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# CREDIT FACILITIES IN AGRICULTURE WITH SPECIAL EMPHASIS ON LIVESTOCK

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## INTRODUCTION:

I feel highly honoured and appreciative of the invitation by the Executives of Animal Science Association of Nigeria (ASAN) and the Local Organising Committee (LOC) to its 4th Annual Conference to present this paper. I also wish to congratulate all members and friends of ASAN for the appropriateness of this paper to the theme of our association's 4th Annual Conference *"Sustainability of the Nigerian Livestock Industry in the Twenty-First Century"*. It is my hope that we shall use this unique opportunity to eventually restore the much-desired progressive partnership between livestock industry and banking industry in Nigeria.

Please grant me the indulgence of looking at the importance of livestock agriculture to the Nigerian economy before talking about the situation of credit facilities for its development.

It is an established fact that insufficiency of livestock products is a major contributory factor to the growing gap between food demand and food supply in Nigeria. Longe (1998) in her assessment of the livestock development process documented agriculture to have contributed 56% of the Gross Domestic Product (GDP) in the 1960 – 69 period, just average of 24 % in the 10 year period immediately after and fluctuated between 21 and 23 % in the 1981 – – 85 period. Nuru (1998) reported livestock to have contributed about 5 % of Agricultural GDP and it is second to none in the nutritional value of its various products.

Besides being the major source of protein for the Nigerian population, its sub-sector could readily provide employment opportunities, raw materials for local industries and could be a high foreign exchange earner. Many problems have impeded growth and development of the livestock industry and militated against a smooth and progressive move towards self-sufficiency in animal production and supply (Longe, 1998).

Mr. Chairman, members of the High Table, Ladies and Gentlemen, the importance of credit facilities to any business venture including agriculture

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Being a paper presented at the 4th Annual Conference of Animal Science Association of Nigeria held on 14th - 16th September, 1999 at International Institute for Tropical Agriculture (IITA), Ibadan.

can not be over-emphasised. It will be important at the introductory state of this presentation to recognise that funding of livestock projects is a combination of equity (self) financing and borrowed funding/grant.

I want to therefore mention it that it is not out of place for any business promoter to ask for complemetary funding from credit institutions. Such financial support is both for acquisition of assets like farm houses, stocking of farm animals, feeding and drinking apparatus, feed hammer mill, feed mixer, preservation and storage devices, transportation vehicles, electricity generators, information technology and communication devices and also for day-to-day running of the business.

## NIGERIAN BANKING INDUSTRY AND AGRICULTURAL DEVELOPMENT:

Let me start this aspect of the presentation by recognising the following credit institutions among the various classes of banks *(which exclude the Central Bank i.e. the regulatory bank):*

- Development banks (Nigerian Bank for Commerce and Industry, Nigerian Industrial Development Bank, Nigerian Agricultural and Cooperative Bank and Urban Development Bank).
- Merchant banks (wholesale banks, otherwise called Investment Banks).
- Rural Financial Banks (like the Peoples Bank & Community Banks).
- Commercial Banks

In comparison to Commercial Banks, Merchant Banks have less individual but more corporate customers. This implies smaller aggregate number of customers lent much larger average size of single transactions. To undermine the phenomenon of universal banking, they are expected to concentrate more on projects and industrial loans and specialised in leasing and syndicated loans.

Community Banks was a creation of the early 1990s in Nigeria. They also exist in some other developing countries. They are tutored to mobilise funds from their immediate communities and also to suit the needs of their neighourhood by providing microcredits and produce loans, finance local purhase orders (LPOs) and provide working capital for cottage industries.

The Peoples Bank of Nigeria was created to cater for the need of the masses, provide micro credit for petty trading and personal needs subject to liberalised security terms. Total branches, as at 1996 were 275. Like the Community Banks, the needs of the masses are overtly or covertly met in the financing of their agricultural activities.

Nigerian Agricultural and Cooperative Banks (NACB) is the only agricultural development financial institution in Nigeria. It was established in 1973 mainly to finance agricultural development projects and allied industries.

One re-occuring complaint against NACB centres around is its non-timely release of funds to successful loan applicants. Investigations revealed that the inability of NACB to optimally manage the funds flow was the major cause of the mismatch between demand and supply of funds to successful loan applicants (Ariyo and Orunmuyi, 1996).

