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An analysis of credit acquisition and repayment performance of agribusiness holding under the community banking system in IMO State, Nigeria

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CERTIFICATION

NWANKWO, OLIVER OBIOHA, a postgraduate student in the Department of Agricultural Economics, University of Nigeria, Nsukka, with Registration Number PG/M.Sc/93/14287 has satisfactorily completed the requirements for the degree of Master of Science (M.Sc) in Agricultural Economics.

The work embodied in this project report is original and has not been submitted in part or in full for any other diploma or degree of this or any other University.

DR. C. J. ARENE
SUPERVISOR

9/6/98
DATE

DR. E. C. NWAGBO
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09-06-98
DATE

DEDICATION

Dedicated to my family members, my beloved Mrs Chinwe Nonye Nwankwo and my children Uchenna, Chimezie, Elochukwu, Chibueze, Uzoma and Adaku, for their understanding.

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ABSTRACT

The study was carried out in Imo State of Nigeria because it possessed much of the favourable conditions for achieving Community Banks' (CBs') objectives. A combination of purposive, simple and stratified random sampling techniques were used.

Respondents showed 100% awareness of CBs services. CBs paid less attention to socio-economic characteristics in loan disbursement. A 19.88% sponsorship of CB agribusiness borrowers' investments by CBs was observed. Records show that 12.83% of CBs loan portfolio went to agribusiness. Much of agribusiness is still sponsored from personal savings indicating inadequate credit supply and under-funding. Many CBs also aided developmental projects thus improving the economic well-being of the rural people.

Regression analysis showed that net income, loan size and age played significant roles in loan repayment, while age and loan size showed negative effects, net income had positive effect.

A mean difference in the net income of CB borrowers and non-borrowers was observed in favour of borrowers. The difference however did not prove statistically significant.

The borrowers were found operating on high owners' equity/total capital ratio of 80.12%. Return per common share capital of ₦279.89 to ₦204.52 invested was a sign of high profitability awaiting investors. Livestock was identified as the most profitable enterprise.

Discriminant analysis showed that net income contributed 94.83% to loan repayment while loan size contributed 5.16%. Both exerted positive influences. Loan repayment rate was found high. The percentage of "grouped" cases correctly classified as good credit risk was 76.92%.

The chronic problems of delay and insufficient loan amounts were found hindering agribusiness development. Irregular repayment and improper completion of forms also formed part of the loan administration's bottlenecks.

Mobilization of more funds was seen as the surest way of making CBs invest more on agribusiness.

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CHAPTER ONE

INTRODUCTION

1.1.0 Background Information

Ever since, at least the time of Ricardo, the theology of development has emphasized that agricultural progress contributes to the growth of the economy through supply of food stuff and raw materials, providing investment funds to non-agricultural sectors, enhancing the financial position of farmers thereby increasing their demand for products from other sectors and by earning foreign exchange through export or by saving foreign exchange through import substitution. Ricardo viewed the problem of diminishing returns in agriculture as crucial. He believed that the limitations on the growth of agricultural output sets the upper limit to the growth of non-agricultural sectors and to capital formation (Meier, 1989).

Nigerian agriculture had entirely been subsistence until the advent of the colonial administration. A youth wishing to engage in agribusiness did so without money involvement. He inherited his piece of farm land, got his crops by inheritance or through share-cropping. The labour for the farm operations

was obtained through labour exchange. The proceeds were partly consumed by the family and partly given out as gifts. Some of it were exchanged for what the family could not produce. Some were used to pay tributes to chiefs.

The British colonial administration monetized the traditional agricultural economy by purchasing agricultural products and introducing taxation (Okorie and Umezurike, 1990). When the economy became monetized, food items surpluses were sold for money. Money became the medium of exchange. The love for its acquisition developed. Consequently people gave little out as gifts and even resisted tributes to chiefs. Family labour increased in the farm against leisure which was highly indulged in. The hiring of labour outside the family became necessary. As more and more money were introduced into the economy through the purchase of more agricultural products, money came to be used in developing the economy. As farmers entered the market economy, and needed more funds to increase production, the need for credit arose.

Agriculture became a key factor in the economic growth of the nation. Recognising the importance of

agriculture in the food needs of the nation, government in her Fifteen Year Agricultural Development Policy adopted a food first philosophy as the first step towards self reliance and economic recovery. A lot of agricultural development packages were embodied in the plan. Such packages included increased food crops and raw materials production, and processing to improve taste and shelf life of agricultural produce.

During the "Green Revolution Programme", an ambitious agricultural growth rate of 6.6% was adopted, and 7.2% growth rate was adopted in the 1995 budget. Fertilizer subsidy remained as high as ₦300.00 per 50kg bag, completion of fertilizer plants was given priority, the provision of counterpart funds for Agricultural Development Programme (ADP) and the National Agricultural Land Development Authority (NALDA) was pursued. The provision of Strategic Grains Reserves with silos was given adequate attention (Budget, 1995). These were to give agriculture its pride of place.

As the volume of money in the economy increased, partly as a result of administering the Southern and Northern protectorates, and partly as a result of increase in economic activities, the colonial master

established a branch of African Banking Corporation in Lagos. This later became the British Bank of West Africa (BBWA) (Okigbo, 1981). Money was given in advance to the whiteman's produce buying agents to advance to farmers, thus providing the needed credit for increased production. The farmers used the money to hire extra labour in order to meet up the demand.

With time the need to establish indigenous banks arose. It was alleged that Nigerians were discriminated against by foreign owned banks who aided foreign entrepreneurs at the expense of Nigerian entrepreneurs. Consequently the National Bank of Nigeria was established in 1933 and the African Continental Bank was opened in 1947 among others (Eyo, 1979; Nwankwo, 1985).

The ability to save the generated revenue for investment failed among the farmers and other agri-business entrepreneurs, a development which has persisted till date. People spent all their season's income on consumables, only hoping for another income during the next season. They got involved in merry making particularly during festivities. These festivals were carefully slated for the harvest periods when food and money were plentiful. Achebe (1980), describing the quantity of food used during

such festivals told the story of a man who invited his brothers, sisters, inlaws and friends to a feast. He reported that the man set such a mound of foo-foo before them that a visitor who arrived after the eating parade had started could not see his friend on the opposite side, until late in the evening when the mound of foo-foo had been reduced. It was then that they exchanged hand shake across.

The savings habit was not in the people because there were no reliable financial institutions within their vicinity. Efforts to save with the Esusu Clubs and Thrift Saving Groups failed as they often ended up in litigations over claims. Saving with rich friends and relations also failed. They often did not return the money on demand. The accumulation of capital in any developing economy requires a reliable financial intermediary to mobilize savings and channel credit to investments that can lead to increases in capital stock (Meier, 1989). The establishment of more commercial banks and their branches did not help matters much. Okigbo (1981), reported that there were about eighteen banks, with five hundred and eighty-five branches nation-wide, yet the grassroot banking needs were not met. The Rural Banking Programme which was about 78% successful could not redress the situation.

Bank distribution stood at 775 to the rural areas and 1703 to the urban areas, a ratio of 1:2 respectively (CBN, 1993).

Table 1.1: Bank Distribution to Rural and Urban Areas in Nigeria.

Bank	Rural	Urban
Commercial	775	1577
Merchant	-	126
Total	775	1703
Ratio	1	2

Source: Adapted from Table 8.8 on pages 102 and 103 of 1993 CBN, Annual Report.

It was to rectify this imbalance that the Federal government gave a distribution ratio of Community Banks as 2:1 to rural and urban areas respectively (NBCB, 1992). Community Banking System is the latest on the list of Federal government's efforts to make banking facilities available to the rural communities to inculcate in them the habit of savings and credit mobilization (Babangida, 1990).

The Community Banking System was accordingly launched on 31st December, 1990 with the opening of

Alheri Community Bank in Kaduna State. The system was backed up with Decree 46 of 4th June, 1992. The decree had retrospective effect to 31st December, 1990. The objectives of the Community Banking System among others include:-

- to accept from persons various types of deposit,
- to provide ancillary banking services to customers,
- to provide credit facilities to customers without much recourse to collaterals,
- to operate equity leasing facilities designed to ensure access of its customers to farm inputs (NBCB, 1992).

The decree further stipulated two-third distribution to rural areas and one-third to urban areas (Onuoha, 1991; NBCB, 1992).

A lot of agribusiness potentials exist in Imo State and it is hoped that the establishment of Community Banks will improve their performances.

1.2.0 Problem Statement

Among the farming group of agribusiness men, the most buoyant period is the harvest time. They have the

greatest possible amount of income and food items. In Imo State this is about the month of November to February. This is their period of greatest happiness and merry making. But soon after they recoil into their vicious cycle of poverty. Their only savings if any are for misfortunes and ceremonial expenditures (Belshaw, 1959). They neither save for investments nor spend their money on durable property. If they are not attracted to buying say a radio set or bicycle soon after harvest, they are likely to finish their income on consumables (Bronson, 1974). The farming group and some other sub-sectors of agribusiness lack investment capital. This makes for little earning resulting in little or no savings for re-investment.

Lack of savings often does not purely emanate from low income but from lack of savings facilities. If given the motivation and facilities, they should at least save 12% of their income (Zuvekas, 1979). What he needs for a savings habit is an enabling economic environment of low inflation and nearby reliable financial institution. The rural commercial banks close to him have urban and elite orientation and therefore offer him no attraction. What he needs is a rural grassroot oriented bank.

Lack of investment fund has generally been responsible for the slow growth rate of agribusiness. This has brought a decline in its contributions to the gross national product (GNP). In the 1950's it contributed about 60% of all exports (Adeyokunu, 1980), while in the 1980's it was about 30% (CBN, 1993). The slow growth rate of the food sub-sector 2.5% as against the population growth rate of 3.0% is a matter of grave concern (Famoriyo and Nwagbo, 1981). In recognition of the danger posed by this situation, the United Nation and African Heads of State declared war against hunger and malnutrition through increased productivity policies of the agri-business sector (Nwankwo, 1981). Nigeria has since adopted an ambitious growth rate for this sector, about 6.6% for 1980-85 Fourth National Development Period (Ngoddy, 1990). But this has never been achieved. The resultant effect is heavy dependence on the importation of food items.

One of the problems of Nigerian agribusiness is identifying the real farmers who will bring about the required increases and channel the dynamic credit to them. Despite the critical importance of other factors of production, the inadequacy of credit is the single most important constraint to modernizing agricultural

production in Nigeria (Chidebelu, 1983). The small farmer has had costly static credit from informal houses and this leaves him with little or no income at the end. All efforts to extend adequate formal credit to this category of agribusiness men has failed hence government's resort to novelty banks with grassroot orientation. Community Banking System is one of latest efforts of the military administration to bring about grassroot development (NBCB, 1992).

This study went in to determine how the Community Banks are solving this grassroot developmental problems particularly the agribusiness sector through savings and credit mobilization and make recommendations.

1.3.0 Objectives of the Study

The broad objective of the study is to analyse the credit acquisition and repayment performance of agribusiness holdings under the Community Banking System in Imo State of Nigeria.

The specific objectives are to:-

1 describe the socio-economic characteristics of Community Banks agribusiness borrowers,

2 determine the extent to which Community Banks mobilized funds are used to finance agribusiness, and identify other sources of agribusiness funds to CB agribusiness borrowers,

3 determine the factors that make for loan repayment,

4 compare the performance of CB agribusiness borrowers and non-CB agribusiness borrowers,

5 assess the financial position of CB agribusiness borrowers and predict their credit risk position,

6 determine the problems faced by CB agribusiness loan beneficiaries and CB officials in the agribusiness credit administration,

7 make policy recommendations based on the findings.

1.4.0 Hypotheses

Based on the specific objectives the null hypotheses tested are:-

1 loan repayment is not influenced by the borrowers' socio-economic characteristics,

2 there is no significant difference in the performance of the CB borrowers and non-CB borrowers,

3 there is no significant difference in means between the characteristics of good credit risk and bad credit risk borrowers.

1.5.0 Justification for the Study

Imo State is a densely populated State. It has about 450 persons per km^2 (F.O.S., 1993) and about 0.17 hectares of cultivable land to a farmer. About 80% of its population live in the rural area (Imo B.P., 1986).

The rural farmer is very poor (Olayide, 1980; Meier, 1989). To effectively engage this large but poor human resource on the limited land of Imo State, improved technologies have to be acquired through savings and credit facilities. Since conventional banks have failed in this mission, it becomes pertinent to study the novelty grassroot banks in their bid to salvage agribusiness, the rural economy of Imo State and the national economy.

Credit availability has been an age long problem of the agribusiness operators. The available informal

institutions have limited funds which they give out at high costs which often leave agribusiness men worse off. The conventional banks and the agricultural credit schemes have not much helped matters. They keep asking for collaterals which the agribusiness man has not. But it is the belief of the Nigerian government that the agribusiness man's credit problem has some solution; and has kept searching. The latest effort in this direction is the Community Banking System established to take care of the credit and developmental needs of the grassroot without much recourse to collaterals. Having operated for up to five years, it becomes justifiable to look into its efforts in solving the long lingering problem.

The findings of this study will benefit the agribusiness men and the Community Banks alike, and indeed the whole nation. The study will identify obstacles to effective loan administration to agribusiness and proffer solutions. It will study the performance of agribusiness projects sponsored by CBs and make recommendations for improvements.

1.6.0 Concepts Definition and Scope of the Study

Banks are formal financial institutions which accept savings from people who have more money than they presently need, mobilize them into larger sums and lend to people who have less money than they presently need (Olayide, 1976; Dalagaard, 1987).

A Community Bank in the words of Ijere (1994) is a unit bank for a small community about the size of an autonomous community owned and managed by its owners and designed to meet the credit needs of those lacking tangible security.

Encyclopaedia Americana in a limited technical sense referred to agriculture as the raising of field crops while the Heritage Dictionary defines it as the science and art of cultivating the soil, producing crops and raising livestock useful to man.

Agribusiness has been variously defined. The Webster Dictionary defines it as farming and the business associated with farming. Downey (1981) broke agribusiness into three economically interdependent sub-sectors of input, farming and product. Cramer and Jensen (1981) saw agribusiness as a conglomerate business consisting of farming and the farming industry. Nnadozie (1983) said that agribusiness is a co-ordination

of the components of farm supplies, farm production, produce processing and distribution.

For this study, agribusiness is seen as any activity of agriculture done in a business-like manner, and will be used interchangeably with agriculture.

The study is limited to agribusiness sole proprietorship and general partnership holdings as they may be more prone to limited investment funds than other forms of business organisations.

CHAPTER TWO

LITERATURE REVIEW

2.1.0 Importance and Problems of Agriculture

Agriculture is the mainstay of any developing economy. It provides food, shelter, employment, agro-industrial materials and foreign exchange (Famoriyo and Nwagbo, 1981; Meier, 1989). Agribusiness is a vital contributor to the gross national product (GNP). Asabia (1981) said that agribusiness constitutes a very important sector of the Nigerian economy and was dominant before the oil boom in the 1970's.

Table 2.1: Sectoral Allocation of GDP in Nigeria for Selected Years (1960-1975) in Percentages.

Sector	1960	1967	1970	1975
Agriculture	64.1	55.4	43.5	28.1
Oil and Mining	1.2	4.8	12.2	14.2
Manufacturing	4.8	7.0	7.6	10.2
Buildings and Construction	4.0	5.2	6.4	11.3
Others	25.9	27.6	30.0	46.2
Total	100	100	100	100

Source: Abe, S.I. (1981) in Nigerian Small Farmers: Problems and Prospects, p. 107.

Agribusiness is a great contributor to foreign exchange earnings, but its contributions are on the decline (Tables 2.1 and 2.2).

Table 2.2: Value of Agribusiness Export
(Average Value ₦'million)

Year	Average Value of Agric. Exports	Average Value of Total Exports	Percentage in Total
1971-75	260.8	3,145.3	8.3
1976-80	408.7	9,093.9	4.5
1981-85	276.6	9,335.1	3.0
1986-90	1,656.1	47,666.3	3.5
1991-92	1,554.8	147,677.6	1.1

Source: CBN (1993) Economic and Financial Review Vol. 31, p. 109.

Invigoration of agribusiness is essential for increasing opportunities for the reduction of poverty and improvement of income distribution for speeding up industrialization and for easing pressure on balance of payment. International organisations recognise the importance of agribusiness hence the United Nation's resolution that hunger and malnutrition must be eliminated as soon as possible and certainly by the end of the century. The World Bank Group granted a loan of more than US $400 million for agribusiness credit schemes in the third world between

1948 and 1971, while between 1950 and 1972 foreign assistance grants and loans issued by United States exceeded US $700 million (Pishke, 1974; Nwankwo, 1981).

Okorie and Eboh (1990), contributing on the issue said that agribusiness is a key sector in any economy particularly in a developing country like Nigeria. Ngoddy (1990), saw Nigeria as a key factor in the African food equation. Through the activities of Marketing Boards between 1947 and 1954 and between 1955 and 1961, ₦239,829 million and ₦43.6 million were respectively earned for government (Adeyokunnu, 1980).

Because of the importance attached to agribusiness, government has initiated a number of programmes to boost agricultural production. Smallholder hectarage cultivated recorded increases following the activities of National Agricultural Land Development Authority (NALDA) (CBN, 1993). There are numerous other government programmes initiated to boost agricultural production. A few examples include Agricultural Development Authority (ADP), Better Life Programme (BLP), Directorate of Food, Roads and Rural Infrastructure (DFRRI), the Agricultural Insurance Corporation, People's Bank of Nigeria (PBN) and the Community Banking System.

A serious indication of the problem of Nigerian agribusiness is that the rate of population growth has outpaced the growth rate of the agricultural food sub-sector. The inability of Nigerian agribusiness to generate non-traditional agricultural products in commercial quantities constitutes another problem. Consequently the country depends on foreign supplies of both food and agro-raw materials, importing about 600 million tonnes of wheat, 371,960 tonnes of flour and 300,000 tonnes of rice in 1977 (Famoriyo and Nwagbo, 1981). Ngoddy (1990) contributing to the food situation reported that in 1976 food imports was 1.4 million metric tonnes of crops and livestock, and prime food imports in 1980 was 3.13 million tonnes of gross supply.

