clan as their basis of membership. We also found that these categories of the organisations have the greatest number of memberships ranging from 52 to 300.

These findings agree with the work done by Oluwasanmi[1] in Uboma village in Etiti Division of Imo State of Nigeria. He stated that most pre-cooperative organisations in this area were built around church groups, age groups and circles of friends. This is also supported by the report of Okorie and Miller[2] on twenty-five of such organisations in Ohaozara sub-division of the same Imo state.

In the Open system organisations, the number of foundation members range from five to twenty. On the other hand, foundation members in the closed system organisations are usually very high except in Ozo clubs[3].

The age groups organisations have most of their members as foundation members because in order to make good ones relationship with the community, one must be a party to the activities of his age group. In extreme cases where a person

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1. H.A. Oluwasanmu, Uboma Social and Nutritional Survey of a Royal Community in Eastern Nigeria. The World Land Use Survey Occasional Paper No.6. Cornwall, England - 1966.

2. Okorie and Miller Op: cit. P.38

3. Due to the nature of membership in these clubs, they are unlikely to have a high foundation members.

refuses to take part, it is often met with severe punishment such as castigation and total isolation.(1) Due to openness of some organisations, the growth rates of their memberships are very rapid with majority of those we studied, growing to more than half of its membership in the first year.

The majority of the open organisations are dominated by male members, fifteen of the organisations we studied have no female members. The number of females in the committee ranges from one to five and rarely exceed five except in partly closed system organisations such as Nnyom Umuejim (see section 3.3). We also found that twenty-seven of the organisations we studied have no female committee member.

3.5 Admission and Withdrawal

The admission procedures in the pre-cooperative organisation varies according to the type of organisation and the nature of their activities. For example, the criteria used by the 'Ozo Male Club' (see Section 3.4) to admit new members was applied more rigidly than their counterpart in the 'Ozo female club' even though these two clubs were based on the same principles. Secondly, any organisation whether in the open or closed system organisations, has its own methods of admission and withdrawal which are not necessarily the same with the others.

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1. Interview with local Leader, November 1984.

In all the organisations we studied, it is required that a prospective member presents himself during an organisation general meeting to make his pledge before the members of his interest in the organisaion. his willingness and ability to pay the group contributions and abide by the by-laws. Admission fees range from as little as 50k to ₦2 (about 40p to £1.60). The reasons for this token charge as we gathered were that the pre-cooperative organisations are mostly organisations of people with little resources, therefore it would pose a barrier for entry if high admission fees are imposed. Secondly, because most of the pre-cooperative organisations are capital formation institutions (see Section 3.2), entrance fees should be as low as possible to encourage everyone to participate.

It is also salient to note that seven of the organisations we studied operate free membership. In those seven organisations which includes Nnyom Umuejim (see Section 3.3), participation at the grass roots is part of their policy. Secondly, they have a policy of charitable help to those have nots both within and outside their organisations.

Generally admission fees are used by the organisations to cover administrative costs and other uncertainties. For example, organisations contribute to the cost of burial of their deceased members, etc.

Most of the organisations we studied do not accept new members once a cycle[1] has started except when one is taking a place of an existing member. For example, if a member wishes to withdraw from the organisation, it is usually required that such withdrawal be effected at the end of the collection cycle. However, a member can arrange for a non-member who wishes to become a member to take over his membership if he is unable to meet the demands of the organisation, and this could happen any time during the cycle. The new member will then inherit all the assets and liabilities of the out-going member in the organisation, though the new member will have to settle his accounts with the displaced member at the receipt of his collection. One could also join the organisation any time during the cycle if he is prepared to make contributions up to the starting point of the cycle.

These findings are in agreement with the report by Bhatt[2] in Kwara State of Nigeria, that no new member was accepted by the pre-cooperative organisations during the life-cycle.

Withdrawal can occur in the following ways. (1) illness, (2) lack of interest, (3) inability to meet the demands of the organisation. In the extreme case, a member can be

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1. A cycle is complete when every member has been contributed for, by all the members in rotation.

2. V.U. Bhatt and J. Meerman, 'Resource mobilization in developing countries', Financial Institute and Policies, World Development, I. 1978.

expelled if there is evidence of 'gross misconduct'.[1] In some organisations, it is required that any expelled member forfeits all the contributions he made, a few organisations will refund these contributions (less the likely fine) at the end of the cycle.

In our study, we found that there were only four cases of expulsion, three were due to theft, and one of inability to make the contributions. In the cases of theft, the contributions already made were forfeited, while in the other cases the contributions were refunded.

3.6 Place and Frequency of Meetings

All the organisations we studied held regular meetings during which contributions were made, and exchanges of ideas between members took place, etc. It is also at these meetings that the members elect their leaders and formulate the bye-laws to guide the day to day business.

At the meeting, members will fix the date for regular general meeting and Committee meeting. Among the organisations we studied, 23 clubs do not have fixed dates for their Committee meetings, but the chairman or leader is given the power to arrange committee meetings.

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1. Misconduct is regarded as gross if it is repeated twice or when it is determined to be so by the Committee.

It is a common practice in the organisatins where the bye-laws are by word of mouth not to inform members (in writing) before hand of the contents of the Agenda. However, because of the close relationships of members in these organisations, members would be aware of any new business before the general meeting. In those organisations that have written bye-laws, it is required that the Agenda be circulated to members before any general meeting. The Chairman/ leader is also given the power to call an emergency meeting when there is need for it.

The Committee has the job of initiating and planning for the growth and development of the organisation. It is empowered to discipline any member who steps out of line with the organisation's bye-laws. Because of these crucial jobs of the committee within the organisation, it is often necessary for non-members to be a part of such Committee, whether on advisory role or as an ordinary member.(1) It is often the case for the Committee to first discuss such wider issues like community affairs before presenting it to the general meeting. The rationale for this is to help narrow the issues down and save working time for other organisation business. In the case of dispute among members, the parties to the dispute may be required to attend the Committee meeting. A settlement to such

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1. 'Ordinary Member' is one who does not take part in the organisation's contributions but may take part and benefit from any other activities.

disputes may be reached at the Committee level and the matter ends there, but where there is a deadlock at the committee level, the matter will be further discussed in the general meeting. All the organisations studied do not discuss any dispute between their member and an outsider, but financial or moral support is provided for the member (especially if the member is seen to have a fair chance of winning his case). A member is automatically expelled and his contribution consificated if he is convicted of any criminal offence.

The place and frequency of meeting varies according to the organisation and the size of their memberships. For example, 'Age groups' and 'Otu clubs' with high memberships may likely hold meetings every week or fortnight and have a fixed place for meetings (community centres or central village places, etc.). While other small organisations and family unions prefer to meet in rotation and at the home of the member whose turn it is to collect the contribution, usually once every month. However, we found that six per cent of the organisations studied use their Chairman/leader's residence as a fixed meeting place. Forty-one clubs rotate their place of meetings and once a month, seven clubs meet at the neutral ground (village central places) and either hold meeting weekly or fortnightly.

3.7 Members Savings

It is generally accepted that mobilization of savings from the rural areas is one of the crucial factors affecting the process and pace of economic development. However, some critics argue that since the rural economy in LDCs operates at near subsistance level, there is very little that can be squeezed out of income and consumption. And according to D. Venner,(1) because of this assumption, it has been very difficult to realise that there is large volume of idle funds, though in small units per individual, that exists in the rural economy of most rural LDCs.

These idle funds can be estimated by the amount of financial resources that credit associations can mobilize. For instance, D. Venner(2) also in his review of factors affecting the mobilization of savings, found that in India States of Tamil Nadu and Kerala, the deposits through credit and savings associations were equal to 20% of total commercial banks deposits. In Ethiopia, the 1968-73 Development Plan estimated the annual savings volume through rotating savings and credit associations to be between 8-10 per cent of the country's gross

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1. D. Venner, Review of the factors affecting the mobilization of savings in Jamaica, Paper presented at NSC's savings symposium, 1973, Kingston Jamaica.

2. Ibid.

domestic product.[1] We obtained reliable data in the course of our research (in five local government areas of Anambra State, Nigeria) to support this view. Although savings mobilization is regarded as central theme of these organisations studied, they also provide other economic services both to members and the public.

Our study covered 60 pre-cooperative organisations with a total membership of 340, selected at random from five local Government areas of Anambra State. These are grouped into nine categories based on the size of their savings (see Table 3.1). Our projection indicated that the aggregated savings of these organisations (1984-85) would be ₦607,080 (£485,664), based only on the value of their contributions. The Table also shows the size of members savings in the groups studied.

It is apparent from our calculations that non-farm organisations (25 organisations) accounted for more than half of this sum. The reasons for this are that the employees/ piece work non-farm workers usually have more idle resources than the farmers. Secondly, the traders and gainful employed sectors of the rural economy have due to the nature of their businesses larger cash flows than the farmers. Thus farmers could be termed to have larger shares of their assets fixed

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1. David Widmark 'savings for development', <u>Savings and Development</u>, Quarterly Review, No.1, 1983, VII.

because after the planting season, it takes about six months for the next harvest, and at this time, their variable as well as fixed assets are all committed.

Table 3-1 Value Of Members Savings (1984)

Size of Savings (₦)	No. of Groups	% Total
Below 500	34	56.67
500-800	4	6.67
801-1,100	2	3.33
1,101-1,500	4	6.67
1,501-2,000	3	5.00
2,001-2,500	2	3.33
2,501-3,000	4	6.67
3,001-4,500	3	5.00
4,501-10,000	2	3.33
10,000 upwards	2	3.33
Total	60	100.00

Source: Data obtained from Pre-cooperative Organisations.

Table 3-2 shows the average propensity to save (APS) for the periods 1981-82 and 1984-85. The Table shows that the household savings of the sampled organisations increased during these periods (1981-1985). However, the noted decrease in the trend of the increase in 1982/83 could be attributed to the open door policy of the Federal government civilian administration to massive importation of staple food. Thus this policy exacerbated the problems encountered by the farmers and staple food traders and consequently the rural economy. This is because the local grown foods are not competitive, secondly, even where these products are similar to the imported ones, consumers tend to be biased towards the imported food.(1)

Now we shall analyse the relationship between the value of members savings and the strength of the membership by singling out one organisation and computing the value of its

Table 3-2: No of Sampled Persons and The Average Propensity to save 1981-1982 through to 1984-85 (₦)

Year	No of persons	Net total income (Y)	Savings per person(s)	APS
1981-82	340	193,210	568.26	0.29
1982-83	340	148,532	336.86	0.23
1983-84	340	306,723	1,021.13	0.33
1984-85	340	607,080	1,985.53	0.33

Sources of data: Pre-cooperative internal records and personal interview of members.

savings during the periods 1981-82 through to 1984-85 (see table 3-2). These data will be best presented by utilizing the Pearson Product-moment coefficient of correlation (r).

$$r = \frac{Exy - n\bar{x}\bar{y}}{n\bar{o}x\bar{o}y}$$

1. The taste of the society is one of bias towards the imported food even where the product is indentical and competitive.

where n = the number of Pairs[1]

$\bar{o}$ = the standard deviation

x = the size of members strength

Y = the value of members savings

$\bar{X}$ & $\bar{Y}$ = the arithmetic mean

A scattergraph of Table 3-2 shows that the relationship between the membership and members savings is '+1' - perfect positive correlation[2] (see Fig. I, apendix I).

These results supported our projection that the larger the membership strength of the organisation, the higher would be the value of the members savings as shown on Table 3-2. However, this is not the case in four of the organisations we studied (Wholesale Traders). These organisations can make variable contributions and are capable of contributing a very substantial amount monthly, therefore, when compared with petty traders and farmers, the result do not conform to the obtained perfect positive correlation but rather a high correlation.[3] But when these four organisations are considered in isolation, the result was the same as we originally found. Perfect positive correlation is also not the case in organisations where one member is capable of holding more than one share.

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1. In this calculation 'n' represents the number of groupings.

2. If both samples increase or decrease together, it is perfect positive correlation.

3. A high correlation is when a change in one variable does not make a corresponding change of the same magnitude in the other.

The higher the frequency of depositors savings in any credit institution, the higher the liquidity of such an institution. This is very appropriate to the organisations under study and the positive correlation we obtained confirms this (r = +1). We can also deduce from these results that if the rural producers are aware of what finally become of their savings and can entrust such savings to a reliable and more accessible credit institution free from complex and cumbersome paper work, they would contribute and co-operate to make such a scheme successful.

Table 3-3 The Size of members savings in a single organisation from 1981-82 through to 1984-85. (Based on same rate of contributions) (₦).

Year	Membership Strength	Size of Savings
1981-82	19	28.5
1982-83	25	37.5
1983-84	42	63.0
1984-85	48	72.0

Sources: Data obtained from pre-cooperative organisations.

3.8 Loan Terms

Formal loans are generally very scarce in the rural economy of Nigeria, and where they are available, they are inadequate and untimely. It is in the light of these difficulties faced by the farmers, traders, labourers etc. in Anambra State that this study took place. However, our task in this section is to discuss the loan terms of the informal organisations, since the problems of formal loans are the subject of Part Two of this study.

As already discussed in Section 3.1, the rural population depends on the activities of pre-cooperative organisations for the much needed funds for their businesses. Twenty-two of the sixty organisations studied grant loans to their members only, a further fifteen organisaions extended loan facilities to non-members on a 'short term' basis only (6 months).

On the other hand it is difficult for rural inhabitants to obtain external loan from formal financial institution because of lack of collateral security, etc. However, seven out of the sixty organisations sampled were able to obtain external loans mainly from registered co-operative societies (see Section 7.3 for detailed discussion on co-operative societies). According to Okorie and Miller[1] the low rate of default is the result of effective bye-laws and community pressures. This result is similar to the findings of Bouman and Harteveld on the pre-cooperative organisations in Cameroun in which they

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1. Okorie and Miller, Op; cit., P.81

stated that defaulters run the risk of never being accepted in another savings and credit organisation.(1)

Table 3-4 Statistics on credit operation of sample of Pre-cooperative organisations in Abakiliki, Anambra, Idemili, Nkanu, and Nnewi Local Government areas of Nigeria. (Nov. 1984)

Areas	No of groups issued credit to mem-	Total credit issued (₦)	Repay-ment from the members (₦)	Repay-ment from the members as % issued	BL/O*(₦)	BL/O as % issued
Abakiliki	9	14,728	14,728	100.0	--	--
Anambra	8	15,400	14,923	96.9	477	3.1
Idemili	7	13,924	10,500	75.4	3424	24.6
Nkanu	3	5,350	5,000	93.5	350	6.5
Nnewi	5	12,840	12,840	100.0	--	--
Total	32	62,242	57,991	93.2	4251	6.8

Sources: Data obtained from Pre-cooperative organisations and interviews with officials of registered co-operative societies and government agents.

*BL/O = Balance outstanding

Table 3-4, shows a very high repayment of loans from members particularly in Abakiliki and Nnewi local government areas. The data obtained from Nkanu, Idemili and Anambra local government areas show some outstanding payments with Idemili owing up to 24.6 per cent. The reason for this as explained by one of the

1. F.J.A. Bouman and Harteveld _Op: cit._, P.321

leaders of these organisation (personal interview) was due to uncertainties such as death, illness and theft.(1) However, the time limits for these have been extended to allow the borrowers some time to pay up. Secondly, in the case of death, the bye-laws provides that the successor would be given sufficient time to pay any outstanding debt.

We found that 85% of the groups we studied attempted to secure credit from external sources, but only seven were successful. We also gathered that the repayment records of these external loans were very good. For example, a total of ₦15,000 advanced to the organisations from external sources, ₦13,000 (86.7%) was paid at maturity. The outstanding ₦2,000 was a new loan yet to mature.

This finding confirms our earlier statement (see Chapter one) that pre-cooperative organisations have low default rates. This finding is also in line with one of the four economic advantages stated by Adams for group lending:

> "that joint liability for loan causes internal group pressure for repayment and thus reduces default."(2)

Other economic advantages he stated are that processing of loan transaction is reduced, borrowing through a group reduces

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1 These local government areas are relatively poorer and have high death rate and more illness during the period under study.

2. Dale W. Adams the economics of loans to informal groups of small farmers in low income countries, Dept. of Agricultural Economic, Ohio State Ohio, 1978.

the average borrowers loan transaction costs, and that the group can be used as an efficient way of introducing other productive services such as extension and technical training.

3.9 Interest Charges

Generally the rate of interest charged in the thirty-two organisations that issued credit to members are very moderate compared to registered organisations and other forms of informal money markets such as money lenders.

Twenty-seven groups out of these thirty-two clubs charged interest, while the remaining five issued interest - free credit. This result was partly in agreement with the report of Amogu(1) that member-borrowers usually do not pay interest charges on loans in Eastern Nigeria, though the results disagree completely with Okorie and Millers'(2) report of 1974 that member-borrowers paid interest rates ranging from 1--60 per cent on such loans in Ohaozara sub-dividion of Imo State.

The terms of the loans and their duration depends on the assets and liabilities of the organisations and the number of members requiring loans for the period. In order to be fair to members, the majority of these organisations use the first

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1. O.O. Amogu, "Some notes on savings in an African Economy", Social and Economic Studies, Vol. 5, 1956.

2. Okorie and Miller: Op: cit., P.73

two months (slightly less in some clubs) of each planting season to receive applications from members who may be requiring loans in that season. This is to provide a guide to the Managements of how much loans are to be advanced to each applicant (which is usually depended on their cash limit and the amount requested by the applicant).

Loans could be advanced to members any time during the year especially in the case of emergency.[1] Some organisations have limits to the amount of credit they advance to members, though in exceptional cases where there are exceptional circumstances to be considered such as natural disasters etc., they may exceed these limits providing that the organisation has the funds. The majority of these organisations operate emergency aid to members in this situation.

The rate of interest varies from organisation to organisation but the average rate of interest for the period 1984/85 was 6 per cent; with loans to non-member borrowers averaging 11.5 per cent.

All the groups offering loans placed limits on the time a loan can be held, -viz- usually six months for short-term and twelve months for long-term loans. The Petty traders, labourers, etc, prefer short-term loans whilst long-term loans are more suitable to farmers.

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1. Most people in all sectors of rural economy are subsistence farmers, therefore it is in their best interest that loan is obtained at the beginning of the planting season.

Interest repayments are received along with the principal amount at maturity. The interest is usually put into the central account for entertainment or ceremonial purposes, etc., or shared among the members.

The period of maturity in the organisations studied here, though not the same for all organisations, generally contradicts the earlier report of Amogu [(1)] who found that the period of loan for pre-cooperative organisations was only one month. Furthermore, it could be argued that at the time of Amogu's study (1950s), the amount of money involved in pre-cooperative organisations as loan was very small and at the time, pre-cooperative organisations existed mainly at family level. Secondly, there have been a change in practice in the organisations since the 1950s. Thus the organisations currently provide short and long-term loans, a major change from the short-term loan mainly provided in the 1950s.

3.10 Assessment Of Organisations By Members

There is a wide diversity in occupation, education, status and responsibilities amongst the members of pre-cooperative organisations. Membership as we stated earlier includes teachers, traders, farmers, craftsmen, labourers, clerks, and housewives. There are various reasons why members

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1. O.O. Amogu, Op: cit., P. 38

joined their respective groups but the procurement of a loan tops the list, followed by increase of savings. Others are promotion of business and opportunity to have a share of the Market .[1]

It can be seen that savings and credit facilities were the services of these organisations which are the most important to members, though they also valued other forms of mutual assistance particularly in times of difficulties. However, to analyse the attitude of members towards utilizing their savings and credits, we carried out a survey based on oral interview and questionnaires (see Table 3-5 and 3-6) Table 3-5 shows that over 50% of members savings were spent on what could be classified as broadly non-agricultural purposes. These are mainly education funding, trade expansion and house building. On the farming side, hired labour, fertilizer and chemicals accounted for over 30%, with over 15% spent on clothing, dowry obligations and ceremonies.

The table also shows that savings were generally channeled into productive purposes as well as purchase of durable goods. This analysis points out the important role played by these organisations in assisting the rural people to accumulate funds needed to increase their productivity and well-being.

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1. Most of these organisations form cartel i.e they first serve the interest of members - this could be expensive to non-members during periods of scarcity.

Table 3-5 Uses To Which Members Savings Were Put (1984)

Uses	No of times mentioned	Value in (₦)	% of total
Hired labour	74	5,741	30.96
Fertilizer & chemical	7	199	1.08
Other Agricultural purpose	13	120	0.65
Funding Education	78	5,543	29.89
Investment in trade	20	1,790	9.65
Dowry obligations	6	420	2.27
Purchase of durable goods	9	1,000	5.39
Purchase of clothing	29	1,444	7.79
Other non-agricultural purchase	58	2,285	12,32
Total		18,542	100.00

Sources: Questionnaires and Personal Interviews with members.

These stated mobilization of savings is the principal objective of these organisations, thus thirty-two of the sixty organisations we studied provided loans to members.(1) Table 3-6 shows the breakdown of the use put to the initial amount of ₦22,208 advanced to members.

1. The other 28 organisations are relatively very small, and have no adequate savings to advance loan to members or other people.

Table 3-6: Uses To Which Members Put Credit Obtained (1984)

Uses	No of times mentioned	Amount in (₦)	% of total
Hired labour	47	4,760	21.42
Fertilizer & chemicals	8	280	1.26
Funding Education	55	6,016	27.08
Investment in Trade	25	3,588	16.17
Dowry obligations	3	230	1.04
Purchase of clothing	7	510	2.30
Other non-agricultural purchase	27	2,500	11.26
Purchase of durables	20	3,900	17.56
Total		22,208	100.00

Sources; Questionnaires and Personal interview of members.

This shows that the spending habits of members follow the same pattern whether they have secured credit or are using their savings., (Table 3-5). The Table also shows that over 27 per cent are spent on funding education, followed by over 21 per cent for hired labour. Purchase of durable goods such as sewing machine, bicycles and furniture came third with over 17 per cent.

In general, the assessments of these organisations by the members indicate that pre-cooperative organisations in Abakiliki Anambra, Idemili, Nkanu and Nnewi local government areas of Nigeria possess the capabilities to enable them to assume a larger role in increasing savings and extending credit.

3.11 Problems Facing The Organisations

There are a few problems that became apparent in these organisations during the course of our study. Problems of inadequate finance, particularly in small organisations. Members rarely get the amount of loans requested because of credit rationing by their organisations.

There are problems of recognition by the formal institutions because of lack of collateral securities resulting in the rejection of the majority of loan applications made by the organisations in the period 1984/85. This is in addition to the existing problem of the individual's inability to obtain loans from the formal financial institutions themselves (majority of members do not have bank account). In the few organisaions that obtained loans from the formal institutions, it has to be shared among members who requested them, and usually it is not enough to meet their demands.

Another area that poses problems for the organisations is lack of administrative skill. Some of their leaders are not well educated and lack some leadership qualities due to their ignorance, for example, some leaders cannot read or write and therefore cannot identify mistakes in the minutes, accounts or the balance sheet of the organisation.

Finally, in the case of disasters, it is these pre-cooperative organisations who are ill-equiped to deal with the situation. For example, the pest plague (mealy-bug) of 1981/82 season in these areas of study left all the crops destroyed.

CHAPTER 4

INSTITUTIONAL CHANNELS FOR CAPITAL ACCUMULATION IN ANAMBRA STATE

4.1 Cooperative Financing Agency

Credit provision and various systems of financing agriculture in developing countries are important organs of the rural economy. According to Von Pischke,[(1)] the rationale for mobilizing credit for agricultural development is that it is an important force in generating increases in production as well as in productivity. He also noted that agricultural credit is an important element in development efforts aimed at accelerating agricultural development especially in the low-income countries.

In this Chapter, our main objectives are to assess the performance of farmers in obtaining credit and to identify some of the constraints on the mobilization of funds, especially in the group loans. To do these effectively, an investigation in an important credit institution in the area of study was carried out by the researcher in early November 1984 (Anambra

1. Von Pischke, J.D. "Agricultural Credit and Rural Finance in Africa", Paper presented at the National Seminar on Agricultural Finance in Nigeria., April 1981.

Cooperative Financing Agency - ACFA). The Agency is a collection of cooperative societies within the state, established to pursue common objectives. This cooperative agency was established in 1976. It is a holding apex cooperative organisation registered under the cooperative societies law Section 28 of the Revised Laws of Eastern Nigeria no. AN7 of 4th June, 1976.

The objectives of the Agency include:

a) to mobilise funds for the advancing of loans to member-cooperative societies in the state;

b) to procure and to finance the procurement of equipment, accessories, spare parts and raw materials for distribution to cooperative societies in the state;

c) to finance viable cooperative projects in Anambra State and;

d) to carry out any other viable activities within its cash limit that may help to increase the earning capacities of the member-societies and improve the standard of living of individual members.

The general meeting of the ACFA meets twice a year. The meeting is made up of five delegates from each cooperative society. The general meeting is the supreme policy-making body of the agency, thus it approves the annual budgets, sets the conditions of service for the staff, stipulates the amount of loanable funds for the year, fixes the minimum credit limits derivable from other sources, advises on the rates of interest on loan and determines the conditions of deposits from members and non-members.

The Board of Directors consists of six members elected at the general meeting. The Board has the power to admit or expel members within the limits of the Agency's constitution. Unlike the general meeting, the board of Directors meets as often as necessary, during which it takes decisions on loan applications on the recommendations of the registrar.

At the 1979/80 season, the Agency granted a total of ₦ 1,162,764 to its 642 member societies. To mobilize its funds, the Agency plays two important roles. Firstly, it acts as a cooperative movement as well as a co-ordinating body of small, medium and large cooperative societies. The size of its membership enables it to raise substantial funds through affiliation fees, and most importantly, it is registered and recognised by the Government and it receives grants from the Government and other bodies. Thus, because of its strength and wide operating spectrum, it is relatively easy for the Agency to receive support from not only the businessmen in the state, but from entrepreneurs all over Nigeria. Secondly, it acts as a financial intermediary, thus, it accepts deposits and savings from the surplus units and lend them to the deficit units, at the interest rates determined by the policy making body.

This meant that the Agency has unquestionable solvency and has the control of many registered cooperative movements and above all, it is recognised by the financial institutions, such as the Banks, the Building Societies etc. Its high operating capital enables it to employ highly skilled staff which in turn are responsible for some prudent decisions in the areas of good risks investments, loan transactions, etc.

The Agency makes loans available to registered and recognised primary and secondary societies in the state for the execution of projects, marketing and distribution, land and estate development and fishery development for a limited period. To be eligible for loans from the Agency, a society must be seen to be engaged in viable productive activities in the areas of its interest.

The pattern of credit allocation by ACFA for the periods 1975-1979 is shown on Table 4-1. During these periods a total of 413 food (non rice production) projects were financed to the value of ₦2,349,042. Twenty fishery projects received ₦59,937, two livestock projects received ₦75,000, while the only marketing distribution project was allocated ₦400,000. The highest loan went for a so-called, special commodity (Paddy rice), which was divided into two, ₦587,176 for production, and ₦344,841 for processing and storage. The rest of the fund for these periods went for the following: eight agrobased industrial projects (₦80,807), while each cooperative farmer in the area received average of ₦88.00 during these periods.

Table 4-1 CREDIT ALLOCATION BY ACFA IDENTIFIED BY ENTERPRISE 1975-1979

Type of Project (1)	No. of projects (2)	Amount approved (3)	Amount disbursed (N) (4)	Col.4 as a % of Col.3
Food production (non rice)	413	2,349,042	2,349,042	100.0
Rice production	73	587,176	587,176	100.0
Rice mills/storage	22	373,237	344,841	92.4
Fishery development	20	59,938	59,938	100.0
Small scale Agro-Industries	8	81,500	80,807	99.2
Livestock/poultry	2	75,000	75,000	100.0
Marketing distrib.	1	400,000	400,000	100.0
TOTAL	539	3,925,893	3,896,804	99.3

Source: ACFA Annual Reports - various issues

Due to variations in the farming of different crops, it is not possible for the Agency to follow a consistent pattern in loan advancement. However, the record[1] shows that the loan disbursement pattern in these periods 1975-1979, are:- ₦884,718 in 1975/76. However ₦1,738,281 and ₦1,273,806 were advanced in 1977/78 and 1978/79 respectively.

The repayment trend of these so-called registered societies are not as good relative to the trend of repayment of the pre-cooperative organisations we discussed earlier in Chapter three. Thus, for the total loans of ₦3,896,804 disbursed by ACFA for the period 1975-1979, only ₦1,052,863 was repaid at maturity, though credits to some projects such as small-scale agro-based industries, livestock/poultry and marketing/distribution are yet to mature[2]. The breakdown shows that of the ₦2,349,042 disbursed for food crop (non-rice) production, ₦795,594 (33.9%) has been repaid. Repayments trends were 48.3% and 91.9% for rice production and rice processing/storage respectively

4.2 Credit Mobilization (agriculture)

There is increasing awareness among Nigerian farmers of the effect of new technology and the need to increase prudent investment to improve agricultural yield. The use of the improved inputs and the adoption of the yield inducing techniques have given rise to an increased demand for agricultural credit. In response to these, the Federal Government has established various types of financial intermediaries and has also encouraged the development of credit schemes. One good example is the co-operative credit scheme, which is our main concern in this section.

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1. ACFA Annual Reports 1978/79,p.23

2. ACFA Annual Reports 1978/79, p.58. N.B. up-to-date material obtained is not realistic and therefore not used in this study.

We shall analyse the extent to which the cooperative farmers use credit, and for what purpose, who provides it, terms of loan and generally the nature of the credit problems as viewed by the farmers. The data were drawn from cooperative farmers in the five local Government areas of our study. Ten primary societies were selected, two from each local Government area. Two hundred and fifty farmers were interviewed from these primary societies. Once again economic and time factors influenced the selection of both number and members interviewed and the number of societies for the collection of data. Thus financial constraints on the researcher and the unnecessary delays caused by the social and economic conditions of these areas. The investigation was carried out by means of structured questionnaires between August and December 1984.

The main crops grown by those interviewed are yam, casava, rice, maize and vegetables. The sizes of farms are mixture of small, medium and large, with average of 2 hectares in Abakiliki, 1.5 in Anambra and Nkanu, and one hectare in Idemili and Nnewi local Government areas. The variations in the sizes of the farm s are the result of the scale of business and the disparities in yield in these areas.

During the course of our investigations, we found that credit played an important role in the farming activities of these rural people. We also noted that over 50% of the farmers interviewed obtained loan during the life-span of our research. The average amount of credit obtained per farmer varied from ₦92.4 in Nkanu local Government area, to ₦155.9 in Abakiliki local Government area. (see table 4.2).

In Table 4-2, the analysis show that the credit obtained were used for farm and non-farm purposes. The Table shows that less than half of the total credit were used for farming, ranging from as high as 36.5% at Anambra local government area down to 22% at Nkanu local government area. In Abakiliki, Anambra and Nkanu, the cost of ridging took most of the credit. It is the result of identical climate and erosion problems in these areas that made it essential for farmers to build very high ridges to protect the crops. Land clearing also was a second largest single costly item on the table because much farmland has to be left uncultivated for so many years. That reason of course explains why many farmers are not interested in the use of fertiliser.

The interviewed farmers explained the reasons for the high cost of ridging and clearing as follows: firstly, the rising cost of labour because of migration. Thus, the past two decades have seen a rapid development of the non-agricultural sector of the Nigerian economy, particularly in the area of construction and mining sub-sectors. These have contributed to rapid rural-urban migration which subsequently resulted in the acute shortage of farm labourers. Secondly, the preference of young men and women for modern living in the urban areas and urban employment, is in itself a big force. For example, the basic facilities such as regular water supply, medical facilities electricity, etc., in urban cities (which are not available in rural areas), are good reasons to migrate.

