# THE PROBLEM OF LOAN DEFAULT IN NIGERIAN AGRICULTURE : AN ECONOMIC AND FINANCIAL ANALYSIS

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Reprinted from *The Indian Journal of Economics*
Vol. LXVI, Part III, No. 262, Jan., 1986

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**Abstract**

Through the Central Bank of Nigeria Credit Guidelines, Nigerian commercial banks have been directed increasingly to channel more funds to agriculture. Because of the low incomes of peasent farmers and their consequent lack of security these investments are met with high risk of default. Default rates in the financing of the Nigerian agriculture are very high and serve to reduce further loan extension to the sector to achieve the objectives of increased agricultural production and improved rural incomes.

In this paper an examination of agricultural financing schemes in Nigeria and their associated loan default ratios was made. Problems of institutional agricultural loan recovery were discussed and recommendations for improved loan recovery were made. A model for the future financing of agricultural development in Nigeria, the Village Adoption Scheme, imported into Nigeria from India by the Indo Nigerian Merchant Bank (INMB) was analysed. This was recommended for wide scale adoption in Nigeria for its superiority in reducing incidence of default.

## 1. Introduction

In present day Nigeria, commercial banks and similar institutions are being directed and persuaded to channel more funds into financing agriculture and related activities. While commercial banks are required to grant a minimum of 8% of their credit to agriculture between 1980 to 1983, merchant banks are obliged to grant a minimum of 5%. This prescription pushed commercial banks loans to agriculture from

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7 million (0.5% of their total lending) in 1970 to N 482 million or 7.5% of their total lending in 1980.[1]

Also out of dissatisfaction with prevailing credit system and for the sake of providing a sound pre-season credit and investment loans to agricultural community, the Agricultural Credit Guarantee Scheme Fund (ACGSF) was set up in 1977. The fund exists to help lending agencies like banks meet the stipulated lending target as well as see that the beneficiaries use the credit disbursed for the intended purposes.

Prior to the establishment of the ACGSF, the Nigerian Agricultural and Co-operative Bank (NACB) was set up in 1973. It can be said that the ACGSF came to supplement the function of the NACB, all Federal Nigerian Government agencies.[2] The NACB function to provide short. medium and long term financing of various forms to agricultural project. The bank is also expected to offer the necessary technical support, monitoring and supervision of different agricultural projects at all stages of project implementation. So far more than N 500 million has been disbursed to farmers and farmers' co-operatives. The bank is also considering extending credits to farmers without security. Individual corporate bodies, Co-operatives and government agencies constitute the banks cliantele.

Back in Anambra State the Anambra Co-operative Financing Agency Limited (ACFA) was established in June 1976. The A.C.F.A. was set up to aid farmers and small scale industrialists. The ACFA is not subject to Federal Government Agricultural credit guidelines. The agency has over 800 co.operative societies registered under it. A study of the operational system of the agency reveals a lot about farmers' attitude towards loan procurement and loan repayment.

Banks and most financiers derive the bulk of their funds from short term sources such as current account deposits, and other short term liabilities. Agricultural production involves long term investment in equipment, materials and other inputs. There is high gestation period (say inplantation agriculture and ranching), so for the sector to survive, there should be an inducement from the Central Bank through its credit guidelines to make the credit institutions service the sector more

[1] Swamy M. R. K. (Prof), "A Financial Management Analysis of Loan Administration in the Nigerian Economy—A Call for Seasonal Agricultural Credit Policy Formulation", *Nigerian Journal of Financial Management*, Vol. 3, No. 1, 1984 p. 55.

[2] Nwankwo, G. O. (Prof), *The Nigerian Financial System* McMillan (1980) p. 95.

properly by way of extending repayment period or adopting more liberal pre-loan conditions and rates of interest.[3] This is possible if loans granted are repaid.

If loans are not repaid, the funds do not revolve but sink, causing investment cycle to be sluggish. The tendency for members of a community, including co-operative to feel richer at the time of receipt of public debt, (e. g. loans) and the consequent tendency to change the individual members propensity to comsume for good or worse seemed prominent here. Loans sanctioned are diverted to unproductive uses like settling immediate needs or marrying more wives e. t. c. In consequence, the loan funds do not turn over more funds, reducing the ability to repay to almost zero. Rural indebtedness and rural poverty thus multiplies in alarming proportions. Agricultural finance, would not achieve the results intended viz to stimulate agricultural production and increase rural incomes and standard of living. An examination of agricultural financing schemes in Nigeria and their associated loan default ratios would hereby be made.

