Patterns in Agricultural Loans under the Agricultural Credit Guarantee Scheme in Nigeria

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Abstract

This paper assessed the performance of the Agricultural Credit Guarantee Scheme (ACGS) with the objectives of: (i) determining the trend in the annual total number and value of loans guaranteed, (ii) ascertaining the direction of loans guaranteed, and (iii) determining the risk of non-repayment level associated with loans guaranteed to farmers. Data were obtained from the Central Bank of Nigeria (CBN, 2010[a]) for the 20 year period of 1991 to 2010 and were analyzed by the use of tables, graphs and descriptive statistics of minimum, maximum and mean and risk measurement. Parts of the findings were that the yearly total number and value of loans guaranteed by the Scheme and the number and value fully repaid were on the increase; the risk of non-repayment was also on the increase though it nosedived in 2010. Further, that about 0.2% of the estimated households population in Nigeria was reached in terms of loans and that the average unit loan value guaranteed ranged from N3,729.78 to N155,661.17. Individual farmers received upward of 92% and 76%, respectively, of annual number and value of loans guaranteed. It was recommended that the Scheme should review and incorporation the lessons learned from 1991 to 1999 into a new policy and strategy formulation and operation that would engender another era of low risk of non-repayment of loans with increases in loan expansion.

Key words: *Loans, Value, Category, fully repaid, guaranteed loans*

1. Introduction

Formal financial institutions generally turn their back on agriculture especially smallholder farmers and small enterprises in general. The reasons being that loans given to farmers are associated with high risk and high cost of administration as a result of the large number of farmers and the low unit value of loans involved. Further, agricultural loans are said to be less rewarding as they do not allow for quick turnaround of funds (Elhiraika and Ahmed, 1998) due to the high default rate of repayment. It is therefore imaginable how difficult it is for commercial banks, with their overriding profit objective, to consider agriculture as a strategic sector for investment. Agriculture, therefore, suffers from serious credit crunch more so given the shylock rate of interest charged by informal credit sources. Sight should however not be lost of the fact that these problems are the manifestations of the poor resource base and uneconomic farm size of farm production in developing countries. Hence the problem could only be a teething one in the evolution of the sector. Agriculture remains of prime importance to any economy in many respects. For a developing country like Nigeria, agriculture is looked upon, among others, as a source of food and employment for the growing population and as a viable alternative to diversifying the economy which rest precariously on natural oil.

Nigeria's government determination to introduced measures that will cushion the credit needs of the farmers dates back to the 1970s with the introduction of the Nigerian Agricultural Bank (NAB), now Bank of Agriculture, the Rural Banking Scheme which became operational in 1977 and the Agricultural Credit Guarantee Scheme (ACGS) in 1977. To complement these major credit schemes, a number of subsidiary facilities have been added to give credit to farmers either directly or indirectly. Key among those associated with the ACGS are the Interest Drawback Programme (IDP) and the Trust Fund Model (TFM). These affiliates work in tandem with the ACGS to reduce the problem and burden of loan to the farmers.

The Interest Drawback Programme (IDP) was an indirect way of putting farm credit into the hands of farmers. This is deduced from the fact that the IDP was established to reduce the burden of interest paid on loans by beneficiary farmers under the ACGS. For a farmer to enjoy rebate on interest, he must have made full payment of borrowed capital

and interest within the terms of the agreement. Such interest were paid through the lending bank. The facility offered by the IDP was intended to make loans under the ACGS more attractive than loans from competing sources.

The TFM was a credit facility targeted at groups engaged in agriculture and agro-allied activities. Under this model, corporate organizations, State /Local governments and NGOs could intermediate in agricultural financing by placing funds in trust with lending banks to augment the savings of small groups of target farmers in their immediate environment. By this, they were to secure at least 25% of the loans intended by the prospective borrowers, the farmers were to secure another 25% of the intended loan amount with their savings in the lending banks and the ACGS was to guarantee 75% of the remaining 50% leaving the balance of 12.5% to the lending bank as their risk exposure. This arrangement was intended to help in ameliorating the problem of collateral requirements by commercial banks. The involvement of the States and **L**ocal Government Councils (LGCs) in this scheme is as yet minimal. As at the end of December 2010, 56 bodies among which were 18 States and 17 LGCs have signed the Memorandum of Understanding (MoU) with the CBN (CBN (2010[b]).

