Formal Rural Financial Markets in Nigeria: An Attractive or Deceptive Development Alternative?

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ABSTRACT

This paper uses the outreach paradigm to examine the role of two formal rural financial institutions (Nigerian Agricultural Cooperative Bank and People's Bank of Nigeria) in development financing in Nigeria. Findings show that the two institutions have fared relatively well in the outreach to their target clientele, except women. The paper also suggests that for wider outreach, effective linkage with rural self-help is necessary.

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1 INTRODUCTION

During the last part of the 20th century, concerted efforts were made around the world to accelerate the pace of economic development. The rural areas received increased attention, particularly in the developing countries, during the period. This attention arose from the realization that almost everywhere, a firm foundation of rural development had become an essential precursor of industrial growth and urban employment. Different approaches were adopted to find a solution to the problems of underdevelopment of the rural areas. Much of the earlier work centred on transfer of technology from developed to developing countries. Capital intensive technology was felt to be the answer to quick development. The results were however less desirable; as Abasiekong (1982) reported, hospitals were built but there were few doctors; skilled labour was not available to run machines. There was also lack of local funds to pay recurrent costs, labour was displaced without alternatives for the unemployed and tractors were idle because spare parts were not available.

Providing affordable credit to the rural population has also been a prime component of the development strategy. Advisers from rich western countries have observed the underdeveloped state of capital markets in the developing countries, and pushed for the monetarization of these states through the expansion of financial institutions. The first and "traditional" approach was to establish more private and state banks in the hinterland. This approach was adopted because it was perceived that the informal rural financial sector could not effectively meet the financial needs of rural entrepreneurs, in any meaningful economic activities which could ensure sustainable development of the rural areas.

In Nigeria, the rural financial market has witnessed massive government intervention. The problem was seen 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 subsidized state development banks such as the Nigerian Agricultural and Cooperative Bank Ltd and the Peoples Bank of Nigeria, were employed as mechanisms to distribute funds which were to give impetus to productivity in agriculture. Other credit enhancing schemes, and enabling interventions to aid the development of the rural sector, included mandatory lending to the agricultural sector by the commercial and merchant banks, the rural banking scheme of the Central Bank of Nigeria, the Nigerian Agricultural Credit Guarantee Scheme, the Nigerian Agricultural Insurance Scheme and, to some extent, the Family Economic Advancement Programme.

However, starting from the mid-1980s when Nigeria adopted the Structural Adjustment Programme (SAP), the macroeconomic policy thrust changed from that of intervention to liberalization which emphasises less and less government involvement in economic activities that can be handled by the private sector. This change in economic policy (which has swept across the developing world), brought with it a new approach to financial markets. This stresses setting up financial institutions with a wide outreach which fulfil an intermediary function and, in addition to demand-oriented credit services, also offer savings services. This system-based approach takes into consideration the entire set of financial institutions, financial markets and their legal, economic and institutional framework (MBZ Sector Concept, 1994).

Both theoretical and empirical literature affirm that credit is necessary for the development of an economy. Two ways of looking at achieving the development objective of a microcredit scheme/institution, would be to examine its impact on the economy or its capability to meet expected functions and objectives. This approach embodies such indices as sustainability and outreach.

Given the various rural credit schemes/institutions in Nigeria and their potential roles in rural development, the question arises: Are these schemes/institutions sustainable? And: Do they meet the needs of all intended targets/clients? The formal rural financial markets would seem attractive development alternatives if the financial institutions/schemes that make up the market are self-sustainable and have high levels of outreach. They would however be considered deceptive development alternative if they do not possess these characteristics. This is so because they cannot be relied upon to usher in the desired development of the rural economy, and ultimately the entire economy. The use of the sustainability and outreach indices to measure the performance of formal financial institutions have been suggested by many scholars (Yaron, 1992; Aryeetey, 1996; Schrieder *et al.*, 1999; Soyibo *et al.*, 1999; Febig, 1999).

Self-sustainability is the ability of a financial institution to generate enough income to cover at least the opportunity cost of all employed factors of production and its own assets, also being able to honour all its liability as when due (Yaron, 1992; Chaves and Gonzalves-Vega, 1993). Service delivery is an important component of outreach and sustainability. A well packaged and delivered service would attract customers, thus savings would increase and the loans and investments of the institution also improve (Soyibo *et al.*, 1999). This would ultimately enhance the development of the national economy.

