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**RURAL DEVELOPMENT FINANCING IN NIGERIA:
An Assessment of the Sustainability and Outreach of the Nigerian
Agricultural and Cooperative Bank and the Peoples' Bank**

Gabriel S. Umoh

1. Introduction

DURING the last three decades of the 20th century, the rural areas received increased attention in the development paradigm. This increased attention can be linked to a growing consensus that rural development is essential to industrial growth, urban employment and overall development. Access to affordable credit is one of the key instruments in the development paradigms of the last decades of the 20th century for engineering rural development in less developed countries. The earliest or 'traditional' advocacy was for the establishment of more private and state banks in the rural areas as a means of increasing access to credit. The new approach was predicated on the premise that the informal rural financial sector could not effectively meet the financial needs of rural economic agents.

In Nigeria, the government has been a major player in the rural financial market. Government intervention has been predicated on the perception of the problem as a shortage of capital in rural areas, a lack of modern technology in agriculture, limited savings capacity and the predominance of informal financial service providers as the sole source of capital. The Nigerian Agricultural and Cooperative Bank (NACB) and the *Peoples' Bank of Nigeria* (PBN) are two important instruments designed to provide rural and poor economic agents with access to credit. Other credit enhancing schemes, and enabling interventions aimed at rural development included the mandatory lending to the agricultural sector by the commercial and merchant banks, the rural banking scheme of the *Central Bank of Nigeria* (CBN), the *Nigerian Agricultural Credit Guarantee Scheme* (NACGS), the *Nigerian Agricultural Insurance Scheme* (NAIS) and the *Family Economic Advancement Programme* (FEAP). The *Community Banking Scheme* (CBS) encouraged communities to establish their own banks as a means of enhancing the access of poor, informal and rural based economic agents to formal credit. Each community bank was expected to draw (pool) excess funds in the community and lend same funds to members of the community.

The multiplicity of rural credit schemes/institution in Nigeria raises at least two main questions. First, are these schemes/institutions sustainable? Second, do the schemes meet the need of intended targets/clientele? Self-sustainability can be conceived as the ability of the financial institution to generate enough income to cover at least the opportunity cost of all employed factors of production and capacity to honour all liability as at when due

(Yaron, 1992; Chaves et al, 1993). Service delivery is an important component of outreach and sustainability. A well packaged and delivered service would attract customers, savings will increase, and the loans and investments of the institutions will also improve (Soyibo et al., 1999). This ultimately would enhance access to credit and promote the development of the national economy.

This paper analyses, within the limit of available data, the performance of the Nigerian Agricultural and Cooperative Bank (NACB) and the Peoples' Bank of Nigeria (PBN) using the sustainability paradigm. The use of the sustainability and outreach indices to measure the performance of formal financial institutions has been suggested by many scholars (Yaron, 1992; Aryeetey, 1996a; Schrieder, et al., 1999; Soyibo et al., 1999; Fiebig, 1999). In analyzing the sustainability of the NACB and PBN therefore, the paper also evaluates the extent to which the two are fulfilling their objectives.

Section two presents an overview of the relevant literature, while in section three, we briefly review the evolution of formal financial institutions in Nigeria. Section four discusses the methodology employed in assessing, the NACB and PBN as well as the assessment while section five concludes the paper.

2. Overview of the Literature

Rural financial market (RFM) is a general name covering both formal and informal rural financial institutions. On the one hand, the operations of informal financial markets cover all financial transactions that take place outside the functional scope of the banking and other financial sector regulations. These include the activities of the savings and credit associations, money lenders, traders, friends and relations; *etibe* (Ibibio) and daily collectors (mobile bankers), and cooperative societies. Formal rural financial markets, on the other hand, are mainly owned by the public sector and donor agency supported, unlike the informal rural financial markets. Their operations are usually documented with their terms of agreement clearly specified (Soyibo et al., 1999). In the same vein, Fiebig (1999) said the formal financial institutions are subject to the provisions of the banking laws and other specific regulations governing the financial sector. Fiebig's definition includes the Central Bank, public and private sector banks, specialized financial institutions such as savings banks and credit cooperatives, as well as the capital markets. These informal rural financial institutions (IRFIs) operate outside a legal framework, and as such, mainly depend on social control mechanisms and norms.

