SMALL-SCALE AGRICULTURAL FINANCING IN NIGERIA: A CASE STUDY OF NIGERIAN TOBACCO COMPANY'S TOBACCO FARMERS CREDIT SCHEME.

BY

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Being a Project submitted in partial fulfilment of the requirement of the Post-Graduate school for the Award of the Degree of Master of Business Administration (MBA) of the Ahmadu Bello University, Zaria, Nigeria.

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DEDICATION:

To my wife, Esther and children, Eunice, Irene, Nathan and Jemimah, as well as Nigerian Small-Scale Farmers.

DECLARATION

I hereby declare that this project report is a product of my research findings and that all information not original to this work have been duly acknowledged by way of references.

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CERTIFICATION

This project work titled "Small-Scale Agricultural Financing in Nigeria: A case study of Nigerian Tobacco Company's Tobacco Farmers Credit Scheme" by Benedict Zachariah Kantiok meets the regulations governing the award of the Degree of Master of Business Administration of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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TABLE OF CONTENTS

PAGE

Title..... I
Declaration..... ii
Certification..... iii
Dedication..... iv
Acknowledgement..... v
Table of contents..... vi
List of tables..... vii
List of Appendices..... Viii
Abstract..... Ix

CHAPTER ONE

1.0 Introduction..... 1
1.1 Background of the Study..... 1
1.2 Statement of the Problem..... 3
1.3 Objective of the Study..... 5
1.4 Significance of the Study..... 5
1.5 Scope of the Study..... 6
1.6 Limitation of the Study..... 6
1.7 Plan of the Study..... 7
1.8 Definition of Terms..... 8
1.8.1 Small-Scale Farmer..... 8
1.8.2 Credit..... 9

CHAPTER TWO

2.0 Literature Review..... 11
2.1 Importance of Agricultural Credit..... 11
2.2 Types of Agricultural Credit..... 13
2.3 Sources of Agricultural Credit..... 15

2.3.1 Non-Institutional (Informal)..... 15
2.3.2 Institutional (Formal) Sources..... 18
2.4 Factors Facilitating a Successful Agricultural Financing Programs.... 19
2.5 Problems Encountered by Small Scale Farmers in obtaining credit from Formal Credit Institutions..... 21
2.6 *Problems Encountered by formal Credit Institutions in Lending* to small scale farmers..... 23

CHAPTER THREE:

3.0 Hypothesis and Methodology..... 33
3.1 Hypothesis..... 33
3.2 Methodology..... 34
3.3.1 Sources of Data..... 34
3.3.2 Method of Data Analysis..... 34

CHAPTER FOUR:

4.0 Data Analysis..... 35
4.1 Brief History of Tobacco Production in Nigeria..... 35
4.2 History Background and Operations of NTC Plc..... 36
4.3 Importance of Credit to Tobacco Farmers..... 41
4.4 Sources of Credit to Tobacco Farmers..... 44
4.5 Types of Tobacco Credit..... 48
4.5.1 Short Term (Materials and Services) Loan..... 48
4.5.2 Long Term (Capital) Loan..... 50
4.6 Use of Tobacco Credit..... 52
4.7 Conditions for Tobacco Credit..... 58
4.8 An Assessment of the Tobacco Farmers Credit Program..... 61

CHAPTER FIVE:

5.0 Summary, Conclusion and Recommendations..... 69
5.1 Summary..... 69
5.2 Recommendations..... 72
Bibliography 84
Appendices

LIST OF TABLES:

TABLE	TITLE	PAGE
2.1	Sources of Agricultural Lending in Selected countries.....	16
4.1	Nigerian Tobacco Company Limited; Five year Financial Summary (N'000).....	40
4.2	Sources of Funds to Tobacco Farmers.....	42
4.3	Distribution of Gross Income from Tobacco.....	44
4.4	Sources of Credit Among Tobacco Farmers.....	44
4.5	Loans Granted to tobacco Farmers in Zaria Division, 1993-96.....	49
4.6	ZAB tobacco Production for Zaria Division, 1993-96.....	63
4.7	ZAB Tobacco Production for Zaria Division, 1984-88.....	63
4.8	Loan Recoveries from Tobacco Farmers in Zaria Division, (in percentages).....	66
4.9	Perception of Income gain by Tobacco Farmers.....	68

LIST OF APPENDICES

APPENDIX	
I	Questionnaire for N.T.C. Farmers
II	Questionnaire for N.T.C. Management/Staff
III	Tobacco Farmers Registration Note (MSI)
IV	Debit Note (MS2)
V	Statement of Tobacco Purchases (STP)

ABSTRACT

As in most developing countries, agriculture occupies a very important place in the socio-economic development of Nigeria, making a significant Contribution to the Gross Domestic Product (GDP). Agriculture and its related activities will continue to be the mainstay of Nigeria's economy for a long time to come. However, with the discovery of oil in the 1970s, the agricultural sector suffered a severe neglect, resulting in the decline of agricultural production. The declining contribution of agriculture to the national economy has made the various governments in power, both military and civilian, to formulate policies aimed at increasing the contribution of agriculture to the GDP. Provision of agricultural credit was made one of the important components of government strategy. This could be seen in the establishment of the Nigerian Agricultural and Co-operative Bank (NACB) in 1973, the Agricultural Credit Guarantee Scheme in 1977, the compulsion of commercial Banks to provide at least 10 percent of their total tendings to agriculture and the establishment of agricultural financing agencies by some states all aimed at improving the supply of agricultural credit to farmers. All the above credit institutions were established in recognition of the fact that the bulk of the Nigerian farmers (about 90 percent) who are expected to reverse the declining trend of agricultural production are the small-scale farmers who lack the necessary capital to increase their productivity. They were therefore meant to cater for this category of farmers.

These laudable programmes have, however, not achieved the desired objective of providing adequate credit facilities to the small-scale farmers. This is mainly due to problems encountered by the credit institutions in their attempt to extend credit to the small-scale farmers on the one hand, and the problems encountered by the small-scale farmers in their attempt to obtain credit from the credit institutions on the other hand.

There are divergent opinions among scholars as to who is to blame for the problems of small-scale agricultural financing in Nigeria. While some scholars attribute the problems

to the general attitude of small-scale farmers towards agricultural credit, others blame the credit institutions, especially commercial Banks for their negative attitude towards agricultural financing. Yet some other scholars attribute the problems to both the small-scale farmers and the credit institutions.

This study is therefore aimed at taking a broad view of the small-scale agricultural financing situation in Nigeria, with particular reference to the Tobacco Farmers Credit Scheme of the Nigerian Tobacco Company Plc (NTC).

CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Nigeria is and will for a long time to come continue to be an agricultural country, petroleum and other industrial development notwithstanding. Between 60 and 70 percent of the country's population still depends on agriculture for employment and livelihood. According to the third National Development Plan, in 1970/71 and 1973/74, agriculture contributed 53 and 49 percent respectively to the gross domestic product (GDP) when petroleum is excluded.[1] The same plan also states that agriculture and its related activities will continue to be the mainstay of Nigeria's economy in the foreseeable future. This is a confirmation of the fact that increased agricultural production plays a very major role in the socio-economic development of any country, including Nigeria.

At the time Nigeria attained political independence in 1960, the agricultural sector dominated all other sectors of the economy accounting for 65 % of the GDP and providing the bulk of the nation's foreign exchange earnings and food requirements. However, with the emergence of the so-called oil boom in the 1970s, this sector suffered a severe neglect resulting in the decline of agricultural production in Nigeria. The nation therefore started to import food and other agricultural products that hitherto were produced in the country. Osakwe et al (1986)[2] observed that in 1963/64 agriculture accounted for two-thirds of the GDP, ten years later, the share of agriculture was one-third and by 1983, the share further dropped to one-fifth of the GDP.

The declining performance of agriculture could be attributed to the following factors, among others:

i) Environmental problems such as draught and incidence of pest and diseases.

ii) Technological inadequacies arising from weak research and extension systems, as well as reluctance on the part for farmers to adopt new technologies.

iii) Institutional deficiencies such as inadequate marketing, credit and land tenure systems; poor roads network and poor storage facilities

iv) Over dependence on oil as the major source of foreign exchange for the country.

Worried by the declining contribution of agriculture to the national economy various governments (both military and civilian) in the last two decades have come up with policies aimed at reversing this trend. Such policies have led to the establishment of such projects as the National Accelerated food Production Project (NAFPP), Operation Feed the Nation (OFN), Green Revolution, Seed Multiplication Project, Grain Storage Project, as well as the establishment of River Basins Development Authorities, Agricultural Development Projects (ADPs), Nigerian Agricultural and Co-operative Bank (NACB), Agricultural Credit Guarantee scheme Fund and the compulsion of banks to provide at least 10% of their total lendings to agriculture.

Provision of agricultural credit is therefore one of the important strategies adopted by past and present government towards reversing the declining trend of agriculture in its contribution to the national economy. It is generally acknowledged that credit to farmers is a very important instrument in improving farm productivity. This applies especially to present small-scale farmers whose lack of capital seems to be a crucial factor limiting farm development. Therefore the need for adequate farm finance in order to boost agricultural production cannot be overemphasized. Modern agriculture is becoming more and more capital intensive and this poses a lot of financial problems, especially to the small-scale farmers. Funds are needed to buy machines, fertilizers, pesticides, etc and to provide working capital, especially for payment of hired labour.

The bulk of agricultural production in Nigeria comes from small-scale farmers who are scattered all over the country. According to Olayide et al (1980)[3] using international standard of classification, more than 90% of the farm holdings in Nigeria are small-scaled. Therefore the

Nigerian agriculture could be described as being predominantly small-scale in operation. A large proportion on this category of farmers are wallowing in abject poverty and are therefore unable to accumulate capital for agricultural production thereby making outside financial assistance imperative. In addition, credit facilities for small-scale farmers are not well developed due to the inability of such farmers to provide adequate collateral demanded by banks, especially commercial banks. This largely accounts for the poor performance of commercial banks in terms of agricultural lending.

Even though the problems of agricultural modernization are rather complex and somewhat inter-related, it is generally believed that inadequate supply of capital is the central factor around which other factors revolves, It is observed that lack of capital prevent majority of the small-scale farmers from adopting new technology. It is therefore argued that until credit is made available, agricultural modernization will be seriously delayed even after the other conditions necessary for the adoption of the new technology are present. It is in recognition of this fact that the Federal Government, through the Central Bank of Nigeria, established the Agricultural Credit Quarantee Scheme (ACGS) in April, 1978 with the main aim of reducing the risk of lending to Agriculture by Commercial Banks in order to enhance the free flow of credit to the Agricultural sector with the ultimate aim of boosting the output in that sector. This was a form of incentive given to the commercial banks to lend more to the agricultural sector. The establishment of the Nigerian Agricultural and Co-operative Bank (NACB), and state co-operative banks was also armed at liberalizing credit to small-scale farmers lending to increased agricultural production.

1.2 STATEMENT OF THE PROBLEM

More than 90% of the farm holdings in Nigeria are small-scaled (Olayide et al 1980) and a large proportion of these small holders are poor due to the use of local and traditional techniques of farming resulting in

low productivity. Therefore this category of farmers are unable to accumulate capital for improved agricultural production, hence the need for outside assistance in form of credit.

The present position of our farmers is such that unaided they cannot adopt the new methods and techniques which are required for increased agricultural productivity on which development of the Nigerian economy depends (Bronson, P.A. 1974).[4] As already mentioned above, lack of capital can be a great impediment to the adoption of new technology by small-scale farmers.

Tobacco farmers in Nigeria falls into this category of farmers (small-scale farmers), producing food crops and tobacco as a cash crop. The cultural requirement of tobacco production are much more exacting than those of traditional crops like millet, sorghum, maize, etc. Therefore the introduction of tobacco in Nigeria led to the gradual adoption of modern techniques of production by the farmers. Such modern techniques include mechanical land clearing and preparation, use of modern fertilizers, insecticides, herbicides and other chemicals. This has made the need for financial credit for tobacco farmers imperative. The need for capital for the construction of permanent curing barns (capital investment) as well as requirement for cash to operating expenses, especially hired labour, have further aggravated the problem of the tobacco farmer for credit if he is to increase his production.

There have been efforts on the part government to ensure that credits are made available to the small-scale farmers to enable them finance their farming activities. But most of them, are unaware of the services available to them. The few of them that are aware, have little or no access to such credits because of institutional/technical constraints and can hardly afford the collateral securities demanded by the banks.

Consequently, the Nigerian Tobacco company Plc, (NTC) has designed a system of categorizing her farmers for the purpose of loan disbursement in such a way that the farmers are not caught in what Vasthoff ((1968)[5] has succinctly termed a vicious circle, that is, the need

for external financial assistance by tobacco farmers to enhance productivity and at the same time are faced with the lack of adequate collateral securities to back up such loans.

1.3 OBJECTIVE OF THE STUDY

The major objective of this study is to examine the financing of small-scale agriculture in Nigeria with particular reference to the out-growers scheme of the Nigerian tobacco Company PLC. However, the specific objectives of the study include:

i) To assess the various sources of credit available to small-scale farmers.

ii) To examine the socio-economic factors affecting the demand for and the use of credit.

iii) To assess the role of government and financial institutions in meeting the credit needs of small-scale farmers.

iv) To examine the credit needs of tobacco farmers and the extent to which those needs have been met.

v) To identify problems encountered by small-scale farmers in obtaining credit from formal credit institutions.

vi) To identify problems encountered by formal credit institutions in lending to small-scale farmers.

vii) To proffer solutions where possible to some of the problems faced by both the small-scale farmers and formal credit institutions in credit acquisition and lending respectively.