This paper analyses, within the limit of available data, the performance of two selected formal rural financial institutions/schemes (the Nigerian Agricultural and Cooperative Bank Ltd and the Peoples Bank of Nigeria) using the sustainability paradigm. The paper is structured into six sections. Section 2 that follows this introduction, contains the conceptual framework and a literature review. In order to place the discussion in its proper perspective, an overview of the evolution of formal rural financial markets in Nigeria is presented in Section 3, while the performance of the selected formal rural financial markets is given in Section 4. The missing link and the way forward in rural financial markets development and a conclusion follow in sections 5 and 6 respectively.

2 CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

Frequent reference is made in this paper to the following terminology: Rural financial markets (RFMs) or rural financial institutions (RFIs), which embrace both formal rural financial markets (FRFMs) or institutions (FRFIs), and informal rural financial markets (IRFMs) or institutions (IRFIs). On one hand, the operations of informal financial markets cover all financial transactions that take place outside the functional scope of 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 terms agreement clearly specified (Soyibo *et al.*, 1999). In the same vein, Fiebig (1999) has said the formal financial institutions are subject to the provisions of the banking laws and other specific regulations governing the financial sector. His 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. The informal rural financial institutions (IRFIs) operate outside this legal framework; instead of legally protected contracts, social control mechanisms and norms dominate.

The evolution of the formal rural financial markets (FRFMs) have been explained by using a number of paradigms. The first explains the existence of an FRFM based on the monopoly tendency of the supplier of credit in the informal rural financial markets. According to this view, interest rates charged and paid in the IRFMs are unnecessarily high. This is expected to affect the economic development of the rural areas negatively and the *raison d'être* of FRFMs is to provide "cheap" alternative financial facilities to the rural population and thus promote the development of this group.

The second view is embedded in classical theory. This perceives the observed high interest rates of the FRIMs as reflecting perfect credit markets incorporating a high risk of default in the rural areas (Stigler, 1967). The third paradigm explains rural financial markets in the context of imperfect information and contracts. This view has it that the activities of rural financial markets centre on providing solutions to the three main problems of screening, incentives and enforcement.

Scholars have been critical of all the above paradigms, particularly the coexistence of both formal and informal financial institutions (Stiglitz, 1990; Soyibo, 1997). For instance, the monopoly view sees the informal financial institutions as being an inferior source of finance to rural areas, and formal rural financial institutions are then expected to attract patronage away from the IRFIs due to the assumed lower interest rate in the FRFIs. However, the IRFMs have in fact tended to flourish in the presence of "cheap" alternative rural finance. Available evidence thus shows that the activities of IRFMs have increased with policy reforms in the sub-Saharan African countries (Aryeetey, 1996a, 1996b).

Soyibo *et al.* (1999) assisted in solving the problem when they summed up that there is no single paradigm that fully explains the workings of the rural financial market. Rather, they all provide some insight into the understanding of the market, and the knowledge so gained would be useful in a meaningful design of formal rural financial institutions. This points to a very important issue in financial intermediation. That is: in countries where FRFIs are already in place, are they performing in a way that their ultimate aims of establishment will be attained? For instance, would the theoretical expectation that the availability of credit would translate into development be achieved? An attempt to answer these important questions, has been the basis for assessing the performance of formal rural financial institutions.

In the forefront of the evaluation of the RFIs are scholars like Yaron (1992, 1994) and Gargand *et al.* (1996). They based their evaluation on the concept of outreach and sustainability, arguing that the traditional quantifiable measures of success – profit figures and other such criteria – are not helpful in evaluating the formal rural financial institutions. Yaron argued that two objectives are paramount if a rural finance institution is 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 therefore desirable that the FRFI depend less and less on the government or donor agencies to become self-sustainable. Yaron gave the following criteria for measuring the self-sustainability of a formal rural financial institution:

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

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

$$SDI = S/(LPn)$$

where

S = Annual subsidy received,
LP = Average annual outstanding loan portfolio,
n = Average on-lending interest rate of the rural financial institution.

The subsidy dependence index measures the percentage increase in the average on-lending interest rate required to compensate for eliminating subsidies, including the subsidy a formal rural financial institution receives through paying interest below the market rate on its borrowed funds. An SDI of zero means that and FRFI is fully self-sustainable. An SDI of 100% indicates that a doubling of the FRIs 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 profit, minus imputed return on capital as calculated by applying the appropriate market interest rate, exceeds 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 eliminating any subsidies received in the same year.