Isiorhovoja and Chukwuji (2009) studied the effects of the operations of ACGS on cash crops for the period 1981 to 2005. Loans guaranteed by the Scheme were found to have significant positive effects on the output of oil palm, cocoa, groundnut, rubber and cotton. They also determined the trend in the yearly total number and value of loans guaranteed to crop enterprises. This study takes a different approach in assessing the performance of the Scheme. The objectives was to: determine the trend in the annual total number and value of loans guaranteed, ascertain the direction of the loans guaranteed in terms of recipients, and assess the level of non-repayment risk associated with loans guaranteed to farmers.

One immediate limitation of this study was the absence of information on age of loans, number of days individual loans were in default of repayment and the number and value of loans written off. The assessment of risk of non-repayment was, for this reason, done by extrapolation.

2. Materials and Methods

Data used in this study were obtained from the Central Bank of Nigeria (CBN, 2010[a]) for the 20 years period of 1991 to 2010. Data were obtained for annual number and value of loans guaranteed, annual number and value of loan fully repaid and the annual number and value of loans guaranteed by categories of loans beneficiaries and were analyzed by the use of graphs, tables and descriptive statistics of mean, minimum and maximum and risk of non-repayment.

Risk of non-repayment was calculated as

$$RR = \alpha / \rho$$

Where: *RR is risk of non-repayment*
α = number who did not repay
ρ = number who repaid

3. Results

3.1 Trends in the annual number of loans guaranteed

For the period under review (1991 - 2010), the yearly total number of loans guaranteed ranged from a minimum of 12,859 to a maximum of 54, 032 with a mean of 28,798. The total number of loans fully repaid, on the other hand, ranged from 80,845.90 in 1993 to 5,850,923.40 in 2010.

Figure 1 shows the trend in the annual total number of loans guaranteed and annual total number fully repaid. The number of loans fully repaid kept pace with the total number guaranteed up to 1999. Obviously the tenure of these loans varies. It is, therefore, not expected that the number of loans guaranteed and the number fully repaid must tally by the end of the year. Further, the time of commencement of loans also varies. For this reason, the result obtained from 1991 to 1999 was commendable. However, since 2002 the number of loans guaranteed rose and has remained higher than the number fully repaid.

The number of loans guaranteed showed marked increase in 2005 up to 2010. Total number of loans guaranteed rose from 33,035 in 2004 through 46,238 in 2005 to 53,639 in 2009 and nosedived in 2010. The difference between the number of loans guaranteed and the number repaid was highest in 2009 when number of loans guaranteed was 53,639 and the number fully repaid was 34,300. If the difference between number of loans guaranteed and the number fully

repaid is equated to the number who did not repay, an estimated annual risk of non-repayment ($RR = \alpha / \rho$) will be as presented in Table 1. The risk of non-repayment was high in 2008 and 2009 and moderate in years 2000, 2005 and 2006. The period 1991 to 1999 witnessed a zero risk of non- repayment regime.

The protracted gap between the number of loans fully repaid and the number guaranteed from 2002 to 2010 raises the question as to why for the nine year period from 1991 to 1999 there was perfect correspondence between the number of loans guaranteed and the number fully repaid while for the nine year period from 2002 to 2010 the number of loans fully repaid fell short of the number guaranteed. Much as one may not expect a perfect match between the two always, it is pertinent to ask for the conditions that prevailed from 1991 to 1999 which enabled loans beneficiaries to behave the way they did and why that fit could not be re-enacted in the 2002 to 2010 period. It is only expected that the trend emerging from 2010 which was similar to 2001 will not begin another period of increasing divergence between total number of loans guaranteed and total number fully repaid.