## 2. Survey of Agricultural Credit in Nigeria

The Central Bank of Nigeria (C.B.N.) plays an important role in the financing of agriculture. An instrument used by the C.B.N. in assisting the financing of agriculture is its credit guideline embodied in its monetary policy circulars.

The first circular was issued in 1969 and since then, the C.B.N. has consistently given preferential treatment to agriculture. Both the volume of loan allocated to the sector and the interest rate chargeable on such loans are covered by the preferential treatment. According to the C B.N. Credit Guideline, minor adjustments have been made in the sectorial allocation of loans and advances to agriculture, manufacturing and services in 1985. The share of agriculture in commercial bank loans and advances has been increased from 10 percent to 12 percent to facilitate the increased output expected from the sector. The share of agriculture in merchant bank loans has increased from 5 to 6%. The respective commercial bank loans and advances and advances and their percentage distribution is as shown below.

The C B.N. credit guideline further stipulated that where a banks total monthly loans and advances to agriculture fall short of the

[3] Ike, Don. N. (Dr.), "A Financial Appraisal of the Agricultural Credit Guarantee Scheme Fund In Nigeria" *Nigerian Journal of Financial Management*, Vol. 3, No. 1 June 1984, pp. 94-105.

stipulated minimum ratio of 12 percent for commercial banks and 6 percent for merchant banks, such a bank shall be required to deposit the amount of the short fall with the C.B.N.

Table I

REQUIRED PERCENTAGE CREDIT TO AGRICULTURE

| A. Preferred Sectors | Commercial Bank % | Merchant Banks % |
|---|---|---|
| Agriculture : (Agriculture, forestry and fishing) | 12 | 6 |
| Industrial Enterprises ; Manufacturing (including agroallied industries) | 35.00 | 41.00 |

*Source* : Central Bank of Nigeria, Credit Guidelines 1985

In order ro ennable banks meet the targets set for them in the monetary policy circular, the C. B. N. with the Federal Government established the Agricultural Credit Guarantee - Scheme Fund (ACGSF) in 1977. In this scheme, agricultural loans granted by the trading banks (commercial and merchant banks) are guaranteed up to 75 percent. The ACGSF Act (1977) is the legal basis of the scheme. The Act provided for a fund of N 100 million subscribed to by the Federal Government (60 percent) and the C, B. N. (40 percent). The fund is under the management of the ACGSF Board, but the C. B N. is the managing agent for the day to day administration of the scheme. Banks do lend outside the ACGSF in order to meet sectoral targets-set by the C. B. N.[4]

The Nigerian Agricultural and Co-operative Bank was established prior to the ACGSF. The NACB was established as a private limited liability company. to provide a higher level and quality credit to all aspects of agricultural production (including horticulture, poultry farming, pig breeding, fisheries, forerty, timber production and all other aspects of agricultural production), enhance the availability of storage facilities, and promote the marketing of agricultural products through the liberalization of credit to farmers. 40 percent of the share capital of NACB is held by C. B. N. The NACB was intended to provide medium to long term financing agriculture. This is because of the reluctance of commercial banks to provide this type of financing for agriculture and the mismanagement and abuse which characterised government loans to farmers channelled through state credit institutions

[4] Ike, Don. N. (Dr), *Ibid.*

In NACB, the "on-lending" and the direct lending markets are served. The "on-lending" scheme is lending to established institutions against repayment guarantees for on-lending to third parties. These institutions include governmental bodies, co-operative societies and companies. The ultimate beneficiaries have no direct contact with NACB. Direct lending is lending to individual farmers and farmers' organisations Beneficiaries are in direct contact with the NACB.[5]

NACB loan beneficiaries are individual farmers, co-operative organisations, limited liability companies, government owned agricultural organisations, financial institutions and other government bodies. NACB loan is granted against at least 40 percent security with emphasis on creation of repayment capacity of the borrowers.

Non-institutional lenders exist in the Nigerian economy. Many farm loans are provided informally by friends or relatives at little or no interest charges. Informal loans are also obtainable from money lenders by rural farmers. These money lenders charge interest rates as high as 100% or more. Informal loans are usually made without any complicated proceedures or delays and farmers get them at the right time when they are needed. Thus in the absence of better alternatives, money lenders perform important duty to farmers in the rural areas by making finance available to farmers.