A number of paradigms provide some insights into several relevant questions about formal rural financial markets (FRFMs). For instance, a paradigm explains the existence of FRFM in terms of the monopolistic tendency of the supplier of credit in the informal rural financial markets. According to this view, interest rates charged and paid in the informal rural financial markets (IRFMs) are unnecessarily high, with negative effects on the economic development of the rural areas. From this perspective, the establishment of FRFMs is to provide 'cheaper' alternative financial facilities to the rural populace and consequently promote rural development.

However, interest rates of FRFMs also tend to be high. The classical theory explains the observed high interest rates of the FRFMs in terms of credit markets incorporating the high risk of default transactions in the rural areas (Stigler, 1967). Features of the rural

financial markets have also been explained in the context of imperfect information and imperfect enforcement. The view has it that the activities of rural financial markets centre on providing solutions to three main problems: screening, incentives and enforcement.

Scholars have been critical of the explanations of the workings of the rural financial markets. The simultaneous coexistence of both formal and informal financial institutions does not support the monopolistic view of the informal financial institutions as inferior sources of finance to rural areas and formal rural financial institutions (Stiglitz, 1990; Soyibo, 1996). The IRFMs have not disappeared in the presence of cheaper alternative sources of rural finance. This is contrary to the expectation that FRFIs would attract patronage away from the IRFIs due to the *assumed* low interest rate in the FRFIs. Available evidence reveals that the activities of IRFMs have actually increased with policy reforms in the sub-Saharan African countries (Aryeetey, 1996a, 1996b).

The weakness of the FRFIs led Soyibo et al. (1999) to conclude that no single paradigm can fully explain the workings of the rural financial market but each presents some insight into the understanding of the market and the knowledge so gained would be useful for a meaningful design of the formal rural financial institutions.

Several empirical questions then arise with respect to FRFIs and the process of financial intermediation in the rural areas. For instance, in countries where the FRFIs are already in place, are they performing effectively and achieving the objectives for establishing them? Is the theoretical proposition — that availability of credit would generate development — supported by empirical evidence? Such questions are important in assessing the performance of the formal rural financial institutions.

In the forefront of the evaluation of the RFI are scholars such as Yaron (1992, 1994) and Gargand et al. (1996). These scholars base their evaluation on the concept of outreach and sustainability, arguing that the traditional quantifiable measures of success such as profit and similar criteria are not helpful for evaluating the formal rural financial institutions. Yaron argued that two objectives are paramount for a rural finance institution to be successful: financial self-sustainability and outreach to the target rural population. Financial self-sustainability is achieved when the return on equity, net of any subsidy received, equals or exceeds the opportunity cost of funds. The inverse of self-sustainability is dependence on subsidies. It is desirable that formal rural financial institutions (FRFI) depend less and less on the government or donor agencies and become self-sustainable. Yaron gave the following criteria for measuring self-sustainability of a formal rural financial institution:-

- a. Positive on-lending that is high enough to cover non-subsidized financial costs, as well as administrative costs, to maintain the value of equity in real terms.
- b. High rate of loan collection.
- c. Deposit rate that is high enough to ensure that savings becomes increasingly significant in financing the loan portfolios.
- d. Administrative costs must be contained through efficient procedure for assessing, investment plans, screening of borrowers, processing loans, collecting repayment and mobilizing and servicing savings to ensure that lending rates do not become prohibitive.

The criteria were used to develop a *subsidy dependence index* (SDI) given as:

$$SDI = S / (LP \cdot n)$$

where,

S = Annual subsidy received by the rural financial institution,

LP = Average annual outstanding loan portfolio of the rural financial institution

n = Average on-lending interest rate of the rural financial institution.