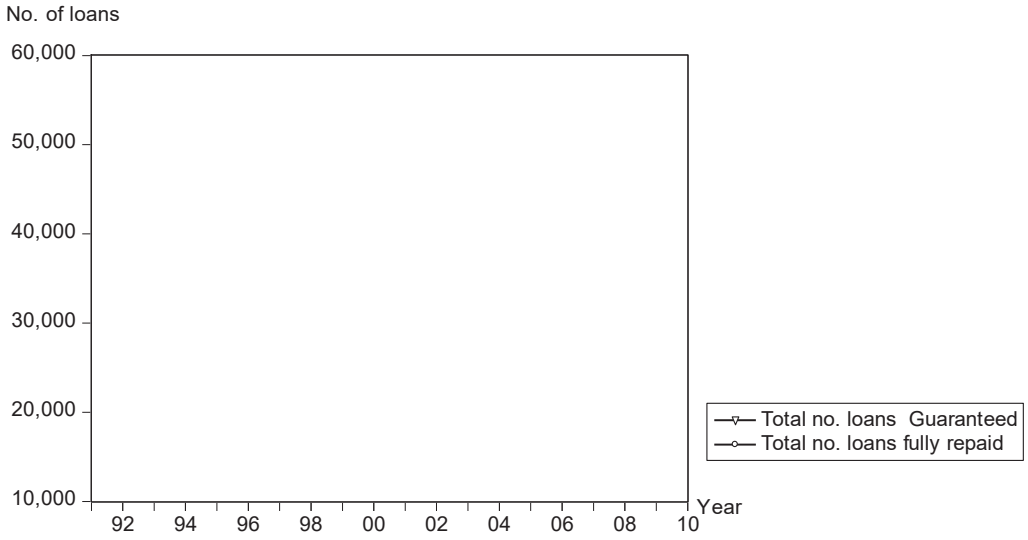

Figure 1: *Trend in total number of loans guaranteed and total number of loans fully repaid(1991 – 2010)*

Table 1: *Non repayment risk pattern 1991 – 2010*

Year	1991-1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Non-repayment risk	0	0.41	0.03	0.27	0.12	0.29	0.42	0.39	0.21	0.69	0.56	0.02

3.2 Value of loans Guaranteed

The annual value of loans guaranteed over the period reviewed ranged from N80.85m in 1993 to N8.35bn in 2009 with a mean of N2.07bn. The annual value of loans fully repaid ranged from a minimum of N80.85million in 1993 to a maximum of N5.85bn. in 2010. The trend in the value of loans guaranteed and the value fully repaid are shown in Figure 2. Like in Figure 1, the total value of loans guaranteed and total value of loans fully repaid were equal from 1991 until year 2000 when total value of loans guaranteed rose above the value fully repaid. The gap widened over the period. By 2010, there was a reduction in the gap, one was from a positive note in that the total value of loans fully repaid rose by 53.54% from

N3.81bn in 2009 to N5.85bn in 2010 and the other was on a negative note for the total value of loans guaranteed fell by 7.31% from N8.35bn in 2009 to N7.74bn in 2010.

