THE CHANGING PHASE OF FARM CREDIT DELIVERY IN NIGERIA: A REVIEW OF NATURE, CHARACTERISTICS AND ACCESSIBILITY[1]

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Abstract

An inadequate and inappropriate credit facility is widely regarded as the main constraint to the development of agricultural business enterprises in rural economies. There is a limit to which the players in the sub-sectors can exert their full potentials because of the limitation imposed by the resources at their disposal. Farmers have been exploring different avenues for ages to augment their meager savings and manage their farm business operations. A close examination of these avenues and ensued farmers patronage reveals three distinct but non-exclusive phases. Farming operations improved as farmers moved through these successive phases to access credit.

JEL classification: A0, G3, H5, Q1, R1.

Keywords: Farm Credit Delivery; Peasant Agriculture.

1 FACTORS AFFECTING DEMAND FOR AGRICULTURAL CREDIT IN NIGERIA

In most developing countries, credit is seen as the major means of promoting agricultural development. In many of these countries the urge for credit has always been a contentious issue because of the limited opportunities available to farm business entrepreneurs to mobilise enough saving for their farm operation. Availability of credit is very important for any going concern however we can identify specific factors that heighten the call for increased supply of credit for agricultural production. Over the years, the demand for farm credit in Nigeria has increased for a number of reasons. Many of these reasons are rooted in the stage of our agricultural development, gov-

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ernment policy and the ensuing overall socio-economic changes in the country. The increasing demand for farm credit can be attributed to the following factors.

1. The desire of farmers for higher and more secure farm incomes and an easier life (less work). The majority of the population source their living from agriculture and as the demand for other non-farm products increases, farmers will need to intensify farm production unless they have alternative off-farm sources of income. Achieving the necessary production intensification will require new capital investment.
2. The desire to be seen as "better farmers" who operate more efficiently and profitably. The farming population would like to adopt progressive farming methods and become more efficient. For example, farmers will often seek to increase their land holding and modernize their production practices. Such changes usually require additional capital investment.
3. The increasing population and the need to feed it requires an increase in agricultural production, which in turn will lead to increase use of inputs and capital requirements.
4. The task of facilitating stable supply and distribution of produce throughout the year and eliminating the gap between surplus and deficit areas. An efficient marketing and distribution of farm produce throughout the season will require appropriate storage, processing, packaging and transportation facilities that need to be funded.
5. Changes in taste and habit among the population. During the oil boom many Nigerians developed a preference for imported foods but now the government can no longer fund such imports due to dwindling oil revenue, instability in the world oil markets and unethical uses of the revenue. The onus is on domestic producers and the government alike to meet the demands for these products by growing new crops and developing new methods of production.
6. The desire by the government to reduce dependence on food imports in the prevailing economic activities in the country that heightens the need to meet increasing food and fibre requirements. As many people are engaged in other sectors of the economy, the farming population will need to produce beyond their household requirements in order to meet the demands of the non-farm population. Producing the required surplus will require investment on essential inputs.
7. The government's directives to companies to source their raw materials locally. Efforts to meet these demands for raw materials and in the preferred quality specifications will require additional inputs that have to be financed.

8. The government's policy to reduce input subsidies. As the government removes the subsidy on farm inputs, especially fertilizer, the amount of working capital the farmer has to provide increases.

A close examination of these reasons reveals the importance of finance to farm businesses. Considering farmers' inability to meet the additional capital requirement from their own resources, they are often forced to explore different channels sequentially, to obtain requisite credit to improve on the quantity and quality of their farm business operations.

2 DEVELOPMENT OF FARM CREDIT DELIVERY IN NIGERIA

Despite the recent contribution of oil revenues, agriculture continues to be the mainstay of the Nigerian economy and the primary source of income for many of its citizens. Over 75 per cent of the population still derives its livelihood from farming and related businesses. It is widely recognized that peasant farmers, who play the major role in farm production are not able to realise the full potential of the agricultural sector with the resources currently at their disposal. For example, it has been widely reported that rural farms operate in a vicious poverty cycle (Schultz, 1964) that hinders saving and farm investment; thus, they are forced to seek credit to complement their limited savings for their farm operation. As mentioned above, availability of credit could act as the primary mover and facilitator of agricultural and economic development. Access to external finance has not been an easy ride for peasant farmers who form the bulk of agricultural producers in the country.