The subsidy dependence index (SDI) measures the percentage increase in average on-lending interest rate required to compensate for eliminating subsidies, including the subsidy a formal rural financial institution (FRFI) receives through paying interest below the market rate on its borrowed funds. An SDI of zero means that an FRFI is fully self-sustainable. An SDI of 100% indicates that a doubling of the FRFIs average on-lending rate is required if subsidies are to be eliminated. A negative SDI indicates that the FRFI not only has achieved self-sustainability, but that its annual profits, minus its imputed return on capital as calculated by applying the appropriate market interest rate, exceed the total annual value of subsidies or that the FRFI does not receive any subsidies, and the return on equity exceeds the cost of imputed capital. A negative SDI also implies that the FRFI could have lowered its average on-lending rate, while simultaneously eliminating any subsidies received in the same year.

Yaron (1994) used the SDI to assess four institutions: the Badan Kredit Kecamatan (BKK), Bank Rakyat Indonesia Unit Desa (BUD) in Indonesia; the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand and Gremoen Bank (GB) in Bangladesh, were making progress toward self-sustainability. Data indicated that the four RFIs, differed substantially in their level of dependence on subsidies. The subsidy dependence index applied to the K-REP programme by Kiiru et al. (1995) revealed a high level of dependence on subsidies. A recent report by Bomda (1999) on the operation of four Mutuelle Communautaire de Croissance — MC² — a rural microbank in Cameroun, showed that the MC² was gradually reducing the level of their dependency on subsidies. It also showed a correlation between the level of SDI and the age of the MC². The participation of women was found to be increasing, representing around 20% of the active members in 1998, and more than 60 per cent of these live in rural areas.

The participation of women as an outreach component is another relevant rural finance institution performance index. Given the objective of a given rural finance institution (RFI), the institutions are expected to cover many borrowers who were hitherto not served. Yaron (1994) submitted that outreach can be measured by:

- a. the value and number of loans extended
- b. the value and number of savings accounts maintained;
- c. the types of financial services offered by the rural financial institution, and the number of branches and village posts/units
- d. the percentage of total rural population served
- e. the real growth of the RFI assets over recent years
- f. women's participation

Several scholars have employed this measure (outreach) to assess the performance of microfinance institutions. An assessment of the outreach of microfinance institutions by

Christen et.al. (1995) and Webster and Fidler, (1996) revealed that the number of borrowers reached by microfinance programmes in Africa is lower than those reached by successful institutions in Asia and Latin America. They found that the largest microfinance institutions in Africa reached only as many people as some of the smallest institutions in Asia and Latin America. The West African microfinance programme studied by Webster and Fidler were only marginally larger, with most having fewer than 10,000 borrowers.

3. A Brief Overview of Evolution of Formal Rural Financial Markets in Nigeria

In most countries, government intervention or involvement in financial intermediation is often an attempt to provide a safety net for the vulnerable groups, such as the poor and women. The development of formal rural financial institutions in Nigeria arose from the dearth of banking services in the rural areas. To ensure that farmers (who were mainly rural based) were not discriminated against in credit allocation, several rural credit institutions schemes have been put in place. To put our discussion in a proper perspective, we group the periods of the events into pre-1970 period; 1970-1980; 1981-2000.

3.1 The Pre-1970 period

In the pre-1970 period, there was virtually no national government involvement in credit programmes in the rural areas. Most activities were coordinated by the regions. For instance, in the Western Region, there was the Agricultural Credit Corporation (ACC) which made a significantly different type of loan to cocoa, rice, maize and other crop producers and marketers. The ACC offered both individual and group loans. According to Miller (1974), individual farmer loans were disbursed directly to the groups for 'on-lending' to individuals. The groups were charged 7.5 per cent interest by the Credit Corporation and the funds were 'on-loaned' to individuals at 15 per cent interest to defray administrative costs.

3.2 The 1970-1980 period

The 1970-80 period could be described as the 'real period of growth' of the rural financial market in Nigeria. A deluge of policies, programmes/schemes and the emergence of institutions all aimed at injecting more funds into the rural areas characterized this period. The set of rural financial institutions or schemes established in the period included the Nigerian Agricultural and Cooperative Bank (NACB), Rural Banking Scheme and the Agricultural Credit Guarantee Scheme (CBN).

