Microcredit Financing by Deposit Money Banks/Microfinance Banks and the Agricultural Sector Development in Nigeria

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I. Introduction

The formulation and implementation of strategies for accelerating the pace of growth and sustained economic development has continued to occupy the political and reforms agenda of developing countries such as Nigeria. An essential component of this endeavour is the need to properly identify development priorities, the financing gaps and measures to address them.

In Nigeria, the agricultural sector remains the mainstay of the economy and occupies a central place in the country's economic growth programmes and initiatives. This derives from the fact that the sector employs the bulk of the population and would continue to provide sustenance to millions of people. Additional factors that would continue to favour increased attention from promoters of growth and development in the sector include the large landmass, favourable climatic and edaphic conditions.

Majority of the farming population are small-holders accounting for about 90 per cent of the farmers in the country. This category is severely faced with lack of financing for productive and practical engagement in commercial farming, a situation that has relegated them to low productivity, low income, low investment and endemic vicious cycle of poverty. Bridging the financing gap for small-holder farmers in the country has been a major concern to the government and, indeed, the Central Bank of Nigeria, as the apex financial authority. The Bank, in collaboration with government has, therefore, over the years, enunciated programmes and policies that provide microcredit for the small-holder farmers in the country.

This paper examines microcredit financing programmes by the deposit money banks and the microfinance banks, and how this has impacted on agricultural development in Nigeria. Following the introductory section, section two highlights the importance of micro credit in agricultural development. Section three highlights the financing gap in the agricultural sector and the measures that have been put in place to encourage deposit money banks and microfinance banks

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to lend to the sector by the Central Bank of Nigeria. Section four summarizes the challenges faced by deposit money banks and microfinance banks in the delivery of their micro credit programmes, while section five highlights suggested strategies for improving micro credit delivery by deposit money banks and microfinance banks. The paper is concluded in section six.

II. Importance of Micro Credit in Agricultural Development

Agriculture provides occupation and employment to the majority of the population in Nigeria. In 2008, it contributed about 42.0 per cent to GDP and accounted for 58.3 per cent of total non-oil export earnings. To a large extent, the sector remains rudimentary and underdeveloped owing to the inability of promoters to procure modern equipment and adopt improved cultural practices. One of the major constraints to the growth and development of the sector is, thus, lack of adequate capital. "Inadequate capital distorts and hinders the path to long-term growth and development through low investment, capacity underutilization, and a reduction in productivity and a lower growth rate (Ochi, 2007)". Owing to the subsistence nature of production, Nigerian farmers who are mainly poor can, therefore, hardly save. Such a situation underscores the importance of external credit as part of the strategies to support expansion of the scope and scale of their operations.

According to Adam Smith "the number of useful and productive labour, it will hereafter appear, is everywhere in proportion to the quantity of capital stock employed". This means that the number of useful and productive workers as well as their productivity depends on the stock of capital. An increase in capital to the agricultural sector would raise the productivity of labour as it enhances division of labour and by implication, generate more employment.

The above position was further supported by Vaish (...) who explained that employment rate and output growth depends largely on the rate at which the economy's total resources, particularly its stock of capital can grow and the rate at which this capital stock grows per period of time depends on the proportion of the period's total output that is devoted to investment. According to Adera (1995), the rules and regulations of the formal financial institutions have tagged poor small-holders as unbankable. Braveerman and Guasch (1986) stated that despite efforts to overcome the widespread lack of financial services amongst small-holders in developing countries and expand credit in the rural areas of these countries, only the majority still has limited access to bank services to support their private initiatives. ROK (1994), opined that improving the availability of credit facilities to the agricultural sector is one of the incentives that have been proposed for stimulating its growth and the realization of its potential contribution to the economy.

Micro credit helps to modernize production in agriculture and place farmers in a proper position to employ mechanized equipment that can lead to increased agricultural productivity. Increased credit could accelerate rural development, reduce income disparities and create income increases that would improve welfare.