1.4 SIGNIFICANCE OF THE STUDY

Bauman et al (1966)[6] in their situation report of agricultural credit in Nigeria observed that "an agricultural credit system needs to be focused more on commercial crops, i.e. cash crops". Tobacco is an important cash crop which is making a very significant contribution to the socio-economic development of the rural areas where it is grown in Nigeria. For

example, in 1988 over ₦22 million was injected into the rural economy by NTC Plc as payment to tobacco farmers for tobacco pruchased[7].

Most agricultural policies in Nigeria are geared towards attaining self-sufficient in both food and raw materials requirements. Tobacco farming aims at achieving this laudable objective because tobacco farmers do not concern themselves with tobacco production only, but are also involved in the production of food crops. NTC Plc encourages her farmers to practice crop rotation. Tobacco farming has also had great impact on land use, improvement of farming skills, improvement in income level of farmers and the general socio-economic development of the growing areas in particular and the country at large. As a cash crop, tobacco has greatly enhanced the rural farmers' incomes and also helped to reduce the problem of unemployment. Tobacco leaves are presently being exported to other countries by NTC Plc, hence it has become a foreign exchange earner. The significance of this study therefore stems from the aforementioned facts about tobacco farming coupled with the fact that tobacco is cultivated by predominantly small-scale farmers who constitute about 90% of Nigerian farmers.

1.5 SCOPE OF THE STUDY

This study covers the financing of small-scale agriculture in Nigeria, with particular reference to the tobacco out-growers scheme of the Nigerian tobacco company Plc. The study is however, confined to Soba Local government area of Kaduna State where NTC currently has the bulk of its farmers in the North. Sampled farmers were drawn from Maigana, Soba and Dinya villages which are the key tobacco growing areas in the local government area.

1.6 LIMITATION OF THE STUDY

The data used in this study have some inevitable limitations which include the following:-

i) The study is limited to financing of tobacco farming by the Nigerian tobacco Company Plc only in Soba Local government Area of Kaduna State. It was not possible to cover a wider area because NTC has closed down its operations in most parts of the North. It currently operates only in Soba Local Government Area and Gboko in Benue State. It was also not possible to reach every growing village. However, attempts are made to generalize for all tobacco financing on the basis of the data obtained.

ii) The research was also not as exhaustive as it should have been due to time constraint. One was trying to meet up with the time frame given by the university authorities.

iii) The acute petrol scarcity made movement very difficult. This contributed to one's inability to cover more villages.

iv) The respondents were predominantly illiterates who kept no records and relied on memory recall to answer most of the questions, a situation which is likely to give rise to large margins of error.

v) The household heads were relied upon to provide information for and on behalf of all members of the family, a procedure which pre-supposes that these heads held views which were representative of those of all members of the family:-

The above limitations have in one way or the other affected the final result of the study. Therefore any conclusion(s) that might be drown from the study should take into account these limitations.

1.7 PLAN OF THE STUDY

This report is structured as follows: Chapter one introduces in a broad perspective the role of credit and agricultural development which forms the back ground of the study. It also touches on the problem, objective, significance, scope and the limitations of the study. Terms relevant to the study are also defined in this chapter.

Chapter two presents literature review on small-scale agricultural financing. The hypothesis and methodology used for the study are presented in chapter three, while chapter four is devoted to the analysis of the relevant data. The chapter also contain a brief history of tobacco production in Nigeria. Chapter five focuses on the summary of the study, conclusion and recommendations for improvement.

1.8 DEFINITION OF TERMS

1.8.1 SMALL-SCALE FARMER

The term "small farmer" is often used rather loosely. In common parlance and in government statistics, a small farmer is usually thought of as one whose farm is below a particular size measured in acres or hectares. This present a number of difficulties for economic analysis. Farm sizes are found on a continuum and any attempts to draw a line between large and small is necessarily arbitrary. For some purposes a rather large unit would be an appropriate dividing line, for other purposes a smaller unit and for still others multiple categories. The income obtainable from farms of given sizes varies greatly with the type of land and the type of farming. And in international comparisons these variations will be even greater than within one country, not only because of the differences in soils, climates and farm practices, but because of different ownership patterns and densities of settlement.

The formular adoption by small farmer credit emphasizes farmers' total resources and the profitability of their operations without reference to average. Its purpose is to define the types of farmers for whom small farmers credit programs were appropriate. It is on this basis that the United States Agency for Industrial Development (U.S.A.I.D.) [8] has defined a small farmer as one whose resources are too small to qualify for existing bank credit.

The World Bank in its sector policy paper, agricultural credit (1975)[9] defines small farmers to include families farming less than five hectares or, in countries where all farms are small in obsolete size, farmers comprising the poorer half of the country's rural population.

The characteristics of a small farmer are aptly described by Dell'Amore(1973)[10] when he observed that:

"the size of the farm is generally fairly small and their methods technically primitive. Everywhere farmers are short of capital of their own, and have to rely to an undue extent on credit from banks or other sources, not only for financing investment with a view to durable productivity gains, but even for covering current operating expenses".

1.8.2 CREDIT

In finance the words "credit", "loan" and "borrow" are often used interchangeably in referring to the process of obtaining control over the use of money, goods or services in the present in exchange for a promise to repay at some future date (Miller, 1972)[11]. The lender forgoes the use of money or its equivalent currently by making a loan or extending credit to the borrower, who promises to repay on the terms specified in the loan agreement or debt instrument. In this manner, the borrower obtain resources to use for current production or consumption purposes before doing the saving that would be required to pay for the goods if credit were not available.

Although "credit" and "loan" frequently are used as synonyms, Baker(1968)[12] makes a clear distinction between the two. He refers to credit as an asset or financial reserve which the farmer can call upon when needed, provided he has not used his credit "asset" by exchanging it for a loan. When the farmer makes the exchange of his credit for a loan he then starts incurring an interest charge. He also uses up part of his credit capacity and hence, part of his ability to acquire additional liquidity in the future by borrowing.

Generally credit is expected to generate sufficient income out of its use to meet incurred costs, repay the loan plus the interest within the loan term period and leave a gain or profit for the borrower.

Abe (1981)[13] defined agricultural credit as that which "encompasses all loans and advances granted to borrowers whether beneficiaries of agricultural reform or some other one to finance and service production activities relating to

agriculture, fisheries and forestry, and also for processing marketing, storage and distribution of products resulting from these activities".

Oshuntogun, A. (1981)[14] has identified four uses of agricultural credit. **These include:-**

i) Payment for hired labour

ii) Purchase of fertilizer

iii) Purchase of improved seeds and other inputs

iv) To meet cost of marketing of products.

Agricultural credit is therefore a very vital ingredient in agricultural development. It is in recognition of this fact that Daniel Webster(1967)[15] remarked that "credit" has done a thousand times more than all the gold mines in the world".

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 IMPORTANCE OF AGRICULTURAL CREDIT

Researchers have proved that rapid agricultural transformation can be attained by the adoption of modern farming techniques by farmers. The infusion of these modern techniques requires capital for the payment of hired labour and purchase of necessary inputs such as fertilizers, improved seeds agro-chemicals implements, etc. It is however, a known fact that the finance to accomplish these is beyond the reach of most farmers. This is attributed to the small size of their farms and the use of primitive technology leading to low level of production and of course, low net income. Hence farmers cannot save and invest new capital in their farming business. Makings (1967)[16] supports this contention when he said that "it is" difficult for an African farmer to save enough to produce adequate working capital out of his small surpluses. Capital information can scarcely begin until he can increase his output, whereas only sustained increase in output must call for working capital". It can therefore be said that for peasant agricultural production to be increased and sustained through the introduction of modern technology, agricultural credit must be made available. Injection of new technology and other agricultural services are not the only pre-requisites for modernizing rural farming. Capital is also very vital. According to Donald(1976)[17], financial credit is the most universal and flexible transferable form of economic resource. With money obtained through credit, one can procure anything that is offered for scale including fertilizers, agro-chemicals, farm implements, etc.

On the importance of credit in agricultural development, Dell" Amore (1973)[18] observed that "since the volume of farm savings is still negligible, the necessary funds have to be borrowed, and consequently agricultural credit has been assuming growing importance throughout the Africa economy". Hathaway(1961)[19] also contends that "adequate credit for agriculture is important

because it is an increasingly important source of new capital and it allows farm families to capture any capital gains that may accrue to the owners of agricultural resources".

The need for increased supply of capital seems to emanate from the following line of reasoning as given by Ogunfowora et al (1972)[20] :

i) Many innovations in farming inevitably increase the capital requirements of farmers. The low rate of adoption of imported practices is partly due to the lack of adequate financial resources for implementing these practices.

ii) The bulk of farmer's produce at the subsistence level and there is usually small surplus out of which savings for future investments can be made.

iii) The seasonal nature of farm production and income generation creates a need for short and medium term loans for financing the production activities.

iv) The supply of loan may strengthen the farmer's position in the disposal of his farm produce instead of having the disposal determined by urgent need for cash.

In general, credit serves as a catalyst for accelerating the rate of agricultural modernization. However, this apparently logical case, according to Leonard F. Miller (1977), [21] makes the following assumptions which frequently are not justified:

i) That agricultural research has developed improved technology, which is clearly superior to traditional methods.

ii) That farmers have seen practical demonstrations of the new technology understands it and are anxious to use it.

iii) That farmers have confidence that the fertilizer, seeds, pesticides and equipment needed to adopt the new practice will be available in the villages at the proper time and in the amounts required.

iv) That the necessary credit to purchase these inputs will be made available at the required time and

v) That farmers have been assured there will be a market for the extra production at prices which will make the financial rewards of adopting the improved technology well worth the weather, biological and market risks involved.

Unless these preconditions for the successful use of credit exist or are being created, extending credit to small farmers may be a disservice. They may become burdened with debt obligations with little, if any, increase in their incomes from which to repay, while the lenders are faced with difficult collection problems. On the other hand, where the proper conditions already exist or can be created, well-managed production credit can give agricultural development a strong boost by accelerating the rate of adoption of improved technology by farmers who would otherwise be prevented from using it. As Galbraith (1952)[22] has put it "at a certain stage in agricultural development agricultural credit clearly does become a strong force for further improvement - when a man with energy and initiative who lacks only the resources for more and more efficient production is enabled by the use of credit to eliminate the one block on his path to improvement".

2.2 TYPES OF AGRICULTURAL CREDIT

On the basis of the length of loan, that is, the time lag between loan disbursement and when the loan is due for repayment, Vasthoff (1968)[23] has identified three categories of credit:

i) short term credit:- this is required to cover seasonal peaks in working capital needed for growing crops, wages purchase of feeders and other

short term assets that are completely used up in one season or production cycle.

ii) Medium term credit: this consists of funds tied up from one to about five years in medium term assets that are eventually used up in the production process. These assets are partly fixed capital items like vehicles tractors, implements, medium term improvements and breeding of livestock.

iii) Long term credit:- there is no generally accepted definition of how 'long term' is. Normally, it runs for periods exceeding ten years and is used to buy long term assets like land, that are not used up during production.

The above categorization, as already mentioned, is based on the duration and usage of the credit. However, Makings (1967),[24] while accepting the above three categories of agricultural credit, base his own categorization on the type of farmer using the loan. According to him, there are three distinct categories of need in agriculture for which credit is required. These include:

i) Emergent farmer credit

ii) Commercial farmer credit

iii) Group development credit

Emergent farmers are those land users who are little more than subsistence producers seeking to establish a foothold in the market economy. They constitute a major part of the farming population. On the other hand, the commercial farmers are the important link but much smaller class of those who are market economy. Lastly, there is an essential category of need for development credit for use at the group or community level and this can take the appropriate heading of group development credit.

Miller (1977)[25] also classified credit into consumption credit and production credit. He referred to consumption credit as loan obtained for the purchase of consumable goods and services, while production credit was defined as a loan obtained for the purpose of financing agricultural production.

The classification by Vasthoff (1968)[26] based on the duration and usage of the credit remains the most popularly accepted amongs scholars.

2.3 SOURCES OF AGRICULTURAL CREDIT

On the basis of source of credit, lenders are often classified as either informal or formal, or as non-institutional and institutional.

2.3.1 NON-INSTITUTIONAL (INFORMAL) SOURCES

The non-institutional sources include personal savings, loans from friends, relatives, money lenders, merchants, middlemen, etc. This is the most important source in developing countries, especially among small-scale farmers, because loans are easily obtained without administrative delays and without the need for security and collateral.

A study of agricultural development programme in Nigeria by Jose (1973)[27] reveals that private or informal credit sources still dominate the small holder credit environment, constituting about 86% of the total credit received by farmers. Miller (1975)[28] in his study of Western and Kwara States of Nigeria, also shows that the credit corporation provided only 2.9 percent of the credit used by 302 farmers in 1973, while friends and relatives supplied 47-48 percent, money lenders 24.4 percent and traders/merchants supplied 14.9 percent. Commercial Banks did not supply or provide any loan to these farmers. He however, contends that this source has not supplied the amount of credit in terms required by farmers to modernize their methods. Table 2.1 below shows that non-institutional sources lend more than institutional ones to small-scale farmers.