On the low income to agribusiness, Meier (1989) reported that between 80-90% of about 400 million people in Sub-Saharan African living in rural areas survive on annual per capita income of less than US $150. Still on the low income to agribusiness, Olayide (1980) said that even though the income per capita rose from ₦44.85 in 1961 to ₦187.85 in 1967, it was not enough to stem the rural-urban migration of the youths. This further added to the worsening condition of agribusiness.

Ijere (1981) and Olatunbode (1990) commented on the low level capacity of Nigerian agribusiness to satisfy the food needs of the nation. Population explosion Ijere observed has affected shifting cultivation and necessitated the use of fertilizer. The introduction of the Structural Adjustment Programme, (SAP) has sky-rocketed the price of fertilizer thereby increasing further the financial burden of the farmers.

Subsistence farming owing to lack of credit to peasant farmers constitute a problem to Nigerian agribusiness (Abe, 1981). The under banking of the Nigerian economy especially the rural areas and the low level of technological efficiency are parts of the problem to Nigerian agribusiness sector.

2.2.0 Money and the Development of Banking in Nigeria

2.2.1 Evolution of Money and Banking

Money is the standard object used in exchanging goods and services. It is the medium of exchange and is regarded as an item or symbol which possesses high degree of liquidity. Money greases the wheel of exchange and makes the whole economy more productive (Baumol and Blinder, 1979).

The American Federal Reserve uses three measures of money, M_1, M_2 and M_3. M_1 is money used for transactions such as coins, currencies, travellers cheques and checkable deposits of financial institutions. M_2 includes M_1 and small savings deposits of small denominations. M_3 consists of all M_2 and large denominations of deposits (Baumol and Blinder, 1979; Dalgaard, 1987).

In a monetized economy, people trade money for goods. The use of money in trade transaction became necessary to serve the requirements of foreign trade where barter is not practicable. Service commodities were used as money. Later, several pieces of metals and cowrie shells were used (Okigbo, 1981; Spiegel, 1983).

Gold later became the medium of exchange and was kept in the care of the goldsmith. He issued receipts to depositors. People traded for goods and services with the receipts, thus came the use of paper money. The paper was fully backed by gold. As the economy grew, people needed credit to increase productivity and yield. The goldsmith lent part of the gold deposit, thus his receipt, the paper money was no longer fully backed. This gave rise to the fractional reserve banking. The increase in supply

of money quickened economic growth by its investment multiplier effect (Baumoul and Blinder, 1979).

The bank is a financial institution used for savings and credit mobilization. The goldsmith provided the first banking services. Its most important function was to act as an intermediary between savers and borrowers. The monetary policy of allowing banks maintain a reserve less than the actual deposits confers on them the ability to create more money than actually exists. This stresses the role of banks in economic development. Community Banks were founded to create money for their communities.

2.2.2 Bank Development in Nigeria

As the Nigerian economy became monetized and the volume of money in circulation increased, a branch of the African Banking Corporation was established in Lagos in 1891 in collaboration with Messrs Elder Dempster and Co. In November 1893 Elder Dempster took over the bank and in March 1894 it was incorporated as the Bank of British West Africa (BBWA). By 1919 it had opened up five branches in Nigeria and one in the Camerouns (Eyo, 1979; Okigbo, 1981; Gbadebo, 1983). The Anglo-African Bank was

established in 1912 as a result of agitations by other European traders in West Africa. Other non-indigenous banks were also founded. With time the need for indigenous banks arose. The aim was to give more financial facilities to local entrepreneurs who were allegedly discriminated against by foreign owned banks. Consequently, among others, the National Bank of Nigeria was established in 1933 and the African Continental Bank was opened in 1947 (Eyo, 1979; Nwankwo, 1985).

In response to the radical changes in the Nigerian financial system, BBWA changed to Bank of West Africa (BWA) and presently called the First Bank of Nigeria. The British and French bank became the United Bank for Africa (UBA), the American Bank changed to Savannah Bank, the Anglo-African Bank became the Bank of Nigeria. The Colonial Bank merged with some other banks to answer Barclays Bank D.C.O., now Union Bank of Nigeria. Expatriate staff quota in all banks were reduced in favour of Nigerians.

As at 31st December, 1972 there were 16 banks with 367 branches; and 436 branches in 1975. By 1978 there were 18 commercial and cooperative banks with 585 branches. At the third and last phase of the

Rural Banking Programme, there were 1,703 banks and their branches (CBN, 1993; Eyo, 1979; Okigbo, 1981).

Development banks were established to finance special projects which commercial banks could not. Early development banks established were:-

- Nigerian Local Development Board (NLDB), 1946;
- the Colonial Development Board (CDB), 1949;
- the Federal Loans Board (FLB), 1956.

Each succeeded the preceding one (Nwankwo, 1985). The Community Banks established in 1990 could be seen as development banks charged with the development of agriculture and the rural areas.

The need for a Central Bank to among other things co-ordinate the activities of these banks was highlighted in 1952 when Dr. K.O. Mbadiwe, a member of the House of Representative moved a private members motion praying the House to establish a Central Bank of Nigeria (Eyo, 1979; Okigbo, 1981; Nwankwo, 1985). After series of inquiries the Central Bank was established on the recommendation of International Bank for Reconstruction and Development (IBRD) in 1953. On July 1, 1959, the Central Bank of Nigeria

(CBN) was established and became responsible for the issuance of the First Nigerian Currency. In 1962, the parity of the Nigerian pound was expressed in terms of gold and the close link with the British pound was broken (Olayide, 1976; Eyo, 1979).

Olayide (1976) stated the role of banking and insurance as the mobilization of surplus funds, provision of liquidity, monetary control and risk insurance. The function of pulling savings from millions of individuals and enterprises scattered all over Nigeria and channelling them to viable projects is one of the most critical roles for which the Nigerian Banking system was evolved.

2.3.0 Savings and Credit Mobilization

2.3.1 Savings and the Role of Credit in Agribusiness

Investment in physical and human capital must be matched by savings either from domestic sources or from abroad if growth is to be sustained. Lack of domestic savings efforts may threaten future receipts of foreign savings (Zuvekas, 1979).

Individuals may have the capacity to save but may lack the psychological will if economic climate

does not favour savings. Government can encourage savings through private sector initiative that can make people forego consumption and save more, and by establishing financial institution to mobilize and channel the funds to productive investments on attractive terms. Government can also achieve savings through direct and indirect taxation (Zuvekas, 1979). Quoting Arthur Lewis, he said that no nation is so poor that it could not save 12% of its national income if it wanted. The problem with savings he went on, particularly in developing countries is that about 40% of national income is squandered by top 10% of the income receivers. The major savings problem of the Nigerian small agri-business men is that of income distribution. Little of the national income trickles down to them.

Private savings may also be induced by financial liberalization through the provision of positive real interest rates, control of inflation, market demands, exchange rate, fiscal and monetary policy reforms. On attracting savings from small farmers and other agribusiness men (Broson, 1974; Belshaw, 1959; Meier, 1989 and Zuvekas, 1979) observed that their propensity to save is very low. The propensity is so much low that if they are not attracted to buy radio or bicycle

soon after receiving their season's proceeds, it is unlikely that they would do so. Savings and/or purchase of durable goods could be used as a yardstick for credit worthiness among small agribusiness men.

The accumulation of capital particularly in any developing economy requires the mobilization of economic surpluses. The surpluses can be tapped and directed to productive investment channels. The process of capital mobilization, Meier (1979) said, involves three essential steps - an increase in volume of savings for investment, the channeling of savings to financial institutions where they are made available to investors and the actual investment by which resources are used to increase capital stock through profits from investments.

But instead of saving for investments, Belshaw (1959) observed that much of the savings of the rural agribusiness men is to provide a reserve against misfortune, burials and reburials and for encouragement of ceremonial expenditures. Some of such sumptuous ceremonies have been described by Achebe (1980).

Savings could be encouraged through direct deposits to cooperative societies. Daily, weekly or monthly thrifts by groups is another method of capital mobilization. The amount collected may be given as loan to members or taken in rotation. Indirect savings out of sales proceeds could be checked off through cooperatives and commodity buying agencies. These help in savings mobilization especially where banks do not exist.

Agricultural credit becomes necessary since most farmers cannot save enough to reinvest. Many authors have contributed to the definition and use of credit (Adegeye and Dittoh, 1985; Oyatoye, 1981; Belshaw, 1959; Abe, 1981 and Arene, 1990). Agricultural credit refers specifically to the process of obtaining control over the use of money, goods and services for agricultural production in the present in exchange for a promise to repay with some interest (Adegeye and Dittoh, 1985). Different agribusiness projects attract different interest rates. Risky ones attract higher rates. Different institutions may charge differently too.

Oyatoye (1981) submitted that credit is a device for facilitating the temporary transfer of purchasing

power from one individual or organisation to another. It provides the basis for increased production efficiency through specialization of function. It brings together in a more productive union the skilled farm managers with small financial resources and those who have substantial resources but lack managerial ability.

Belshaw (1959) identified two agricultural credit situations, static and dynamic credits, and said that credit enhances marketing and bulk purchasing, strengthens the ability of the farmer to dispose of his produce at periods of high prices instead of selling at needy periods when prices may not be as high.

Arene (1990) stated that what a farmer needs more is dynamic credit to improve his production and earning capacity than static credit which makes him remain the same over the years or even worsen the already poor situation.

Finance goes to the root of success of any economic venture and that Nigerian agriculture is no exception (Abe, 1981). He called for attention to be given to the finance of agribusiness by all concerned.

Nwankwo (1981) said that an important role of farm credit is to identify the actual farmers. He

advocated reaching them through farmers' cooperatives. This group is the traditional farmers who live in rural areas and form about 80% of the Imo State population (Imo B.P., 1986). Ijere (1981) said that the rural sector is by and large the producer of the nation's food crops and therefore needs credit facilities. He lamented over the lack of credit to rural farmers despite the oil wealth and saw the rural areas as Oliver Goldsmith's Deserted Village where years and decades pass and the place remains largely unchanged.

The lack of small farmer loan in Africa constitutes a critical constraint to the adoption of improved techniques which can increase income and enhance rural welfare (Pishke, 1975). Old farm credit institutions in Nigeria were principally informal and hardly provided enough. A number of merchant money lenders established themselves as dominant suppliers of expensive and restrictive credit to agriculture and rural trade (Delgaard, 1987). Most Nigerian agribusiness men start as sole proprietors deriving their funds heavily from personal savings (Nnadozie, 1983).

Famoriyo and Nwagbo (1981) said that agricultural finance derives its role from the conception that

agricultural development as a process involves the adoption by farmers of new and better techniques most of which are purchased at high cost while few farmers have the financial resources to do so. Agricultural credit is one of the most important input resources vital for agricultural development. There is high demand for credit by Nigerian farmers because capital is required for improvement on land, to purchase or hire implements, machinery, breeding stock, fertilizer, seeds, pay for labour and meet up family obligations. Studies in developing countries show that effective demand is high among village money lenders reaching about 75% in some small farm communities (Adegeye and Dittoh, 1980; Senghore, 1994).

Nwankwo (1981) pointed out that agricultural finance policy should focus on rural development as an integral part of agribusiness development and should include food production, preservation, agro-processing, institutional reforms, rural credit and infrastructural development.

Despite the critical importance of other factors, the inadequacy of agricultural credit is the single most important constraint to modernizing agricultural production in Nigeria. The Nigerian government

recognising the paramount importance of agricultural credit to small farmers had made strenuous efforts to ensure that adequate credit was available to these farmers (Chidebelu, 1983). Other governments of West Africa have recognised the role of credit in agri-business production and marketing and have established a number of special agencies to provide the credit (Adegeye and Dittoh, 1980). Supportive policies and financing can awaken Africa's countryside. When given chances, small-scale farmers in Africa have shown that they can be dynamic producers eager to move beyond subsistence (Harsch, 1994).

Traditional agriculture may require no credit but when agriculture is commercialised and taken up as business the need for credit arises for the provision of wells, expansion of farms, land improvement, work on some stock and some equipments. Credit needs may also arise from unfortunate situations of crop failure, fire or other hazards. For farmers who are close to the margin of subsistence, it will become difficult to overcome such situations. The saving situation will be credit (Oyatoye, 1981). She called for the establishment of specialized rural credit institutions to satisfy these credit needs, a call which CBs have

set out to answer. Quoting Oluwasami and Alao, she noted that the low capital requirement and capital labour intensity in traditional agriculture precludes the need for much credit and that the only need for capital formation is for land clearing and construction of simple houses. Credit need becomes acute she went on as techniques are modernized and more equipments and intermediate inputs required. The increasing abandonment of bush fallowing makes it necessary for the farming sub-sector to procure high technologies to overcome the problems that will arise.

2.3.2 Agribusiness Credit Facilities and Administration

To ensure that lack of credit does not hinder the progress of agriculture, banks were required to lend a minimum of 40% of total deposits collected from the rural areas to the people in 1985. This was an increase compared to 30% in 1984 (CBN, 1985). This was increased to 50% in 1995 (Budget, 1995). To ensure compliance to this regulation, any excess lending to agriculture beyond minimum requirement is excluded from the lending ceiling of commercial and merchant banks. The equivalent amount below the prescribed minimum is caused to be deposited with the CBN and this is allocated to Nigerian Agricultural and

Cooperative Bank (NACB) for on-lending to farmers. (Nwankwo, 1981) said that credit was originally granted directly to farmers by commercial and merchant banks. This met with a lot of problems and credit was later channelled through Agricultural Credit Guarantee Scheme (ACGS) to farmers. He opined that agribusiness finance policy and strategy in the 1980's be focused on farm size, quality and effective utilization of credit.

Methods to ensure some degree of certainty in loan recovery have been devised. These include use of cooperative societies, produce buying agents, development projects like the ADP and use of some informal lenders (Adegeye and Dittoh, 1985). Alexander and Scott (1974) opined that reduction in the cost of credit administration through use of cooperative societies will also enhance loan recovery. To ensure effective loan administration and recovery Imo B.P. (1986) recommended low interest rates to attract rural farmers and suggested that modalities for obtaining loans should strike a balance between safe-guard and easing the procedure for loans.

On loan recovery from small farmers, Bronson (1974) lamented that credit worthiness of a subsistence farmer is difficult to ascertain, he has little

or no assets and no personal land but communal. He suggested that credit worthiness of such people could be based on their physical preparations to embark on the proposed agribusiness venture. A rice farmer who has made his nursery and cleared his farm could be regarded as credit worthy.

Muzorewa (1974) said that the spread of development into the rural areas requires among other things a democratic lending behaviour and that failure to solve their credit problems will perpetuate the uneven distribution of income in developing countries. He therefore saw an urgent need for rural credit institutions to undergo a fundamental change in their lending behaviour. A deliberate effort must be made to develop a growing stock of marketable assets which can be pledged as collateral by farmers, he went on. Lack of conventional securities for loans on the part of many rural farmers desires to be called a national delima. The CBs are formed with the intent of solving these problems.

The agribusiness sector has special problem in obtaining credit. This arises from the relatively small scale nature of some of its operations and the instability which characterise these operations.

Because of the smallness of operations the farmer does not possess suitable collateral securities (Oyatoye, 1981). Famoruyi and Nwagbo (1981) and Oyatoye (1981) spoke further on the farmers' credit problems as low level of industrial activities, low incomes and seasonality of production. Income instability in farming affects the attitude of the lender and borrower. The result is a resort to capital rationing and capital rationing inhibits efficiency of resource allocation.

Oyatoye (1981) saw the credit problem from the side of the farmers and from the side of the credit institutions. The traditional farmer she said regards government credit as the farmer's share of the national cake, hence the incidences of diversion of production loans to consumption. The tendency to default is therefore not a surprise. She reported that Galletti, Baldwin and Dina in their study of cocoa farmers in Western Region in 1951-52 observed that 26% of loans obtained by farmers were diverted to non-productive purposes, 43% for obligatory purposes, while 31% was invested. In her study in 1975 she found out that 30% of agricultural credits was invested in agriculture while 70% was used for consumption and obligatory purposes.

Experience with credit institutions has not been encouraging, defaults, scandal, and constant

reorganisations have militated against their success and that the issue of corruption, political gimmicks which direct loans to wrong hands of political allies and party men cause problems of credit administration, she further noted. The current Bank Decree is making a lot of expositions.

2.4.0 Government Aid to Agribusiness

Because of the role played by agribusiness in the development of the economy, government attaches great importance to it and has done a lot to enhance its productivity through favourable monetary and fiscal policies. Government has attracted and provided funds for agricultural credit; provided inputs including improved seeds, seedlings and breeding stock; established agricultural research institutes, universities and departments of agriculture; and has established other agencies and programmes to enhance agribusiness eg. Agricultural Development Projects (ADPs), National Agricultural Land Development Agency (NALDA), National Agricultural Cooperative Bank (NACB), Agricultural Credit Guarantee Scheme (ACGS), to mention but a few. Government has also encouraged the establishment of agroindustries by allowing importation of machinery and equipments duty free.

Government has adopted different pricing policies to aid agriculture as occasions warranted. When it was fashionable to improve agriculture through price stabilization government instituted the Marketing Boards. The board negotiated favourable prices in the international market and at home, it established prices fair enough to compensate the farmers' efforts. The surpluses the board kept in government coffers for the development of other sectors of the economy. When it became necessary for farmers to have higher prices for their produce, government abolished Marketing Boards (Dawariboko, 1994) and established Commodity Boards. By this arrangement, farmers had freedom to sell their products any where and at whatever price for maximum profit; and to sell their surpluses to the Commodity Boards (Ijere, 1981). In modernizing marketing arrangements, government deregulated the marketing and pricing of agricultural commodities. In 1989 it mooted the idea of Commodity Exchange (COMEX) and Futures Market in Nigeria. The Commodity Boards were finally scrapped consequent upon the introduction of SAP (Uduk, 1991).