Credit is defined as the receipt of cash, goods and services now, with a promise to pay back in the future. It can also be defined as any form of arrangement by which an individual obtains money, goods and services and agree to pay back at a later date. Credit is particularly important to the small farmers that constitute the largest segment of the farming population as they have been priced out of the credit market due to various problems. The problems include fragmented holdings/little potentials for expansion, cashflow problems arising from the deficits inherent in the production cycles, limited networks, inability to produce the traditionally-favoured securities viz: mortgages, land, sterling shares and some other "gilt-edges" to back up their credits proposals and limited debt capacity.
CeRAM (2007) stated that credit is one of the essential prerequisites for agricultural development. Money is needed to employ labour as well as for consumption for household members. In addition, it is required for improvement in farming technique, such as the use of fertilizers and pesticides, farm supply, storage, marketing and processing. CeRAM (2007) further categorized credit into three types namely, short-term credit to finance the current cropping seasons operation, seeds, fertilizers and farm family expenses until the crop is sold; medium-term loans (longer than one crop year and less than 3 years) which is needed for the purchase of breeding stock and equipment; and long-term credit needed to purchase machines and embark on major improvements of farmland and buildings.

III. The Financing Gap in the Agricultural Sector and Measures Put in Place to Address Them

III.1 Financing Gap in the Agricultural Sector

Agriculture remains a major contributor to the gross domestic product (GDP), accounting for 39.5 - 42.1 per cent of total GDP for the period 2004 - 2008, (see table 1). However, the sector is disadvantaged in terms of allocation of credit by banks and financial institutions, a situation which affects its economic potentials. Credit to agriculture has exhibited a high degree of volatility over the years. It declined from ₦67.74 billion in 2004 to ₦49.39 billion in 2006, surged to ₦149.57

billion in 2007, declined again to ₦106.35 billion in 2008 and was ₦135.7 billion in 2009 (Table 2).

Table 1: Contribution of Agriculture to GDP at 1990 Constant Basis Prices (Naira Billion)

Sector	2004	2005	2006	2007	2008
Agriculture	216.21	231.48	248.9	266.48	283.91
Industry	156.49	159.16	155.77	151.7	148.39
Building and construction	7.62	8.54	9.65	10.91	12.34
Wholesale and retail trade	68.08	77.28	89.33	102.62	113.26
Services	79.18	88.48	93.33	102.53	113.26
Total	527.58	561.93	595.82	674.24	674.58
Share of Agric. in total (%)	41.0	41.2	41.8	39.5	42.1

Source: Central Bank of Nigeria Annual Report, 2009

Table 2: Sectoral Distribution of Commercial Bank Loans and Advances (Naira Billion)

	2004	2005	2006	2007	2008	2009
Agriculture/forestry and fishing	67.74	48.56	49.39	149.57	106.35	135.7
Manufacturing	332.11	352.04	445.8	487.58	932.8	993.46
Mining and Quarrying	131.06	172.53	251.48	490.71	846.94	1,190.73
Real estate and construction	-	-	-	-	466.8	778.14
Commerce exports	31.35	26.43	52.69	66.55	75.2	45.87
Imports	-	-	-	-	144.88	1,199.21
Service/public utility	-	-	-	-	45.85	74.78
Transport and communication	-	-	-	-	1,304.45	776.58
Financial institution	-	-	-	-	714.47	352.2
Other government miscellaneous	956.99	77.15	1,724.95	3619.07	2,622.12	2,890.61
Total	1519.25	676.71	2524.31	4813.48	7259.86	8437.28
Share of Agric. in total (%)	4.5	7.2	2.0	3.1	1.5	1.6

Source: Central Bank of Nigeria Annual Report, (Various Issues)

This trend reveals some elements of uncertainty. Furthermore, the proportion of credit to the sector for the years 2004 - 2009 (see table 2), which averaged 3.0 per cent, reflected the credit gap experienced in those years. Another indication of the financing gap is in terms of value of stocks of agricultural companies listed on the Nigerian Stock Exchange. At 1984=100, the percentage of the value index of stock of the agricultural companies averaged 0.4 per cent (see Table 3) for the period 2004 - 2008. This development is largely due to the fact that most agricultural projects are relatively small to be competitively quoted on the stock exchange.

