Trop. J. Anim. Sci. 3 (1): 1- 7 (2000)
ISSN: 1119-4308

CREDIT FACILITIES IN AGRICULTURE WITH SPECIAL EMPHASIS ON LIVESTOCK

J. A. AKINWUMI
Department of Agricultural Economics University of Ibadan.

INTRODUCTION

The major factors of agricultural production are land, labour and capital which is used to purchase inputs like seed, seedlings, stock, feed, agrochemicals, fertilizer and power (animal power, mechanical power and electrical power). For livestock, capital must be used to provide housing, feed (concentrate or pasture), healthcare, transportation and marketing facilities for storage and processing . In all these activities, large sums of money are required and must be provided at the right time.

Since it supplies the essential needs of man, agriculture holds a critical position in the life of each human being. Not only do people have to eat regularly but also they must wear clothes to keep warm or make them attractive. Shelter is equally important to the survival of man. Balanced diets are required for good growth. This requires consumption of livestock products that give vitamins and minerals.

Livestock production is delicate and expensive. The storage of livestock and its products has not been perfected in Nigeria while the infrastructures for its operations are very poor - no regular supply of electricity, no sufficient capacity for refrigeration.

There are thousands of producers of agricultural commodities and livestock each supplying only small quantities which prevent them from having strong countervailing power in the market. And arising from this, the terms of trade are against agriculture in general and livestock in particular because consumers find it easy to bluff once the product has been produced. Egg production cannot be halted or slowed down once the birds start laying. Neither can the growth of broilers be arrested by refusing to feed them when they reach optimal age. Yet there is a tendency for buyers to offer ridiculous prices whenever they see a large supply while the producer is apparently helpless. If he attempts to process and refrigerate, he is at the mercy of NEPA while the storage costs continue to rise.

In addition to the above problems, government policies tend to favour the politically vibrant urban wage earners who are very sensitive to increases in food prices. Government often prefers to import livestock products (meat, frozen chickens, turkey parts, fish, eggs or milk) to satisfy the demand of urban consumers rather than to face rising prices, the ensuing inflation and consequent upheavals if local producers are permitted to sell at higher prices.

An invited Paper presented at the 4th Annual Conference of Animal Science Association of Nigeria, September 14 - 16, 1999. IITA Conference Centre, Ibadan.

The result of the government intervention is that agricultural producers are never allowed to take advantage of scarcities in particular places or of specific products. Therefore , it is difficult or rare for farmers in Nigeria to earn so much as to have very large cash reserves for their operations. The alternative is to search for loans. Yet due to poor prices, and low productive efficiency, there are very few money lending organisations that are prepared to lend to agriculture. Where they lend, they insist on high interest rates and collaterals. In so doing the farmers are made worse in their production operations. With these scenarios, it is critical that government should assist the farmers in obtaining credit.

II Government Interventions to increase money supply to Agriculture

The Government at the Federal level has put in place several institutions to facilitate the flow of loanable funds into agriculture and related activities. Before Independence (1960) there were Regional Agricultural Finance Corporations which focused on lending money to export crop producers - cocoa, palm produce, rubber, coffee etc. Lending Institutions for livestock development were rare.

(i) Nigeria Agricultural and Cooperative Bank (NACB)

In 1973, The Nigeria Agricultural Bank (later Nigerian Agricultural and Cooperative) Bank (NACB) was established. It is a development bank which lent money to various categories of crop and livestock producers. It has its headquarters in Kaduna, but set up branches in every State of the Federation to facilitate its operations as they relate to grassroots rural farmers. It did not collect deposits but lent money to Cooperatives for on-lending in addition to projects in crops and livestock that have been judged to be viable. It created packages of loans such as for arable crops, tree crops, poultry, cattle fattening, goat breeding, sheep breeding, ram fattening, piggery and small holder schemes.

Each scheme was prepared into a standard package in which the small scale farmer would contribute about ten percent plus his family labour. At the inception, loans of approximately ₦5,000 to ₦10,000 were common. The loanable amounts have increased in view of rising prices but these facilities are still available.

(ii) Commercial Banks and Guaranteed Credit

The Government encouraged commercial banks to increase their loans to agriculture by (a) setting up an Agricultural Credit Guaranteed Schemes Fund (ACGSF) to which the Central Bank and Federal Government subscribed. The Commercial banks were to lend to agricultural entrepreneurs after ensuring that the projects submitted for funding are viable or feasible. But if eventually the loans proved uncollectable, Government promised to refund 75 % of the unpaid balance to the bank concerned. This fund, which celebrated its 20 years in existence in 1988, still operates despite the many shortcomings.

The Commercial banks were forced to open branches in rural areas so as to increase transactions with farm families and facilitate savings and credit operations. Many of the well established banks have over 200 branches all over the country and it is known that First Bank, Union Bank, United Bank for Africa, Bank of the North and Afribank are actively involved in rural lending operations.