### 3. Problem of Institutional Agricultural Loan Recovery

These are farmer related problems, structural problems and bank related problems. Farmer related problems are created by farmers while the structural problems relate to security, the supply and demand for funds and interest rate structure. The bank related problems emanate from the banks. Each of these problems are discussed in relation to their impact on loan defaults.

(a) **Farmer Related Problems.** In Nigeria, almost the entire agricultural output come from small farmers with very little capital and employing techniques which are relatively obsolete. A good percentage of these farmers are illiterate, ignorant and misrepresent the objectives of the government in granting agricultural loans. Agricultural loan is

[5] Ajakaiye, M. B. (Prof), "Credit Delivery to the Small Farmer : The Experiences of the Nigerian Agricultural and Co-operative Bank Limited (NACB)", Paper delivered at the National Conference on Village Adoption Scheme, Faculty of Agriculture, University of Nigeria, Nsukka, June 1985.

regarded by them as a national cake, grant, bonus or subsidy. Loans are diverted to non-agricultural purposes, sometimes they are used for traditional ceremonies. Cases of unwillingness to repay loans arise where farmers in good position to repay loans deliberately refuse to repay.

Problem also arises where most farmers who seek loans from the banks keep no proper accounts of their enterprises. This leads to insufficient appraisal of projects before loans are received. As a result, approved figures may fall short of the actual need and this creates repayment problems.

Some farmers cannot manage their projects due to over-expansion and loan mismanagement. Many farmers request new loans for expansion. This may not be advisable as project may be over-expanded on fragmented farmlands.

There are also inherent agricultural problems like natural hazards that make it difficult for farmers to keep to repayment schedules. Natural hazards like drought, pests, soil erosion, bush fire, poor weather all conspire at times, to reduce repayment capacity.

(b) **Structural Problems.** Problem of security, supply and demand for funds and interest rate structure are treated as structural problems. Loans are usually made against security for agricultural production. Such securities required are legal mortgages of real property, life insurance policies, government securities, stocks and bonds of reputable companies, reservation of property untill payment of final installment, the assignment of proceeds of sales to the bank and guarantees acceptable to lenders. Most of the farmers do not have tangible security. Others have guarantors.

The main disadvantage of pledging guarantors as security is that in case of non-repayment, they may disappear, thereby failing to fulfill their loan obligations. When tangible securities are pledged and beneficiary defaults, a statutory notice is sent to the defaulter. A period is given to him within which he is expected to liquidate the total dedt. In the event of failure to repay within the time stipulated, this would then serve as the final notice of the banks intention to commence proceeding towards the exercise of its powers as mortgage on the property pledged as security. If after the bank has exercised its powers as a mortgagee and the proceeds thus realized from the exercise are not sufficient to off-set the whole amount owed, the bank will proceed against the beneficiary personally by court action to recover the balance.

The ACGSF scheme in which loans are guaranteed up to 75% do reduce the problem of security for bank loan for viable agricultural projects.

Viable projects are few, tangible securities negligible. These reduce the flow of funds to agriculture. To encourage lending to agriculture interest rates were raised for agricultural loans.[6] According to Central Bank of Nigeria credit guidelines the following interest rates have been operative from January 1985:

| | |
|---|---|
| ACGSF | 9% |
| NACB (for agric. production) | 9% |
| Insurance Companies (for agric. production) | 9% |

These were raised from their erstwhile figure of 7% By adjusting the lending rates upwards, farmers are made to repay more interest charges than before. This makes repayment on schedule difficult and more farmers default.

(c) **Bank related problems.** Problems of this type are directly related to the banks. Some bank managers do not apply the principle of good lending while giving loans to farmers. They should apply such principles to make sure that loan request meet policy guideline and also know the expected returns from the loan. The default risks from the loan should also be ascertained and a way suggested on how the risks could be controlled.

Also managers should know what loan term should be offered. Neglecting these principles would create problem loans and "punctured investment tyre" in which investment cycle is disturbed by non-repayment. Loan default destroys deposit and make the investment cycle sluggish, while loan creates deposits.[7] If all institutional lenders observe the principles of good lending this would reduce the incidence of loan default.

Related to this is the problem of skilled and adequate number of staff. Various institutional lenders need skilled staff to make proper avaluation of the applicants and be able to handle the number of projects. These skilled staff are needed for monitoring and supervision of projects. A good number of staff are needed to be able to handle the job. Supervision and monitoring are not only costly but are made difficult as farm holdings are in scattered locations.

[6] Ike, Don. N. (Dr), *op. cit.* P. 97.