In Nigeria, as in most rural economies, farmers' access to external finance can be identified as passing through three distinct and yet related stages or sequences. The first stage relates to the form of credit that farmers used before the introduction of banking services. These traditional forms of credit include funding from friends and relations, neighbors, moneylenders, '*eesusu*', and from saving collectors. The second stage, depending on farmers' exposure and the location of the farm business, involves credit from financial institutions; however, these are now experiencing some difficulties with the increased emphasis on the current third stage, the organised non-institutional credit market (ONICMA). The ONCIMA includes, among others, credit unions, rotating savings and credit associations, co-operative savings and credit associations. The stages and their characteristics are illustrated in a diagrammatic sketch shown in Figure 1. However, these stages are not exclusive and there is no clear-cut boundary between them. The following subsections examine the sequence and the peculiar characteristics of the three-phased farm credit delivery.

2.1 Traditional Sources of Farm Credit Delivery

This involves credit sources that are in close proximity both geographically and socially to the farmer. It represents the first choice and point of call for a borrower in a rural economy. The funding from this source can be likened to repayment on demand or call money in the banking sector. As the borrower has a quick response to a request for credit from friends, relations or moneylenders, these lenders can also call for the immediate repayment of the loan if required. Nayar (1986); Adams (1992); Adams and Fitchett (1992); Temu and Hill (1994); Aryeetey and Udry (1994) recognised these sources as the most common form of informal credit delivery characterised by the possibility of reciprocity, personal knowledge, closeness and association between the parties involved. The possibility of further reciprocal exchanges in the future continues to sustain this market.

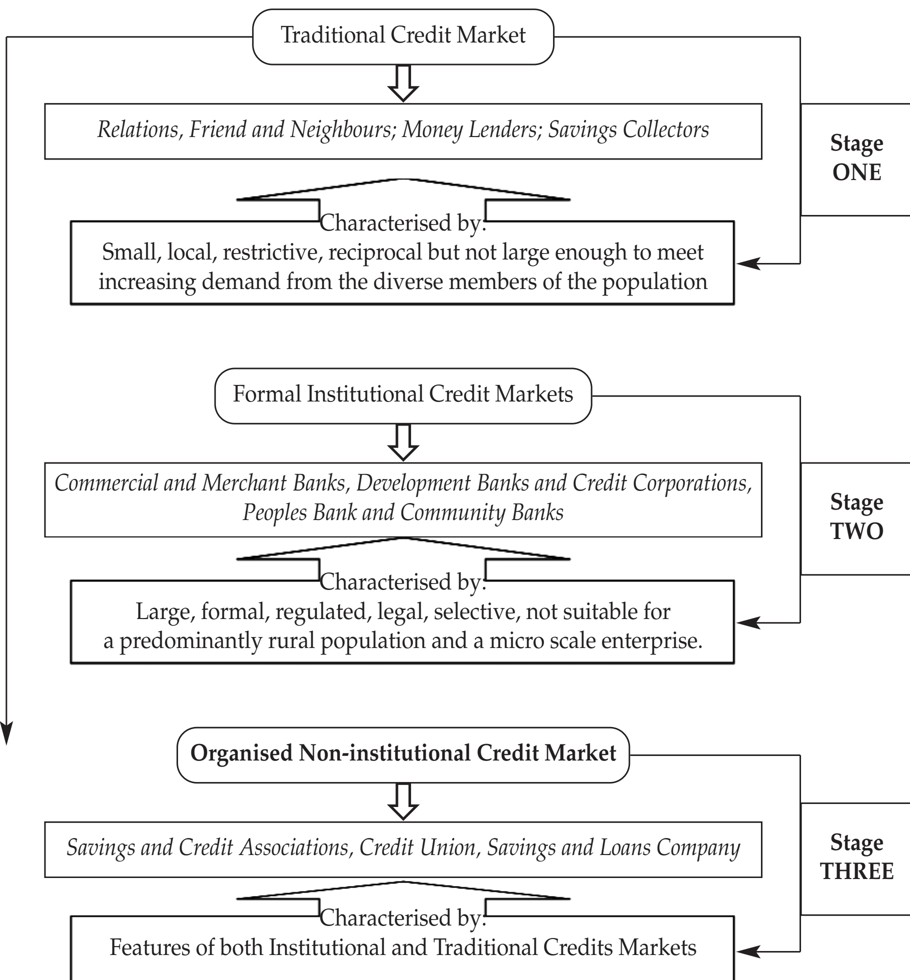
The nature of the credit delivery is also bound by relationships between the two parties such that both the borrowers and the lenders will be aware of the essence of the finance and in some cases, if funding is not provided at the appropriate time, they may both suffer the consequences. Sometimes, the lender may be the first to propose the availability of funds to a prospective borrower. Funds are usually released on trust, often with high intimacy and sometimes with a sense of secrecy. A large proportion of loans from this market are not recorded unless the borrowing is made through the moneylender. As a consequence there is little data available to examine its effectiveness in credit delivery. Also, the credit is usually made for consumption purposes and has a very short duration. Usually friends and relations charge no interest because lenders are implicitly going to be a party to the spending and in enjoying the associated benefit (e.g. lending to finance improved inputs, transport farm produce to the market or weddings, burials, and other social activities).