Table 3: Value Index of All Common Stocks Listed on the Nigerian Stock Exchange (1984=100) 2004-2008

Sector	2004	2005	2006	2007	2008
Agriculture	120.80	112.10	125.30	176.20	153.80
Financial	8,673.70	11,932.40	17,258.80	38,421.60	18,441.30
Manufacturing	9,811.90	8,148.20	9,319.70	11,825.40	6,071.30
Commercials	4,933.70	3,598.80	4,807.70	4,776.50	4,006.30
Services	304.40	294.40	1,677.90	2,790.60	2,900.80
Miscellaneous	23,844.50	-	33,189.30	57,99.20	31,450.80
Total	49,693.00	26,090.90	68,384.70	57,997.30	65,032.30
Share of Agric. in total (%)	0.24	0.43	0.18	0.29	0.24

Source: Nigerian Stock Exchange Report, 2009

The microfinance banks have not been performing any better as an insignificant percentage of their lending goes to the agricultural sector. For instance, the average percentage of loans to agriculture and forestry by the microfinance banks for the period 2004 - 2008 was 4.4 per cent (see Table 4).

Table 4: Sectoral Distribution of MFB Loans and Advances 2004-2008 (Naira Million)

	2,004	2,005	2,006	2007 *	2,008
Agricultural/forestry	483.10	49.90	956.10	-	3,534.30
Mining/Quarrying	510.60	14.70	405.00	-	412.40
	331.80	64.90	1,088.70	-	2,006.30
Real Estate and Construction	279.20	214.80	839.80	-	2,139.20
Commerce	2,875.30	1,591.90	4,504.00	-	21,313.20
Transport and Communication	1,088.10	2,795.10	2,087.40	-	2,649.20
Others	5,785.60	23,753.40	6,608.50	-	16,054.90
Total	13,357.70	30,489.70	18,495.50	-	50,117.50
Share of Agric. in total (%)	3.6	0.2	5.2		7.1

Source: Development Finance Department, Central Bank of Nigeria
Note: *Figures include those of community banks as they existed for that year*

The above situation has arisen owing to the fact that:

- Agriculture is predominated by small holdings with adverse technical and market economies of scale;
- Small holder farmers do not have acceptable collateral to present for loans from banks;
- There are no records and data on the basis of which banks can effectively access the credit worthiness of farmers;
- Farmers are unable to present bankable proposals for bank lending; and
- Many farmers are not aware of the credit opportunities in financial institution.

III.2 Measures Undertaken by the Central Bank of Nigeria to Improve Lending to Agricultural Sector

The Central Bank of Nigeria has taken steps over the years to address the challenge of lack of access of farmers to financial services. These include the setting up of the Agricultural Credit Guarantee Scheme Fund (ACGSF), established by Decree 20 of 1977 to:

- provide guarantee for loans granted by banks for agricultural production and agro-allied processing;
- accelerate the flow of institutional credit to small-scale farmers;
- inculcate banking habit amongst farmers, thereby encouraging savings mobilization;
- aid banks to aggressively support agriculture by reducing their lending risks;
- make farmers patronize formal credit markets and prevent rural borrowers from the exploitative charges of the informal credit market;
- ensure that adequate funds are provided to the agricultural sector on reasonable terms from the mainstream financial system; and
- facilitate the flow of capital to farmers to enable them adopt new technologies and farm practices which would improve productivity and income.

As at December 2009, a total of 647,358 loans valued at ₦34.41 billion were guaranteed under the scheme, out of which 442,726 valued at ₦18.20 billion, representing 68.4 per cent and 52.9 per cent, respectively had been repaid.

The ACGSF was primarily to provide micro-credit to the Nigerian small-holder farmers. Out of the total loans guaranteed under the scheme as at December 2009; 575,816 amounting to ₦14.77 billion, representing 89 per cent and 43 per cent by number and value, respectively were loans of ₦100,000 and below (see table 5), showing that the scheme has largely catered for small-holder farmers since inception. This translated to 18,574 in number and ₦0.48 billion in value per annum for the 31 years that the scheme had existed. This performance is below the credit demand of the entire Nigerian farming population.

Table 5: Categorization of ACGSF Loans by Size: 1978 to 2009

Loan Category	Number	Value	% No	% Value
>₦5,000.00	226,277	0.75	0.35	0.02
₦5,001.00-₦20,000.00	123,197	1.82	0.19	0.05
₦20,001.00-₦50,000.00	144,315	5.6	0.22	0.16
₦50,001.00-₦100,000.00	82,027	6.6	0.13	0.19
Above ₦100,000.00	71,535	19.44	0.11	0.57
Total	647,351	34.21	1	1

Source: Development Finance Department, Central Bank of Nigeria

In order to improve the performance of the ACGSF, the Central Bank of Nigeria has over the years, undertaken ancillary steps. One of such is the introduction of the Trust Fund Model, which provides opportunities for third parties such as state governments, companies, religious organisations, philanthropists and others to deposit funds in banks as lien to encourage them to lend to identified groups. From 1992 when the model was established to December 2009, a total of ₦5.5 billion had been pledged by 55 third parties to support lending to their beneficiaries.

