CHAPTERONE

1.0 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Livestock are animals that are reared inthe farms (homes) for their economic importance. They are reared for thepurposes of consumption, savings and as capital assets. Livestock productioncan be practised as a small or large scale enterprise. It can also be practisedas a full or pastime business. Examplesof conventional livestock are cattle, goat, sheep, pig, and poultry. There arealso micro-livestock or mini-livestock. According to Madubuike (2004),micro-livestock or mini-livestock are the small sized animals, vertebrates andinvertebrates, aquatic or terrestrial, of weight usually lower than 20kg andusually gathered from the wild. Itincludes fish, snail, grass cutter, giant rat, quails and guinea pigs.

Generally, livestock are important becauseof their products (meat). Livestock products provide animal protein which isvery necessary for a healthy human life. Animal protein significantlycontributes to the total supply of nutrients in food intake and increases theproductivity of human labour (Mahmood, Khalid and Kouser 2009).

The contribution of livestock production tothe national objective of providing sufficient animal protein at affordableprices, generating income and providing employment to some of the populacemakes imperative the need for assistance in terms of credit to boost production(Okogie, 1999). Also, the principles of Economics and Finance have shown thatby using other people’s funds along with his own, an entrepreneur is most likelyto improve his business substantially than if he had depended solely on hisequity (Lot, 1998).

Credit is the back bone for any businessactivity including agriculture. Agriculture, as a sector, depends more oncredit than any other sector of the economy because of the seasonal variationsin the farmer’s returns and a changing trend from subsistence to commercialfarming (Mahmood, Khalid, Kouser, 2009). This is, in view of the fact thatcredit plays an important role in enhancing agricultural productivity,especially in developing countries (Iqbal, Munir, Abbas, 2003). Theunpredictable and risky nature of agricultural production, the importance ofagriculture to our national economy, the urge to provide additional incentivesto further enhance the demand by lending institutions for appropriate riskaversion measures in agricultural lending provided justifications for theestablishment of the Agricultural Credit Guarantee Scheme Fund (ACGSF) by theFederal Government of Nigeria in 1977 (Mafimisebi, Oguntade, Mafimisebi, 2008).

The scheme was established to facilitatethe flow of institutional credit from commercial and other deposit banks tofarmers in order to stabilize their farm productivity, increase their output,income and loan repayment capacity. The fund is under the management of a boardwhile the Central Bank of Nigeria is the managing agent for the administrationof the scheme. In September 2003, the Central Bank management and Board of theAgricultural Credit Guarantee Scheme Fund approved the participation oflicensed community banks (now Microfinance banks) in the Agricultural CreditGuarantee Scheme with effect from January. 2004. The agricultural purposes forwhich loans can be guaranteed under the scheme are:

a. establishment or management of plantationsfor the production of rubber, oil palm,cocoa, tea and similar crops;

b. cultivation or production of cereal crops,tubers, fruits of all kinds, cotton, beans, groundnuts, sheanuts, beniseed,vegetables, pineapples, banana and plantains,

c. animal husbandry including poultry, pig,cattle rearing, fish farming, rabbitry, snailery, grass-cutter farming, honeyproduction. (CBN, 1978).

The scope of (c) above was expanded in theAmendment Decree of 1988 to include fish culture, fish captures and storage. Asat now, bank loans under the scheme are guaranteed up to 75% against default inpayment, subject, in the case of loan to an individual to a maximum of onemillion naira and in the case of loan to a co-operative society or a corporatebody to a maximum of five million naira (CBN, 2005).

1.2 STATEMENT OF PROBLEM

Animal protein is usually used as acriterion to measure food quality but this is recognized as a limiting factorin the diets of many people in developing countries. Nigeria is rated as ananimal protein deficient country (Ohajianya, Onyeagocha and Ibekwe, 2006). Okorie (2002) reported that per capitaprotein intake in Nigeria averages 51.7 grams daily of which 8.6 grams camefrom animal sources. This is far below the minimum of 65 grams of animalprotein intake level recommended by the Food and Agriculture Organization(Madubuike, 1992). It is also a known fact that Nigeria imports most of thelivestock and its products such as poultry products, fish and beef that areconsumed by her citizens. This situationis attributable to low livestock production and its consequence is lowconsumption of the products because of high prices.

Though credit has been established as avery important component in agriculture, most farmers especially those engagedin livestock production are constrained in obtaining required credit fromformal lending institutions which are accepted as the cheapest source of creditfacility (Ikhatua, 2000). This scenariocreates direct and indirect effects on their farm production. Directly, itaffects the purchasing power of the farmers to procure farm implements thatcould lead to enhanced output. Indirectly, it affects the risk behaviour of thefarmers (Guirkinger and Boucher,2005).