Credit from moneylenders can be differentiated from credits from other sources of traditional credit. Moneylenders are one of the oldest forms of informal financial service providers whose main aim in the business is to earn as much income as possible from the credit they issue to their customers. They are more profit oriented than any other providers in informal credit markets (Soyibo, 1997). Money lending is a legal activity in Nigeria and the law backs-up its operation (Money Lending Law, Cap 74 1939). Operators usually have other main commercial activities and they embarked on money lending as a way to expand their businesses (Aryeetey, 1994). The business of money lending is usually a part-time one. Because it is noted that they charge exorbitant interest rates most prospective borrowers try to avoid this market.

There is a limit to the credit a farmer can access from the traditional credit

market because of the possible similarity in farm business operations and savings characteristics between the borrowers and the lenders. Also, this market is not often used to finance productive investment because of the 'derogatory' comments, which are often made out of envy in the event that the investment is a financial success. Also the borrowers may not want to be indebted with the lender (relatives) in the event of success. Apart from moneylenders, credits from traditional sources are usually inclined to social affiliation and other philanthropic gestures.

Figure 1: Stages in Farm Credit Delivery in Nigeria



2.2 Financial Institution's Farm Credit Delivery

Institutional farm credit delivery includes credit from commercial and merchant banks, finance companies, government established specialised and agricultural banks, and development corporations. Modern banking operations in Nigeria started in 1892 with the establishment of the African Banking Corporation. This bank later became the Bank of British West Africa (BBWA). As its name suggests, BBWA was owned and managed by the British to provide the necessary financial support to their business operations in the sub-region. The bank operated during the colonial period, and was often referred to as the "colonial bank". The bank was the only one in operation and was responsible for credit finance for all business activities in the country including small scale farms. There was a relatively easy flow of credit among various sectors of the economy but the services were hindered because of the small number of bank branches and their locations. This necessitated the establishment of more banks even before independence.

Commercial banks are banks that take deposits from the general public and make loans. They are privately owned and licensed to offer a variety of financial services to the public with the objective of earning profits. Merchant banks or investment banks are banks that are involved in security trading and corporate finance and they play a more important role in financing large scale farms than peasant farms. Merchant banks in Nigeria have concentrated principally on trade finance and, to a lesser extent, on the mobilisation of medium to long-term capital investment finance (Omoruyi, 1991) at the expense of farm finance. Funding from banks could be important in transforming agriculture. The relative ease of mobilising savings projects banks as an important source of credit for agricultural development. Actually, shortage of institutional credit may be considered to be the major factor contributing to the low level of farm investment in new production methods.