Table 4-2 USE OF CREDIT FOR AGRICULTURAL PURPOSES BY SOME COOPERATIVE FARMERS IN ABAKILIKI, ANAMBRA, IDEMILI, NKANU AND NNEWI LOCAL GOVERNMENT AREAS (1984)

Item/Use	Abakiliki		Anambra		Idemili		Nkanu		Nnewi		TOTAL	
	Amount	No of Resp.	Amount	No of Resp.	Amount	No of Resp.	Amount	No of Resp.	Amount	No of Resp.	Amount	No of Resp.
No. of Respondent		65		50		47		55		33		250
Total amount borrowed (N)	14,345		6,743		7,334		4,021		3,409		35,852	
Amount used for farming (N)	4,783		3,513		2,405		1,825		2,307		14,833	
Agricultural purpose	%		%		%		%		%		%	
Land clearing	30.6	22	36.5	17	33.0	15	22	18	23	10	29	82
Ridging	34.4	11	39.0	8	21.7	10	30	20	22	9	29.4	58
Planting	4.0	5	4.6	6	17.5	8	6	2	10	4	8.4	25
Fertilizer/chemical	9.0	10	9.8	7	6.6	5	5	3	11	2	8.3	27
Weeding	11.0	9	4.6	4	6.3	5	18	5	7	2	9.4	25
Harvesting	5.0	4	3.3	4	11.5	2	12	2	10	2	8.4	14
Processing	3.0	2	0.2	2	3.4	-	4	3	10	2	4.1	11
Miscellaneous	3.0	2	2.0	2	-		3	2	5	2	2.9	8
TOTAL	100.0		100.0		100.0		100.0		100.0		100.0	

Source: unpublished Co-operatives Annual Accounts, obtained in December 1984

Non-farm activities consumed a larger share of the credit for example, in 1977 the non-farm use of credit accounted for over 60% of the fund in these areas studied (see Table 4-3) The most attractive non-farm use of credit was education funding. On the average, about 43% of the total credit meant for farming was spent on funding education. Apart from Nkanu funding of education accounted for over 50% of the funds used on non-farm purposes. The result of this analysis which indicates the value farmers attach to their children's education, is similar to the findings of Adegboye(1). In his study of procuring loans through the pledging of cocoa trees, he found that children's education were the major reason why farmers pledged their cocoa farms to obtain loans. Other non-farm uses such as ceremonial purposes and dowry etc., appeared insignificant in our study.

The table also shows that christening, religious and burial ceremonies altogether accounted for over ten per cent of the total funds used for non-farm purposes. This result agrees with the findings of Osuntogun(2) in his study of two villages of south western Nigeria.

The source of loans is mainly the cooperative societies (see Table 4-4), which accounted for more than 80% of total loans. Table 4-4 also shows that most of these loans received from the cooperative societies are in small units, for example, over 38% of the total loans were below ₦200.

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1. See R. O. Adegboye, Agricultural Credit Practices of Major Lenders in the Western State of Nigeria, - unpublished MSc. Thesis, University of Ibadan, 1973

2. Adeniyi Osuntogun, Agricultural Credit Strategies for Nigerian Farmers, A.I.D. Spring Review of Small Farmers Credit, No.VI 1972.

Table 4-3 USE OF CREDIT FOR NON-AGRICULTURAL PURPOSES BY SOME COOPERATIVE FARMERS IN ABAKILIKI, ANAMBRA, IDEMILI, NKANU AND NNEWI LOCAL GOVERNMENT AREAS (1984)

Item/use	Abakiliki		Anambra		Idemili		Nkanu		Nnewi		Total	
	Amount	No of Resp.	Amount	No of Resp.	Amount	No of Resp.	Amount	No of Resp.	Amount	No of Resp.	Amount	No of Resp.
No. of Respondent		65		50		47		55		33		250
Total amount borrowed (N)	14.345		6,743		7,334		4,021		3,409		35,852	
For non-Agricult. purposes (N)	9,562		3,230		4,929		2,196		1,102		20,019	
Non-farm use	%		%		%		%		%		%	
Funding Education	57.9	22	55.7	17	51.4	15	48.0	18	52	10	53	82
Payment of dowry	1.6	11	4.6	8	8.7	10	9.8	16	7.5	6	6.4	51
Medical care	5.4	5	4.6	6	2.6	3	2.8	4	3.0	4	3.6	24
Purchase of durable goods	12.9	10	8.7	5	16.8	3	10.5	3	9.1	2	11.6	23
Building/House repairs	15.0	9	3.3	4	0.9	5	14.4	4	12.4	3	9.3	25
Religious ceremony	3.6	4	2.2	4	3.5	4	5.2	2	4.5	2	3.8	16
Christening ceremony	0.9	2	2.5	2	2.3	2	3.0	3.	4.0	2	2.5	11
Burial ceremony	2.7	2	3.0	2	2.6	3	4.0	2	2.8	2	3.0	11
Miscellaneous	-	-	15.4	2	11.2	2	2.3	3	4.7	2	6.8	9
TOTAL	100.0		100.0		100.0		100.0		100.0		100.0	

Source: Unpublished Co-operatives Annual Accounts, obtained December 1984

The findings of this analysis have significant policy implications both for the cooperative credit schemes and the development of peasant agriculture. The size of the loans made by the majority of the societies, seemed so small relative to the needs of the farmers. This resulted in some members requesting for additional loans from the pre-cooperative organisations and money lenders, etc.

Borrowing from pre-cooperative organisations is more favourable to the small farmers (because of its flexibilities) and previous studies[1] have demonstrated clearly the adverse affects of loans obtained from money lenders, friends and relatives. The members of the cooperative societies we interviewed in this study, made little use of such informal loans, for example, less than 11% of the total loans were from the informal sectors (see Table 4-5).

As we shall discuss in detail in part two of this study, commercial banks at least tried to play an important role in financing the development of agriculture in the rural economy. At the end of our study, the highest single loan made to a farmer (₦1,500) was by an Agricultural Development Bank, this accounted for over 10% of total loans received in the area (see Table 4-5).

Now the terms and conditions of lending are part of the items which should be taken into account in evaluating the performance and effectiveness of a credit system. In our study, loan terms varied according to the type of lender. The cooperative societies who provided most of the loans offer more favourable conditions to the farmer, but their services are restricted to their members only.

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1. See Dale W. Adams, Op:cit; A. Osuntogun et al;.Op:cit; F. J. A. Bouman and K. Harteveld Op:cit;

Table 4.4 VALUE OF LOANS RECEIVED BY SOME FARMERS FROM COOPERATIVE SOCIETIES IN ABAKILIKI, ANAMBRA, IDEMILI, NKANU AND NNEWI LOCAL GOVERNMENT AREAS. (June 1984).

Size of Loan	No of loans	% of loans	No of loans	% of loans	No of loans	% of loans	No of loans	% of loans	No of loans	% of loans	No of loans	% of loans
Less than ₦100	8	8.8	5	4.4	15	18.1	5	8.1	3	3.4	36	8.6
₦100 - ₦200	10	11.0	14	12.4	35	42.2	25	40.3	6	6.9	90	22.6
₦201 - ₦300	20	22.0	16	14.2	20	24.1	3	4.8	12	13.8	71	15.8
₦301 - ₦400	9	9.9	11	9.7	5	6.0	13	21.0	16	18.4	54	13.0
₦401 - ₦500	12	13.2	14	12.4	3	3.6	5	8.1	20	23.0	54	12.1
₦500 and above	32	35.2	53	46.9	5	6.0	11	17.7	30	34.4	131	28.0
TOTAL	91	100.0	113	100.0	83	100.0	62	100.0	87	100.0	436	100.0

Sources: Unpublished Co-operatives Annual Accounts, obtained December 1984.

Table 4-5 OTHER SOURCES OF BORROWED FUNDS USED BY SOME CO-OPERATIVE FARMERS IN ABAKILIKI, ANAMBRA, IDEMILI, NKANU AND NNEWI LOCAL GOVERNMENT AREAS

Source of Credit	Abakiliki	Anambra	Idemili	Nkanu	Nnewi	Total
No. of Farmers interviewed	65	50	47	55	33	250
Total amount borrowed (₦)	14,345	6,743	7,334	4,021	3,409	35,852
RELATIVES						
No. of loans	2.0	6.0	-	7.0	10.0	25.0
%age of total amount borrowed	1.3	8.1	-	9.2	8.5	27.1
Average size of loan (₦)	90.0	91.4	-	88.5	140.0	409.9
FRIENDS						
No. of loans	7.0	5.0	1.0	-	4.0	17.0
%age of total amount borrowed	2.6	3.0	0.7	-	5.2	11.5
average size of loan (₦)	52.8	40.0	50.0	-	201.0	343.8
ESUSU GROUP						
No. of loans	1.0	13.0	2.0	5.0	2.0	23.0
%age of total amount borrowed	0.3	7.4	0.1	7.5	3.0	18.3
Average size of loan (₦)	40.0	38.3	45.0	103.0	90.0	316.3
MONEY LENDERS						
No. of loans	- -	2.0	-	-	1.0	3.0
%age of total amount borrowed	-	1.5	-	-	0.8	2.3
Average size of loan (₦)	-	55.0	-	-	60.0	115.0
COMMERCIAL BANKS						
No. of Loans	1.0	-	-	-	-	1.0
%age of total amount borrowed	10.5	-	-	-	-	10.5
Average size of loan (₦)	1500.0	-	-	-	-	1500.0

Sources: Unpublished Co-operatives Annual Accounts and questionnaires of individual members, (November 1984)

Apart from the pre-cooperative organisations, other sources of loan are much more tightly controlled. For example, other sources usually require additional securities for loan besides the borrower's personal integrity, financial ability to repay the loan and participation in the society which were the conditions adopted by the cooperative societies; such additional securities includes - land, crop and borrower's personal belongings such as farm house etc. Further more, the rate of interest charged by money lenders are usually as high as 40% in some areas (mainly short term), which are not appropriate to farming because of the uncertainties involved[(1)].

4.3 Esusu Club

Introduction

Esusu is a traditional or indigenous savings/credit institution. It is commonly known as 'Susu', and 'Dashi' in the Eastern and Northern parts of Nigeria, and 'Partners', 'Susu' and 'Isusu' in the West Indies. The basic principle upon which the Esusu type institution is based is the same everywhere, i.e. a self-imposed (or group influenced) saving on a regular and more or less compulsory basis.

One important feature of the Esusu institution, as it operates in Nigeria (unlike pre-cooperative organisations), which seems to be greatly valued by most of its members, is that contributions by the entire group are not always necessarily assigned to each of the members in rotation on any rigid manner.

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1. For further discussion on cooperative societies, see Chapter Seven, Section 7.3.

Each club decides according to their needs the amount to be deducted from each contribution, which in turn is saved in the club's account. However, the assignment of the contributions is in many cases, based on some mutually agreed pattern, so that the funds are first assigned to those with more pressing financial needs.

The major differences between Esusu and the pre-cooperative organisation are (1):

i) as stated in the above paragraph, unlike pre-cooperative organisations, Esusu clubs save part of its contributions.

ii) unlike pre-cooperative organisations, Esusu members do not have to know each other, and do not have to meet regularly for the purpose of making their contribution. Thus, contribution can be made without actually holding any meeting.

Broadly speaking, Esusu Clubs are some of the Economic Institutions originating from the Yoruba people of Western part of Nigeria. The functions of Esusu have within it elements that resemble a credit union, an insurance scheme and a savings club, although it is quite distinct from all of these.

In the extensive literature on the Yoruba themselves, the Esusu is only infrequently mentioned; the most detailed description is that of Ajisafe, who states briefly that:

> "Esusu is a universal custom for clubbing together of a number of persons for monetary aid. A fixed sum agreed upon is given by each at fixed time (usually every week) and place, under a president; the amount is paid over to each member in rotation. This enables a poor man to do something worthwhile where a lump sum is required. There are laws regulating this system" (2)

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1. See W. R. Bascom, "The Esusu: A credit Institution of the Yoruba". Journal of the Royal Anthropological Institute, Vol.82. pp.63. 1950, See also Mauri, A.A. Op. cit. P. 211

2. Ajisafe, A.K. The laws and customs of the Yoruba people - London George Routledge & Sons, Ltd. pp.49 1921, See also Osuntogun, Op. cit. P. 48

As stated, one of the main distinguishable features of Esusu from a pre-cooperative organisation or club is that many Esusu groups hold no meetings and that the members frequently are not known to one another. Even the head of the Esusu group may not know who all the members are. Moreover, the term Esusu refers to the fund rather than to the group of contributors. For example one may say "I took my esusu (money) today," but one must say "I went to the meeting (or place) of my esusu today."

The number of contributors, the size of the contributions and length of the intervals at which they are made vary from one group to another. According to Johnson:

> "There is a certain society called Esusu. This Society deals with monetary matters only, and it helps its members to save and raise money thus - every member shall pay a certain fix sum of money regularly at a fixed time (say every fifth or ninth day). And one of the subscribing members shall take the total amount thus subscribed for his or her own personal use. The next subscription shall be taken by another member; this shall so continue rotationally until every member has taken." (1)

In theory at least, each member is paid back in one lump sum what he has paid in contributions during the course of one cycle, less the deductions. The advantage to the members is that they have available a large sum of money with which to make expensive purchases or meet debts of considerable size. Furthermore, an attempt is made to pay the fund to members at times when they have special need of it for particular purposes. Although the mechanism differs, its function resembles that of instalment buying in Western society.

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1. Johnson, S. The History of the Yorubas. Longman, London 1924. See also Okorie and Miller, Op. cit. P.3 for the latter analysis.

The size of the contributions varies widely from one Esusu group to another, although one Naira is probably the most common amount. Contributions of 50k, ₦5, ₦10 ₦20 and even ₦50 were cited to the researcher in October 1984, but other sums may be agreed upon.

The contributions are usually made monthly, fortnightly, etc., However any convenient interval may be arranged, the market women of Abakiliki have special Esusu groups of their own, with contributions of fifty kobo or one naira daily. The length of the cycle depends both on the length of intervals between contributions, and on the number of members. Several Esusu in Nnewi, Nkanu and Idemili with intervals of eight days were said to have cycles of four or five years, which would give a membership of about 200. The value of the Esusu fund collected at the end of each interval depends upon the size of the contributions and on the number of members. In contrast to the pre-cooperative organisations, the value of the fund is generally set at a round number, such as 50k, ₦1, ₦5, ₦10 or ₦20. If eight members have agreed to join an Esusu group with contributions of one naira each, two of them will usually volunteer to pay two naira each in order to bring the value of the fund up to an even ten naira.

The number of memberships need not, therefore, be the same as the number of members. A single individual may hold more than one "membership" in a given Esusu group, by regularly making more than one contribution and receiving the fund more than once during a single cycle. Conversely, a single "membership" may be shared by two or more individuals who are not able to afford the entire contribution separately. Thus a contribution of one naira each may be divided between two individuals who pay fifty kobo each, between three individuals, two of whom give twenty-five kobo each, while the third contributes fifty kobo etc. These several individuals count as a single member of the Esusu, and when their turn comes to receive the Esusu fund, they share it proportionately according to their contributions. Again each individual receives what he has actually contributed, less any deductions. It is also common for a single individual to belong at the same time to several different Esusu groups(1) which may have different contributions and varying intervals of payment. A poor man cannot afford to join Esusu groups with large contributions, while a wealthy man does not bother with those with small contributions.

The member who receives the fund must contribute to it and to all subsequent funds until the cycle is completed, after which he is free to withdraw from the group if he wishes. When a member defaults during a cycle in which he has received all or part of the fund, the head of his group asks him to repay what ever excess he has been paid over the amount that he has contributed. If a defaulter fails to pay he can be sued in court for what he owes, and the case is treated under customary law like one involving debts. Ajisafe states:

> should one of the member who has taken the Esusu fail to continue to pay the regular subscription, such a member must be held responsible for his or her subscription to the remaining members who have not taken their own Esusu. Payments shall be enforced as in case of debt." (1)

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1. Ajisafe, A. K. Op. cit. pp.43

As in the case of bad debts, however, it may be impossible to recover the money even where a favourable decision has been won in court, while in addition the cost of the summons may be lost. As a result, the Esusu head makes every effort to settle the matter out of court. Some Esusu heads insist on keeping the first round of contributions at the beginning of each cycle as a reserve to cover deficits incurred by members defaulting. In other cases, the deficit may be met from a subsequent round of contributions which is collected for this purpose without paying out the fund on that occasion (or from the savings).

When a member defaults during a cycle in which he has not received the fund or where he has paid in more than he has taken out, he does not lose what he has contributed. He applies to the Esusu head for the balance that is due to him, and at the end of the cycle he is paid from the amount that is left over. When a member defaults, an attempt is made to find someone else to take his place, or one of the members to assume an additional contribution, so that the value of the fund will not have to be decreased. In this case, the excess contributions are returned to those who have paid them when the Esusu fund is divided.

An individual's credits and debits in an Esusu group are inherited as a part of his estate. According to Bascom:

> "should a member of the Esusu club die while the Esusu is not closed, his children or nearest of kin receive the amount subscribed by him or pay the amount standing against him."(1)

When a large number of members default on their payments, even if the surpluses are recovered from those who have received the fund, the "Esusu is scattered". Each member asks the head of his group for a refund of the money he has contributed.

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1. Bascom, W. R. Op: cit; p.28

They are repaid out of what he collects from those who received the fund during the incomplete final cycle. The group may also be disbanded at the end of a cycle without financial complications, if an insufficient number of members wish to continue.

If a member does not bring his contribution on the date that it is expected, the head of his group sends to him for it. If the head of his group is lenient, a member does not lose his membership in the Esusu group or forfeit the money he has already paid in if his contribution is late. However, members who are slow in paying their contributions are considered bad risks. It is felt that they may default after they have received the Esusu fund, so that, regardless of their immediate needs, they are not permitted to receive the fund until the end of the cycle. The penalty for failure to pay contributions promptly is forfeiture of the chance to receive the fund when it is most needed.

The Esusu is a credit institution. All members except the ones who receive or share the very last fund of a given cycle, receive an advance on their contributions, although the amount advanced declines as the cycle progresses. An attempt is made, furthermore, to make the fund available to members of the group at times when they have a need for it. When an individual required outside financial assistance, he may apply for the Esusu fund rather than borrow money from a relative or friend without interest, paying interest in money or cocoa etc., to a regular money lender, "pawning" his palm tree, cocoa tree, land,etc. In effect, because of the large amount of money required at irregular and often unpredictable intervals, because of the limited opportunities for investment and saving, and because of the excessive interest rates charged by money lenders, the Esusu has played an important role in the Nigerian rural and urban economy, which shows no signs of declining under the present conditions of increasing Western influence.

A final point remains to be considered, the possibility that the Esusu itself may be the result of Western influence. There is no Western institution, particularly among those recorded among the Europeans, on the West coast of Africa, which is strictly comparable or which suggests itself as a model from which the Esusu might have been derived. The Yoruba, Ibo, etc. themselves say that the Esusu is an ancient institution, and that before British pounds, shillings and pence were introduced, it was carried on in most Nigerian rural and urban areas in cowries but never in consumption commodities. Although it has been discouraged, rather than encouraged, by the Government, it is still a very widespread and firmly established institution at the present time. Finally, the fact that it has been recorded in Trinidad (see the Introductory Section), establishes that it was part of West African culture during the period of the slave trade.

4.4 Other Institutional Channels

Mobile Savings "Banks": One of the popular informal institutions for capital accumulation is what is generally known in rural and urban markets as "the poor man's bank". This is a kind of service institution found everywhere aroung the peasants which makes a faily collection of its clients' small earnings and returns the same, less service charges as the clients' monthly savings.

According to Onyemelukwe[1]: these institutions are not known to exist in this form in other developing economies outside West Africa. In the rural, as well as urban markets in Nigeria their services are mainly patronized by petty traders, many of whom are in the staple foods trade, by artisans, apprentices and other people who normally cannot save more than a few pence at a time. The amount of money these groups of people handle at a time is so small that it is easily frittered away on petty and odd purchases. The owner of the mobile savings 'bank' is therefore willing to accept these few pence and save it until the end of the month, for a very small interest. Being a daily practice, there is the hope that by the end of the month, a bulk sum would have been accumulated as a substantial capital for investment. Some traders are able to meet some of their fixed costs, like stall rentals and commission overheads, with money saved up in this way.

The question that may be asked at this point is: why did these institutions succeed in the first place, in spite of the obvious risks to which its clients were exposed ? The reasons are four-fold, firstly, in a community where a great deal of business is transacted on the basis of mutual trust and non-legal sanctions, it is normal to entrust the safe-keeping of one's savings to another's care, especially if the latter acts more or less in the capacity of a public servant as in this case. Secondly, until recently when the banks began to accept minimum of 50k as bank savings, local banks were not meeting the needs of most people in the low income group.

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1. Onyemelukwe, J. O. C. Economic Geography of West Africa London, Longman 1983

It was therefore to be expected that any institution that provided such services was likely to get the patronage of the low income group. Even now that the banks accept 50k savings, the fact that they do not provide door-to-door services, that would reduce the cost, in money and time, of travels to the bank, leaves a mobile 'bank' with a strong chance of survival and growth. Thirdly, there is a general reluctance among tax payers, especially among the peasants and the uneducated people, to reveal their income, and savings in the bank, for fear that the bank would provide such information. This attitude is one of the reasons why hoarding capital is still a common practice among peasants generally [1]. The mobile savings banks' records are said not to be accessible to the tax authority [2]. Thus it provides the type of cover the tax evader needs. Finally, the obligation to save daily is a strong inducement to hard work and thrift. With the commercial banks, there is no compulsion to regular saving except one that is self-imposed. The tendency is to postpone bank savings until there is a reasonable surplus over the current budget, and one may never save anything in this way. The mobile savings 'bank' compels one to make savings part of the budget, thereby stimulating further investment.

(b) Bakwo System: the bakwo system is an important institutional means of capital mobilzation, widely used by foodstuffs wholesalers, clothing wholesalers, motor parts wholesalers, etc., especially those traders who buy from abroad.

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1. "The belief that private bank accounts are accessible is still rife among traders". See Onyemelukwe. Op:cit. p.43

2. Ibid.

When traders in those lines of trade are short of capital, the common practice is to undertake a 'bakwo' business. Thus they receive goods from other traders, especially from non-resident suppliers, hence the term 'bakwo' (Hausa word for stranger). They store and sell these goods for the stranger-suppliers from whom they get commission at the rate agreed by the two sides. Through frequent dealings with clients, the agents earn their own capital.

(c) Cartel: The above system is now being replaced by the cartel formed by wholesale and retail traders to monopolise a particular line of trade. For example, the motor parts dealers assocation can only admit one into the business if one meets the conditions determined by the association. In return, any new member who has limited or no capital is provided with some adequate supplies of parts at a wholesale price. The new member will have to sell the parts at a retail price and build his own capital from the profits made. In this way, many traders who could not transact business because of lack of capital, are able to do so.

(d) Usufruct System: Usufruct is the right to use someone else's property. It is generally acquired from a debtor, and such right ceases to exist when the debtor redeems his indebtedness. This has been one of the oldest methods of raising loans in the traditional society of Iboland. As part of time-honoured custom, usufruct has always been associated with land and crops. The lender of an amount of money gets a temporary right to cultivate the land and/or harvest the tree-crops (such as oil palm and atrocarpus communis trees) growing on the piece of land until the money lent is returned. The repayment of the loan is normally fixed at a distant date, before which the lender is assured a long enough time to benefit from the deal. In most cases, this does not take place at the stipulated time and has often been carried out much later by the borrowers' descendents.

This system compares well with the practice in India and Malaysia where the liquidation of such debt is often approached by piece repayment and recovery of the security for the loan[1]. In the cities like Enugu, Onitsha or Abakiliki, where farmland and tree-crops are out of the question, usufruct benefits come mainly from rentals of market-stalls or shops or residential houses. With small amounts of money lent to peasants, the usufruct of oil-palm estate is acquired and channelled into trade in the cities.

(e) Loan on mortgage: Traders commonly raise capital in the form of loans backed by mortgage[2]. The mortgage consists of the conveyance of personal property by a debtor to a creditor as security for a (money) debt, with the proviso that the property shall be reconveyed upon payment of the sum secured to the mortgagee within a certain period. A trader/businessman etc., mortgages his property, especially his house in the city, iroko tree or a piece of land in the village, to his creditor for a loan of capital needed in his business.

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1. Firth, R & Yamey, B.S. (Ed.), Capital, Saving and Credit in Peasant societies, George Allen and Unwin Ltd. 1964, p.31

2. Eicher, C.K. and Liedholm, C. (Eds), Growth and Development of the Nigerian Economy, Michigan State University Press, 1970 Chapter 4.

In most cases the loan is on short term, as it is often necessitated by the arrival of a consignment which the borrower is obliged to claim. We found that such loans with collateral evidence are very common with traders but appear to be less important to petty traders, especially when compared with the bigger capital traders in the textile and machine tool trades.

(f) Investment in Property: People from all sectors of the rural economy build up a great deal of capital from investments in businesses outside their own. There is generally a strong desire to invest in some productive areas of the economy[1]. The rationale for this is based on the great uncertainty of the Nigerian economy as a whole and the highly speculative nature associated with some business such as trading, labour pricing etc. Investment in the other business serves as a wedge against possible loss or liquidation, in order not to 'put all the eggs in one basket', the creation of alternative capital source has been a key-note of economic pursuit among the rural and urban people.

House ownership in urban centres where rentals are relatively high, has been the most popular form of investment in real estate. The relatively low rate of deterioration of a house, its high potential appreciation, and the social and economic prestige attached to house ownership, all account for the desire to invest in housing. The current practice is to purchase land or old property from a needy landlord for the purpose of building shops for rent, if the site is within the commercial area, or apartment buildings for hire in the residential areas.

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1. Ibid. Chapter 4.

However petty traders and peasants in general invest more frequently in smaller enterprises such as corn and rice mills, saw mills, hotel and restaurant; transport services - taxis, bus, engine-powered canoes; and in gambling business. One of the respondents in the machine tool trade at Nnewi market had to sell his taxi to salvage his business.

Investment in agricultural projects takes a number of forms, but the commonest among the peasants in particular are poultry, piggery, share-breeding of domestic animals. Many traders, businessmen, and employees of many sectors of the economy responded to the 'back to land' campaign of the Buhari Military administration, by establishing poultry and piggery businesses[(1)]. In almost all the villages around our areas of research, many such small-scale establishments exist and all the major markets no longer depend entirely on government agricultural centres at Nkwelle and Abakiliki for eggs, or entirely on Northern states sources for pigs[(2)].

Share-breeding, in its simplest form, is an age-long economic institution involving a joint ownership by two persons of a domestic animal such as a goat, or fowl, for profit motives. The principle of share-breeding is for the two people concerned to share the offspring or the money proceeds of an animal procured by one and reared by the other.

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1. Interview with the Anambra Commissioner for Local Government December 1984

2. For detailed discussion on this matter see the December 1984 and January 1985 issues of "West Africa".

Staple foodstuffs traders engage in share-cropping especially of yams, cassava and rice. Farmers in the riverine areas of Anam, Nsugbe, Atani, Nzam and Igbariam are often financed to produce these crops on a share-cropping basis[1]. However, at the moment dealers in yams and rice are becoming increasingly disinterested in this practice. Their reason is that farmers have frequently cheated investors by either neglecting the farm financed by an outsider, or by dishonestly presenting a different and invariably poorer harvest to the outside investor.

g) Mercantile Credit: credit on inventories is perhaps the most popular means of raising capital for those businesses engaged in wholesale and retail trading. It involves postponement of repayment of capital received in the form of stock. There are two main categories of these credit facilities, first, formal organised credit, offered by big commercial firms to their accredited customers, the other is informally organised credit facilities commonly reciprocated between traders. The major difference between the two are three-fold. First, in the formally organised type, creditor-debtor relationship is generally of long duration and tends to be perpetuated by successful business on both sides. For, while the trader depends on the firm for capital, the firm in return, uses the trader as its market outlet. On the other hand, informal credit often arises out of occasional shortages which every entrepreneur is always trying to avoid.

Secondly, whereas the big commercial firms offer some discounts for on-the-spot payments, and sometimes commission to clients enjoying their credit facilities, the informal credit in the foodstuffs market does not provide any such additional benefits.

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1. See Oluwasanmi and Alao, Op. cit. P.41
1. Ibid.

Finally only the big commercial firms (mostly foreign firms) distributing imported goods provide the formally institutionalised credit facilities. But the informal credit type operates anywhere in the market, and its flexibility is such that the creditor today may be the debtor tomorrow, depending on the business circumstances of each at the point in time.

The informally organised credit is regarded as a critical factor for survival of peasants. Its chief merit lies in the relative ease with which it operates, and in the fact that it is often conducted on interest-free basis. The agreement between the borrower and his creditor is scarcely recorded, but often made orally and informally.

PART TWO

RURAL BANKING: A STRATEGY FOR RURAL DEVELOPMENT IN NIGERIA

CHAPTER 5

COMMERCIAL BANKS AND RURAL SECTOR

Introduction

Rural banking can be conceived in terms of arrangements for the mobilization and provision of finance for investment in the rural sector. The weight to be attached to each of these functions at any given time depends on the objectives of government policy, and this, in turn, in part depends on the level of economic development of the country and the structure of its rural economy.

In Nigeria, unlike some South-east Asian countries, such as Indonesia and the Philippines, rural banking has not been developed as a deliberate government objective. Infact, rural credit administration did not develop along conventional banking lines until the establishment of the Nigerian Agricultural Bank in 1973. In the Philippines, largely as a result of the leadership and guidance of the Central Bank of Philippines, a rural banking system was established by the Rural Banks Act of 1952. A special Department of Rural Banks exists at the

Central bank of the Philippine to supervise the rural bank programme[1]. Moreover, all rural banks are organised and managed by the private sector and are established as Stock Corporations. At the end of 1966, the private sector held 56 per cent of all paid-up capital stock issued by rural banks.

These banks provide credit only to the rural areas and at a relatively low rate of interest. The bulk of the credit is in the form of short-term agricultural loans to farmers, and some credit is extended to merchants and small industrial enterprises. The system in the Philippines has grown rapidly, and at the end of 1968 there were 441 rural banks, 57 of which maintained demand deposits[2]. The Filipino model is a special case. In other Third World Countries where a system of rural banks exists, they have developed a quasi-cooperative association of borrowers, since they are each managed by a committee of elected, credit-worthy villagers.

There is no one uniquely determined way in which to develop a rural banking system. Although much depends on the rural inhabitants of any given country, the basic objectives of a rural banking system remain true for all countries. These are as follows: to promote and expand the rural economy in an orderly and effective manner; to place credit facilities on reasonable terms within easy reach of rural dwellers; and generally to increase the productivity of the rural sector.

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1. See R.F.Emery - The Financial Institutions of South-East Asia - a country-by-country study, Vantage Press, New York, 1970
2. See R.F.Emery, Op:cit. p.73

In this Chapter, the nature of Nigeria's rural sector is discussed in order to place the sector's demand and supply of credit in their proper perspectives. Attempt will be made to highlight and analyse the farmers' response to the credit demand/ supply gap.

5.1 Some outlook of rural lending

The rural sector in Nigeria is defined here in a broad sense as consisting of economic activities outside the urban economy. In the Nigerian context, agriculture (including livestock, forestry and fishing) forms the bulk of economic activity of the rural population; in contrast, all other activities like crafts (weaving, dying, pottery, etc.) processing (particularly food), and other cottage or family-unit industries and trade, form a line of activity second to agriculture. Thus, the size of the rural sector within the national economy can be gauged by the agricultural sector's contribution to incomes, productivity, employment and living standards. Evidence from the National Development Plans 1975/80[1] suggests that the contribution of agriculture to Gross Domestic Product (GDP) has been declining from 55.6 per cent in 1967 to 45 per cent in 1970 and 23.4 per cent in 1975. It is estimated that in 1966/67 agriculture accounted for 71.7 per cent of all gainfully employed persons. However with rapid urbanisation and increasing opportunity for employment in the urban-based industrial expansion and consequent

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1. Federal Republic of Nigeria, 'Third National Development Plan 1975-80', Central Planning Office, Federal Ministry of Economic Development, Lagos - March 1975 Vol.1.

migration from rural to urban areas, these numbers have greatly diminished in recent years from 64 per cent in 1975, to 58.2 per cent in 1980, picking up slightly to 60.6 per cent in 1985[1]. This development has led to declining productivity of the rural areas to the extent that less than 60 per cent of food consumed in the country is now produced by the agricultural sector.

Furthermore, agricultural commodity export, which was the greatest foreign-exchange earner until the advent of petroleum export in the late 1960's, declined visibly to less than 30 per cent of total earnings. In spite of continued migration and the declining number of persons gainfully employed in agriculture, an estimated 82 per cent of Nigeria's population lived in the rural areas in 1979, although this rural population was concentrated unevenly among the various states[2].

The notable point here is that in an economy which is predominantly rural in settlement, occupational distribution and composition of output, the problem of economic growth and development hinges largely on raising productivity and therefore the real income of the rural sector. Development economists[3] suggest that in supplying food, labour and investable surplus, the rural areas help to generate urban incomes and employment.

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1. See Central Bank Annual Reports 1985

2. Federal Office of Statistics - conclusion drawn from the electoral lists 1979.

3. O.Teriba, 'Rural Credit and rural development in Nigeria' in Nigeria economic society, Rural Development in Nigeria, Proceedings of the 1972 Annual Conference

They also help to stabilise, if not reduce, production costs for industries and the cost of living for workers in general.