A fair amount of empirical research has been done in this context. Yaron (1994 used the SDI to asses whether the following four institutions were making progress toward self-sustainability: Badan Kredit Kecamatan (BKK) and Bank Rakayat Indonesia Unit Desa (BUD) in Indonesia; the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand and Gremaen Bank (GB) in Bangladesh. The data indicated that the four RFIs differed substandially in their level of dependence on subsidies. A subsidy dependence index applied to the K-REP programme by Kiiru *et al.* (1995) again revealed a high level of dependence on subsidies. A recent report by Bomda (1999) on the operation of four Mutuelle Communaltaire de Croissance (MC^2) rural microbanks in Cameroun, showed that the MC^2 were gradually reducing their level of dependency on subsidies. It also showed a correlation between the level of SDI and the age of the MC^2. Women's participation was found to be increasing, representing around 20% of active members in 1998, more than 60% of whom live in rural areas.

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

- the value and number of loans extended,
- the value and number of savings accounts,
- the types of financial services offered by the rural financial institution,
- the number of branches and village posts/units,
- the age distribution of total rural population served,
- the real growth of RFI assets over recent years, and
- women's participation.

Several scholars have employed these outreach measures to assess the performance of microfinance institutions. Such assessments 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 studies by Webster and Fidler was only marginally larger, with most institutions having fewer than 10 000 borrowers.

3 EVOLUTION OF FORMAL RURAL FINANCIAL MARKETS IN NIGERIA

In most countries, government intervention or involvement in financial intermediation is often an attempt to provide safety nets for 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 were not discriminated against in credit allocation, several rural credit institutions/schemes were put in place. To give our discussion a proper perspective, we group events into the pre-1970 period, the period 1970-1980, and 1981 to present date.

3.1 Pre-1970 period

In the pre-1970 period, there was virtually no national government involvement in the credit programmes for the rural areas. Most activities were coordinated by the regions. For instance, in the Western region, there was the Agricultural Credit Corporation which made significantly different types of loans to cocoa, rice, maize and other crop producers and marketers. There were individual as well as group loans. Individual loans to farmers were disbursed to the groups to be "on-loaned" to individuals. The groups were charged 7½% interest by the Credit Corporation and the funds were "on-loaned" to individuals at 15% interest to defray administrative costs (Miller, 1974).

3.2 The period 1970-1980

The 1970-80 period could be described as *the* real period of growth of the rural financial market in Nigeria. The period witnessed multiple policies, programmes/schemes and emergence of institutions, all aimed at injecting more funds into the rural areas. The Nigerial Agricultural and Cooperative Bank Ltd, the Rural Banking Scheme, and the Agricultural Credit Guarantee Scheme were established during this period.

- *The Nigerian Agricultural and Cooperative Bank (NACB) Ltd*:

The NACB was established as the institution at the apex of agricultural development finance. Its specific objectives include granting loans and advances for agricultural production, assisting entrepreneurs in agriculture and agro-based enterprises, and rendering consultancy and other technical and professional services to commercial, industrial and individual establishments.

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

a) Special Projects, for example, NACB/ILO/FMH Revolving Loan, Artisanal Fisheries Project and ECOWAS Fund Artisanal Fisheries Loan.
b) Smallholder Project, which is exclusively funded by NACB.
c) The Second Livestock Development Project.

In 1992, the bank instituted a revolving loan fund specifically for rural women's income generating activities.

• *The Rural Banking Scheme*:

The Rural Banking Scheme was introduced in Nigeria in 1977. The Scheme came about as a result of the overconcentration of banks in the urban areas to the neglect of the rural areas. To assist in the development of rural areas by making funds available for investment, commercial banks were required to open branches in the rural areas and extend as credit to the rural dwellers about 45% of the savings mobilized within a rural area. In 1992, the minimum share of total deposits generated by rural banks which must be given as loans and advances in rural localities was raised above 50%. The scheme was implemented in phases. In June 1991, which was the end of the third phase, total deposits had increased to ₦8.3 billion and total loans to ₦5.1 billion, with 765 banking branches. The number of branches reduced to 763 during 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 branches established in the rural areas was rated by Lyare *et al.* (1991) to be 100%, 96.6% and 38.6% for phase one, two and three, respectively.

• *Agricultural Credit Guarantee Scheme (ACGS)*:

The ACGS was established in 1977 by Act 20 of the Federal Government of Nigeria. The purpose of the scheme is to encourage – by minimizing risk – bank lending to all potential or actual participants in meaningful agriculture (as defined in the scheme's guidelines). The scheme provides guarantees in respect of loans granted by banks to agriculture, for both crop production and livestock rearing. There is provision for a fund of ₦100 million, contributed by the Federal Government (60%) and the Central Bank of Nigeria (40%). Under the scheme, the Central Bank of Nigeria guarantees up to 75% of the value of the principal and interest on loans granted to farmers by a commercial bank. A maximum of ₦50 000 was to be granted to individuals and ₦1 million for loans to cooperative and corporate bodies.

