THE AGRICULTURAL CREDIT GUARANTEE SCHEME: ITS ROLES, PROBLEMS AND PROSPECTS IN NIGERIA'S QUEST FOR AGRICULTURAL DEVELOPMENT

NWOSU, F. O; N.N.O. OGUOMA; N.G. BEN-CHENDO; A. HENRI-UKOHA
. Department of Agricultural Economics,
Federal University of Technology
Owerri, Imo state
ofnwosu@yahoo.com; nnooguoma@yahoo.com; gnbenchendo@yahoo.co.uk; haukoha@yahoo.com

ABSTRACT: The Agricultural Credit Guarantee Scheme Fund (ACGSF) is a policy instrument of the Federal Government of Nigeria on Agricultural Credit. The Scheme was established by Decree Number 20 of 1977 but started effectively in 1978. The Scheme was established to provide guarantee on loans granted by banks to farmers for agricultural production and agro-allied processing. This paper, therefore, tried to review the scheme, its roles since inception, problems and prospects in contributing towards the nation's agricultural development. It was concluded that since credit is needed for enhanced productivity and agricultural development, the three tiers of government in Nigeria should give the scheme the necessary support and publicity so that farmers (particularly small farmers) can benefit from its laudable objectives. This will go a long way in ameliorating the seemingly dismal output of our farmers. [Researcher.2009;2(2):87-90].(ISSN:1553-9865).

KEYWORDS: Agricultural Development; Credit Guarantee; Farm Productivity, Food insecurity.

INTRODUCTION

Agricultural development is a process that involves adoption by farmers (particularly small farmers) of new and better practices (Garba, 1987; Orebiyi, 1999). This is due to the fact that most of the new practices have to be purchased but few farmers have the financial resources to finance it. It was in recognition of this fact that the Federal Government at various periods put in place credit polices and established credit institutions and schemes that could facilitate the flow of agricultural credit to farmers. (Adegeye and Dittoh, 1985). One of such laudable Schemes has been the Agricultural Credit Guarantee Scheme Fund (ACGSF). The ACGSF is not the first credit scheme that the Federal Government put in place to encourage agricultural development. According to CBN (1986), other farm credit schemes included the

i. Nigerian Agricultural and Co-operative bank (now known as the Nigerian Agricultural Co-operative and Rural Development Bank) established in November, 1972;
ii. Establishment of rural branches of Commercial banks throughout the country following a mandatory Federal Government policy directive in 1976;
iii. Creation of the River Basin Authorities in 1979 throughout the Country;
iv. Establishment of both enclave and state wide. Agricultural Development Projects throughout the Country between 1972 and 1980 to facilitate among other things the provision of agricultural credit to farmers;
v. Development of State Ministry operated and other government sponsored agricultural credit programmes in the second half of the 1970s;
vi. Development of technical support and agro service establishments that would facilitate the supply of Credit to farmers throughout the country between 1976 and 1980.

However, the persistent failure of the above institutions and conventional banks to adequately finance agricultural activities in the mid 1970s was a clear evidence that the country was in need of further financial and institutional reforms that would revitalize the agricultural sector by encouraging the flow of institutional credit into it. Also, the unpredictable and risky nature of agricultural production, the importance of agriculture to our national economy, the urge to provide additional incentives to further enhance the development of agriculture to solve the problem of food insecurity, and the increasing demand by lending institutions for appropriate risk aversion measures in agricultural lending provided justifications for the establishment of the Nigerian Agricultural Credit Fund (ACGSF) by the Federal Government of Nigeria in 1977 (Mafimisebi *et al*, 2009).

The Scheme was established by Decree 20 of March, 1977 and as amended on 13th June, 1988. It provides for a fund of N100 million subscribed to by the Federal Government (60%) and Central Bank of Nigeria (40%). The fund was enhanced to N1 billion on the 8th December, 1999 and later to the present level of N4 billion as at early 2006 (CBN, 2007). All these are aimed at solving the problem of inadequate funding of farm operators by banks and to cushion these financial institutions against the effects of high risks associated with investments in farm enterprises as well as to raise the productivity and earnings from farm investments so that the incidence of loan repayment default among the farmers will be minimized (CBN, 1977; Ogwuma, 1985; Eyo, 1985; Oguoma, 2002).