The Nigerian Agricultural and Cooperative Bank

The NACB was established in 1973 by the Federal Government of Nigeria as an apex agricultural development finance Institution. Its specific objectives were:

- a. to grant loans and advances for agricultural production in all its ramifications and for purposes associated with such production to any state, group of states, farmers, group of farmers, and corporate bodies, provided such loans are guaranteed by the relevant state government or body;
- b. to grant direct loans and advances to individual farmers, cooperative societies or other bodies (corporate or un-incorporated) as appropriate, provided the bank is

satisfied that the ventures for which the loans are sought are viable and there is adequate security to cover the loan;

c. to assist agricultural enterprises, agro-based enterprises, agro-based industries and commerce for the exploitation of forest and other agriculturally related resources in Nigeria and;

d. to render consultancy and other technical and professional services for commercial, agricultural, industrial and individual establishments for a moderate fee and to monitor and update these services as at and when the need arises.

Initially, the NACB was designed to benefit only full-time farmers, but because of general economic hardship and the mass retrenchment in the country in 1984, in both the public and private sectors of the economy, the bank widened the scope of its operations to take care of the retrenched workers who wanted to take up farming as an occupation. The bank's facilities were further extended to those still in employment in both the public and private sectors but who were interested in farming.

The NACB has several schemes including on-lending; direct lending; the smallholder direct loan scheme; the special smallholder loan scheme; the workers scheme and marketing loan. The smallholder direct loan scheme was designed to directly reach farmers. It includes loans activities with a ceiling not in excess of ₦25,000. Specific programmes operating here include:

- a. Special Projects – comprising (but not limited to) NACB/ILO/FMH revolving loan. IFAD
- b. Artisanal Fisheries Project and ECOWAS Fund Artisanal Fisheries Loan
- c. Smallholder Project which is exclusively funded by NACB
- (d) The Second Livestock Development Project
- (e) In 1992, the bank instituted a revolving loan fund specifically for rural women's income generating activities.

For effective delivery, the NACB maintains a grassroots presence through an extensive network of branches. Field operations of the bank are co-ordinated from seven zonal offices. Each of the zonal offices has a minimum of nine branches. The bank places great emphasis on kinds of disbursement in order to discourage loan diversion. Most of the safeguards employed at the NACB are to check loan default, this includes dividing the loan into two or more disbursements. The purpose of each disbursement is clearly spelt out and the use of earlier disbursement certified by a trained staff of the bank, before further disbursements are made.

Rural Banking Scheme

A Rural Banking Scheme was introduced in Nigeria in 1977. The scheme came as a result of the over-concentration of banks in the urban areas to the neglect of the rural areas. It is to assist in the development of the rural areas, through making funds available for investment, commercial banks were required to open branches in the rural areas and to plough as credit to the rural dwellers, about 45 per cent of savings mobilized within the

rural domain. In 1992, the minimum share of total deposit generated by rural banks which must be given as loans and advances in rural localities was raised to 50 per cent.

The Rural Banking Scheme was implemented in phases. As at the end of the third phase in June 1991, total deposits had increased to ₦8.3 billion and total loan of ₦5.1 billion with 765 branches. The number of branches had reduced to 763 as at 1994 while deposits and loans in the same year were ₦8,807.1 million and ₦8,659.3 million, respectively (CBN, 1996). Generally, the level of achievement of branches established in the rural areas was rated by Iyare et. al. (1991) to be 100 per cent, 96.6 per cent and 38.6 per cent for phase one, two and three, respectively as at 1988.

Agricultural Credit Guarantee Scheme (ACGS)

The ACGS was established in March 1977 by Act 20 of the Federal Government of Nigeria. The purpose of the scheme is to encourage banks to lend to persons engaged in agricultural production (by minimizing the risk). The scheme provides a guarantee in respect to loans granted by such banks for agriculture, annual-cum-biennial crop production and livestock rearing. There is provision for a fund of ₦100 million; subscribed to by the federal government (60%) and the Central Bank of Nigeria (40%). Under the scheme, the Central Bank of Nigeria guarantees up to 75 per cent of the value of the principal and interest on loans granted to farmers by any commercial bank. A maximum of ₦50,000 was to be granted to an individual and up to ₦1 million for loans to cooperatives and corporate bodies.