Table 6: Funds Placement under the Trust Fund Model, December 31, 2009

S/No	**Name Of Stakeholder**	**Amount Placed (N'm)**	**Number**
A.	Multinationals/Oil Companies	₦444.00	4 Multinationals
B.	State Governments/LGAs/Ministries	₦2,429.35	17 States/ 17lgas/3 Govt Ministries
C	Federal Govt. Organization	₦2,000.00	1
D.	Individuals/Organizations	₦633.75	13 Indv/Org
	Grand Total Trust Fund Placement	₦5,507.10	55 Stakeholders

Source: Development Finance Department, Central Bank of Nigeria

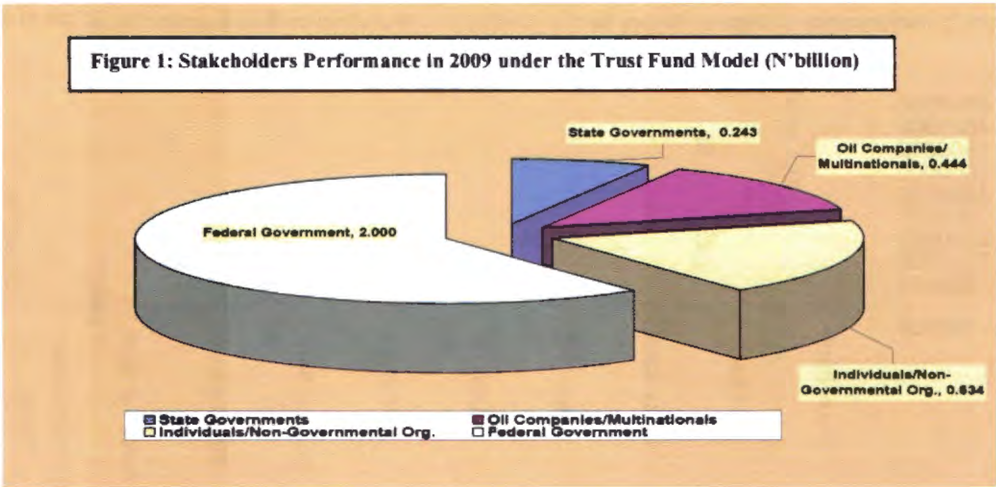
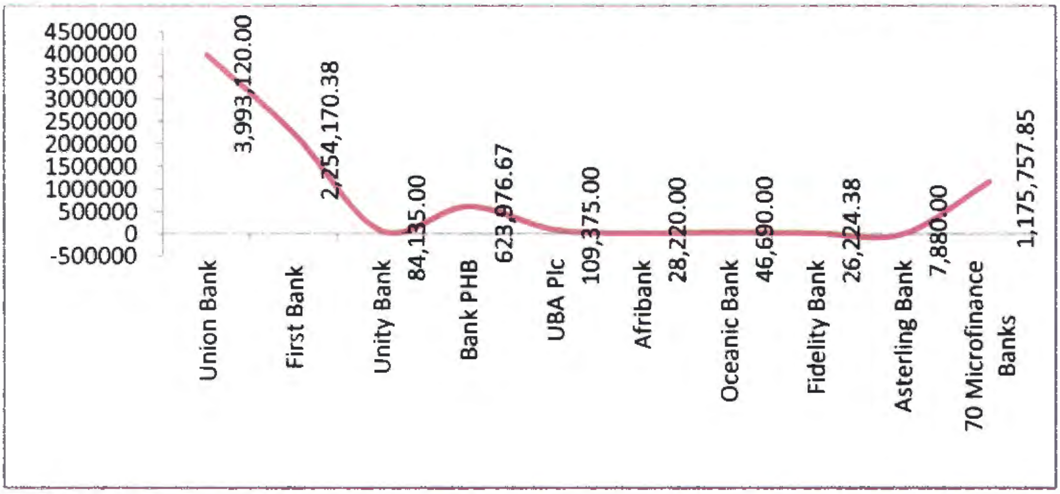