Role of the Scheme

Various Studies have shown that Credit plays an important role In enhancing agricultural productivity of the farmer (Okorji and Mejeha, 1993; Nweze, 1991; Mafimisebi *et al*, 2008). The general purpose of the Nigerian Agricultural Credit Guarantee Scheme Fund is to encourage banks to lend to those engaged in agricultural production and agro – processing activities. Thus, the specific objectives of the scheme is the stimulation of total agricultural production for both domestic consumption and export; and the encouragement of financial institutions to participate in increasing the productive capacity of agriculture through a capital lending programme. The scheme is expected to provide guarantee on loans granted by financial institutions to farmers for agricultural production and agro-allied processing. The fund's liability is limited to 75% of the amount in default net of any amount realized by the lending bank from the sale of the security pledged by the borrower. Since the inception of the scheme in 1978, there has been a continuous aggregate increase in the number of loans to agriculture from a paltry 341 loans amounting to N11,28 million in 1978 to 3,571 loans amounting to N218.60 million as at May, 2006. Also, data at the Central Bank of Nigeria show that a total number of 453,748 loans valued at N11.28 billion were guaranteed from the inception of the scheme in 1978 to May, 2006. This translates to an average of 16,205 loans valued at N402.86 million per annum. The agricultural activities that can be guaranteed under the scheme include the:

a. Establishment and / or management of plantation for the production of rubber, oil palm, cocoa, cotton, coffee, tea and other cash crops.
b. Cultivation and production of cereals, tubers, and root crops, fruits of all kinds, beans, groundnuts, peanuts, beniseed, vegetables, pineapples, bananas and plantains;
c. Animal husbandry that covers poultry, piggery, rabbitry, snail farming, rearing of small ruminants like goats, sheep and large ruminants like cattle.

The scope of (c) above was expanded in the amendment decree of 1988 to include fish culture, fish captures and storage. The scheme guarantees loans to farmers from lending institutions up to the tune of 5 million naira for individual farmers and 10 million Naira for group /cooperative farmers (CBN 2007). In the event of default in loan repayment, the lending bank will serve the guarantor (the CBN), a notice of default. Afterwards the lending bank is expected to make further effort as it deems fit to recover the amount in default from the borrower. If any balance remains after the above steps and the default persists after 6 months of notice of default, the lending bank could realize the pledged security and there after put a claim on the scheme fund so as to realize 75% of the balance outstanding as at the time of application for claim to the bank.

Problems of the scheme:

In the course of the fund's operations, a number of problems have been identified as militating against its smooth performance. According to Akinleye *et al* (2005), some of the problems are:

(a) Increasing incidence of loan defaults. The rate of loan repayment by ACGS beneficiaries is very low. This view is also held by Njoku (1986) and Ojo (1986). Reasons adduced to this are natural disasters, poor farm management, low product prices, loan diversion, deliberate refusal to pay and the inability of farmers to assess loan requirements properly leading to farmers receipt of inadequate or excessive loans;

(b) Bank related problems:- Participatory banks in the ACGS do not cooperate fully in lending to farmers. Because of the high cost of processing loans relative to the actual loans and the high default rate of the farmers, many banks prefer to pay penalty to risk lending their funds to agriculture. Also banks fault the farmers for submitting incomplete application forms. In some cases where loans are approved, it arrives too late for it to fulfill the purpose for which it was intended. This delay seems more of administrative than any other.

Another problem that militates against the smooth operation of the scheme is on "Personal guarantee" as a security that may be offered to a bank for the purpose of a loan. "Personal guarantee" as a condition was not explained in the decree. This therefore makes it almost nothing as its interpretation rests on the bank officials. Also the

N20,000 loan which the scheme allowed to be collected through "Personal guarantee" can not do much for any farmer in his farming activities. Also, the other securities recognized by the decree that could be offered to the bank for the purpose of any loan under the scheme pose problems in the smooth operation of the scheme. The securities are legal title to land, and a life assurance policy. It is a common knowledge that most people especially in the rural areas do not have clear titles to their land which could serve as collateral for loan under the scheme (Okorie, 1998).

Finally, the ACGSF has the problem of publicity. Oguoma (2002) noted that there is a low turn out of farmers in most states of the federation in patronizing the scheme because of lack of awareness.

Prospects of the Scheme

From various studies on the Agricultural Credit Guarantee Scheme Fund in Nigeria, it is evident that the scheme has increased the flow of funds to agriculture. However, stakeholders in the scheme viz: the farmers, lending institutions and government must show greater commitment and dedication for the scheme to achieve its laudable objectives. Farmers should be encouraged to be applying for loans form the participating banks to enhance their agricultural activities and productivity; and also to repay the loans as and at when due.

The lending institutions should make efforts to grant agricultural loans at the appropriate time to farmers who met the conditions. Late release of loan to a farmer leads to loan diversion / misuse which has been established to be a major cause of poor loan repayment. Secondly, it behooves on the lending institution to ensure that the loan being granted to a farmer is "quite adequate" for the purpose, as granting of an inadequate loan for a purpose is a prelude for loan diversion and its consequence on the loan repayment ability. The government should take a second look at the securities that may be offered to the bank for the purpose of a loan under the scheme. There is the need for government to review the idea of a farmer using a certificate of occupancy on a land as "Security" before any amount above N20,000 is approved. It is a common knowledge that small farmers (especially in the rural areas) do not have legal title on their farmlands. Therefore, there is the need to review this subsection so that the traditional ruler or President-General of the applicant's community or a civil servant of a particular category could stand as surety for loans under the scheme. The scheme still needs publicity as most farmers especially in the rural areas are oblivious of the scheme's objectives. It therefore behooves on the government (Federal, State and local Governments) to use its agencies like National Orientation Agency (NOA), Agricultural Development Programme (ADP) extension officers and other relevant bodies to organize lectures on the scheme in the farmers locality.