By functions, Commercial Banks are financial intermediaries between point of surplus (depositors) and point of deficit (investors). They accept deposit at a price (interest rate) and lend to investors at a price (lending interest rate). Unlike other financial institutions, commercial banks are not featured on restricted basis but generally enjoy more stable funds on current and savings accounts that provide cushion for lending. Hence lending scope in Commercial banks is wide, though less specialised.

## POLICIES RELATED TO AGRICULTURAL FINANCING IN NIGERIA

Banking system can be a useful ingredient in the growth and development of a national economy only if this can be impacted on the various sectors of the economy, particularly the productive sector. Because of the central position of agriculture to almost all other productive sectors, improvement of agriculture is synonymous to development of domestic manufacturing and growth of capacity utilization of established factories (Idachaba, 1996).

The aggregate loans and advances to the domestic economy by commercial and merchant banks in 1997 was ₦ 371.73 b against ₦ 317.99b in 1996. This was a confirmation of the dynamism in banks lending role. Certainly not all sectors are positively affected. The unique feature of agricultural finance have to do with the dispersed location of farm households, with access that is often difficult; the heterogeneity of farming population, the seasonality of the agricultural production and incomes, the low profitability and high risks of on-farm investments, insecure loan collateral, etc.,

In her bid towards economic development, a number of formal institutional arrangements have been put in place year-in year-out to ensure that banks' credit go to rural dwellers and farmers. Among these are:

- Promotion of rural banking policy through which commercial banks were compelled to open specific number of rural branches.
- Establishment of Nigerian Agricultural and Cooperative Bank (NACB).
- Commercial banks were once compelled to invest certain percentage of deposit mobilised from a commuity as credit for the community's economic activities.
- Application of concessionary rates on loans extended to agricultural sector
- Before the era of deregulation sectoral lending policy was in place and it specified specific portion of a bank's global lending to the agricultural sector.

- ACGSF was also put in place by the Federal Government to guarantee lending to agriculture. The fund was established by the CBN in 1977 to encourage banks to meet targets set for them in the monetary policy circular under which agric loans granted by trading banks (Commercial and Merchant banks) are guaranteed up to 75 %.
- Establishment of Nigerian Agricultural Insurance Company for insurance of assets in respect of agricultural ventures in Nigeria.

However, most of the credit agencies have had to face several operational problems including gross inadequacies in staffing, organisations and management and poor performance in loan recovery (Olomola, 1992).

## RELEVANT EXPERIENCE OF AGRICULTURAL FINANCING IN NIGERIA

Dear listeners, please permit me to draw from my experience in retail commercial banking to address this important aspect of my paper on agricultural financing in Nigeria.

We must also not loose sight of the fact that for more of the industry today in Nigeria, farming, including livestock production, remains a rural based project. There has been a synonym in the proportion of Nigerians who are rural dwellers and the proportion of her farming population. Hence, references in this presentation would be made to agricultural financing and rural financing being interchangeably used to refer to finance of agriculture or livestock.

Credit financing and management as limiting factors to agricultural development in Nigeria have been well established and documented. We are however in the era of deregulation whereby government fiscal policies since 1997 have abolished compulsory sectoral credit allocation by commercial banks. I am not saying this has been without some other forms of encouragement for banks into financing of rural and agricultural projects.

Afribank Nig. Plc has been a leading bank in the finance of agriucltur e in Nigeria. Agricultural lending has only formed part of the bank's global lending. The implication is that agricultural credit proposals to the bank for financing are subjected to appropriate assessment on merit. This is mainly because we desire farmer-customers that see bank's finance as business and not charity.

Mr. Chairman, Members of the High Table, Ladies and Gentlemen, most banks are privately owned institutions which have profit maximisation as their main goal in business. Afribank, like most other banks, is into agricultural financing for the following objectives:

- To make profit.
- To help in the production of raw materials for local production and consumption.

- To help in the production of raw materials for local agro-allied industries.
- To improve the standard of living of our farmers and create attendant multiplier effects on the communities where they operate.
- To assist the nation in its efforts at diversifying the country's sources of foreign exchange earning through the rejuvenation of agricultural export commodities.

To accomplish the aforesaid objectives, the bank offers the underlisted credit facilities:

- Overdraft (O/D) for working capital purposes.
- Direct credit (D/C) for working capital purposes.
- Term loan (mostly short and medium) for acquisition of assets.
- Advance facilities (various for specific project of specific tenor and for repayment en bloc).
- Produce refinance and mobilisation advance facilities for mobilisation of agricultural commodities for local industries and for exportation.
- Export refinancing for commodity export business.
- Import financing facility for importation of goods.
- Provision of contingent facilities like bonds and guarantees.