TABLE 2.1

SOURCES OF AGRIICULTURAL LENDING IN SELECTED COUNTRIES

Country	A	B	C	D	E
India	8000	26	4	51	19
Philippines	1245	16	26	51	7
Thailand	912	7	1	36	56
Colombia	433	27	69	3	1
Cost Rica	157	70	0	20	10
Sri Lanka	150	20	0	45	35

A = Total loans to farmers (US$ Million)

B = Loans from public institutions (%)

C = Loans from private institutions such as Commercial Banks (%)

D = Loan from Commercial lenders like landlords, store-keepers, middlemen and money lenders (%).

E = Loans from non-Commercial lenders like friends and relatives (%)

SOURCE: Agricultural Credit, World Banks (1974) in Johnson, D.T. (1982) P. 69.

In Nigeria 60% of the total loans to farmers come from non-institutional sources, while only 40% come from institutional sources (World Bank, 1975)[29].

The private sources of credit are usually criticized because of the generally high interest rates. In some cases, it is part of the agreement that the farmers will sell their products to the lender. But despite the higher interest rates charged, many small-scale farmers prefer to borrow from private lenders. Farmers are of the opinion that private credit sources have the advantages of being quicker, more personal and informal, and above all, loans can be obtained next door without unnecessary red tape.

Experts have proffered the following reasons as being responsible for successful operation of the non-institutional lenders:

i) **Lower Risk Premium**: Lenders and borrowers live together. This proximity affords lenders to have full details about the farmers in the area

in terms of character, credit worthiness, farming activities, degree of entrepreneurial capacity etc. This gives the moneylenders comparative advantage over formal institutions with regard to this differential access to information. They are therefore able to choose by themselves the non-farmers. Acquisition of this information would be very costly for an urban institutional lender.

ii) **Lower Collection Cost**: Typically, it is not as difficult for informal lenders to collect outstanding loans as it is for formal lenders. The informal lenders know the true financial position of the borrower, where he can be found who his relatives are, etc. He can apply pressures through local institutions (religious, political and economic) where collection becomes difficult. These facts combine to lower the costs of repayment collection.

iii) **Lower Transaction Cost:** Informal lenders do not have to invest in putting up structures like buildings, computers and other necessary infrastructures needed for the successful operation of the institutional sources. Consequently fixed and variable costs are typically lower for the non-institutional lenders.

Disadvantages:

Besides the high interest rate already mentioned, there are some other disadvantages associated with the non-institutional lenders. Paramount among them is the absence of supervision of the agricultural activities. The moneylenders lack technical agricultural knowledge, hence cannot offer any. Consequently, no defined development goal is in built into the system for the economic improvement of the farmers.

Despite the apparent disadvantages of the informal lenders, it will take many years before the institutional sector reaches large segments of the rural population. Informal lenders will therefore continue to be an important source of credit to the rural farmers. Eliminating the informal lenders will amount to reducing the little source of finance available to many small farmers.

2.3.2 INSTIITUTIONAL (FORMAL) SOURCES

The institutional sources of agricultural credit include government agricultural development banks, co-operative societies, commercial banks, etc. In most developing countries, including Nigeria, credit for agricultural development programmes is provided by government controlled credit institutions, which are usually very few, and not easily accessible to the small farmers. Nigeria has a long experience with attempts on the part of government to provide additional sources of credit to aid small farmers. Thus, in an attempt to help the farmers to overcome some of their problems and the inadequacies of the private lenders, many governments of developing countries have established agricultural credit systems. And as observed by Johnson (1982)[30] , government sponsored credit is often the only type available to small holders in less developing countries". Adegeye et al (1982)[31] also observed that "the role of the Ghana Cotton Development Board (GCDB) in the disbursement of funds and in the repayment of the loans is a very good example of how a development project agency can be very useful in the provision of agricultural credit to small farmers."

Government credit institutions have, on the other hand, been criticized for untimeliness in delivery of loans and inputs, unnecessary bureaucratic measures, inability to set up effective repayment collection machinery, and insistence on provision of collateral. Nisbet(1971)[32] in a survey of attitudes among farmers in Colombia found that despite the higher interest rates, more preferred to borrow from the money lenders than from banks. Their complaints were that institutional programme involved too much "red tape" and were too slow, too rigid as regards repayments, etc.

According to Adegeye et al (1982),[33] two pre-requisites are normally required for suppliers of credit to agriculture to be willing to supply credit to farmers. These include:-

i) The cost of credit to agriculture should not be higher than for other purposes, and

ii) The system must make it possible for farmers to pay back.

These two prerequisites hardly prevail as far as formal institutional credit organizations are concerned. They however, prevail to a large degree with respect to the informal credit sector.

To be efficient in distributing loans according to the needs of different farmers, an agricultural credit institution requires specialists. In supporting this view Dell'Amore (1973)[34] contended that specialization was most efficient system for agricultural credit which every government should work towards as an ultimate aim. Apart from specialization, another pre-requisite for a good agricultural credit system is a wide geographical coverage through permanent or intermittent office at all major rural centres. This way, agricultural credit institutions can maintain continual contacts with its clients and arrive at less superficial judgements of the credit needs and earnings capacity of individual farmers.

2.4 CONDITIONS FOR SUCCESS OF SMALL FARMER CREDIT PROGRAMME

In idealized form, the scenario for a public sector programme of credit for small farmers goes as follows: The Government or Central Bank loans money to an agricultural bank which inturn re-lends the funds either directly or through co-operatives to small farmers. The farmers then use the funds to purchase productive inputs such as fertilizer, seeds, pesticides, etc, which are combined with family labour to produce more output. The additional output is sold and the proceeds are sufficient to repay the loan and leave the farmer better off. The payment received from the farmers by the agricultural bank is sufficient to regenerate lending capacity to cover administrative costs and to pay the interest on the government loan. Such a program consumes no resources. The money committed simply constitutes a revolving fund. The loans are repaid and the interest charges are sufficient to cover costs and any defaults.

Experience has however, shown that the above ideal scenario hardly exist in real life situation. There may be no increase in agricultural production following the credit programme in many cases. And because of a high rate of default, the funds pledged by governments to agricultural credit do not

regenerate themselves, nor does the interest received cover costs. Somewhere between model and reality something often goes wrong.

For the success of a credit program, more than money is needed. The following conditions must also exists:

i) There must be a new technology, which is hardly superior to the traditional methods.

ii) There must be markets that can supply additional inputs and absorb additional output.

iii) There must be institutions willing to lend to small farmers on terms the farmers consider attractive.

iv) Farmers must be willing to borrow, to invest and to repay loans.

v) A credit program must have clear goals, procedures and evaluation criteria. According to Blake (1973)[35] the clarity of objectives is one of the reasons why project time credit seems to have been relatively successful, with the project approach development objectives to the projects generally clear. This is probably accountable for the failure of most government credit programmes. The government personnels may see their primary objective as one of getting funds out into the rural areas without proper arrangements for collection of repayments.

vi) The welfare purpose must be separated from the credit purpose. A credit institution expects repayment while a welfare agency does not. Therefore any attempt to include both in a single credit agency may well destroy the institution's ability to perform the credit function successfully.

If these stringent conditions hold, a program of public credit for small farmers will lead to an increase in the value of output, which is the principal benefit to a national economy that can result from such a programme. Whether the credit program is then justified depends first on whether such benefits will exceed its costs, and second, on whether the costs of alternative programs for producing comparable results do not indicate that such results could be obtained at lower costs by other means.

2.5 PROBLEMS ENCOUNTERED BY SMALL-SCALE FARMERS IN OBTAINING CREDIT FROM FORMAL CREDIT INSTITUTIONS

The behaviour of lenders in the credit relationship, affects the way farmers respond to credit availability, and it can only be understood after looking at the influences of lenders' attitudes, goals rules of behaviour and forms of organization. This means looking at the lenders' culture. To see how credit programs for small farmers really operate one needs to look at the broader setting within which the program function. Most credit officials have little or no influence over this setting but must work within the constraints and opportunities it creates. The particular environment is generally accepted as tacitly by the officials as any peasant farmer accepts his environment and the value it holds forth as given. The sound organization and the attitudes prevailing in this credit program environment shape behaviour and also the way credit agents view borrowers and their own work.

Credit agencies operates as one element of the government's banking programs which is to say that they generally lack autonomy and must be responsive to pressures originating outside their organization. The goals and targets of a credit program will generally be determined by the sponsoring government or by an international agency if it provides support for the program.

Given the above background of formal credit institutions, they are established with in-built constraint, which in turn constitutes problems to the small farmer in his effort to obtain credit from such institutions. Among the key problems encountered by the small farmer are:

(i) Bureaucracy: While the form of organisation differ among various credit agencies, they can be described as "bureaucratic" with at least as much confidence as the farmers' communities can be called "traditional". Bureaucratic organisation of credit programs implies that they have a formal organisation chart, which establishes a hierarchy of positions. Authority flows from the top to down, and the delegation of power maybe such that actual control remains at the top on the underlying assumption that knowledge and ability increase as one goes up the hierarchy and that the whole represents a system which should operate smoothly through a

chain of command. These procedures are determined by the authorities or expert at the top who are most distant from the actual relationship with the borrowers (farmers). To the borrower and perhaps even the credit agent, these procedures are nothing but "red tape", while the credit institution see them as meeting criteria important to the internal functioning of the credit program.

This diffusion of decision-making authority leads to inefficient operation, as it may result in untimely release of funds, political meddling, rigidity, high administration costs, etc.

(ii) Lack of collateral or security: A collateral is anything offered as promise of loan repayment, to be given to the lender in case of non-payment (D.T. Johnson, 1982).[36] Most small farmers can hardly afford the collaterals demanded by the banks, which in most cases include landed property and other fixed assets, as well as cash in the bank. It is also not easy for the small farmer to find a suitable guarantor, as most people are scared of being guarantors due mainly to lack of trust and the uncertainty associated with agricultural production, which is opened to the vagaries of the weather.

In a study on the constraints to formal credit supply to Nigerian Small-scale farmers in Jema'a Local Government Area of Kaduna State by Y.D. Sofah, about 43.33 percent of the respondents mentioned security or collateral as one of the problems they encounter in obtaining credit from formal credit institutions, while 25percent mentioned bureaucracy (Y.D. Sofah, 1991).[37]

iii) Lack of awareness: Some of the small-scale farmers are not even aware of the credit facilities available to them in the formal credit institutions. They grew up to know only the informal sources of credit.

iv) Distance: Most formal credit institutions are not easily accessible to the rural farmers, as they are located in urban or semi-urban centres. The farmers would therefore prefer to borrow from informal source rather than travelling long distances to where the formal credit institutions are located, more so with the bureaucracy awaiting them there.

v) *Inadequate supervision:-* Farmers need to be closely supervised to ensure that loans obtained are put into productive use in order to improve the economic base of the farmer and also to enable him repay the loan, But credit agents from an educated elite tend to put a superior attitude towards their client and are often reluctant to spend much of their time in the field. They find visits to small farmers demeaning. These feelings, whether inadvertently or openly, are communicated to farmers and therefore creates a barrier between the credit agents and the farmers, which in turn affects the performance of the farmers in effectively utilizing the loan obtained.

2.6 PROBLEMS ENCOUNTERED BY FORMAL CREDIT INSTITUTIONS IN LENDING TO SMALL- SCALE FARMERS.

Criticism is often leveled at formal credit institutions serving agriculture in developing countries, but it is important also to consider the formidable handicaps under which they are required to function. While it is true that some of their problems arise from the economic policies, organization and operation of the institutions themselves, other, impediments are inherent in the economic and social environment within which they must operate.

In the case of small farmer borrowers, their resource base is severely limited. Generally they have little or no formal education, and they possess little understanding or the wise way to utilize credit. The roads and transport facilities required for bringing the necessary supplies and services and to take produce to market range from mediocre to non-existent. Weather, price and biological risks are high and government policies may provide little income incentive. If the credit institution attempts to reach a significant number of farmers, it finds itself dealing with a very large number of individuals scattered over a wide geographical area, which hampers communication, inhibits timely action and limits the amount of effective supervision that can be provided. In short, most, if not all the economic, social and political difficulties that have retarded agricultural development also hinder formal credit institutions attempting to serve small farmers.

The major problems encounter by the formal credit institutions therefore include the following:-

1. **High Administrative Costs**:-

To be self-supporting, a credit agency must charge an interest rate on its loans high enough to permit recovery of three kinds of costs:

i) The costs the agency incurs to obtain loanable funds.

ii) The loss of capital through loan defaults, and

iii) The administrative costs of operating the credit agency.

Thus, if a credit agency pays 6 percent for money it borrows for on lending loses 6 percent of its capital on average each year through bad debts, and has administrative costs of 8 percent, then it would need to charge 20 percent interest to break even.

According to Johnson (1982)[38] the main problems in running any small holder credit scheme are the administrative ones met in granting many small loans and the even greater ones of getting repayment later. Government credit agencies in developing countries find that loan losses and administrative costs get out of control and therefore becomes impossible to charge borrowers interest rates sufficiently high to cover these costs, so the institution finds itself dependent upon government support to continue operations.