In addition to the guarantee provision of the fund, the government also extended graduated tax free allowance to commercial banks on interest earned from agricultural loans depending on the duration of the loans. Loans less than two years have no tax exemption on interest earned, while loans of two to four years have a grace period of at least one year and 40 per cent tax free interest. Longer term loans, of over seven years, are given 100% tax free on interest earned on the loan, with grace period of at least two years.

The 1981-2000 Period

The federal government adopted and began implementing a structural adjustment programme (SAP) in Nigeria from January 1986. To cushion the adverse effects of the policies on the poorer segment of society, some fund transfer institutions and programmes were established to act as a safety net for vulnerable groups. The set of institutions and programmes include the Peoples' Bank of Nigeria (PBN), Community Banking programme, Better Life for Rural Women and Family Economic Advancement Programme.¹

The Peoples' Bank of Nigeria (PBN) was established in 1989 as a specialized development bank for the provision of financial services to the small-scale entrepreneurs and traders, who normally fail qualify for loans from the conventional banking system. The PBN is 100% owned by the Federal Government of Nigeria and about 99.9% of its loanable funds derive from the three tiers of government. With its policy of providing banking

¹ Other programmes include the Better Life for Rural Women and the Family Economic Advancement Programme (FEAP). The Better Life for Rural Women targeted rural women while the FEAP was established as a poverty reduction programme by Decree 11 of August 12, 1997.

services to the remote areas of the country, the bank draws its customers primarily from the informal sector. As at 1995, The PBN had 745 branches and ₦2834.6 m deposits.

In 1990, the Babangida administration encouraged communities to set up Community Banks and the first community bank commenced operations in Kaduna in December 1990. The community banking scheme was expected to promote rural development through the provision of banking and financial services, and by promoting the development of a banking culture in rural communities, fostering the spirit of community ownership and mobilization of financial resources within communities. Community banks were supposed to provide credit, deposit banking and financial services to members largely on self-recognition and personal credit worthiness.

The Better Life for Rural Women programme targetted rural women; the Family Economic Advancement Programme (FEAP) was established as a poverty reduction programme by Decree 11 of August 12, 1997. FEAP provided capital to individuals at the ward level to enable them set up and run cottage industries. The federal government provided the initial capital to participating banks for disbursement. The programme was supervised by the FEAP Board and FEAP secretariat. Subsequent funding was to be provided by the states, local governments, the private sector, international agencies and through loan repayment.

4. Performance of NACB and PBN: Methodology and Analysis

4.1 Methodology

The two relevant indices for the assessment of the performance of the NACB and PBN are the subsidy dependence index and outreach measures. However, due to data problems, we had to limit this analysis to outreach measures and an analysis of perceptions of the primary targets of the NACB and PBN – rural farmers. We assessed outreach in terms of the type of clientele served and variety of financial services offered. The relevant indicators are: value and number of loans extended, value and number of savings accounts, percentage of total rural population served and the participation of women as clients.

The outreach measures were computed using data obtained from the Central Bank of Nigeria's *Annual Reports and Statements of Account* (various issues) and Soyibo et al. (1999).

The perception analysis required primary data. We collected the data from 164 respondents in Uyo Local Government Area using a well-structured questionnaire; a multistage random sampling method was employed in the data collection exercise. In the first stage, we selected two villages from three of the five clans (Offot, Etoi and Thono) that make up Uyo Local Government Area. In the second stage, farm households were randomly selected through a random walk method.

The primary data collected were analysed using simple percentage and chi-square statistics. The use of the latter was necessitated by the need to ascertain if there were differences in the respondents' perception of the impacts of NACB and PBN on the agricultural production.

4.2 Analysis

4.2.1 Outreach

The laws establishing the NACB and PBN specify their respective target clientele. Table 1 shows general information on the NACB and PBN. It clearly shows that the NACB and PBN are similar in terms of objectives, ownership, coverage, and activities. The NACB had farmers as its primary target while the PBN targeted small- and medium-scale enterprises.