The strategy of development, however, is a function of improved technology, which in turn is a function of capital base(1). That is, the existing potential for increasing productivity can be realised only if there are improved crop varieties, more fertilisers and pesticides, improved land preparation, better storage and food processing, better water control, soil conservation and reclamation, additional infrastructures, such as access roads, market facilities and so on. These technological improvements depend on the amount of capital the country can afford to expend. With careful planning and management these improvements could be brought within the reach of millions of farmers. To the extent that high incomes must first be generated before any reasonable savings and investments can take place, the vicious circle of low level of output, low income, low savings and investment, which is a common feature in developing areas, must first be broken through massive injections of credit assistance from outside the rural sector(2).

In the early stage of development, government plays a crucial role in mobilizing and supplying funds for investment in the rural areas. This is because the relatively low savings ratio of the rural household is not entirely caused by low productivity, but

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1. O. Teriba, Op. cit. P. 38

2. W. C. Baum, 'Agricultural credit and the small farmers', Finance and Development (IMF), June 1976

also by the absence of institutional agencies to mobilize savings and channel them into productive investment. Until recently, as we discussed in chapter one, institutional arrangements for mobilizing and channelling of funds in the rural sector was entirely outside the banking system. In spite of the long history of banking in Nigeria - the first bank was established in 1892 - branch banking, which is a phenomenon of the 1960's, tended to be concentrated in a few large towns spread all over the country(1). These banks have had little contact with or impact on the rural population. Such savings as have been encouraged from the rural sector have come through the Post Office Savings Bank (POSB) - now reconstituted as the Federal Savings Bank. However, evidence from the total yearly savings of the POSB indicates that the bulk of savings comes from small urban savers(2). Indeed, some commercial banks have devised such innovations as mobile banks and other saving schemes for small savers in order to encourage savings in the rural areas, but the habit of institutional savings is yet to be adopted among the rural population. It is argued that the rural sector has had very little feedback, if any, in terms of investment by POSB, who usually invest their funds in Public securities(3).

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1. K.A.Awosike, '<u>Evolution and development of Commercial banking in Nigeria; retrospect and prospect</u>', in commercial banking in Nigeria; Evolution, regulation, structure and performance, A. Oyejide and A. Soyode (eds), Fourth Dimension, 1977.

2. See Central Bank of Nigeria Annual Reports 1973, 1974 and 1975

3. K.A. Awosike Op:cit p.43

Similarly, until recently institutions providing functions, in terms of meeting the needs of rural credit, have been carried out through government ministries and finance development corporations. Commercial bank credit to agriculture has been very small. Even in recent years when, under government directives and persuasion, banks were enjoined to direct a sizable proportion of their loans and advances to agriculture, the response was poor, relative to other sectors. Thus the credit needs of the rural sector have been sought largely outside the organised institutional arrangements (see chapters three and four).

The mobilization of savings is an equally important aspect, as analysed in the previous chapters, though much has been said to indicate that at the early stages of development, savings potentialities are low while credit needs are an essential complement to structural changes. However, credit is only one instrument for promoting rural development. The Nigerian government like many other governments often use agricultural credit as a catalyst for selective purposes such as to encourage diversification into a particular crop or to promote the adoption of a given technology, as with the Nigerian cocoa farmers in the early 1950's(1). Credit can also be used to promote social change that would enhance the living standards of the rural population in terms of the redistribution of incomes and the guidance of allocation of resources towards preferred sectors.

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1. See C. J. Wells, Agricultural Policy and Economic Growth in Nigeria, 1962-1968, University of Ibadan Press, Ibadan, 1974.

To the extent that banks are essentially profit motivated, their role as suppliers of credit is limited by the level of development already attained. The cost of expansion into rural areas, and the servicing of a large number of small and often risky loans and advances, would tend to outweigh the financial returns to the banks, although the social returns would be high for the economy as a whole. In any event, the more highly developed the agricultural sector, the greater the amount of credit demand, and, in terms of quantity and profitability, the greater the role of commercial banks in supplying such credit.

The conditions under which credit is supplied to the rural areas as stated earlier (see Chapter 3 above) is a hindrance to effective demand by farmers. The supply of rural credit as we mentioned earlier, can be divided into two main sources, institutional and non-institutional. Among institutional sources are government and its agencies, commercial banks, trade merchants, money-lenders and registered copperative societies etc. The non-institutional sources as stated include the pre-cooperative organisation,Esusu clubs friends and relatives.

Until about 1960, the main source of agricultural credit was the Agricultural Production Development Boards. For example, the Oil Palm Produce Board 1948/49 received 22.5 per cent of trading surplus of the Development Board for the development of the producing areas. This arrangement was replaced by direct budgetary allocation to a new board, the Western Region Production Development Board, in the regional development programme. Other regions soon followed this pattern of allocation to the agricultural sector.

Wells[1] estimated that, out of their total capital expenditure, the Eastern, Western and Northern regions spend 4 per cent (₦1.46m), 5 per cent (₦1.16m) and 4 per cent (₦O,64m) respectively, on farm credit, while the aggregate for the Nation was 4 per cent (₦3.36m). Table 5-1 below shows the capital allocation by various governments. Credit allocation excludes credit in kind in the form of subsidised fertiliser, land clearing for cultivation, and other farm input subsidies. A cursory examination of table 5.1

Table 5-1 Share of Agricultural Credit in planned capital allocations, 1970-1980

	1970-1974			1975-1980		
	Total Allocation	Agric. sector allocation	Agric. credit	Total allocation	Agric. sector	Agric. credit
Federal	1932.00	79.49	12.0 (15.2%)	33921.10	1300.1	150 (11.5%)
States	1418.00	252.15	10.5 (4.2%)	9392.90	1020.1	15 (1.5%)
Total	3350.00	331.63	22.5 (6.8)	43314.0	2320.2	165 (7.1%)

Sources: Federal Republic of Nigeria: Second National Development plan, 1970-74; Third National Development Plan, 1975-80

shows that the total allocation of agriculture has gone up six-fold while allocation to farm credit has gone up seven fold; secondly, the ratio comparison shows that the farm credit share of agricultural allocation remains the same in the period covered

1. C. J. Wells, Op:cit. p.28

by the two Plans. This might be due to increased direct investment by the government in agriculture and government persuasion of Commercial Banks to increase their loans to agriculture. It should be noted that figures in the 1975-1980 Plan include capital grants to the Nigerian Agricultural Bank.

5.2 The Role of Commercial Banks in Rural Banking

There are two basic functions of Commercial banks which serve the basic needs of rural economy; receiving from the surplus units (deposits), and lending to the deficit units (loans). These two functions are crucial to the development of any Nation. By serving as agents of deposits, Commercial banks help draw money from small and large savers; and by serving as lenders they help to put these monies in the required volume into the hands of investors. Because the growth in the living standards of the people of a country depends on investment, Commercial banks become indispensable tools for attracting savings for investment, therefore, they play an important role in influencing the extent and pattern of any Nation's economic development.

As far back as colonial days, the Commercial banks in Nigeria have performed the foregoing function in urban areas. These banks would have remained in the cities to amass profit. However, in its efforts to improve the rural areas, the Federal Government suddenly in 1977 ordered all the Commercial banks in the country to 'go back to land' (1)

This order to 'go rural' did not end there; the Federal Government, using its agent, the Central Bank of Nigeria, allocated specific

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1. Commercial banks were given allocation of branches to be opened in the rural areas.

rural towns or villages to all the banks where within a given time (three years), they should open branches. Table 5-2 below shows the names of eighteen banks and the number of rural branches allocated to them.

Table 5-2 Rural Banking development, branch allocations for 1977-1980

	Bank	No. of rural branches
1.	African Continental Bank	17
2.	Arab Bank (Nigeria)	7
3.	Bank of India (Nigeria)	6
4.	Bank of the North	6
5.	Barclays Bank of Nigeria	28
6.	Co-operative Bank	5
7.	Co-operative Bank of Eastern Nigeria	7
8.	International Bank for West Africa	11
9.	Kaduna Co-operative Bank	3
10.	Kano Co-operative Bank	5
11.	Mercantile Bank of Nigeria	3
12.	National Bank of Nigeria	15
13.	New Nigeria Bank	3
14.	Pan African Bank	5
15.	Savannah Bank of Nigeria	7
16.	Standard Bank of Nigeria	35
17.	United Bank of Nigeria	27
18.	Wema Bank	5
TOTAL		195

Source: Central Bank of Nigeria, Annual Report and Statement of Accounts, December 1977

Even though the 1977 Annual Report of the Central Bank of Nigeria stated generally that the Government's aim in making these allocations was 'to extend banking services and habits to the vast majority of people especially in the rural areas', we know that government policy in making this broad statement was pointed towards the approach of commercial banks to rural banking regards; firstly, the mobilization of rural savings; secondly, the allocation of credit among productive activities; thirdly, the institution of commercial banks as a back-up for newly introduced government development programmes, for example, Operation Feed the Nation (OFN); fourthly, the linkage of money markets in these fields, especially in the rural areas, with capital markets of the rest of the economy, and finally, the efficient allocation of resources among different areas and regions. According to the 1980/85 Development Plan[1], these are laudable objectives which, if properly executed, could transform the country's economy within a short time.

It is pertinent to analyse the above government policy with a view to exposing some of the factors which may hinder its execution.

Now commercial banks, like all other profit-making concerns have considered several economic or political factors in choosing the location of a new branch. With the allocation of branches by the Central Bank of Nigeria, there is an infringement of this normal procedure. The result may be a half-hearted performance from Commercial banks at least in the short-run.

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1. See the Nigerian Government 1980/85 Development Plan, Federal Office of Statistics, Lagos.

The Government introduced the establishment of rural banking in 1977 when its policy was geared towards an expanding economy. However, a year later the Government started its crusade against inflation by tightening up the money supply. Generally, in a tight-money period, banks become illiquid. Deposits dwindle, and unless there are other sources of funds, like non-deposit sources banks will resort to 'cut throat' competition for deposits. While this goes on, the no-cost (demand) deposits also decline because money supply declines. All of these factors increases the commercial banks' cost, while their income remains constant. In such a situation no profit-making institution would want to expand. Expanding dùring a contracting economy is unwise in most cases, but it is especially so when the expansion is into a geographic area where profit is unlikely in the following years.

Another important government policy is the emphasis on agriculture. At present the rural areas could be considered the low-income areas of a country where agriculture is the main industry, and where in turn bank loans will pass to farmers. However, by the inherent nature of agriculture and the present development of Nigerian farmers, Commercial banks are forced to go into supervised credit(1). Issues become complicated and confusing, the pressure mounts daily from farmers who want loans from their rural bank branch, while the Bank is not liquid enough to meet the farmers' demands. What is more, lending to agriculture is at a maximum of 6 per cent. Although this rate attracts a large number of borrowers

1. For further discussion, see O.E.Oloniniyi, 'An Economic Appraisal of the agricultural credit institutions in Ondo State', M.Phil. Thesis, Dept. of Agricultural Economics, University of Ibadan, 1977

it draws scepticism from Commercial banks. It is expected that with the pressure on the economy, the agricultural rate would at least be competitive. This is necessary for these reasons: first, to encourage the Commercial banks to lend generously to this sector; second, to reduce the cost of supervision; and finally, to prevent the diversion of funds intended for agriculture to other sectors.

The criteria for branch allocations were made on the following conditions[1]: firstly, where there was a rural town of 50,000 population or more; secondly, where there were suitable institutions available in the area; thirdly, in the headquarters of a local government area; and finally, at the discretion of the central Bank of Nigeria. It seems that Industry and Commerce were never considered as major factors. Furthermore, there were no options for the Commercial banks.

Given the expectations by the Commercial banks of the relevant government policies, it is appropriate at this stage to look at some of the difficulties facing the Commercial banks in implementing the rural banking programmes.

Some of the areas allocated are not accessible. They lack basic properties such as buildings, which are indispensable in banking. Banking has virtually been reduced to its crudest form in many locations. In many branches there are no good roads for vehicles, and above all, there are no other forms of communications. Communication being very important in banking, lack of communication facilities exacerbate the difficulty in business transactions.

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1. See the Federal Government 1975/79 Development Plans. <u>Federal Office of Statistics</u>, Lagos.

It is argued that when somebody is employed by a Commercial bank, especially those with large foreign ownership, the employee automatically lives in the city or town with basic facilities. However, in these banks, existing staff are being deployed to serve in rural areas. It is natural that they are resentful of such measures. Furthermore, it takes about one year to train an officer of the bank(1). With the number of branches allocated to some banks and the mandatory three years allowed to full implementation, banks may have to resort to crash programmes of recruitment and training. This, coupled with their scattered locations, has hindered supervision and thus resulted in inefficiency and a high staff turnover, especially in the lower grade(2).

It is often difficult to find accommodation suitable for banking operations in most rural towns. Building new houses for banking operations takes a long time, especially when there is locally no choice of building contractors. To this end, some local governments have been helpful, but the problem still persists in others.

Staff accommodation poses a more serious problem. Some members of staff are on several occasions forced to travel many kilometres every day from nearby cities where they can find suitable accommodation(3). A problem of this nature discourages members of staff from accepting transfers to rural branches.

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1. Personal Communication (branch manager) December 1984

2. Personal Communication (branch manager) December 1984

3. Ibid

It is a matter of prudence that commercial banks would be less interested in entering areas where most of their banking business will be limited to agriculture. Being seasonal in nature, agriculture attracts seasonal businesses. These infrequent transactions coupled with the dominance of peasants in the Nigeria farming community, result in a low volume of business in most rural areas.

Furthermore, most commercial banks, especially the large ones, are foreign owned. These banks have most of their branches in the urban areas and understand the business and the people in the cities. Rural areas, however, are new dimensions to them, therefore, to have allocated so many branches which were to be operational within a short time was indeed impossible for the banks to achieve(1). It could be argued that such branches will become acclimatized in time but according to a branch manager(2) the decision to expand would have been prudent if the banks had been given more time or fewer allocations at a time.

Security is also a major problem. Most rural branches are located in areas which are very vulnerable to 'highway robbers'. An example was the robbery in the United Bank of Nigeria Ltd. rural branch at Osu(3) early in 1979.

Law enforcing agents are difficult to find in some of the rural towns. For instance, in one rural branch in the Western part of Nigeria, Imesi-Ile, it is at present costing the Union Bank ₦10.00 per day to hire police officers from Ijebu-jesha, which is some

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1. Personal interview with branch manager December 1984
2. Ibid
3. Ibid

20 kilometres away[1]. There are no other forms of protection, for example, these rural branches have no electronic devices for preventing theft. Secondly, there are no security companies available in these rural areas, together these factors make rural banking hazardous, and there is constant fear of loss of life and property.

5.3 The Nigerian Banking System and Credit Needs for rural development

In Nigeria today, there is growing emphasis on the need for rapid development of the agricultural sector of the economy in order to break the vicious circle of poverty that is prevalent in the rural sector[2]. The various Nigerian Governments have initiated laudable objectives and grandiose programmes for agricultural development, but regrettably the implementation has not always been realised in practice. (3)

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1. Central Bank of Nigeria Annual Report and Statement of Accounts, December 1977, p.32

2. See Oladele Adeyeye, 'Co-operative banking in Western Nigeria; Yesterday, today and Tomorrow', Review of International co-operation, International Co-operative alliance, Vol. 62, No 61969. 1978.

3. Ibid

Consequently, Nigeria's agricultural schemes have continued to be plagued by a number of problems which include[1]:

(a) a low level of technology and very limited application of yield-increasing inputs such as improved seeds, fertilisers, insecticides and fungicides;

(b) the use of out-dated farming equipment;

(c) lack of storage and poor transportation facilities, resulting in poor distribution and utilisation of perishable items;

(d) poor marketing structure, under which the farmers receive very poor prices for their produce;

(e) a conservative land tenure system which discourages rapid adoption of available agricultural innovations by the farmers and;

(f) lack of effective credit facilities.

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1. For further discussion, see M. O. Ijere (ed), New Trends in African Co-operative, the Nigerian Experience', Fourth Dimension (Publishers), Enugu 1975

One effective way of tackling these problems is by improving the financial base of the agricultural sector. Traditionally, as we mentioned in the last section, capital for investment in agricultureral comes from two potential sources: personal savings of the farmers, and farm credits. Because of low yield, farmers are faced with very low levels of farm income, and thus there is severe limitation on their saving capacity. Thus farm credit appears to be the only means of improving farm capital investment, and without it there can be no progress in the country's agricultural development[1].

Now, as we have already discussed (See chapter 3 and Chapter 5 section 2), there are two broad categories of sources of credit available to farmers, institutional and non-institutional sources of credit (see section 5.2). However, our objective in this section is to analyse the role of the banking system in fulfilling these objectives set out by the government, using the policy guidelines discussed in the section 5.2 as our guide. To do this, an investigation was carried out in the areas of our study by means of questionnaires targeted at the managements of each branch of the rural banks in the areas studied. We also obtained valid information from individual progressive farmers in these areas.

In Nigeria, before the Federal Government Agricultural Credit Guarantee Scheme[2] the Commercial banks were supposed to be some of the institutions granting credit to farmers.

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1. For further discussion, see Report of the Symposium on Rural Development in Africa in the 1970s, United Nations Economic Commission for Africa, Addis Ababa, 1971

2. In 1977, the Federal Government introduced a policy of special guarantee scheme for loans made to farmers (see the Third Development Plan Op:cit)

In practice, they were not always ready to grant loans to farmers for many reasons, thus because they are profit-making organisations, most of their lending activities were concentrated in non-farm investment where there is relatively good risk and fewer uncertainties and where returns on capital appear to be high. Besides, farmers are often scattered over wide and inaccessible rural areas, and commercial banks are understandably unwilling to employ touring staff to maintain a constant contact with the farmers. Moreover, the banks can easily ascertain the credit-worthiness of a non-farm investor who by nature of his business keeps a bank account and lives in an urban centre where his activities are well known to members of the business community of which the bank staff are members(1).

The majority of farmers have no access to Commercial banks because of the lack of acceptable collateral. Land, which constitutes one of the most important assets of a traditional farmer, is not an acceptable security because the customary tenure system makes it inalienable by individuals. As evidenced in our interview(2), one can point out that, with the exception of the Cooperative Bank of Nigeria (which is popularly called the farmers bank), most of all other banks insist on suitable collateral (Cooperative Bank is the subject of the next Section). Banks in

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1. Information extracted from interviews with the managements of Rural Banks.

2. Personal communication of management of Rural Banks in the areas of research, December 1984.

Nigeria look on agricultural business as a shaky and unpredictable venture because most of the factors controlling the farm enterprise are largely beyond the control of the farmer himself, and banks generally are not interested in granting loans for ventures on which they are not sure of claiming back their principal and interest. In fact, a primary consideration of Commercial Banks, as well as of all lenders, is the risk involved in making a loan. Lenders only make those loans which they feel are prudently a good risk.

Five different banks were asked to complete our questionnaires, but only three actually did, though the fourth was persuaded to give an oral interview. Our selection criterion of these banks and the individuals interviewed was so much influenced by the proximity of the banks to the rich farming areas of Abakiliki, Anambra and the agricultural commodity dealers at Nnewi and Idemili areas.

From our investigations, it would appear that there is a low ratio of farmers to non-farmers making use of these banks and as we shall discuss in the next section, this also applies to the Cooperative Bank, which is a 'farmers' bank'[1]. Farmers have to borrow on the same terms and conditions as other clients in spite of the government directive of positive discrimination in favour of farmers and its policy of special guarantee[2]. The farmers are asked to provide a feasibility survey of the farm and adequate

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1. In Nigeria, Cooperative Bank was created to bridge the gap between the Commercial Banks services and the special needs of the farmers.

2. Personal communication (rural bank Manager), November 1984 (see also Third Development Plan Op:cit)

security before they can be considered for a loan. We also gathered from our questionnaires that those who ask for farm loans are mainly the elitist farmers - mostly literate people in other full-time occupations - for whom farming is a part-time occupation or hobby, and usually they are in the poultry business. Another category is the Licensed Buying Agents - this category of people whether in the cocoa trade, yams, or palm produce have considerable influence in the banks in terms of securing loans. In fact, therefore the real targeted group of farmers - that is the peasant farmers in the field cannot really take advantage of rural banking services. The reasons are not difficult to perceive, in the first place, most of the peasant farmers are illiterate and so find it extremely difficult to go through the various banking procedures. Secondly, most of them are far removed from the offices of these banks. It was also evident in our questionnaires that cash-crop farmers have better chances of obtaining loans, the reasons being that they are relatively wealthier and can afford the necessary collateral. Furthermore, this group of farmers organise the Cooperative societies which further strengthens their credit worthiness. It is therefore, quite obvious that it is these few relatively rich cash-crop farmers who benefit from the loans services of the rural banks(1).

The question one would ask is what is the position since the promulgation of the decree(2). There was evidence of some increase in the number of farmers asking for farm loans under the scheme, and from our investigation, the increase occurred across all categories of farmers. But unfortunately, the peasant farmers are yet to benefit

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1. Personal interviews with individual farmers.
2. Federal Government Agricultural Credit Guarantee Scheme <u>Op:cit</u> p.43

and make effective use of the services of these banks. This is because according to the data we obtained from four banks, only one of them has actually made loans to farmers and only on one occasion[1]. And according to the management of this bank, in making that loan, the normal lending process had to be complied with. In other words, despite the enormous publicity given to the scheme by the Federal Government, the Agricultural Credit Guarantee Scheme has not changed the status quo.

Under the scheme a client is provided with an application form to be completed in triplicate and forwarded to the branch of the bank from which the facility is required. The bank should process these application forms with the:-

> "normal diligence with which usual applications for loans are handled." (2).

The applications that satisfied the management are then forwarded to the Central Bank for approval. It is only after this procedure that the Central Bank will issue a certificate of guarantee to the bank for the amount requested to be released to the individual farmers concerned. Two of the bank managers we interviewed put it bluntly that the Federal Government Guarantee is not "as automatic as people outside the banking system think". Furthermore, the banks' managements and the individual farmers we interviewed agreed that the regulations laid down for the scheme were too tedious and stringent for farmers, especially for those not literate enough to meet the bureaucratic process.[3]

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1. Interviews with Bank Managers - December 1984
2. Interviews with Bank Managers, Op:cit.
3. For further reading, see also Nigerian Institute of Bankers, Annual Dinner Speech, 1978.

When confronted with the question whether or not their operational policies are compatible with the Government policy of Guarantee Scheme, the answer was emphatically 'NO', some thought that the guarantee scheme could work if the Federal Government could budget a certain amount for it during the financial year to be disbursed to the farmers whose application were acceptable to the Central bank. Finally, some farmers thought that the scheme is not new, and in any case not different from the usual Commercial bank lending services, since the banks have always had a place for agricultural credit in their sectoral distribution of the bank's loans and advances.(1)

5.4 Co-operative Banks and Rural Banking Development

Unlike the Commercial banks' activities in the rural banking system, those of cooperative banks can easily be defined since we know what a cooperative bank is:(2)

> "A Co-operative bank can be simply defined as a financial institution specially set up to offer greater access to saving and borrowing facilities for Co-operative Societies and their members at a relatively cheaper cost than those provided by the traditional/commercial banking Institutions"(3)

The first Co-operative bank was established in Nigeria in 1953, but the idea of establishing a cooperative farmers' or peoples' bank had been mooted as early as 1907, when the first

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1. Information extracted from additional comments on the questionnaires.

2. Co-operative Banks, Op;cit.

3. United Nations, 'Africa's Strategy for Development in the 1970s, UN Economic Commission for Africa, 1973. p.14

move to establish a Co-operative society or union in Nigeria was made at Agege, Lagos[1]. Soon after the establishment of the first Co-operative Bank in Nigeria - the Co-operative Bank Ltd. (formerly the Co-operative Bank of Western Nigeria Ltd) - the Co-operative Bank of Eastern Nigeria was launched in 1954. For the next two decades no new cooperative bank was established. By November 1974, the Kaduna state Co-operative Bank Ltd. (licensed in October 1973 as the North Central Co-opeartive Bank) was established, and was followed nearly two years later by the youngest of Nigeria's Cooperative Banks, the Kano Cooperative Bank[2]. The two older banks between the time of their establishment and 1962 had performed purely as cooperative banks in the sense that they served their members only. By 1962 however, these two institutions were forced to take up a commercial banking licence[3]. The 'commercialising' of the activities of these banks marked an important milestone in their history with significant implications and repercussions for the orientation of their business. We shall return to this issue later in the section in view of its effects, both positive and negative, on the activities of the cooperative banks.

A notable feature of these banks as their names imply, is that they are all State banks, established to serve primarily the interests and development of co-operatives in their States of origin[4].

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1 Central Bank of Nigeria Annual Report and Statement of Accounts, December 1977, p.32

2. Co-operative Bank of Western Nigeria, 'Report of Activities 1953-1969', unpublished.

3. Co-operative Bank of Western Nigeria, Op:cit;

4. Ade T. Ojo and Wole Adewunmi, 'Co-operative Banking in Nigeria, Evolution, Structure and Operations', mimeographed, University of Lagos, December 1978, p.18-19

State governments' prominent roles in the establishment of these banks is also a feature common to all, though with slightly different dimensions(1). The first two banks got substantial initial establishment grants from their respective state governments. Thereafter, however, the new institutions were put entirely in the care and service of the co-operative movements. In the case of newer banks, the story is different, most probably because the cooperative movements in those states are not as developed as in the states of origin of the older banks.

Common to all the banks, however, is a singular goal or objective. All the banks were established to function as a central financing agency for cooperative movements in their States. It is for this reason that these banks are variously called Farmer's Bank, Peoples' Bank such names that tend to identify the institutions with the rural community(2).

The available data show that at the end of December 1980, these banks had between them fifty-two branches. In all, forty-four (85 per cent) belong to the two older banks - Co-operative Banks of Eastern Nigeria (twenty four) and Co-operative Bank Ltd. (twenty). The remaining branches are shared between the younger banks, with Kaduna state Co-operative Bank holding five branches and Kano Co-operative Bank holding only three branches(3).

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1. For further discussion, see Co-operative Bank of Western Nigerian Report 1953-1969, Op:cit. p.104
2. Ade T. Ojo and Wole Adewunmi, Op:cit. p.59
3. Oladele Adeyeye, 'Co-operative banking in Western Nigeria; yesterday, today and tomorrow', Review of international Co-operation, international Co-operative Alliance, Vol. 62. No.6 1978.

In the light of the purpose of setting up these banks (to serve their States), it is not surprising that the banks' branch networks are biased towards their state of origin. Indeed the only exceptions are the two older banks, which have between them a total of three branches in Lagos to serve principally as liason offices in view of the Lagos location as the capital of Nigeria. As regards to our focus of this section, the question to ask here is how rural are these branch networks ? Table 5.3 shows the branch networks of Co-operative banks as at December 1980. By the rough guide for classifying bank offices into rural and urban branches, it will appear that only seven of the twenty listed branches fit our broad description of rural bank, giving a 35 per cent of rural branch for Co-operative Bank Ltd. In the case of Co-operative Bank of Eastern Nigeria, twelve of the twenty four branches (50 per cent) fit this description. The rest are urban banks except one of the Kaduna Co-operative Bank Ltd. (1)

Now, since these cooperatives were forced to go commercial the reasons for their bias towards urban banking should not be difficult to assess. The cooperative banking sub-sector of the commercial banking sector is led by the Co-operative Bank Ltd., which accounted for over 60 per cent of all the sub-sector's asset/ liabilities, about 69 per cent of loans and advances, and 58 per cent of all deposits at the end of 1979. Co-operative Bank of Eastern Nigeria Ltd. was very badly affected by the thirty months of non-operation during the Nigeria and Biafra war between 1967 and 1970(2).

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1. Ade T. Ojo and Wole Adewunmi, Op:cit. p.42

2. Ibid.

Table 5-3 - Branch Networks of Co-operative Banks - July 1980

I	II	III	IV	V
Co-operative Bank Ltd.	Co-operative Bank of Eastern Nigeria Ltd.	Kaduna Co-operative Bank Ltd.	Kano Co-operative Bank Ltd.	Nigerian Agricultural & Co-operative Bank
OYO STATE	ANAMBRA STATE	KADUNA STATE	KANO STATE	KADUNA STATE
1. Ibadan - Oje	1. Enugu - Okpara Ave.	1. Kaduna - Hospital Rd	1. Kano - Bello Road	1. Kaduna (Head Office)
2. Ibadan - Agodi	2. Enugu - Ogui Rd.	2. Kaduna - Market branch		ANAMBRA STATE
3. Ibadan - New Court Rd	3. Awka	3. Kaduna - NDA branch		1. Enugu
4. Ile-Ife - Unife Campus	4. Onitsha - Sokoto Rd	4. Zaria branch		OYO STATE
5. Ile-Ife - Aderemi Rd.	5. Onitsha - Iweka Rd	5. Birni Gwari branch		1. Ibadan
6. Eruwa	6. Abakiliki			BAUCHI STATE
7 Shaki	7. Nnewi			1. Bauchi
8. Ikirum	8. Abagana			SOKOTO STATE
9. Ila-Orangun	9. Nsukka			1. Sokoto
ONDO STATE	IMO STATE			RIVERS STATE
1. Akure	1. Aba - Azikiwi Rd			1. Port-Harcourt
2. Owo	2. Aba - Milverton Rd			BENDEL STATE
3. Ondo	3. Owerri			1. Benin
4. Ile-Oluji	4. Afikpo			
5. Ado-Ekiti	5. Nkwere			
6. Idanre	6. Ohafia			
OGUN STATE	7. Okigwe			
1. Abeokuta	8. Oguta			
2. Ijebu-Ode	9. Umuahia			
LAGOS STATE	10. Imba-ise			
1. Lagos - Marina	LAGOS STATE			
2. Lagos - Yaba	1. Lagos - Nnamdi Azikiwe Rd.			
BENDEL STATE				
1. Benin City				

SOURCE: Adapted from Ade T. Ojo and Wole Adewunmi, 'Co-operative banking in Nigeria, evolution, structure and operations,' mimeographed, University of Lagos, December 1978, updated to 1980.

Secondly, the other two new banks have not really made much impact in the market share. It is probably a combination of these factors that accounted for this dominant position of the Co-operative Bank Ltd.

<u>Activities of Co-operative Banks</u>

Deposits in all the banks have grown tremendously over the years. In the case of the older banks, these increases in the volume of deposits shot up significantly after going commercial in 1962 and consequently opening their doors to non-cooperator depositors(1). In both the Kaduna Cooperative Bank and the Kano Cooperative Bank, deposits constituted more than 80 per cent of the liabilities of the banks. At the Co-operative Bank Ltd., deposits amounted to only ₦56,000 in 1954, ₦1m in 1964,₦25m in 1974 and ₦129m in 1977.

> "since this Bank became a commercial bank in 1962, it has continued to receive very encouraging patronage from the private sector and it is the deposits from this sector more than anything else, that has saved this bank from great financial embarrassment"(2)

The rapidly rising ratio of deposit to total liabilities of this bank over the years is also indicative of the importance of the non-cooperators' contribution to total deposits. From forming 18 per cent of total liabilities in 1961, deposits have recorded 41 per cent in 1971 and 78 per cent in 1977.

The effect of the civil war mentioned above, on the activities of the Co-operative Bank of Eastern Nigeria and the consequent

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1. See O. Adeyeye, <u>Op:cit</u>. p.38
2. S.O.Adeyeye, <u>The Co-Operative Movement in Nigeria - yesterday today, tomorrow,</u> Gottingen, 1978

loss of data made it difficult to measure the impact of its commercialisation. However, just before the war in 1965 and 1966, total deposits in the institution were ₦669,000 and ₦860,000 respectively. In their first year of operation after the war (1971), total deposits were ₦2.8m and by 1977 this had increased to ₦57.9m, representing 45 and 84 per cent respectively, of all liabilities of the institution(1).

It is in the loans and advances of the cooperative banks more than in any other areas of their activities that one is best able to measure their contribution to the movements which they were originally established to serve. To achieve an accurate picture of the older banks, however, one must, in analysing their lending activities, distinguish the periods before and after the bank acquired the commercial banking licence. Before 1962, these older banks gave 100 per cent of their loans and advances to the cooperative organisations and individuals(2). This was also said to be continued even some years after acquiring the licence.

> "The fact that over 90 per cent of the loans and advances of the Co-operative Bank Ltd., for example, went to Co-operative Apex Institutions and other co-operators in 1966, four years after taking Commercial Bank licence, is a clear testimony to this." (3)

Realistically this is not a position that could be maintained indefinitely, and as shown by the available data, by March 1976.

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1. S.O. Adeyeye, Op:cit. p.26

2. Central Bank of Nigeria: Annual Reports and Statement of Accounts December 1980.

3. Central Bank of Nigeria, Op:cit. p.49

this bias had been reversed towards general commercial bank lending. This accounted for 87 per cent of the banks' total lending in the year, leaving the cooperative members' borrowers with a paltry balance of 13 per cent[1]. By way of lower interest rates on loans, less insistence on collateral evidence in support of advances to members of the movement, the banks generally continue to render desirable assistance.