To aid agribusiness, government has set up a loan/deposit ratio for agriculture and has forced ailing banks to comply. Compliance to loan/deposit

ratio for rural banks was exceeded in 1988. 15.3% loan advances against 15% was achieved. Total loans and advances to rural borrowers amounted to ₦660 million representing 47.9% of deposits mobilized in the rural areas. This exceeded 40.1% achieved in 1987 and a prescribed minimum of 45% (CBN, 1988).

Government has pursued its loan facilities to farmers vigorously and has seen agribusiness loan subsidies as a legitimate cost towards developing the rural areas. World Bank loan to agriculture negotiated by government for 1988 amounted to ₦75.1 million. Small and Medium Scale Enterprises Apex Unit was established in 1988 to manage a World Bank loan of US $270 million for on-lending to small and medium enterprises including agro-industries. The volume and value of loans under ACGS expanded. A total of 24,538 loans worth ₦118.6 million was granted, an increase of 51.4% and 16.1% respectively. Most of the guarantees were for small scale beneficiaries whose loans were ₦5,000.00 or less (CBN, 1988).

The operational scope of the Agricultural Export Promotion Facilities - the Refinancing and Rediscount Facility (RRF) witnessed a significant growth. Its total lending rose from ₦53.6 million in 1987 to ₦552.00 million in 1988 (CBN, 1988). Government's

efforts to improve the welfare of the rural dwellers continued. There were improvements in rural infrastructure - roads for transportation of agricultural inputs and products, water supply for domestic and irrigation purposes, rural electrification for local agro-industries, and improved health care services. The establishment of DFRRI went a long way in achieving these. The food crop sub-sector accounted for 90.9% of the number of loans to agribusiness and 86.0% of the value. Supply of high quality seeds and seedlings increased by 98.0% for the period (CBN, 1988).

Anxious to improve the life-style of the rural masses, successive governments have adopted a number of measures to extend the much needed capital to non-urban dwellers. She has taken steps to encourage rural banking through the Rural Banking Programme (RBP), and has established the People's Bank of Nigeria (PBN) and the Community Bank (CB) (Nwafor, 1991). Asabia (1981) said that commercial banks' history of lending to agriculture is as a result of government persuation. In the 1950's and 1960's the banks played significant role in the history of Marketing Boards. They gave credits to licensed buying agents. Since the 1970's their loans to agriculture has been on the increase.

For the year 1995, government has adopted a number of measures to achieve an agricultural growth rate of 7.2%. The measures include the funding of non-oil prime movers of the economy including agriculture, increased fund allocation, reconstruction of damaged dams, continued subsidy of ₦300 per 50kg bag of fertilizer, the completion of fertilizer plants, increase in bank credit allocation to priority areas of agriculture and manufacturing. A grace period of loans to the construction of on-farm storage structure was increased from 12 to 18 months. Government established Strategic Grains Reserves with silos at different centres throughout the nation to improve grain storage and marketing. Government maintained her counterpart funding to ADP and NALDA (Budget, 1995).

2.5.0 Community Banking System in Nigeria

2.5.1 Origin and Management of Community Banks

Dalagaard (1987) said that the function of the financial system is to mobilise financial resources and allocate same to the highest returning activities. If this functional definition is anything to go by, banks would not lend to agriculture and other rural activities because they are not as returning as commercial and industrial activities in the urban areas. It was only by the fiscal and monetary policy

persuasions of the government that they are lending at all to agriculture.

Successive governments in Nigeria have adopted a number of measures to extend economic development to non-urban dwellers to enhance profitability at the grassroot. The establishment of DFRRI is one of the eloquent measures. DFRRI in her efforts to help Community Development Associations (CDAs) identify and solve the developmental needs of their rural communities noticed that non-fulfilment of the farmers' credit needs by banks was a big hindrance to the accomplishment of their tasks. It therefore evolved the concept of Community Banking System, a bank owned and managed by the people to solve their economic and developmental needs (NBCB, 1992). On 31st December 1990, the first Community Bank was launched at Alheri in Kaduna State. This is a continuation of previous government's effort to fully monetize the rural communities. The Rural Banking Programme failed to achieve this because it lacked the grassroot orientation. The Community Bank has its mission as providing bank services to the rural people and working up their capital base.

The objectives of the bank among other things include - to accept from persons various types of

deposits; to provide ancillary banking services to customers; to provide credit facilities to customers without recourse to collaterals of conventional banks; to operate equity leasing facilities designed to ensure access of farm inputs to its customers; to see to the development needs of its community on which its success depends (NBCB, 1991, 92 & 94).

To ensure a quicker development of rural areas, two-thirds of the Community Banks would be located in the rural areas while one-third will be sited in the urban areas (NBCB, 1992).

The sources of funds to CBs include equity capital of ₦500,000 (formerly ₦250,000). CDAs must own not less than 30% equity, and no individual should own more than 5% of it (NBCB, 1992). Other sources include matching grants. As at December 31, 1992 ₦36 million matching grant had been extended to Community Banks at subsidized rate of 50% rediscount rate by CBN. In April 1994 NBCB disbursed another loan of ₦70 million to 185 Community Banks. More than ₦92 million naira was disbursed to about 242 Community Banks between October 1992 and May 1994. Donations were also recognised as legitimate sources of income to Community Banks. The governor of Benue

State donated ₦50,000 to each Community Bank in the State. The North East Arid Zone Development Programme provided support to five out of the seven Community Banks in Yobe State. It provided them with banking buildings, staff on loan, staff training and supervision as well as channelling loans through Community Banks (NACB, 1994). Securing a permanent licence provides another source of fund. It qualifies Community Banks to participate in the NERFUND and on-lending agricultural programme of the Central Bank of Nigeria. Export promotional activities at home and abroad forms another revenue source to Community Banks. Mobogunje (1994) said that if Community Banks want more funds and foreign exchange their communities and customers must work actively for it through direct exportation of their produce. Community Banks should therefore attend International Trade Fairs to explore home and foreign markets (NBCB, 1994).

Ijere (1994) described Trade Fair as a veritable place for savers, planners, investors and others to observe and appreciate the usefulness of Community Banks. Some Community Banks he went on have sponsored the export of snails to Europe and that NBCB was liaising with the Nigerian Export-Import Bank and the

Nigerian Export Promotion Council for advice on how Community Banks can stimulate local economic development through exports.

State Association of Community Banks were formed to help communities in the state engage in inter and intra state trades.

To ensure security, and adequate use of available funds, the Nigerian Security and Exchange Commission appointed NBCB the registrar of Community Banks; the Chartered Institute of Bankers admitted NBCB as her member, the Federal Intelligence and Investigation Bureau works closely with NBCB, the Agricultural Finance Department of the Central Bank of Nigeria and the African Regional Agricultural Credit Association have good working relations with NBCB.

The Community Bank Implementation Committee (CBIC) was set up to promote, appraise and establish the Community Banking System; and to screen all applications received from communities to establish Community Bank. The NBCB was inaugurated on July 16, 1991 to take over from CBIC and in addition to train Community Bank staff, disburse matching grants and supervise all activities of Community Banks. The Board

is served by a secretariat at Abuja and has financial and administrative departments. The operational department is backed up by eight zonal offices incharge of Community Banks in their zones. One of the zonal offices is at Enugu. It coordinates the activities of the Community Banks in some Eastern States including Imo State. The NBCB is headed by an executive chairman, assisted by a secretary and two directors. The zonal offices are headed by deputy directors (NBCB, 1992).

Directors, chairman and manager of each Community Bank form the internal management committee of each bank. Community Banks are to be owned by three categories of shareholders, the Community Development Association, Trade Associations and Individuals - indigenes and non-indigenes resident in the community. Individual shareholders should not be less than fifty persons.

Community banks are to have two correspondent banks to train their staff, clear their cheques and direct their operations. For the training of staff, NBCB mandated the Ogun State Polytechnic to organise certificate courses for Community Bank staff. The NBCB delegates attended a meeting of Independent Bankers

Association of America and toured the Community Banks in America to acquaint themselves with their working. They observed that there exists a graduate school for Community Banks in United States (NBCB, 1994).

The bane of granting savings mobilized from rural nooks and cranies to the vaults of our city dwellers is a negation of the laudable philosophy of Community Banks observed Abacha (1994), and said that it may lead to distress of Community Banks. Ijere (1994) contributing to the distress of Community Banks said that non-mobilization of accumulated savings as credit could equally lead to distress.

2.5.2 Performance of Community Banks

Community Banks stand out as the only exception among programmes initiated by the military administration that has really met the yearning of the people (Ayagi, 1994). The strength of the programme he went on lay in the equity participation of local communities. Records show that the growth of Community Banks was phenomenal. There was continuous increase in the number of Community Banks, deposits, loans and advances, assets and liabilities. Community Banks appear to be the economic salvation of the masses. This is shown in the rapid transformation of a dull

village economic environment to a vibrant and virile commercial theatre where major actors such as farmers, traders, artisans, market women, professionals and small and medium scale enterprises interact. Community Banks are accessible to the largest number of customers - big and small. Small depositors with less than one hundred naira deposits are not accommodated by commercial banks but are accommodated by Community Banks (NBCB, 1994).

Most Community Banks are already breaking even. Their gross earnings increased by 104%, overhead expenses by 99.6%. Older urban Community Banks recorded phenomenal increases in their gross earnings. The deposit base of Community Banks showed that they are mopping up large funds outside the purview of the National Financial system, an evidence that the philosophy of Community Banking as a veritable instrument of rural economic emancipation has largely been vindicated (NBCB, 1992).

As at 31st December 1990 when the first CB was commissioned there were only nine CBs in the country. By June 1994 one thousand and forty-seven have begun operation. CBs in the country have recorded a success story having mobilized ₦2.25 billion deposit from the

rural people and having a total asset of ₦3.5 billion; and ₦1.2 million having been given out as loans (NBCB, 1992 and 1994). As at 31st December 1993, Commerce continued to account for the single largest share of the banks' loans and advances, accounting for 39.5% of it. Agribusiness loan accounted for 18.8% of the banks' outstanding loan portfolio (CBN, 1993). Table 2.3 shows a summary of CBs' loan activities for 1991-1993.

Table 2.3: Summary of Community Banks Sectoral Distribution of Loans and Advances (₦'million) 1991-1993.

		1991	1992	1993
1	Agriculture and Forestry	N/A	23.7	113.3
2	Mining and Quarrying	N/A	N/A	3.9
3	Manufacturing and Food Processing	N/A	20.1	62.6
4	Manufacturing and Others	N/A	6.6	54.5
5	Real Estate and Construction	N/A	N/A	43.0
6	Commerce	N/A	43.7	224.8
7	Transport and Communication	N/A	9.3	48.7
8	Others	N/A	28.8	90.9

N/A = Not available.

Source: CBN 1993. Annual Reports and Statement of Accounts. Table 3.25, p. 50.

The figures of loans and advances for 1994 increased by 55% over that of 1993 (Ohaka and Odoh, 1994).

Ogwuma (1994) summing up the growth and performance of Community Banks said that although Community Banking System was barely three years old in Nigeria, significant achievements have been made in areas of numbers, savings mobilization, spread of banking habits, provision of banking services, enhancing rural development and fostering entrepreneurship.

Imo State is the third largest operator of Community Banks after Lagos and Anambra States, (NBCB, 1992). A total of 61 Community Banks are now operating in the state, making it the second largest operator after Lagos State (NBCB, 1994). The Community Bank System has made some people in Imo State put their money in the bank which they had not done before the inception of the Community Banks. The village palm wine tapper who used to keep the proceeds of his daily sales on raffia tops or in mounds, now keeps his money with Community Bank.

By 1991 there were about 17 Community Banks in Imo State. To date we have about 61 of them (NBCB, Annual, 1994). A number of Community Banks have mobilized deposits and are applying them well in community developments. The Umuaka Community Bank granted ₦200,000 to Messrs Chalaka Investments Ltd.

to establish a water proof rolling plant. It embarked on rural water scheme. Inhabitants of Umuaka are today enjoying adequate water supply as a result of ₦1.1 million loan to Messrs NIDREC Nigeria Ltd. to execute an overhead water tank. It spent ₦150,000 on grading of roads, ₦236,914.75 loan to traders and farmers and another ₦100,000 overdraft to facilitate the waterproof project. It has also donated football trophy to the youths of the town (NBCB, 1993).

The Ogbe Community Bank granted loan for the reactivation of a block industry which has been dormant for seven years (NBCB, 1993).

Ijere (1994) described Umuhu Okabia Community Bank as performing very well. It has a string of projects, he said and that its equity capital rose from ₦563,000 to ₦3.55 million in one year and won the Community Bank award for 1992 for its successes in assets mobilization, liquidity and profitability. In another development, Omuma Community Bank was said to have purchased four gas ovens and leased to four of its customers. This has helped them to supply bread to members of the community. The need to diversify into equipment leasing was borne out of

the bank's desire to assist customer-bakers to overcome the herculean task of raising credit from commercial banks (NBCB, 1994).

Despite the success stories of the Community Banking System, the system has its problems and set backs. Four years after Community Banks came into existence with about 1,000 operating with provisional licence, none has been granted a final licence (Daily Champion, 1995). This is preventing them from playing their major roles in the development of the rural areas. The requirement that its management staff must be graduates with six years experience has been difficult to accomplish (Ohakah and Odoh, 1994). This has contributed to the non-granting of the permanent licence and as such none could qualify for the ₦100 million grant from the Federal government.

About 100 Community Banks, 10% of 1046 provisionally licensed Community Banks have been reported distressed (Amanze, 1994).

2.6.0 Agribusiness Situation in Imo State

Government of Imo State has come to appreciate that the long term strategy for the development of agriculture is to shift emphasis to programmes that will promote the greatest good of the greatest number

of people. Since greater population of Imo State reside in the rural areas the development of the rural areas is necessarily the priority of government (Imo B.P., 1986). Agriculture is the dominant occupation of the rural population of Imo State with more than 70% of it engaged in agriculture. Government therefore recognised the progress of rural development as hinging on agriculture.

Imo State is one of the smallest states of the country in landmass but with a high population density. It has a total land area of about 5,530 km^2 and a population of about 2,485,499 people, giving a population density of about 450 persons per km^2 (F.O.S., 1993).

The high population density constitutes a constraint to optimal development of agribusiness. Between 1960-1970, average land holding for South Eastern States of Nigeria per rural farmer decreased from 1.02 hectares to 0.7 hectares and finally to 0.17 hectares. Land holding in Imo State falls below this national estimate (Imo B.P., 1986). This argues for maximal economic utilization of available land. The Imo State rural economy is a subsistence one. A vicious cycle of poverty subsists. Low investments account for low returns and set limit to level of

savings. If investment in the rural sector could be enhanced through credit, the vicious cycle of poverty could be broken. Care however should be taken to ensure that credits are not diverted to ceremonies like burials and reburials. The government recognised the vital role credit can play in effective utilization of the scarce land resources to break the cycle of poverty and has adopted a number of measures to improve credit facilities including encouraging the setting up of Community Banks by communities.

Despite the land constraints, agribusiness in Imo State has a lot of potentials. A number of arable crops have been identified to possess good performance and suitable for commercial cultivation. These include rice, sugar cane, yam, cassava and maize. The trees identified include Irvingia excelsa, Treculia africana, Garcinia cola and Dacryodes edulis. There are lots of fishery potentials. About 3,000 hectares of swamp land are suitable for fish farming. This is capable of yielding 12,000 metric tonnes of fish annually. The available fresh water fisheries are rivers capable of yielding 2,000 metric tonnes of fish annually. Indeed the fish potential is extremely high. A number of agro-based industries abound. Out of an estimated 388 industries in Imo State, 166 are

agro-industries, and 108 are agro-allied. Agro-based industries therefore form about 70% of the industries in Imo State. The Imo State government owns 2.7% of the 388 industries, private sector 96%, cooperative societies 1% and religious bodies 0.3% (Imo B.P., 1986).

The state government has directed its attention to the establishment of more small-scale industries including agro-industries. It has therefore established a number of statutory credit schemes administered by the Ministry of Commerce and Industries. These include Fund for Small-Scale Industries (FUSSI), National Directorate of Employment (NDE) Credit Scheme, Agro-Industrial Development Fund (AIDF), Directorate of Roads and Rural Infrastructure (DFRRI), Agricultural Credit Schemes and Nigerian Agricultural Credit Bank Ltd., all in an effort to harness the industrial potentials of the State (Imo Commerce and Industry, 1988).

There also exists in the State traditional financial institutions which encourage savings and credit mobilization e.g. Esusu or thrift savings groups, age grades, unions, clubs, church and co-operative credit unions. Despite the existence of these credit institutions adequate credit has not reached the small farmers and other agribusiness proprietors. To further solve this credit and

savings problems, the establishment of Community Banks has greatly been encouraged by the state government.

A number of other enabling strategies for development of agribusiness and the rural area have also been adopted. These include a comprehensive development package for farm production, preservation, industrial processing, marketing, provision of agencies for agricultural policy implementations, diversification and supervision of credit to ensure high productivity and loan recovery.