Table 1. General Information and Outreach of Nigerian Agricultural and Cooperative Bank and People's Bank of Nigeria (1994)

	Nigerian Agricultural and Cooperative Bank	People's Bank of Nigeria
Year established	1973	1989
Objectives	Development of rural finance	Development financing
Type of institution	Development finance institution	Development finance institution
Ownership	Federal government	Federal government
	Coverage	
Region	Whole country	Whole country
Clientele	Farmers	Small-scale entrepreneurs
Activities	Credit delivery, monitoring and evaluation	Credit delivery, monitoring and evaluation

Table 2 shows the loans and advances of NACB and PBN for 1994-98. The table shows a sharp decline in NACB loans and advances from ₦6104.2m in 1994 to ₦443.9m in 1998. The percentage change in loan/advances was -93.2 per cent (1995), -1.1 per cent (1996), 19.7 per cent (1997) and -9.6 per cent (1998).

Table 2 shows that while the trend of the loans and advances of the NACB was negative; that for the PBN was positive. However, the total amount of loans and advances of the NACB remain well above that for the PBN. Considering the extent of the decline in loans and advances of the NACB in 1995, and the age of the NACB, it would seem that the NACB was in decline. The apparent decline of the NACB suggests problems of sustainability. Although, the loans and advances of the PBN were on an upward trend, the NACB trend suggests that the PBN may yet face sustainability problems by post-1998.

Table 2. Loans and Advances (₦m) of Nigerian Agricultural and Cooperative Bank and People's Bank of Nigeria (1994-1998)

	1994	1995	1996	1997	1998
NACB loans and advances (₦m)	6104.2	415.2	410.5	491.3	443.9

Percentage change over preceding year	na	-93.2	-1.1	19.7	-9.6
PBN loans and advances (₦m)	178.2	340.0	350.0	360.1	400.5
Percentage change over preceding year	na	90.8	2.9	2.9	11.2

Note: na = not available

Source: Central Bank of Nigeria, *Annual Report and Statements of Accounts* (various issues)

Table 3 shows some staff performance and outreach indicators for the NACB and PBN. The table shows that in 1994, the number of activities financed by NACB and PBN were 14,689 and 7,107 respectively. Available data indicate that the NACB served 13.2 per cent of the total population, but only 1.73 per cent of the female population. In terms of numbers of activities financed and value of loans, the NACB did better than PBN in 1994. However, with 1.59 and 107.63 number of loans per staff for the NACB and PBN respectively, the PBN is clearly, the better performer. The PBN also, seemed more prudent in terms of administrative expenses in relation to average loan volume. In addition, the PBN (26.53%) had better loans recovery rate than the NACB (21.04%). It is also notable that the administrative cost of the NACB was almost four times that of the PBN. Given the performance indicators of the NACB in 1994 relative to that of the PBN, it is not surprising that the activities began to decline sharply from 1995.

4.2.2 Farmer's perception of NACB and PBN's loan delivery activities

Table 4 shows farmers' perceptions of the loan delivery procedures of the NACB and PBN. The table shows that a majority of respondents (51.2%) found the loan delivery procedures of both the NACB and PBN difficult. Of the two categories of respondents, ie, primary farmers and secondary farmers, more of the latter found the procedures difficult. Put another way, the results suggest that those whose primary occupation is farming have easier access to loans from sources other than these institutions.

Table 5 shows that 54.9 per cent of all the respondents report an increase in their output as a result of loans from NACB and PBN. If the results in tables 4 and 5 are indicative of the general perception of farmers, making loan delivery procedures simpler, could help to increase access to credit with positive effects on farm output.