The role of the banking sector in farm finance cannot be overemphasised. In addition to the volume of credit they can advance directly to the farm sector, government also channelled its farm credit programmes through them. However, these banks are reluctant to invest their funds into agriculture because of the perceived high risk associated with such investment (Okorie, 1993). As a result of the continued reluctance to make advances to farms, the government had to compel them by introducing relevant regulations to enforce compliance such as setting of credit quotas and portfolio ceilings (Balogun and Otu, 1991). Others include concessionary interest rates and control on investment of savings mobilised through rural branches (Ukpong, 1993 and Inang, 1990). In addition to commercial banks, farmers also access cred-

its through agricultural banks and agricultural credit corporations. Credits provided through corporations can be either in cash or in nature. Apart from providing credit, corporations are also empowered to develop packages that provide modern input facilities (tools, seeds, fertilizers, agro-chemicals and other storage facilities) that farmers can use on their farm. This is with the intention that the farmers will gradually adopt new production practices that could boost their production performance. In addition, in the latter part of this phase an attempt was made to design financial programmes that would be closer to the people such as rural banking schemes and the establishment of specialised banks.

The Central Bank of Nigeria (CBN) enforced the establishment of rural bank branches by commercial banks to transform economic activities at rural level. The policy aimed to widen the scope of farmer access to credit and to foster the banking habit in a much wider segment of the society. The CBN introduced a phased implementation package for banks to comply with the rural banking programme. The CBN controls the policy on commercial banks' funds to the rural economy by requiring that 40 per cent of the savings mobilised through rural branches should be ploughed back as credit to the rural economy. The government also complemented this by establishing two separate specialised banks: the Peoples Bank and the Community Banks. These specialised institutions are designed to provide financial services to micro- and small entrepreneurs, following the example of the Grammeen Bank in Bangladesh (Ellis, 1992), which successfully provided financial services to the poor and underprivileged in society. These banks were specifically designed to meet the credit needs of the ultra small scale and micro entrepreneurs and the rural or urban 'unbankable' (Okorie, 1993). Credits are released without much emphasis on tangible collateral security. The Peoples Bank's major sources of funds are from the federal and state governments, customer savings, any interested international organisation, financial institutions and philanthropists (CBN, 1996). Community Banks are privately owned; the government only provides technical support services through the formation of a committee, the Community Bank Implementation Committee (CBIC), to oversee the affairs of the bank. By the virtue of their operation, ownership and location it is anticipated that these specialised banks will favour lending to agricultural ventures.

The rural banking programme was not solely meant for agriculture, but agriculture being the most common occupation in rural areas, it was expected to benefit significantly under this scheme. However, Jimoh (1994) in his study identified that these banks extend credit to agriculture, but at a disproportionately low level, compared to the volumes of credit given to trading

and cottage industries. Agricultural lending was ranked third between these three business categories. Indirectly, these banks have not achieved the anticipated grass root feel, which is a feature of the non-institutional credit market described below.

In spite of these measures in phase two, farmers did not have easy access to institutional credit because of the conditions that apply and the environment in which the banks operate. This lack of provision was further weakened by the recent distress in the banking system in the country (Lewis and Stein, 1997). Thus the failure of the formal credit market to meet the peculiar financial needs of the population, forced it to explore alternative sources of credit, especially through the informal credit market. Farmers are consigned to the organised non-institutional credit market which, as presently operated, combines characteristics of both traditional and institutional sources of credit.