In addition to the guarantee provision of the fund, the government also extends graduated tax free allowance to commercial banks on interest earned from agricultural loans depending on their duration. Loans of less than 2 years have no tax exemption on interest earned, while loans of 2 to 4 years have a period of grace of at least 1 year and 40% tax free interest. Longer term loans of over 7 years are 100% tax free with a period of grace of at least 2 years.

3.3 1981 to present date

The mid-1980s until the present time has been a period of adoption and implementation of Structural Adjustment Programme (SAP) policies in Nigeria. To cushion the adverse effects of the policies on the poorest segment of society, there are some transfer institutions and programmes, including the People's Bank of Nigeria (PBN) and encouragement to set up Community Banks and the Family Economic Advancement Programme (FEAP) of the Federal Government.

- *The People's Bank of Nigeria (PBN)*:

The People's Bank of Nigeria (PBN) was established in 1989 as a specialized development bank for the provision of financial services to the less privileged members of Nigerian society. 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 services to the remote areas of the country, the bank draws its customers primarily from the informal sector. The PBN had 745 branches and ₦2 834.6m deposits as at 1995.

- *The Community Bank (CB)*:

In 1990 the Babangida Administration encouraged communities to set up a Community Bank in their localities. Ownership of the CB is strongly community-based. The design of the Nigerian version was to correct the anomalies of the specialized banks/financial institutions which tended to ignore the rural/grass root communities. The CB system commenced operation with the opening of the first community bank in Kaduna in December 1990. The bank has as its objectives the promotion of rural development through the provision of financial and banking services, inculcating the habit of banking in rural people, fostering the spirit of community ownership, and generation of credit from within the communities. The banks provide credit, deposit banking and financial services to its members, largely on the basis of self-recognition and personal creditworthiness. The also perform some non-banking services.

- *The Family Economic Advancement Programme (FEAP)*:

The Family Economic Advancement Programme (FEAP) was established principally as a poverty reduction programme by the Decree 11 of August 12, 1997. Its aim was to be achieved through the provision of capital by loans directly to people at ward level, to enable them to set up and run cottage enterprises. The Federal Government provided the funds for the commencement of the programme to the participating banks, under the supervision of an FEAP Board through the FEAP secretariat. Subsequent funding was to involve the participation of states, local governments the private sector, international agencies and organizations, as well as ploughed back income earned by the FEAP.

These formal rural financial institutions/schemes are at various stages of implementation. The assessment of the performance of two of them is given in the next section.

4 PERFORMANCE OF TWO SELECTED FORMAL RURAL FINANCIAL INSTITUTIONS (NACB AND PBN)

In order to establish whether the formal rural financial institutions are an attractive development alternative, the extent to which they perform their functions – reaching out to target population – was investigated. Ascertaining the self-sustainability of selected institutions was not possible, as a Sustainability Dependence Index (SDI) could not be computed due to data limitations. For this reason, only outreach measures are used here. Outreach is assessed on the basis of the type of clientele served and the variety of financial services offered, including:

- value and number of loans extended,
- the value and number of savings accounts,
- the percentage of total rural population served, and
- the participation of women as clients.

4.1 Outreach

Performance indicators of outreach (tables 1-3) need to be considered in the context of the stated objectives of each institution, which define the target clientele. The information in Table 1 shows that the NACB has as its objective the provision of finance to the rural population, particularly farmers. This is done by means of credit delivery, monitoring and evaluation. The People's Bank of Nigeria, founded in 1989, is also engaged in development financing. Its clientele extends beyond farmers to other rural entrepreneurs as well. However, its activities are similar to those of the NACB.

In terms of loans and advances, the performance of the NACB has not been impressive. Table 2 shows that the amount lent and advanced ranged from ₦6 104.2 million in 1994 to ₦443.9 million in 1998. The smallest amount of loans/advances was made in 1996 (₦410.5 million). The percentage change in loans/advances was -93.2, -1.1, 19.7 and -9.6 in 1995 to 1998 in that order. For the PBN, loans/advances have been on the increase, thus the percentage changes have also remained positive. The results here therefore seem to show that the People's Bank is improving in its loans/advances outreach compared to the Nigerian Agricultural and Cooperative Bank. If this is viewed from the angle of the age of these institutions, (NACB was established in 1973, PBN 1989), it may be concluded that the younger institutions are doing better than the older ones. However, given the target clientele of the two institutions, the PBN would be expected to lend more, given its clientele which comprises all small-scale entrepreneurs including farmers, while the latter happen to be the only clientele of the NACB.