Table 3: Staff Performance and Outreach, 1994

	Nigerian Agricultural and Cooperative Bank	People's Bank of Nigeria
Loan outstanding (₦)	2,483,705,100	13,974,988
Annual loan collection (%)	21.04	26.53
Number of activities financed	14,689	7,107
Loan approved	3,820,945,446	Na
Loan repayment	2,013,945,209	2,178,443
Number of loans per staff	1.59	107.63
Value of funding per staff (N)	4,294,442	Na

Administrative costs/ annual average loan volume	28.7	7.7
Percentage of population served	13.2	-
Women as a percentage of total client (1990-1994)	1.73	-

Source: Soyibo et al. (1990)

Table 4. Farmers Perception of NACB and People's Bank Loan Delivery Procedure

Primary Occupation of Respondents	Responses		
	Loan easy to obtain (%)	Loan difficult to obtain (%)	Total (%)
Farming as primary occupation	31.7	25.6	57.3
Farming as secondary occupation	17.1	25.6	42.7
Total	48.8	51.2	100

$$X^2_{cal} = 3.78$$

Source: Field Survey

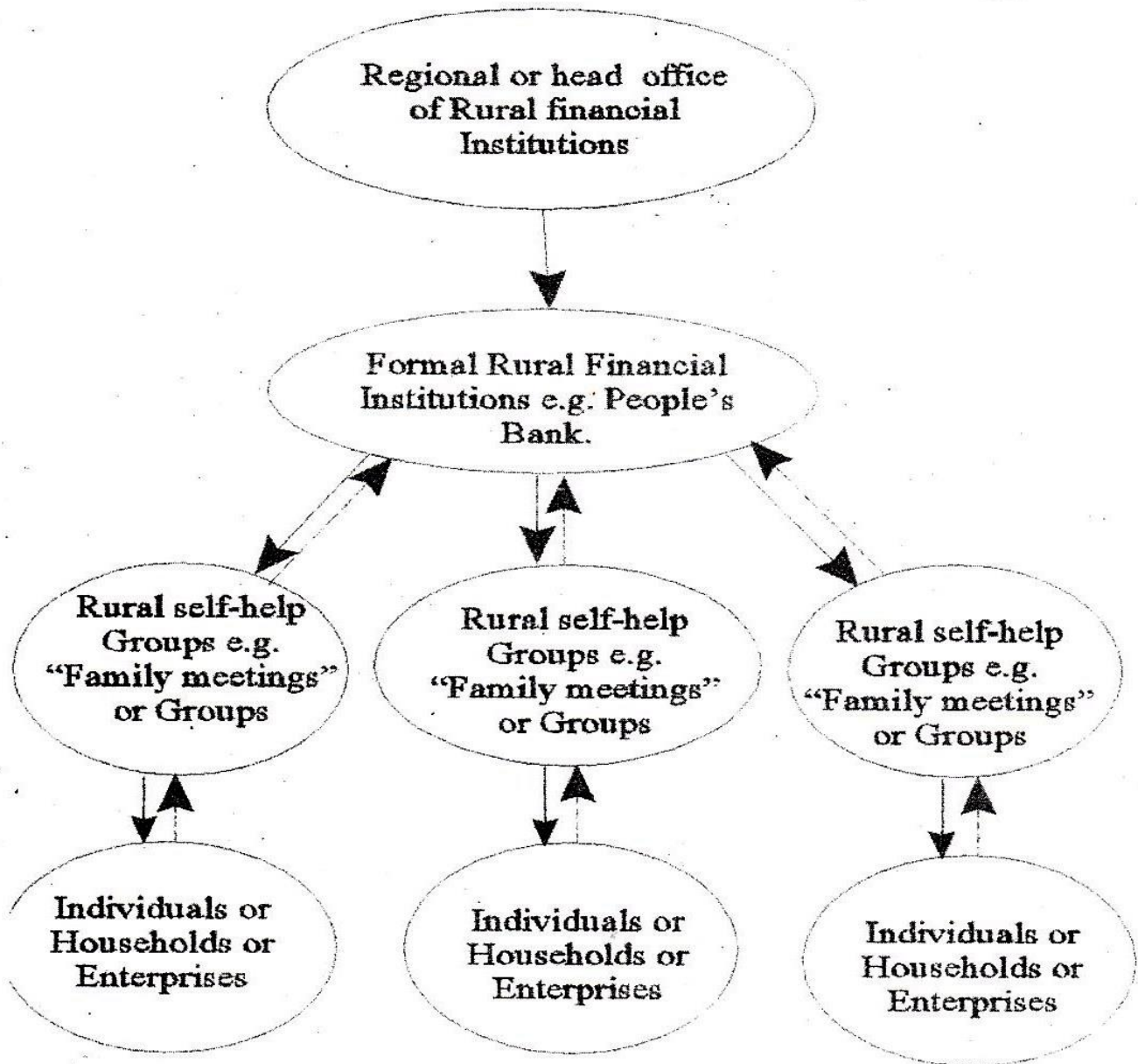
Table 5. Farmers Perception of NACB and People's Bank Loan on Agricultural Production