2.3 Organised Non-Institutional Credit Market (ONICMA)

Non-institutional sources of credit include those financial outlets that take place outside the operational scheme of the regulatory authority. In the literature, non-institutional credit is also referred to as informal credit markets mainly because of the way in which its services are organised and managed. Aryeetey and Udry (1994) define informal finance as embracing all financial transactions taking place beyond the functional scope of the various confines of banking and other associated services. There are different types of non-institutional sources of finance that are open to farm and related business operations in different parts of the world (Hospes, 1996). Different authors have coined different names for these sources irrespective of their similarity in services and operational procedures. However, the various providers in the organised non-institutional credit market in Nigeria can by grouped under the following categories: moneylenders, rotating-saving and credit association (RO-SCA), savings and credit co-operatives, co-operative savings and credit association, loan companies, credit unions, friends and relatives. Just as there are different types of providers, there are also differences in the motives for their establishment and in their ownership structure. Even so, there are strong similarities in their principles of operation. Many studies have examined the operational characteristics of operators in the informal credit market in different countries: Soen and Comarmond (1972), Tankou and Adams 1995, Ndjeunga and Winter-Nelson, and Brink and Chavas (1997) in Cameroon; Nayar, (1986) in India; Adams and Canavesi (1989) in Bolivia; Hospes (1992) in Indonesia; Adams and Nazarea-Sandova

in Philippines; Aryeetey, (1994) in Ghana; Steel and Aryeetey (1994) in Ghana and Gurgand et al. (1996) in Burkina Faso, Benin and Malawi.

In most developing economies, organised non-institutional credit markets operate concurrently with the formal financial institution's credit market, and in certain instances their services have been noted to affect the operation of the latter. Different reasons have been attributed for their continued operation, patronage and popularity among entrepreneurs in many developing countries. The important motivating factor for their establishment can be viewed from the conceptual and theoretical frameworks proposed by Mckinnon (1973), and Hugon (1990) and briefly highlighted by Soyibo (1997). The framework is illustrated using arguments from two lines of thought: the financial repressionists and the structuralists. Financial repressionists argue that the opportunity for the operation of a non-institutional or informal credit market is created whenever there is excessive regulation of the formal financial market, thereby heightening the effective cost of funds to the point where they are out of the reach of a sizeable proportion of the population. Structuralists argue that the operation of informal credit market is not based purely on economic reasons alone. The need to provide financial services arises from economic and social needs that formal financial service institutions could not immediately recognise or provide for. These needs include the provision of social security by meeting fluctuations in liquidity requirements, the expression of solidarity and the sense of belonging among members and a redistribution of income, (Soyibo op. cit.; Aryeetey, 1994; Udry, 1990 and Hospes, op. cit.).

The operation of the organised non-institutional credit market differs only in its ownership structure and its financial standing, but it has similar principles guiding its operations. Some of these principles includes 1) purpose oriented saving, 2) membership drawn on geographical and socio-economic criteria, 3) joint decision making, 4) lending to members at little or no interest charge, 5) lending to members without collateral security, 6) lending to members in sequence, 7) regular meetings during which members save, borrow or repay outstanding loans and 8) benefit of joint advise, information on opportunities, uses of loans and repayment (Nayar 1986; Besley et al, 1993; Aryeetey, 1994, Aryeetey and Udry, 1995 and Bird, 1997). Tankou and Adams (1995) identified reasons to explain the popularity of these associations among different groups in developing countries. It enables members to mobilise, save and plan their access to a relatively large amount at a predetermined future date since it may be difficult for the individual member to have this total amount on that date. The scheme is usually built on mutual trust and involves little or no transaction costs for members; it serves as an

insurance or reciprocity that members can call upon in times of emergency. Their continued existence and success has been attributed to their operational strategies. For example McArthur et al. (1993) attributed their success to the fact that their members are drawn by cultural traditions, which are incorporated into a formal structure to offer a wider set of financial services. These cultural aspects highlight the determination of people to reduce their financial burdens through self-help mechanisms that use peer pressure from within the local community (Butler, 1997). Some of these cultural traditions are self-help, mutual aids, close-ties and kinship relationships. Thus the main force drawing them together is the possibility of accessing credit at relatively low cost. According to McArthur et al. (op. cit.) the advantage of having access to a large sum at a future date acts as an incentive for individuals to save small amounts on a regular basis. Also members are aware of and are always part of the decision-making process relating to the affairs of the union, which further heightens their commitment to the association. In addition, because of their closeness to the borrowers, they are able to assess the risks involved in their lending. One of the main problems of this type of lending is the possible covariance of risk as many of the people may likely be involved in similar enterprises that are exposed to the same risks. Notwithstanding, the way the organised non-institutional credit market is being operated presently makes it a formidable source of finance for farm and related businesses in rural economies.