As profit oriented institutions, these Commercial Banks seek the most viable projects to support. They were prepared to withhold lending and pay penalties. In the early 1970's, when poultry was very profitable, most lending was directed to that sector. Today the banks are willing to lend to livestock enterprises, provided they are profitable. Table 1 shows the quantities and proportions of loanable funds directed to various agricultural sectors between 1978 and 1995. Livestock received 22.4 % of total loans in the period.

(iii) Agricultural Insurance

To boost loans to the sector, Agricultural Insurance was instituted by the Federal Government when it set up the Nigerian Agricultural Insurance Corporation NAIC in 1980. It is now made mandatory for those who seek loans for agricultural enterprises to take an insurance policy and pay a premium which encourages the lending bank to lend the money. Many livestock projects, which are, by nature, risky have received loans as a result of the insurance buffer. The insurance is available in every state of the federation.

(iv) Peoples Bank

In 1989, the Federal Government initiated a People's Bank with the aim of making loans available to small groups of poor people who might otherwise not have access to credit. The loans ranged from ₦ 500 to ₦ 20,000 and did not require formal collateral while the interest rate was low. The People's Bank credit is not directed strictly to agriculture but does not exclude the sector. In fact, since it caters essentially for the rural poor, its business takes care of many agricultural enterprises. In the past two years, People's Bank has been chosen as the agency through which Family Economic Advancement Programme (FEAP) loans would be disbursed. So long as that policy continues to operate, livestock producers can benefit immensely from FEAP credit through the People's Bank. There were 278 branches of People's Bank in Nigeria in 1988. There is a deliberate policy to favour women and it is known that women keep livestock (sheep, goats, poultry, rabbits) in small numbers. They could, therefore, access credit through People's Bank. In fact, by policy, People's Bank allocates 20 percent of its loanable funds to agriculture. Seasonality of Agricultural Production is recognised. The People's Bank is linked to NAIC to insure its agricultural loans.

(v) Community Banks

As a means of taking credit to the grassroots, the Federal Government set up the Community Bank Board in 1991. It was organised to allow the people of a community to manage their own savings and credit operations while government provided grants in aid. For any community that sincerely manages its own financial resources, it is possible for participants to access credit for crops or livestock production. In view of smallness of capital base, people could not borrow large sums of money from these banks because such would cripple the CB's activities. More than 1000 Community Banks were opened at the beginning, but due to mismanagement and fraud, more than two-thirds have closed down. Livestock farmers who expect to gain from such sources must participate actively in the savings and management programmes of the Community Banks in their areas.

(vi) The National Livestock Projects Department (NLDP)

Based in Kaduna, the NLPD has been important in disbursing loans from funds obtained from the World Bank. The NLPD plans special livestock projects some of which involve small-holder livestock producing packages. Its work is often linked with that of NACB and many livestock producers have benefited from it. The main problem of NLPD is its heavy dependence on external funding. If, as in the last few years, the World Bank withdraws its loan support, the NLPD is unable to execute new loan projects or continue existing ones.

(vii) Finance Agencies

Cooperative Financing Agencies were established in several States of the Federation as apexes of cooperative credit societies/unions. The more successful ones like the Bauchi CFA have been very important in extending credit to farmers (crop and livestock alike). The Bauchi CFA worked with village communities by making all borrowers responsible to their cooperative societies. There was group collateral or guarantee through which village heads and elders were often invited to ensure that defaulters paid up their loans. Cooperative societies wanting new loans would have to pay-off the outstanding balances of few members to qualify for another round of loans. Some funds were provided either as grant-in-aid or as loanable funds for the CFA. This is a useful way to ensure that agriculturists have access to credit. The poor access to market for their goods was solved through collective sales and encouragement of institutions (Secondary schools, Polytechnics etc.) to purchase food grains in bulk from the farmers who used the CFA loans.

III Private sector initiatives in providing agricultural credit

(i) *Pre - cooperatives*

The traditional sources of credit for rural small scale producers has been the non-formalised credit arrangement such as Esusu or Ajo commonly practised all over the country. Rural people get together within their village communities and organise rotational savings and credit. They know each other well and no one can run away. There is group security. However, due to increasing needs of everyone and the limited means, members are often unable to obtain sufficient loans. Yet critical needs are met through the self help efforts.

(ii) *Money lenders*

Apart from assistance from friends and members of the family, many producers source their critical cash needs from money lenders. These are often traders who have surplus money and give out small loans without tenuous procedures. Since they live in the villages, they know their customers very well, they monitor the activities and are nearby to pick up repayment as produce is marketed. There are complaints against moneylenders since they charge high interest rates. But we must appreciate that they bear high risks, they serve people at their hour of need and reduce transaction costs for borrowers. They represent a definite source of small scale credit.