CHAPTER THREE

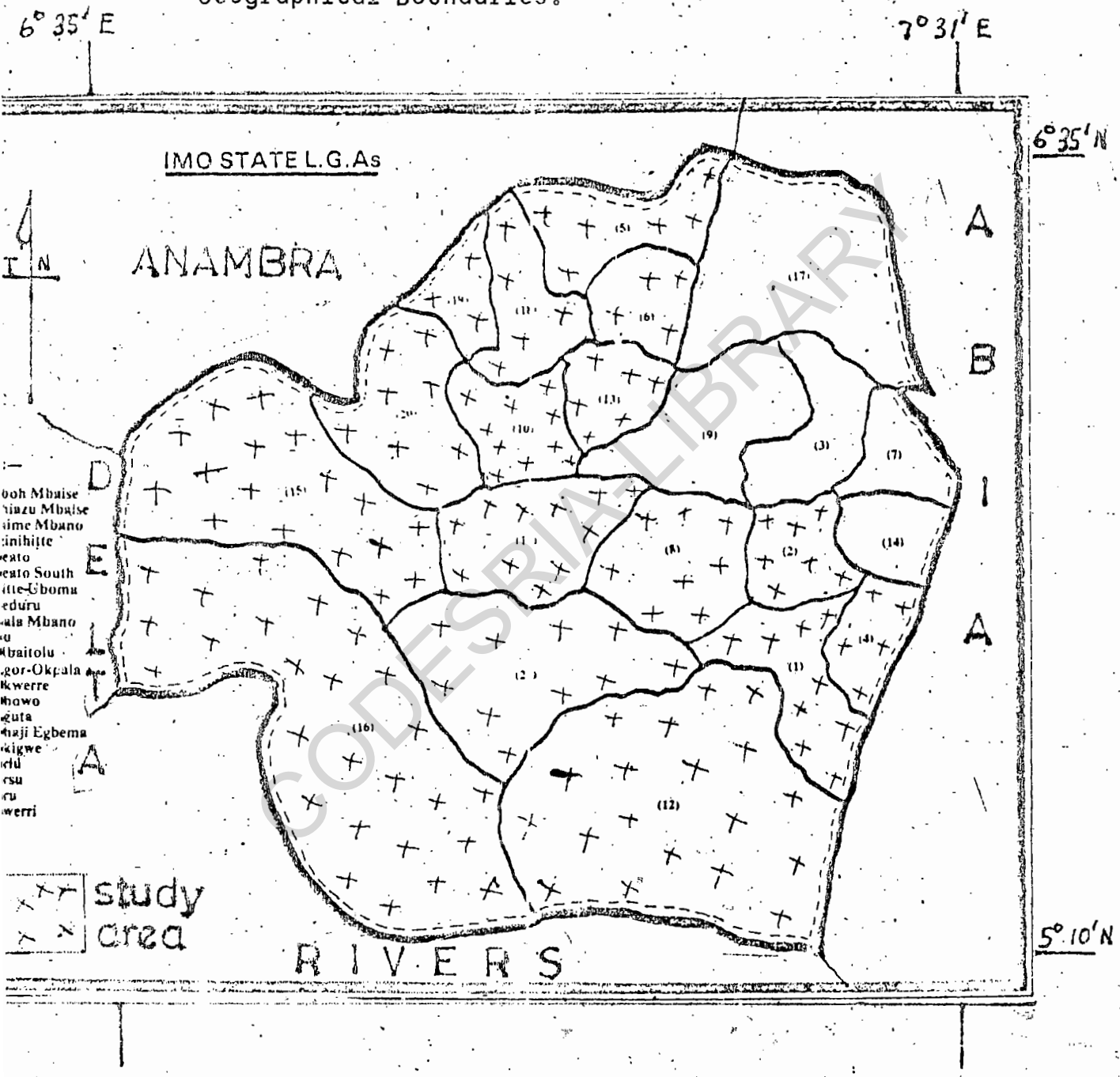
RESEARCH METHODOLOGY

3.1.0 Study Area

The study area is the present Imo State of Nigeria. It was part of what used to be the former Eastern Region in the three and four regional structure of the Nigerian nation. In 1967, in the twelve state structure, Eastern Region was broken up into three States of Rivers, Cross River and East Central States. The present Imo State was part of East Central State (E.C.S.). On 3rd February, 1976, the twelve state structure gave way to the nineteen state structure. Consequently, E.C.S. was broken up into Anambra and Imo States. In August 1991, the fifteen year old Imo State was divided into Imo and Abia States (Imo Commerce and Industry, no date).

Imo State is one of the smallest states in landmass but with high population density (Imo B.P., 1986). It has a population of about 2,485,499 persons and a landmass of 5,530 km^2 (F.O.S., 1993). It has three agricultural zones namely Owerri, Okigwe and Orlu Zones. It has twenty-one local government areas (Fig. 3.1). Owerri is the major urban town, while Orlu and Okigwe are sub-urban towns. The rest of the towns are rural communities.

Figure 3.1: Map of Imo State Showing L.G.As, Study Area and Geographical Boundaries.



Source: Information and Culture Ministry, Owerri, 1992. Spotlight on Local Governments, Imo State, p. vi.

Geographically, Imo State lies in the South Eastern part of the country, in the Tropical Rain Forest Belt. It lies between latitude $5^{o}10'$ and $6^{o}35'$ North of the Equator; and between longitude $6^{o}35'$ and $7^{o}31'$ East of Greenwich Meridian. It shares boundries with Abia State on the East; Anambra and Delta States on the West; Anambra State on the North; and Rivers State on the South (Fig. 3.1). Sixty-one Community Banks (CBs) operate in the State (NBCB, 1994).

3.2.0 Sampling Procedure

Imo State was purposively chosen because it is predominantly rural. It is the second largest operator of CBs in the country and it is well known to the researcher for effective coverage.

Two of the three agricultural zones were randomly selected. Six CBs were randomly selected from each zone, one from a local government area. Ten agribusiness operators were randomly selected from each community whose bank was sampled. Five of them were randomly selected from a list of agribusiness borrowers provided by each bank. The other five were randomly selected from the rest of agribusiness men in the community through the assistance of an enumerator and a community

leader. This gave a total of 120 agribusiness respondents.

The officials of the twelve sampled banks formed the bank respondents. This gave a total of 132 respondents.

3.3.0 Data Collection

Data were collected from primary and secondary sources. Primary data were collected through the use of two sets of questionnaires. One set went to agribusiness holdings while the other went to bank officials. The agribusiness questionnaire elicited from respondents information on their socio-economic characteristics, agribusiness types practised, traditional and formal sources of agribusiness funds, knowledge and use of banking facilities especially the CBs and the problems encountered in CB loan acquisition and repayment.

The second set of questionnaire went to the sampled banks and were completed by the manager, accountant or the agricultural credit officer. It obtained the names of agribusiness loan beneficiaries, the types of agribusiness sponsored and their profitabilities or rates of returns, conditions for granting

agribusiness loans, interest rates, and rate of loan repayment among others.

However, ninety questionnaires were retrieved from the agribusiness respondents, fifty of whom were CB borrowers and forty non-CB borrowers. All bank questionnaires were retrieved.

Secondary data were sourced by reviewing relevant literatures on agriculture, agribusiness, banking, agribusiness credit, the operations of CBs and the agribusiness situation in Imo State.

3.4.0 Data Analysis

Objectives 1, 2 and 6 were analysed using descriptive statistics; while objective 4 was partly achieved by descriptive statistics and partly by test of significance of means.

Objective 3 was realised through the use of multiple regression analysis.

Objective 5 was achieved by employing both ratio and discriminant analyses. While ratio analysis assessed the financial position of borrowers, discriminant analysis evaluated their credit potentials. Different financial ratios were applied to determine the borrowers' financial position. The financial ratios of agribusiness organisation of CB borrowers were examined.

The discriminant function was further used to classify borrowers into good credit and bad credit risk borrowers.

3.4.1 Model Specification

1 Regression Analysis

The regression analysis used in measuring loan repayment rate is of the form:-

$$Y = f(X_1, X_2, X_3, X_4, X_5, X_6, e)$$

Where Y = Loan repayment rate (%)

X_1 = Age of agribusiness borrower (years)

X_2 = Yearly net income of agribusiness borrower (₦)

X_3 = Educational level (years)

X_4 = Family size (number of persons)

X_5 = Loan size (₦)

X_6 = Type of agribusiness (dummy variable, 1, for agribusiness production; 2, for agribusiness marketing).

e = Error term.

Usually four or more important independent variables are introduced in the regression function (Koutsoyiannis, 1992).

Choice of Functional Form

Three functional forms were tried in the computer regression analysis to ascertain the one that gives the

best fit. The functional forms were:-

i Ordinary Linear Function

$$Y = b_o + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + e$$

ii Semi-logarithmic Function

$$Y = b_o + b_1\log X_1 + b_2\log X_2 + b_3\log X_3 + b_4\log X_4 + b_5\log X_5 + b_6\log X_6 + e$$

iii Double-logarithmic Function

$$\text{Log } Y = \log na + b_1\log X_1 + b_2\log X_2 + b_3\log X_3 + b_4\log X_4 + b_5\log X_5 + b_6\log X_6 + e.$$

2 Test of Signficance of Difference of Means

The t-test for the significance of difference in the mean net income of agribusiness CB borrowers and agribusiness non-CB borrowers was applied.

3 Ratio Analysis

The following financial ratios were applied to determine the relationship between the various items on the financial accounts:- Debt/Equity ratio, Debt/Total Capital ratio, Equity/Total Capital ratio, Coverage ratio, Total Assets ratio, Return on Owners' equity and Return per common share capital (Pyle, White et al, 1980). The formulae are fully set out in Results and Discussions in Chapter Four.

4 Discriminant Analysis

The discriminant model is presented explicitly as -

$$Z_i = b_o + b_1X_{1i} + b_2X_{2i} + \cdots + b_nX_{ni}$$

Where

Z_i = the i th individual's discriminant score

$Z_{crit.}$ = the critical value of the discriminant score

X_{ji} = the i th individual's value of the jth independent variable (as in regression analysis)

b_i = the discriminant coefficient for the jth variable.

For the classification procedure, each individual's discriminant score, Z_i, was made a function of the independent variables, that is

$$Z_i = b_o + b_1X_1 + b_2X_2 + \cdots b_nX_n.$$

For the classification procedure,

if $Z_i \geq Z_{crit.}$, the individual, i was classified as good credit risk (group II) and

if $Z_i < Z_{crit.}$, the individual, i was classified as bad credit risk (group I).

The classification boundary is the locus of point where $b_o + b_1X_{1i} + b_2X_{2i} + \cdots + b_nX_{ni} = Z_{crit.}$ The exact value of the limit of each group for the purpose of classification depends on how much premium is attached on relative cost of misclassification to the investigator.

The cut-off point was taken as the mid-point of $Z_{(\text{good credit risk})}$ and $Z_{(\text{bad credit risk})}$ $= \frac{1}{2}(Z_{\text{good credit risk}} + Z_{\text{bad credit risk}})$, because discriminant function analysis assumes equal cost of misclassification (Green and Tull, 1975; Bauer and Jordan, 1971; Peters and Summers, 1968).

3.4.2 Derivation of the Values of the Regression Variables

The values or units of the variables of the regression model were picked directly from the questionnaire or derived from the responses.

a Loan Repayment Rate, Y (%). This is the dependent variable of the regression model. It was derived by dividing the amount of loan paid back by the loan sum and multiplying by 100.

$$Y = \frac{\text{amount of loan paid back}}{\text{loan sum}} \times \frac{100}{1}$$

b Age of Agribusiness Borrower, X_1 (years). Respondents gave their ages in years and were directly picked.

c Yearly Net Income, X_2 (₦). The study set out to obtain a time series data for the variable, 1990-1995. But most of the CBs were not established until 1993, some were established after. Some borrowers got loans for some separated and or limited number of years;

narrowing the study down to cross-sectional data. However, a pooled cross-section and time series data (Kmenta, 1990) for the number of years each borrower had loan was used to obtain the mean yearly net income.

Yearly net income = Yearly gross income - Yearly operational cost.

Yearly gross income = Yearly output x rulling selling price.

Yearly operational cost = Yearly labour cost + input cost + rent + depreciation.

d Educational level, X_3 (years). Responses were given as number of years spent in school. Educational levels were deduced on the premise that all things being equal, these years would lead to these educational attainments:-

i < 1 year - no formal education
ii 1 - 6 years - primary education
iii 7 - 12 years - secondary education
iv > 12 years - tertiary education.

e Family Size, X_4. This was given as number of people in the family.

f Loan Size, X_5 (₦). This was picked from the questionnaire as the amount signed in the loan contract. It is supposed to have embodied the interest charge.

g Type of Agribusiness, X_6 (dummy variable). For the purposes of this study agribusiness was divided into two major sub-sectors, namely production including the primary, secondary and tertiary productions of farming, processing and manufacturing respectively. The other is the marketing sub-sector responsible for the distribution and marketing of farm inputs, farm equipments and machinery. It also includes the marketing of farm produce and agro-products. Production is coded 1, while marketing is coded 2. Respondents stated the aspects of agribusiness they engage in specifying the main type. The main type was coded accordingly and used for analysis.

CHAPTER FOUR

FINDINGS AND DISCUSSIONS OF RESULTS

In this Chapter data collected through the use of questionnaires, interviews and official records are discussed and analysed, descriptively and statistically as the case may be.

4.1.0 Socio-economic Characteristics of CBs Agribusiness Borrowers

The socio-economic characteristics of agribusiness CB borrowers which may influence their loan acquisition and repayment rate include age, sex, loan size, educational level, net income, family size, type of agribusiness, and experience in the main agribusiness.

Most loan schemes are revolving. Their sustenance depends on the repayment rate. Alexander and Scott (1974) and Imo B.P. (1986) made inputs on how to improve loan repayment rate. Improvements in loan repayment rate could be achieved by advancing loans only to those who possess the desired socio-economic characteristics that make for loan repayment. The recognition of such good credit risk borrowers could be ascertained by analysing the financial position of applicants, and the application of regression and discriminant functions on their socio-economic characteristics.

Findings indicate that no defined pattern of loan distribution was observed. Loans were granted to some

socio-economic characteristics indiscriminately. Findings also indicate that the people of the study area possess good repayment qualities as 39 persons or 78% of the fifty borrowers have completely repaid their loans, while 11 persons or 22% were at various stages of complete repayment. It is interesting to note that no person showed the tendency for complete default.

4.1.1 Age of Borrower

Table 4.1 shows age distribution of borrowers, classifying them into sex, range of loan received and repayment rate. Under age range, the number and percentage in each age group benefiting from the loan are shown. The number of males and females in each age group is also shown.

Table 4.1: Age Distribution of Borrowers by Sex, Range of Loan Obtained and Repayment Rates

Age Range			Sex		Loan Range (₦)				Repayment Rate		
Years	No	%	M	F	Less than 5000	5000-10000	10001-20000	Above 20000	1-99 (No)	100 (No)	% of full Repay.*
< 30	2	4	2	-	-	1	-	1	-	2	100.0
30-39	12	24	7	5	2	4	1	5	2	10	83.3
40-49	20	40	15	5	2	5	6	7	4	16	80.0
50-59	10	20	6	4	2	1	3	4	2	8	80.0
> 59	6	12	5	1	-	2	2	2	3	3	50.0
Total	50	100	35	15	6	13	12	19	11	39	
%			70	30	12	26	24	38	22	78	

Source: Field Survey Data, 1996.

* Repayment.

The number of beneficiaries in each loan range is shown according to age groups. On repayment rate the number of persons in each age group who have made part repayment and full repayment are shown. Also shown is the percentage of each age group who have made complete repayment.

The table shows that loan distribution increased along with age up to 40-49 years and then decreased as the age increased. Percentage Full loan repayment decreased progressively with age as shown. This suggests that the younger ones were more productive and also maintained a high degree of moral suasion. Each group therefore may have paid back according to its productivity and net income.

4.1.2 Sex of Borrower

Loan distribution is more in favour of males than females. The ratio of male to female recipient is shown by age group. It is observed that there was no female recipient in the under 30 years category and only one in the above 59 years category. This development may be attributed to the fact that at these ages women may not be free or capable of carrying on agribusiness on their own as to attract bank loans. Under 30 years they are controlled by their parents or husbands. Above 59 they may not be as strong as their male counterparts to carry on enough agribusiness to the extent of attracting productive loans from banks.

4.1.3 Yearly Net Income of Borrower

Table 4.2 categorises agribusiness borrowers into different net income groups. The number of people and percentage composition in each group and the category of loan received are also shown. The table reveals no particular relationship between net income and amount of loan received. However the net income group of more than ₦500,000 had all their loans in the last two categories of loan ranges portraying a picture of high income, high loan.

Table 4.2: Loan Range Received and Repayment Rates by Net Income Groups.

Net Income Range			Loan Range (₦)				Repayment Rate(%)		
(₦)	No	%	< 5000	5000-10000	10001-20000	>20000	1-99 (No)	100 (No)	% of full Repay*
< 10,000	8	16	2	3	3	-	2	6	75.0
10,000-30,000	12	24	-	3	2	7	4	8	66.7
30,001-50,000	9	18	4	3	-	2	3	6	66.7
50,001-100,000	5	10	-	2	1	2	1	4	80.0
100,001-500,000	12	24	1	2	6	3	-	12	100.0
> 500,000	4	8	-	-	1	3	1	3	75.0
Total	50	100	7	13	13	17	11	39	
%	100	100	14	26	26	34	22	78	

*Repayment

Source: Field Survey Data, 1996.

All members of the ₦100,001 - 500,000 net income group repaid all their loans, showing a 100% full repayment rate. The full repayment rate of other categories of net income earners are shown. Net income played an appreciable part in loan repayment. On the average, income could be said to have directly affected repayment positively. A line graph and histogram show the trend of full repayment (fig 4.1).