[7] Swamy, M. R. K. (Prof), *op. cit.* P. 58.

(4) Loan Repayment Rates

Problems of loan repayment in Nigeria are enormous. Farmers do not meet repayment schedules and as a result many institutions resort to recovery. Institutional lenders take high steps to recover their outstanding debts. The various repayment and recovery figures to be used in this chapter portray these problems. For the purpose of this analysis we are going to use largely data generated in Anambra State, one of the 19 states of the Nigerian Federation. The rates are comparable to that of other states in the Nigerian Federation.

(a) **Nigerian Agricultural and Co-operative Bank Ltd.** The bank has been able to support 3,600 projects in the cumulative amount of N 598 million since its inception just over a decade age. These projects include 101 onlending schemes through co-operatives, River Basin Authorities, State Ministries of Agriculture and State agricultural financing agencies each of which accommodates some 3,000 clients on the average.[8]

The on-lending programme which caters for peasant farmers is causing the bank a lot of problems as a huge sum of N 84.4 million was outstanding representing about 75% of the bank's unpaid loans.

Table II

SUMMARY OF NACB ACTIVITIES IN ANAMBRA STATE 1973-1985

| Type of | No of | Approval | Disbursement | Repayment |
|---|---|---|---|---|
| project | project | N | N | N |
| Agro-Allied | 2 | 4,010,580 | 4,010,580 | 234,523 |
| Arable | 5 | 5,089,797 | 4,978,992 | 260,419 |
| On-lending | 7 | 12,695,208 | 12,248,075 | 4,340,225 |
| Poultry | 19 | 2,525,777 | 1,967,395 | 420,183 |
| Tree crop | 2 | 94,612 | 80,870 | 28,466 |
| Total | 35 | 24,415,974 | 32,285,912 | 5,283,816 |
| Small holder Scheme | 169 | 488,262 | 394,816 | 64,922 |
| Grand Total | 204 | 24,904,236 | 23,680,728 | 5,348,738 |

Source : NACB Ltd.

[8] Chairman's Inaugural Speech, NACB Ltd., *Agric Bank News* Vol. 3, No. 5, June 1984 P. 2.

As at 28th February, 1985 the loan approval figure was N598, 286, 521. Disbursement was N423, 457, 504 and repayment N139, 870, 834. This is the cumulative volume of operations on project basis. This included both on-lending and direct lending. About 33% was repaid and 67 % outstanding.[9]

Since the inception of the bank in 1973 and up to February 1985, it has sponsored 35 major projects in Anambra State. These include 7 on-lending projects each of which benefits about 5,000 farmers or co-operatives on the average. Total approvals are N24, 904, 236 out of which N23, 680, 728 has been disbursed. Only N5, 283, 816 has been repaid out of N21, 419, 839 due for repayment.

Table III

NACB REPAYMENT RATE

| Disbursement N | Amount Due N | Repayment N | Repayment % |
|---|---|---|---|
| 23,680,728 | 21,419,839 | 5,348,738 | 24.7 |

Source : NACB Ltd.

Thus out of a total amount due of N21, 419, 839 only N5, 348, 738 has been repayed giving a repayment rate of 24.7%. In consequence over N16 million of NACB funds are due and unpaid from Anambra State citizens and companies. Over N12 million of this amount is guaranteed by the Anambra State Government.

**(b) Commercial Banks.** When agricultural department staff of four commercial banks were interviewed, only one bank admitted a repayment rate below 50%. Others admitted a repayment rate of 50 percent and above.

The repayment rates of commercial banks under the ACGSF differ from the percentage mentioned above as can be seen in the table below.

[9] Akakaiye, M. B. (Prof), *of cit*, addenda.

Table IV

LOANS GUARANTEED BY THE AGRICULTURAL CREDIT GUARANTEE SCHEME FUND

(ACGSF) From 1979 to 1982 to Anambra State

| | 1979 N | 1980 N | 1981 N | 1982 N | Total |
|---|---|---|---|---|---|
| Disbursement | 1.283,100 | 1,153,100 | 1,933,700 | 2,319,900 | 6,689,800 |
| Repayment | 222,063 | 235,100 | 219,500 | 398,753 | 1,075,416 |
| Repayment rate | | | | | 16.08% |

*Source* · Central Bank of Nigeria.

The 50 percent repayment earlier stated cannot however be compared to the 16.08% attained under the ACGSF. This is because banks lend outside this scheme. The rate at which farmers repay under ACGSF is poor. This may be because of the 75% guarantee provided by the Government.