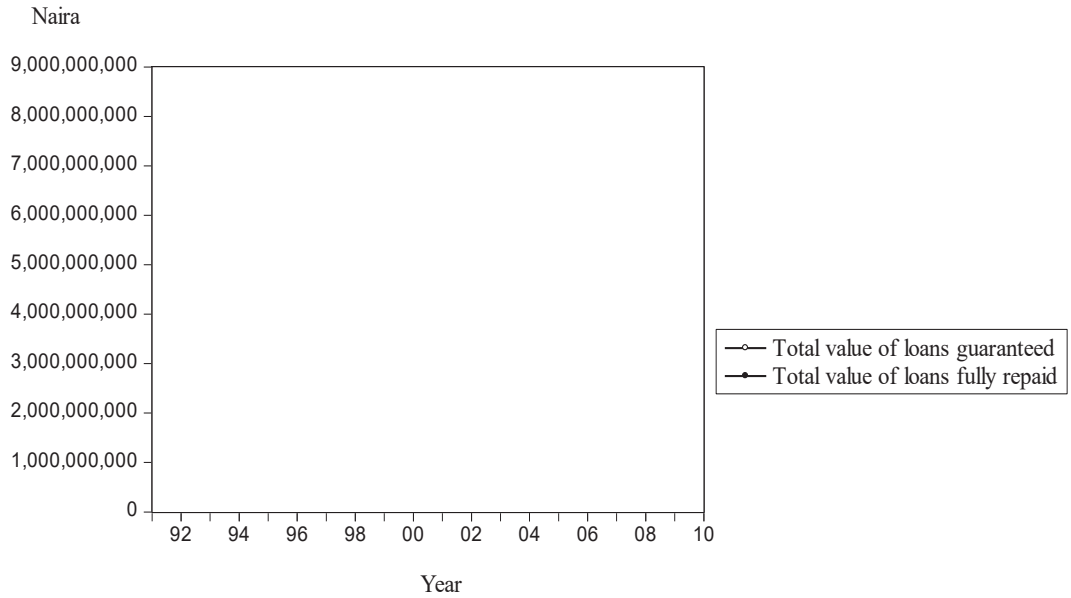

Figure 2: *Trend in total value of loans guaranteed and total value of loans fully repaid (1991 – 2010)*

With the paid up share capital of the ACGS constant and assuming a fixed ratio between paid up share capital and the value of loans guaranteed, any increase in the value of loans guaranteed without a corresponding increase in the value of loans fully repaid could amount to a reduced capacity on the part of ACGS to guarantee more loans. Secondly, such a phenomenon could also lead to increasing risk of loan non-repayment.

3.3 Direction of Loans

The patterns in the direction of number and value of loans guaranteed by users' group over the period are shown in Table 2 and Table 3 respectively. Loans to individuals dominated both in terms of number and value of loans guaranteed. This does not present any surprises since the agricultural sector is dominated by farmers operating as individuals and not as company. Of the annual number of loans guaranteed over the period, the percentage that went to individuals ranged from a minimum of 92.40% in 2009 to 99.99% in 2001.

Informal groups did not benefit from ACGS guaranteed loans from 1991 to 1996. The highest percentage of number of loans guaranteed that went to them was 4.83% in 2007. The trend in percentage of annual number of loans that went to informal group is reflected in the percentage of annual value of loans that went to them. The highest percentage of value of loans received by informal group was 5.16% in 2007.

The annual percentage of total number of loans that went to cooperative was similar to those of informal groups (Table 2). For company, the story was far less pleasant. In no year did company receive up to 1% of the annual number of loans guaranteed. The highest was 0.42% in 1998.

Table 3 which shows the direction of annual total value of loans in percentage terms reveals that while individuals may still maintain a lion share ranging from 76.30% in 1997 to 99.92% in 2001, the percentage share that went to cooperative and company were remarkably higher than their share of total number of loans guaranteed. This implies that the unit average value of loans that went to these two categories of beneficiaries were higher than for individuals. The reason for this may not be unconnected with the fact that, generally, groups and companies have a higher capacity to obtain and utilize loans and hence more credit worthy.

Table 2: *Direction of total number of loans by category of users*

Year	Total number of loans	% Total No. of Loans to individuals	%Total No. of Loans to informal group	% No. of total loans to Cooperatives	% Total No. of loans to Company	Total
1991	22014	99.43	0.00	0.45	0.11	100
1992	21206	99.25	0.00	0.65	0.10	100
1993	15514	98.81	0.00	1.10	0.09	100
1994	16572	98.93	0.00	0.88	0.19	100
1995	18079	98.73	0.00	1.14	0.13	100
1996	19036	98.22	0.00	1.68	0.10	100
1997	17840	96.68	0.13	2.98	0.20	100
1998	14637	98.94	0.11	0.53	0.42	100
1999	12859	96.73	0.08	2.81	0.38	100
2000	14102	98.39	0.47	1.05	0.09	100
2001	20298	99.99	0.00	0.00	0.00	100
2002	23681	99.35	0.34	0.30	0.02	100
2003	24303	98.57	0.96	0.46	0.01	100
2004	35035	99.65	0.20	0.13	0.02	100
2005	46238	99.04	0.64	0.31	0.01	100
2006	54032	93.61	1.83	4.55	0.02	100
2007	43233	95.00	4.88	0.10	0.01	100
2008	52787	95.92	3.19	0.83	0.06	100
2009	53639	92.40	1.53	5.73	0.34	100
2010	50849	97.15	0.99	1.74	0.12	100