In practice, administrative costs are not always calculated in the same manner. Sometimes only the costs of operating part of the system are considered, although it is customary to include personnel, transport and office costs involved in the process of extending and collecting loans from farmers.

If the advisory and educational costs of extending credit are not considered, the principal factors affecting administrative costs, according to Donald (1976),[39] are the salaries and the efficiency of the credit agency's staff and management, the size of loans, length of loans and the degree to which the capacity of the staff to make loans is being utilized. Obviously a credit agency which confines its lending primarily to long term loans to large scale farmers could operate effectively with a smaller staff and hence would have a much lower, administrative cost per unit of money loaned than would be the case if it were extending seasonal credit to small farmers.

The world Bank has estimated that administrative costs on long-term loans to large farmers may be as low as 3 percent per year, compared with 8 percent for short term loans to small farmers.[40] But in many cases administrative costs are substantially higher. In a Nigerian credit institution, for example, Ogunronbi(1974)[41] observed that administrative costs exceeded the amount loaned in every year from 1965/66 to 1970/71, often several fold. These facts dramatize the importance of a credit institution's keeping the size of its organization and personnel in line with a realistic appraisal of its loanable funds, and of making needed adjustments in numbers of staff when necessary if administrative costs are to be kept at a reasonable level. It would appear that neither government nor private credit institutions have yet found a way to make loans of the size needed by small farmers on an individual basis and at the same time keep administrative costs under control. For this reason making group loans to co-operatives or to less formal, indigenous village groups, for on lending in kind and cash to their members is one procedure recommended for partially overcoming the problem of the high costs involved in making small loans.

2. ***High Default Rate***

The World Bank considers reducing the high rate of defaults the most important issue facing government credit programs attempting to operate on a self-sustaining basis.[42] If a high proportion of an institution's loans are not repaid, the lender's capital is soon depleted and the institution must cease to function as a loan agency unless government provides additional funds. Credit programs have been known to exist for some time on this basis, but they can hardly be considered successful in providing a long run solution to farmers' financial needs. The high default rate is however more pronounced among small farmers than with large farmers. Tinnermeier and Finn (1975)[43] observed in their study of the Plant Costa Program in Peru, that farmers cultivating a relatively small area (less than 3.3 hectares) showed high delinquency rates than farmers cultivating larger farm holdings (3.5-30.0 hectares). Godwin and Selley (1973)[44] also reported that on a maize group farming scheme in Ghana, $869,767 had been loaned during the three years 1969-71, but that only $584,297 had been collected by June 30, 1972, for a repayment rate of 67 percent. Similarly, in Nigeria, a poor repayment

performance was reported by Miller (1974) [45] for rice – maize group loans made in 1972. Loans to 30 rice groups involving 390 farmers had been 75 percent repaid by June 30, 1973, but the repayment rate varied widely from 32.9 percent for rice loan in one administrative area to 90.7 percent in another. Loans to 44 maize groups were 57.2 percent repaid by the same date.

Various reasons have been advanced by scholars for the high rates of delinquency and default. These reason often vary by programmes, and no one factor is usually responsible. According to Donald (1976),[46] most of the variety of influences (reasons) at work can be grouped under three points:-

i) The economic benefits from the use of the loans did not live up to expectation.

ii) The credit institution and related services did not fulfil their obligations, and

iii) Borrowers did not consider repayment important, or they faced higher priority family uses for the money.

The economic benefits from the use of the loan may not have lived up to expectations for a number of reasons. In some cases the problem may have been the lack of profitable technology which the farmer could use, or his own poor husbandry. In others, it could have resulted from unsatisfactory market conditions or from poor weather and other natural causes beyond the borrower's control. In some of these cases refinancing or postponement of the maturity date may be justified depending on the circumstances. (Yotopoulous, 1976).[47]

Many factors may be involved when credit and related services are responsible, at least in part, for a high delinquency rate. The credit institution may have failed to approve loans in time, and as a result the proceeds in cash or in kind reached the farmers' hands too late for their specified use and therefore were diverted to other purposes or if credit were available when needed, other inputs may not have been.

Institutions have not always stressed loan repayments in their educational efforts or have not pursued loan collection vigorously thereby nurturing the idea that the consequences of non-payment are not serious. And the value of tying marketing arrangements to repayment collection has not always been

appreciated. Some loans are not repaid because borrowers anticipate a change in credit policies or because they lack confidence in the credit institution's ability to provide credit in the following year.

Even when the loan can be judged a success by the increase in income from the wise use of the funds, a small farmer possessing limited resources and few alternative sources of credit may fail to repay because of unexpected family expenses. To him, meeting such emergencies takes precedence over the prompt repayment of his "government" loan. The importance of this factor was pointed out by Weisel (1975)[48] in a study of why some 1972 maize loans had not been repaid. The primary reasons given by delinquent borrowers were, in fact, that income (including proceeds from maize sales) had been used for school fees, illness and basic household expenditures:

Loan repayment is also affected by the widespread idea that a government loan is in affect a reward that does not need to be repaid – an idea which some governments have done little to dispel. As Ugoh (1973) [49] has observed "Many people look at the government as a distant impersonal institution. They do not consider themselves as part of the government. They look up to the government just as a Father Christmas. They are anxious to receive their share of the "National Cake" which the government is supposed to bake, store and distribute. Other values and beliefs of formal borrowers may affect repayment as Gillette and Uphoff (1973) [50] have pointed out, "Attitudes toward work and division of labour, toward time and thrift, toward credit and indebtedness, toward government in general, are critical factors influencing the farmer's use of credit and his willingness to repay".

3. **Complicated Administrative Procedures**

Use of numerous forms by formal agricultural credit institutions discourage the borrower and adds to the lender's administrative costs. The high degree of centralization slows down the lending process and leads to the common criticism that the credit arrived too late to be used for its intended purpose. In considering this problem, Oshuntogun(1973)[51] has stated, "One of the major reasons for the failure of most credit institutions in Nigeria is that they have complicated,

cumbersome and time consuming procedures which result in delays in approval and in loans being made available when required.

Based on first hand experience Patel (1975)[52] has expressed concern about what he described as the toll lending procedure exact from the borrower in time, effort and money, as follows: "Before a farmer gets a loan he has to make several trips to the divisional/circle office for different purposes such as buying application forms, submitting application forms, taking three guarantors to sign in the presence of an officer, to get photographs, to inquire two or three times whether the cheque is ready, to collect the cheque to go to the bank to cash the cheque and to withdraw cash from his account. For a small farmer located 10 to 15 miles from the divisional office, it is really a big task making these trips, and it is also quite expensive". On a small loan, these transaction costs may substantially exceed the interest charges, so the total cost of credit to the borrower is high even though the interest rate is comparatively low. In addition to interest payments, Adams and Nehman(19876)[53] have identified three other types of costs borrowers may incur in obtaining negotiation, and repaying a loan. "These are.....(1) additional transaction charges collected by the lender beyond the interest payment (2) loan transaction costs paid by the borrower to someone other than the lender, and (3) the borrower's time and other costs which result from the loan transaction". When these transaction costs are taken into account the high interest rates charged by informal lenders on small loans may be more competitive with institutional credit than is generally appreciated.

Complicated lending procedures are by no means limited to a few government credit institutions but are, in fact, a general problem, as was pointed out at a seminar on agricultural credit for small farmers in Africa.

> ``One of the major problems in institutionalizing credit provisions is to provide a continuing financing of service without too much bureaucracy. Unfortunately this seems to conflict with the goal of providing an equal service to all farmers. Where borrowers are large or medium size farmers, with good repayment capacity and collateral to offer, loan application, disbursement and recovery procedures can be simple and they generally operate smoothly. Even so, some may be kept waiting if a bank has

monopoly and its employees see prospects of benefiting themselves by exploiting it. Much greater difficulties occur in serving the smaller farmer who is less financially stable and is not well known to the management. In practice the procedures considered necessary to protect institutional lending agencies drive many farmers back to private moneylenders and more flexible lending and marketing enterprises, if they have freedom of choice. Both co-operative societies and agricultural banks are affected by lack of simplicity in their procedures".

4. **Poor Co-ordination with other Agricultural Services**

Agricultural credit experts are all in agreement of the fact that providing credit alone to small farmers in developing countries is seldom beneficial. In such cases the credit is likely to be misused, with the result that the farmers finishes with little additional income but with an additional burden of debt to pay. Under these conditions neither the farmer nor the credit institution has benefited.

For credit to be effective the minimum of other services that usually must be provided include:

i) Agricultural Extension to teach farmers how to use the credit profitably,

ii) A farm supply system that insures that the fertilizer, seeds, pesticide and the like are available to the farmer at the right time, in the required amounts, and of the proper quality,

iii) A marketing organization which provides a convenient, stable and profitable outlet for the farmers product.

If these minimum prerequisites do not exist they will need to be provided before an effective credit program can be developed. However, even where these other services are present, they frequently are not properly co-ordinated with the credit program, and as a result the pay off is not fully realized. The farmer may have received the necessary training for the productive use of credit but the supplies may have failed to arrive. Or he may have received both the credit and the supplies without instruction as to their use. Perhaps everything has gone well and the farmer is blessed with a large crop, only to find that he cannot sell it except at prices so low as to wipe out any reward for his extra effort and risk.

While everyone agrees on the need for co-ordination of services, achieving it in the field proved to be difficult. The problem is complicated by the fact that at present different government units, such as extension, credit and co-operatives are usually separate organizations having their own staff and budgets. Although there may be some co-ordination at the national and state levels, there is often little among the staff at the village level, where it is most crucial. Each of the local government officials tends to work alone and to restrict his dealing with farmers to problems in his specific area of responsibility.

Effective co-ordination should start with strong committees at the national, state and local government levels, possessing the necessary authority and the will to take the required action when necessary to break bottlenecks and achieve integration at the village level.

5. **Inadequate Supply of Loanable Funds**

Public credit institutions frequently face the problem of both inadequate and fluctuating supplies to support their loan programs. Institutions with unreliable funding soon face lack of confidence with farmer clients when the latter learn they cannot obtain the promised funds (Ogben, 1972).[54] If funds from outside sources are involved, they may be delayed or reduced in amount for a variety of political as well as other reasons. If the funds are obtained from the Federal Government, unexpected national budget problems or bureaucratic procedures my delay or reduce the amount of loan funds available at the credit institution in the consequences for both farmers and the credit organization are serious.

Once a credit institution has been capitalized, it is hoped that it will be able at least to continue operations at a specified level by making new loans as old ones are repaid. But as already observed, unexpectedly high defaults and administrative costs frequently exceed the organization's budgeted levels so additional capital from government or outside sources is required if the loan program is to continue at the planned level. Also, an institution may need additional funds because inflation has reduced the amount of agricultural production it can finance with its existing funds. Obviously the problem is aggravated by government restrictions on the rate of interest the organization

can charge its borrowers. Thus in practice government credit institutions are often not self-supporting, at least in their early stages, and consequently face a continuing operations. In this connection, it is most important for governments to encourage private household savings as a major source of loan funds for agriculture (Harrison, 1967).[55]

6. **Personnel Problems**

Public credit institutions generally face the same staff problems as other government organizations in developing countries. They may be able to fill their staff positions, but frequently not by individuals with the desired background, training and dedication. The field worker's technical competence and his ability to gain the confidence of farmers are especially important. Williams and Miller (1973)[56] have expressed concern on this point based on their experience in Mexico, "A fundamental characteristic of credit programs is their tendency to expand over a wide range of technology which often and all too soon exceeds the training and experience of the field staff. In turn, as the ignorance of the field staff is exposed, farmer's confidence in the staff may be seriously eroded, with debilitating impact on the whole program. The confidence and validity of the staff are undermined under these conditions, with costly results." When lack of training is the limitation, institutions have organized short courses and special training programs in co-operation with universities, other government agencies and international organizations.

It should be noted that some of the staff problems encountered by lending institutions is brought about by personnel policies within the government itself. These policies may make it difficult to reward performance, and may also encourage the transfer of key staff members to another government unit before they have time to develop competence in their present position. Ugoh(1975)[57] made this point in discussing the operation of the Fund for Agricultural and Industrial Development (F.A.I.D.) when he stated:

> "The greatest weakness in F.A.I.D. was, I think, is in its staff position. To start with, F.A.I.D. did not attain its full strength of staff until September 1964, eighteen months after its establishment by law. Furthermore, as the staff were civil servants who were liable to transfer to any department at

short notice, there was a lack of continuity of staff. Expertise could hardly be developed from long experience on the job and esprit de corps could be built up among the staff"

The staffs of credit institutions have faced charges of political favoritism and of accepting bribes in granting and collecting loans. Such charges are not confined to credit institutions and it is difficult to gauge their seriousness. It should be noted, however, that the opportunity for such practices is substantially increased whenever the interest rate charged on loans is kept artificially low. While this may not be an important factor in small, short term loans, prospective borrowers of large sums could well afford to pay a substantial " expediter" to staff to obtain a loan carrying a concessional interest rate.