**(c) Supervised Agricultural Credit Scheme of Anambra State.** Here there is a poor refund rate which is a function of lending to small scale farmers with only little or no collateral security.

Table V

SUPERVISED AGRICULTURAL CREDIT SCHEME OF ANAMBRA STATE GOVT.

| Year | Lending (N' 000) | No. of farmers benefitted | Repayment (N' 000) | Lending-Repayment ratio |
|---|---|---|---|---|
| 1980 | 301.22 | 110 | 172.92 | 1.7:1 |
| 1981 | 1,148.27 | 243 | 161.49 | 7.1:1 |
| 1982 | 1,607.39 | 434 | — | — |

*Source* : (1) Ministry of Trade and Co-operatives, Anambra State Goverment, *Evaluation Survey* 1981

(2) Hon. Commisioner, Ministry of Agriculture, *Briefing to the Press* July 5, 1982.

In 1980 for every N1.7 due, N1 was repayed and in 1981 for every N 7.1 due, N 1 was repaid. This is the meaning of 1.7:1 and 7.1:1

repayment ratios attained for the two periods. These are poor repayment ratios.

**(d) Commercial banks loans to agriculture through Central Bank Credit Guidelines 1980-84**

Table VI

COMMERCIAL BANK LOANS TO AGRICULTURE ANAMBRA STATE

| Year | Number of Recipients | Amount of Repayment due N | Amount Repaid N | Outstanding Amount N | Due Amount/ Repayment Ratio |
|---|---|---|---|---|---|
| 1980 | 45 | 233,700 | 182,100 | 51,600 | 4.5:1 |
| 1981 | 70 | 450,740 | 151,500 | 299,240 | 1.5:1 |
| 1982 | 53 | 280,800 | 141,500 | 139,300 | 2:1 |
| 1983 | 193 | 880,196 | 334,000 | 546,196 | 1.6:1 |
| 1984 | 62 | 334,200 | 137,600 | 199,600 | 1.7:1 |
| Total | 423 | 2,179,636 | 946,700 | 1,235,936 | 1.8:1 |

*Source*. Agricultural Credit Department, Central Bank of Nigeria.

Thus within the period in question total sum of N2, 179, 636 was the due repayment from the successfull applicants. Out of this amount, N946, 700 was repaid, while N1, 235, 936 was outstanding. This gives a due/repayment ratio of 1.8:1, meaning that out of every N1.80 due, the sum of N1 is repaid. Loan default is more than 70% greater than loan repayment.

If the above is compared with the ACGSF case with loan due/repayment ratios of 17.7:1 and 14.3:1 for 1981 and 1982 respectively[10], it shows that loans disbursed through commercial banks are recovered more than those disbursed through agencies of Government. This serves to reduce incentive of commercial banks granting loans through agencies of Government like the ACGSF.

**(e) Anambra State Co-operative Financing Agency Ltd.** The Nigerian Agricultural and Co-operative Bank (NACB) lends to the Anambra Co-operative Financing Agency Ltd. (ACFA) which directly lends to beneficiary co-operative societies. ACFA recovered from 1977

[10] *The Nigerian Journal of Financial Management*, Vol. 3, No. 2, Dec. 1984 p. xiii.

to 1984 about 77.29% of the disbursements as would be shown below. The ACFA is a limited liability company not an agency of Government.

Table VII

ACFA LOAN RECOVERY RATE 1976-1984

| Total Disbursements N | Total Recovery N | Percentage Recovered |
|---|---|---|
| 8,085,686.69 | 6,249,267.08 | 77.29% |

*Source*. ACFA. Ltd.

The impressive recovery rate was due to loan drives undertaken by ACFA. The drive took the team to different rural areas where the co-operative society beneficiaries were based. The cost of recovery is thus high. It shows that where intensive efforts are mounted to recover debts, relative success is assured.[11]

### (5) Recommendations for Improved Loan Recovery

Farmar related, structural and bank related problems dominate agricultural production in Nigeria. There are various ways of solving farmer related problems. As most Nigerian farmers are illiterate extension services should be made effective and oriented toward each particular development situation. Farmers should be educated by this campaign on the need for loan discipline. Farmers should not have the impression that loans are grants or part of their "national cake". They should also be reminded on the importance of maintaining proper books of accounts. The education should be focussed on the dangers of diversion although this could be overcome through intensive supervision.