4.1.4 Educational Level of Borrower

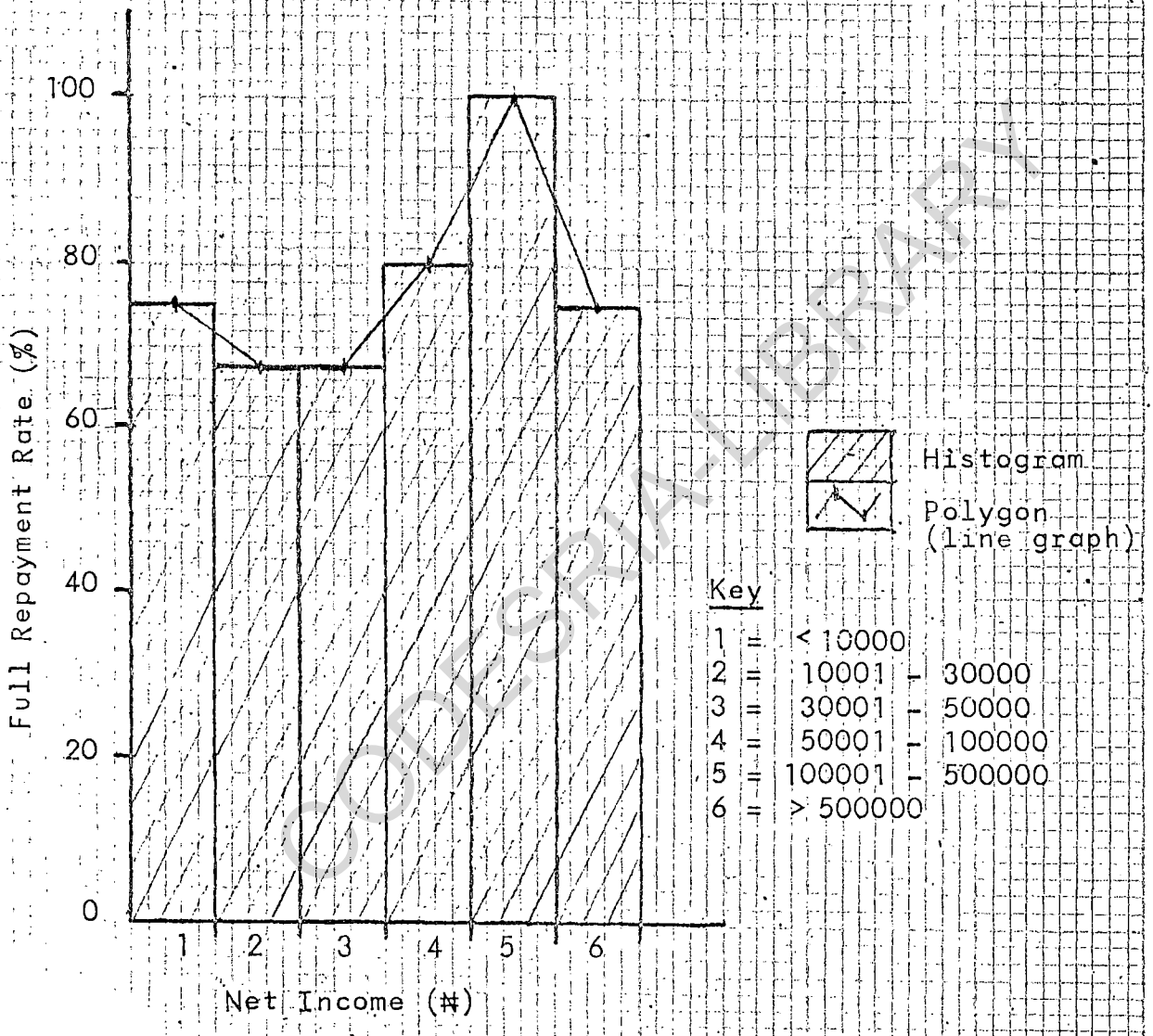
Among the sampled CB agribusiness borrowers only one person had no formal education, representing 2% of the sample. The other forty-nine persons or 98% of the sample had formal education. The number of persons in each educational group, their percentage composition of the sample, the number and percentage that got whatever loan range are shown on table 4.3.

Table 4.3: Loan Range Receipts and Repayment Rates According to Educational Level.

Educational Level			Loan Range (₦)				Repayment Rate (%)		
Attainment	No	%	< 5000	5000-10000	10001-20000	> 20000	1-99 (No)	100 (No)	% of full Repay
No formal Edu.	1	2	-	-	1	-	-	1	100.0
Primary "	16	32	2	4	3	7	3	13	81.3
Secondary "	19	38	3	7	2	7	6	13	68.4
Tertiary "	14	28	1	2	8	3	2	12	85.0
Total	50	100	6	13	14	17	11	39	
%	100	100	12	26	28	34	22	78	

Source: Field Survey Data, 1996.

Fig. 4.1: Full Loan Repayment According to Net Income Groups.



Source: Field Survey Data, 1996.

The highest number of loans went to the secondary educated people. Loan receipt by other categories are also shown on table 4.3.

All the categories of borrowers, formally and non-formally educated repaid whole or part of their loans. The different levels of education had some full repayment. This decreased with higher education, that is education showed a negative effect on loan repayment. This may be attributed to the fact that a higher educated person may have more investment opportunities. This may lead to loan diversion resulting to low rate of loan repayment. But the tertiary educated borrowers repaid more than those of the secondary and primary levels. This may be attributed to more understanding of loan issues and by their level of education showed more patriotic attitude.

4.1.5 Family Size of Borrower

Table 4.4 categorizes borrowers into three families of different sizes. The middle group family had the highest number of loan receipts making family size to positively influence loan receipt up to a point before it had a negative effect. The middle group family is likely to have more productive middle aged members who could help in the family agribusiness. The table shows the number of families belonging to each family size, their percentage composition of the sample, the range of loans and the number of families that received each.

Table 4.4: Loan Distribution and Repayment Rates by Family Size.

Family Size			Loan Range (₦)				Repayment Rate		
No of Persons	No of Families	% of Families	<5000	5000-10000	10001-20000	>20000	1-99 (No)	100 (No)	% of full Repay.
1 - 5	19	38	2	8	3	6	4	15	80.0
6 - 10	25	50	4	4	6	11	6	19	76.0
> 10	6	12	1	1	2	2	1	5	83.3
Total	50	100	7	13	11	19	11	39	
%	100	100	14	26	22	38	22	78	

Source: Field Survey Data, 1996.

The table also shows the number of families that paid part of their loan, the number that paid all and the percentage of each family group that completely repaid her loan. Family size could be seen to have both negative and positve effects on loan repayment. The middle family, instead of making the highest percentage of full repayment as it made the highest loan acquisition, had the least percentage of full repayment. That family size has negative or positive effect on loan repayment depends on how energetic and enterprising members of each family are.

4.1.6 Loan Size Received

Table 4.5: Size of Loan Received and Repayment Rates.

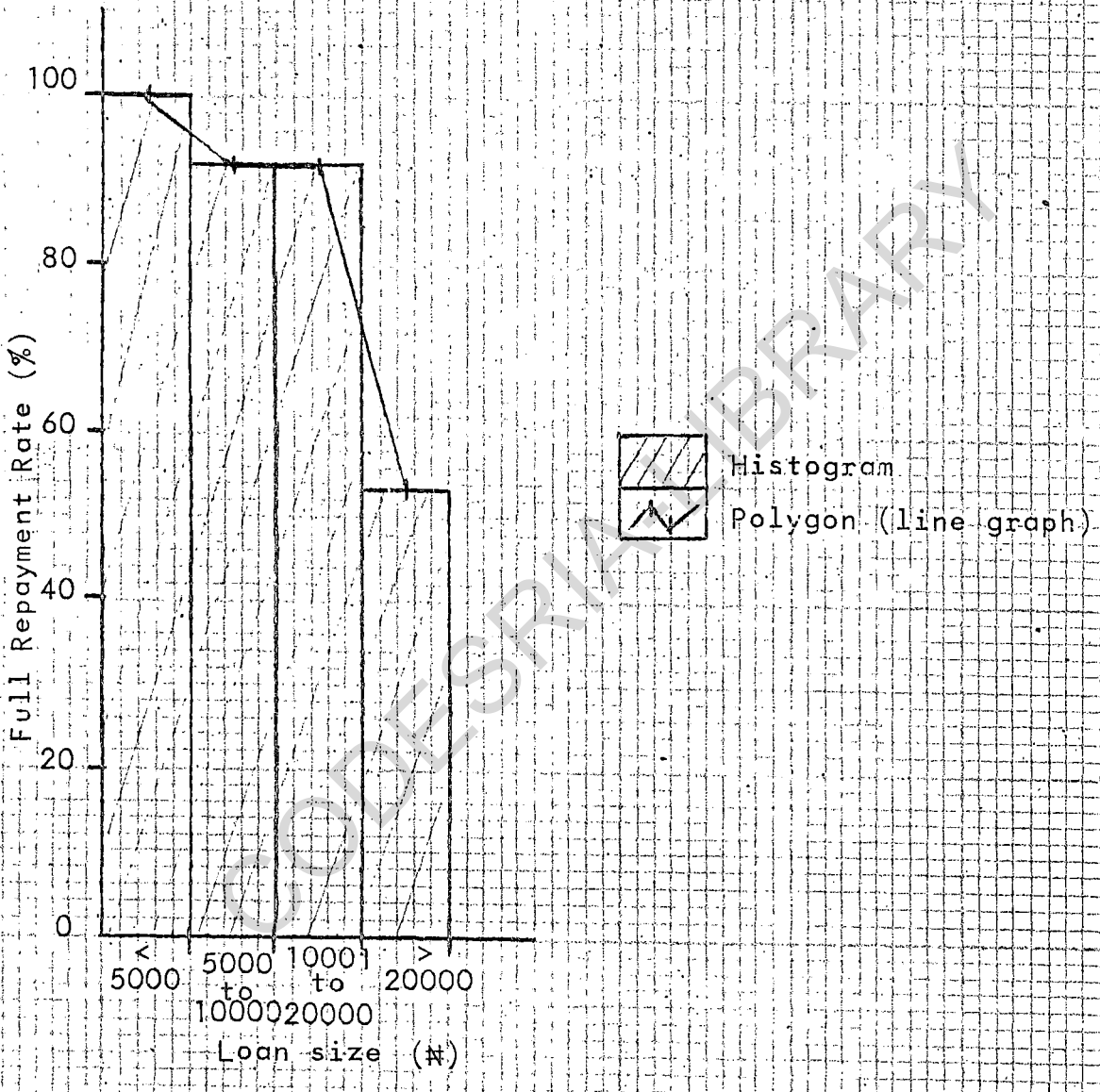
Loan Range (₦)			Repayment Rate (%)					
			1 - 49		50 - 99		100	
Amount (₦)	No	%	No	%	No	%	No	%
< 5000	6	12	-	-	-	-	6	100.0
5000 - 10000	13	26	-	-	1	7.7	12	92.3
10001 - 20000	12	24	-	-	1	8.3	11	91.7
> 20000	19	38	4	21.1	5	26.3	10	52.6
Total	50	100	4		7		39	
%	100	100	8		14		78	

Source: Field Survey Data, 1996.

Table 4.5 shows loan range against the number and percentage of recipients and rate of repayment. The repayment rate was further subdivided into three as shown.

While percentage part repayment increased with the amount of loan receipt, percentage full repayment was in the reverse order. From the table the size of loan amount has a negative effect on full loan repayment. A histogram and line graph show how loan size affects full repayment rate.

Fig. 4.2 Loan Size as it Affects Full Repayment Rate.



Source: Survey Field Data, 1996.

Size of loan could manifest a negative or positive effect on repayment. The type of effect depends on economic climate. If there is business boom higher loan receipt should have higher repayment rate all things being equal, but if there is a business recession, repayment rate may be in the reverse order.

4.1.7 Type of Agribusiness

Table 4.6: Distribution and Repayment Rates of Loan According to Agribusiness Type.

Type of Agribusiness			Loan Range (₦)				Repayment Rate (%)		
Dummy Variable	No	%	< 5000	5000-10000	10001-20000	> 20000	1-99 (No)	100 (No)	% of full Repay.
Agribiz.Prodn. (1)	32	64	3	10	9	10	8	24	75.0
Agribiz.Mkting. (2)	18	36	3	4	4	7	3	15	83.3
Total	50	100	6	14	13	17	11	39	
%	100	100	12	28	26	34	22	78	

Source: Field Survey Data, 1996.

Table 4.6 shows that 32 persons or 64% of the sampled agribusiness CB borrowers engage in agribusiness production, while 18 persons or 36% engage in agribusiness marketing. Loan range distribution to borrowers in this two sub-sectors of agribusiness are shown on the table. Also shown are the number of fully or partly repaid loans. The percentage full repayment is equally shown.

Agribusiness production fully repaid 24 loans or 75% of its loan portfolio while agribusiness marketing fully repaid 15 loans or 83.3% of its loans. Type of agribusiness in this study seems not to have much effect on loan repayment rate. It is possible that either could have a higher repayment rate depending on the trend of business at a particular period.

4.2.0 Sources of Agribusiness Funds

Introduction

Agribusiness operators have different ways of sourcing fund for their business. These include formal and informal sources. While some of such avenues are known and open to some agribusiness men others are not. The avenues may include personal savings, friends, relations, traders, money lenders, thrift saving groups (Esusu), clubs, unions, cooperative societies, commercial banks, loan agencies, Peoples Bank of Nigeria, Community Banks etc.

4.2.1 Community Banks' Loan to Agribusiness in Imo State

Community Banks' mobilized funds are given out as loans and advances to eight sectors of the national economy namely Agriculture and Forestry, Mining and Quarry, Manufacturing and Food Processing, Manufacturing (Others), Real Estate, Commerce, Transport and Communication, and Others (NBCB Form 400, Appendix I). Agribusiness sector

in the schedule is covered partly by Agriculture and Forestry, Manufacturing and Food Processing, both of which are agribusiness production. Agribusiness marketing is covered in general Commerce.

Table 4.7 shows the total and agribusiness production loan portfolios of the sampled CBs in Imo State. The table shows the total loan portfolio of each sampled bank; the amount of money, the percentage contribution and the yearly average loan to agribusiness production for the period under review. The mean percentage contribution was obtained as 8.21%.

Table 4.7: Community Banks' Loan to Agribusiness Production in Imo State - (1993-1995).

Respondent CBs	Total Loan Portfolio (₦)	Loan to Agribiz. Prodn(₦)	% to Agri-biz. Prdn. (%)	Av.Yearly Loan Portfolio (₦)	Av.Yearly Loan to Agr. Prodn. (₦)
1	46716606	1017215	2.18	15572202	339072
2	3537082	352779	9.97	1768541	176390
3	28708734	3922185	13.67	9569578	1307395
4	573387	449860	7.85	1911129	149953
5	13760469	559314	4.06	4586823	186438
6	14305966	605000	4.23	4768655	201667
7	2922876	450713	15.42	1461438	225357
8	7096184	2201800	31.02	2365395	733933
9	10249794	644566	6.29	3416598	214855
10	8857460	2650800	29.94	2952487	883933
11	3518184	545094	15.49	1759092	272547
12	24951815	587594	2.35	8317272	195865
Total/ Mean	170358557	13986920	$\bar{x}$= 8.21		

Source: NBCB Zonal Office Enugu, 1996.

From table 4.6 the ratio of agribusiness production and agribusiness marketing practices were obtained as 16:9 respectively. Following the same ratio agribusiness marketing loan from CBs is calculated as-

$$\frac{\text{Agribiz.Prdn.}}{\text{Agribiz.Mkting.}} = \frac{16}{9} = \frac{8.21\%}{x}$$

$$x = 4.62\%,$$

where x = agribusiness marketing.

∴ Agribusiness percentage sponsorship = agribusiness production percentage sponsorship + agribusiness marketing percentage sponsorship, that is

$$8.21\% + 4.62\% = 12.83\%.$$

This compares with an earlier report that agricultural loans accounted for 18.8% of CBs outstanding loan portfolio (CBN, 1993). The 12.83% is thus below the average national performance of CBs. This is not expected in a state with such number of CBs and such number of rural populace at which CBs are supposed to target.

4.2.2 Community Banks' Rate of Sponsorship of Borrowers' Investments

CBs have variedly sponsored borrowers' investments. Some were badly sponsored, some fairly, some well and others over-sponsored following the ratio of loan sum to investment sum. The rates of sponsorship are shown on table 4.8.

Table 4.8: Percentage Sponsorship of Community Banks Borrowers' Investments and Their Rates of Repayment.

Percentage Sponsorship	No of Invest.	Rate of Repayment (%) 1-99 (No)	100 (No)	% of part Repayment	% of full Repayment	Remarks
1 - 30.4	27	2	25	7.4	92.6	badly sponsored
30.5 - 60.4	12	4	8	33.3	66.7	fairly "
60.5 -100.0	5	1	4	20.0	80.0	well "
>100	6	4	2	66.7	33.3	over "

Source: Field Survey Data, 1996.

As it were, it was the badly sponsored projects which made the highest full repayment of 92.6%, while the over sponsored fully repaid only 33.3%. The percentage of full and part repayments are shown for each category of sponsorship.

The badly sponsored group who made the highest full repayment may have sourced fund from other avenues especially personal savings, and in an attempt to be good customers to earn further CB sponsorship made impressive repayment. Over sponsorship must have led to diversion of loan fund resulting to poor repayment.

The fifty sampled CB borrowers altogether invested the sum of ₦10,209,614. CBs sponsored these investments to the tune of ₦2,029,200, a 19.88% sponsorship, table 4.9.

Table 4.9: Investment Funds of Fifty Agribusiness Community Bank Borrowers.

No of Invest-ments	Sum Invested (₦)	CB Loan (₦)	Owners' Equity (₦)	Average Investment (₦)	Av. Owners' Equity (₦)	Av. CB Loan (₦)	CB % Spon-sorship
50	10209614	2029200	8180414	204192.28	163608.28	40584	19.88

Source: Calculations from Field Survey Data, 1996.

The table shows the total and average amount of money contributed by borrowers to their investments and those by CBs. The 19.88% sponsorship shows a badly sponsored project by our classification on table 4.8.

4.2.3 Awareness of Community Banks' Services

Owing to the fact that adequate business funds do not reach most of the grassroot agribusiness men despite the so far implemented Rural Banking Programme, government in 1990 set up a novelty grassroot bank, the Community Bank to fill the financial gap. The problem of CB ever since has been to create awareness among the business class including the agribusiness men. Table 4.10 shows awareness of CB activities among the ninety agribusiness respondents.

Table 4.10: Respondents' Awareness of Community Banks' Services.

	No aware of CB Services	No of CB Customers	No granted CB Loan	No operating account with Other banks	No not operating account with any bank
No	90	66	50	81	9
%	100	73.3	55.6	90	10

Source: Field Survey Data, 1996.

All the respondents claimed knowledge of the existence of CBs and their services, that is a 100% awareness. This agrees with the statement of the Central Bank of Nigeria boss that CBs have achieved a good spread (Ogwuma, 1994). Distribution of CB services enjoyed by respondents are shown on table 4.10. Fifty persons or 55.6% of the respondents or 75.8% of CB customers received loan from CBs. Eighty-one persons or 90% of the respondents enjoy banking services. Only nine persons or 10% have no access to banks. This implies some more work for CBs to extend banking services to them.