3 GOVERNMENT EFFORTS AT IMPROVING FARM CREDIT DELIVERY IN NIGERIA

Government programmes on farm finances are generally focused on institutional financiers for reasons of administrative convenience and because of the apparent ease with which they can mobilise savings and their eventual use in financing economic activities. Successive governments have recognised the direct benefits and the multiplier effects of increasing agricultural production and these are specified in the government agricultural policy (FMA, 1987). Because of the size of their combined contribution to agricultural production, small-scale farmers are often the focus of government credit programmes. The government, recognising the conditions under which farmers operate in Nigeria and the weakness of the avenues to sourcing external funds, introduced measures to facilitate the provision of credit to the farm sector. These measures can be summarised under two broad approaches. The first aims to provide more direct agricultural credit through formal

institutions; the second, provides farm inputs on delayed payment terms. However, it is possible to identify eight different measures that have been taken so far by the government to extend credit to rural farmers (Evbuomwan op. cit.; Balogun and Out, 1992; Ihimodu, 1991; Ukpon and Usman 1991; Iyegha, 1988 and FMA, 1988). These are enumerated below.

- In 1969 credit guidelines were issued to banks to regulate the volume of credit issued to various sectors of the economy. The guidelines specifically stipulated a minimum level of credit for agriculture which in 1972 was fixed at 4% and reviewed continuously until it reached 15% in 1986. This minimum was in operation until 1997.
- In 1972 the government established the Agricultural Credit Guarantee Scheme Fund (ACGSF) to give practical encouragement to the banking sector by underwriting loans made to farmers. The banks had been reluctant to comply with the stipulated minimum lending requirement because of the supposed risks associated with lending to the farm sector. The fund was intended to cushion the banks against this risk, especially when lending to peasant farms.
- The Central Bank of Nigeria (CBN) also gave the commodity boards the necessary financial support to enable them to purchase scheduled produce from farmers. This measure was taken to remove the uncertainty for farmers, of whether the commercial banks would provide finance for produce marketing. However, the commodity boards were scrapped in 1986.
- In 1978 the government established the Nigerian Agricultural and Co-operative Bank (NACB) specifically to provide financial services to the agricultural sector. The bank is purely owned and funded by the government. Also, where the commercial banks failed to meet the minimum lending targets for agriculture there was a requirement that any shortfall should be deposited with the CBN at no cost. The penalty deposits were subsequently transferred to the NACB for onward lending to farmers.
- Since 1978 the CBN introduced concessionary interest rates for agricultural loans with the aim of reducing the cost of farm borrowing. The rates were fixed at between 4 and 5 percent in 1978 but increased to between 8 and 9 percent in 1986 but remained much lower than the interest on loans to other sectors of the economy. However in 1997, as a result of the financial squeeze on the banking sector, the government relaxed the minimum lending requirement (above) and the concessions on interest rates.
- Another measure for improving the flow of credit to the agricultural sector was an attempt to improve the credit mix by lending in the form of cash and in kind to farmers. This was tried by many government agen-

cies and parastatals and other developmental agencies such as the River Basins Development Authority, through the Integrated Rural Development Scheme and special tree crop and seed multiplication projects.

- In 1977 the government issued a directive on the rural banking programme which aimed to encourage the banking habit and the mobilisation of rural savings such that loanable funds sourced within the rural areas would be used to enhance local rural development. The government complemented this directive by introducing two related but distinct and specialised banking schemes for the local and grass root businesses; the Peoples Bank and the Community Bank.
- In 1987, the last major measure introduced by the government was the Agricultural Insurance Scheme. This was introduced in response to the banks persistent complaint of poor loan recovery as a result of the high risks associated with lending to the farmers. The scheme indirectly acts as security for the repayment of bank loans advanced to the farm sector where loan repayment may be jeopardised by the risky nature of agricultural production.