For the purpose of addressing the main thrust of this presentation in terms of facts and figures, it is pertinent to reflect on relevant cases of livestock projects i n Nigeira, which have the priviledge of accessing various banking facilities.

You will agree that these cases are practical demonstration of the readiness of banks to finance only viable agricultural and livestock projects. The potentials are fully tapable if such proposals are effectively prepared.

MAN news recently documented the following as obstacles to accessing banks' funds:

- Inability to meet the credit conditions for borrowing. Many Nigerian owned businesses are often not structured properly to provide the necessary documentation required in loan appraisals.
- Lenders have lost confidence in the integrity of many Nigerian industrialists and businessmen. They are actually experts in diversion of funds from is original purpose.

**CASE I: Poultry farming (Hatchery operations and sale of day-old chicks).**

| Month of approval | Facility types & Amount (₦) | Purpose |
|---|---|---|
| July 1989 | 0.4m Short-Term Loan (STL) | • For payment of Import Duty on DOCs. |
| May 1990 | 0.2m Direct Credit (D/C) | • As working capital. |
| Sept. 1990 | 0.5m Medium-Term Loan (MTL)<br>0.3m Overdraft (O/D) | • Procurement of two transportation vehicles<br>• Purchase of feedstuffs |
| April 1991 | 0.2m Temporary Excess (TEF) for 2 months | • Working capital. |
| Dec. 1991 | 0.5m O/D raw materials.<br>2.0m MTL incubators/hatcheries.<br>0.2m D/C | • Procurement of feed<br>• Procurement of set<br>• Working capita. |
| Oct. 1993 | 0.5m O/D raw materials.<br>0.2m D/C | • Procurement of feed<br>• Working capital. |
| March 1996 | 5.0 m TEF for 3months | • Stock-piling of feedstuffs. |
| June 1996 | 5.0m O/D<br>10.0m Produce Loan (P/L)<br>2.0m D/C | • Working capital.<br>• Stock-piling of feedstuffs<br>• Working Capital |
| Feb. 1997 | 2.0 m TEF for 30 days | • Procurement of feedstuffs. |
| July 1997 | 3.0 m TEF for 90 days | • Procurement of feedstuffs. |
| Oct. 1997 | 7.5m O/D<br>10.0m P/L* | • Working capital.<br>• Purchase of feedstuffs |
| Aug. 1998 | 7.5m O/D | • Working capital. |

*₦ 10.0m P/L repayment period was extended for 3 months in November 1998 because of the whether hazards earlier in the year (February - May 1998).

**CASE II: Poultry farming (Commercial egg and broiler productions)**

| Date of approval | Facility types & amounts | Purpose |
|---|---|---|
| 25/10/95 | ₦ 0.5m | • Working capital. |
| 12/11/96 | ₦ 1.0m | • Working capital |
| | ₦ 3.4m | • Constructonof poultry pens; • Purchase of battery cages; and • Breeding of pullet chicks. |
| 11/8/98 | ₦ 1.0m | • Working capital. |
| 09/3/99 | ₦ 0.6m | • Stockpiling of feedstuffs. |

**CASE III: Cattle fattening and meat retailing business.**

| Date of approval | Facility types & amount | Purpose |
|---|---|---|
| 10/12/9 | ₦ 1.4m | •Purchase of bullocks. |
| 23/10/98 | ₦ 1.4m | • Extension of approved facility. |

## LENDING CONTROLS AND GUIDELINES

Mr. chairman, Members of the High Table, Ladies and Gentlemen, it is important to delve briefly on the fact that lending practices are not without control.

We must not loose sight of the fact that both the depositors' funds and shareholders' investment constitute the pool of financial resources at the disposal of commercial banks for lending purposes. Profitable and recoverable lending by banks calls for safety valves to ensure the safety of depositors' funds and shareholders' investment and besides to ensure adequate returns on the latter.

Thus there exist certain guidelines and principles of lending and these are summarily expressed as the five "Cs" canons of lending viz.:

- *Capital* - Owner's contribution and it is an assurance of the entrepreneurial commitment to its success.
- *Capability* - Ability and professional skill of the promoter(s) to generate income from the proposed venture.
- *Character* - Banks are rational in their lending operations and would desire only a honest and trusted credit customer. This calls for a level of

patronage or customer-banker relationship before comencement of credit relationship.