4.2.4 Other Sources of Agribusiness Funds to Community Banks' Agribusiness Borrowers

Table 4.11: Other Sources of Funds to CB Agribusiness Borrowers.

Source of Fund	Personal Savings	Friends and Relations	Thrifts/ Esusu	Coop Societies	Merchant/ Dev. Banks	Unions and Clubs	PBN
No Benefiting	43	5	4	4	2	3	1
% Benefiting	86	10	8	8	4	6	2

Source: Field Survey Data, 1996.

Table 4.11 shows other sources of funds to CB agribusiness borrowers. It is observed that none of them borrowed from any Commercial Bank or money lender. It could be they had softer loan conditions in CBs compared to the stringent conditions of commercial banks and money lenders since all of them only

borrowed from CBs. This vindicates CBs as the emancipators of agribusiness holdings.

However, forty-three persons or 86% of the borrowers had to augment their investment funds from personal savings, showing heavy dependence on the meagre savings of some small holder agribusiness men. This results to gross under-funding of the sector. Other sources of funds are as shown on the table.

4.3.0 Analysis of Regression Results

Introduction

Multiple regression analysis is a method of measuring concurrently the effects of several independent variables on the dependent variable (Schroeder, Sjouist et al, 1990). This was applied to loan repayment to see how the chosen independent variables affect loan repayment individually and collectively.

4.3.1 Functional Form of Best Fit

Of the three models tried, the double logarithm was preferred because it proved the most valid. Even though the R^2 was low, F-test proved it valid, since high R^2 is not the sole determinant of validity of a regression model (Schroeder, Sjoquist et al, 1990).

Both double and semi logarithmic functions were valid but the double log. was preferred because its intercept of 7.1345 in a loan administration model implies that at the worst of loan default, 7% of the loan must be repaid, while the intercept of semi log, 253.1826, implies that at the worst 253% of the loan must be paid back. The latter is not very possible in loan administration where the tendency to default is always there (Oyatoye, 1981). Table 4.12 shows the results of the three functional forms.

Table 4.12: Regression Results of the Functional Forms.

Functional Forms	Intercept (Constant)	R^2	F-ratio	R^{-2}	S.E.	S.S.	M.S.
Linear function ($Y = X_i$)	119.3118	0.1549	1.3134	0.0370	21.86734	3768.203	628.034
Semi-log. function ($Y=Var.X_i$)	253.1826	0.3316	3.5561	0.2384	19.4466	8068.719	1344.787
Double-log function ($Var.Y= Var.X_i$)	7.1345	0.3193	3.3623	0.2244	0.3407	2.341	0.390

R^2 = Coefficient of Determination

R^{-2} = Multiple R

S.E.= Standard Error

S.S.= Sum of Squares

M.S.= Mean Squares

D.F.= Degree of Freedom = (6,43).

Source: Computed from Field Survey Data, 1996.

4.3.2 Test of Significance of Double Logarithmic Function

R Square (R^2). The R^2 was 32%, showing that changes in the independent variables account for 32% of the variabilities in the dependent variable. The other 68% was attributable to error term or the non-included variables. R^2 was not high, but F-test validated the model since high R^2 is not the sole determinant of validity.

F-test. The F-tabulated was read at 6 and 43 degrees of freedom as 2.34. Since F-calculated, 3.36 > F-tabulated, 2.34, the null hypothesis that the model is not significant is rejected. The statistical significance of the model was therefore accepted and used for analysis.

Test for Parameter Estimates. The parameter estimates were tested at 0.01, 0.05 and 0.10 levels of probability. Table 4.13 shows the ones that are significant and those that are not. These are the most commonly used levels of tests (Lewis-Beck, 1990).

The independent variables which included age (X_1), net income (X_2), educational level (X_3), family size (X_4), loan size (X_5), and type of agribusiness (X_6) of the borrower were regressed on the dependent variable (Y) and the following results were obtained, table 4.13.

Table 4.13: Regression Results of the Independent Variables.

Independent Variables	Regression Coefficient	Standard Error	T-Value	Level of Significance
X_1	-0.5213	0.2267	2.2300	0.05, 0.10
X_2	0.0681	0.0302	2.2550	0.01, 0.05, 0.10
X_3	-0.0577	0.07997	0.7215	N.S.
X_4	0.0437	0.1121	0.3898	N.S.
X_5	-0.1456	0.0409	3.5600	0.01, 0.05, 0.10
X_6	0.0670	0.1434	0.4672	N.S.

Intercept, b_o = 7.1346
R^2 = 0.3193
F-cal. = 3.3623
N.S. = Not significant.

Source: Computed from Field Survey Data, 1996.

From table 4.13 independent variable X_1, age of borrower; X_2, net income and X_5, loan size were found significant leading to the rejection of their null hypotheses that they had no significant effect on the dependent variable, Y. Variables X_3, educational level; X_4, family size and X_6, type of agribusiness were found to have no significant effect on the variabilities of the dependent variable. Their null hypotheses were therefore retained.

Established Regression Line. The regression line was established as:

$$\text{Log } Y = 7.1346 - 0.5213\log X_1 + 0.0681\log X_2 - 0.0577\log X_3 + 0.0437\log X_4$$
$$\text{S.E} = \quad (0.2267) \quad (0.0302) \quad (0.07997) \quad (0.1121)$$
$$- 0.1456\log X_5 + 0.0670\log X_6$$
$$(0.0409) \quad (0.1434)$$

S.E. = Standard Error

N = 50 (sample size)

R^2 = 0.3193

F-Cal.= 3.3623.

The regression line thus disagrees with the additive property of multiple regression (Lewis-Beck, 1990) and has become one of the exceptional cases.

.3.3 Effects of the Independent Variables (X_i) on Loan Repayment (Y)

Some of the independent variables affected loan repayment differently.

Age of borrower (X_1).

Age of borrower had a marginal contribution of -0.5213 on loan repayment, with an inverse relationship. This agrees with the finding on Table 4.1. The table shows loan repayment decreasing as age increases. This is in agreement with a priori expectation. A young man starting life and sourcing money for business repays his loans to his banker so as to be

able to borrow again for reinvestment. But as he grows older and accumulates his own capital, he may tend to be less concerned about loan repayment since he could do without further loan. This differs from Orglers' statement in 1975 that "the pay off probability of an applicant who is fifty years is twice as high as that whose age is twenty five years".

When subjected to a t-test of significance, age was found significant at 0.05 and 0.10 levels of probability leading to the rejection of the null hypothesis that age has no significant effect on loan repayment. The result obtained is in line with earlier work by Arene (1990) and Mejieha (1991).

Net Income(X_2)

Net income showed a positive relationship with loan repayment rate. It has a marginal contribution of 0.0681. This agrees with a priori expection as observed by Arene in 1990. As one has more disposable income the better placed one is to repay one's loan if moral sausion is anything to go by. This agrees with the finding on table 4.2. Even though repayment decreased from the first income group to the second, it thereafter increased progressively to the fifth income group before it decreased again to the last group. On the average loan repayment increased as income increased.

When subjected to test of significance, it was found highly significant at 0.01, 0.05 and 0.10 levels of probabilities. Thus it has very high contribution to repayment rate. The null hypothesis was therefore rejected and the alternative accepted.

Educational Level (X_3).

Educational level had a marginal contribution on loan repayment rate following a regression coefficient of -0.0577. Its negative sign is in line with expectations, as people with higher education have more avenues for investments which could result to diversion and loan default. This agrees with the findings on table 4.3, where people with no formal education had more full repayment than those with primary education; and those with primary education had more than those with secondary education. But the tertiary educated borrowers repaid more fully than those of primary and secondary educational levels. This could be attributed to the fact that their higher education may have made them more responsible citizens and hence more prone to keeping to loan agreement.

Test of statistical significance proved its estimate non-significant at the three levels of probability leading to the retention of its null hypothesis.

Family Size (X_4)

A marginal contribution of 0.0437 was made to loan repayment by family size. The sign of the coefficient was positive suggesting that loan repayment increased along the same line with family size. This depends on the situation in the family. If family members are productive, size will show positive response, otherwise it shows negative. Table 4.4 shows both negative and positive responses.

The test of significance showed that family size made no statistical significant contribution to loan repayment. The null hypothesis then remained valid.

Loan Size (X_5).

This showed a marginal contribution of -0.1456 to loan repayment. It had a t-value of 3.5600 which proved highly significant at the three levels of measurement commonly used. This agreed with earlier findings of Arene (1990) and Mejieha (1991). It however showed a negative relationship, showing that as loan size increased, repayment moved in the opposite direction. The results on table 4.5 agrees with the expectations of the regression result.

But loan size could have a negative or positive effect depending on the economic climate. If there is boom, profitability will be high leading to high loan repayment, ceteris paribus. If there is recession,

profitability becomes low leading to negative attitude to repayment.

The null hypothesis that loan size has no significant effect on rate of repayment was thrown out.

Type of Agribusiness (X_6).

This variable marginally contributed 0.0670 to loan repayment rate, with a non-statistical significance. The a priori expectation of the regression showed a positive relationship. This might not apply strictly in practical life as either could be positive or negative at different times. Table 4.6 showed little difference in their full repayment rates as to warrant significant difference.

The null hypothesis could be accepted with some reservation.

4.3.4 Summary of Test of Hypothesis

Table 4.14: Summary of Tests of Hypothesis on Loan Repayment Rate for Independent Variables.

	Hypothesis	Level of Significance	Rejected
1	Loan repayment rate is not affected by age of borrower	0.05, 0.10	Yes
2	Loan repayment is not influenced by the net income of borrowers	0.01, 0.05, 0.10	Yes
3	Educational level is of no significance to rate of loan repayment	N.S.	No

Table 4.14 (cont.)

Hypothesis	Level of Significance	Rejected
4 The size of the family does not influence loan repayment	N.S.	No
5 That loan size does not affect loan repayment rate	0.01, 0.05, 0.10	Yes
6 That type of agribusiness has no effect on loan repayment	N.S.	No

Source: Summary of Statistical Regression Tests of Significance of Field Survey Data, 1996.

The findings about significance and non-significance of the independent variables contributing to loan repayment are summarised on table 4.14. The null hypotheses of the variables that made statistically significant contributions were rejected. The probability levels at which they were significant are specified. Those variables which made no statistical contributions had their null hypotheses accepted.

4.4.0 Performance of Community Banks Agribusiness Borrowers and Community Banks Agribusiness Non-Borrowers

Introduction

The performance of CB agribusiness borrowers and non-borrowers were compared. The comparison was based on their mean net incomes (Table 4.15 and Appendix II).

Table 4.15: Total and Mean Net Incomes of the Fifty Community Bank Agribusiness Borrowers and the Forty Community Bank Agribusiness Non-Borrowers.

Agri-business Group	Total Net Income (₦)	Mean Net Income(₦)	Standard Deviation	T-Value	D.F.
50 CB Borrowers	11195402	223908.04	629972.240	1.35	88
40 Non-CB Borrowers	3370513	84262.83	186843.476		

Source: Computed Total and Mean Incomes of CB Agribusiness Borrowers and Non-Borrowers from Field Data, 1996.

4.4.1 Percentage of Mean Performance

The percentage of the mean net income of the fifty CB borrowers over that of the forty CB non-borrowers is established.

Mean Net Income of 50 CB Borrowers = ₦223908.04

Mean Net Income of 40 CB Non-Borrowers = ₦ 84262.83

Mean difference of borrowers over non-borrowers = ₦139645.21

$$\text{Percentage Mean Performance} = \frac{139645.21}{84262.83} \times \frac{100}{1}$$

$$= 165.73\%$$

4.4.2 Test of Significance of Means

A t-test statistic of significance was conducted on the mean net incomes of the two sets of agribusiness operators at

a t-calculated value of 1.35 and 88 degree of freedom(table 4.15)at 0.10 level of significance. The t-tabulated was read,

$$t\text{-}tab_{0.05,\ 88} = 1.658$$

Since t-cal, 1.35 < t-tab, 1.658, we hold the null hypothesis that there is no significant difference in the mean net incomes of the CB agribusiness borrowers and non-borrowers.

However a significant difference was noticed at 0.20 level of probability

$$t\text{-}tab_{0.10,\ 88} = 1.289$$

Since t-cal., 1.35 > t-tab, 1.289, we reject the null hypothesis that there is no significant difference in the means of CB agribusiness borrowers and non-borrowers.at 80% confidence interval.

4.5.0 Capital Structure and Credit Risk Position of Community Banks Agribusiness Borrowers

Introduction

The history of institutional credit administration in Nigeria has not been impressive when evaluated on repayment basis (Arene, 1993). The situation arises from wrong assessment of financial positions and poor methods of selecting borrowers. To improve the repayment position, the faulty assessments have to be redressed.

4.5.1 Financial Ratios

The financial position of an individual or groups of individuals or companies is obtained from financial records or statements of accounts. The financial statements are analysed to determine the overall position and to find out certain financial aspects such as earning prospects and debt paying ability or credit worthiness. Financial statement analysis requires that the relationship between items or groups of items be highlighted (Pyle, White et al, 1980).

In this section the financial position of the fifty agribusiness Community Bank borrowers' holding is examined. A number of assumptions made in order to effect the analysis include:-

- the fifty agribusiness borrowers formed a general partnership holding,
- the company had 40,000 ordinary shares worth approximately ₦204.52 each,
- interest charge on the loan sums was in-built in the stated loan amounts,
- the company had a single capital structure, having only common shares, no preferred shares and no bonds.

Financial ratios were applied on the following information found on the company's statement of accounts

shown on table 4.16 for the purpose of assessing the capital structure.

Table 4.16: Company's Sources and Uses of Funds (₦)

Owners' Equity	Creditors' Equity (Loan Sum)	Interest Charge (21%)	Operational Cost	Net Income	Gross Income
8180414	2029200	426132	10209614	11195402	21405014

Source: Calculations from Field Survey Data, 1996.

a Leverage Ratio. The following leverage ratios were applied to the company's capital structure.

(i) Debt/Equity Ratio

$$= \frac{\text{Creditors' equity}}{\text{Owners' equity}} \times \frac{100}{1}$$

$$= \frac{2029200}{8180414} \times \frac{100}{1}$$

$$= 24.81\%$$

(ii) Debt/Total Capital Ratio

$$= \frac{\text{Creditors' equity}}{\text{Creditors'+Owners' equities}} \times \frac{100}{1}$$

$$= \frac{2029200}{10209614} \times \frac{100}{1}$$

$$= 19.88\%$$

The lower the two ratios, the better for the shareholders because most of the profit goes to them as dividends.

(iii) Equity/Total Capital Ratio

$$= \frac{\text{Owners' equity}}{\text{Creditors' + Owners' equities}} \times \frac{100}{1}$$

$$= \frac{8180414}{10209614} \times \frac{100}{1}$$

$$= 80.12\%$$

Creditors like to see high proportion of this ratio because owners' equity acts as a cushion in absorbing losses and ensures high repayment rate of creditors' equity.

(iv) Coverage Ratio

$$= \frac{\text{Income before tax and interest charge}}{\text{Interest charged}} \times \frac{100}{1}$$

$$= \frac{\text{Net income + Interest charged}}{\text{Interest charged}} \times \frac{100}{1}$$

$$= \frac{11195402 + 426132}{426132} \times \frac{100}{1}$$

$$= 2727.21\%$$

This measures the extent to which income generated covers tax and interest on loan. This company is on tax holidays and liable to no tax. The higher the ratio the more secure is the creditors' equity and the higher the dividend of shareholders. It showed how many times the income realised covered the interest on loan. It showed management's capability to utilize investment funds effectively.

b Rate of Return. The ratios assess the returns made on investment items.

(i) Total Asset Ratio

$$= \frac{\text{Net profit after tax (and interest charge)}}{\text{Total capital investment}} \times \frac{100}{1}$$

$$= \frac{11195402}{10209614} \times \frac{100}{1}$$

$$= 109.67\%$$

The company had more than 100% profit.

(ii) Return on Owners' Equity

$$= \frac{\text{Net profit after tax (and interest charge)}}{\text{Owners' equity}} \times \frac{100}{1}$$

$$= \frac{11195402}{8180414} \times \frac{100}{1}$$

$$= 136.86\%$$

(iii) Return per Common Share Capital

$$= \frac{\text{Net income}}{\text{No of common share capital}}$$

$$= \frac{11195402}{40000}$$

$$= ₦279.89$$

Before performance is finally assessed, the amount earned is compared with the earnings of other such companies in the same industry. It could be compared to a generally

set standard for the industry or that set by the company probably at a base year. It helps investors to decide the company on which to invest for maximum returns. It is usually quoted in the weekly stock market report for public companies.

4.5.2 Discriminant Analysis

Because of the faulty methods used in selecting borrowers, a lot of defaults have been noticed. It therefore becomes necessary to adopt a more efficient method which will discriminate between good and bad credit risk borrowers with greater precision. This is found in discriminant analysis. Churchill (1976) defined discriminant analysis as a linear combination of independent variables that maximally differentiates between and among groups.

The set of socio-economic variables studied and discriminated are age (X_1), net income (X_2), educational level (X_3), family size (X_4), loan size (X_5) and type of agribusiness (X_6), as in regression analysis.

The agribusiness borrowers were grouped into two. Eleven persons who repaid less than 100% of their loans were grouped I, bad credit risk. Thirty-nine who repaid 100% of their loans were grouped II, good credit risk (table 4.19 and Appendix III).

Test of Significance for Developed Discriminant Model

The developed model was subjected to statistical test of significance. The results are presented in table 4.17.

Table 4.17: Results of Statistical Test of Significance for the Developed Discriminant Function.

Canonical Correlation	=	0.3171851
Wilks' Lambda	=	0.8993936
Chi-Square (Calculated)	=	4.7716
Degree of Freedom (d.f.)	=	6
Chi-Square (tabulated)$_{0.75,6}$	=	3.43

Source: Computed from Field Survey Data, 1996.