In summary, an attempt has been made in this chapter to highlight the importance of agricultural credit and to identify the types and sources of agricultural credit. Factors facilitating a successful agricultural program were also discussed. Lastly, problems encountered by small farmers were also examined. The next chapter will focus on the hypothesis and research methodology of the study.

CHAPTER THREE

3.0 HYPOTHESIS AND RESEARCH METHODOLOGY

3.1 HYPOTHESIS

A strong foundation is a prerequisite for a very strong house that can withstand stormy and turbulent weather conditions. Similarly, some basic hypotheses are necessary in the conduct of a comprehensive research of this nature. Therefore the hypotheses of this study or research are as follows:

1. Being small-scale farmers, tobacco farmers under the N.T.C. outgrowers scheme depend on external sources of agricultural credit to enhance their productivity.
   This implies that the tobacco farmers are characterised by small holdings, low levels of production and consequently low net income. Therefore they can hardly generate sufficient savings to expand their farming activities. This inability by the small farmers to generate funds internally, makes them dependent on external sources of funds to expand their operations. The amount of external financing required by a farmer is therefore a function of (I) his farm holding and (ii) the internal funds available to him. These variables will therefore be examined in the study.
2. Complicated administration procedures leading to untimely release of credit to farmers and the poor attitude of farmers towards loan repayment hinders the success of the credit program.
   Just like any other credit program, the farmers credit program of the Nigerian Tobacco Company Plc (N.T.C) is not without some organisational and operational problems. The company (N.T.C Plc) may classify these problems into (I) those faced by the tobacco farmers and (ii) those faced.
   A number of these problems may be identified under each category. But this study will focus on the problems of untimely release of credit and farmers poor attitude to loan repayment, and how these problems affect the success of the credit program. Untimely release of loans will affect attainment of crop target, which will in turn result in poor loan repayment.

3.2 RESEARCH METHODOLOGY

3.2.1 Sources of Data

Two sources of data were used in the production of this research work. These sources are primary and secondary sources.

The primary sources were mainly information obtained from questionnaires and interviews conducted with the Leaf Manager of Nigerian Tobacco Company Plc, while the Secondary data was obtained from N.T.C Leaf Department records such as the Annual Final Crop Details Reports, Leaf Conference Reports, Divisional monthly Reports, farmers Loans Kalamazoo cards, etc. Other secondary sources included NTC Annual Reports and Accounts Journals, unpublished lecture notes and survey reports by consultants on the economic impact of tobacco production by N.T.C. farmers.

In order to have a balanced view of the two parties involved, two sets of questionnaires were designed and administered – one set for the tobacco farmers and one for the management of the Leaf Department of Nigerian Tobacco Company Plc (NTC).

3.2.2 Method of Data Analysis

A total of one hundred questionnaires were served on the tobacco farmers in Soba Local Government area of Kaduna State, being the only area where NTC presently operate in the North (beside Gboko) due to its recent downsizing of tobacco growing areas.

Random sampling technique was used in serving the questionnaires to farmers. To enhance equal representation and spread, the questionnaires were evenly distributed among the three main growing areas namely Maigana, Soba and Dinya.

In analysing and interpreting the data, simple statistical methods of computing averages and percentages were used.

CHAPTER FOUR

4.0 DATA ANALYSIS

4.1 BRIEF HISTORY OF TABACCO PRODUCTION IN NIGERIA

The history of tobacco production in Nigeria dates back to 1932 when British American Tobacco (BAT), NTC's parent company and predecessor, decided to commence soucing of tobacco in Nigeria. And in accordance with BAT philosophy, this should be done through small-scale farmers rather than on large estates. N.T.C Commenced growing tobacco shortly after the first world wars in 1934. By 1960 production had reached 8.9 million kilogrammes. Production fluctuated through the 1960's and 70's finally reaching an absolute maximum of 14.7 million kilogrammes in 1979. Production was then deliberately reduced (although planned reduction were exacerbated by drought) to 4.8 million kgs in 1982. In early 1983, there was again shortage of tobacco. Efforts made since then to increase production have only met with some appreciable success. This problem has been compounded by the influx of transit (foreign) cigarettes into the country in the past few years thereby drastically reducing the demand for tobacco leaf by the Nigerian tobacco industry due to poor sales.

Despite the rough times the tobacco industry in Nigeria is currently going through, tobacco has come to be recognised in Nigeria as a major cash crop although not much of a foreign exchange earner. The production is mainly for domestic use. Presently, two tobacco companies, Nigerian Tobacco Company Plc (NTC) and International Tobacco Company (ITC) cause the crop to be grown through small-scale farmers who are directly assisted with credit in terms of inputs, services and cash. While the company leaf offices and management residential houses are located at strategic points all over the rural leaf growing areas, the Leaf Instructors live among the farmers in their villages. In short, tobacco production is organised through an efficient network of extension services manned by the personnel of the two companies.

4.2 HISTORICAL BACKGROUND AND OPERATIONS OF N.T.C. PLC

Nigerian Tobacco Company Plc (NTC) was incorporated in March, 1951 as successor to British American Tobacco Company (BAT). BAT started business in Nigeria in 1912 through sales of imported cigarettes. In 1933, a pilot factory was established in Osogbo where cigarette was manufactured from imported leaf. Consequently, local sourcing of tobacco started in 1934. Today, about 96% of NTC tobacco requirement is produced in Nigeria through an efficient extension service being rendered to over 17,000 small-scale farmers.[58] This is because NTC has the policy of not owning land for commercial tobacco production.

The results of the first few years were encouraging and this led to opening of the first full scale factory in 1937 at Ibadan. Two more factories were later established at Port-Harcourt and Zaria in 1956 and 1959 respectively. The Port-Harcourt and Ibadan factories were shut down in 1982 and 1992 respectively due to high incidence of smuggling which adversely affected sales of locally manufactured cigarettes. The company therefore presently has only one functional factory located in Zaria. This development has forced the company to close down most of its leaf growing areas and downsize its staff strength. Tobacco is now grown only in Oyo, Benue and Kaduna States, with Oyo state accounting for about 70% of the total production.

Some of the NTC ordinary stock was offered for sale to the public in 1960 thus making NTC one of the first few publicly quoted Nigerian Companies.

From those early days NTC has been closely associated with the expansion of agriculture in Nigeria. The company has today identified itself with the progress of agriculture through its over 60,000 farmers who are provided with an effective extension service, providing inputs at subsidised prices, and assured of access to credit facilities and a guaranteed market for their products. They are also encouraged to operate a planned system of rotating tobacco with food crops on a scale that will in due course make significant contribution to the national food production. This close

cooperation has made NTC farmers to be considered to be among Nigeria's most efficient and productive for both food crops and tobacco. Through them NTC is helping to transform the rural areas and help reduce the rural-urban drift.

Until 1940, all the tobacco produced in Nigeria was air-cured, and the main production areas were between Ogbomoso and Osogbo in the old Oyo State and Zaria in Kaduna State. But NTC also needed flue cured tobacco for blending purposes. It therefore embarked on experiments in the growing of this variety of tobacco leaf. These experiments were successful and local farmers were recruited to grow this new cash crop. The crop is now grown mainly in the Savannah area of Oyo State.

The effort to improve the quality and yield of locally grown tobacco has been a continuous one. Extensive trials and experiments are carried out by N.T.C's Leaf Department to establish the most suitable leaf tobacco varieties, the best types of fertilizers, the most suitable pesticides and the best cultural practices. This information is constantly passed on to the over 60,000 farmers who make their living from growing tobacco and selling it to the company. This effort of developing the domestic leaf crop has been so successful that 96 percent of the tobacco used in N.T.C is growing in the country, with the balance of 4 percent imported only for blending purposes.

Four varieties of tobacco are grown by N.T.C farmers. These Include:

(i) Northen Nigerian Bright (NNB), grown mainly in low lying areas (fadamas) of Sokoto and Zanfara States, but now temporarily closed.

(ii) Zaria Air Bright (ZAB), which is a rain-fed crop is grown around Zaria, Maigana, Soba, Pambegwa and Ikara. There has been a delibrate reduction in the volume of ZAB required by the company of recent and its production has been restricted to a few villages in Soba Local Government area of Kaduna State.

(iii) Southern Nigerian Dark (SND), grown mainly around Ogbomoso and Gboko. It is a rain-fed and air-cured crop, but much darker than ZAB due to the high humidity in the areas where it is grown.

(iv) Nigerian Flue-Cured (NFC), grown mainly in the savannah area of Oyo State around Iseyin and Ago-Are.

Tobacco growing contributes significantly to the country's economy. Despite the very difficult economic conditions in which many firms are operating in Nigeria today, the Nigerian Tobacco Company Plc(NTC) has through an in-built machinary for continous monitoring and evaluation of its perfpormance shown clearly its response to the challenges posed by the Structural Adjustment Programme (SAP). Even before the advent of SAP the company had developed a corporate strategy of using local raw materials in its manufacturing process thereby helping to conserve Nigeria's exchange earnings, with about 96 percent of its requirement of leaf tobacco supplied locally.

The contribution of NTC to agricultural and rural development has always been praiseworthy. The company depends on small-scale farmers for its raw materials. As earlier mentioned, it is estimated that about 60,000 tobacco farmers exist in the country. These farmers with their estimated 150,588 dependants who assist them with their farm work derive their livelihood from the proceeds of the sale of the crop. Appropriate mix of price and non-price incentives coupled with a reinvigorated and revitalised extension system has led to increased holdings and yields. For example in production in 1986 amongs its small holders;

NTC has always encouraged farmers who grow tobacco to grow food crops in rotation with their tobacco, and with the introduction of block farms in 1978, this has become systematic and mandatory. Among the food crops being cultivated by these farmers are maize, rice, guinea corn, cassava, yams melon, etc.

The company assists the farmers with mechanised land preparation (plonghing, harrowing and ridging), arranges for the supply of production

inputs (notably tobacco seeds, fertilizers and plant protection chemicals), credit, intensive extension staff. NTC efforts at efforestation have also been well documented.

NTC has contributed in raising rural welfare through raising rural incomes by the amounts paid to farmers for their tobacco and the cost of subsidising the fertilizers and other crop inputs supplied by the company to the farmers; investment in research, development of human capital through education in the form of award of scholarship to deserving children of tobacco farmers. It has also tackled the problem of rejuvenation of the ageing farming population engaged in tobacco production by establishing Young Farmers Training Centres (YFTC's) at Iseyin and Zaria, though that of Zaria has been closed down temporarily. The programme of the YFTC is aimed at training a new generation of small-scale farmers who will be equiped with more modern knowledge to make farming less of drugery.

If not for the recent influx of smuggled cigarettes into the Nigerian market, which was adversely affected the fortunes of the company, NTC has been known to be a very healthy and robust company as could be adduced from the five-year financial summary presented in table 4.1 below:

TABLE 4.1

NIGERIAN TOBACCO COMPANY LIMITED

FIVE YEAR FINANCIAL SUMMARY (N'000)

	1982	1983	1984	1985	1986
GROSS SALES	99,399	100,440	109,899	116,053	139,666
EXCISE	31,197	29,395	30,184	26,688	32,208
TURNOVER	68,197	71,045	79,715	89,365	107,458
PROFIT BEFORE TAX	3,538	9,304	16,020	24,118	31,348
TAXATION	1,710	3,823	7,290	10,273	14,100
PROFIT AFTER TAX	1,828	5,481	8,730	13,845	17,248
CAPITAL EXPENDITURE	4,693	4,591	3,800	3,574	3,838
EARNINGS PER 50K STOCK UNIT	3.7K	11.0K	17.5K	27.7K	34.5K
DIVIDENDS PER STOCK UNIT	-	6.5K	10.0K	16.5K	20.0K

SOURCE: Tobacco in the Agricultural Economy of Ago-Are Farmers in Oyo State of Nigerian, by Dr. I.O.A. Adeleye (1988).

Consistent increase are noticeable in gross sales, turnover, profit, earnings and dividends. The company has also been an important source of revenue to government through the payment of excise duties and profit tax. Revenue acrruing to government from these sources increased from N32.9million in 1982 to N45.3million by 1986 (a 37.7 percent increase). In addition, personal income tax paid by the staff directly employed by NTC in 1985 was over N2million.[59] Despite these remarkable achievements the management of the company is not resting on its oars. It has correctly identified three major problems facing the company. They are:-

i) Low utilization of existing plant and machinery capacity.

ii) Declining market share as a result of increasing availability of smuggled cigarettes.

iii) High/multiple taxes by the government.

The first problem arose as a result of the high cost of foreign exchange. This has led to severe curtailment of required imported raw materials and the procurement of machine spare parts needed to run the plants and machinery efficiently. The second problem is equally serious as revealed by the chairman of the company in his 1985 Annual Report when he said

> "I regret to report that the availability of smuggled cigarettes has again increased to the extent that they now account for more than 50% of the total market".[60]

There is no reason to suggest that this problem has been solved. In fact it has been mainly responsible for the recent downward fortunes of the company, resulting in the downsizing of both the workforce and area of operation.

The third problem has been partially solved with the abolition of excise duty by the Federal Government.

The list of the contributions which tobacco makes to the Nigeria's economy is by no means exhaustive. However, in view of Government's continued pre-occupation, in developing countries including Nigeria, with boosting Agricultural output and preventing or even reversing the rural-urban drift, it can be clearly seen that tobacco's most important role is at the rural level.