It is a matter of great relief to the movements that the Federal Government is now showing some concern for this departure in the business orientation of the Co-operative banks. A recent pronouncement which state that:

> "Government holds the view that Co-operative Banks should encourage and deal with primary Co-operative societies (pre-cooperative organisations) and that Co-operative Banks should be compelled to do most of their business with the cooperative societies they were established to serve whether or not they are owned, controlled and managed by cooperators."[2].

This amply reflects the concern, which is desirable, however belated. This view, however, was evident on the 1985/86 Federal government allocation of resources [3], in which the financial year has seen the real change in the magnitude of the fund allocated to the rural development[4].

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1. A.U.Mutallb, 'The development of Co-operative Movement and banking in Nigeria', The Nigerian Trade Journal, July/Sept. 1977

2. Federal Government views on the Report of the Review Panel on Cooperative principles, laws and regulations in Nigeria, Federal ministry of information, printing division, Lagos 1974

3. See the budget speech (Gen. Babangeda) Daily Times 15th December 1985

4. The West African Magazine, December 30, 1985

We have demonstrated above the considerable level of urbanisation of 'people's' or 'farmers' banks. We have also tried to analyse their operations, and have shown already that a significant proportion of their businesses is done with commercial institutions (urban dwellers) as against cooperators (typically rural dwellers). Have the banks lost their bearings in the process of commercialisation ? If not, why have they not gone more rural than they have done ? Possessing a dual nature - commercial and cooperative - these institutions are likely to have problems that are common to all commercial banks in forging rural banking activities as well as those peculiar to cooperative banks as specialist institutions in their own class. Ideally, one has to see these institutions in these inter-related perspectives for comprehensive appreciation of their problems, an exercise which in itself is gaining an increasing support from the government.

CHAPTER 6

RURAL BANKING AND AGRICULTURAL EXTENSION

Introduction

The need to provide financial aid to farmers is universal. Even in highly developed countries such as the 'common market' countries and the United States, agricultural credit has been an important instrument not only for improving agricultural development but also for improving efficiency and increasing production in the right direction.

In a country such as Nigeria, where most farmers produce at a subsistence level, there is an urgent need to inject capital into agriculture in order to raise production per farm worker and per acre. The trend of social and economic changes in the country during the past few years makes this not only a judicious but, more an inescapable course of action. Experience in other Third World countries such as India or Malaysia(1) has shown that financial aid to farmers is essential for increased agricultural production and farm income. We learnt from the last chapter that only a few farmers can

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1. For further discussion see B.G. Shah and K. Dinker Rad, 'Branch expansion since nationalisation: Objectives and achievements', _Prajnan_, IV, I, Jan.-March 1975.

save from their earnings fast enough to enable them to take full advantage of the ever-increasing range of improved techniques and tools which the scientific age has made available for profitable farming. Even when this is possible there is the problem of the seasonal nature of farm income[1]. There is also the need for medium and long-term credit to provide fixed capital in order to increase labour utilisation and promote growth and continuity of farm income. The innovative flow from scientific investigations would have no significant value to mankind if they were not put into practice. Consequently, financial aid has become an important tool in modern farming[2]. The availability of financial aid would strengthen the position of the farmer in the advantageious disposal of his farm produce instead of having its timing determined by the urgency of his needs for cash, despite unfavourable seasonal prices and bargaining power of the merchant[3].

In this Chapter, we shall examine critically, the complementary roles of agricultural financial institutions and agricultural extension services for effective and meaningful linkage, thereby placing the farmers in the centre of the two institutions' programmes. We shall also analyse the strategies and policies of the government and the Central Bank of Nigeria with special reference to the Indian Rural banking experience. Finally we shall highlight the problems faced by governments in adopting strategies and appropriate policies in setting up a rural credit system.

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1. Uncertainties due to unpredictable climate.

2. See report of Symposium on Rural Development in Africa in the 1970s, Op:cit; p.71

3. The shortcomings associated with farm product pricing will be discussed in Chapter 7.

6.1 The Linkage between Agricultural extension services and rural banking

Apart from private (non-statutory) sources, financial aid to agriculture from statutory institutions is not new. What may be new, however, is the recent concerted effort to get commercial banks involved in the provision of these services through rural banking.. To help us analyse these new ideas we shall briefly review the situation in the past in our area of study.

The Co-operative Bank of Eastern Nigeria Ltd. came into being on the initiative of the cooperators in the region. The establishment of the Bank was literally made possible by an initial outright grant from the regional Government. The aim of the Bank was to spread over Eastern Nigeria (now divided into four States, i.e. Anambra, Imo, Cross River and Rivers) and to encourage and finance all registered cooperative organisations. The Bank also encourages members of the public who operate private accounts with it and offers financial assistance when this is possible[(1)]. However, it was not possible for the bank to offer financial assistance to non-cooperator members of the community because

> "private individuals and the public were not allowed to operate accounts at the Bank, due to restrictions imposed by the Banking ordinance."[(2)]

Thus until 1962, the banking operation of the Co-operative Bank of Eastern Nigeria was restricted to cooperative societies affiliating to it.

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1. For further discussion, see Ade.T.Ojo and Wole Adewunmi, Op;cit.P.33

2. An address presented to M.I.Okpara, Premier of Eastern Nigeria, by the Board of Directors of the Co-operative Bank of Eastern Nigeria at Aba, 12 May 1962

With the creation of States[1], the bank which used to belong to the Eastern Nigeria Government is now owned by two of the four states mentioned above - Anambra and Imo States. For reasons of political expediency, the General Manager, who is the Chief Executive of the Bank, by mutual understanding comes from one of the states, whilst the Chairman of the Board will at the same time be expected to be an indegene of the other State[2].

Now the relationship between agricultural Credit Corporations and the Ministry of Agriculture is, by law, decreed to be close, mutual and complementary[3]. For this reason, the Agricultural Credit Corporation is usually put under the protection of the Ministry of Agriculture and Natural Resources (MANR)[4]. In addition, however, the Corporation and the Extension Services Division of the MANR are expected to work out mutal objectives along the following lines: firstly, it is expected that at the field level, extension workers would assist the officials of the Credit Corporation in helping prospective borrowers prepare farm plans and in scrutinising their applications[5]. In other words, although extension workers are responsible for providing technical advice to credit officers and farmers, it is the responsibility of the Corporation to approve or reject loans.

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1. For further discussion on creation of states, see A.Adebayo, Principles and Practice of Public Administration in Nigeria John Willy and sons, 1981
2. Co-operative investment and Trust Society Ltd. Annual Reports and Balance Sheets, 31 March 1976
3. P.I. Esenwa, 'A study of the Nigerian Agricultural and Co-operative Banks' Lending scheme in Bendel State'. MSc dissertation. Dept of Education and Rural Sociology, University of Ife, 1979
4. Central Bank of Nigeria, Guidelines for Agricultural Credit Scheme 1977
5. Central Bank of Nigeria, Op: cit; p.993

At the policy making level, the extension services must ensure that the latest basic agricultural information and the results of research are passed on to the credit corporation so that the Corporation and the extension services provide basically the same information to farmers. Finally, the extension services should inform the corporation as to recommended practices and the amount of capital requried for each technical innovation.

The following additional roles have been identified for extension workers in their efforts to make credit available to the farmers.

a) Determination of farmers' credit needs: it has been argued that among all the government agencies, the extension services have the advantages of being physically the closest to the rural dwellers. This is probably because their functions are mainly rural-based. This, and the fact that the purpose for which credit will be needed is tied to their functions, make the extension workers the most appropriate officers to help farmers determine their credit needs. Another reason for this view is that most of the projects for which credit will be required are those which will be recommended and supported by the extension services, and the extension workers will therefore be in the best position to know the financial requirements of such projects.

b) Linking farmers with the sources of credit: Most Nigerian farmers do not possess the basic technical know-how to take advantage of the various credit facilities available in the country. To start with, information about such facilities are written in the English Language, besides some of these informations are too technical beyond the comprehension of even the most progressive peasant farmers[1]. It is therefore necessary - at least until the educational standard of the peasants improves - for an intermediary to establish a link between the funding agencies and the prospective farmer loan users.

c) Training of farmers in banking procedures and use of bank loans: As stated earlier, farmers are very reluctant to use commercial banks partly because they are not customers of a bank and therefore assume that bank loans are not available to them. Even those who use the banks may need to be educated on the proper utilisation of bank facilities.

d) Training Credit Officers to deal with farmers:the feature that repels ordinary bank users in Nigeria is the amount of administrative fiat involved in banking transactions[2]. Such procedures are likely to be even more distasteful and frustrating to peasant farmers. Firstly, they are likely to see such policies as specially used against them because of their limited knowledge. Secondly, because of the location of commercial banks and the different residence patterns of farmers, the farmers are likely to have more difficulty in making repeated calls at banks.

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1. G. O. Adegbite, "The Agricultural Credit Guarantee Scheme Fund," lecture delivered at the Central Bank of Nigeria's Training School, 1978

2. See B.I. Semowo, 'Financing Agriculture', Paper presented at the thirteenth Annual Banking Seminar of the Nigerian Institute of Bankers, Lagos, 1978

Special understanding is therefore required by bank staff in dealing with farmers.

It is therefore argued that, if the establishment of banks in the rural areas is to benefit farmers, banks must appreciate the roles of agricultural extension workers and integrate them into the loan scheme of their agricultural projects. Such integration according to Osuntogun[1], may assume some or all of the following forms:

Firstly, commercial banks may want to establish agricultural development units with staff expert in the various aspects of agriculture including extension and rural sociology. Obvious advantages of such strategy would be the ease with which personnel could be used at short notice and on a regular basis. Moreover, as this category of staff would belong directly to the bank, they would be in a position to strike a better balance between the commercial interest of the organisation and the overall national interest of agricultural development, both in advising the bank on which agricultural project to support and in following up the farmer-debtors with rational advice. One problem to be anticipated in this strategy, however, is the type of relationship which might develop between the Ministry of Agriculture's Extension Division and the banks.

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1. A. Osuntogun, The Nigerian Agricultural Sector: Problems and Potentials in the Development of the Co-operative Movement in Nigeria, Federal Ministry of Co-operatives and Supply, Lagos 1977

Secondly, commercial banks could rely on the services of the Ministry of Agriculture's Extension Division to advise them on agricultural projects worthy of support in their areas of operation. Arguably this has the advantage of relieving the commercial banks of the necessity of putting a heavy burden on themselves. It would also encourage division of labour and therefore interdependence between the banks as financing institutions and the Ministry as a provider of the expertise for farmers. The disadvantages of this alternative, however, devolve mainly on the farmers. The first is the red tape and delay involved in passing reports between the two organisations before a loan is finally approved. One good example was noted in the Nigerian Agricultural Bank's experience where, because of the need to work between two different organisations in different locations, the farmer cannot get his loan approved within six months(1). The second disadvantage here could be that of conflict of loyalty on the part of the extension worker, who may be conscious of the fact that he is actually being used by the banks for their own profit motives when in reality he belongs to a public service, non-profit-making organisation. According to Esenwa,

> "Unless the commercial banks engage the extension workers on a consultancy basis with defined remuneration, their services may be half-hearted - and this will certainly reflect on the farmers."(2)

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1. P.I. Esenwa, 'A study of the Nigerian Agricultural and Co-operative Bank's lending scheme in Bendel state', Op:cit; p.34

2. P.I. Esenwa, Op:cit; p.25

Finally, a compromise could be envisaged where the banks maintained top extension and rural sociology specialists on their staff instead of a full complement of agricultural experts, and these specialists would liaise closely with the Ministries of Agriculture and Research Stations, to work jointly with farmers. This, of course, does not suggest that agricultural economists should not be maintained by the banks; in fact as rightly argued by Osuntogun[1], any bank that maintains these two categories of agricultural expert should be adequately equipped to operate the Federal Government's agricultural loan scheme policy.

6.2 Rural Banking: The Indian Experience

As the title of this part of the study suggests, many countries in the Third World have accepted that there is the need to adopt Rural Banking as a strategy for rural development[2]. In this Section, a brief analysis of the rural banking system in India will be presented.

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1. A. Osuntogun, Op:cit; p.39

2. Chausse, J. O. 'A note on Agricultural Credit in India' Savings and Development, Quarterly Review, No.3, 1982 II

In the next section (6.3), this experience will be used to analyse the Nigerian system. India has been chosen because it is one of the few countries where rural banking policy has been successfully implemented. However, in Nigeria, as we discussed earlier, even though the Federal Government has encouraged rural banking, it has not been as successful as in India.

India has a population of over 540 million. Over 80 per cent of the population lives in rural areas and an estimated 70 per cent are dependent upon agriculture. Nearly 50 per cent of the GNP comes from the agricultural sector(1). The all-India survey of 1954 emphasised the need for financial institutions to become more actively involved in the agricultural development of the country. In line with this, fourteen major banks were nationalized in 1969. Since then, the number of bank offices rose from 8,262 in June 1969, to 41,458 in June 1983. India was scheduled to have 50,000 bank offices at the end of 1985. Although there are no up-to-date data to substantiate this, according

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1. Chandavarkav, A., '<u>Some aspects of interest rate policies in less developed countries</u>', IMF, Staff papers, Vol.VI, No.1, 1956-57 . See also the recent report on Interest Rate in LDCs, <u>IMF Staff Paper</u> Vol. V, No. I, 1985

to Murthy[1], in 1984 there is one bank office for every 17,000 people against 65,000 in 1969.

This expansion is in line with a plan prepared by the Reserve Bank of India (RBI), with emphasis on locating new offices in rural areas. Manmohn Singh, a former RBI governor, stated:

> "I venture to suggest that the rapid expansion of network of branches since nationalization may have been an important contributory factor to the swift rise in financial savings."(2)

Bank deposits rose from around 30b in 1970 to Rs50b in 1983. Household savings held in the form of financial assets went up from 45 percent to more than 60 percent in 10 years.

The emphasis placed on rural banking has marked the transition from class banking to mass banking. It is estimated that the number of borrowers has grown from about 1.3 million to 21 million since 1969. The majority of borrowers have been first time customers, from sections of the country that would never have dreamt of entering the banking system. These include small farmers, the economically weak and socially deprived sections.[3]

In the 1970s, regional rural banks (RRBs) were established to cater for short-term credit needs of the primary rural areas. Prior to 1969, the dominant view amongst policy-makers was to leave rural credit to Co-operatives. But the experiment of elected local leadership managing banks did not succeed despite subsidies

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1. Murthy, C.R., 'Top Marks for rural banking in India', Asia Banking, April 1984

2. Government of India, Report of the Working Group on Rural Banks, Ministry of Finance, New Delhi, 1, 1975.

3. Murthy, C.R., Op:cit; 1984

and strong administrative support from the government[1]. RRB is a new institution and is jointly owned by Federal and State Governments and the Commercial Banks. Their jurisdiction are limited to a district or two, and they are able to draw on the management expertise and resources of Commercial banks. The advantage they have over commercial banks is that they can have a lower wage structure in line with local wage levels. The government of India planned to have about 170 RRBs with about 12,000 branches covering 296 districts by March 1985[2], but whether this target was met or not is beyond the scope of this study.

At the end of March 1978, the number of RRBs established was 48 with 1,405 branches. The deposits and advances aggregated to Rs 37.11 crores* and RS 52.77 crores respectively at the end of March same year. Small farmers, landless labourers and rural artisans received 92.6 per cent (Rs 48.39 crores) of the total advances during that period[3]. Under the refinance scheme for RBIs, introduced in October 1976, the total refinance limit for each RRB was fixed on the basis of a prescribed formula at 15:50:35, indicating the proportion of RRB deposits, the RBI refinance and the sponsors bank's advances, respectively in the lending programme of each RRB[4].

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1. Government of India, '<u>Report of the Banking Commission</u>' New Delhi, 1, 1979

2. Government of India, '<u>Report of the Working Group in Rural Banks,</u>' <u>Op:cit</u>; p.1

3. B. M. Shukla, 'Problems of Agricultural advances', <u>Prgjnan,</u> Jan/March 1980

* Crores = 10m

4. RBI Annual Reports 1977-1978

For the refinance year 1977-1978, credit limits of Rs 21.72 were approved as 33 RRBs.

During the fiscal year 1978-1979, eight more RRBs were set up, bringing their total to 56 in 17 states as at the end of 1979. The total number of branches rose from 1,405 in June 1978 to 1,965 in June 1979. The deposit and advances of 51 of these banks totalled Rs 80 crores and Rs 143 crores respectively at the end of March 1979. The advances granted to small farmers and rural artisans amounted to Rs 134 crores in the same period. This is an increase of Rs 86.39 crores over the figure for the previous year. Under the refinance scheme, limits approved was 31 RRBs aggregated to Rs 34 crores at the end of June 1979[(1)].

The number of RRBs reached 121 by the end of March 1982, and the number of branches was 5,408 covering 207 districts and spread over 19 states. The deposits and advances of 107 reporting RRBs aggregated to Rs 355 crores and Rs 436 crores respectively on the last working day of March 1982, as against Rs 223 crores and Rs 273 crores respectively reported by 84 RRBs at the end of June 1981. Advances to small farmers, landless labourers and rural artisans amounted to Rs 415 crores as against Rs 261 crores at the end of June 1981. The RRBs continued to avail the refinance facility introduced in October 1976. During 1981-1982, limits aggregating Rs 177 crores were set at 82 RRBs.[(2)]

RRBs recorded significant improvement in terms of branch expansion, deposit mobilisation and loan operation during the fiscal year 1982-1983. At the end of June 1983, there were 142

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1. RBI Annual Reports 1978-1979

2. RBI Annual Reports 1981-1982

RRBs covering 207 districts. The number of branches increased to 6,416 at the end of June 1983, as against 5,408 at the end of June 1982. The breakdown of the districts covered by RRBs at this period can be seen in Table 6-1. The deposits and advances of 132 reporting RRBs aggregated to Rs 518 crores and Rs 625 crores respectively at the end of June 1983. This represents a substantial increase on the previous year. According to the figures from RBI, direct advances to smaller farmers, rural artisans and landless labourers amounted to Rs 552 crores at the end of December 1982, as against Rs 415 crores at the end of June 1982. In July 1982, the National Bank for Agriculture and Rural Development (NABARD) was formed to take over the role of providing short-term refinance facility from the RBI. During the period of 1982-1983 limits aggregating to Rs 277 were set at 97 RRBs by NABARD[1].

With its establishment, NABARD assumed the responsibility for laying down policies for RRBs, overseeing their operations attending to the problems faced by them, and monitoring their performance.

As at the end of June 1983, the total number of RRBs was 142 with 6,416 branches, it was therefore projected at the time that if this trend continues, the target of 170 banks with 12,000 branches by March 1985 will be achieved[2]. The deposits mobilised by RRBs are mainly from rural inhabitants, namely small farmers, landless labourers, and rural artisans. Despite the expansion of

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1. RBS'Annual Reports', 1982-1983

2. RBI Report on Trend and Progress <u>Op:cit</u>; 1982-1983

Table 6-1 State-wise Offices of Regional Rural Banks in India (as at June 30th, 1983)

STATE	No. of RRBs	No. of Branches	No.of districts
1. Andhra Pradesh	12	449	17
2. Assam	5	123	10
3. Bihar	17	1225	27
4. Gujarat	4	80	5
5. Haryana	2	135	5
6. Himalhal Pradesh	1	64	3
7. Jammu and Kashmjr	3	176	10
8. Karnataka	8	432	13
9. Kerala	2	225	4
10. Madhya Pradesh	18	650	31
11. Maharashtra	3	117	8
12. Manipur	1	4	6
13. Mehalava	1	5	3
14. Nagaland	1	-	7
15. Orissa	9	492	12
16. Punjab	3	-	6
17. Rajasthan	9	358	19
18. Tamil Nadu	-	108	2
19. Tripura	1	51	3
20. Uttar Pradesh	33	1310	40
21. West Bengal	8	412	16
TOTAL	141	6416	247

Source: Reserve Bank of India, Report on Trend and Progress of Banking in India 1982-1983, p.64.

RRBs, institutional credit represents about 40 percent of total agricultural credit in India, compared with about 3 per cent in 1954[1].

Although the widespread social benefits of rural banking in India represents an important achievement, it can be argued that the continuous expansion has taken its toll on profitability. The ratio of earnings to deposits dropped from 12.1 per cent in 1976 to 11.2 per cent in 1980. Expenditure increased in the same period from 2.6 per cent to 2.7 per cent. This implies that these banks operate on very thin margins. This is due to a number of factors. First, rural branches of commercial banks and RRBs lend to high priority, but least profitable sectors such as agriculture[2]. Second, banks in India earn profits only on 16 per cent of deposits, about 40 per cent is lent to priority sectors at an average of 12 per cent interest, which just manages to cover the administrative costs[3]. The remaining 44 per cent of bank deposits costing an average of 7.5 per cent are pre-empted by the RBI at one percentage point below cost. Third, loan recoveries are poor, barely half the loans made to farmers are recovered[4]. Fourth, mass lending programmes frequently open the door for corrupt middlemen in their hasty disbursement of fund to meet target.

Inspite of these problems, other LDCs can learn from India's rural banking policy. As a result of mass banking, many rural inhabitants (particularly peasants) are now able to borrow funds

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1. RBI Annual Report on Trend and Progress Op:cit; 1982-1983
2. For further discussion see L.D.'Mello, 'Lending to small farmers: The Indian Case, RFMs and Institutions in Developing Countries edited by J. Howell.
3. L.D'Mello Op:cit; p.69
4. Murthy, Op:cit; p.53

from rural banks to finance their various activities.

6.3 Rural Banking: The Nigeria's Experience

In order to explicitly analyse the Nigeria case, it is necessary for us to briefly reiterate some of the points made earlier in our introduction.

Nigeria has a population of over 100 million. It is estimated that over 80 per cent of the population live in the rural areas and are dependent upon agriculture[1]. Before the discovery of Nigerian oil in commercial scale, the agricultural sector played an important role in the Nigerian economy. In 1961 for instance, 89 per cent of total exports came from the agricultural sector, and this provided 66 per cent of total foreign exchange earnings. In 1967 and 1968 the contribution of agricultural exports to foreign exchange earnings was 62 per cent and 73 per cent respectively.

The development of the petroleum sector accompanied by windfall earnings from crude oil during the early 1970s, led to the neglect of the agricultural sector and hence the rural economy. The contribution of the agricultural sector dropped from 25 per cent in 1970 to 3.9 per cent in 1976[2]. In 1977 as we mentioned earlier, the Nigerian government realised the need to develop the agricultural sector and the rural economy. One of the strategies adopted was to provide finance for agriculture through rural banks[3].

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1. D.O.Mbat, 'Commercial banks and rural banking policy in a developing economy: Policy Implications', Savings and Development Quarterly Review, No.4, 1982,V.1.
2. See K.C.Akabogu, 'Role of Financial Intermediaries',unpublished M.P.A. Dissertation, Department of Political Theory and Institution, the University of Liverpool. September 1983.
3. C.C.Agu, 'Rural Banking: A strategy for Rural Development - an appraisal', Savings and Development No.2, 1983 VII

Nigerian experience with rural banking is in many respect different from the Indian experience. Unlike India's RRBs, the Nigerian government's approach was to make commercial banks open branches in the rural areas. Commercial banks in Nigeria are naturally inclined to open in the urban areas where the business environments enable them to make adequate profits. According to Soyode and Oyejide,(1) out of 329 bank offices in Nigeria in 1974, only 15 per cent were located in the rural areas. By 1979, commercial banks in Nigeria had 494 bank offices and more than 100 of these offices were located in Lagos.(2)

The implication of this is that many rural areas are without banking facilities and the majority of the rural farmers have no access to banking services. The Nigerian government recognizes that the commercial bank will not voluntarily open branches in the rural areas, so they have to be forced by legislation to do so.(3) The first approach adopted by the Government through the Central Bank was the Banking Act 1969(4). Under Section 4 of this Act, commercial banks were to obtain the approval of the Central Bank before they could open a new branch. An application could be rejected if it was not matched by concrete plans for opening rural branches either simultaneously with or in advance of any new approved urban branch. To get round this Act, the commercial banks simply utilised the approval for the urban areas without making good their pledges to open rural branches.(5)

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1. Soyode,A; Oyejide,T.A., Op:cit; p.42
2. Mbat,D.O., Op:cit; p.27
3. See the 2nd Development Plan Op:cit; p.132
4. For further discussion on the Banking Act 1969, see the second development plan Op:cit; p.102
5. Agu,C.C., Op:cit; p.231

The Central Bank therefore were forced to place an embargo on branch expansion of major banks in the urban areas, with the expectation that the banks would seek the alternative of expansion in the rural areas. This expectation did not happen because the commercial banks refused to expand to the rural areas by simply refusing to open new branches.

In 1977 as we pointed out earlier, a more realistic approach was devised by the Central Bank. The first step was to identify the areas without banking facilities through a survey, with the intention of providing a total of 1,126 rural branches. (see Table 6-2)

Table 6-2 Communities with Banking Facilities in 1977

	Population ranges	No. of settlements
Over	100,000	14
	50,000-100,000	28
	40,000- 50,000	37
	30,000- 40,000	47
	20,000- 30,000	96
	10,000- 20,000	208
Below	10,000	696
	TOTAL	1,126

Under this approach, commercial banks allocated a fixed number of branches to be opened in these areas. (see Chapter5) This allocation was made on the basis of a formula which relates the number of each bank's rural branches to its total branch network throughout the country[1]

1. Interview, Commissioner of Agriculture and Local Government Affairs - Anambra State, December 1984.

A total of 1,126 rural branches were to be provided, and in order to facilitate the execution of the programme, the Central Bank decided to phase the scheme. The first phase was the period July 1977 to June 1980. The updated authorized branch allocations can be seen in Table 6-3 on the next page.

Out of the 200 branches allocated to the commercial banks, 194 branches were opened by the end of 1980. Opening branches is one thing, but the operation of these branches with respect to the role they are expected to perform is another. The Central Bank has yet to release the figures showing the performance in terms of deposits mobilized and advances made. The second phase of the scheme required commercial banks to open a total of 266 branches between July 1980 and June 1982. This phase received same setback because the banks complained that there is not enough business in the rural areas to justify opening more branches. However, at the end of 1984, out of a total of 266 branches allocated, only 227 were achieved[1].

It is imperative to note that the number of commercial banks at the beginning of the first phase were seventeen, while this number increased to twenty during the second phase.

The third phase received an increased demand of 300 new branches though the number of banks have risen to 28. This third phase delayed by one year to enable banks to complete more of the 266 branches in phase two, began on the first of August 1985 to the end of July 1989[2]

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1. West Africa Magazine, 12 August 1985

2. Ibid.

Table 6-3 Rural Banking Scheme - Authorized Branch Allocations in Nigeria (updated to Phase two)

Banks	Allocation under first phase	Completed at the end of 1980	Allocation under second phase
African Continental Bank Ltd	16	16	19
Allied Bank (Nigeria) Ltd	6	6	7
Bank of Credit & Commerce Ltd	-	-	6
Bank of the North Ltd	6	6	19
Co-operative Bank Ltd.	5	5	8
Co-operative Bank of Eastern Nigeria Ltd	7	4	8
First Bank (Nigeria) Ltd	40	39	37
IBWA Ltd.	11	10	13
Kaduna Co-operative Bank Ltd	3	3	6
Kano Co-operative Bank Ltd	6	6	6
Mercantile Bank (Nigeria) Ltd	3	3	6
National Bank of Nigeria Ltd	15	15	19
New Nigeria Bank Ltd	4	4	9
Nigeria Arab Bank Ltd	7	7	6
Pan Africa Bank Ltd	5	5	6
Savana Bank of Nigeria Ltd	7	7	11
Societe Generale Bank Nigeria Ltd	-	-	6
Union Bank (Nigeria) ltd	27	27	36
United Bank for Africa (Nigeria) Ltd	27	27	32
Wema Bank Ltd	5	4	6
TOTAL	200	194	266*

*Phase two was delayed and at the end of 1984, only 227 branches were opened. (Break down according to banks is not yet available)

SOURCES: Central Bank of Nigeria, Annual Report and Statement of Account. December 1980, p.38 and December 1982, p.37.

It is important to note that the criteria used by the Central Bank in arriving at the number of branch allocations to each commercial bank have not been spelt out in detail to the public, so we cannot therefore judge whether the criterion is questionable or not[1].

The Central Bank should be aware of the resistance put up initially by the commercial banks, and that unless their rural branch activities are carefully monitored, they are bound to degenerate into commercial profit maximising organisations, serving as profit centres for their head offices located in the urban centres[2]. According to Adeyemo[3], rural banks should be located in predominantly subsistence agricultural community for the purpose of mobilizing and relending idle funds with the aim of raising the living standard of the rural community.

The rural banks in Nigeria (unlike the RRBs in India) are not separate entities, but are branches of old-established parent commercial banks, subject to the rules, traditions and policies of their individual headquarters, and consequently are not going to adhere to the achievement of their intended objective[4].

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1. D.O. Mbat, Op:cit; p.33
2. Ade T. Ojo and Wole Adewunmi, Op:cit; p.62
3. R. Adeyemo, 'Strategies for improving Agricultural Credit in Nigeria', Savings and Development No.1, 1982, V
4. Pischcke,V.J.,Rouse,J. 'Selected Successful experience in agricultural credit and rural finance in Africa', Savings and Development, Quarterly Review, No.1, 1978 VII

These so-called rural banks would be prepared to follow some constructive policies and suit their particular areas. These policies would be subject to verification and in line with the prevailing conditions of the rural economy at the point in time. They would be conscious of the fact that small farmers in the rural areas face financial and management constraints, and that they have to devise a wide range of services to meet their needs. Such services should include playing the role of a Counsellor, as well as Financier and acting as a real partner of the enterprises.

It was mentioned earlier that a total of 1,126 rural branches are to be established. However, at the rate of establishing 200 bank offices in three years, it is going to take about 15 years to have the scheme fully implemented. However, care must be taken not to overstretch the commercial banks, but this slow pace is unacceptable. The government can increase the pace by actually taking part directly in the scheme, i.e. creating special institutions in the rural areas. These special institutions can act as models for the commercial banks' rural branches.

In the case of Nigeria and other Third World countries that have relied heavily on commercial banks in implementing their rural banking policy, it can be argued that government efforts should be aimed at the establishment of some of the rural financial institutions, similar in many ways to the RRBs in India. This is because commercial banks do not seem to be the appropriate institutions for rural banking. The nature of the commercial banks' liabilities are of short-term duration, whereas the nature of the financial requirements for rural development is of long-term duration.

These rural financial institutions may be jointly owned by the Central government, the local government, private individuals and private institutions[1]. At the initial stages, the interest rates charged by these institutions may be subsidised by the government. This will encourage the rural community to make use of the lending facilities offered by these institutions.

These rural financial institutions may be sited at convenient locations in the rural areas so that the rural inhabitants should have easy access to them. These institutions would aim at:

a) mobilization of rural savings (see Chapter 4);

b) granting loans to rural inhabitants either directly or indirectly through co-operatives;

c) seeking the financial support of other willing financial intermediaries for any viable projects that require funds which they are incapable of satisfying alone and

d) educating the rural population of good banking habits.

6.4 Strategies and policies in setting up of a Rural Credit System in Nigeria

Having studied a few cases of partial success in providing financial services in the rural areas of LDCs, Pischcke[2], made the following observations; he observed that illiterate and semi-literate farmers, having some kind of contact with the cash

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1. At the moment the major banks in Nigeria are controlled by the Federal Government.

2. Pischcke,V.J., 'Towards an operational approach to savings for rural development', Savings and Development, Quarterly Review, No.1, 1978, II

economy are capable of devising informal means of financial intermediation which are socially useful (i.e. pre-cooperative organisation). Secondly, he observed that traditional institutions such as 'Extended Family System', provide a basis for organising financial services to participants in these institutions. This participation tends to ensure responsible performance. Also systems of rural financial services which are relatively simple to operate can succeed in reaching large numbers of people without intensive outside assistance if they serve a real demand.

We also observed in chapter three that savings facilities have much greater potential than credit programmes for reaching large numbers of peasants, and for achieving institutional growth. Scale is important to the design of successful financial services for the rural people, while loans which are too large easily jeopardize the integrity of rural credit institutions. For example, loans and savings services aimed at the scale of typical rural transaction sizes can attract many customers.

Finally, a favourable economic climate in rural areas promotes the establishment and survival of rural financial institutions, and also voluntary mechanisms at both the borrower and lender level are sufficient for the provision of useful services to the rural population.