4.2 Staff Performance and Outreach

The staff performance and outreach indicators in Table 3 show that both the NACB and PBN have been able to reach a wide spectrum of clientele by their lending activities. The number of activities financed were 14 689 and 7 107 for the two banks, respectively. Average loan sizes were ₦12 475 238 for NACB and ₦14 845 for PBN. The NACB and PBN achieved 21.04% and 16.53% loan collection, respectively, in 1994. However, the percentage of population served and women as a percentage of total clients are quite low. This means that the women credit programme of the NACB started in 1992, is yet to have reasonable impact on the target group. Again, this suggests that these institutions have to do more in terms of reaching out to more clients, particularly women.

The value of loans per staff indicate that the NACB did better than PBN in 1994. With 1.59 and 107.63 as number of loans per staff, worth ₦249 805 and ₦177 636.7 for the NACB and PBN respectively, clearly PBN lends more per staff than NACB. The PBN seems more prudent in terms of administrative expenses in relation to average loan volume. It is instructive that the NACB has to reduce its administrative expenses, if it is to depend less on subvention from government to carry out its operations.

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
Types of institution	Development finance institution	Development finance institution
Ownership	Federal government	Federal government
Coverage		
Region	The whole country	The whole country
Clientele	Farmers	Small scale entrepreneur
Activities	Credit delivering, monitoring and evaluation	Credit delivery, monitoring and evaluation

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/advances	6 104.2	415.2	410.5	491.3	443.9
Percentage change over preceding year		-93.2	-1.1	19.7	-9.6
PBN Loans/advances	178.2	340.0	350.0	360.1	400.5
Percentage change over preceding year	-	90.8	2.9	2.9	11.2

Source: Central Bank of Nigeria, Annual Report and Statement of Accounts, Various Issues.

Table 3 Outreach: loans and Savings (₦), 1994

	Nigerian Agricultural and Cooperative Bank	People's Bank of Nigeria
Average loan size (₦)	12 475 238	14 845
Average deposit (₦)	na	63 587
Loan outstanding (₦)	2 483 705	13 974 998
Annual loan collection (%)	21.04	26.53
Number of activities financed	14 689	7 107
Loan approved (₦)	3 820 945	na
Loan repayment (₦)	2 013 945	2 178 443

Table 3 continued

	Nigerian Agricultural and Cooperative Bank	People's Bank of Nigeria
Number of funding accounts per staff	91.79	na
Number of loans per staff	1.59	108
Value of funding per staff (₦)	4 294 442	na
Value of loans per staff (₦)	249 805	177 637
Administrative costs/annual average loan volume	28.7	7.7
Number of loans granted	6 286	-
Percentage of population served	13.2	-
Women as a percentage of total client (1990-1994)	1.73	-

Source: Soyibo *et al.* (1999), Assessment of the performance of Nigeria's rural financial institutions.

5 THE MISSING LINK AND THE WAY FORWARD

Generally, the various outreach indicators tend to point to the fact that the Nigerian Agricultural and Cooperative Bank and the People's Bank of Nigeria have made commendable efforts towards their objective of making credit available to the rural population. However, the two institutions have continued to depend on government for subvention. For the banks to be self-reliant so that they can sustainably assist in rural development, they should be able to efficiently manage the resources available to them. This would mean that they have to reach out to a large number of clients, offer new and acceptable products to them, effectively mobilize savings and collect debts. One way of achieving all or most of these goals, is for these formal financial institutions to link up effectively with the informal rural financial institutions.

Soyibo (1996) found the linkage between the informal financial sector and the banks in Nigeria to be rather weak, narrow and shallow. Therefore, a stronger link between these institutions is desirable if the RFIs are to be an attractive development alternative.

We are aware that the PBN is reaching out to individuals in the rural areas through its mobile banking arrangements. But links with informal associations such as *etibe*, self-help groups (not necessarily the co-operative societies) and "family meetings or groups" are also necessary. Umoh and Ibanga (1997) found that family groups are a realistic platform 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. Such a model can then be used to develop interfamily financial assistance as is, for example, the case with exchange labour and interchurch financial assistance, popularly called "combined service".

6 CONCLUSION

Our analysis shows that the Nigerian Agricultural and Cooperative Bank (NACB) and the People's Bank of Nigeria (PBN) are making efforts in financial intermediation for the sustainable development of the rural economy. However, there is need for improvement in their operations if they are to serve as an "attractive development alternative". Particularly, these institutions and indeed the entire Nigerian economy stand to gain if the existing social units in the rural areas, such as family and self-help groups, are properly linked with one another in the effective harnessing of rural financial resources.

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