Primary Occupation of Respondents	Responses		
	Increased production (%)	No increase in production (%)	Total (%)
Farming as primary occupation	31.7	25.6	57.3
Farming as secondary occupation	23.2	19.5	42.7
Total	54.9	45.1	100

$$\chi^2_{cal} = 0.018$$

Source: Field Survey

Figure 1. A Schema for Linking Formal Rural Financial Institutions and Rural Self-help Groups



Key:
 —————> Line of linkage between formal Rural Financial Institution/Flow of credit
 - - - - -> Flow of savings

We are aware that the PBN is reaching out to individuals in the rural areas through its mobile banking services. However, a link with informal associations such as *etibe*, (Ibibio)

self-help groups (not necessarily co-operative societies) and 'family meetings or groups' is necessary. Umoh and Ibanga (1997) had established that family groups are veritable platforms for development purposes. Such a linkage can ensure a two-way flow of funds: first, within the rural economy, and second, between rural and urban economies as shown in figure 1. As the schema shows, such an arrangement requires that the formal rural finance institution has a regional or head office. This could be located at state or regional headquarters. Branches should be established in many communities. Localities with a lot of income generating or commercial activities could benefit more from such an arrangement. Given their proximity to other rural communities and villages, the RFIs at such locations can readily reach out to some rural self-help groups, co-operatives, age grades, church associations, and 'family meetings'. These non-formal groups are made up of individual members. The groups are expected to draw excess liquidity as savings from households, individuals or micro-enterprises.

The schema (above) proposes a two-way flow of funds. First, drawing from subventions from donor agencies or national government, the regional or head office of the formal rural financial institutions can disburse funds to the state branches for onward transmission to the rural offices/posts. The next stage involves the rural offices/posts lending the funds to the rural self-help groups based on honest and thorough assessment of their needs, viability and repayment potentials. Honest and thorough assessment is important in order to avoid the pitfalls of most existing rural finance institutions. This line of linkage or flow of funds/credit is indicated by bold lines.

An alternate flow or linkage derives from funds pooled together by individuals/households or micro-enterprises as members of rural self-help groups. Such funds could be mobilized by formal rural institutions as savings which are further circulated within the economy as loans/credit to groups, as well as individuals. This flow is presented by broken lines. The model can be used to develop inter family financial assistance as is the case in exchange labour and interchurch financial assistance popularly called 'combined service'.

5. Conclusion

The paper analyzed the performance of the Nigerian Agricultural and Cooperative Bank (NACB) and the Peoples' Bank of Nigeria (PBN) in financing rural development using outreach indicators and the perceptions of a sample of farmers. The analysis indicates a decreasing trend of loans and advances from the NACB between 1994-1998 but, an increasing trend in loans from the PBN. The declining trend in loans and advances from the NACB suggests problems of sustainability. Consequently, although, the PBN out performed the NACB in terms of number of loans per staff, overhead costs per unit of loan and loan recovery, the sustainability is also a cause for concern. Therefore, although the paper was unable to compute subsidy dependence indices, the inference drawn from the outreach analysis should draw attention of policy-makers to the problem of sustainability. The results of the perception survey indicate that the loan delivery procedure should be simplified if rural development financing institutions or programmes such as NACB and PBN are to successfully accomplish their goals of financing rural development. Finally, we recommend systematic links, on the one hand, between formal financial institutions and, informal associations such as *etibe*, self-help groups (not necessarily the co-operative

societies) and family groups or households on the other, as a means of increasing the effectiveness of formal rural financial institutions.

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