Table 3: *Direction of total value of loans by category of users*

Year	Total value of loans	% Total value of loans to individuals	% Total value of loans to informal groups	% Total value of loans to cooperatives	% Total value of loans to coy	Total
1991	82107400.00	85.17	0.00	6.50	8.33	100
1992	88031800.00	85.82	0.00	7.79	6.39	100
1993	80845800.00	84.43	0.00	11.19	4.38	100
1994	103186000.00	83.78	0.00	8.72	7.50	100
1995	164162100.00	80.88	0.00	11.75	7.37	100
1996	225502500.00	79.74	0.00	15.27	4.99	100
1997	242038200.00	76.30	3.11	14.20	6.39	100
1998	215697200.00	88.23	0.79	4.15	6.83	100
1999	246082500.00	78.63	0.55	17.20	3.62	100
2000	361450400.00	89.69	2.77	6.34	1.20	100
2001	728545400.00	99.92	0.00	0.01	0.07	100
2002	1051589800.00	97.53	1.01	1.35	0.12	100
2003	1164460400.00	95.02	2.64	1.39	0.94	100
2004	2083744700.00	96.81	1.02	1.52	0.65	100
2005	3046738500.00	97.45	0.66	1.26	0.63	100
2006	4263060300.00	93.47	1.94	4.03	0.55	100
2007	4425861800.00	93.66	5.16	0.63	0.55	100
2008	6721074600.00	91.61	4.30	2.46	1.62	100
2009	8349509300.00	89.77	1.54	7.03	1.66	100
2010	7740507600.00	95.23	0.55	3.23	0.99	100

4. Discussion

Farmers are in both the rural and urban areas of Nigeria. Farming is however predominant in the rural economy. The 1991 census which put Nigeria's population at 88,992,220 also estimated that 63.72% of the population were rural dwellers (Ekong, 2003). Seventy percent of the rural dwellers are said to be in agriculture or agro-allied occupations. This is to say that of the estimated 57 million rural dwellers in Nigeria, going by the 1991 census, 39.69 million people were in agriculture or agro-allied occupation. If an average family size of six persons is assumed this will give an estimated 6.12 million farming households in Nigeria. It was out of this population of households that the ACGS guaranteed a total number of loans of 12,859 to 54,032 between 1991 and 2010. This was about 0.20% of the farming households in 1991. This is another side of the sorry situation of farmers' access to institutional sources of credit in Nigeria. This is in addition to the low unit value of loan obtained by them.

There is the Bank of Agriculture (BOA) in Nigeria. It was the former Nigerian Agricultural, Co-operative and Rural Development Bank (NACRDB), which was renamed in 2010 but retains the mandate to, among others, provide all classes of agricultural loans for farming, livestock, poultry, and fisheries. It offers various types of loans such as micro credit, macro credit, on-lending credit etc. to accommodate all categories of farmers. Isiorhovoja (2010), reported that there were 192 branches of the erstwhile NACRDB in the federation in which there were 774 local government areas (LGAs) in 2012. On the average, this translates to one branch office of the BOA to four LGAs. Considering the distance between a branch office and the farmer, the BOA may yet to be adequately positioned to serve the resource poor credit starved farmers effectively. Hence the estimated whooping 99.80% of farming households may not be adequately reached with loans. In view of the low unit average value of loans guaranteed by ACGS which ranged from N3,729.78 to N155,661.20 with a mean of N49, 169.04 and the low proportion of farming households reached, much as it cannot be recommended that credit should be extended to all farmers, it is not unlikely that with increased farmers' awareness of the Scheme, the number of applicants who are credit worthy may increase substantially over the number reached during the period reviewed. If this is coupled with a review and incorporation of the lessons learned from 1991 to 1999 into a new policy and strategy formulation and operations, it could engender another era of low risk of non-repayment of loans with increases in loan expansion.

5. Conclusion

The ACGS has a minimal reach to farmers both in terms of coverage and unit average value of loan guaranteed. Since the year 2000, both the number and value of loans guaranteed have been on the increase and individual farmers benefit the most. The risk of non-repayment of loans is on the increase but a review of past lessons could make for the co-existence of a low risk of non-repayment of loans and expansion of loans guaranteed in terms of number and value.

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