4.3 IMPORTANCE OF CREDIT TO TOBACCO FARMERS

Every small farmer credit program aims at achieving two main objectives, which include (1) an increase in agricultural production, and (2) an increase in social equity resulting from improvements in the small farmers' incomes. Such income gains may be regarded as the avenue to greater equality in national consumption levels and a more just distribution of economic opportunities. Other potential benefits to farmers from credit program activities include improved nutrition, release of farmers from dependence on extortionate money lenders, a strong position in the markets, increased self-respect and hope for the future, improved social status and political influence, modernization of outlook, access to wider educational and occupational opportunities for the farmer's children, etc.

These benefits of a small farmer credit program are also applicable to tobacco farmers, since they belong to the category of small farmers.

Agricultural development generally involves the adoption by farmers of new, more efficient technology which must be purchased. Few small farmers have the financial resources to make such purchases, and the indigenous credit system cannot supply the needed funds on acceptable terms. Therefore agricultural modernization can be seriously hampered by lack of credit. Funds are needed to buy machines, production inputs as well as to provide working capital.

The need for credit is even more crucial to the tobacco farmer because, as earlier mentioned, the cultural requirements of tobacco production are more exacting and require more capital than those of traditional crops like maize, sorghum, millet, rice, yam, etc. From seedbeds operations through land preparation, seedlings transplanting, harvesting, curing and marketing of his crop, the farmer is faced with the problem of funds, especially working capital with which to hire the much needed labour hands.

The funds required by these tobacco farmers can be obtained from three possible sources namely internal financing, external financing or a combination of the two.

To determine the source(s) of funds for tobacco farmers in the study area, the 100 respondents were requested to disclose their source(s) of funds in line with the three sources mentioned above. The result is as shown on Table 4.2 below:

TABLE 4.2

SOURCES OF FUNDS OF TOBACCO FARMERS

SOURCE	NO. OF RESPONDENTS	PERCENTAGE
Internal (Savings)	2	2
External (Borrowing)	85	85
Both	13	13
Total	100	100

Source: Field Survey, 1998.

There is high dependence on external financing by tobacco farmers, as 85% of the respondents were found to depend on this source (Nigerian Tobacco Company Plc.) for funds. This high dependence on external financing could be attributed to the farmers' low propensity to save, which in turn could be blamed on the farmers' small holdings and the consequent low income. It was discovered that the average holding per farmer is 0.3 hectare and the average return per farmer is ₦4,600.00. This amount is not enough to sustain the farmer and his family and still save some amount for the coming season's operations.

Table 4.3 below shows the distribution of gross income from the respondents (tobacco farmers). The table show that 89 percent of the farmers earn not more than ₦6,000 per season from tobacco production. A lot of factors tend to influence the gross income realizable from tobacco production. These include:

i. hectarage devoted to production;
ii. availability and efficiency of labour utilization;
iii. level of agronomic and cultural practices followed by the farmers;
iv. intensity of extension supervision by Nigerian Tobacco Company Plc. staff;
v. availability of working capital

Unfortunately information on all these intervening factors are not available in sufficiently disaggregated form and when available, are of highly variable quality, that it proved difficult to test for casuality.

TABLE 4.3

DISTRIBUTION OF GROSS INCOME FROM TOBACCO

INCOME RANGE (N)	NO. OF RESPONDENTS	PERCENTAGE
Less than zero	4	4
2,001-3,000	13	13
3,001-4,000	22	22
4,001-5,000	30	30
5,001-6,000	20	20
6,000 and above	11	11
Total	100	100

Source: Field Survey, 1998.

4.4 SOURCES OF CREDIT TO TOBACCO FARMERS

It has been established that the bulk of tobacco farmers depend on external sources of funds to finance their operations. It is therefore germane to know the sources of credit available to the tobacco farmers. From the survey, it has been confirmed that tobacco farmers rely on both institutional and non-institutional sources for credit. The institutional sources include N.T.C., Banks, Government Agencies, etc, while the non-institutional sources include money lenders, friends and relatives etc. Table 4.5 shows the sources of credit available to the tobacco farmer.

TABLE 4.4

SOURCES OF CREDIT AMONG TOBACCO FARMERS

SOURCE OF CREDIT	NO. OF FARMERS	PERCENTAGE
N.T.C.	75	75.0
Bank	-	-
Government Agencies	-	-
Money lenders	4	4
Friends and Relatives	21	21.0
Total	100	100.0

Source: Field Survey, 1998.

From the above result, it is evident that informal sources of credit are still important to tobacco farmers despite the close contact they maintain with N.T.C. These informal sources (money lenders, friends and relatives) still amount for 25 percent of total borrowings. This figure is however much lower than figures reported by various scholars (for example, Miller (1975) -97% and Ijose (1972) -86%. This is not unconnected with the fact that these farmers are well taken care of by N.T.C that only a few of them need to look out to other sources for credit.

Some of the reasons given by the farmers for their patronage of private credit sources include, among others, the fact that the private sources are much quicker, more personal and informal, and above all, can be obtained next door without unnecessary red tapism.

Formal credit institutions have been known to be reluctant in extending credit to small farmers as shown by various studies. Johnson (1982)[61] observes that lending to small holders is much more complex than lending to large farmers because the many small loans and the spread of borrowers over vast areas makes small holder credit very costly. But this study shows that of the 100 farmers interviewed, 75 percent used credit from Nigerian Tobacco Company Plc. (N.T.C) What could be responsible for this development? This is not unconnected with the peculiarity of the relationship that exists between N.T.C. and her farmers. The relationship is such that both parties benefits. The ultimate aim of N.T.C. is to procure good quality tobacco leaves in sufficient quantities and at a reasonable cost (i.e competitive cost). The company therefore pursues this objective through careful recruitment (selection) of farmers, timely provision of credit (inputs), provision of effective extension services, etc. The farmers, on the other hand, aim at increasing their level of income and consequently better standard of living. Generally speaking, the N.T.C out-growers scheme has the following objectives:

i. to advance credit to farmers and guide them in its use (credit to be given should be in kind or cash, but must be used exclusively for productive purposes under the supervision of N.T.C officials).

ii. to enable farmers to acquire the knowledge of scientific farming techniques and practices in the use of modern tools, cultivation patterns, application of agrochemicals and general care of farm business.

iii. to provide an assured market for farmers' tobacco, an important incentive to high production and productivity;

iv. to elucidate the problems encountered in small-scale farming, namely ineconomic size, scattered holdings and insecurity of tenure;

v. to increase the living standards of the farming population by these activities through earning higher income and command of goods and services.

vi. To produce high quality tobacco leaves in sufficient quantities at a competitive cost for the manufacture of good quality cigarettes.

Up till 1990 tobacco farmers were financed by First Bank (Nig.) Ltd. through N.T.C under the Agricultural Credit Guarantee Scheme (ACGS) established by the Central Bank of Nigeria (CBN) in 1978. But as from 1991, this practice ceased and N.T.C became the sole financier. That is, the farmers now obtain their credit directly from N.T.C.

However, this credit is given only in kind. The company used to extend credit to its farmers both in kind (farm inputs) and in cash (operational loan), but had to abolish the cash aspect because of abuses. The farmers apply for the credit facility by following a procedure laid down by N.T.C: At the beginning of every cropping season, farmers are carefully recruited and categorised using certain criteria which will be discussed later in this chapter. Based on this categorization, the recruited farmers are allocated loan limits; which must not be exceeded.

Accounts are then opened for these farmers at the Divisional Leaf Office, each farmer's ledger carries the farmer's name, Account number, Category, Location, Target hectare, Target production and Loan limit.

Each registered farmer is also issued with a Requisition Note booklet (an equivalent of a cheque book). If a farmer require some inputs (credit), he informs the N.T.C field staff in charge of his area (Leaf Instructor) who cross-checks the farmer's field to confirm the need for the inputs, and that the farmer is still within his loan limit. If satisfied, he then proceed to assist the farmer to fill his Requisition Note which is then signed by both the farmer and the staff. The farmer takes the Requisition Note to the Area Leaf Manager or Divisional Leaf Manager, as the case may be, in charge of his area for approval. When approved, the farmer takes the Requisition Note to the Store Keeper who, after raising a debit note for the farmer to sign, issues the item(s). The Store keeper then sends the debit note to the Administrative Assistant in the Divisional Leaf Office for the purpose of debiting the farmer's account. The farmer is not expected to pay for the inputs until he starts selling his crop. In other words, repayments are made from the crop proceeds. It is the lack of cash credit from N.T.C that forces some of her farmers to patronise informal sources for credit (working capital).

However, the N.T.C. credit system has certain advantages which include (Ijere, 1976):[62]

1. N.T.C ensures the productivity of its loans by careful home and farm plan, close supervision of cropping practices at each stage of development, and advice on future use of income derived from farming.
2. Repayment conditions are such that deductions are made from crop proceeds, taking into account the state of farming history. This policy relieves farmers of anxiety and engenders incentive and greater investment.
3. The company's officials assist farmers to keep farm records and accounts, making it easy to see at a glance the level of production, prices of crops, income and expenditure, and the general fortune of the farming program. The farmer can see if he is succeeding or failing, and what decision to make in the future. Since most farmers are illiterate, record keeping is

guided by the field overseers, but the technique is gaining currency and farmers seem to understand the need.

4.5 TYPES OF TOBACCO CREDIT

Tobacco credit, just like any other agricultural credit, can be broadly classified into two types; namely: short-term loan and long term loan.

4.5.1 SHORT-TERM LOAN

> This short-term or seasonal credit is required to cover seasonal peaks in working capital needed for growing crops, wages, purchase of feeders and other short-term assets that are completely used up during production (Johnson, 1982).

Under the N.T.C credit system, this short-term credit is further divided into two types namely

i. Materials and Services (M & S), and
ii. Operational loan

i. Materials and Services (M & S)

As the name implies, this credit facility is given in kind. It is limited to the supply of composite package of inputs like seedlings, fertilizers, herbicides, insecticides, as well as tractor services. This credit facility is provided by N.T.C directly to the individual farmers.

Details of how this credit facility is operated have already been discussed in section 4.4 (Sources of credit to tobacco farmers). The process is virtually the same for tractor services, except that the services are rendered before the debit notes are raised. Both the requisition notes and debit notes (Appendices III & IV) carries the type of service rendered, the hectarage covered and the amount charged. This is in addition to the information given in section 4.4

Provision of credit in kind or services has the obvious advantage of controlling the diversion of funds to other non-productive uses and thus ensures proper credit utilization. It provides the credit institution with some assurance that

the credit will be used as intended. As Oboh (1981)[63] rightly observed, credit utilized in the proper way may even have a "self-liquidating" character.

Therefore with proper utilization of fertilizers, chemicals and improved cultural practices, yields will be enhanced and consequently income level will go up. This will enhance the farmer's ability to repay back his short-term loan at the end of the crop year. Materials and Services constitutes the bulk of all the loans enjoyed by tobacco farmers as shown on table 4.6 below:

TABLE 4.5

LOANS GRANTED TO TOBACCO FARMERS IN ZARIA DIVISION 1993-96

YEAR	TOTAL LOAN DISBURSED (N)	M & S LOAN (N)	PERCENTAGE OF M & S
1993	4,832,873.13	3,989,974.34	82.6
1994	4,466,504.80	4,466,504.80	100.0
1995	2,708,421.08	2,490,843.40	92.0
1996	7,407,711.74	2,726,292.04	36.8
TOTAL	19,415,510.75	13,673,614.58	-
AVERAGE	4,853,877.69	3,418,403.65	70.4

Source: Leaf Conference Reports, 1993-96

1996 was a peculiar year in the history of Zaria Division because there was a deliberate effort to shift the crop calendar forward in order to achieve a darker style of the crop.

This prompted a massive construction of curing barns for the farmers thereby greatly inflating the capital loan for that year. Capital loan is normally considered a long term loan. This explains the reversal of the trend in 1996.

ii. Operational loan

This is a one year credit given to the farmers in cash. It also takes into consideration the category and loan limit of the farmer. This form of short-term credit was initially funded by First Bank of

Nigeria Plc and later by N.T.C. But it has now been completely abolished due to abuses by the farmers coupled with the problem of cash flow which the company has been passing through in the past few years. Therefore farmers who don't have liquid cash are forced to source for this component of short-term credit from informal sources.

The provision of the operational loan used to provide an important support for the tobacco farmer because of the high labour requirement in tobacco farming. This is why its abolition was greeted by serious protest from the farmers. The company however stuck to her gun because of reasons already mentioned above.

4.5.2 LONG-TERM LOAN

This is used in financing medium to long-term assets and is usually liquidated within a period of four years. It is often referred to as capital loan. There are two types of the capital loan enjoyed by the tobacco farmers.

These are:

i. Curing Barn loan

ii. Tractor loan

I. Curing Barn loan

This is a capital loan used for the construction of permanent curing barns. Curing barns are structures built for the purpose of drying the tobacco leaves. The loan is repayable in four years. It used to be financed by the Bank through N.T.C, but is now solely financed by N.T.C. Loans for the repair of Curing barns fall into this category.

ii. Tractor Loan

This Loan is used for the purchase of tractors and implements. It is also repayable in four years, and it is

financed by the bank through N.T.C under the agricultural Credit Guarantee Scheme. N.T.C serves as a guarantor for this loan. The company therefore buys the tractors and implements on behalf of the beneficiaries and ensures prompt loan recovery. The beneficiaries of this loan are called tractor contractors and each of them is closely supervised by an N.T.C staff (Leaf Instructor), who dictates the work schedule for the tractor until the loan is completely liquidated. In order to enhance the mechanization drive in tobacco land preparation, priority is first given to tobacco farmers. Tractor services to tobacco farmers are on debit notes and rarely on cash basis.