- *Condition* - Projects being proposed for banking facility must enjoy favourable financial economic environment.
- *Connection* - Linkage benefits to credit relationships are given added advantage and perference.

***Collateral security*** **- Is the sixth canon of lending. It is just an assurance against unforeseen developments. Among the regulatory steps on the banks credit operations, was the Banks and other Financial Institutions Decree (BOFID) of 1991 which stipulates specific roles for Banks in lending and makes securities for lending imperative. Let me emphasise here that this does not singly determine lending, and where it does such lending is euristic and it is unprofessional.**

Credit risk analysis therefore attempts to assess policy profile (who is the client in relation to the target market, and its conformity to banks' policy?) It also attempts to question purpose profile (i.e. purpose of any credit, and how sensible, payback source and how logically related to purpose, cause of credit need and indicator of the needs tenor.

## OPPORTUNITIES FOR SMALL SCALE LOAN SEEKERS

With the exception of poultry where some investments are on a large scale apart from those that are small and medium, the structure of livestock production is such that 80 - 90 % of the nation livestock lies in the hands of small scale producers (Longe, 1998).

Mr. Chairman, Distinguished Members of the High Table, Ladies and Gentlemen, please permit me to say that I would be more concerned with this vulnerable group, the small loan seekers than the large scale farmers in my proposal on the way forward. This position is more premised on the fact that the latter group can meet the minimum requirement of banks to access their facilities.

This group of potential bank customers is less favoured and as such is vulnerable to banks' neglect. True to the opinion of Longe (1998) that there is no sound financial policy for lending to the small-scale producers who are responsible for not les than 80 % of the production, we now rely on exigency of certain operational provisions meant to reverse the retrogressive trend. Their economic mainstays are conditionally favourable while they may also have the capability for profitable production. Asymmetric information scenario in between does not make them known to the banks and they too know little about the banks and their banking services and facilities. New theories about rural credit markets indicate that all lenders are confronted with problems arising from information asymmetries (Soyibo, 1996). They seem to lack capital, apparently have no connection and in absolute sense, they do not have collateral security.

Latest efforts on how to enhance effective credit supply to rural economic sector particularly for small farmers have evolved the suitable adaptation of traditional communal system to modern conditions of credit management at the lowest administration level (Williams, 1999). This is particularly necessary for liberalised collateral system and uncompromising monitoring of loan utilisation and recovery.

Various networking programmes on rural and agriculture financial intervention exist. We have on records that some commercial banks in Nigeria are actively involved in these networking with a view to enhanced the quality of their exposures in both rural and agricultural sub-sectors

*African Rural and Agricultural Credit Association (AFRACA):*

AFRACA is a regional body sponsored by the FAO and it is an association of banks and finanacial institutions which are directly or indirectly involved in providing financial services for rural development

AFRACA supports and organises training activities, seminars and workshops for the personnel of member institutions in rural and agricultural banking and in the application of modern banking technologies. It also promotes in-service training programmes between member institutions through Technical Cooperation among Developing Countries programme funded by FAO through AFRACA.

Microcredit Federation of Nigeria (MFN): Although MFN is in its formative stage and it is being planned to find ways of improving financing of the agricultural and rural economic activities in Nigeria.

Afribank/UNDP- Supported Microcredit Scheme: Currently, Afribank is collaborating with UNDP in rural financing based on similar initiatives. The scheme, which is in its pilot stage, has offered credit facilities to well over fifty farm and non-farmers rural economic projects

We are exploiting a model of credit delivery system that is tailored to bridge the gap between banks and farms, to prevent multiple loanees, to prevent fungibility (diversion) of funds, among others. These are not readily accomplished without putting in place the required capacity building and training.

Micro-credit Scheme for Agricultural Development (MISCAD) in OilProducing Areas: We are already working out the modalities for the implementation of MISCAD with a major oil company for her hosting communities.

## SIGNIFICANCE OF THE INFORMAL LENDING SOURCES TO AGRICULTURAL DEVELOPMENT IN NIGERIA:

The informal sourcing for funds is the most popular among fishers (Williams, 1999) and it is very popular among farmers. Informal finance in Nigeria, particularly in the rural areas are either in-cash or in-kind (Soyibo, 1996). Both types attempt to make pooled resources available for individual use

The in-kind type of informal finance often involves pooling of labour as in land clearing, planting, harvesting and so on but it is not directly relevant to livestock agriculture.