Government efforts are producing positive result, as there is an improvement in the volume of credit from the institutional sources to the agricultural sector (CBN, 1996) except that the amount is skewed to medium and large-scale farms (Olubiyo, 1999). The next section examines the specific problems constraining peasant farmers' unhindered access to additional funding for their farm businesses. These problems are discussed by examining the obstacles created by the farming patterns, the activities of the financial institutions and government policy.

4. PROBLEMS OF FORMAL FARM CREDIT DELIVERY TO SMALL SCALE PEASANT FARMS

An in-depth examination of the various policy measures governments have introduced to date suggests that there should be a more than adequate credit supply to the farm sector. However, despite the many programmes for increased institutional credit to farms, small-scale farmers have not been adequately supplied with finance. According to Lipton (1979); Srinivas and Higuichi (1996) and Okoruen (1981) two self-reinforcing aspects compound the problem of low-income borrowers. The first aspect relates to the perception of the lenders whereby small-scale farms are considered to be high-risk borrowers, affecting low returns on investment and the high cost of loan administration. The second aspect relates to the nature of their business activi-

ties (seasonality, long gestation periods, small size of holdings and loans, among others) and the poor marketability of their assets.

Several factors can be identified as obstacles to the free flow of funds to the farm sector. This is irrespective of the various policy measures governments have introduced to date. Generally, the problem of financing small-scale farms business can be categorised into four groups according to the nature of farm production, the farmers' characteristics, the banks' operating procedures and government policy. The next sub-section examines the specific characteristics of the small-scale farms that often preclude them from being adequately served by formal credit market.

4.1 Obstacle Created by the Nature of Farm Production

The issue of farm risk is central to these problems. The risk element can even be seen for both the provider of credit and the farmers. Credit markets operate as an intermediation between savers and borrowers of funds or between owners and users of funds respectively. It advances the surplus or savers' fund for the use of borrowers with a promise of repayment at a date that is jointly agreed upon. The operators of the credit markets have two complementary goals in their intermediation roles. These are to defend the interest of the owners of funds, and still strive to earn a margin on advanced funds so as to ensure their own continued business success. The risk involved in the credit market is associated with the time lag between the time a loan is advanced and its due repayment date. The time lag in executing the credit contract introduces the possibility of variations in external factors, which leaves the contract open to danger or risk.

Lenders and borrowers face different risks in credit delivery. Borrowers face the risk of not being able to meet the interest and repayment schedules due to project failure or the diversion of loans to projects that could not meet the repayment schedule. Also there is the risk associated with the possibility that a borrower possesses more information than the lender and may use it at the expense of the lender. For example, a borrower may know that a change in circumstances will force him to default on a loan but the lender may not know this. Quite often in credit markets, borrowers possess more information than lenders and the volume of such information is higher in formal markets than informal markets. Lenders face the risk of accurately discerning between borrowers who are likely to default. As a result of the nature of the funds in their possession, lenders face increasing pressures to ensure their money is repaid in due time. As lenders aim to achieve two different but complementary goals (safeguarding depositors' funds and making

profit in the process), they are subject to a higher impact of risk than the borrowers (Herath, 1996). Other characteristics of the farm operation, such as the small size of the farm holding, the consequential small size of loans, the lack of clear-cut distinction between the farm business and farmers household, no legal right to tangible property, the high level of illiteracy and the reliance on age-long production practices, all act as drawbacks to farmers' access to formal farm finance.

4.2 Obstacles Created by the Banking Institutions

The operational procedures of many banks create conditions that hinder the release of credit and the performance of projects they are financing. Some particular considerations are briefly discussed below.