Figure 1: Stakeholders Performance in 2009 under the Trust Fund Model (N'billion)

The Interest Drawback Programme (IDP) was also introduced in 2003 to encourage loan repayment by borrowers under the ACGSF. The programme, which is funded by the Federal Government and the Central Bank of Nigeria, currently has a capital base of ₦2 billion. Farmers who repay their ACGSF loans on time are refunded 40.0 per cent of the interest paid. This has positively impacted on loan repayment by borrowers over the years. From 2004 to 2009, a total of 15,545 farmers received the sum of ₦111.57 million as interest under the ACGSF.

The introduction of microfinance banking is yet another dimension to small-holders lending in Nigeria and the Central Bank guarantees loans granted by the MFBs to the agricultural sector. It is expected that all loans granted by the MFBs would be small scale. The performance of the MFBs has, however, not been significant in comparative terms, owing partly to lack of funds and partly to lack of skill in small-holders lending. For instance, in 2009,70 MFBs granted a total of ₦1.2 billion (14.4 per cent) of the ₦8.35 billion guaranteed for that year (see Figure 2 below). In 2010, the MFBs accounted for only 6,901 loans valued ₦0.59 billion out of 40,944 loans valued ₦6.13 billion, representing 16.9 per cent by number and 9.6 per cent by value of loans guaranteed under the ACGSF for the period January to October, 2010.

Figure 2: Performance of Deposit Money Banks (DMBs) and Microfinance Banks under the ACGS IN 2009



Another major intervention in agricultural financing is the Agricultural Credit Support Scheme (ACSS), introduced in 2006 through the joint initiative of the Federal Government and the Central Bank of Nigeria with the active support and participation of the Bankers' Committee. ACSS funds are disbursed to farmers and agro-allied entrepreneurs at a single-digit interest rate of 8.0 per cent. At the commencement of the project support, banks will grant loans to qualified applicants at 14.0 per cent interest rate. Applicants who pay back their facilities on schedule enjoy a rebate of 6.0 per cent, thus reducing the effective rate of interest to be paid by farmers to the 8.0 per cent. As at December 2009, a total of 1,258 applications valued ₦28.2 billion were received by banks under the ACSS, out of which 126 projects valued ₦23.3 billion were approved. In terms of actual disbursements, a total of forty-seven (47) projects valued ₦17.1 billion was recorded as at the end of December, 2009.

In 2009, the Central Bank of Nigeria in collaboration with the Federal Ministry of Agriculture and Water Resources (FMA&WR), established the Commercial Agriculture Credit Scheme (CACS) to promote commercial agricultural enterprises in Nigeria. The Scheme is funded through the issuance of ₦200.0 billion FGN Bond floated by the Debt Management Office (DMO). Under the Scheme, State Governments could borrow from the ₦200.0 billion to either engage in direct agricultural programmes or on-lend to small-holder groups. Under the CACS, the thirteen (11) under-listed State Governments have each accessed ₦11.0 billion for on-lending to co-operative farmers and unions in their various states: Data is, however, not yet available as to how much of the fund has gone to the farmers.

Financing Bank	States Financed	Amount (₦'b)
United Bank For Africa Plc	Bauchi, Kogi, Nasarawa, Ondo and Zamfara	5.0
Union Bank Plc	Gombe, Niger and Kwara States	N3.0
Zenith Bank Plc	Adamawa, Kebbi and Taraba State	N3.0

Source: Development Finance Department, Central Bank of Nigeria

IV. Challenges Faced by Deposit Money Banks and Microfinance Banks in the Delivery of Micro Credit Programmes

The inability of deposit money banks and microfinance banks to meet the credit needs of small holders has been occasioned by challenges faced by the lending institutions and the borrowers.

Most of the lending institutions are yet to accept agricultural lending as a profitable business. While they venture into lending to other equally risky sectors, agricultural activities have always been tagged as fraught with uncertainties of weather, natural hazards, and possible attack from pest and diseases. This is further compounded by the dearth of skills in agricultural credit appraisal, monitoring and administration in most of the banks. The credit officers of the banks are traditionally accustomed to lending to commerce, trading, services and industrial, oil and gas sectors. In most of the institutions, there are no specialized departments or agricultural experts to take charge of agricultural loan porfolios, while at the same time, there are no special trainings on agricultural lending to update staff on the technicalities involved. Another major challenge faced by the banks is the lack of rural branches, a situation which impedes outreach to widely-dispersed customers.