Rural credit obtained from informal sources has performed much better, in particular exhibiting a very low default rate (Soyibo, 1996). Moneylenders, Savings and Credit Associations, Savings and Credit Cooperatives and "Esusu" Collectors are the only identified informal financial units present in the rural areas.

The relative ease of obtaining credit from the informal lending sources devoid of administrative delays, non-insistence on collateral and flexibility built into its repayment plans account for the popularity among Nigerian farmers. Nonetheless, the source is defective in quantum and cost of funds.

## HUMAN RESOURCE REQUIREMENT FOR AGRICULTURAL CREDIT OPERATIONS.

Mr. Chairman, Ladies and Gentlemen, this presentation would be incomplete if I failed to address the role of technocrats for effective credit supply to agricultural and livestock sectors. I want to reliably assure you that almost all banks are now well equipped for appropriate lending to the livestock sub-sector in terms of available manpower. The will to implement and the belief in these project by the various banks management are the only variances.

With on-the-job training in credit control, appraisal and administration and futher relevant professional qualifications in finance-related fields the crops of Graduates of Agriculture and other Applied Sciences in the banking industry are assets for the development of various businesses of agriculture in Nigeria. Banks should however accept staff training in agricultural financing as an investment and should form part of the overall manpower development.

## CONCLUSION AND RECOMMENDATIONS

It is true that Bank's credit deregulation era since 1993 has resulted in some bank's favour for short-term and highly rewarding ventures for financing i.e. at an average of 3 months tenor of credits with much responsibility to the shareholders than to Nigeria people. We must however not loose sight of the presumption of deregulation policy which was that banks are to be prudent and guide their actions by ensuring that their lending patterns do not starve any sector of the economy of credits.

Previous measures at addressing the deprived sector have impacted positively in our present. Branches established through the rural banking era still exist. In Nigeria, the number of commercial banks and their branches rose from 2397 in 1984 to 2403 in 1996 and it only behoves on banks to find ways of making their rural branches profitable. This can only be achieved through profitable and recoverable lending to farming and agro-allied industries.

Ladies and Gentlemen, banks therefore need more from both the government and farmers based on the highlighted potentials to good partnership between banking and farning industries. Government is expected to create enabling environment for profitable SMEs including agriculture while farmers should endeavour to create effective credit demand from banks.

Let me borrow from the initiatives of Williams (1999) in her work on credit supply for fisheries industry. The author proposed that the provision of credit along with training in credit management would be important strategy for combating poverty, improving productivity, marketing and other problems as well as ensuring fish self-sufficiency in Nigeria in the early parts of the next millenium.

At present livestock products in whatever form i.e. meat, egg, milk, fish, etc are far fall short of demand and this partly makes the finance of any of these products an appropriate and good credit judgement.

The new initiatives to rural financing by banks are already addressing the administrative procedural problems and problems of delay which should reverse farmers' distrust in banking system.

*Proposal for the way forward:*

- Revitalization of the only ADFI in Nigeria, the NACB towards the achievement of its intended original and primary objectives.
- The reorganization of the rural financing institutions like FEAP, PBN and NACB would go along way in encouraging farming and non-farming rural economic activities.
- Similar resultant effect is expected from expansion of the CBN's Credit Guarantee Scheme Fund to accomodate non-farming rural economic activities. i.e. in scope, so also the amounts being guaranteed.
- Government should start to look at capacity building in the total and contemporary sense to improve GDP on a broad based economic platform.
- Banks which dispense of their principal function on terms of accepting deposit (liabilites) and extending credits (assets) particular to the productive sectors like agricluture and livestock production must suffer a significant level of deprivation from other government's lucrative relationship with banks and vice-versa.
- Individual philanthropist and philanthropic associations can explore banks as appropriate credit windows for development of rural ecnonmic activities. Trust fund for agricultural development can be initated for commercial banks particularly those with requisite manpower and human resources to bring their prowess into recorning. Such commercial banks may thus be empowered to finance long-term livestock projects like breeding which by convention are outside their jurisdiction.
- We too can reach out to international funding agencies with a proposal for funding of livestock projects through the expertise of well-equipped and experienced commercial banks, particularly Afribank.

While thanking you all for your invaluable attention, I hope that this short presentation will provoke further fruitful discussions on this important subject matter to enable us distil out our best on how to re-orientated ourselves in seeing livestock financing by banks as business rather that charity.

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