The comprehensive insurance of agricultural produce to protect them against various forms of hazards should be embarked upon. This would encourage banks to increase loans to farmers. The solution to natural hazards should be sought through widescale use of sprays and insecticides.

For solution to structural problems, lending institutions should make sure that the few farmers that have collateral security possess necessary

[11] James Omeje, "A Financial Appraisal of the Co-operative Sector in The Nsukka Region of the Anambra State of Nigeria" *The Nigerian Journal of Financial Management*, Vol. I, No. 2 Dec. 1982 p. 45.

documents to make their mortgaged properties realizable. For those that do not have collateral securities group guarantees of farmers is recommended. This is a method where a loan to one farmer is guaranteed by a number of farmer. This would make the guarantors ensure that loan is repayed. Timely disbursement of funds should be made so that farmers would utilise the disbursements. The interest rate for lending should be increased for institutions to cover loan administration costs

To solve the bank related problems, the needed number of skilled staff should be employed in banks and other institutional lenders to see to proper supervision of projects and monitoring of agricultural loans. Staff with long experience in agricultural project evaluation should be employed. Also supervision and monitoring should be carried out in such a way as to reduce cost. Bank managers should additionally make use of the principles of good lending while granting agricultural loans in order to avoid problem loan.

**(6). A Recommended Model for the Future : The Village Adoption Scheme**

Under this scheme, a village or bunch of villages with all their eligible farmers (as individuals or co-operatives) are selected and assisted. This takes care of land survey, soil texture, availability of water, seeds fertilizers etc. for a homogeneous groups of small farmers working as a small community. Extension services are provided at intervals for imparting necessary knowledge about modern methods of farming. The bank becomes a co-ordinator, providing adequate credit for farming operations and bringing together all those agencies that contribute to agricultural productivity and enhancement of incomes of the rural farmers.

The villages or bunch of villages are adopted in the same way as children are adopted. "When the bank adopts a village, it is conscious that it will have to mobilise enough resources, both financial and human to make the village self reliant and prosperous. The bank has to act as a catalyst and it has to plan for the integrated development of the adopted village with the support of the villagers.[12]

[12] N. M. Chordia, "Focus on Financing of Small Farmers in the Nigerian Economy—Indo Nigerian Merchant Bank Introduces Village Adoption Scheme at Oke-Igbo Egun Village in Lagos State of Nigeria," *Nigerian Journal of Financial Management*, Vol. 3, No. I, June 1984, p. 110.

The farmers under the Village Adoption Scheme are educated to appreciate that loan is not a cash gift but an accommodation that must be repaid. Farmers who lack collateral by virtue of low income or lack of title to land are provided group gurantee. A loan to one farmer is guranteed by three other farmers. The farmers thus keep surveillance on one another and ensure that loans are repaid. Additional security is provided by the Agricultural Credit Guarantee Scheme Fund (ACGSF) which provides cover to the extent of 75% of the loan amount.

The Indo-Nigerian Merchant Bank (INMB) has adopted two villages in the Ikorodu Division of Lagos State of Nigeria and the performance has been salutory. For instance, no loan default has been recorded. Most of the crop loans granted for purchase of inputs and for clearing land have been repaid out of the sale proceed of crops. Once the farmer knows that repayment ensures further loans in the scheme, this induces him to repay on time. The loans as far as is practicable are given in kind by the bank paying for the purchases of inputs to discourage diversion of funds to less productive uses.

The idea for the Village Adoption Scheme was borrowed from the parent foreign partner of the INMB—the State Bank of India (S.B.I.), the largest commercial bank in the Indian sub-continent. The S.B.I. which has more than 6,600 branches (the largest in the world) has adopted 49,525 villages, established 431 specially designed and structured agricultural development branches and provided direct finance to over 4 million farmers. The Village Adoption Scheme is recommended for widescale adoption in Nigeria to help solve the problems of loan default and diversion in the financing of agricultural production in the Nigerian economy.

## 7. Conclusion

Loan default in Nigerian agriculture is an enormous problem. It serves to reduce the amount of loan accommodation extended to agriculture because of the enhanced risk of default in payment. Consequently agricultural production and rural development are harmstrung by inadequecy of circulating capital. The vicious cycle of poverty characterising the rural farm sector persists. Innovative strategy capable of solving the problem of default in agricultural financing and as such aiding the process of enhanced agricultural production and rural development in Nigeria is the Village Adoption Scheme, imported from India to Nigeria by the Indo-Nigerian Merchant Bank (INMB).