The tractor contractor scheme in N.T.C is operated in such a way that it does not only ensure good repayment records by the contractors, but also leaves the contractor with enough money to fuel his tractor, pay driver's wages and meet his other needs. N.T.C runs a mobile workshop manned by two competent mechanics that goes round to effect repairs/routine maintenance of the tractors. This transaction is also on debit notes. The contractors do not pay cash for repairs carried out on their tractors, as well as spare parts issued to them.

It is evident, from the foregoing, that tobacco farmers benefit from two types of credit namely Materials and Services (M&S) and Capital Loans. However, the number of farmers that benefit from a particular loan varies widely. While 100 percent of our respondents took Materials and Services Loan, only 10 percent received the Capital loan. The availability of these loans has had a very positive impact not only on tobacco production, but also on the general agricultural development of Soba Local Government in particular and Kaduna State in general.

4.6 TOBACCO FARMERS' USE OF CREDIT

In most cases some of the funds borrowed by small farmers from credit institutions will be used for non-productive purposes, even when there is an opportunity to invest. Supervision of loan uses and the provision credit in kind (inputs) rather than cash can reduce the use of borrowed funds for consumption. But even with supervision, farmers still have considerable flexibility in the use of money and inputs may be sold for cash to other farmers. Only the existence of an attractive opportunity to use additional capital profitability in production will substantially lessen, though it cannot eliminate, the tendency to use borrowed funds for consumption. Increases in productivity make present consumption more expensive in terms of forgone future consumption. At the same time the higher incomes also encourage farmers to consume more now. The choice for the individual farmer depends upon his resolution of these conflicting forces. Thus, if a farmer decides to put the credit obtained into productive use, he will not only be able to expand his holding, but will also achieve higher fields, leading to a higher level of income. Hence the farmer is able to repay his loan, and his standard of living is also enhanced.

Some of the parameters used in measuring effective utilization of any agricultural credit program include increase in per farmer holding, increase in yield, ability to repay the loans and a raise in the standard of living of the rural community. But according to Johnson (1982), ``credit is unlikely to be used productively unless it is combined with other services and pre-requisites that work efficiently at the small holder level. No agricultural credit programme can be effective unless it is combined with satisfactory extension services and other forms of support."[64].

In the light of the above statement, it is pertinent to examine the conditions under which the tobacco credit scheme operates with a view to determining their role in loan utilization. These will be discussed under farmers' organization, Timeliness in credit disbursement and Extension Services.

a. **Farmers' Organization**

In the early years of tobacco production N.T.C adopted the "Master farmer" system, which operationally was similar to the Licensed Buying Agents (LBAs) of those days. A master farmer, who may not be a tobacco farmer, was usually an influential member of his community. He enters into agreement with N.T.C to produce and sell to it a certain quantity of tobacco leaves. The contractual terms provide that he gets 10 percent of the value of the crop sold as commission. Using the influence he wields in the community, he recruits farmers to grow the crop. He does not only pay the farmers poorly for their crop, but also does not share the commission with them. In order to put an end to the exploitation of tobacco farmers by the master farmers and to use cooperation as a means towards bringing about increase in agricultural production and durable rise in the standard of living of the rural population, the then government of Northern Nigeria in the early 1960s made it statutory for tobacco to be grown through cooperative societies.

Following this development, tobacco farmers organised themselves into cooperative societies. Although these societies exhibited some features of cooperatives, they were not cooperative societies in the legal sense of the term, in that they were not legally registered with the Registrar of Cooperatives. They existed as just a group of farmers who formed themselves into a society and registered with N.T.C. The society produced tobacco for sale to N.T.C. Each society was required by N.T.C. to have a president and a secretary, and to hold regular meetings.

The M & S loan was a group credit, i.e a non-individual credit in which materials and cash advance for productive purposes were extended to groups of farmers joined together to form a society. Requisition for the M & S loan was made on a debit note which was signed by the President of the society, authorized by the Leaf

Instructor and approved by the Manager before issues were made. Thus, a farmer must be a member of a cooperative society before he could benefit from this credit.

At the beginning of each crop year a target kilogram of tobacco leaf was given to each society to produce and sell to N.T.C. M & S and other loans requirements were worked out on the basis of the production target by the society committee and N.T.C. field staff. Actual inputs and cash advances were based on estimated production. In other words, as the crop year progressed, the production for each society was estimated and loans extended in proportion with the area planted.

As N.T.C. monitored the progress of the society, the society in turn was expected (through its committee) to monitor the progress of its members so that the individuals take good care of their tobacco from the field to the market. The advantage was that the cooperative society had close personal knowledge of the members and consequently production targets and loans were shared to members in accordance with their capabilities. Therefore loan limits were not determined by individual members, but by the society and/or N.T.C field staff.

Operational and Capital loans were treated more as individual loans but were still channeled through cooperative societies. The channeling of tobacco credit through societies played an important role in the effective utilization of such credit. The sales of the tobacco were also organized through the societies. Therefore the society was not only responsible for the provision of the needed credit, but also had the responsibility of transporting the tobacco to the Leaf Buying Centre and also its sale. This did not, however, stop the farmer from accompanying his tobacco to the market. He did so only as an observer and took note of the grade and weight of his tobacco as it is being purchased. Such a system reduces diversion of loan and default

in repayment because the society assumes collective responsibility for repayment of all loans channeled through it to its members.

The Tractor Contractor Loan Scheme mentioned earlier was the only credit Scheme that was not operated through the societies but through individuals. Potential tractor contractors, who must be hard working, honest and reputable tobacco farmers of high integrity were selected and recommended to the Bank. Before the necessary papers are filled and sent to the bank, the would be contractors are expected to make a deposit of a specified amount with Nigerian Tobacco Company Plc. The deposits are meant to reduce the total loan needed to buy a tractor. Tractor contractors maintain individual loan accounts with the bank and also operate a current account with N.T.C. A repayment schedule is drawn spanning a period of four years and all repayments are channeled through N.T.C. Defaulting contractors may have their tractors seized by N.T.C, the supervisor of the scheme.

As beautiful as the grouping of farmers into cooperative societies may appear in terms of effective utilization of credit and repayment, N.T.C's experience has proved that this system also has its demerits. The company was forced to abandon this system in the early 1990s because of some problems it encountered. It was discovered that the bulk of the inputs the society leaders were collecting from the company for onward distribution to the farmers were not reaching the farmers. These leaders were selling the inputs and converting the proceeds for their own use thereby frustrating the company's effort to improve yield and quality of the crop, as well as the income level of the farmers. This also led to poor loan recovery. In addition to the above, the society leaders were becoming too powerful to the extent that they would instigate farmers not to accept any new changes from N.T.C., They were also instigating government officials against the company.

These problems forced N.T.C to abolish the Cooperative Society System in the early 1990s and adopt the individual farmers system. Another reason that made the company to adopt this system was the fact that it

wanted to computerise its operations to enable it effectively monitor the performance of each farmer with a view to weeding out the non-productive farmers.

The process of issuing out credit under the individual farmers system remains the same as in the Cooperative Society System. The only difference is that the credit (inputs) now go straight to the individual farmers and not through the society leaders (Presidents). Each farmer is therefore responsible for his loans.

b. **Timeliness in Credit Disbursement**

Timing is very important in the disbursement of any credit, especially agricultural credit. Agricultural credit must be timely if it is to be of any use to the farmer. If it gets to the farmer too early or too late, it will either be diverted to other uses or sold, if it is in kind.

Both tobacco farmers and N.T.C Staff were interviewed to ascertain how timely the various loans being enjoyed by tobacco farmers are being provided. Responses obtained confirmed that N.T.C is striving hard to ensure that loans are provided in time. For example, before the commencement of every growing season, N.T.C. buys and stores all its requirements of fertilizers, chemicals, etc. Constant checks and monitoring of M & S (inputs) are carried out and where shortage of any item is envisaged, effort is made to ensure that the stock is replenished before it runs out. Procedure for getting M & S credit has been simplified, and to avoid congestion in the store, each growing area is allocated a day on which it's farmers can collect M & S materials.

In the case of capital loan, eligible farmers are identified before the commencement of the growing season. This is followed by detailed costing to determine the estimated cost of constructing a curing barn. The company then makes the money available for the purchase of the barn materials. In other words, the company uses its own money to buy the barn materials for the farmers. The

materials are then issued to the selected farmers, and the cost of the materials are debited to their capital loan accounts using the usual debit notes. The beneficiaries of the capital loan are expected to liquidate the loan within a period of four years.

Although 15 percent of the 100 farmers interviewed saw untimely release of credit (inputs) as a problem of the N.T.C credit scheme, it will not be out of place to conclude that tobacco farmers enjoy timely provision of credit.

c. **Extension Service**

Extension in agriculture is the mechanism by which new technology is developed, modified, carried and translated to the farmer in coordination with the provision of credit.

Provision of extension services is an important determinant of the success of any agricultural credit programme. Johnson (1982)[65] contends that no agricultural credit programme can be effective unless it is combined with satisfactory extension services and other forms of support.

Also, in his study of provision of small farm credit in Kenya, Vasthoff

(1968)[66] found that loans provided by government had less production risk than banks' loans because government provided advice and supervision. Other scholars including FAO (1965)[67] support this argument.

They argue that an extension worker is not only equipped with the necessary technical knowledge, but also knows the background and farming activities of the applicants and therefore can help with loan appraisals.

It is in view of the above argument that N.T.C provides not only credit to her farmers, but also provide extension services. N.T.C provides one of the most efficient extension services in the country. In the area of study an average ratio of one field staff to 60

farmers was found. This facilitates a close and continuos supervision of all registered farmers.

The company operates the ``Training and Visit'' (T & V) System of extension. The system provides an instructor with about five or six growing villages to supervise. The instructor keeps close contact and interact with the farmers in these villages by holding meetings with the farmers in each village every week from Monday to Thursday. During these meetings the Leaf Instructor (field staff) passes his technical and other instructions to the farmers and also tries to solve their problems.

On Fridays all Leaf Instructors go back to the Area offices or Divisional offices as the case may be, for meetings with their managers. These meetings provide a forum for retraining of instructors and solving problems brought from the field and thus equipping them for the coming week.

Tobacco farmers have benefited a lot from N.T.C's extension services, as the knowledge they have acquired is applied not only on tobacco growing; but also on food crops. This is evident from the responses obtained from the 100 farmers interviewed. 90 percent of the respondents rated N.T.C'S extension services as very good or good and only 10 percent rated it as fair and zero percent as poor.

The above discussion has revealed that N.T.C does not only provide credit to its tobacco farmers, but also provides the conditions necessary for the effective utilization of the loans. This creates a conducive atmosphere for increased productivity, good loan repayment, higher income levels and consequently improved standard of living for the farmers.

4.7 CONDITIONS FOR TOBACCO CREDIT

As already discussed the N.T.C's tobacco farmers credit is extended only to farmers registered under the scheme. To qualify for

registration, the primary requirement is that the applicant must reside within the area in which N.T.C operates. In other words, the applicant must reside in one of the growing villages. Secondly, the applicant must indicate interest in growing tobacco to the N.T.C field staff in charge of his village, who after assessing the applicant, decides whether to accept or reject him.

The registration of farmers is done every year, before the commencement of the growing season. The registration is done for both old and new farmers. The fact that a farmer was registered the previous year does not qualify him for automatic registration in the new year. The number of farmers to be registered by each field staff or leaf instructor is determined by the target kilograms of tobacco given to him by his manager.

After the registration the farmers are then categorised into four categories for the purpose of loan disbursement, as each category is allocated a loan limit which must not be exceeded. For the old farmers, the categorization is based on their previous year's performance. All new farmers are categorised as `Average,' that is, category `C'. As earlier mentioned, there are four categories. These are categories A, B, C and D. The categorization is done using some rating criteria, which include loan repayment, yield (kg/hectare) and Average Price/Kg. The details are as follows:

Loan Repayment (Cummulative current and Capital due)

Repayment level	Points
100% and above	**5**
95% - 100%	**3**
90% - 94%	**2**
85% - 89%	**1**
Below 85%	zero

ii. **Yield (Kg/Ha)**

Based on the years target yield

Achievement of target	Points
At least 110%	**5**
105% - 109%	**3**
100% - 104%	**2**
90% - 99%	**1**
Below 90%	zero

iii. **Average Price/Kg**

Based on the year's target kobo per kg.

Achievement	**Points**
At least 110%	5
105% - 109%	**3**
100% - 104%	**2**
90% - 99%	**1**
Below 90%	zero

After using the above rating criteria to score the registered farmers, the scores are then added up for each farmer and the total score would determine the category of the farmer. Detail for each farmers category are as follows:

Category	**Rating Score**	**Remarks**
A	**15**	Very good farmer
B	9-14	Good
C	**4-8**	Average
D	Below 4	Below average or Cash farmer

Note that although the category D farmer is registered, he is not qualified for any credit. All inputs are given to him on cash basis. This category comprise old farmers who performed very poorly the previous year.