Now, bearing these observations in mind, we shall proceed to discuss the set up of a rural credit system. The task of rural financial markets is to provide members of the rural economy with a means of payment and all banking services connected with it, at the least possible expense, to the overall economy and in accordance with local economic, social and social-political aims[1]. Such rural financial markets are inclined to assist the rural inhabitants to advance along the path of financial development. The measures required in a rural banking policy should be designed to set up a consolidated circulation of capital which is endogenous to the rural economy and the rural banking system.[2]

Due to the poorly developed financial spread effects i.e. the low establishment rate of finance agents in rural areas, an endogenous circulation of capital necessitates a strengthening and stabilization by financial instruments. The introduction of some form of savings insurance scheme can reduce the risk to the saver as well as the bank holding the savings. Rural savings programmes must be closely linked with accompanying credit and insurance schemes. According to Stockhausen[3], the savers should be given the opportunity to participate in the management of the banking institutions and in credit programmes refinanced with their own savings, such an approach, he argued, encourages the establishment of all-purpose banks as well as the development of private sector banks.

The efficient circulation of the endogenouse capital flow will depend on a continuous and stable capital service capacity on one hand and the willingness to save among the rural population on the other.

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1. See J. Howell, Borrowers and Lenders, Op:cit; p.43

2. O. Oludimu, Op:cit; p.62

3. J. V. Stockhausen, 'The need for availability of credit for development purposes', Savings and Development, Quarterly Review, No.2-3, 1981 V

The centre of a rural banking system, should be characterized by an agricultural policy implemented by the Government through the Central Bank[1]. Other autonomous units within the banking system should also take part and several promotion areas should be taken into consideration.

Firstly, in the area of rural financial markets policy, the aim would be to have rural financial markets with a net capital surplus. Measures such as allowing the interest rates to be in line with the actual scarcities, and the promotion of savings and indirect finance system would ensure that the aim is achieved.

Secondly, this type of bank should offer a bank service package which corresponds to the changing needs of the rural population. The setting up of multi-purpose banks would ensure that this is possible.

Thirdly, the structure of banking system should be such that it can make provisions for strengthening the integration of rural financial markets to widen their endogenous capital flow[2]. This can be done by the decentralization of the banking system through branch and correspondent banking.

Fourthly, the integration of the unorganized creditors should be considered so that the capacities and possibilities of the unorganized credit delivery system can be utilized. The use of unorganized lenders as credit agents between organized

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1. Widmark, D. 'Savings for Development', Savings and Development Quarterly Review, No.1, 1983, VII

2. See J. V. Stockhausen Op:cit; p.124

credit and rural borrower (i.e. the use of rotating savings credit associations) would help towards the integration.

Fifthly, these promotion areas should involve the participation of the rural population particularly the peasant. The aim would be to achieve a fit between the differing social patterns of lenders and borrowers. This can be done by having information feedback from the rural borrowers themselves, and supporting farmers' organisation as a complimentary activity.

Finally, other promotional area which aims at the removal of organisational bottlenecks should be co-ordinated among the institutions in the rural economy. This aim can be achieved through reshaping the organisational structure. The reshaping can be done by having joint marketing policies[(1)], and by taking part in rural works programmes.

The reflections on rural financial behaviour and the structure of rural banking systems discussed here have far-reaching institutional implications. The need for banking services and for its structure to change in line with advancing socio-economic development is recognised. There is an important relationship between rural savings and credit possibilities

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1. For further discussion on marketing policies, see Revell, J.R.S., British Financial System, (Macmillan, 1973) and A. J.Schumpter, The Theory of Economic Development (Cambridge mass: Harvard University Press, 1973)

Rural farmers cannot be described as homogenous economic group because of the differences in socio-cultural situations and natural circumstances. Even in a very small area, rural inhabitants which can be classified as savers are found to exist alongside those which can be classified as credit receivers. The task, therefore, of a rural banking system is to reconcile in the most efficient way possible [1].

This function of reconciliation will be discharged more efficiently once the institutional agents within the rural banking system become multi-purpose banks in the sense of both savings and credit banks or co-operatives [2].

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1. See R. Giorgio, 'Savings mobilization in Africa', Savings and Development, Quarterly Review, No.1, 1981,V

2. See Shaw, E., Financial Deepening in Economic Development, New York, London: Oxford University Press, 1973

PART THREE: RURAL AND INFORMAL CAPITAL MARKETS

CHAPTER 7

THE 'GAP' IN THE FINANCIAL SYSTEM - RURAL AND INFORMAL CAPITAL MARKETS

Introduction

The gap as postulated in this study is used to define the wide separation in the activities of the segments of RFMs and the inability of the formal and informal financial markets to understand one another.

According to the Bolton Committee(1) these gaps have three major areas in the financial system, namely, (i) "finance gap", (ii) "information gap" (iii) "availability of fund gap". These gaps exist if the market was not effectively performing its allocative function, i.e in a way which would maximise the welfare of the economic agents involved.

The way in which gaps exist in the financial system of many developing countries, particularly Nigeria is briefly

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1. Problems of the small firm in raising External Finance: the Results of a Sample Survey, Study by Economists Advisory Group (EAG) directed by J.H. Dunning, Committee of Inquiry on Small Firms - Research Dept. No. 5, London: H.M.S.O. 1971.

analysed in this part of the study. There are urgent needs to bridge the gaps in the Nigerian financial system, as could be noted from the previous Chapters. This chapter seeks to analyse the gaps on the basis of a special study of rural/ informal capital markets and inadequate financial facilities in Nigeria.

In the course of this part of the study, it will be argued that it is the duty of the Governments through the monetary authorities to step in where there is a divergence in the role of the segments within the RFMs.

In Nigeria, both the urban "modern" sector of finance and industry on one hand and the rural sector, on the other hand, are closely related. The informal financial system and markets are not distinct and also not isolated from the formal financial system and markets.(1) For instance, there are some "deficit" and "surplus" economic units that operate in both sectors and markets: these serve to provide the link, at least a tenuous one.(2) The informal financial system postulated here has the same essential basic characteristics

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1. See Dougall, H.E., Capital Markets and Institutions, Prentice-Hall, Inc., Englewood Cliffs, New Jersey, 1965

2. This type of market structure was postulated by Rosen - G. Rosen, "Capital Market and Industrialization of Underdeveloped Economies", Indian Economic Journal, October 1958 pp. 172-194

as the 'modern' financial system, with the exception to the fact that the institutions and transactions in the informal system are not formalised in any standard manner; but this does not mean that financial transactions in the informal capital market are "unorganised" or "non-institutional", as they are often taken to be. There are organised institutions in the informal financial system in Nigeria and the system offers some avenues for regular savings and provides some rudimentary credit facilities, including the provision of some lender-of-last-resort facilities, for example, the money-lenders.(1)

7.1 The General View of Financial Facilities

The Informal capital market in Nigeria has some characteristics similar to the Informal credit market of rural Chile studied by Nisbet.(2) The major difference, however, is that, that of Nigeria appears to assume some greater importance in the economy and it has the following two major additional features: (i) the informal capital market, though of relatively

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1. There are also financiers and even commercial bill discounters carrying on many of the functions of modern financial institutions, see for example, Patrick, "Financial Development and Economic Growth in Underdeveloped countries", Economic Development and Cultural Change, XIV (Jan. 1966).

2. Nisbet, R."Moneylending in Rural Areas of Latin America: Some examples from Colombia", The American Journal of Economics and Sociology, XXX (January 1971, pp. 71-84

greater importance in the rural areas, but it exist side by side with the formal capital market in the urban centre; and (ii) the capital market embraces not only the credit aspect - of financial transactions, but also the savings aspect - thus it may be termed also as "the informal, traditional or indigenous financial system or "the indigenous savings/credit mechanism."[1]

To a great extent, the type of basic questions considered by the EAG (Dunning),[2] are relevant here; viz., (1) to what extent are agricultural and small industrial enterprises which could productively utilise external finance, unable to obtain such finance, either because of: (a) an "information gap", which prevents them from knowing how and where to obtain this finance on acceptable terms; or (b) a genuine "availability of fund gap", which is due to the failure of financial institutions, to appreciate the economic prospects and developmental role of these enterprises, or the inability of supplying institutions, as oriented to cater effectively for the needs of agriculture and small-scale industries; and (2) to what extent are agric-

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1. See Arowolo, E.A., 'The Development of Capital Markets in Africa, with particular reference to Kenya and Nigeria', IMF Staff Paper, XVIII (july 1971) pp.420-469

2. The problem of Small Firms in Raising External Finance: E.A.G., J.H. Dunning, Op: cit. p.78

ultural and small industrial enterprises able to obtain finance at a reasonable cost. Secondly, to what extent has the price of finance been a major factor in preventing promising enterprises from getting finance, or inhibiting the performance of enterprises which secured external finance.

To be able to deal with the above questions in a comprehensive manner, there is need for the type of rural credit survey conducted by the Reserve Bank of India.(1) The survey was conducted on a very limited scale(2) (but covering rural savings facilities in addition) in the local government areas of our study.

The Survey of Financial Facilities: The survey, by questionnaires and interviews, was conducted in the Local government areas of Abakiliki, Anambra, Idemili, Nkanu and Nnewi, from October to December 1984. Although it could only be carried out on a very limited scale, it covered both the demand and supply side of financial facilities. That on the demand side - utilising both questionnaires (from 140 respondents) and direct interviews was conducted mainly in Abakiliki, Idemili and Nnewi

1. Reserve Bank of India, All-India Rural Credit Survey - Report of the Committee of Direction; Vol. II - The General Report, Bombay, 1954. See also the Survey Report 1956.

For detailed survey on similar study, see the Small-scale Industrial Survey, the Industrial Research Unit of the University of Ife. 1981.

Local government areas:[1] while that on the Supply side (i.e banks and other financial institutions) - utilising also both questionnaires and direct interviews, was conducted at their offices and some branches in the major cities.

The survey carried out in Abakiliki Local government areas was designed to cover: (i) the Local government head-quarters as an urban centre, with financial facilities similar to those obtainable in most of the other urban centres of Nigeria (with the exception to the special case of Lagos as the Capital); and (ii) the rest of the areas that have the main characteristics of rural areas of the country, and which have very poor financial facilities, as Table 7-1 below shows. To help us with the analysis, a rough comparison could be made with the position in Britain as regards the population per bank office. A further analysis of the data obtained from the 'Economic and Statistical Review" see Table 7-1, shows the extent of the poor banking facilities in the areas of our research (see Chapter 3).

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1 Abakiliki was mainly used in the analysis because of the reasonable data obtained in the area - other areas such as Idemili, Nnewi, Anambra and Nkanu have limited data.

Table 7-1 Banking Facilities in Nigeria

		Population*	No. of banking offices Dec. 1985+	No. of people per bank office	Area (sq. kilo meter)	Area per bank office (Sq. kilo meter
1.	Abakiliki	236,990	6	39,498	-	-
2.	Other parts of the areas of research	5,484,065	8	685,508	-	-
3.	The whole areas of research	5,721,055	14	408,578	-	-
4.	Nigeria	93,638,622	784	119,437	22,827	29

* Population of Nigeria in 1963 census projected to 1985 at the rate of annual increase of 3.1 per cent.(1)

\+ This is only an estimate (based on the Economic and Statistical Review)(2) due to unavailable up to date data.

Sources: Primary data from the Survey, plus some secondary data from The Economic and Statistical Review, CPO., Federal Ministry of Economic Development 1983/84).

TABLE 7-2 Population Per Bank Office in Britain 1974

	Population Per Bank Office
Wales	1428
Scotland	1989
Northern Ireland	2030
England	2760

Source: Revell & Tomkins, Personal Wealth and Finance in Wales, Welsh Council, March 1974.

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1. See The Strategies & Recommendations for Nigerian Rural Development 1969-85, CSMRD, 23 July, 1969

2. Refer to the Sources above.

	Towns	No. Without Bank Office
Total No. of Towns	203	189
Towns with population over 10,000	84	81
Towns with population over 20,000	35	30
Towns with population over 50,000	9	4

The above analysis has further supported our results of the previous analysis regarding the type of savings utilised in rural areas relative to the urban areas. Thus explaining how and why the relative importance of the informal capital market is greater in rural areas than in the urban areas of the country (see Table 7-3).

Table 7-3 Comparative Analysis Of The Savings System

Medium of Savings	No. of Respondents using the savings medium		Relative Importance of medium to the Respondent (percentage of total)	
	Urban	Rural	Urban	Rural
1. Banks	34	37	50.0	18.6
2. Fed. Saving Bank	1	5	1.5	2.5
3. Cooperative Thrift and loan Society	2	12	2.9	6.0
4. Insurance Co. (Life)	-	1	-	0.5
5. Traditional savings credit Group	17	62	25.0	31.2
6. Daily savings collection	13	13	19.1	6.5
7. Home Savings:				
(a) Wholly	1	10	1.5	5.0
(b) Partly	-	59	-	29.6
Total	68	199	100.0	100.0

Source: Adapted from The Economic and Statistical Review, CPO, Federal Ministry of Economic Development 1983/84, Plus data from the Survey.

As can be seen on Table 7-3, 51.5% of the respondent in the urban area saved through banking institutions, while only 21% of the respondents in the rural areas did so. Also in the rural areas, 37.7% of the respondents saved through the Indigenous Savings System (i.e 5 & 6 in Table 7-3), while 34.6% saved at home. The following major reasons were given for not utilising banking institutions (see Table 7-4:

Table 7-4 Major Reasons For not Utilising Banking Institutions

Major Reasons	No. of Respondents not using Banking Institutions		Percentage	
	Urban	Rural	Urban	Rural
1. Non-availability of banking institutions	-	22	-	39.3
2. Inadequate funds	5	27	55.5	48.2
3. Non-familiarity with the banking services	2	6	22.3	10.7
4. Low interest on savings	2	1	22.2	1.8
Total	9	56	100.0	100.0

Sources: The questionnaires and Personal Interviews. (December 1984).

We gathered from the analysis that most of the complaints regarding inadequate funds was because of "Information gap";[1] thus the majority of farmers interviewed assumed that opening and maintaining bank accounts depend on the abilities to accumulate large sums of money. Subsequently, in view of this gap, problems of inadequacy of funds persisted since it would be difficult for farmers to obtain loans from the bank particularly where they are not customers of any banking institution.

"Availability of funds gap" has also contributed to this problem because of the inefficiency in the banking institution,[2] and as we discussed in the last Chapter, the special programme of rural banking services introduced by the Federal government in the 1970s failed because of lack of interest, corruption, and no real commitment in carrying out these services.[3] The other reasons for greater preference, by peasants in the rural areas, for saving through the traditional savings system have already been discussed in Chapters three and four.

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1. See J.H. Dunning, Op: cit.
2. See P.N.C. Okigbo, 'Nigeria's Financial System' Structure and Growth, (Longman Group Ltd.,) 1981.
3. See Rosen, G. "Capital Market and Industrialization of underdeveloped economies", Indian Economic Journal, October 1958.

In both urban and rural areas of the country, most people are unwilling to disclose the size of their financial transactions.[1] However, we managed to persued a substantial group of the people we interviewed to disclose the sums of money they borrowed from external sources. Table 7-5 shows the relative importance of the major sources of credit in rural and urban areas of our study.

As can be seen from Table 7-5, the overwhelming importance of non-banking sources of finance (owners' fund, relatives', friends, and family sources plus moneylenders) are clearly reflected, being more than 70 per cent of all sources in the areas of our study, and as will be shown in the next Chapter, these non-banking sources constitute about 90 per cent of the small-scale Industrialists.

The reasons for the relatively low importance of banks and other financial institutions as a source of credit, is said to be partly the same reasons indicated above as preventing most people (especially the peasants in the rural areas) from using banking institutions and partly, for other various reasons already mentioned in Chapters five and six - all amounting to non-availability of funds from these sources, though in some cases, the problem is mainly that of an information gap.

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1. Official Publication - Central Bank of Nigeria (C.B.N) Monthly Report, Monthly - April to July 1977.

Table 7-5 Relative Importance of Major Sources of External Finance in the Rural and Urban Areas of the Study

Sources Used	No. of Respondents			Relative Importance of source of Finance (%)		
	Rural	Urban	Total	Rural	Urban	Total
1. Banks	9	17	26	13	36	22.6
2. Government Loan Institution	-	-	-	-	-	-
3. Moneylenders*	6	1	7	9	2	6.0
4. Relatives, friends & family	46	25	71	68	53	61.7
5. Savings/credit unions	3	1	4	4	3	3.5
6. Cooperative Societies	3	3	6	4	6	5.4
7. Others	1	-	1	2	-	0.8
Total	68	47	115	100	100	100.0

Source of data: Interviews, plus secondary data from The Economic and Statistical Review, CPO, Op: cit., P.86 (1984).

* Note Moneylenders are believed to be relatively more important as a source of credit than the Table shows. Thus most of the respondents who used this source did not wish to discuss it because they fear it will damage their relationship with the moneylenders, and further betray their trust if those moneylenders operating without licence are implicated.

Another explanation is provided by examining the ranking of the uses of borrowed funds (see Table 7-6), according to priorities.

Table 7-6 Ranking of Major Uses of Borrowed Funds In Order of Preference 1981

Use of Borrowed Funds	Relative Importance (%)
1. Business Undertakings	49
2. Funding Education	19
3. Domestic Consumption	13
4. Housing	10
5. Ceremonial (marriage, Funeral, etc.)	9
	100

Source: Adapted from the Small-Scale Industrial Survey, the Industrial Research Unit of The University of Ife. 1973

These major purposes for which external finance is used would be more favourably considered and met in the informal capital market than in the formal capital market, mainly because of the conservative and rigid lending approach in the formal capital market as discussed in Part Two of this study.

In the urban area surveyed, most of the people who did not obtain finance from the formal capital market, indicated that they were unable to do so because of the high cost involved. Secondly, other reasons given include the fact that they do not have bank accounts, and therefore it was difficult for the bank to determine their credit worthiness. Some small number of respondents also indicated that they do not like loans.

In the rural areas, the following major reasons were given:- (i) no long record of savings with the bank; (ii) inadequate information about available financial services; (iii) no banking institutions near-by; (iv) "Banks do not lend to peasants"; (v) "moneylender is nearer and ready at any time to lend without security; (vi) no adequate security and (vii) no bank account.

One would expect that the cost of obtaining finance from the formal capital market would be cost-effective, at least cheaper than the cost of doing so from the informal capital market sources, and thus, as a result people would prefer the formal capital market to informal capital market. This is only true in some cases where those in need of finance are large-scale enterprises with long profitable trading records and also for a group of well-to-do people, whose financial strength makes them highly credit-worthy to banks and other financial institutions. For the majority of enterprises and people in Nigeria who do not belong to this preferred group, the cost of obtaining finance from the formal capital market (if finance is made available at all) is either almost the same or higher than the similar services from the informal credit sources, particularly in terms of the implicit costs - taking into account not only the mere nominal interest charge but also other various associated costs. For example, transport costs in travelling to banks (up to 70 kilometers in some cases) and in travelling to the special loan institutions in Lagos and other State capitals (up to 120 or even 250 kilometers in some cases); costs of bribing the officials of the institutions before loans are granted (in many cases);(1) costs in terms of time lost in negotiating the loans; cost in terms of important business opportunity lost when the approval of loans is unreasonably delayed (up to six months in some cases) and the various costs of finding or making collateral securities acceptable to banks and other financial institutions.

As noted from the questionnaires completed by the banks and the enterprises and people covered by the survey, the explicit or nominal rates of interest charged on loans to the peasants were higher than those charged on loans to the minority group stated above. The rates indicated by most of the borrowers from the banks have a range of 10-15% per annum, whereas the rates charged on loans to a small number

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1. See Bouman, Op. cit., for the corrupt practices of the officials and the various costs involved in obtaining loans, p. 236.

of firms in the minority privileged group (interviewed in the urban centres) have a range of 7-10% per annum. This large difference in the price of finance to these two groups of people might be explained by the risk involved in making loans available to each particular group.[1] However, some of these reasons are often exaggerated and as such, would not wholly justify the large discrepancy.

The cost of finance in the informal capital market has already been discussed in Chapters three and four. Those respondents who were willing to reveal their transactions with the moneylenders indicated that the interest rates varied from 10% to 25% per annum but on a closer investigation, it was noted that this could be as high as 40% or more in some cases. As already stated, the cost of finance from most other sources in the informal capital market (see Chapter 3 and 4), are far cheaper than even the nominal cost of finance from the formal sources. The Advisory Committee[2] on Aids to African Businessmen which investigated the complaint of excessive bank charges noted that the impact of such charges on the profitability of small enterprises is very harmful.

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1. Other reasons given in the questionnaires include: size of loan, volume of business (or turnover) of applicants, security offered, type of loan (term loan or overdraft), duration of loan and credit worthiness of applicants.

2. For further discussion see Report of the Advisory Committee on Aids to African Businessmen, Federal Ministry of Information, Lagos 1980.

7.2 The 'Gap' in the Financial System and the Formal Capital Markets

From the discussion so far on the problem of 'gap', we have noted that the 'finance gap' and its problems vary mainly between the rural and urban areas of the country.

As shown in Table 7-7, the people interviewed in the Urban areas indicated that they could productively employ more than twice their total capital invested in their business to-date, while those in the Rural areas indicated that they could productively employ more than three times the total amount of capital they have invested in their business to-date (mainly from their own limited income and past savings). The gap between the total planned capital investment and total amount of capital employed is thus indicated - 61% in the rural areas (see Table 7-7).

Some of the concepts (particularly as regards to the role of the financial sector in the development process) are applied in this section of the study. As may have been gathered from the discussion above and as the evidence from our survey from both rural and urban areas has shown, it is imperative that with a development in financial intermediation such that the financial sector becomes more adequate, more investment funds would be made available for further investment; and such a process of development would facilitate a greater use of external financing of investment than is currently available

Table 7-7 Relative Importance Of The Finance Gap In The Urban And Rural (Amount in Naira)*

		Rural	Urban
1.	No. of Respondents	90	46
2.	Total estimated Initial Capital Employed	30,409	31,940
3.	Total estimated capital employed to-date (May 1984)	58,065	101,896
4.	Total amount obtained from personal Income & Savings	38,909	19,354
5.	Estimated Amount of Additional Capital Required for Investment but could not be obtained	140,108	158,990
6.	Total Amount of Planned Capital Investment	198,173	260,886
7.	Owner's Equity Ratio (%)	67.0	19.0
8.	Capital Employed as percentage of total planned Capital investment	29.3	39.0
9.	Percentage Short-fall in Planned Capital Investment	70.7	60.9
10.	Growth in the Initial Capital invested (%)	91.0	219.0

Sources: Questionnaires and Interviews, October 1984.

Note: 1) The data supplied by some of the respondents were rough estimates since actual and accurate records were not maintained in some cases.

2) Owner's equity ratio is high if account is taken of the invested family savings, thus this has not heen adequately disclosed and therefore it is left out.

* ₦1 = £0.84 in May 1984

in the Nigerian rural economy.[1] The major significance of this lies in the fact that this alternative source of finance would have to be relatively more efficient or less costly than the few other available sources.

In view of the problems which the gaps in the financial system have posed for the rural sector of the Nigerian economy, some attempts at filling the gaps, as well as the special problems posed for agricultural and small industrial enterprises, are further dealt with in Chapter eight.

In their studies Oluwasanmi and Alao, also observed the effectiveness of the banks and other financial institutions in the provision of agricultural and rural credit as follows:

> "The lending activities of commercial banks and insurance companies are limited to Commercial and Industrial enterprises. Banks tend to concentrate their activities in a few urban centres where most of their clients are located. Even where they operate branches in close proximity to farming communities, banks pay little or no attention to the needs of farmers for credit."[2]

As we have already mentioned, the setting up of special financial institutions has hardly made any impact, as also discussed in Chapter six,[2] the particular position of agricultural finance has been as indicated by Oyenuga, thus:

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1. See P.N.C. Okigbo, 'Nigeria's Financial System' Op: cit., P.31

2. Oyenuga, V.A., Agriculture in Nigeria, F.A.O. Rome, 1967

3. See Federal Ministry of Information, Second National Development Plan: 1970-1974, Lagos, 1970

> "for various reasons the credit system in operation has not so far made much impact on those requiring capital for farming on modern lines."(1)

The attempts made by the State Governments to set up special institutions to make available credit facilities to assist farmers to purchase the necessary equipment, improved crops and animals and for adopting new methods of farming have not made the desired impact on agricultural production because the available working capital was inadequate for such agricultural schemes. Secondly, there was a lack of administrative skills and no effective provision of extention services.(2)

The Bolton Committee Report notes the crucial role of bank credit vis-a-vis other forms of external finance to the small industrial sector:

> "If a request for an overdraft is turned down by the bank manager, they are most unlikely to look further." (3)

This has been the case in Nigeria, where there have been no adequate alternative institutional lenders to whom small entrepreneurs could readily turn. For some reasons noted

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1. Oyenuga, V.A., Op: cit. p.271

2. See Ola, C.S., "The problems of Estimated Assessments In Nigeria", The Social Scientist, 1968: pp.14-19

3. Committee of Inquiry on Small Firms, Report: Small Firms (Chairman: J.E. Bolton) Cmnd. 48811), London: H.M.S.O, 1971

earlier which were both on the demand and supply side, bank credit to agricultural and small industrial enterprises has been relatively insignificant in the country. The problems involved have been partly institutional and partly economic, i.e due to the "finance gap" - an "information gap" plus "availability of funds gap". The problems have been institutional in that the range and scope of existing credit institutions have been small to meet the demands for agricultural and small industrial credit. Many firms do not know that financial assistance could be obtained from other non-banking institutions - an "information gap." Apart from the "availability of funds gap", the problems have also been of an economic nature in that many of the enterprises concerned are not creditworthy by normal or traditional banking standards.

As shown in the questionnaires completed by banks, the average percentage of loan applications usually approved was 55% - the percentage approved by one bank was as low as 10-20% of the total number of loan applications received. The major reasons given were as stated in Table 7-8.

As already argued in the last section,most of these reasons may not be sufficient for refusing to grant financial and other forms of assistance to enterprises in a country like Nigeria if the banks have been adequately adapted to

Table 7-8 Major Reasons For Rejecting Applications For Loan

Major Reasons	Percentage of Total No. of Bank Refusing
1. Size of loan - too small	33.3
2. Unsatisfactory trading records	100.0
3. No acceptable securities	91.0
4. Unsatisfactory management	92.0
5. Other debts	95.0

Sources: Questionnaires and Interviews - December 1984

the local conditions,(1) thus confirming "availability of funds gap". The various ways in which an "information gap" has existed has been shown above, some of the banks indicated in their questionnaires that this might be improved by advertising through both the Press and Television and also through their branch networks in the country. Some of the banks also indicated that they have no plans for any expenditure on advertisement, while a small number of banks saw no need for any information measures.

1. Most of these reasons are, no doubt, genuine in many developed economies where the conditions required are reasonably fulfilled.

According to Arowolo;

> "the Capital markets (narrowly conceived) in Nigeria as regards to Public issue via the stock market is, at least for the foreseeable future, incapable of meeting the financial needs of small enterprises in Nigeria."(1)

In Britain itself, where the stock market functions more adequately, the position has been summed up by the Bolton Committee as follows:

> "A public issue of shares is only possible for a tiny minority of the best small companies; only companies judged to have good growth prospects, a high quality of management and financial control and an excellent profit record will be granted a quotation, and even for these high flyers the cost of a first public issue is very high."(2)

These necessary requirements to make possible a public issue are those which are, in many LDCs (by definition), deficient to a large extent, particularly among the small and medium-sized companies.

From the above, it could be noted that what could be termed as the entire "formal capital market" has been deficient, at least as far as the financial requirements of the agricultural and rural sectors of the Nigerian economy are

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1. Arowolo, E.A., "The Development of Capital markets in Africa, with particular reference to Kenya and Nigeria", <u>IMF Staff Papers, XVIII</u>, 1971

2. Bolton Committee Reports, <u>Op: cit.</u>, p. 49

concerned. Thus one of the real problems which the formal capital market has to solve is how best it can identify and promote the growth of promising enterprises in these neglected, but important sectors into efficient and more productive units.

7.3 'Gap' Filling Role of Cooperative Societies

The formation of Cooperative Thrift and Loan societies has been one of the local attempts at filling the gaps postulated above.(1) Although certain aspects of the operations of Cooperative Societies are more formalised and standardised(2) than those of the Pre-cooperative organisation discussed in Chapter three, the two have the same essential characteristics and play almost the same role in many developing countries.

The Cooperative Thrift and Credit Societies serve in promoting thrift among a group of people and they are based on regular contributions from each member as in the Pre-cooperative organisations;

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1. For some background information on the Cooperative movement in Nigeria see Laditan, A.A., Cooperative Movement in Nigeria - Talk given to the Public Service Forum I at Ibadan on July 1967.

2. For the Operations and Regulations of Co-operative Societies in Nigeria, see The Laws of the Federation of Nigeria and Lagos, 1958 (Volumes I-X).

but unlike the Pre-cooperative organisations, they are not self-terminating periodically (see Chapter 3), but have indefinite life. Also, the funds of the Cooperative Thrift and Credit Societies are used to make loans to any member who is in need of funds at any time for productive purposes. This serves to remove one of the major defects of the Pre-cooperative organisations; in that, the Cooperative Thrift and Credit systems offer a greater scope for funds to be allocated for productive purposes; i.e instead of savings and investment decisions being made mainly by the same individuals or groups, there are some amounts of intermediation, which thus places the Cooperative Thrift and Credit Societies in a better position in promoting economic development than other forms of local savings/Credit Associations.

The importance of Credit Unions in Africa and the need to foster their development were stressed by the United Nations (E.C.A) symposium on Rural Development in Africa in the 1970s;(1) especially their special role in the provision of rural finance. The IBRD mission,(2) also noted this important role of the Cooperative Credit Societies as a source of rural credit in Nigeria.

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1. See Economic Commission For Africa (ECA), Report of the Symposium on Rural Development In Africa in the 1970s UN/ECA, Addis Ababa, August 9-13, 1971.

2. For further discussion see IBRD mission, The Economic Development of Nigeria, The Johns Hopkins Press, Baltimore, 1955.

Their major sources of funds are (share capital, deposits/ savings and reserves) and the major use of the mobilized funds are to grant loans to members. The fourth source of finance to the cooperative societies is loan capital. Most of them obtain funds from external sources; the principal ones being (i) banks (Cooperative, government and private); (ii) government funds other than from public banking institutions; (iii) marketing boards; and (iv) trade credits.

According to Gray,

> "the Societies have relied mainly on members' funds in granting loans; and since inadequaccy of financial resources has been a major factor responsible for the shortfall in the expected performance of the societies and the disloyalty of members, greater effort should be made to attract more savings deposits; large reserves should be created beyond the statutory minimum and the possibility of increasing the share capital should be considered."(1)

The Government should augment the financial resources of the societies as part of its measures to assist the agricultural/rural sector; or the new agricultural credit bank and the Bank of Commerce assistance of agricultural and industrial enterprises.

Although the societies have played some useful role, their development has fallen short of expectation. The need for

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1. Gray, C.S., "Credit Creation For Nigeria's Economic Development", Nigeria Journal of Economic & Social Studies, Nov. 1963, pp.247-253

positive and deliberate creation of conditions in which cooperatives will have a reasonable chance of success is of urgent importance, in that, they appear to be capable of offering a more promising solution to the financial problems in the informal markets than the Commercial banks. For instance, in view of the ill-adapted traditional banking policy of the banks in India - the same as in Nigeria (see Chapter six), the Rural Credit Committee of Direction,(1) would like all subsidies for the extension of banking activities to the rural areas to be confined to Cooperative institutions rather than the Commercial banks.

As noted by the Committee of Direction (see foot note '1' below), the performance of the cooperative credit movement in India were also not up to expectation for almost the same causes as in Nigeria - the encouragement of savings, one of the foremost aims of the cooperative movement, has also been one of its most intractable problems.

Notwithstanding their shortcomings, the cooperative societies have served in various parts of Nigeria in improving rural financing. Having indicated their major shortcomings, at the First Cooperative Seminar in Eastern Nigeria,

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1. Reserve Bank of India, <u>All-India Rural Credit Survey - Report of the Committee of Direction,</u> Vol. II - The General Report, Bombay, 1954.

Ikekpeazu (The Registrar of Cooperative Societies),(1) adds that they had assisted the mobilization of rural capital and that they represented the only economic medium of communication between the rural community and urban financing institutions.(2) Also, with the limited funds at its disposal, the Cooperative Bank of Western Nigeria has made a greater impact on the injection of credit in the agricultural/rural sector than other banks and the special financial institutions could do, especially in so far as the number of borrowers as shown by Bauman.(3)

The Cooperative Societies, with some re-organisation and government financial assistance, can still play a greater role in filling the gap in the financial system; but they should

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1. Eastern Ministry of Commerce, Report of the first Cooperative seminar in Eastern Nigeria, Oct. 16-19 (Official Document No. 31 of 1965), Government Printer, Enugu, 1965.