IV.2 Borrowers-Related Challenges

Aside from the challenges faced by lenders, the borrowers are also faced with several constraints. First, their small-holdings and scattered nature presents technical and market diseconomies, as it require huge costs of loan administration. Also important, is the fact that many farm holdings operate under diverse cultural and agronomic practices, and this creates huge extension challenges which loan officers are ill-equipped to address.

Second, most of the farming population lacks the understanding and the competence/ appreciation of the importance of keeping farm records. This makes it difficult for them to take appropriate economic decisions and, thus, constitute serious hurdles to loan officers in assessing their credit worthiness and risks.

Third, the subsistence nature of farming hampers savings, investment and asset accumulation. The farmers can scarcely afford to provide tangible security, as a requirement for lending from banks. The communal land tenure system with shared land rights/ownership adversely affects the acceptability of land as alternative security. In rural areas and villages, land values are abysmally low and might not offer easy foreclosure processes.

Finally, the lack of good cultural and agronomic practices, coupled with ineffective extension machinery, predispose borrowers to inefficiencies that affect productivity, storage and, thus, occasion defaults amongst them.

V. Suggested Strategies for Addressing the Challenges Faced by Banks in Micro Credit Programmes

Addressing the challenges would go a long way to removing the bottlenecks on the part of lenders and borrowers. This paper posits that, for increased agricultural production in Nigeria to be achieved in order to meet the needs of the populace, guarantee food security, reduce local imports and promote non-oil exports, there would be need for innovative policy changes on various fronts:

- **Financial Literacy**

Field experience reveals that the poor farmers lack basic knowledge with regards to finance/financial services. An average farmer does not know how to keep records, manage credit, savings and other financial opportunities. There is need to provide specially crafted educational programmes which can develop their capacity in record-keeping, simple farm management principles, loan usage and repayment.

- **Creation of Well-Equipped Agricultural Finance Departments in Lending Banks**

Lending banks need to have full-fledged agricultural finance departments manned by staff with training in relevant fields. Agricultural economists, rural sociologists, agricultural extension specialists, economists and business management specialists would be handy for such specialized agricultural finance department. Agricultural experts are more likely to understand the dynamics of agricultural production, adopt appropriate risk mitigation strategies, loan monitoring and recovery procedures than non-experts.

There should be training and capacity building through classroom and attachment programmes for loan officers of banks. A loan officer should be able to understand the peculiarity of agricultural production, properly assess agricultural loan proposals and effectively determine the credit worthiness of borrowers using techniques that are applicable to the sector. Training should be a continuous exercise and this would enable them to disburse loans at appropriate times, monitor loan utilization and give simple advice during their interactive visits with borrowers.

- **Agricultural Credit Fund/incentives**

Special wholesale funding arrangements should be put in place from which agricultural lenders; particularly microfinance banks could draw resources for on-lending to farmers. Some eligibility criteria should be set for deciding the institutions that would access these funds. These would include proven record of previous channeling of certain portion of their portfolio to performing agricultural/agro allied activities, and that such credit disbursement would be structured to meet the production cycle of the farmers. Such proviso will encourage the microfinance institutions not only to lend to the sector but to innovate ways to better improve agricultural finance and production.

- **Creation of Enabling Environment for Agricultural Lending**

There is need for stakeholders to collaborate in order to create an enabling environment that will attract young school leavers and graduates into the agricultural sector. This can be achieved through provision of basic infrastructure such as pipe-borne water, road network, electricity and working tools and equipment. Government should channel subsidies to areas that demonstrate potentials for increasing the efficiency of agricultural production and, hence, its profitability. Incentives such as tax holidays for profits on agricultural lending could also be an added advantage to the financial institutions. Agricultural financing at the grassroots require peculiar products; for instance, while tangible collaterals are essential and effective in urban credit delivery, small-holder lending cannot provide such securities, and as such would require the promotion of appropriate products and methodologies.