Finally, government should ensure that bank claims as a result of default and borrowers' interest draw backs are paid without delay. This will not only motivate both participating banks and farmers in the scheme but will also attract others who are skeptical. The end result is the nation reaping the dividend of adequate credit into our agricultural sector and that is increased productivity, which is a *sine qua non* in agricultural development

AUTHORS INFORMATION

1. F.O.NWOSU M.Sc
   Lecturer/ Research Fellow
   Department of Agricultural Economics,
   Federal University Of Technology
   Owerri, Nigeria
2. N.N.O OGUOMA Ph.D
   Professor
   Department of Agricultural Economics
   Federal University of Technology
   Owerri, Nigeria
3. N.G. Ben-Chendo M.Sc.
   Lecturer/ Research Fellow
   Department of Agricultural Economics,
   Federal University of Technology,
   Owerri, Nigeria
4. A. Henri-Ukoha M.Sc
   Lecturer/Research Fellow
   Department of Agricultural Economics
   Federal University of Technology
   Owerri, Nigeria

REFERENCES

Adegeye, A. J. and Dittoh. J.S. *Essentials of Agricultural Economics*. A publication of Centre for Agricultural and Rural Development Ibadan.1985: 161- 6.

Akinleye S. O; Akanni K. A and Sekumade A. B. An appraisal of the Agricultural Credit Guarantee Scheme in Nigeria. *Journal of Agricultural Management and Rural Development, Vol 2:51-68*

Central Bank of Nigeria: Annual Reports and statistical bulletin 1977 – 1988.

Central Bank of Nigeria . *Agricultural Credit Guarantee Scheme Fund of Nigeria*

(ACGSF): An impact assessment. A study conducted by Centre For Resource Analysis And Management for Central Bank of Nigeria Abuja 2007:15-6.

Eyo, E The Agricultural Credit Guarantee Scheme (ACGS) .*CBN Bullion Vol. 10 No. 1985:. 30-34*

Garba, I. G. Credit and finance for Agriculture in Nigeria CBN *Bullion Vol 11 (1) 1987:37 – 41*.

Njoku J. E (1986): *Loan Diversion as a cause of loan Default in Nigeria: Causes, Consequences and Preventive measures*. A Paper presented at the NACB Seminar Owerri. November 18 – 21 1986:8-10.

Mafimisebi, T. E, A. E Oguntade and O. E. Mafimisebi. A *Perspective on Partial Credit Guarantee schemes in Developing Countries: the case of the Nigerian Agricultural credit guarantee scheme fund (ACGSF) Pp 2-4.*A Paper presented at a World bank conference at Washington D.C from March 13-14 2008 :2-4.

Nweze N. J. The Role of Women's Traditional Savings and Credit Co-operatives in Small farm Development. In Doss, C. R and Olson, C (eds). *Issues in African Rural Development. Winrock International Institute for Agricultural Development 1991:192-5.*

Oguoma N. N O. *An Evaluation of the Agricultural Credit Guarantee scheme in Imo State, Nigeria.* Unpublished Ph.D thesis, Department of Agricultural Economics, Federal university of Technology Owerri 2002:13-15.

Ogwuma, D. A. The role of banks in Agricultural financing. *CBN Bullion, Vol.9, No 41 1985: 3 – 12.*

Ojo A. T. Over view of the Financial system: An appraised in the context of Nigerian Economic Development. *CBN Bullion 10 (1)1986: 22-29.*

Okorie A. The Agricultural Credit Guarantee Scheme Fund and Credit administration in Nigeria: Problems and Prospects. In M. O. Ijere and A. Okorie (eds) *Readings in Agricultural Finance*. Longman Publisher Nigeria Ikeja 1998:38-40.

Okorji, E. C. and Mejeha R. O. The formal Agricultural loan in Nigeria: the demand for loans and delinquency problems of small holder farmers in Owerri Agricultural zone of Imo State, Nigeria. *Int. J. Troprical Agriculture (1) 1993:11.-13*.

Orebiyi, J. S. *The Performance of Rural Credit Markets in Imo State, Nigeria.* Unpublished Ph.D Thesis, Department of Agricultural Economics, Federal University of Technology, Owerri 1999:10-15.

DATE OF SUBMISSION: 2/12/2010