2. For the major approved conclusions by the groups at the seminar on the best means of supervising the application of loans to members and that of increasing the societies' financial resources, as well as the solution of the Cooperative movement's financial crises, See Report of the first Cooperative seminar, Op: cit., P.43

3. Funds are channeled from the Cooperative bank to the rural sector through cooperative unions and societies, which has facilitating recovery of loans. There is also some amount of self discipline imposed on the recipients of loans from the societies, aimed at ensuring repayment, see Bouman, Op: cit., P.213

improve their services to attract more members, who should also be more interested and involved in the societies' activities. This should help in solving the problem of divided loyalty indicated at the Cooperative Seminar,(1) where members with unsatisfactory financial demands often turn to the informal capital markets, where the moneylenders or the "Esusu" clubs are ready to offer them financial facilities.

7.4 Informal Intermediation and Rural Development

The informal financial system, by adopting the basic saving habit in many parts of Nigeria without banking facilities, or where banking facilities are inadequate, has served in raising the marginal propensity of the people in these areas to save (particularly the peasants). As a result of this, savings (supplemented by informal credit facilities) have continued to bring into being many enterprises that would not have been made possible. The relative importance of owners' finance in these areas, and the relatively high marginal propensity to save of farmers in the rural areas of the country are discussed in Chapter eight.

The important role that informal intermediation often plays, or could play, in a country like Nigeria is indicated by the limitations of other forms of financial facilities,

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1. See Report of first Cooperative Seminar. Op: cit., p.29

as discussed earlier. The high interest rates often charged by moneylenders (see Section 7.1), have particularly made that system ineffective. What appears to be a major economic functions of the Informal Intermediation process, especially the Esusu and Pre-cooperative organisation centres on the fact that funds which would have been frittered away in small bits are pooled together for employment in more financial lump sums in some productive activities.(1) The funds are, however, utilised also for performing certain social functions in the community which, although they may be considered as unproductive, serve in other respects make life more meaningful, and from which those concerned to derive certain satisfaction in the context of their limited horizons.(2) In many cases, they derive certain commercial benefits from the apparent unproductive utilisation of the funds obtained from the informal systems.

As regards the utilisation of these funds, however, there seems to be no easy means of determining their productive utilisation, since funds considered as utilised for consumption might, in-fact, ultimately strengthen the savers or borrowers' position as producers. The issue involved here is not restricted

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1. See Bascom, W.R., "The Esusu: Credit Institution of the Yoruba," Op; cit., P.18

2. See Firth, R., & Yamey, B.S., (eds.), Capital Savings and Credit In Peasant Societies, George Allen & Unwin, London, 1969

to the system as such; rather it is a common problem in many developing countries.(1) Savings in commercial banks and loans from them are likely to be utilised in almost the same manner. In view of the limited economic horizons of many people (particularly peasants) indulged in unproductive spending, it is the role of the authorities to make them know better and take necessary measures to improve the functioning of the traditional financial markets such that a greater proportion of the funds channeled through them could be more productively employed.

The potential role of the system in the mobilization of local savings in the developing countries could be noted from the reasons suggested by Geertz, to show why the "Western type" savings institutions have tended to be disappointing;

> "the impersonality, complexity and foreigness of the mode of operation of such 'Capitalist' institutions tends to make traditionalistic peasants, small traders, and civil servants suspicious of them. What seems to be needed particularly in the early stages, is an institution which can combine local popular appeal with the sort of savings effects a developing economy demands......"(2)

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1. See also the Report of All-India Rural Credit Review Committee, Bombay, 1969. - Regarding the difficulty of estimating the demand for production credit in India, and the methodological issue raised.

2. Geertz, C., "The Rotating Credit Association: A middle Rung in Development", Economic Development and Cultural Change, X, April 1962, 141-263 .

Such an institution that fits into community patterns and yet aims at planned and specific savings requirements corresponds to a large extent with the sort postulated by Myrdal,[1] who stressed that such savings institutions should be adapted to different individual needs and possibilities, and should be given a high priority in economic development.

There is also the ability of the system to bring about a process of development from a large agrarian peasant society to one in which trade and industry play an increasingly crucial role.

The system however, has its limitations both in the scale and complexity of economic activities which it can support. Such a limited scope, both for giving and obtaining credit, was the major defect of similar traditional credit arrangements on the eve of the Industrial Revolution in England which, according to Davies,[2] stem from the 17th century, inherited from earlier times and handed on to the 18th century. However, such credit arrangements as they operate in Nigeria, are not lacking in system and organisation

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1. Myrdal, G., An International Economy, Routledge & Kegan Paul, London, 1956.

2. For further discussion see Davies, K.G., The Royal African Company, Longmans, London, 1957.

as those indicated by Davies. And as Davies further stated:

> "Nevertheless the traditional solutions to the problem of how to get credit, the loans between neighbours, friends, business acquaintances and relatives, were only impaired; they were not supplanted. They survived, especially in the provinces, to play a critical role in finances of the Industrial Revolution."(1)

In the case of Esusu contributions that are not assigned periodically on a rotational basis, the funds might be kept in an unsafe manner with the leaders of the clubs, or the funds might be left idle if not lent to members or deposited with banking institutions.

In the informal financial intermediations, decision about savings and investment are, in essence, taken by the same persons or group of persons. This financial technique which promotes greater self-financing, is less efficient than the formal financial intermediations techniques. Although as argued in section 7.2, it is desirable to encourage self-financing, especially in such a case of inadequate financial system as dealt with here, where the alternative to the utilisation of the technique of internal finance (albeit a "second-best" approach and less optimal financial technique of promoting economic development) might be little or no financing.

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1. See Davies, K.G., Op: cit., p.48

CHAPTER 8

THE 'GAP' IN THE RURAL FINANCIAL MARKETS - SPECIAL PROBLEM IN AGRICULTURAL AND SMALL INDUSTRIAL ENTERPRISES

Introduction

This Chapter is complementary to the various aspects of the 'gap' in the Rural Financial Markets dealt with in Chapter seven. It seeks to give some particular attention to the special problems which the deficiencies in the financial system pose for the most affected sectors of the Nigerian rural economy. And thus, sectors of most crucial importance in any realistic attempt to foster rural development in the country.

The observations made by the Bolton Committee as regards the definition of a small firm(1) are quite appropriate here, especially the fact that no single quantifiable definition can be entirely satisfactory; but as a rough guide, the definition of a small-scale industry adopted by the Industrial Research Unit of the University of Ife, seems to be adequate for the purpose here, as regards the state of Industrial development in Nigeria.(2)

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1. Bolton Committee Report <u>Op: cit</u>., Chapter one.

2. The Unit defines a small-scale industry as "One whose total assets in capital equipment, plant and working capital are less than ₦50,000 and employing fewer than 50 full-time workers. It includes a factory or non-factory establishment." See Bolton Report <u>Op: cit</u>., for the characteristics of small firms.

As indicated earlier, small industrial enterprises constitute the other major sector that bears the brunt of the gap in the Rural Financial Markets. The role of small firms in the community and their functions, as spelt out by the Bolton Committee,(1) the Radcliffe Committee,(2) Hoselitz(3) and the ILO study(4), assume such greater importance in the Nigerian context that a greater attention ought to have been given to their problems of development than were available. As rightly noted by the Radcliffe Committee:

> "It is often the small firm and the private company which today, bring new industrial developments to fruition."(5)

And as such, the danger of the growth of such firms being impeded by their lack of some of the facilities open to larger companies for obtaining finance should be avoided.

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1. The Bolton Committee Report Op. cit., Paras 2.50-3.9, 19.2-19.5

2. Treasury, Committee on the working of the Monetary System - Report (Radcliffe Report), London: HMSO (Cmnd.827), 1959

3. Hoselitz, A.O., "Small Industry in Underdeveloped Countries", in I. Livingstone, ed., Economic Policy For Developement, Penguin Books Ltd., Harmondsworth, Middlesex 1971.

4. International Labour Office, Service for Small-scale Industry, ILO, Geneva; 1961.

5. Radcliffe Report Op. cit., Para. 932

8.1 The Problems and Their Implications For Rural Development

The problems dealt with here are similar to those noted in the UN study in 1950[1] - the urgency of the need as well as the problem of providing financial assistance to small undertakings in the developing countries; the inadequacy of the existing financial institutions; the need to avoid more proliferation of special financial institutions; the reluctance of private financial institutions to assist agriculture and small scale producers because of risks and cost involved; and the problem of the technical staff required in the financing of small-scale enterprises. These problems can also be grouped into the following three broad categories: (i) the inherent features of most developing countries, (ii) the technical problems that are connected with agriculture[2] and industrial extension services in the developing countries which often render the financing of enterprises less productive, and (iii) the "pure" financial problems connected with the supply of the right type of finance, at the appropriate time, in appropriate amounts and on satisfactory terms in such a manner as to meet the demand of deficit economic units for external finance.

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1. United Nation Study - Domestic Financing of Economic Development, New York, 1950.

2. The basic problems affecting agricultural credit in the Developing Countries are dealt with in the Agricultural Credit Through Cooperative and Other Institutions, FAO, Rome 1965, pp. 33-38.

These specified problems do not, in any manner, justify an argument in favour of abandoning or neglecting the financing of agricultural and small industrial enterprises and a preference for "tariff industries" and other large-scale enterprises; rather they emphasise the need for many developing countries like Nigeria to explore what can be done to lessen the financial barriers to the development of these enterprise, and to determine how positive use can be made of appropriate financial techniques to promote such development in a more effective manner than ever applied before. Realising the importance of this needs in developing countires, Davenport,(1) attempts to bring out the most effective ways of utilising finance to promote the growth of small-scale manufacturing industries in these countries.

As shown earlier in part two, the risk to the financing of agriculture and small-scale enterprises in Nigeria (as well as in many developing countries) is often exaggerated, partly because of a strict adherence to some anachronistic financial doctrine and partly because of the 'general lack of necessary information and ignorance of the most appropriate technique to minimise some risks inherent in such type of enterprise(2) - being essentially the type of Lavington's indicated "economic distance" caused by the capitalist imperfect knowledge of the economic efficiency of

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1. Davenport, R.W., Financing the Small Manufacturer in Developing Countries, McGraw-Hill, New York, 1967.

2. For the deficient approach of many Credit Institutions and its unproductive effects see the FAO Reports Op. cit., pp. 5 and 6.

the economic units concerned.[1] For instance in a study of credit problems among African businessmen in Kenya, Peter Morris[2] also noted the contributory factors of lack of mutual trust and proper understanding; and that, to bring about a change of policy towards lending to African business, banks would build up a network of contacts in the African community at the same time.

Although the greater risks of financing these enterprises can in large part be overcome by devising some appropriate measures, as aptly noted by Davenport:

> "even a moderate increase in risks can be a problem where lenders attach great importance to minimizing risk. Financing risks are influenced by many factors besides characteristics of the supplier of funds and his financing methods."[3]

As regards the cost and profitability obstacles in the financing of agricultural and small industrial enterprises, these would not be so formidable as often feared where efforts could be made by the financing institutions to ensure that the funds allocated are productively utilised. Secondly, where it is realised that the criteria for financing, intended only to earn immediate profit; and where part of the cost of servicing these enterprises is regarded as promotional expenses to be recovered from future earnings of the enterprises.

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1. Lavington, F., The English Capital Market, Methuen, London, 1921

2. Morris, P., "African businessman in a Dual Economy," Journal of Industrial Economics, XIX (April 1971), 231-245

3. Davenport. Op. cit., pp. 12

As for the chronic problems of lack of acceptable collateral for loans, there are no doubt various aspects of the customary system of land tenure in Nigeria have made land mortgages less attractive as collateral for loans from banks and other institutions than has been the case in Britain and some other countries.(1)

Although the problems involved are general in the country, they pose more serious handicaps to farmers and small industrialists seeking loans from the formal capital markets than to other borrowers who have alternative forms of collateral to offer , for example, life policies, bank deposits, personal financial standing, etc. Banks and other formal credit institutions could assist farmers and small industrialists in minimising this handicap in the ways suggested above, i.e. by being more prepared to accept some form of assets within the means of these prospective borrowers that are usually considered insufficient, supplemented by a greater knowledge of the borrowers and the potentialities of the projects for which the external finance is sought - these should in fact, offer greater security than a mere offer of conventional collateral, (taking into account the necessary government guarantees).

The retarding effects which the neglected rural development in Nigeria will continue to have on efforts to promote the country's economic development must have been one of the

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1. See Elias, T.O., Nigeria Land Law and Custom (3rd. edition), Routledge & Kegan Paul, London, 1962.

prime motives for the interdisciplinary study of strategies for Nigerian rural development for the 1969-85 period, carried out by the consortium for the study of Nigeria Rural Development (CSNRD) in cooperation with a number of Nigerian institutions.[1] The importance of rural development in the overall development of the country was also implied in the 1972 conference proceedings of the Nigeria Economic Society on Rural Development in Nigeria[2] of which the issues discussed are of particular relevance to the problems dealt with here.

The rural development aspects of "Africa's strategy for Development in the 1970s, as well as the various aspects of the problems involved, constituted the major subject of the symposium organised by the UN/ECA in 1971.[3] A consideration of the issues dealt with here also seems to have prompted the organisation of the symposium to realise the retarding effects of the problems of the neglected rural sector on economic development,[4] or the fact that all other impressive (but limited)

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1. The CSNRD Programme, financed by USAID, was carried out by a number of American Universities and government agencies in cooperation with a number of Nigerian Universities. See Jones, T.C., A Proposed Agricultural Credit Programme For Nigeria, CSNRD Report No 4, Michigan State University, 1966.

.2 See The Nigerian Economic Society, The Rural Development in Nigeria - Proceedings of the 1972 Annual Conference of Nigerian Economic Society, University of Ibadan Press, April 1973.

3. Report of the Symposium on Rural Development in Africa in 1970s UN/ECA Op: cit.

4. See Eicher, C.K. & Liedholm, C., (eds.), Growth and Development of the Nigerian Economy, Michigan State University Press 1970.

efforts to make most African countries achieve an economic "take off" are bound to be frustrated unless effective measures are devised to deal simultaneously with the problems.

In countries like Nigeria, where up to 90% of the population belong to what Gardener[1] describes as the "submerged majority" - earning their living in the rural sector (from agriculture and small-scale enterprise), the governments seem to be realising the need now to place emphasis on rural development, in view of the

> "rural exodus and the desperate desire of peasants to escape from their rural disabilities,"[2]

to seek refuge in the few congested urban centres, where despite the emphasis in recent years on the establishment of some relatively large "tariff industries",[3] employment opportunities still fall far short of meeting an ever increasing job demand. As a result the need for rural credit is, according to the FAO consultant,[4] being increasingly recognised as an important pre-requisite for planning economic development.

Thus, in Nigeria, as we may have gathered, there is no excape route to achieving the desired economic advancement for

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1 See Report of the Symposium on Rural Development in Africa in 1970s, Op: cit., p.2

2. See Eicher & Lledholm Op: cit., p.15

3. See The Nigerian budget Speech October 1985, West Africa Magazine, 14/4/86

4. FAO, Guide to Methods and Procedures of Rural Credit Surveys, FAO Agricultural Development Paper No.73 by T.S Rao, Rome 1962

most of the "submerged majority", no other effective ways of raising "real" per capita product[1] and yet no effective technique for tackling the problems of inflation,[2] other than to get right the essential priorities as stated earlier. As mentioned in the discussion of the Rural banking strategy in chapter 5, the essential priority might still be short of the desired objective, even with the setting up of development financing institutions and other institutions which were ostensibly meant to foster rural development.

For example, the order of priority would appear to be wrong where, though the need to promote rural development has been realised, efforts have been made for over ten years ago mainly to set up a development bank that would assist large-scale industries, and a stock market that would only be capable of assisting some relatively large enterprises, without at the same time ensuring that effective measures were taken to foster the development of agricultural and small-scale enterprises.[3]

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1. As noted by Stolper, the real problems and achievements of Growth rarely come out in aggregative statistics. As a result, the growth achievement and the "wealth illusion" in the past couple of years (derived mainly from oil revenues) might, probably, make it rather difficult to appreciate the development problems that are still largely untackled. See Eicher & Lledholm Op: cit. p.328.

2. See The Head of State of Nigeria speech on Inflation 31/3/74, The Financial Times 2/4/74, p.8

3. See H.W Singer, "Small-scale Industry in African Economic Development", in E.A.G. Robinson, ed., Economic Development for Africa South of the Sahara, Macmillan, London, 1964.

According to the 1970-74 Development Plan:

> "Nigerian agriculture has progressed, thus far with uncertain reliance on traditional sources of lending."(1)

Also in a study on the Development of Small Industry in Eastern Nigeria (made at the request of the Eastern Nigeria Ministry of Commerce to USAID for a labour-intensive industries survey) Kilby(2) drew attention to the fact that small industry had received very little attention or Government assistance, whereas it provided employment for approximately triple the number engaged in large-scale manufacturing, as well as playing other roles of crucial importance to a developing economy.

The above neglect on investment in the traditional sector, by retarding exports orginating from the sectors, has not only increased import demand for goods and raw materials, but has also made the sector less attractive, which has lead to an exodus to the congested urban centres; whereas, the investment in the so called "leading" sector has resulted mainly in some large-scale "tariff industries", involving high capital-labour ratios, unfamiliar technologies, excess capacity and capable of employing only a few people.(3)

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1. See The 1970-74 Development Plan Op: cit., p.73

2. United States, Department of Commerce, The Development of Small Industry in Eastern Nigeria (A study by P. Kilby). USAID 3"22/02079, Lagos, 1962

3. See Reflections On Nigeria's Economic Growth, OECD Development Centre Studies, Paris, 1967.

8.2 Special Problems of Finance In Agriculture And Small Enterprises

As mentioned in chapter 7, the general problem of Nigerian agriculture is stated in the 1970-74 Development Plan, thus:

> "Nigerian agriculture suffers from a general problem of low productivity. Production techniques are poor; there are few intermediate inputs; and yields are low. Infrastructural facilities are inadequate and the marketing, storage and credit systems all call for reform."(1)

Most of these problems could be attributed to inadequate investment in agricultural development and the wrong development priority noted above. For example, out of a total capital expenditure programme of ₦1353 million in the 1962-68 Development Plan, only ₦183,8 million (13.5%) was allocated to primary production (which employs over 70% of the labour force and has been the mainstay of the economy) - only about 57% of this estimated public sector capital expenditure on the agricultural programme was, in fact, spent during the plan period, as indicated in the 1970-74 Development Plan.(2)

The estimated 8-10 million(3) small farms in Nigeria have been the engine of growth of the economy for generations; and noting that the expansion of export and import substitution crops by small holders has been more profitable than government

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1. See The 1970-74 Development Plan Op: cit., p.104

2. Ibid.

3. For further discussion on the estimate see Small Industries in Nigeria - Problems and Prospects (A Collection of Essays mimo.) The Industrial Research Unit, University of Ife, Ile-Ife, 1973.

Plantations and farm settlement, Eicher and Lledholm[1] have rightly emphasised the need to focus on assisting small farmers. This need is very important in Nigeria because, making finance available for the establishment of government farms and other few large-scale group or company plantations might bring about some agricultural growth without the needed agricultural development. The bulk of the small cultivators in the country have to be provided with adequate external finance on an individual and/or group basis before the needed agricultural development can take place.

Such agricultural development, rather than agricultural growth, as noted in an OECD study:

> "implies that the benefits of agricultural growth should be widely spread. Productive and remunerative employment opportunities must be available to the vast majority of agricultural households; and their number must increase. The development has to be constant not only with increasing output but with increasing labour utilisation and incomes in agriculture."[2]

As one could infer from the findings of the OECD study and the above indicated special needs for agricultural development in Nigeria, it is unlikely that the major forms by which the Governments in Nigeria have channelled finance into agriculture[3] have been in the most desirable manner. For example, as the OECD study

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1. See Eicher & Lledholm, Op: cit., pp.378 and 379
2. OECD, Technological change in Agriculture and Employment in Developing Countries, by Montague Yudeman, Paris, 1971.
3. Some of the financial institutions also indicated during the interview and in the questionnaires) their preference for setting up plantations rather than providing finance for local farmers. See also Clower, R., Growth Without Development (An Economic Survey of Liberia), North-Western University Press, Evanston, 1966.

concludes:

> "If a technological change is to promote productive employment and income generation within as many as possible of households currently within agriculture .... it must be such as to allow small-holders to adapt the innovation as readily as neighbouring large land-owners .... There is a good reason to expect that a structure of small-holdings (grouped to some extent into cooperatives) assures a greater level of welfare for the majority of agricultural households than the alternative."(1)

The adoption of small fragmented holdings in Nigeria has not only been due to the tenure systems but also due, according to Oyenuga,[2] to the lack of capital with which to develop larger scale farms. Having also stressed the need to make a widespread practical application of the improved farming techniques which are at the moment limited to a few plantations, government and university experimental and research stations, he suggested a more dynamic approach to mechanising farming operations from which small peasant farmers could largely benefit.

The special problems which the gaps in the Nigerian financial system, as analysed in Chapter 7, pose for agricultural development[3] can be stated as follows: (i) granted the need for additional investment or increased inputs in Nigeria, where adequate efforts have not been made to control or minimise the adverse effects of the extremes in the weather conditions and seasonal climatic changes on agricultural production; (ii) the long period

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1. See OECD, Paris 1971, Op: cit., p.53

2. Oyenuga, V.A., Agriculture in Nigeria 1967, Op: cit. p.31

3. For a comprehensive study of the problems and performance of Nigerian agriculture, see Eicher and Lledholm, Op: cit., p.116, and Oyenuga, Op: cit., P.41 and for the special problem of inadequate investment in agriculture see Oluwasami & Alao, Op: cit.,p.21 and Jones, Op: cit., p.28

between cultivation, output and marketing, as well as the uncertainties about the demand and supply conditions (i.e the inelasticities characterising agricultural output) and thus the uncertain amount of yields obtainable on the products whenever they are ready for sale - a situation worsened by the lack of adequate storage facilities; (iii) the difficult task of determing the personal integrity and creditworthiness of a farmer, since most of the farmers are illiterates, small-scale operators in the remote villages or rural areas, most of whom have no bank account to qualify them for bank assistance; and (iv) the chronic problem of collateral security to offer for bank loan.

The above problems need not constitute unsolvable obstacles to the provision of the needed bank finance, but for the ill-adapted attitude and lending techniques of the banks, as already discussed. As a result, in the questionnaires completed by the banks' staff, about 40 per cent of them were not in favour of providing agricultural finance, mainly because, according to their views, "ordinary farming are non-commercial." However some 60 per cent of the staff were in favour of making some loan available to specific areas of agriculture, for example, poultry, marketing and processing of agricultural products, while others prefer to lend to their staff for developing some plantations on their own.

The fact that finance has not been forthcoming from the banks and other formal sources has again highlighted the importance of the informal sources indicated in our previous chapter.. It follows that any positive attempt to make low-income farmers adopt more productive non-traditional farming techniques would entail an increased demand for external finance, since most farmers would be unable to obtain the needed finance from their limited resources.[1] Though as already shown, the conventional or formal sources of credit, mainly from commercial banks have been grossly deficient in providing this type of finance (see Chapter 5). Agricultural Development has, therefore, lagged behind to the extent that its average annual growth of 2 per cent per annum[2] could not match the 3.6 per cent annual rate[3] of population growth, which has been a major contributory factor to the inflationary problem noted above.

In Nigeria (and as well as many other countries), the special problems that influence the banks and other formal credit institutions to feel hesitant or even to refuse making finance available for agricultural production include:- the operation of natural forces on farm yields and the resultant general instability in agriculture, which makes it difficult to estimate the incomes from most farming enterprises; especially that farmers should be forced to resort to the pledging of cocoa and other economic trees (as we mentioned in Chapter 4) to obtain credit. Such a practice tends to aggravate the

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1. The high costs of implements and high yielding farm inputs, which most farmers are unable to acquire and apply with external finance and assistance is fully discussed by Oluwasanmi & Aloa Op. cit. P. 15, 1965

2. In 1983 this rate of growth was as low as -2% see 1980-85 Development Plan, Op: cit., pp.104 and The West African Magazine, May 26th 1985.

3. Estimated from 1963 Nigerian census, Federal Office of Statics, Lagos.

problems of the farmers concerned, since it would, in many cases reduce their repayment ability; where it deprives them of their major source of earning.

Table 8-1 shows that the marginal propensity to save per farm family (surveyed by Upton)(1) is relatively high - ranging from 0.2 in Akumazi village to 0.8 in Ubuluku village. Though this offers only a poor solution to their financial problem in

Table 8-1 Total Income And Savings Of Farm Families In Some Villages in Nigeria. (in Naira)

	Illofa (1)	Alade (2)	Olugbo (3)	Onicha-olona (4)	Ubuluku (5)	Akumazi (6)	All Farms (7)
Net family income	140.0	387.4	305.6	148.2	396.6	162.6	
Income from other sources	117.2	23.0	18.0	113.4	56.6	109.8	
Total family income	257.2	410.4	323.6	261.6	453.2	272.4	
Less home grown food for consumption	101.4	111.2	88.8	62.6	119.0	116.4	
Total cash income	155.8	299.2	234.8	199.0	234.2	156.0	
Total savings per family	88.4	141.2	108.2	96.8	131.0	45.2	116.6
Savings as % of total income	34.3	34.4	33.4	37.0	29.0	16.6	35.3
MPs* per family	0.5	0.4	0.5	0.5	0.8	0.2	0.5

$$* \text{ Marginal Propensity to Save } \frac{\text{Change in savings}}{\text{Change in income}}$$

Source: Martin Upton, "Agriculture in South Western Nigeria", Op: cit., (Tables 2.28 & 2.33)

1. Upton, M., Agriculture in South Western Nigeria, University of Reading, Department of Agricultural Economics Development Studies, No.3, December 1971.

view of the general low earnings (with total family income ranging only from ₦261.6 in Onicha-Olona to ₦410.4 in Alade), in that their main dependence on their low income and savings for investment still puts a great constraint on the productive possibilities of the farmers, since saving is a function of one's income, irrespective of one's high marginal propensity to save (as a comparison of Col.2 with Cols. 1,3,4 and 5, for example shows).

The need for better planning and re-organisation in traditional farming is also important so that the needed additional capital and external finance could be usefully absorbed and thereby enhance the prospects of higher returns on invested funds. By making farming more of a commercial enterprise, finance from formal credit sources would be more readily attracted. Two major prerequisites for a productive utilisation of agricultural finance are therefore, (i) new farming techniques that could be effectively applied by farmers and (ii) assistance to farmers in the form of agricultural extension services.

As indicated earlier, the Cooperative Societies could be utilised to play a major role in tackling the special problems of agricultural finance in Nigeria, for example, as in the case of Japan.(1) In this context, multi-purpose Cooperatives, working in close collaboration with agricultural extension services and responsible for the marketing of the farm products of the borrowers would probably have better opportunities than credit cooperatives

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1. Bank of Japan, Economic Research Department, The Money and Banking In Japan, editted by L.S. Persnell, MacMillan & Co., London, 1973.

(organised purely for credit purposes) to promote general development in the rural sector. The Societies would also ensure the repayment of small credits. As members of a multipurpose cooperative farmers become better risks takers than they are likely to be as individual small-scale cultivators, and they are likely to have available to them not only credit through their societies, but also financial facilities from other sources on more favourable terms. For example, these societies could arrange for finance houses (or accepting houses to finance the hiring of farm machinery to their members who could thereby utilise leasing facilities that could minimise capital outlays.[1] Furthermore, the use of improved marketing techniques by a multipurpose cooperatives in the marketing of members' farm produce would increase the financial resources of the farmers.

Finance For Small-scale Industries: The difficulty of the private company and small firm in obtaining long-term funds and the rarity of capital issues noted by the MacMillan Committee,[2] and stressed again by the Radcliffe Committee,[3] constitute an aspect of the financial problem of small firms in Nigeria. Though there are other aspects of this problem which as discussed earlier, together make it difficult for the firms to obtain the necessary financial facilities.

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1. See Oyenuga, V.A. Op: cit., P.83
2. See MacMillan Committee Report, Op: cit., Para. 404
3. See Radcliffe Committee Report, Op: cit., paras. 935-937

from the formal capital market at the right time, and on satisfactory terms. The financial problems of these enterprises are, in various ways connected with their other special difficulties, which have been given more importance because of the failure of banks and other financial institutions to adapt their conventional practices to suit adequately the local conditions. As a result, small firms often find it difficult to demonstrate their chances of success in order to persuade these potential lenders. The lending institutions have not been prepared to cater for the special problems involved in small business finance because of the risk of default, the cost of handling small loans and lack of adequate collateral security; and where funds are provided, these factors often make small firms pay a higher rate of interest than larger firms. Furthermore, in many cases, these small enterprises and their advisers are not adequately informed about how or where to obtain necessary financial facilities.

In the questionnaires, 55% of the banks confirmed that the financial facilities for small firms in Nigeria were inadequate and 70% of them did not indicate that small firms have defaulted more on loan repayment than larger firms. As regards the effects of credit restrictions by the Central Bank, although 90% of the banks indicated that these restrictions have curtailed the total number and amount of loan granted, 60% of them indicated that the effects were the same on both categories of firms, while 30% indicated that small firms were more affected. It therefore appears that what has been defective was the lending policies of these banks themselves. As argued earlier, the inability of most small firms to raise capital on the Stock Exchange needs not constitute a serious disadvantage where banks and other financial institutions have been prepared, as in Japan,[1] for example to provide necessary financial facilities for the enterprises.

The major sources of finance for small-scale industries in Nigeria are indicated in Table 8-2 and 8-3 below. In almost the same pattern as shown in the areas surveyed, finance from banks and other formal institutions is relatively small compared to the other sources of finance for the enterprises.[2] Although many small firms may not be creditworthy by conventional standards these institutions could, nevertheless, be flexible with their lending policies to make the problem less intractable. For example, by applying more dynamic criteria of creditworthiness, based on long-term economic (rather than strict financial and accounting) criteria. This may involve taking more risks, in some cases, than conventional financing, but the risks could be minimised in some ways as discussed below. As summed up by Staley, what is needed in the financing of the small manufacturer in the Developing countries is a combination of measures -

> "a 'package' - each element reinforcing the others and making the success of the integrated programme more likely. Provision of more adequate financing is generally an essential element in such a package, and often it can serve as the key element."[3]

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1. Bank of Japan, Op: cit., pp.31

2. Refer to Chapter 3 - The role of Pre-cooperative organisation; and Chapter 7 Section 7.3 - The gap filling role of cooperative societies.

3. See Davenport, R.W., Financing the Small Manufacturer in Developing Countries, McGraw-Hill, New York, 1967.

Thus, the mere setting up of special lending institutions to dispense finance to local enterprises, without doing anything to overcome some other important deficiencies, has failed to yield the desired results, as indicated in Chapter 7, Section 7.2.

Table 8-2 Sources of Investment Finance For Small Industries In Nigeria.

Sources of Finance	Western State	Bendel State	Imo State	Anambra State	Total	% Distribution of sources
1. No of units financed from owners' savings	13,273	2,709	1,023	4,156	21,161	96.40
2. No of units assisted by:						
(i) Government institutions	1	-	5	3	9	0.04
(ii) Local Authorities	-	7	-	-	7	0.03
(iii) Banks	22	10	1	14	47	0.21
(iv) Cooperative societies	4	8	-	1	13	0.06
(v) Relatives & friends	254	322	3	61	640	0.33
(vi) Money lenders	38	27	-	7	72	2.92
3. Total	13,592	3,083	1,032	4,242	21,949	100.00
4. '1' as % of total units	97.6	87.9	99.1	98.0		

Source: Adapted from S.A. Aluko, "Defining the Problem of Small Industries" Op: cit., P.12, 1973.

In the survey conducted in the areas of our research, the following major factors were indicated (i.e in the questionnaires). As can be seen in table 8-4, lack of capital was 56.11%, this further, strengthens our argument that there is need to devise more appropriate measures by which these problems could be effectively tackled.[1]

Table 8-3 - Percentage Distribution of Capital Investment by Source for 38 Small-scale Industries in the areas of our research

Sources			% of Total Capital Invested (Average For all Industries)
1.	(a)	Gift from family	68.00
	(b)	Family loan	7.85
	(c)	Inherited Capital	0.65
2.	Savings - Esusu Contribution		20.50
	Total family & own sources		97.00
3.	Bank loan		2.30
4.	Other Sources		0.70

Sources: Questionnaires and Personal Interviews.

1. See paragraph 3 on the Finance for Small-scale Industries in this Chapter.

Table 8-4 Major Factors affecting the Progress of Small-Scale Enterprises

Factors	No. of Respondents	Relative Importance of Factor (%)
1. Capital	79	61.2
2. Labour	23	17.8
3. Management Skill	16	12.4
4. Lack of Marketing Facilities	6	4.7
5. Family problems	6	2.3
6. Lack of Energy Supply	1	0.8
7. Raw Materials	1	0.8

Source: Questionnaires and Interviews.