(iii) *The Non-Governmental Organizations (NGOs)*

There are currently about 21 Non-governmental organizations which make it their objectives to help small people to solve their business finance needs. They often help groups not only with funds but also with planning their investment. These NGOs have, in many cases, been assisted with grants and loanable funds by international donor agencies.

A few of the NGOs are:

(a) Lift Above Poverty Organisation (LAPO) operating from Benin City. It helps various types of individuals and groups with loans, training and capacity building. Livestock farmers should be able to obtain loans from the group provided the project is properly articulated.

(b) Country Women Association of Nigeria (COWAN) has headquarters at Akure, Ondo State; it focuses on women empowerment with one of the key tools being credit.

(c) Development Exchange Centre (DEC) Bauchi which similarly helps groups.

(d) Champions of Women Development Foundation (COWADEF), Mbaise, Imo State.

(e) Community Development Trust Fund (CDTF) Ikeja, Lagos.

(f) Borno Women's League, Maiduguri.

(g) Otia Development Foundation (ODF) Oturkpo, Benue State.

(h) Farmers Development Union (FADU) Ibadan.

These and many other NGOs are active in providing micro-credit for various types of borrowers. Farmers can and do benefit from their activities. The key to success is to plan a sound, feasible and viable project and to be prepared to contribute part of the resources needed. The NGOs supervise the loans very thoroughly so that most of them have over 90 % loan recovery.

(iv) *Accessing Credit by Livestock Producers*

Before a livestock producer cna obtain a loan, he or she must have a clear vision of the project. He must have technical knowledge of the types of activities involved, the risks, the inputs, the expected output and where to sell for how much.

In the NACB model livestock credit projects, the investor was expected to own the land, the buildings and to supply the labour. Thereafter, he must take insurance and provide about 10 percent of the total value of the loan.

For every small scale livestock producers such as those keeping 10 local chickens, one or two goats or 50 broilers, the funds required is less than ten thousand naira and will cover the purchase of stock, the provision of feed, water and shelter. A careful investigation of the costs of these items will lead to a budget outlay which must cater for the health care of the animals

When the enterprises increases to 150 or 250 layers, 10 goats or a pair of oxen for fattening, it is advisable to seek expert help in preparing a feasibility report. Where and how to market the product must be spelled out while the management plan must be clearly stated, if the intending borrower would be an absentee owner, then the loan might not be given

By current prices, a 250 layer project will cost about ₦ 150,000 to set up and operate for 3 months. It will generate about ₦56,700 from eggs to defray part of the cost of feed and drugs. The loan should be ₦100,000 if a poultry pen and cages are available. Once the pullets come into lay and if there is no disease out break, the sale of eggs would take care of the feed and drugs. In 17 months, during which the birds are in lay, about ₦378,000 will be generated in revenue from eggs. Another ₦67,000 can come from culling and selling the old layers, giving a total of ₦ 445,500. If the operation costs for feed, water, medication and labour totalling ₦278,000 is removed, the gross margin will be ₦167,500. The depreciation on building and cages amounting to ₦10, 523 should be deducted to leave ₦156,977 or ₦9,234 per month. The profit before tax and interest payment in the first full year of production will be ₦100,800. The loan of ₦100,000 plus interest at 21 percent will amount to ₦121,000. This can be conveniently paid back in 12 months.

In a similar way the costings, the loan requirement and repayment schedule can be prepared for other models of livestock loans. As long as the evaluation of such reports confirms the accuracy of assumptions and arithmetic, it would not be difficult to find a loan. The borrower is enjoined to pay back when due so as to qualify for another laon and to avoid blocking the opportunity of others.

(v) Conclusion

The governments have provided many avenues for agricultural producers to receive loans. The commercial banks are willing to lend money if they find viable projects. The rural area is equally ful of self help savings and credit activities. More recently non-governmental organisations have entered the scene. There is a good opportunity for lenders to secure their loans through insisting on agricultural insurance policies by borrowers.

With all these in place, there should be a chance for any well planned livestock project, backed by serious purposeful management to obtain a loan. However, most commercial lenders prefer to give short term loans while livestock (larger stock) loans are medium to long term. Before a diary producer can break even, he may need five years of good management.

This paper has not touched the sharp practices of lenders which may increase the burden of loan repayment or make a venture unprofitable. To avoid undue exploitation by middlemen, small scale livestock producers need to co perate in the imput procurement and produce markets. The cooperative thrift and credit operations provide a viable avenue for obtaining livestock credits. Livestock researchers are invited to focus on ways to reduce production costs so as to make the enterprises profitable and ensure loan repayment. Another important challenge is to develop cost effective storage systems for livestock products.

REFERENCES

Federal Republic of Nigeria (1991): National Board for Community Banks; Operational Manual.

Community Development and Microfinance Roundtable (1998): Profiles of Member Organisations Vol 2.

Berko, S.Y. (1991): The Dynamics of Traditional Savings And Credit Associations in Rural Development, CRDC, UNN, Nsukka.