- Untimely disbursement of loans encourages the problem of loan diversion and the consequential poor loan repayment.
- Inadequate project appraisal before approving the loan does not allow creditors to effectively ascertain the true nature of the project's future performance. A detailed appraisal of a project could signal the likely future and success of the project. When project applications are hurriedly assessed or assessed by incompetent loan officers the likelihood of the loan being a success is much reduced.
- Inadequate and unqualified personnel monitors and supervises loan disbursed, ensuring that the borrowers use the loan as intended and effect repayment on time.
- Inadequate funds mobilisation by the banking institutions necessitates loan rationing. Quite often, agricultural projects are not high in the ranking of projects to be financed.
- Despite the government policy on the rural banking scheme, few banks are located in predominantly farming areas; this requires the farmer to travel long distances before getting to the bank. The farmer may have to make several trips to process the loan application.
- Apart from the relatively high interest charges on bank loans, the time spent travelling and the cost implications for the farmer increase the overall cost of formal loans, and discourage the continued patronage of farmers.

4.3 Obstacles Created by Government Policies

As mentioned earlier, the government introduced varying policy measures to facilitate farm credit delivery. However, some of the policies are not

embracing enough while there is conflict and duplication in the operation of some of them. Some of the important obstacles relating to government policies are briefly discussed below.

According to Ojo and Akanji, (1996) some macroeconomic policies that the government introduced were poorly implemented. For example the concessions on interest rates benefited only a few privileged borrowers and include few farmers. Also the CBN did not seriously monitor the minimum lending requirement of commercial banks, leaving them to falsify returns to the CBN. In addition, most farmers could not enjoy the benefit of fertilizer subsidy since they cannot access the inputs.

The depreciation of the exchange rate during the Structural Adjustment Programme (SAP) period, with the intention of boosting agricultural production and exports, was not fully backed up by appropriate monetary and fiscal policies. This heightened the cost of production as the prices of farm inputs increased, including importation of farm machinery and other equipment. When this problem was confounded with high inflation, the real interest rate became negative and it hampered savings and investment in the economy and the access to small-scale funds.

The fiscal and monetary policies introduced have been expansionary in nature. These created huge fiscal deficits, which the government readily financed by money creation resulting in reduced growth in credit to the private sector and high inflation; consequently credit supply to small-scale farms was reduced. High inflation has the effect of increasing the nominal interest rates, which in turn cause problems in servicing debts in the form of conventional loans (Hill and Seagraves, 1986). This problem is more pronounced in agricultural loans, which are mostly of long-term duration.

There is duplication and conflicts in the operational strategies of many of the agencies that were established to increase credit to the farm sector. This is coupled with the fact that some issues relating to agriculture (such as trade and tariffs, pricing, policy planning, marketing and rural finance) are implemented in an ad-hoc basis, thereby hampering the attainment of their goals.

5 CONCLUSION

The development of any peasant economy depends on the quality and quantity of output generated from its agricultural sector. Agriculture remains the only sector through which most peasant economies can be transformed. Many countries are endowed with varying amount of mineral resources, however agricultural output exerts a greater impact on the general

wellbeing of citizens. In Nigeria, the proportion of population that derives their livelihood from agriculture suggests continual search for the most appropriate ways to make farm resources available. It has been shown in this paper that peasant farmers have been exploring different avenues to obtain credit to finance their farm business operation. Credit has been identified as the major facilitator for agricultural production because it can be used to take possession of other important farm inputs. Considering the circumstances of rural farms it is suggested that governments and other concerned individuals and groups should come to the assistance of these farmers in their continuous quest to adequately finance their farm business. This can be achieved by liaising with them to understand their dilemmas and fashion out appropriate strategies to ease their access to a more amenable and friendly external credit.

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Résumé

Une offre de crédit inadéquate et inappropriée est largement considérée comme la principale contrainte au développement des entreprises agricoles dans les économies rurales. Il existe une limite à laquelle les acteurs des sous-secteurs peuvent exercer leur plein potentiel à cause de la limitation imposée par les ressources à leur disposition. Les agriculteurs ont exploré de différentes avenues au cours des années pour augmenter leurs maigres épargnes et gérer leurs opérations commerciales. Une analyse attentive de ces avenues et du conséquent patronage des agriculteurs révèle trois phases différentes mais non exclusives. Il existe une relation étroite entre le patronage de ces phases et la nature de l'entreprise agricole vis-à-vis de l'échelle, de la propriété, de l'emplacement et des buts.