The low canonical correlation coefficient of 0.3171851 and the high Wilks' Lambda of 0.8993936 indicate that the discriminant function developed does not provide sufficient information for measuring credit riskiness of agribusiness borrowers. However the calculated X^2 was found significant at 75% level of probability, thus rendering the function valid. Since X^2cal., 4.7716 > X^2tab, 3.45, the null hypothesis that none of the discriminant variables made significant contribution to credit worthiness of agribusiness borrowers is thrown off. The developed discriminant function can therefore be used to discriminate between good and bad credit risk borrowers.

Contributions of Individual Variables to the Model. The group centroid for group I was 0.61703 and group II was -0.17404. This means that the higher the composite score of any agribusiness man, the higher the probability that he will be classified credit worthy or otherwise. The estimated function for the agribusiness men using stepwise discriminant analysis and their percentage contributions to the model are shown on table 4.18.

Table 4.18: Coefficients of Independent Variables and their Percentage Contributions to the Total Discriminant Score.

Variables	Coefficients	Mean difference	Product	% Contribution
X_1	0.74019	4.91609	3.6388406	N.S.
X_2	0.68535	225852.28	154787.86	94.83
X_3	-0.39635	0.81818	0.324856	N.S.
X_4	-0.13431	0.13986	0.0187846	N.S.
X_5	0.38555	21862.005	8428.896	5.16
X_6	-0.31037	0.0979	0.0303852	N.S.

N.S. = Not Significant.

Source: Computed from Field Survey Data, 1996.

The coefficients of some of the variables show that some have positive effects (table 4.18). Net income (X_2) had a positive contribution of 94.83% to the model. This

means that as net income increases, the chances of becoming good credit risk increases for the agribusiness man. Loan size (X_5) had a positive contribution of 5.16%, showing that as size of loan increases, the credit worthiness of the borrower increases. Variables X_3, X_4 and X_6 had negative coefficients, showing that as their values increase, the chances of the borrower being credit worthy decreases. However their contributions to the model were statistically non-significant. Variable X_1 had no statistical significance but had a positive contribution. This finding agrees with Altima's stand as quoted by Orgler (1975) that financial ratio variables are better discriminators.

The percentage of "grouped" cases correctly classified (Pcc) was 70%, table 4.19.

Table 4.19: Classification Results of Estimated Discriminant Function.

Actual Group	No of Cases	Predicted Group	Membership
		1	2
1	11	7	4
Bad credit risk		63.6%	36.4%
2	39	11	28
Good credit risk		28.2%	71.8%
Percentage of "Grouped" Cases Correctly Classified (Pcc):			70.00%

Source: Computed from Field Survey Data, 1996.

If the percentage of "grouped" cases correctly classified (Pcc) is high, the function could be used for prediction, but the actual predictive efficiency is tested on a fresh sample of the same population (Churchill, 1976). Since the Pcc of the developed model is as high as 70%, the model was tested on another sample to ascertain its predictive efficacy. The percentage of bad credit risk classified as good credit risk is 36.4%. This will lead to loss of fund and eventual shrinkage of loan volume. It may further lead to total liquidation. The percentage of good credit risk borrowers classed as non-worthy is 28.2%. This will lead to the recovery of foregone loan but is not enough to cover the loses sustained by the misclassification.

A fresh sample of 6 bad credit risks as group I and 20 good credit risks as group II was used to test the predictive efficacy of the developed function. The classification was based on rate of repayment, less than 100% for the former and 100% for the latter. The percentage of "grouped" cases correctly classified is 76.92% (Table 4.21).

A statistical test of the predictive function was conducted and found significant at 0.50 level of significance (Table 4.20).

Table 4.20: Results of Statistical Test of Significance for the Predictive Discriminant Function.

Canonical Correlation	0.5356740
Wilks' Lambda	0.7130534
Chi-Square (cal.)	7.1022
D.F.	6
Chi-Square $(tab)_{0.50,6}$	5.35

Source: Computed from Field Survey Data, 1996.

Since $X^2_{cal.}$, 7.10 > $X^2_{tab.}$ 5.35, the null hypothesis that there is no significant difference in mean between the characteristics of credit worthy and non-credit worthy borrowers is rejected, hence there is a significant difference.

The proportion of the bad credit risk borrowers wrongly classified as good risks is 33.3% (Table 4.21). This has a diminishing effect and eventual liquidation on loan package. Whereas this may lead to default, the 20% mis-calssed good credit risk borrowers as bad credit risk borrowers will lead to recovery of foregone loan amounts. Even though this is not high enough to cover loses due to mis-classification of bad credit risk borrowers, the Pcc of "grouped" cases is high enough (76.92%) to allay the fears of mis-classification.

Table 4.21: Classification Results of the Predictive Efficacy of the Developed Discriminant Function.

Actual group	No of cases	Predicted group Membership 1	2
1	6	4	2
Bad credit risk		66.7%	33.3%
2	20	4	16
Good credit risk		20.0%	80.0%
Percentage of "Grouped" Cases Correctly Classified (Pcc):			76.92%

Source: Computed from Field Survey Data, 1996.

The Pcc of grouped cases in the validity test is high enough to allay the fears associated with misclassification errors. 76.92% is high when compared to 75% obtained by Bauer and Jordan (1971), 74% by Matiezo (1978) and 69% by Arene (1993).

From this analysis it is observed that credit riskiness is directly related to size of net income and size of loan amount. Both made statistical significant contributions and are therefore important determinants in loan repayment rate.

4.6.0 Community Banks Agribusiness Loan Administration

Introduction

There are problems and obstacles in most human endeavours. Loan administration is not left out.

Community Bank agribusiness borrowers face a number of problems in their loan acquisition and repayment. The bank officials have some administrative problems too.

4.6.1 Problems of Agribusiness Loan Administration

Borrowers' Problems. The major acquisition problems encountered by agribusiness borrowers are shown on table 4.22.

Table 4.22: Problems of Community Bank Agribusiness Loan Beneficiaries.

Problems	Late disbursement	Much documentation	Insufficient loan	Lack of security	High interest rate	Poor loan education	Insufficient supervision
No affected	23	-	35	18	16	3	5

Source: Calculation from Field Survey Data, 1996.

The number of borrowers experiencing each problem is shown on the table. The most acute is insufficient loan amount. Complicated documentations of commercial banks are no problems of CBs. This makes CBs banks for semi- and highly- literate customers.

The major identified repayment problems are those of lack of moral suasion and inadequate revenue. Some people generate enough revenue and make adequate business profits yet they lack the morals to honour loan repayment agreements.

Others do not generate enough revenue due to diversion of loan fund or due to poor business climate and are therefore unable to repay. Another problem of repayment is often due to the shortness of the loan duration. Problems of repayment also result from non-possession of the desirable socio-economic characteristics by borrowers.

Bank Officials' Problems

Table 4.23: Problems of Community Bank Officials in Agribusiness Loan Administration.

Problems	Low loan demand	Insufficient loan fund	Illiteracy among borrowers	Insufficient staff	No credit officer	Inaccurate Information	Irregular repayment	Complete default
No affected	1	8	9	1	0	6	11	0

Source: Calculations from Field Survey Data, 1996.

The problem most encountered by bank officials is irregular repayment of loan. This is followed by improper completion of forms. One bank complained of low loan demand as reported against Nsu CB (Ijere, 1994). These and other problems experienced by banks are shown on table 4.23.

4.6.2 Profitability Rating of Aspects of Agribusiness

Some CBs rated different aspects of agribusiness differently and some they rated alike. Table 4.24 shows the ratings and scores made by different agribusiness enterprises according to the ranking of different banks. The overall rating positions are shown. The table shows the number of CBs sponsoring each enterprise and the rate at which their operators make loan repayments. All enterprises received sponsorship and made repayments. The ratings are weighted as shown in brackets.

Table 4.24: Profitability Rating of Agribusiness Enterprises by Community Banks.

Agribusiness Enterprise rated	Rating/points and No of CBs/scores 1st (6)	2nd (5)	3rd (4)	4th (3)	5th (2)	6th (1)	Total No of CBs	Total Scores	Overall ranking
Livestock farming	4(24)	3(15)	3(12)	1(3)	1(2)	-	12	56	1st
Agro-marketing	2(12)	3(15)	2(8)	-	-	-	7	35	2nd
Agro-processing	2(12)	3(15)	-	-	-	-	5	27	3rd
Crop Farming	2(12)	2(100	1(4)	-	-	-	5	26	4th
Input supply	2(12)	1(5)	-	2(6)	-	-	5	23	5th
Manufacturing	-	-	1(4)	-	2(4)	-	3	8	6th
Tree Crop farming	-	-	2(8)	-	-	-	2	8	7th
Tool/equip. making	-	-	-	-	1(2)	1(1)	2	3	8th
Fish farming	-	-	-	-	-	1(1)	1	1	9th
Totals	12(72)	12(60)	9(36)	3(9)	4(8)	2(2)	42	187	

Source: Calculations from Field Survey Data, 1996.

Fish farming received the least sponsorship and ranking with an overall score of 1 point and came last on the overall ranking position. Only one bank sponsored it and gave it the 6th position on the ranking scale. The situation could be attributed to the high technical skill required for fish farming. Many agribusiness men may not be able to acquire them and practise fish farming, hence the limited sponsorship. Livestock farming has the overall first position having had four first position ratings by four banks and other ratings as shown, and making a total score of 56 points. This may be attributed to the high demand of livestock products and its quick turnover which satisfies the short term nature of most bank loans. With the other ratings in the table, agro-marketing took the second position with 35 points. Agro-processing, crop farming and input supply with their respective points took third, fourth and fifth positions. The rest of the enterprises took the positions indicated against them.

4.6.3 Measures Against Default

In many loan administration, cases of defaults abound. This ranges from untimely repayment to irregular repayment to non-repayment or total default. The measures adopted by sampled CBs to avert default situations are shown on Table 4.25.

Table 4.25: Measures Against Default by Community Banks.

Measures	Community sanction	Peer group pressure	Use of guarantors	Sales of pledges	Civil action
No of CBs	3	6	11	4	2

Source: Calculations from Field Survey Data, 1996.

The most adopted measures are use of guarantors and peer group pressure. The least adopted is civil action. The number of banks adopting each measure is shown on the table.

.6.4 Patronage of Community Banks Services

In this section, the responses of bank officials on the patronage their banks enjoy from respondents are assessed. It is compared with the ratings for respondents' awareness and patronage on Table 4.7.

Table 4.26: Patronage of Community Bank Services as Rated Bank Officials.

Patronage	Very impressive	Impressive	Just impressive	Not impressive	Total
CBs responses	3	7	1	1	12
Weighting	4	3	2	1	10
Total weights	12	21	2	1	36
Mean Weight					9

Source: Field Survey Data, 1996.

Seven banks responded that they enjoy an impressive patronage, three responded very impressive, one each responded just impressive and not impressive. The rates of patronage were weighted 4, 3, 2 and 1 respectively as shown on the table. The total weights are equally shown. The mean of the weights is obtained as 9, and is closest to weight 12. The patronage of CB services could therefore be said to be very impressive.

The rating is thus seen to tally with the rating for respondents' patronage of 73.3%.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.1.0 Summary

Lack of adequate investment fund is the major problem of most business concerns especially in developing economies. The agribusiness sector of the developing economies is the worst hit because of the meagre per capita income of the operators. This creates the need for agribusiness production loans. Government's efforts to make such loans reach the grassroots has failed because the operations of the formal financial houses responsible for the credit administration are not grassroot oriented. A grassroot oriented bank, the Community Banking System was launched on 31st December 1990 to extend the much desired credit to the rural economy especially the agribusiness men.

Imo State was purposively chosen for the study because of the prevailing economic conditions in the state. It is the second largest operator of Community Banks after Lagos State, and about 80% of its citizens live in rural areas. It therefore provides a nice theatre for the implementation of CB concepts.

Owerri and Orlu were randomly selected among the three agricultural zones of the state for study. Six CBs were randomly selected from each zone, one coming from a

local government area. Five CB agribusiness borrowers were randomly selected from a list of agribusiness loan beneficiaries of each sampled bank. Another five were selected from the rest of the agribusiness men of the community whose CB is sampled. This gave 120 agribusiness respondents. An official of each of the twelve sampled banks formed the bank respondent. This made up the total number of respondents to 132. Ninty of the agribusiness questionnaires were recovered while the twelve of the banks were all retrieved. Both questionnaires set out to collect information from 1991-1995 but could effectively cover 1993-1995.

The CBs were found to have distributed different sizes of loans to borrowers irrespective of their socio-economic characteristics. The middle age group (40-49 years) got the largest volume and value of loan. It had more loans than the other age categories in all the different loan ranges. The second of the net income group (₦10,000 - 30,000) had the largest number and amount of loans. This gave the impression of the banks helping beginners to establish. Educational level showed no pronounced effect on loan acquisition. Loan disbursement increased as family size increased, giving an impression of a consumption loan. More loans were made to agribusiness production than to agribusiness marketing, 64% and 36% allocations respectively.

It was observed that Imo CBs gave only 12.83% of their loan fund to agribusiness. This fell below the national performance of 18.8% in 1993, a situation most unexpected following the prevailing conditions in the state. While 10% of agribusiness projects of borrowers were well sponsored, 12% were over sponsored, while 78% were under-sponsored. On the average only 19.88% investment of Imo CB agribusiness borrowers' projects were sponsored by CBs. Though other sources of funds were open to some of them, CBs and personal savings remained the greatest sources of agribusiness funds, an indication that agribusiness still remains under-funded in the state.

Regression analytical findings on the effects of socio-economic characteristics on loan repayment agreed with some of the descriptive findings. Regression analysis found age, net income and loan size respectively contributing 52%, 7.7% and 16.5% to loan repayment. Whereas loan size and age had negative effects, net income had a positive effect.

The CB borrowers were found to have made higher net income than their non-borrower counterparts, making as much as 165.73% gain above them. However the mean difference in net income proved statistically non-significant when subjected to t-test of significance of means.

The impressive performance of the CB agribusiness borrowers' firm was indicative of the golden opportunities awaiting would be agribusiness investors in the state. The favourable financial ratios obtained show that agribusiness in the state is more sponsored by owners' equity and it is indicative of the borrowers' ability to repay borrowed funds and should encourage financial institutions to extend loans to agribusiness. The return to common share capital of ₦279.89 is attractive enough for agribusiness investors.

The discriminant analysis showed that among the independent variables, only net income and loan size made significant contributions to loan repayment. While net income contributed 94.83%, loan size contributed 5.16%. Both contributions were positive. Thus financial ratio variables were found making more contributions to loan repayment as put forward by Orgler (1975) quoting Altima. The analysis predicted borrowers with these characteristics as good credit risks and those without them as bad credit risks. During classification, eleven borrowers were classified as bad credit risks and thirty-nine were rated good credit risk borrowers. Statistically they were reclassified as eighteen bad credit risks and thirty-two good credit risks, thus further reducing the chances of default. The developed model showed the percentage of

"grouped"cases correctly classified, Pcc, as 70%. This was high enough to allay the fears inherent in loan classification when compared with similar previous works. The predictive efficacy of the developed model on a new sample of the same population is 76.92% Pcc.

The problems of CB loan administration were identified to be both borrowers' and institutional oriented. The major acquisition problems were insufficient funds and late disbursement, while non-generation of enough revenue and at times lack of moral suasion to honour repayment terms despite available revenue were among the repayment problems on the side of borrowers. The institutions complain about irregular repayment, insufficient fund and illiteracy among borrowers. Another problem of the loan administration is the non-profitability of some agribusiness enterprises. Fish farming was found to be the least profiting while livestock farming was the most profitable. To fight loan default and its tendencies, use of guarantors and peer group pressures were mostly adopted.

The patronage of CB services were found very impressive both for the ratings on behalf of respondents and the rating by bank officials.

5.2.0 Recommendations

It was identified that CBs gave loans indiscriminately to borrowers who possess repayment qualities and those who do not. This compounds repayment problems. If loans were given only to those who possess the repayment socio-economic qualities, loan repayment problems would be eliminated. Special consultancy services on loan administration should be introduced. A team of specialist accountants should be commissioned to study the socio-economic characteristics of borrowers that make for efficient loan repayment. Use of precise tools like regression and discriminant analyses should be used to determine such characteristics. To avoid loan repayment problems such identified characteristics should be handed down to CBs for strict compliance in loan disbursement.

Literature shows that CBs have mobilized much funds yet its loans to agribusiness are not as encouraging as expected. An 18.8% national and 12.83% Imo State CB loan funds to agribusiness is an eloquent testimony of CBs' inadequate agribusiness funding. In view of CBs strategic position and its expectations of the rural population and the whole Nigerian nation, CBs are supposed to play a more dynamic role in agribusiness which is the main economic activity of the rural area

and developing nations. More than 60% of agribusiness investments should be sponsored by CBs. A specific percentage of its loan portfolio should be set aside to achieve this. Withdrawal of operational licence could be used as a penalty for defaulting banks. The complaint by borrowers of insufficient loan fund is an eloquent testimony that the loan structure on NBCB form 400 which started with the system has outlived its usefulness and needs an urgent upward review to help beneficiaries keep abreast with the high cost of inputs occasioned by high inflation.

To enable CBs meet up the 60% sponsorship target, they should be helped to mobilize more funds. This could be achieved by issuing of permanent licences to banks which have operated successfully for two years. This will help them participate in the Central Banks on-lending programme. CBs should also increase their share capital to ten million naira, a good many of them have met five million naira target. Given more funds it is expected that CBs will bring about the economic turn about of the rural economy much faster than it is presently doing.

The already existing good financial structure of CB borrowers of agribusinesses should be sustained and

improved upon. Their mean net income over those of non-borrowers should further be improved to have statistical difference. Such a glaring difference will attract more customers into the CB fold and hence improve both CBs' and customers' performances. For a more organized agribusiness projects sponsorship, CBs should sponsor projects from infancy to maturity. This will attest more to their efforts at bringing economic salvation to rural areas than the present indiscriminate, sporadic and uncoordinated loans.