The importance of technical expertise is not crucial as banks often suggest, as stated by Scatz.(1) And also according to Wilson:

> "Such an exaggeration is unwarranted because a man with technical expertise may have no head for business and unless one has security to offer and thus able to obtain access to finance, one may never get the chance to develop a good technical ideas."(2)

1. Schatz, S.P., "The Capital Shortage Illusion: Government lending in Nigeria, Oxford Economic Papers, XVIII (July 1965), pp.309-316

2. Wilson, J.S.J., "Some Aspects of the Development of Capital Market Banca Nazionale del Lavoro Quarterly Review, XIX (Dec. 1966). PP.263-310

So also, the fact that the problem of inadequate capital is "real" rather than "illusory" could be noted in the study carried out in Eastern Nigeria by Kilby.(1) He revealed that of the 121 entrepreneurs he interviewed, only 7% began operation with ₦1000 or more, while 71% started with ₦100 or less. Having said all these, there is no doubt that good management skill is equally as important in helping to reduce small firm's financial problems to some extent.

Most small enterprises are likely to appear non-viable unless an assessment of their potentialities (especially in the Nigerian case) is based on both the static situation and the dynamic viewpoint.(2)

Dunning Committee, clearly brought out the importance of these as follows:

> "From a dynamic viewpoint, it could well be in the community's interest to provide protection to small firms, whenever this helps them to become more efficient or to innovate successfully, and where without such protection these same firms might stagnate or go out of business altogether."(3)

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1. Kilby, Op. cit. P. 12

2. As regards this need for a shift from static to dynamic concept of creditworthiness and viability in the financing of projects in LDCs, it was not until recently, as noted by Mason & Asher, (The World Bank since Bretton Woods, The Brookings Institution, Washington, D.C., 1973) that the World Bank management gradually came to realise that creditworthiness was essentially a function of growth and that absorptive capacity increased with absorption.

3. See J.H. Dunning, Committee of Inquiry on Small Firms Research Report Op: cit., pp.58.

This is an aspect of the "infant industry" argument for protection which does not, however, justify an indefinite protection of such an industry, where after a reasonable period of time, it fails to develop.(1)

8-3 Some Measures To Tackle The Problems and The Special Role Of The Government

Most of these measures are already discussed along with the problems themselves; and therefore this section aims mainly to focus attention on the special role of the Government in the task of solving the problems which the gap in the financial markets has posed for the rural economy. From the discussion of the problems above and the fact that the limited scope of the informal financial markets is a wedge against providing adequate financing, it is clear that the Government would have to shoulder the major responsibility in tackling the problems.

Given that the banks and other institutions re-shaped their policies and adopted the measures already suggested to improve the provision of financial facilities, there is still likely to be an important role for the Government to play, especially in helping to deal with some of the imperfections in the informal capital markets, which are operating to the disadvantage of most

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1. For further discussion on "Infant Protection" see B.O. Sodersten, International Economics (2nd edition) 1980, The MacMillan Press Ltd., London.

rural enterprises.(1) For example, the residual role of the authorities would still arise in the following major ways: (a) the need to deal with the information gap, i.e the setting up of advisory bureaux for small enterprises: (b) the special need to make available genuine risk or venture capital for the development of new and promising enterprises, including the devising of necessary measures to make existing financial institutions extend facilities to the neglected sectors. (c) the provision of emergency credit facilities which should be the responsibility of the Government since it may need to be given irrespective of the borrower's ability to repay, for example credit to meet the consequences of crop failure, etc.,(2) as well as the huge finance required to make available some facilities to minimise the adverse effects of the extremes in changing climatic conditions on production activities and (d) the construction of storage facilities for groups of farmers and local industrial estates for groups of small industrialists.

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1. This need to augment financial facilities for sectors that are inadequately catered for has been fully recognised in the more advanced countries like the U.S., U.K., France, Japan and Italy, where the enterprises concerned seem to have available to them better financial facilities than those in Nigeria. For instance, in France, the preservation of small-scale industries in certain sectors of the economy by assisting their modernisation and development has been regarded as indispensable; while in Italy, such assistance has been seen largely as a means of stimulating industry in some underdeveloped regions of the country.

   For the various measures adopted by the authorities to assist these enterprises in France, Italy, Japan and the U.S., see the Bolton Committee Report OP: cit., Apendix V.

2. Facilities may also be provided and enterprises encouraged to insure against some of these risks. See Davenport Op: cit. p.51

In an attempt to fill the financial gap, especially in tackling the special financial problems of agricultural and small industrial enterprises, some important issues of rural development policy are raised concerning the question of how much public money should be spent on financial assistance to these enterprises. The two major questions of priority involved are: first, given the shortage of capital and many competing demands for it, and given the broad economic and social objectives of rural development policy, what amount of public funds should be devoted to providing the needed assistance to financial assistance, as distinct from such other forms of assistance as the provision of extension services and other necessary technical and advisory services?

Measures To Improve The Existing System

Although the findings indicated in the previous Chapters appear to constitute a powerful case for public intervention to improve rural financial facilities, but Government action might take some forms other than the usual setting up of similar type of special financial institutions,(1) the provision of subsidy to the enterprises or a subsidisation of their cost of borrowing. But as mentioned earlier, the provision of Government assistance to those financial institutions that make finance available to agriculture and small industrial enterprises is necessary in order to encourage the institutions

1. See Chapter 5, Section 4.

to do so, as most of them also indicated in their questionnaires. The agricultural Credit Bank mentioned in Chapter 5, Section 3, should be able to cater for the agricultural credit arrangements to some extent, given that it will not follow the footsteps of such similar institution (Western Nigeria Agricultural Credit Corporation).(1) One or more of the existing special financing institutions could be made to cater for the special needs of small industrial enterprises, for example, the Bank for Commerce and Industry.

There is need to integrate financial measures with other measures such as provision and training of key personnel, and assistance in the development of appropriate training schemes for the large number of people needed to run an effective agricultural credit programme in the country.

To reduce the risks in financing agricultural and small industrial enterprise, the authorities could assist in introducing such measures as credit insurance and risk-sharing arrangements. As suggested by Ojo and Adewunmi,(2) a system of deposit insurance is another measure to reduce one objection to risk-taking by deposit accepting institutions, while a system of insuring the actual risks involved in financing the enterprises would further help the situation.

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1. Some useful measures to modernise agriculture in Nigeria are indicated by Awolowo, O., The Strategy and Tactics of the People's Republic of Nigeria, MacMillan & Co., London 1970, Pp.18-21

2. See A.T. Ojo and W. Adewunmi, Co-operative Banking in Nigeria, Op: cit. p.59

According to Davenport,[1] arrangement should be made by State Governments to bring the registration of land into uniformity so as to enable the financial institutions to accept land as security for loan.

As argued by Aluko,[2] another government approach to the tackling of the financial problems, apart from increasing the supply of funds to the enterprises, is to take steps that will minimise their capital outlays, for example, by utilising leasing and some other hiring facilities instead of having to rely on uneconomical basis, land premises and certain types of equipment and implements. The establishment of individual estates and cooperative farm settlements would serve in this respect.

Government encouragement in the formation of well-functioning cooperative associations is another way of helping the enterprises, especially where economies of scale are important and the enterprises are willing to merge for fear of losing their identity. Such a device is a useful means of avoiding many diseconomies in small-scale operations, as well as serving to overcome other disadvantages of smallness. Although as aptly noted in a Loan

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1. The attempts made in this regard so far have been mainly the putting into effect of piecemeal legislation designed to suit different practices in various parts of the country, but which have merely served to complicate the potentiality of Land as collateral security. See Davenport <u>Op. cit.</u>, pp. 135-160

2. See Aluko, S.A., <u>Op. cit.</u>, p.102

Administration manual:-

> "Cooperatives are ideal for assisting groups of farmers, craftsmen or businessmen in marketing their products or in purchasing equipment to be shared by all the members, but are not proper organisations for running single business."(1)

Government assistance is needed in making available financial advisory services to support other financial programmes. The provision of such advisory services could help fill the information gap to a large extent, and they may as argued by Ojo and Adewunmi (2) partially substitute for creating more financial institutions; in that, the offer of such services to the enterprise on how to manage their finances and how to obtain finance from existing sources, may in itself improve the availability or reduce the need for more demand.

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1. Interim Common Services Agency, Loan Administration Manual - Small Industries Credit Scheme (2 Vols.), Prepared by the Staff, Small Industries Credit Scheme, Kaduna, 1969. P 134

2. See A.T. Ojo and W. Adewunmi, Op: cit., 59

CHAPTER 9

CONCLUSIONS AND SUGGESTIONS

In this study, we have tried to analyse the importance of Rural Financial Markets in providing finance for the improvement of Nigerian rural economy.

With the existence of 'finance gaps' in the Nigerian rural economy, the various ways in which the markets for financial assets and services have been deficient or inadequate are also shown in the study. Evidence(1) has also shown that saving/investment ratio has been higher in urban areas of Nigeria relative to the rural areas. For this reason saving and investment efforts have been low in most areas of the country;(2) which is an indication of relative deficiency of the financial system and thus present the real task for the financial markets. Both formal and informal markets are important here.

The study shows the extent to which the financial sector has influenced real economic events, especially the level and the pattern of rural production. Although its institutions and markets do not in many cases, directly add to the productive capacity of

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1. See Aluko, S.A., Op. cit., p. 34

2. Ibid. p.35

a country, they can,[1] however, widen the alternatives for financing rural development by making available some useful financial instruments that could be employed together with any of the other methods mentioned in Chapter 5, Section 5.3. In a developing rural economy like Nigeria, formal and informal rural financial intermediaries, as argued in this study, could influence directly the productive capacity of the rural economy and subsequently an increase in economic well-being of the country as a whole. For example, by the provision of such services it would in the first place make finance available on satisfactory terms and in the second place, assist the productive utilisation of the finance provided (the efficient services of the rural banks discussed in Chapter 6 is very important here).

We conclude that rural financial markets could widen the scope for financing rural development in a more effective manner because: first, the effectiveness of the financial intermediation process plays an important role in the supply function,[1] and second, the terms offered by financial institutions or changes in purely financial components can shift the demand function; in that, both the cost and terms of credit become part of overall spending decisions, when

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1. CBN 'Development banking in Nigeria, Economic and Financial Review, IX (December 1971) p.153-168

2. For further discussion, see the Pearson Commission (ECA), Report of the Symposium on Rural Development in Africa in 1970s, UN/ECA, Addis Ababa 9-13, August 1971.

external finance has to be utilised - all of which become more attractive and effective. These intermediation effects bring about increases in employment, saving and investment ratios,[1] and also the potential rate of growth of real capital and income over that which existed prior to the development in the process.

But this important role of the financial sector in the saving-investment process can be subject to diminishing returns, in that, merely increasing the number of institutions and markets does not always stimulate savings and increase investment. There is need to adapt them to local requirement, including the need to make financial assets attractive to investors and producers, (particularly peasants) apart from the fact that the authorities have to pursue appropriate financial policies.

The study, however, does not discover any shortage of investment opportunities in the rural economy, but a shortage of savings and capital (see Chapter 2, Section 2.2) for their financing. Thus, capital shortage has, therefore been a reality rather than an illusion. It is, however, found that the availability of capital alone (as well as any other factor alone) is not sufficient in promoting development. Nevertheless, it is found that the presence of the right types of institutions could rectify most of the financial gaps in promoting rural development in the country; while the availability of liquid

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1. Refer to Chapter 7, Table 7-7 and Section 7.4. See also Chapter 8, section 8.1 .

capital could indirectly assist in providing or increasing the supply of the other non-financial specific factors required in production (e.g investment in human capital and the increased supply of skilled labour and technical expertise).

In view of special problems specified in the study, there is a greater role for well-adapted financial institutions and markets (both formal and informal) in making the special financial facilities available for rural development than could be provided at the moment by institutions and markets of the orthodox types.(1) These are incapable of providing such services that could assist in neutralising the effects of the inherent development bottlenecks that often render a mere injection of capital alone ineffective in many developing countries. The role of finance in fostering rural development in Nigeria has, thus, been less hampered by the absence of a highly developed formal rural capital market than the lagged response of financial innovation to changing economic condition and the special problems of development in the country.(2)

The nature of these problems in Nigeria (particularly in Anambra State calls for a greater state intervention

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1. Refer to Chapter 5, Section 5.1
2. See Nwankwo - The Nigerian Financial System, Op: cit., P.32

in supporting[1] weak and emergent private initiative and enterprises in these areas: i.e a realistic acknowledgement of underdevelopment in various sectors of the rural economy. Thus, the pattern of public and private sectors are expected to play a complementary role in the promotion of economic and financial developments. The new development strategy, as advocated by McKinnon:[2] appeals to developing countries to adopt liberalisation policies in order to foster financial deepening and thereby avoid shallow finance and policies of financial repression. The present post-independence strategy, incorporating economic planning, seems to be serving a useful purpose in improving the economic management of the country, as noted by ECA Report,[3] but there is need to improve the quality of banks' services further in order to promote rural development in the desired manner - to bring about sustained and raising living standards for the bulk of the peasants.

There is evidently an enormous gap between rural credit demand and supply in Nigeria. These gaps are indicated by:

i) the constrained nature of institutional credit;

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1. Government should encourage private initiatives by providing subsidy for infant industries and firms.

2. R.I. McKinnon, Money and Capital in Economic Development, the Brooking Institution, Washington, 1973.

3. ECA Report of the Symposium on Rural Development in Africa in the 1970s, Op: cit., 9-13 August 1971

ii) the low credit allocation for food production, which encourages rural dwellers to expend their Esusu winnings on food especially in the current inflationary situation;

iii) the uneven distribution of commercial bank credits between agricultural and non-agricultural uses;

iv) the distribution of unconstrained[1] credit to various uses which are neither covered by an agricultural credit guarantee fund nor acceptable to commercial banks as credit-worthy investment.

v) the high interest rate (18% or more) which farmers in Abakiliki, Anambra, Idemili local government areas, etc., are willing to pay relative to the going rate of interest of 3 to 6 per cent, at which loan to agriculture is available.

Even when we consider credit-worthy rural projects, some of the obstacles which confront the rural operator in obtaining credit for increased productivity are the opportunity cost of the borrowing process, coupled with the uncertainty of outcome,[2] and the generally low farm income which reduces the credit-worthiness of the small farmer,[3] especially if he is not a member of any 'group farm'.

Given the development of the agricultural sector and the increased amount of credit it will need to effect such development and to utilise technological innovations, the role

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1. Unconstrained credit is usually given without collateral and mainly for specific purposes.

2. See Awofeso Op: cit., p.28

3. L.E.A. Ogundipe, 'A Study of the Credit Problems of Small Scale Farmers in Ondo Division, Op: cit., p.13

of commercial banks in supplying credit will likewise expand. Thus some vigorous policy measures need to be adopted to meet the inevitable increase in rural credit requirements.

It must be emphasised again that systematic rural banking on the model of the Phillipines[1] does not now exist in Nigeria. What does exist is a system of commercial branch banking and a Post Office Savings Bank network. The experience of the Post Office Savings Bank in mobilizing rural savings reveals several operational shortcomings resulting in a steady decline of savings through the bank. Nevertheless, the present system of rural banking could be made to fulfill the aims and objectives of rural financing if some institutional organisation were undertaken.

In the interest of both credit agencies and rural borrowers (particularly peasants), the formation of cooperatives or group farming should be encouraged. If the objective of government is to increase productivity in the agricultural sector, a massive injection of capital would mean greater credit demand. According to our survey, it is administratively easier and cheaper for the banks to deal with large group borrowers than with individual small borrowers. Secondly since the transaction costs tend to vary little with the size of loans, it is proportionately higher for small borrowers.

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1. Robert R. Emery, The Financial Institutions of South-East Asia - Country-by-country study, New York, 1970.

Furthermore, farmers within a Cooperative System are able to put forward viable projects that would be acceptable to the banks.

According to the Anambra State Commissioner for Local Government and Chieftancy Affairs, (1) the government recognises the need that the Co-operative systems should be backed by a reorganisation of the extension services scheme, and better training of personnel who would be able to supervise and encourage the adoption of new technologies for higher productivity. It is also important that agricultural banks and other rural credit agencies are not starved of funds. As we discovered in our investigations, many credit programmes failed to continue past the pilot stage of a single year or so, and these were disastrous for some farm projects.

The structure of interest rates has been used to attract borrowers and to encourage investment in the agricultural sector. This has been found to make little impact on both the supply and demand sides of the intermediation process.

There is a need to involve a new method that would simplify lending procedures and the conditions for obtaining loans from credit agencies, particularly in the case of commercial banks. Such experiments as the 'pass book' scheme currently operated in Pakistan, (2) which involves the issue

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1. Interview with the Commissioner at Enugu, November 1984.

2. For detailed discussion on the issue, see W.C. Baum, 'Agricultural Credit and the Small Farmer'. Op: cit. p.23

to the farmer of a pass book indentifying him, his assets and his liabilities, provides a short-cut to the process associated with lending according to conventional criteria. Similarly interest rates could be used to encourage savings among the peasants and the very poor farmers.

It is important to state that the rural banks have been most successful in countries like the Philipines[1] and India[2] precisely because they were heavily backed by Acts of the various governments and aptly supervised by their Central Banks where separate departments exist, to encourage and look after the interest of rural banks.

There is much evidence to suggest that rural people preserve liquid assets as insurance against future eventualities (Zambian experience). The need for "instant" capital may keep these assets out of traditional channels of savings and credit. Here the institutional market can provide a convenient alternative by offering a safe place to deposit money where it earns interest. The examples of India[3] and South Korea,[4] demonstrate the possibility of attracting savings that are accumulated via the ROSCA Mechanism.

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1. Robert F. Emery, The Financial Institutions of South-East Asia Op. cit., p. 31
2. See RRB Report of Working Party Reserve Bank of Inida 1978, Op. cit., Annex 3.2.
3. Nayer, Op. cit. p. 38
4. Adams and Singh, Op. cit. p. 42

As our analysis has clearly shown, the informal sector of the RFMs is crucial to the continued operation of farmers, Peasants, Small-scale industries, etc., both in rural and urban areas. This sector is very accessible, they adopt simple procedures and operate many functions. In contrast to the formal sector, the informal sector provides savings and credit facilities to the grass roots of the rural (as well as the urban) communities.

The flexibility of the informal sector enables farmers to join as many societies as possible. The system of competitive bidding for funds is an adaptation by some of the societies to accomodate differences among credit demands. This adaptation is in line with the evolution of pre-cooperative organisations from traditional institutions with social and economic purposes towards an institution which places more weight on economic goals.

Periodic and variable contributions allow members to participate according to their financial ability, it permits small-scale capital formation, and it also gives borrowers the opportunity to repay debts in small investments, (see Chapter 3 Section 3.7). This informal sector also fosters community solidarity and group interaction. They preserve tradition and yet accomodate the necessity of change. Members felt that the societies are effective in helping to conserve small amounts of money which might otherwise be wasted, thus enabling them to accumulate funds for larger purchases.

As noted in the analysis (see the Tables in Chapter 3) of Pre-cooperative organisations, credit is increasingly becoming the most attractive feature of the informal sector of RFMs. This is against the background of competition caused by the massive importation of staple food by the government and the pressure put on the farmers by the governments to adopt modern technologies. But whether the credits provided by the informal sector will be able to meet future demands is open to question.

The other important functions of the informal sector that are crucial to the rural as well as urban communities are welfare and social services such as help during petty disasters, death, etc. It also provides social activities such as occational outings for the members and their families, promoting awareness among members in matters relating to the law of the land. And constant interaction provides the needed education and information, and in many ways serves as alternative to seeking the services of professional counsellers which is not at the moment within their reach in Nigeria.(1)

Some Implications: As our analysis clearly shows (see Tables in Chapters 3, 4, 7 and 8), Education funding is a major single factor that influenced the borrowing by the rural communities.

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1. At the moment, there are no Professional counselling services in Nigeria.

Secondly, less than 40% of loans obtained by the informal sector between 1982 and 1984 were spent on agriculture. Now these are serious problems given the fact that the future development of the state (and Nigerian) agriculture depends, to a large extent, on the rural communities.

One principal reason that is responsible for spending a small proportion of borrowed funds[1] on the actual farming purposes was the inadequate supply of essential welfare services in the rural areas. Services such as modern housing, health and educaitonal facilities rarely exist in the Nigerian rural sector. Thus most rural inhabitants borrow to provide these services themselves.

Arguably provision or merely subsidising these services would free some of the funds reserved for these services by the farmers and thus it would encourage farmers to spend more on Agriculture.

This study has shown that contrary to some published studies,[2] less than 10% of the total borrowed funds between 1982 and 1984 was spent on socio-cultural purposes such as

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1. See A. Osuntogun and R. Adeyemo, Op. cit., P. 260

2. See K.P. Padmanabhan Op. cit.,P. 201, D.W. Adams, Op. cit., P. 388 and F.J.A. Bouman, Op. cit., P. 231.

dowries and ceremonies. However another emerging avenue that takes significant part of the rural communities' loans is purchase of durable goods, but we noted during the interviews with the farmers that this is not a threat to agricultural expenditure, since such expenditure on durable goods is usually made once in five years. Secondly, the 20% expenditure on durable goods between 1982 and 1984, contained some related agricultural expenditures such as for bore holes and bicycles for travelling between farm and residence.

The study noted more defaults in repayment in the formal loans than in the informal loans. Arguing along this line, Levin,[1] mentioned that large funds could be created inside the informal sector by encouraging more participants into one cycle. But he argued that the greater the number of participants, and the longer the duration of the cycle, the higher the possibility of default. He therefore argued for a kind of hybrid mechanism that combines the best of the two sectors (formal and informal). Thus members of the informal sector could borrow from the formal sector (especially banks) by using as collateral their continued participation in a respectable society in the informal sector. As noted by Bouman,[2] the fact that in

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1. Levin, Op. cit., P. 82

2. See Bouman, Op. cit., P. 232

some parts of Africa and Asia, claims to a ROSCA fund are accepted as negotiable instruments supports Levin's argument. For example, one may borrow either from inside the society or outside the society (e.g banks, registered co-operative societies etc.) against a future ROSCA fund as collateral. This argument was also supported by the work of Nayer(1) who noted that the Indian banks that organise chitties of the competitive bidding type accept such collateral. However, our data show that from 1982 to 1984 only one such loan was advanced to a farmer in the areas of our study though in this case, other acceptable collateral were presented by the farmer in conjunction with his future fund in the pre-cooperative organisation.(2)

Nayer(3) also noted that the failure rate of chit funds caused by lack of reserves to cover defaults is lower for chit funds organised by banks than for those established by individual promoters. However, whether the improved efficiency and benefit of the organisational expertise due to this system will be feasible in Anambra State is open to question, since evidence mentioned in this study (see Chapter 5, section

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1. Nayar, Op. cit., P.81

2. Evidence collected during the interview with the banks staff (see the Interview Table in the introduction).

3. Nayer, Op. cit., P.82

5.3), and from earlier published studies[1] show that financial systems in Nigeria are full of corruptible staff.

Tschakert[2] also argued in favour of this system in his discussion of the possibilities of a merger of several Ethiopian craft ekubs into an Industrial cooperative enterprise. Thus besides participating in the initial capital, the bank could exercise control, budget and audit functions and meanwhile familiarise members with its services.

The argument put forward by Osuntogun[3] for the integration of informal and formal financial markets, which according to him would involve the favourable features such as accessibility of the informal sector and the economic function of the formal institution such as paying the savers and charging the borrowers explicit interest rates, is not feasible in Anambra State considering the reason given above.

One major policy implication that could be drawn from the Government attitude towards the informal sector is its failure to recognise unregistered societies for the purpose of grant and other developmental help. The officials of these societies interviewed stressed that their financial problem would greatly reduce if the Government could make direct grants

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1. See O. Adeyeye, Op. cit., P.211
2. Tschakert, Op. cit. P.33
3. A. Osuntogun, R. Adeyemo, Op. cit. P.260

available to them or encourage other institutions (both home and abroad) to do so through their machinery. Furthermore, many of the bank managers interviewed agreed that one major reason that influenced their decision to restrict lending to the informal societies is their lack of recognition by the Government. They argued that if this is removed, the informal societies would be able to receive grants from many Agents including foreign aid donors, and, therefore there would be no need for measures such as interest rate ceilings for agricultural loans to be imposed on the banks by the Government which increases the problems by causing the banks to switch the credit away from the agricultural sector, and further creates credit rationing.

It is noted in Chapter 6, that the Banks were very reluctant to create new branches in the rural areas, and that the targets set by the Government are yet to be met. This study, therefore argues that the use of the informal sector to channel public funds into the rural economy would be a very important element in achieving the Government's objective of bringing banking services nearer to the rural population. To do this effectively, the first step must be the Government's recognition of the informal societies as argued above, which would give the banks the needed assurance in making group loans to the traditional societies.

The formal and informal capital market in LICs are serving the interests of different types of clientele. Integration of both, under present circumstances may not greatly benefit the weaker section of the economy, a section for which the formal market has not shown much concern in the past. The remarkable survival of the ROSCA over the years and its persistence even in more sophisticated economies, suggests that there is still a need and a place for this institution alongside other more modern financial intermediaries. There is a vital lesson here for the advocates of building stronger institutions upon traditional forms of savings and credit. If a case can be made for modernising traditional institutions, surely an even stronger plea should be made for traditionalising modern institutions. Perhaps the urgency of the latter is greater

The objectives above are crucial particularly now that the present administration in Nigeria(1) is adopting the policy of 'back to land',(2) in which the slums and road sides huts are bulldozed, the occupants forced to migrate to rural areas. Also as a part of this policy, it has become an offence to hawk without licence. The Government hope that this policy would encourage mass return to the rural areas and subsequently to farming,

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1. The military administration of General Buhari introduced so called 'back to land' policy, where people in the urban slums are forced to migrate to rural areas to farm.

2. 'Back to Land' is the catch phrase simply to indicate that majority of those in urban slums migrated from the rural areas.

since farming is the only readily available occupation in the rural economy at the moment. This policy has indeed reversed the trend in migration (at least for a short-term) which has always been from rural to urban. Secondly, in evidence clearly noted in our survey, this has further put some strain in the inadequate facilities in the rural sector. For example, it has not only increased the already very high percentage of rural population (70%), but greatly reduced the chances of peasants obtaining finance from a few formal institutions in the rural areas. Thirdly, the scarcity of major working capital, land and fertilizer would be further worsened by the increase demand caused by the mass exodus from urban to rural areas.

We therefore conclude that to arrest this explosive situation, the governments should act quickly in the following ways:

i) to unify the land ownership system in order to make it relatively easy for peasants and very poor people to acquire a piece of land (or at least rent one), thus if the definition of land ownership is unambiguous, it would remove the difficulty faced by farmers in presenting land as collateral security;

ii) to increase the subsidy to the agricultural programmes;

iii) to set up special task forces outside the control of civil service and government bureaucracy to implement and supervise the modernisation of both formal and informal rural markets;(1)

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1. This would help to reduce the time lag as was evidenced in the financial guarantee system discussed in Chapter 5, and also to minimise the disseminated corruption and embezzlement in the Nigeria Civil Service - See Report on Banking and Finance in Eastern Nigeria, Sessional Paper No. 4 of 1981 . Government Printer, Enugu.

iv) to provide funds and personnel for on-site training of peasants to use mechanised farming methods;

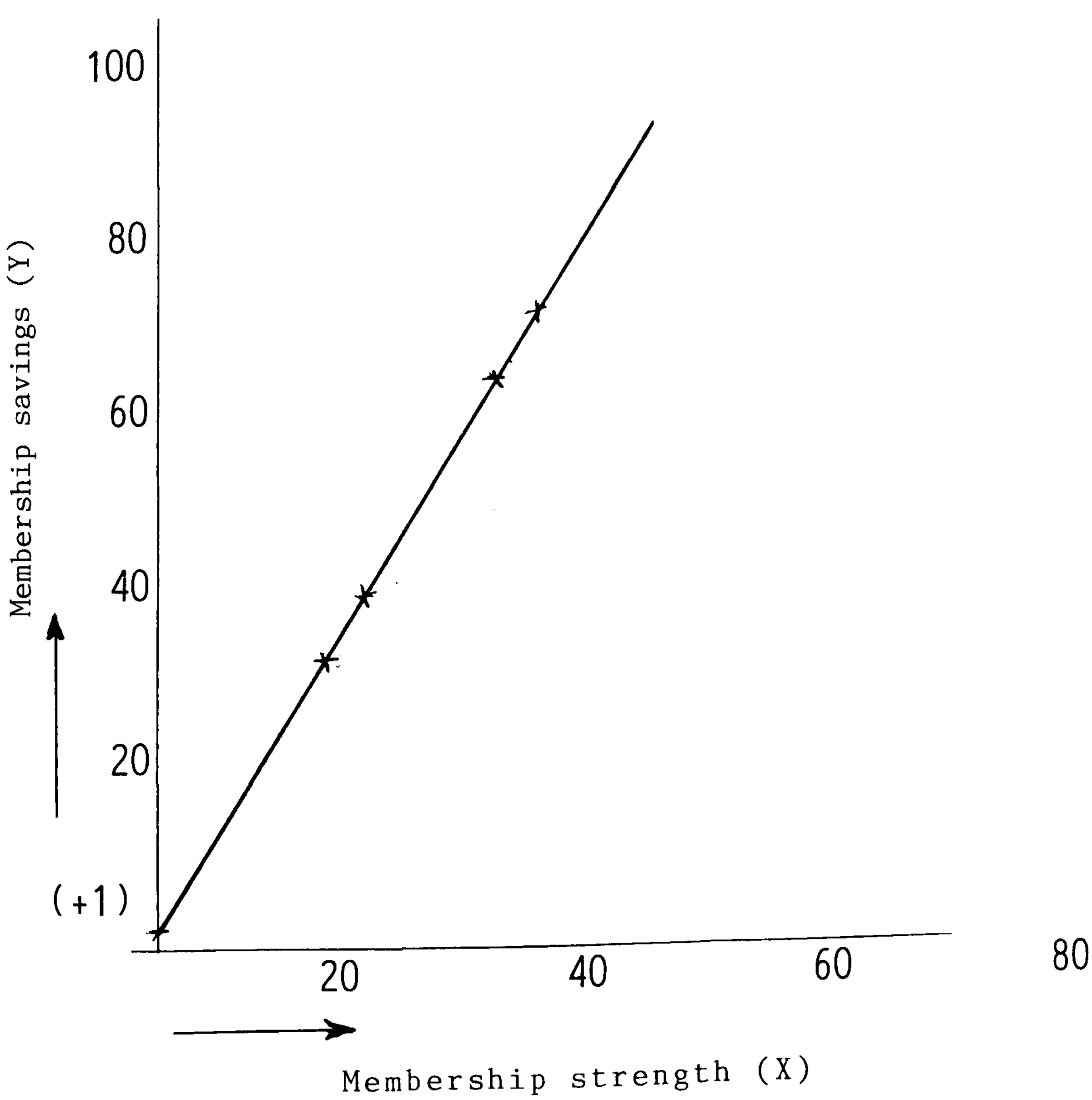
v) to set up a committee to monitor the progress of this scheme. This committee should also be given the task of providing information and educating farmers on what services are available to them, both from the governments and the financial institutions, thus, closing the information gap;

vi) and above all to recognise traditional societies to enable them to obtain group loans and grants, and make them eligible for outside aid especially during disasters.

APPENDIX I

FIG. I SCATTERGRAPH

X	Y
19	28.5
25	37.5
42	63.0
48	72.0



APPENDIX 2

$$r = \frac{Exy - n\bar{x}\bar{y}}{n\,\sigma x\,\sigma x}$$

Where n = the number of pairs

σ = the standard deviation

x = the value of members strength

y = the value of members savings

$\bar{x}$ & $\bar{y}$ = the arithmetic mean

x[M. Strength]	y[M. Savings]
19	28.5
25	37.5
42	63.0
48	72.0
Ex = 134	Ey = 201

$\therefore \bar{x} = \frac{134}{4} = 33.5$ $\therefore \bar{y} = \frac{201}{4} = 50.25$

$$\sigma x = \sqrt{\frac{E(x-\bar{x})^2}{n}}$$

$$= \sqrt{\frac{565}{4}}$$

$$\sigma x = \sqrt{141.25}$$

$(x - \bar{x})$	$(x - \bar{x})^2$
19 - 38.5	210.25
25 - 33.5	72.25
42 - 33.5	72.25
48 - 33.5	210.25

$E(x - \bar{x})^2 = 565$

$$\sigma y = \sqrt{\frac{E(y-\bar{y})^2}{n}}$$

$$\sqrt{\frac{1271.12}{4}}$$

$(y - \bar{y})$	$(y - \bar{y})^2$
28.5 - 50.25	473.0
37.5 - 50.25	162.56
63.0 - 50.25	162.56
72.0 - 50.25	473.0

$$\sigma y = \sqrt{317.78}$$

$E(y - \bar{y})^2 = 1271.12$

Exy

x	y	xy
19	28.5	541.5
25	37.5	937.5
42	63.0	2646.0
48	72.0	3456.0
		Exy = 7581

Now $r = \dfrac{\Sigma xy - n\bar{x}\bar{y}}{n\sigma x \sigma y}$

$= \dfrac{7581 - 4 \times 33.5 \times 50.25}{4\sqrt{141.25} \times \sqrt{317.78}}$

$= \dfrac{7581 - 6733.5}{4\sqrt{44886.424}}$

$= \dfrac{847.5}{847.5}$

$\therefore r = \underline{\underline{+1}}$

APPENDIX 3

Data Collection

As discussed earlier in the methodology, the field work on which this thesis is based was carried out in five Local Government Areas, between August and December 1984.