Credit constraint condition of farmershave been attributed to some socio-economic factors like educational level,farmers' income, inadequate collateral (Freeman, Simeon, Jabbar, 1998) andrationing factors used by financial institutions to discriminate potentialborrowers (Striglitz and Weiss, 1981).The rationing of credit by lendinginstitutions as a result of imperfect information put borrowers into asituation where the full amount of credit applied for is not received and insome cases turned down.

Credit constraint has been shown to be themajor cause of low agricultural output of farmers (Iqbal, 1986), whichmanifests into low farm income. Inadequate credit supply to farmers is a keyproblem upon which other production factors exert negative influence on theiroutput. The inability of most farmers to have access to adequate fund becauseof constraints is believed to have heightened the problem of low farmproduction in South-east states. Increase in livestock products can be achieved from adequate andguaranteed flow of credit into livestock production (Jabbar, Ehui, Von-Kaufman,2002). The amount of resources that a farmer controls, the terms and conditionsunder which they are obtained, and the way and manner that they are utilized determineto a good extent the farm output and consequently income. It is also believedthat for farmers that are fortunate enough to have access to credit, a wide gapexists between the amount of credit requested and the amount obtained from thelending institutions.

It is in recognition of the above that theAgricultural Credit Guarantee Scheme Fund (ACGSF) was established in 1977 toencourage commercial and other deposit banks to participate in increasing theproductive capacity of farmers through a credit lending program that will meetthe farmers' needs. However, there is a growing concern that credit flow fromfinancial institutions under the scheme to the farmers especially the livestockfarmers in South-east states is poor leading to inadequate production andconsequently high prices of livestock products in the market. It is commonknowledge that most of the livestock products consumed in the South east statesare either imported or brought in from other states of the Federation. Theconsequence is high prices of meat in the area. Available statistics indicatethat the average price of a kilogramme of meat in the Southeast is N1000.00.This is high in view of the income level of majority of the population. Itbecomes plausible therefore, for an investigation into the relationship betweenthe livestock farmers' circumstances and their receipts or otherwise of loanfrom financial institutions under the scheme. This will assist in determininghow the lending institutions respond to the borrowing demands of the farmers inthe study area.

Farmers' accessibility and enhancedborrowing capacity to adequate credit have been accepted to be a key toimproved farm output. It is believedthat access to agricultural credit from banks is an issue of segregation alongsocial strata, as the banks are apprehensive of the farmers'creditworthiness. This study istherefore, designed to determine how credit under guarantee by the AgriculturalCredit Guarantee Scheme Fund (ACGSF) is assessed by livestock farmers inSouth-east, Nigeria. It will also examine the effect of the credit obtained onthe output of the farmers as well as the factors influencing the amount ofcredit obtained under the scheme by the farmers.

Agricultural lending involves giving out ofcredit to farmers for agricultural purposes. Lending for agriculture is a riskybusiness because its repayment can hardly be fully obtained (Kohansal andMansori, 2009). It is reported that agricultural loan repayment is poorespecially among formal institutions in Nigeria (Ukoha and Agwamba, 2002; Njokuand Obasi, 1991), as farmers are believed to use credit obtained for farmingactivities for other uses. This raises the question of creditworthiness or otherwiseof the beneficiaries and their characteristics. According to Von-Pischke(1991), poor agricultural loan repayment in most developing countries has madeformal institutions to meticulously screen farmers' applications. This is todetermine who is more likely to repay as and at when due. Also, loanbeneficiaries are closely monitored on their use of lent funds to ensure thatthey are used majorly for the purpose for which it was lent so as to increasethe likelihood of repayment. The inability of the borrower to repay theborrowed fund in accordance with the loan terms constitutes a major problem incredit administration. According to Arene (1993), losses in both principal andinterest to banks can result in loan shrinkage, liquidation, and ineffectiveness.Formal lending institutions concerned with losses from untimely repayment anddefault seek to minimize these by choosing carefully the distribution of creditamong the loan applicants. It becomesplausible therefore, to assess the credit receipts, its effect on farm outputand the repayment performance of the farmers who obtained loans for livestock production under guarantee bythe ACGSF and also empirically determine factors influencing their loanrepayment.

FINANCING OF LIVESTOCK PRODUCTION UNDER THE AGRICULTURAL CREDIT GUARANTEE SCHEME FUND IN SOUTH EAST NIGERIA

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