To quicken early disbursement of loans for timeliness of agribusiness operations more credit officers should be engaged to man different loan portfolios other than the present practice of one credit officer. This will quicken the processing of loan application forms. To avoid much loan defaults, Community Development Associations who are major shareholders in CBs should be given the legal backing to use conventional and traditional methods of loan recovery to get back defaulted amounts of loans. Mortgaging of defaulters' pieces of land or property until the loan is repaid should be encouraged.

Evidence of customership to CBs should be used in distributing social amenities including agribusiness

inputs. It should also be made to attract tax rebate in income tax assessment.

5.3.0 Conclusion

The Community Banking System has taken some steps in transforming the rural areas which looked like Oliver Goldsmith's deserted village into villages bubbling with economic activities. Agribusiness in the rural areas have had some boost through CBs' injection of fund. The tempo should be allowed to improve. CBs working with other integrated rural development agencies will make agribusiness which is the major economic activity of the rural area bring economic salvation to Imo State, its rural people and the entire nation.

5.4.0 Suggestions for Further Research

From this work it is evident that Community Banks sponsor many agribusiness enterprises. Future researchers are advised to direct their studies to CBs' sponsorship of specific agribusiness enterprises.

In such studies attention should be paid more to financial variables in assessing the socio-economic characteristics which make for high rate of loan recovery.

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APPENDIX I NBCB 400

NATIONAL BOARD FOR COMMUNITY BANKS

MONTHLY ANALYSIS OF LOANS AND ADVANCES

AS AT ..... DAY OF .....19....

NAMES OF REPORTING BANK .....

BANK CODE .....

S/NO.	SIZE OF LOAN* / SECTOR		I	II	III	IV	V TOTAL
1	AGRICULTURE & FORESTRY	NO.					
		₦					
2	MINING & QUARRY	NO.					
		₦					
3	MANUFACTURING & FOOD PROCESS	NO					
		₦					
4	MANUFACTURING (OTHERS)	NO					
		₦					
5	REAL ESTATE & CONSTRUCTION	NO					
		₦					
6	COMMERCE	NO					
		₦					
7	TRANSPORT & COMMUNICATIONS	NO					
		₦					
8	OTHERS	NO					
		₦					
	TOTAL	NO					
		₦					

NOTES: *I = UNDER ₦5,000.00

II = ₦5,000.00 - ₦10,000.00

III = ₦10,000.00 - ₦20,000.00

IV = OVER ₦20,000.00

V = TOTAL

APPENDIX II: Community Banks Agribusiness Borrowers' Yearly Capital Structure, Percentage of CB Sponsorship and Percentage of Loan Repayment; and CB Agribusiness Non-Borrowers' Yearly Net Income

	CB Borrowers					CB Non-Borrowers
	Yearly Operational Cost (₦)	Yearly net income (₦)	Yearly CB Loan (₦)	% of CB Sponsorship	% of loan repayment	Yearly net income (₦)
1	7700	30800	1200	15.6	100.0	10000
2	27400	42600	10000	36.5	100.0	10500
3	96596	28978	10000	10.4	100.0	8000
4	53812	21188	30000	55.7	83.3	20000
5	196916	63600	60000	30.5	83.3	55000
6	285000	200000	4000	1.4	100.0	15255
7	185000	200550	15000	8.1	100.0	20000
8	80250	45250	85000	105.9	47.1	4000
9	55000	45000	6000	10.9	100.0	8050
10	36400	236000	20000	54.9	100.0	16664
11	1360576	408172	20000	1.5	100.0	476968
12	136380	15980	20000	14.7	100.0	46800
13	1723317	276683	20000	3.4	100.0	54075
14	72133	454067	10000	13.9	100.0	35000
15	32430	313170	20000	61.7	100.0	2000
16	1345032	302568	50000	3.7	100.0	800625
17	232071	127929	500000	215.5	100.0	20000
18	12350	2050	5000	40.5	100.0	80500

	CB Borrowers					CB Non-Borrowers
	Yearly Operational Cost (₦)	Yearly net income (₦)	Yearly CB Loan (₦)	% of CB Sponsorship	% of loan repayment	Yearly net income (₦)
19	260283	14173	25000	9.6	100.0	61000
20	28040	46960	2000	7.1	100.0	12850
21	88000	17000	80000	9.1	100.0	17754
22	177317	77683	150000	84.6	100.0	10450
23	140000	610000	160000	114.3	100.0	84500
24	298637	34963	250000	83.7	46.0	125860
25	1617000	693000	30000	1.9	100.0	824000
26	10000	28000	10000	100.0	100.0	2350
27	40000	35000	3000	7.5	100.0	26425
28	70600	8800	9000	12.7	66.70	8566
29	85100	100	20000	23.5	100.0	5000
30	65000	55500	20000	20.7	100.0	18000
31	45500	26500	20000	43.9	50.0	14000
32	54000	46000	10000	18.5	100.0	36000
33	50000	30000	10000	20.0	100.0	25500
34	146450	103550	20000	13.7	100.0	61450
35	23800	5720	2000	8.4	100.0	2256
36	25000	50000	10000	40.0	100.0	50000
37	94730	217740	40000	42.2	100.0	196340
38	100650	80525	5000	5.0	100.0	46600
39	85640	46000	30000	35.0	93.3	50000
40	25220	15300	50000	198.0	40.0	8175

	CB Borrowers					CB Non-Borrowers
	Yearly Operational Cost (₦)	Yearly net income (₦)	Yearly CB Loan (₦)	% of CB Sponsorship	% of loan repayment	Yearly Net income (₦)
41	7800	6600	6000	76.9	100.0	
42	58500	23400	30000	51.3	100.0	
43	25500	18200	30000	117.6	50.0	
44	12500	7000	20000	160.0	30.3	
45	25400	5056	1000	3.9	100.0	
46	26539	9461	15000	56.5	100.0	
47	52353	98847	10000	19.1	100.0	
48	58217	1816783	15000	25.8	100.0	
49	436000	4114000	50000	11.5	90.0	
50	37225	247775	10000	26.9	100.0	
Total	10209614	11195402	2029200			3370513.00
Mean		223908.04				84262.83
Std Dev.		629972.24				186843.48

Appendix III: Canonical Discriminant Functions Evaluated at Group Means (Group Centroids) (Theoretical)

Group	Func 1
1	0.61703
2	-0.17404

Seqnum	Actual Group	Discriminant Scores
1	2	-0.3569
2	2	-1.5735
3	2	-0.3476
4	1 ***	-0.3571
5	1	0.3333
6	2	-1.6627
7	2	-0.4298
8	1 ***	-0.3317
9	2	-0.7716
10	2	-1.4206
11	2	-1.1570
12	2	0.0178
13	2	0.0210
14	2	0.1459
15	2 ***	0.2292
16	2	-0.4893
17	2 ***	1.6980
18	2 ***	0.3858
19	2 ***	0.4837
20	2	-0.1033
21	2	-0.1180

Seqnum	Actual Group	Discriminant Scores
22	2	-0.2980
23	2 ***	2.3151
24	1	0.9659
25	2 ***	1.8845
26	2 ***	0.3734
27	2	-0.5957
28	1	0.9119
29	2	-1.7354
30	2	-0.5274
31	1	0.4193
32	2	-0.4687
33	2	-0.9443
34	2 ***	0.2286
35	2	-1.2449
36	2	-0.6088
37	2	-1.4571
38	2	0.0923
39	1 ***	-0.3621
40	1 ***	-0.0020
41	2	-1.0360
42	2 ***	1.0343
43	1	0.8119
44	1	1.1941
45	2 ***	0.9733

Seqnum	Actual Group	Discriminant Scores
46	2	-1.0570
47	2 ***	1.7560
48	2	0.1806
49	1	3.2040
50	2	-0.2032

*** = Not correctly classified

70.00% = Percentage of "Grouped" cases correctly classified.

Appendix IV: Canonical Discriminant Functions Evaluated at Group Means (Group Centroids) (Practical)

Group	Func 1
1	1.11275
2	-0.33383

Group	Seqnum	Actual Group	Discriminant Scores
A	1	1 ***	0.3692
A	2	1	1.3476
A	3	1	1.2724
A	4	1	1.4428
A	5	1	2.6118
A	6	1 ***	-0.3674
B	1	2	0.0638
B	2	2	-0.8078
B	3	2	-0.1334
B	4	2	-0.8112
B	5	2	-0.6122
B	6	2	-0.2553
B	7	2	-1.5981
B	8	2	-2.1755
B	9	2	-0.0715
B	10	2	-0.2573
B	11	2	-1.8753
B	12	2	-1.0426
B	13	2	0.7510
B	14	2	0.0747
B	15	2 ***	1.6314

Group	Seqnum	Actual Group	Discriminant Scores
B	16	2 ***	1.3317
B	17	2 ***	1.2136
B	18	2 ***	0.4376
B	19	2	-0.2885
B	20	2	-0.7497

*** = Not Correctly Classified

76.92% = Percentage of "Grouped" Cases Correctly Classified.

Appendix V: Agribusiness Respondents' Questionnaire

Department of Agricultural Economics
University of Nigeria, Nsukka

Dear Agribusiness Respondent,

Postgraduate Research Questionnaire

Research Topic: An Analysis of Credit Acquisition and Repayment Performance of Agribusiness Holdings under the Community Banking System in Imo State, Nigeria.

Kindly supply the information required hereunder. Tick (✓) or write where applicable. You may wish to make additional comments.

Every information will be treated with the strictest confidence.

Thanks.

Personal Data

1 Sex: (a) Male ( ) (b) Female ( )

2 Age: -------- years.

3 Did you attend school? (a) Yes ( ) (b) No ( )

4 How many years did you spend in school? -------- years.

5 How many people are in your family? ----------

Agribusiness Data

6 Name of agribusiness organisation (if any) ----------

---

7 Town and L.G.A. of agribusiness ----------

8 What aspects of agribusiness do you engage in?

(a)	Crop farming	( )	(f)	Agro-processing	( )
(b)	Tree Crop farming	( )	(g)	Agro-manufacturing	( )
(c)	Livestock farming	( )	(h)	Agro-marketing	( )
(d)	Fish farming	( )	(i)	Input supply	( )
(e)	Tool/equipment making	( )	(j)	Others ----------	

---

9. Which is your major agribusiness? ----------

10 How long have you been in the business? ---------- years.

11(a) If you employ permanent staff,

(i) How much do you pay out in a year? ₦----------

(ii) How many months do they work in a year? ---------- months.

(iii) If you hire additional labour, how much does it cost you in a year? ₦--------

(b) If you hire daily labour for your work,

(i) How much do you spend at the peak period? ₦-------

(ii) How many months are in this peak period? ---------- months.

(iii) How much do you spend on labour when there is less work? ₦ ----------

(iv) How many months are in this period? ---------- months.

12 What tools and equipments do you use for your operations?

	Tool/equipment	Number	Cost per tool	Average life (years)
a				
b				
c				
d				
e				

13 How much do you spend on inputs every year?

(a) 1991 ₦---------- (b) 1992 ₦ ----------

(c) 1993 ₦---------- (d) 1994 ₦ ----------

(e) 1995 ₦----------

14 How much do you spend on other costs?

	Type of Cost	Year and amount (₦) 1991	1992	1993	1994	1995
a	Land rent					
b	Hiring of equipments					
c	Processing fee					
d	Tax					
e	Others					

15 What is the product of your major agribusiness? ----------

---

16 What quantity do you produce each year? (Unit of measurement)

(a) 1991 ---------- (b) 1992 ----------

(c) 1993 ---------- (d) 1994 ----------

(e) 1995 ----------

17 What was the selling price each year? (a) 1991 ₦----------

(b) 1992 ₦---------- (c) 1993 ₦----------

(d) 1994 ₦---------- (e) 1995 ₦----------

18 How much do you earn from other sources? (a) 1991 ₦--------

(b) 1992 ₦---------- (c) 1993 ₦----------

(d) 1994 ₦---------- (e) 1995 ₦----------

Bank Data

19 Have you heard about Community Banks? (CB)

(a) Yes ( ) (b) No ( )

20 Do you have account with CB? (a) Yes ( ) (b) No ( )

21 If yes, when did you open the account? Date----------

22 Do you have account with another bank? (a) Yes ( )

(b) No ( )

23 If yes, when did you open the account? Date----------

24 If you do not have account with any bank, thick (√) your reason(s)

(a) Banks are far from me ( )

(b) There is much filling of forms ( )

(c) Banks waste time ( )

(d) I do not have money ( )

(e) Others ----------

25 Have you got loan from CB for your agribusiness

(a) Yes ( ) (b) No ( )

26 If yes, supply the information below.

Date of Loan	Loan Amt ₦	Duration (years)	Date due for repayment	Amount paid back (₦)	Amt due but not paid(₦)
1991					
1992					
1993					
1994					
1995					

27 Through which of these sources do you save money and get loans for your major agribusiness?

	Source/Institution	Year, amt saved 199-₦-- 199-₦--	Year, loan interest 199-₦--% 199-₦--%
(a)	Self		
(b)	Relations and friends		
(c)	Money lenders/traders		
(d)	Esusu/Thrift saving		
(e)	Unions/Clubs		
(f)	Community Bank		
(g)	Peoples' Bank		
(h)	Commercial Banks		
(i)	Merchant/Dev. Banks		
(j)	Cooperative societies		
(k)	Agric. loan Agencies		
(l)	Others		

28 What security did you offer for each loan obtained?

	Source of loan	Security Offers
(a)		
(b)		
(c)		
(d)		

29 Give reasons for any amount of loan not paid back

(a)

(b)

(c)

30 Estimate your output in the years you had loans and in the years you had no loans

Years	With loan Amount (₦)	Output	Without loan Output
1991			
1992			
1993			
1994			
1995			

31 What problems do you encounter in getting loans from CBs?

(a) Late granting ( ) (e) High interest rate ( )

(b) Much filling of forms ( ) (f) Poor loan education ( )

(c) Insufficient loan ( ) (g) Little/no supervision ( )

(d) Lack of security ( ) (h) Others ----------

Appendix VI: Bank Respondents' Questionnaire

Department of Agricultural Economics
University of Nigeria, Nsukka

Dear Bank Respondent,

Postgraduate Research Questionnaire

Research Topic: An Analysis of Credit Acquisition and Repayment Performance of Agribusiness Holdings under the Community Banking System in Imo State, Nigeria.

Kindly supply the information required hereunder. Tick (√) or write where applicable. You may wish to make additional comments.

It is hoped that the findings of this study will assist Community Banks in fostering the socio-economic growth of their communities.

Every information given will be treated with the strictest confidence.

Thanks.

1 Town and L.G.A. of Community Bank:----------

---

2 Date of Establishment----------

3 What was your initial share capital? ₦----------

4 What is the current share capital? (if different from above)

₦ ----------

5 Do you have agribusiness customers? (a) Yes ( ) (b) No ( )

*(NB Any person who engages in the production, processing or manufacturing and marketing of agricultural produce or products, tools and inputs is in agribusiness).

6 If yes, kindly estimate the number of your agribusiness customers ----------

7 Kindly give the names and villages or towns of your agribusiness customers (You may attach a sheet).

Name	Village or town/Contact Address

8 Do you finance agribusiness projects in your community?

(a) Yes ( ) (b) No ( )

9 If yes, state the amount of loans to agribusiness and other sectors of the economy.

Year	Amt of loan to agribusiness(₦)	No of loans to agribusiness	Total available loan	Total No of loans granted
1991				
1992				
1993				
1994				
1995				

10 Which aspects of agribusiness do you sponsor? What securities do you require for each?

	Aspect of agribusiness sponsored	Security/securities required
a.	Crop farming ( )	
b.	Tree Crop farming ( )	
c.	Livestock farming ( )	
d.	Fish farming ( )	
e.	Agro-processing (Semi-finished products) ( )	
f.	Agro-manufacturing (finished products) ( )	
g.	Tool making ( )	
h.	Agro-marketing ( )	
i.	Input supply ( )	
	Others ----------	

11 Which of the sponsored projects pay more than others? Please rank according to the order in which they pay.

1st	4th
2nd	5th
3rd	6th

12 What interest rate did you charge on loans in past years?
(a) 1991 --% (b) 1992 --% (c) 1993 --% (d) 1994 --%
(e) 1995 --%

13 Have you experienced loan defaults? (a) Yes ( ) (b) No ( )

14 What measures do you adopt to recover defaulted amounts?
(a) Community sanction ( ) (b) Peer group pressure ( )
(c) From guarantors ( ) (d) Sale of pledged items( )
(e) Others ----------

15 Kindly supply the following loan information

Year	Type of agri-business project sponsored	Amount demanded (₦)	Amount granted (₦)	Amount defaulted (₦)	Amount written off (₦)

16 Which of these qualities do you prefer in an agribusiness operator to grant him loan?

a. Operate a savings account ( ), operate a current account ( )

b. Own his equipments ( ), rent equipments ( )

c. Own land ( ), rent land ( )

d. Under 30 years of age ( ), between 31-60 years ( ), above 60 years ( )

e. Experienced agribusiness operator ( ), a beginner of agribusiness ( )

f. Has income from agribusiness and other sources ( ), has income solely from agribusiness.

17 Do you study projects before granting loans? (a) Yes ( ) (b) No ( )

18 If yes, who does the study? (a) Manager ( ) (b) Accountant ( ) (c) Credit officer ( )

(d) Others ----------

19 Do you take your customers and their produce/products to Trade Fairs? (a) Yes ( ) (b) No ( )

20 By what other means do you help your customers market their goods?

---

21 What problems do you encounter in your loan administration?

(a) illiteracy among borrowers ( ) (b) Low loan demanded ( )

(c) insufficient loan funds ( ) (d) insufficient staff ( )

(e) No credit officer ( ) (f) inaccurate loan information ( )

(g) Non-regular payment ( ) (f) loan default ( )

(j) Others ----------

22 How do you assess the patronage to your bank?

(a) Very impressive ( ) (b) Impressive ( ) (c) Just impressive ( )

(d) Not impressive ( )

23 Have you implemented any developmental project in your community?

(a) Yes ( ) (b) No ( )

24 If yes, kindly specify ----------