Data collections were based mainly on questionnaires and interviews because of the following reasons:-

(a) Evidence from previous researches[1] have recommended simplified questionnaires and interviews as the most effective method of obtaining accurate data in the area.

(b) There is only a limited quantity of published material on the subject, therefore the effective way to obtain data was to talk to the people concerned.

(c) These methods were the realistic options available to the researcher, since other methods are dependent on the efficiency of the Nigerian bureaucracy.[2]

(d) It is also important to state that in almost all cases, access to any official or published[3] materials have to be paid for, and because of financial constraints on the researcher, any other method other than the ones employed would have been very costly and may have been impossible to achieve.[4]

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1. See Osuntogun Op. cit. P. 49, See also Padmanabhan, K.p., Credit Planning for Rural Development: Savings and Development, No. 2., 1982, VI.

2. See S.M. Ngu, Administrative Probity and Public Accountability, Ph.D Thesis, University of Liverpool 1985.

3. Many of these published materials cannot be found in the Local Library.

4. See S.M. Ngu, Op. cit. P. 92-114

There are altogether four questionnaires as stated below. The first three questionnaires were designed in the Ibo vernacular, while only the fourth (the bank managements) was designed in English Language, therefore the samples of these farmer questionnaires attached below were translated into English Language.

(1) Individual members of the pre-cooperative organisations, Esusu Clubs, etc.;

(2) Officials of Pre-cooperative organisations, Esusu Clubs, etc.;

(3) Individual Farmers, Small-scale Industries and Peasants:

(4) Banking Management.

As can be seen from the samples below, the members questionnaire was designed to obtain information on the socio-economic activities of members in the group, their reasons of joining the savings capacities, sources of loans and their pattern of expenditure including other benefits they derive from the organisation.

In addition to the questionnaire, a total of 250 interviews with the farmers (which includes members of pre-cooperative organisations, peasants, etc.) were conducted between August 15 1984 and October 12 1984[1]

These interviews were conducted informally at varied times and places at the convenience of the farmers concerned, notably, (a) at the farms during the working hours; (b) at the residence of the farmers during the evenings; (c) at their meeting places during their general meetings. Some substantial

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1. See the methodology for the tables of questionnaires and interviews.

number of these interviews took place at the residence of the researcher during the informal visits. The time spent on each interview varies according to the knowledge of the farmer on the subject matter. For example if the researcher judged a particular farmer to have more information to offer in the course of the work, he would spend more time with him than with other farmers with limited knowledge. But on the average, about half an hour was spent in each interview with farmers.

It should be noted that during these interviews, some of the data obtained were useful for the analysis of Small-scale businesses, because many of these farmers were also part of the Small-scale businesses.

The officials' questionnaire as discussed in the methodology centred on the general workings of the organisations and the nature of their relations with formal institutions.

There are sharp differences between the questionnaires and interviews with the Bank managements, and the other questionnaires and interviews as follows:

(a) The questionnaire was in English Language;

(b) Appointment had to be made for every interview and handing in the questionnaires;

(c) Two letters of introduction from the researcher's University and from the Commissioner for Anambra State Local Government and Chieftancy Affairs were needed to gain access to bank managers;

(d) Unlike informal organisations, most managers were reluctant to discuss some areas of their operations;

(e) One out of six banks interviewed refused to complete the questionnaire but agreed on interviewing only (though during the interview, most of the questions contained in the questionnaire were put to them).

The interview with bank staff were very formal and took between three-quarters of an hour to one and half hours (at the bank office), depending on the cooperation of the manager concerned.

The interviews with the Commissioner as indicated earlier, and with some of the native Chiefs and Leaders were very exhaustive and helpful. The interviews with the Commissioner took place in his office (see methodology) while the interviews with the Native Chiefs and Leaders took place at their residence. The knowledge of their approval and participation helped the researcher to obtain valuable informations that would have been otherwise impossible. For example the Commissioner provided the researcher with a letter of introduction to some of the banks that would not have obliged without one. This letter was of course used in conjunction with the letter of introduction obtained from the researcher's University.

The reliability of the questionnaires are based on the degree of cooperation and response, (see the Tables I-1 and I-2), helped by the technique adopted by the researcher, i.e by designing the questionnaires and carrying out the informal sector interviews in Ibo vernacular, the constraints on language problem and the suspicions with which previous studies[1] had been viewed were removed. The researcher was aware that to obtain accurate data, the objectives of the study had to be effectively communicated to the farmers and peasants and that talking to them in their own local language went a long way to doing that. Secondly this would also go a long way in providing the trust needed between the local people and the researcher to obtain accurate data.

However, there were some problems in obtaining data from the formal sector of the study, particularly the banks, such as no access to official documents and some bank managers. But the constant visits by the researcher and the letters of introduction from the researcher's University and from the Commissioner (see above) helped to diffuse the resistance encountered at the first instance. We therefore conclude that because of cooperation and good responses obtained the accuracy of these data are judged to be good.

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1. See Osuntogun Op. cit. P. 49, S.M. Ngu, Op. cit. P. 110-114. F.J.A., Bouman, Op. cit. P. 232-240

PRIVATE AND CONFIDENTIAL

INDIVIDUAL MEMBERS OF THE PRE-COOPERATIVE ORGANISATION, ESUSU CLUBS ETC., A SURVEY.

Dear Sir/Madam

Please your cooperation is needed to complete this questionnaire, it is entirely for research purpose. You are not required to sign or indicate your name, which means that your opinion will not be identified in any way.

1. Which Local Government Area do you belong? (Please tick)

   (a) Abakiliki

   (b) Anambra

   (c) Idemili

   (d) Nkanu

   (e) Nnewi

2. Which of these organisations are you currently a member? (If you belong to more than one, please tick them)

   (a) Pre-cooperative organisations

   (b) Esusu Clubs

   (c) Others (please state)

   (d) None

3. If your answer in 2 above is 'NONE', have you ever been a member of any group below in the past? (Please tick).

   (a) Pre-cooperative organisations

   (b) Esusu Clubs

   (c) Others

   (d) Never been a member

4. How much is your contribution? (Please state).

5. How often do you make this contribution (Please tick)

   (a) weekly, (b) fortnightly, (c) monthly, (d) other . (Please state)

6. Which of these reasons would you say that influenced you to join your association (you can tick more than one reason).

   (a) The only form of savings available in the area

   (b) The only savings system you know

   (c) The forced savings mechanism involved

   (d) The social aspect of the organisation

   (e) To obtain financial help

   (f) Other benefit (Please state)

7. How long have you been a member of your organisation? (Please tick)

   (a) less than one year
   (b) between 1-2 years
   (c) " 2-3 years
   (d) " 3-4 years
   (e) " 4-5 years

7 cont.

(f) between 5-6 years

(g) " 6-7 years

(h) " 7-8 years

(i) " 8-9 years

(j) " 10 years and over (Please state)

8. In your own judgement where would you place your farming/trading/enterprise, etc. since you join the association? (Please tick)

(a) substaintially improved

(b) marginally improved

(c) Remained the same

(d) worse than before

9. Have you a bank account at the moment? (Please tick)

(a) Yes (Please go to No. 11)

(b) No (Please continue from 10 below)

10. Have you ever kept a bank account in the past? (Please tick)

(a) Yes

(b) No

11. Have you ever obtained loan from any of these formal institutions below? (Please tick).

(a) Banks

(b) Registered Cooperative societies

(c) Moneylenders

(d) Others (Please state)

(e) Never

12. If the answer in 11 above is 'NEVER', have you ever asked for a loan in any one of them? (Please tick)

    (a) Banks

    (b) Registered Cooperative societies

    (c) Money lenders

    (d) Others (Please state)

    (e) Never

13. Have you ever made use of the services provided by any one of the Institutions below? (Please tick)

    (a) Banks

    (b) Registered Cooperative societies

    (c) Money lenders

    (d) Others (Please state)

    (e) Never

14. How much loan did you ask for (Please state)

15. How much loan was approved? (Please state)

16. How much interest did you have to pay? (please tick)

    (a) less than 6%

    (b) between 6-10%

    (c) " 10-15%

    (d) " 15-25%

    (e) 25% and above (please state)

17. Were you able to pay back this loan at the time due? (Please tick)

    (a) all of it

    (b) some of it (Please state)

18. If a bank is situated at the market place, near your business, would you use its services more than you do at the moment? (Please tick)

    (a) Yes

    (b) No

    (c) Indifferent

19. Apart from your normal round of contributions from your Informal organisation/s, do you also obtain loan from it/them* (please tick)

    (a) Yes (please state)

    (b) No

    * delete as appropriate

20. How often do you obtain loan from your Informal organisation? (Please tick)

    (a) every six months

    (b) every year

    (c) more than yearly interval (Please state)

21. Is the loan obtained from your Informal organisation enough for your planned investment? (please tick)

    (a) more than enough

    (b) enough

    (c) marginally less

    (d) not enough

22. Which of these other informal sources do you obtain funds from? (Please tick)

    (a) Friends

    (b) Relatives

    (c) Others (Please state)

23. Which of these items would influence you most to ask for loan? (Please indicate by ranking 1-6 in your order of preference)

    (a) Investment in your business

    (b) Education funding

    (c) Dowry obligation

    (d) Purchase of durable goods

    (e) Hired labour

    (f) Purchase of clothing.

<u>THANK YOU FOR YOUR COOPERATION</u>

<u>KENNEDY CHUBA AKABOGU.</u> <u>DATE</u>: 23/10/84

PRIVATE AND CONFIDENTIAL

OFFICIALS OF PRE-COOPERATIVE ORGANISATION, ESUSU CLUB ETC., A SURVEY

Dear Sir/Madam,

Please your cooperation is needed to complete this questionnaire. It is entirely for research purpose. You are not required to sign, indicate your name or the name of your organisation; that means your opinion will not be identified in any way.

1. Which Local Government Area do you belong (Please tick)

   (a) Abakiliki

   (b) Anambra

   (c) Idemili

   (d) Nkanu

   (e) Nnewi

2. Which of these organisations do you represent? (Please tick more than one if that is the case)

   (a) Pre-cooperative organisations
   (b) Esusu clubs
   (c) Others (Please state)

3. What is your membership strength? (Please tick)

(a) less than 10
(b) between 10-15
(c) " 15-20
(d) " 20-25
(e) " 25-30
(f) " 30-35
(g) " 35-40
(h) " 40-45
(i) " 45-50
(j) " 50 and above (Please state)

4. What is the value of your contribution in each round (Please state)

5. How old is your organisation (please tick)

(a) less than 1 year
(b) between 1-2 years
(c) " 2-3 years
(d) " 3-4 years
(e) " 4-5 years
(f) " 5-6 years
(g) " 6-7 years
(h) " 7-8 years
(i) " 8-9 years
(j) " 10 years and over (Please state)

6. Apart from your normal round of contribution, which of these services do you provide for your members? (Please tick more than one if that is the case)

(a) Welfare Services

(b) Social events

B3

6 cont.

(c) Entertainments

(d) Loans

(e) None

7. How much money do you make available to members as loans at a time (Please state)

8. How often do you make this loan (Please tick)

(a) every 6 months

(b) every 1 year

(c) more than yearly (Please state)

9. How many applications for loan do you receive in every loan season? (Please state)

10. Do you always meet these loan demands? (please tick)

(a) Yes

(b) No

11. If you answered NO in 10 above, do you in fairness to your members, share your lonable fund among those who asked for loan, not necessarily to meet their respective demands? (Please tick)

(a) Yes

(b) No

12. Do you make loans to non-members? (Please tick)

(a) Yes

(b) No

13. Do your organisation keep bank account? (Please tick)

    (a) Yes

    (b) No

    If NO, where do you keep your money? (please state)

14. Has your organisation ever made application for group loan to the bank or any other formal institution? (Please tick)

    (a) Yes (Please state which)

    (b) No

15. How much loan did you ask for? (Please state)

16. How much loan was approved? (Please state)

17. Please could you state roughly about how much extra fund you need in a year to meet the demands of your members. (Please state)

18. Were you able to pay back the loan obtained at the due time? (Please tick)

    (a) all of it

    (b) some of it (Please state)

19. If a bank is situated at the market place, near your business, would you use its services more than you do at the moment? (Please tick)

    (a) Yes

    (b) No

    (c) Indifferent

20. Please could you rank (1-4) these services you provide to members in your order of priority

(a) Loans

(b) Welfare services

(c) Social events

(d) entertainments

<u>THANK YOU FOR YOUR COOPORATION</u>

<u>KENNEDY CHUBA AKABOGU</u> <u>DATE</u>: 20/11/84

PRIVATE AND CONFIDENTIAL

INDIVIDUAL FARMERS, SMALL-SCALE INDUSTRIES AND PEASANTS - A SURVEY

Dear Sir/Madam,

Please your cooperation is needed to complete this questionnaire. It is entirely for research purpose. You are not required to sign or indicate your name; that means your opinion will not be identified in any way.

1. Which Local Government area do you belong? (Please tick)

   (a) Abakiliki

   (b) Anambra

   (c) Idemili

   (d) Nkanu

   (e) Nnewi

2. Which of these occupation below best describes the usual job you do? (Please tick)

   (a) Farming

   (b) Small-scale Industry

   (c) Peasantry

3. How long have you been in this business/ occupation? (Please state)

4. What was your initial capital investment? (Please state)

5. How much do you think your business is worth at the moment? (Please state)

6. How much investment do you make in a year? (Please state)

7. How much roughly is your net savings in a year? (Please state)

8. Is this investment only for your business? (Please tick)

   (a) Yes

   (b) No (Please state)

9. How much extra fund do you require for your business in a year? (Please state)

10. Which of these Institutions do you ask for Loans? (Please state in the order of importance (1-8)

    (a) Pre-cooperative organisations

    (b) Esusu Club

    (c) Registered Cooperative Societies

    (d) Money lenders

    (e) Banks

    (f) Friends

    (g) Relatives

    (h) Others (Please state)

11. Which of these Institutions is/are major source/s of your extra fund, please rank (1-8) in your order of importance).

    (a) Pre-cooperative organisations

    (b) Esusu Club

    (c) Registered Cooperative Societies

    (d) Money lenders

    (e) Banks

    (f) Friends

    (g) Relatives

    (h) Others (Please state)

12. Have you got bank account at the moment? (Please tick)

    (a) Yes

    (b) No

    If 'NO', where do you keep your money? (Please tick).

13. Please could you rank (1-5) in order of importance the reasons below for not utilizing banking Institution.

    (a) Non-availability of banking institution

    (b) Inadequate funds

    (c) Non-familiarity with banking services

    (d) Low interest on savings

    (e) Too much time wasted in dealing with bank staff.

14. What is/are the source/s of your initial capital? (Please rank in order of importance (1-7)

    (a) Gift from family

    (b) Family loan

    (c) Inherited Capital

    (d) Savings/Pre-cooperative organisation

    (e) Esusu Clubs

    (f) Bank loan

    (g) Other sources

15. Which of these factors affecting the progress of your business do you regard the most crucial to your survival? (Please rank in order (1-7) of importance.

    (a) Capital

    (b) Labour

    (c) Managerial Skill

    (d) Lack of Marketing facilities

    (e) Family problems

    (f) Lack of Energy Supply

    (g) Raw Materials

16. Please where is your farm/firm situated? (Please tick)

    (a) Rural Area

    (b) Urban Area

17. What is approximately the distance between your business and the nearest bank office? (Please tick)

    (a) Less than 5km

    (b) Between 5-10km

17 cont.

(c) Between 10-15km

(d) " 15-20km

(e) " 20-25km

(f) " 25-30km

(g) " 30-35km

(h) " 35-40km

(i) 40km and over (Please state)

18. If the bank is closer to you than it is at the moment, would you use its services better than you are doing at the moment? (Please tick)

(a) Yes

(b) No

(c) Indifferent

19. If you have not made use of banking services before, would bringing the bank closer to you influence you to use it? (Please tick)

(a) Yes

(b) No

THANK YOU FOR YOUR COOPERATION

KENNEDY CHUBA AKABOGU DATE:..15/12/84..

PRIVATE AND CONFIDENTIAL

BANKING MANAGEMENT - A SURVEY

Dear Sir/Madam,

Please your cooperation is needed to complete this questionnaire. It is entirely for research purpose. You are not required to sign or indicate your name or the name of your bank; which means that your opinion will not be identified in any way.

1. Which Local Government Area do you belong? (Please tick)

   (a) Abakiliki

   (b) Anambra

   (c) Idemili

   (d) Nkanu

   (e) Nnewi

2. Please where is your bank situated? (Please tick)

   (a) Urban Area

   (b) Rural Area

3. Please what is approximately the distance between your bank and the next available bank? (please state)

4. Please could you state approximately how many loan advance you made to farmers, small-scale business or peasants? (Please state)

   (a) In 1982

   (b) In 1983

   (c) In 1984

   (Please say none if you have not made any loan advance during these periods).

5. Would you say that a fixed interest charges by the Government on loan advances to farmers, small-scale business, etc. is your major reason not to deal with these categories of businesses? (Please tick)

   (a) Major reason

   (b) Minor reason

   (c) Indifferent

6. Please could you rank (1-5) in order of your importance these major reasons for rejecting loan application.

   (a) Size of loan too small

   (b) Unsatisfactory trading records

   (c) No acceptable securities

   (d) Unsatisfactory management

   (e) Other debts

7. Do you think that the fund allocated to farming and small-scale business by the Government each year is enough for the loan demands you receive in a year? (Please state)

   (a) Yes

   (b) No

8. Do you prefer group loan application to individual loan application (Please tick)

   (a) Yes

   (b) No

   (c) Indifferent

9. Where would you rank the repayment records of farmers, small-scale businesses and peasants in relations to other groups of your customers (Please tick)

   (a) Very good

   (b) Good

   (c) Not bad

   (d) (bad)

10. Please could you suggest any method or methods your services to the farmers, small-scale businesses and peasants could be improved?

THANK YOU FOR YOUR COOPERATION

KENNEDY CHUBA AKABOGU

DATE: 29/11/84

BIKO AGWANA ONYE OZO IHE IZARU NA AJUJU NDIA

AKWUKWO OMUMU: NDI-OTU, OZO, ESUSU, NA NDI-OZO

Mazi/Oriaku,

Biko achorom onyinye aka gi na iza ajuju ndia. Onwero ihe nzuzo di na ha, obu soso ihe eji amu akwukwo. Achoghim ka ide aha gi na ya, ya bu na onwero onye ga achoputa onye zaru ajuju ndia.

1. Kedu Local Government Area nke ino? (biko ziko)

   (a) Abakiliki

   (b) Anambra

   (c) Idemili

   (d) Nkanu

   (e) Nnewi

2. Kedu otu nke iso-na-ya ugbua? (Oburu na iso na otutu, biko ziko)

   (a) Otu

   (b) Esusu

   (c) Ndi-ozo (biko ziko)

   (d) Onwero nkem so

3. Oburu na onwero nke iso, onwenugo mgbe iso na ofu)? (biko ziko)

   (a) Otu

   (b) Esusu

   (c) Ndi-ozo

   (d) Mba

4. Ego one ka ina atu na otu mgbe? (biko ziko) N

5. Kedu ugboro one ina atu utu? (biko ziko)

   (a) Izu-uka

   (b) Izu-uka na-bo

   (c) Ofu onwa

   (d) Ndi-ozo (biko ziko)

6. Onweru nime ihe ndia melu iji banye na otu? (oburu na odi otutu ziko)

   (a) Soso nke di nebem bi

   (b) Soso nke mu ma

   (c) Maka iwu eji atu utu

   (d) Maka mmeko di na ya

   (e) Kam weru gbazite ego

   (f) Uru ndi-ozo (biko ziko)

7. Kedu mgbe iji banye na otu? (biko ziko)

   (a) Orubeyi otu-afo

   (b) " afo-abo

   (c) " afo-ato

   (d) " afo-ano

   (e) " afo-ise

   (f) " afo-isi

   (g) " afo-isa

   (h) " afo-isato

   (i) " afo-itolu

   (j) " afo-iri

   (k) afo iri weru gaba

8. Kedu ka iga eji gunye oru-gi na ihe ndia? (biko ziko)

   (a) Anam eme nkoma

   (b) Anam eme akoma nwantinti

   (c) Onwero mgbanwe

   (d) Oka njo ugbua

9. Ina atinye ego na uno-ego ugbua? (biko ziko)

   (a) Ee (biko je na No. 11)

   (b) Mba (biko naga na usoro)

10. Onwenugo mgbe ina etinyi ego na uno aku? (biko ziko)

   (a) Ee

   (b) Mba

11. Onwenugo mgbe igbaziteru ego na uno aku ndia? (biko ziko)

   (a) Banks

   (b) Registered cooperative societies

   (c) Money lenders

   (d) Ndi-ozo (biko ziko)

   (e) Onwebeyi

12. Oburu na izaru 'Onwebeyi' onwenugo mgbe ijuru ajuju ego na ha? (biko ziko)

   (a) Banks

   (b) Registered cooperative societies

   (c) Money lenders

   (d) Ndi-ozo (biko ziko)

   (e) Onwebeyi

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13. Owenugo ihe mmeko jikoro gi na ofu nime ha? (biko ziko)

    (a) Banks

    (b) Registered cooperative societies

    (c) Money lenders

    (d) Ndi-ozo (biko ziko)

    (e) Onwebeyi

14. Ego oné ka ichoro igbaziri? (biko ziko) ₦300

15. Ego one ka inwetaru? (biko ziko) ₦250

16. Uru-ego one ka ikwuru? (biko ziko)

    (a) oruyi 6%

    (b) " 10%

    (c) " 15%

    (d) " 25%

    (e) Okariri 25% (biko ziko)

17. Ikwusiri ugwoa mgbe ha nyere gi? (biko ziko)

    (a) ha nine

    (b) Ufodu nime ha (biko ziko)

18. Oburu na uno aku di nso na ebe ina alu oru ma obu na azu ahia, iga na etinye ego na ya? (biko ziko)

    (a) Ee

    (b) Mba

    (c) Ogbasarom

19. Ina agbazite ego na otu gi? (biko ziko)

    (a) Ee (biko ziko)

    (b) Mba

20. Ugboro one ka ina anata ego na otu gi? (biko ziko)

    (a) Ugboro nabo na afo

    (b) Ofu ugboro na afo ✓

    (c) Oruyi otu ugboro na afo (biko ziko)

21. Ego ina agbazite ona ezu ihe iji ya eme? (biko ziko)

    (a) Ona ezu na afo

    (b) Ona ezu

    (c) Ona ezu nwantiti

    (d) Onayi ezu ✓

22. Ina agbazite ego na uzo ozo ndia? (biko ziko)

    (a) Ndi enyi gi ✓

    (b) Umu nne gi ✓

    (c) Ndi-ozo (biko ziko)

23. Kedu nime ihe ndia ga eme ka igbazite ego?
    (biko ziko ha ka ha ji di oke·mkpa)

    (a) Itinye nihe inaru 2

    (b) Iji kwu ugwo akwukwo 1

    (c) Iji nu nwanyi 5

    (d) Iji zuta ihe ga ano odu 6

    (e) Iji kpo ndi oru 3

    (f) Iji zuta akwa 4

NDEWO

KENNEDY CHUBA AKABOGU

DATE: 28/6/84

BIKO AGWANA ONYE OZO IHE IZARU NA AJUJU NDIA

AKWUKWO OMUMU: NDI ISI OTU, OZO, ESUSU, NA NDI-OZO

Mazi/Oriaku,

Biko achorom onyinye aka gi na iza ajuju ndia. Onwero ihe nzuzo di na ha, obu soso ihe eji amu akwukwo. Achoghim ka ide aha gi na ya,.ya bu na onweyi onye ga achoputa onye zaru ajuju ndia.

1. Kedu Local Government Area nke ino? (biko ziko)

(a) Abakiliki

(b) Anambra ✓

(c) Idemili

(d) Nkanu

(e) Nnewi

2. Kedu otu nke ibu onye-isi ya? (Oburu na ibu onye-isi ototu, biko ziko)

(a) Otu ✓

(b) Esusu

(c) Ndi-ozo (biko ziko)

3. Madu one di na otu gi? (biko ziko)

(a) Oruyi 10

(b) " 15

(c) " 25

(d) " 35

(e) " 45

(f) " 50 ✓

(g) Oruru 50 karia

4. Ego one ka ina atu na otu mgbe? (biko ziko) ₦350

5. Aro one ma obu onwa one ka otu gi di? (biko ziko)

   (a) Oruyi otu-aro

   (b) " aro-nabo

   (c) " aro-ato

   (d) " aro-ano

   (e) " aro-ise

   (f) " aro-isi

   (g) " aro-asa

   (h) " aro asato ✓

   (i) " aro-itolu

   (j) " aro-iri

   (k) Okariri aro iri na uma

6. Ndi otu unu ona enweta uru ndi-ozo dika ndia? (biko ziko ha)

   (a) Onyinye aka ✓

   (b) Ihe ngwuri egwu

   (c) Ihe ~~ememe~~ ✓

   (d) Igbazi ego ✓

   (e) Onweyi

7. Ego one ka otu gi nweru igbazinye na ofu mgbe? (biko ziko) ₦2,500

8. Ugboro one ka unu na agbazinye egoa?

   (a) Na okaro aro

   (b) Na aro ✓

   (c) Aro na uma (biko ziko)

9. Ajuju ego one ka unu na anata na otu afo? (biko ziko) Over ₦40

B3

10. Unu ona agbazi-nye one ego ndia? (biko ziko)

(a) Ee

(b) Mba ✓

11. Iza mba na 10, ina ekeru ndi juru ajuju ego one ego inweru? (biko ziko)

(a) Ee ✓

(b) Mba

12. Unu ona agbazinye ndi na anoyi na otu unu ego?

(a) Ee

(b) Mba ✓

13. Otu unu ona etinye ego na uno aku? (biko ziko)

(a) Ee

(b) Mba ✓

Oburu mba, ebe ka unu na etinye ego? (biko ziko) at home

14. Otu unu ojunugo ego na uno aku, ma obu na ndi-ozo? (biko ziko)

(a) Ee (biko ziko) bank

(b) Mba

15. Ajuju ego one ka unu juru? (biko ziko) ₦3,000

16. Ego one ka unu nwetaru? (biko ziko) None

17. Biko ego one ka unu na acho na otu aro iji were mezue ego ₦5,000 ndi otu unu choro? (biko ziko)

18. Unu ona enwike akwuzu ego unu gbazitaru mgbe achoro ya? (biko ziko)

(a) Ha nine

(b) Ufodu nime ha (biko ziko)

19. Oburu na uno aku di nso na ebe unu na alu oru ma obu na azu ahia, unu ga na etinye ego na ya? (biko ziko)

(a) Ee ✓

(b) Mba

(c) Ogbasaro anyi

20. Biko ziko ka oji di unu mkpa ihea unu na emere ndi otu unu (1-4)

(a) Mgbazi ego 1

(b) Inye aka ozo 2

(c) Ihe emume 4

(d) Ihe oriri 3

NDEWO

KENNEDY CHUBA AKABOGU

DATE: 20/11/84

BIKO AGWANA ONYE OZO IHE IZARU NA AJUJU NDIA

AKWUKWO OMUMU: NDI ORU UGBO, NDI OBERE ORU, AKU NA NDI ORU EGO

Mazi/Oriaku,

Biko achorom onyinye aka gi na iza ajuju ndia. Onwero ihe nzuzo di na ha, obu soso ihe eji amu akwukwo. Achoghim ka ide aha gi na ya, ya bu na onweyi onye ga achoputa onye zaru ajuju ndia.

1. Kedu Local Government **Area** nke ino? (biko ziko)

   (a) Abakiliki ✓

   (b) Anambra

   (c) Idemili

   (d) Nkanu

   (e) Nnewi

2. Kedu udi oru ina aru? (biko ziko)

   (a) Oru ugbo ✓

   (b) Oru-aka ma obu oru-aku, izu ahia

   (c) Oru ego

3. Aro one ka ina aru udi orua? (biko ziko) 2045

4. Ego one ka iji bido (biko ziko) ₦100

5. Ego one ka iche na oru gi bu ugbua? (biko ziko) ₦450

6. Ego one ka ina etinye na oru gi na aro? (biko ziko) ₦500

7. Ego one ka ina edebe na aro? (biko ziko) ₦200

8. Ina atinye ego soso na oru nke gi? (biko ziko)

   (a) Ee ✓

   (b) Mba (biko ziko)

9. Ego one ka ichoro maka oru gi na aro ma na inayi enweta? (biko ziko) N500

10. Kedu nime uno aku ndia ika na aju ajuju ego? (biko ziko ha ka oji di gi mkpa, 1-8)

    (a) Otu 1

    (b) Esusu 2

    (c) Registered Cooperative Societies 6

    (d) Money lenders 3

    (e) Banks 7

    (f) Ndi-enyi gi 5

    (g) Ndi Umu nne gi 4

    (h) Ndi-ozo (biko ziko)

11. Kedu nime uno aku ndia nke gi na enweta otutu ego? (biko ziko ha bido na nke ukwu rua na nke nta, (1-8)

    (a) Otu 1

    (b) Esusu 2

    (c) Registered cooperative societies 6

    (d) Money lenders 3

    (e) Banks 7

    (f) Ndi enyi gi 5

    (g) Ndi Umu nne gi 4

    (h) Ndi-ozo (biko ziko)

C3

12. Ina etinye ego na uno aku ugbua? (biko ziko)

    (a) Ee

    (b) Mba

    Iza 'Mba' ebe ka ina etinye ego gi (biko ziko)

13. Kedu ihe mere na inaghi etinye ego na uno aku? (bido na nke ukwu ruo na nke nta (1-5)

    (a) Onwero uno aku di na ebe anyi bi

    (b) Anyi enwero otutu ego

    (c) Anyi amaro ihe obula gbasara uno aku

    (d) Otutu uru adighi na ya

    (e) Itufu otutu oge na uno aku

14. Kedu ebe igbazitere ego iji bido ahia na mbu? (biko ziko bido na nke ukwu rua na nka nta)

    (a) Onyinye Umu nne gi 1

    (b) Ndi Umu nne gi

    (c) Oke Nna gi nyere gi 3

    (d) Ego idebelu maka odiniru/Otu 2

    (e) Esusu

    (f) Bank loan

    (g) Ndi-ozo

15. Kedu nime ihe ndia gbasara oga niru oru gi iga asi kasi mkpa na oga niru gi? (bido na nke ukwu ruo na nke nta, (1-7)

    (a) Isi ego gi 1

    (b) Mmadu one na aruru gi oru 2

    (c) Ima oru 3

    (d) Enweghi ezigbo ahia 6

    (e) Nsogbu di na ezi na ulo gi 5

    (f) Enweghi oku oyibo 4

    (g) Nawe oru 7

C4

16. Kedu ebe ugbo gi ma obu uno oru gi di? (biko ziko)

    (a) Na ime obodo

    (b) Na obodo oru oyibo

17. Kedu oke bido na uno oru gi ruo na uno aku di gi nso? (biko ziko)

    (a) Oruyi 5km

    (b) " 5-10km

    (c) " 10-15km

    (d) " 15-20km

    (e) " 20-25km

    (f) " 25-30km

    (g) " 30-35km

    (h) " 35-40km

    (i) 40km na uma (biko ziko)

18. Oburu na uno aku di gi nso karia ka odi ugbua, iweta uno aku nso oga eme ka ina etinye ego na ya karia ka ina eme ugbua? (biko ziko)

    (a) Ee

    (b) Mba

    (c) Ogbasaro anyi

19. Oburu na inaghi etinye ego na uno aku ugbua, iweta uno aku nso na ebe ibi oga eme ka itinyebe ego na ya? (biko ziko

    (a) Ee

    (b) Mba

NDEWO

KENNEDY CHUBA AKABOGU

DATE: 15/12/84

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