- **Improvement in Extension Services/Donor Coordination**

A good number of donor agencies in Nigeria are active in various agricultural activities. While some are focusing on functional demand-driven programmes, others, especially new entrants are still on the supply side. There is need to coordinate these activities not only to share experiences but for optimum delivery of intervention with reduced duplication of efforts. To improve extension services, extension workers must be regularly and properly trained and be supervised to ensure they are active, efficient and innovative. More so, sharing experiences with others in the same field would help in disseminating valuable information at minimum cost.

- **Deliberate Focus on Investing in Large-Scale Farming**

Nigerian agricultural population is basically rural and should be capacitated to achieve the objective of food security. Efforts should also be made to develop a new crop of properly trained agricultural practitioners that have capacity for managing big agricultural plantations, adopt improved technologies and interlink with research institutes, and markets as well as sources of raw materials. It is suggested that while efforts are being made by development agencies to meet the needs of small-holders such as through Fadama 2, the time is now ripe for strategic steps to be taken in favour of large-holders. In addition, specialization and large- scale production of identified crops should be encouraged.

- **Forward Integration and Funding of Value-Added Processing Activities**

Most successful large-scale farm businesses are integrated projects with backward and forward linkages. Bank support to agriculture should pursue the twin objectives of primary production and processing, either in one unit farm or linked with a firm that processes the primary farm products. This will not only guarantee market for the producers but put the products in forms that will improve shelf life, market and export potentials.

- **Reorganization of Lending Strategies for Better Efficiency**

Lending to agriculture under the current dispensation should be strictly market-driven. The Federal and State governments should create enabling environment that will attract young people, particularly school leavers and graduates to take agriculture as a profession. This can be achieved through systematic commitment to the provision of social amenities such as pipe-borne water, road network and electricity in rural areas. For instance, improved roads will ease the evacuation of products to the market on time and possibly bring about cheaper prices, while provision of electricity could enhance value-added processing opportunities that might increase the revenue of farmers. Also important, is the provision of working tools for agricultural extension staff to support the dissemination and application of research findings by the farmers. Support for research and extension would lead to increased output and, consequently, increased returns on investment, profitability and higher debt capacity/repayment. Subsidies by government should be applied in areas that can increase the efficiency and profitability of agricultural activities.

Micro borrowers should be the targeted area of the microfinance banks while the deposit money banks should concentrate on large borrowers. The Bank of Agriculture (BOA) (formerly the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB)) should provide wholesale funds for on-lending activities of microfinance banks. Government subsidized credit to the agricultural sector should be channeled through the microfinance banks or other market-based financial institutions so as to promote harmony, market discipline as well as avoid market distortion in the financial sector.

VI. Conclusion

In Nigeria, like in most developing economies, agriculture offers hope for sustainable growth and development. It employs a large number of the population and produces what is needed for food, raw materials and foreign exchange earnings for the country. The suitable land, edaphic and climatic conditions creates rationale to utilize all necessary resources to unleash its potentials.

Cardinal to successful agricultural development in Nigeria is the critical role of credit. As most of the farmers in Nigeria are peasants and produce on small-holder basis, their credit needs are basically micro and small in nature. This, in itself, has been a disincentive to lending by financial institutions because of associated complexities and costs. The continued dearth of funds to this all-important sector necessitated the adoption of special programmes and schemes by the Central Bank of Nigeria. These include the Agricultural Credit Guarantee Scheme and its associated products as well as the microfinance banking programme. Under the Scheme, the deposit money banks and microfinance banks are expected to provide credit for farmers in Nigeria which are then guaranteed by the CBN. Despite these policies and programmes, a huge gap persists, owing to several challenges. Some of the challenges are specific to the lenders such as lack of skills and absence of agricultural finance departments in the banks, unwillingness to lend, as well as absence of rural branches. Other challenges pertain to the borrowers; such as the inability to keep and analyze records and make bankable proposals, low debt capacity, smallness of operations and lack of awareness on banking opportunities.

Attempts to address the agricultural micro credit gaps should focus the suggested strategies which include the need to educate farmers and create efficiency-enhancing environment; promote establishment of well-equipped agricultural finance departments in the banks; promote regular training for borrowers on simple record-keeping and farm managements; and far bankers on agricultural loans administration and risk management. There is also need to provide wholesale funding to support on lending activities of microfinance banks to farmers and improve extension services.