The categorization definitions and loan limits are authorised in writing by the Head of Leaf Department of N.T.C before the commencement of registration. Once farmers are categorised, the loan limits are calculated and entered into each farmer's rerords card (ledger). The limits are cross-checked and authorised by the Divisonal/Area Leaf Manager by signing the card before issues are made.

It is therefore clear that the N.T.C's tobacco farmers credit programme has very stringent conditions that it will be difficult for delinquent farmer to feel comfortable in it.

An attempt will be made in the next section of this report to assess the success or other wise of the tobacco farmers credit programme.

4.8 AN ASSESSMENT OF THE TOBACCO FARMERS CREDIT PROGRAMME

For the success of a credit programme, more than money is needed. There must be a new technology, markets that can supply additional inputs and absorb additional output, institutions willing to lend to small farmers on terms the farmers consider attractive, and farmers willing to borrow, to invest and to repay loans (Long, 1976)[68]. All these conditions are aimed at increasing the productivity of the farmers, leading to higher income level and consequently, improved standard of living. The concern here is to examine the extent to which the tobacco farmers' credit programme has been able to achieve this objective. The indices that will be used for measuring the success or otherwise of this credit scheme include increased productivity, increased average holding, loans repayment and increase in income level.

a. Increased Productivity

Increased productivity can come about either as a result of an increase in the holdings of farmers or as a result of improved cultural practices.

An attempt in this study to assess the productivity of the individual tobacco farmers proved very difficult because the production records of

the individual farmers were very scanty and in some cases, incredible. However, all the farmers interviewed agreed that credit has helped them to increase their scale of operation and to adopt new methods.

In view of the inadequacy of the production records kept by farmers, resulting in difficulty in determining increased productivity on individual farmers basis, it became necessary to fall back to secondary sources of data. It should however be noted that unlike the traditional crops such as maize, millet, etc, the quantity of tobacco produced in any year is determined by N.T.C and not by the farmers. Therefore it will be misleading to just compare yearly production as a basis of determining increases in production, income level and standard of living. It will be more pertinent to compare yield per hectare, return per hectare and return per farmer for some years.

Information obtained from the Final Crop Details and Leaf Conferences reports for Zaria Division, which is the area of study, for the period 1993 to 1996 has revealed that tobacco production has been fluctuating in quantity and yields but there has been a steady increase in return per hectare and return per farmer as shown on Table 4.7 below . Note that 1994 was an exceptionally good year, hence the high production.

The fluctuating quantities and yields are not unconnected with the dwindling fortunes of N.T.C which has led to cuts in production targets based on the dictates of the economy. This has also led to very serious restrictions on loan disbursement. The low yields could be attributed to diversion of farm inputs, especially fertilizers by farmers to their food crops. In view of the above, the increases recorded in return per hectare and return per farmer could be said to be due mainly to the yearly tobacco price increases.

TABLE 4.6

ZAB TOBACCO PRODUCTION FOR ZARIA DIVISION, 1993-96

YEAR	PRODUCTION ('000KGS)	HECTARES GROWN	YIELD PER (KGS)	NO. OF FARMERS	AV. HOLDING (HA)	AV. CASH RETURN PER HA (N)	AV. CASH RETURN PER FARMER (N)
1993	558	874	744	2670	0.3	10,983.20	3,595.25
1994	1499	1120	1338	3353	0.3	22,280.09	7761.03
1995	210	335	626	1082	0.3	16,913.71	5,236.69
1996	278	390	713	1430	0.3	22,280.09	7,761.03

Source: Final Crop Details, Zaria Division; 1993-96.

However, before N.T.C got into this difficult situation of poor cash flow caused by poor sales, which resulted in the frequent cuts of production targets and credit restriction, one could observe a steady increase in yields, return per hectare and return per farmer between 1984 and 1988, as shown on Table 4.8 below:

TABLE 4.7

ZAB TOBACCO PRODUCTION FOR ZARIA DIVISION, 1984-88

YEAR	PRODUCTION ('000KGS)	HECTARES GROWN	YIELD PER HECT ARE	NO. OF FARMERS	AV. HOLDING (HA)	AV. CASH RETURN PER HA (N)	AV. CASH RETURN PER FARMER (N)
1984	113	1490	760	2896	0.51	970.00	490.00
1985	1652	1920	860	3684	0.52	1200.00	620.00
1986	1164	1205	970	2317	0.52	1550.00	800.00
1987	794	762	1030	1365	0.60	1960.00	1180.00
1988	876	748	1170	1247	0.63	2490.00	1570.00

Source: Final Crop Details, Zaria Division; 1984-88

The fall in production in 1987 and 1988 was due to a deliberate cut in production by N.T.C because of high leaf stock resulting from the bumper harvests achieved in 1985 and 1986.

Despite the hard times the company is currently going through, which has resulted in the inconsistent performance observed in Table 4.7, there is no doubt that N.T.C's credit programme has greatly enhanced the attainment of increased productivity and improvement in crop quality.

b. Loans Repayment

The decision to repay loans is both a moral and an economic decision. Farmers generally do not consider the repayment of public loans a compelling moral obligation. In such a situation, the rate of repayment will be low unless there are significant economic sanctions against default. However, in most cases the sanctions against default by small farmers are not well enforced. Frequently, the only real sanction is that a farmer cannot get new loans unless he repays outstanding debts, and this may be inadequate if he cannot expect to get more in the next season than the amount he already owes. Generally, repayment percentages often fall as credit programmes mature, that is, as they stop expanding their loanss.

The World Bank considers reducing the high rates of delinquency and default the most important issue facing government credit programmes attempting to operate on a self-sustaining basis. If a high proportion of an institution's loans are not repaid, the lender's capital is soon depleted and the institution must cease to function as a loan agency unless the government provides additional funds. Credit programmes have been known to exist for some time on this basis, but they can hardly be considered successful in providing a long-term solution to farmers' financial needs.

In their situation Report of Agricultural Credit in Nigeria,

Bauman et al (1966) [69] observed that ``agricultural '' credit extended to subsistence farmers has resulted in very little repayment and was usually considered as a gift from the government who is seen as a member of the extended family. Other studies have painted similar bleak pictures.

What are the reasons for high rates of delinquency and default? Once the reasons for default on a project are established, it may be possible to devise effective solutions. Explanations vary by programmes, and no one factor is

usually responsible. But according to Yotopoulos (1976), most of the variety of influences at work can be grouped under three points:

1. The economic benefits from the use of loans did not live up to expectations. This may have been due to lack of profitable technology which the farmer would use, or his own poor husbandry. In some cases, it could have resulted from unsatisfactory market conditions, or from poor weather and other natural causes beyond the farmer's control.
2. The credit institution and related services did not fulfil their obligations. The credit institution may have failed to approve loans in time, and as a result the proceeds in cash or in kind reached the farmer's hands too late for their specified use and therefore were diverted to other purposes. Or if the credit were available when needed, other inputs may not have been.
3. Borrowers did not consider repayment important, or they faced higher priority family uses for the money. Farmers were not properly educated on the need to repay their loans. Even when loan can be judged a success by the increase in income from the wise use of the funds, a small farmer possessing limited resources and few alternative sources of credit may fail to repay because of unexpected family expenses. Loan repayment is also affected by the widespread idea that a government loan is in effect a reward that does not need to be repaid (``National Cake'').

As earlier mentioned in this report, repayment conditions in the tobacco farmers credit programme are such that deductions are made from crop proceeds, taking into account the state of farming history. This policy relieves farmers of anxiety and engenders incentive and greater investment.

The programme can be said to be successful judging from loan recoveries achieved between 1990 and 1996 in respect of Zaria Division as shown on Table 4.9 below. Recoveries are given as percentage of total loan taken for each category of loan. Figures used for M & S loan are the Principal amounts, while figures for the Capital loans reflect only the one quarter of the loan due in any year, since the loan is repayable in four years.

TABLE 4.8

LOAN RECOVERIES FROM TOBACCO FARMERS IN ZARIA DIVISION (IN PERCENTAGES)

YEAR	M & S LOAN		CAPITAL LOAN		TOTAL LOAN	
	TAKEN	REC.	TAKEN	REC.	TAKEN	REC.
1990	100	93.0	100	100.0	100	96.5
1991	100	82.0	100	100.0	100	91.0
1992	100	48.0	100	20.0	100	34.0
1993	100	62.0	100	85.0	100	73.5
1994	100	99.0	100	35.0	100	67.0
1995	100	42.0	100	86.0	100	64.0
1996	100	100.0	100	39.0	100	69.5
AV.	100	75.1	100	66.4	100	70.8

Source: Final Crop Details Reports and Crop Commission Sheets for Zaria Division; 1990-1996.

The above figures show impressive recoveries for both M & S and capital loans, averaging 75.1 percent and 66.4 percent for M & S and capital loans respectively. One of the main reasons responsible for the fairly good recoveries is that deductions for loan repayment are made straight on the Statement of Tobacco Purchases (Appendix iv) each time the farmer sells tobacco until he completely liquidates his loan. This level of repayment would not have been achieved if the farmers were to be paid fully for their tobacco first before asking them to pay back the amounts they owed to N.T.C. Another reason is that any farmer who fails to repay his loan stand the risk of being deregistered or downgraded to a cash farmer (category D). Since no farmer wants to be so treated, they all try to ensure that they repay their loans.

Although the tobacco farmers Credit programme looks successful with an average yearly total recovery of 70.8 percent for the seven years period (1990-96) as reflected on table 4.9, the scheme cannot be said to be free of problems. The main problem of this credit programme is the repayment delinquency of

some farmers who would sell their tobacco through other farmers in order to avoid repaying their loans. Worse still, some farmers divert theirs to International Tobacco Company Ltd. (ITC), a rival company with a leaf office in Zaria, where they receive full payment for their tobacco, since they are not indebted to that company. Another problem enunciated by the company is loan diversion by farmers, where inputs meant for tobacco are diverted to other purposes. This problem is however being checked through close supervision and instalmental release of loans.

On the other hand, farmers have complained of unnecessary delays by the storekeeper at the M & S store when they go to collect materials (inputs). This causes a lot of hardship to the farmers, especially those from distant villages.

c. **Increase in income level**

Every agricultural credit programme aims at helping the farmers to increase productivity and income in order to improve their standard of living. When this purpose is achieved, the credit programme is said to be successful. Thus the concern here is to examine the extent to which the tobacco farmers' credit programme has been able to raise income levels of the farmers and consequently their living standards. It must however be noted that improvement in living standards is a relative term. It varies from one society to the other. In one society a raise in the living standard may mean building better houses, to another it may mean the provision of good drinking water and yet to another it may mean owning of radios, televisions, bicycles, motorcycles, going for pilgrimage, etc.

In order to confirm the perception of farmers regarding the income they gain from growing tobacco, they were asked if they were better off, worse off or no change in their income position as a result of the tobacco farmers credit programme. The responses on Table 4.10 below were obtained.

TABLE 4.9

PERCEPTION OF INCOME GAIN BY TOBACCO FARMERS

PERCEPTION	NO. OF FARMERS	PERCENTAGE
Better off	84	84
No change	11	11
Worse off	5	5
Total	100	100

Source: Field Survey, 1998.

The above result has revealed that farmers are generally better off with the credit proramme. Farmers who have not had any change or are worse off in their income levels are mostly those in categories C and D. That is, farmers with very small holdings and poor loan repayment history.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

Agriculture remains the mainstay of the Nigerian economy, with about 70 percent of the country's population depending on it for employment and livelihood. Up till late 1960s this sector dominated all other sectors of the economy, accounting for 65 percent of the GDP and providing the bulk of the nation's foreign exchange earnings and food requirements.

However, with the emergence of the oil boom in the 1970s, the agricultural sector suffered a severe neglect resulting in the decline of agricultural production and consequently the importation of food and other agricultural products that hitherto were produced in the country. Worried by the decline in Agricultural production, government decided to take some steps towards reversing the trend. Among other steps taken was the establishment of the Nigerian Agricultural and Cooperative Bank (NACB), as well as the introduction of the Agricultural Credit Guarantee Scheme which compelled Banks to provide at least 10 percent of their total lendings to agriculture. This was because the government considered the provision of credit as one of the strategies for boosting agricultural production, more so that about 90 percent of Nigerian Farmers are small-scale farmers who lack the capital to expand their farming activities.

These farmers need funds to purchase machines, fertilizers, pesticides, etc and to provide capital for payment of hired labour. A large proportion of these farmers are wallowing in abject poverty and therefore cannot anumulate capital for agricultural production, hence the need for outside financial assistance. In addition, credit facilities for small-scale farmers are not well developed due tot he inability of such farmers to provide adequate collateral demanded by the Banks, especially Commercial Banks.

Tobacco farmers in Nigeria, by their small holdings and low economic power, could be classified as small-scale farmers. The objective of the study therefore was to examine the financing of small-scale agriculture in Nigeria with particular reference to the tobacco farmers credit scheme of the Nigerian

Tobacco Company Plc., with Soba Local Government Area of Kaduna State being the study area.

On the basis of the length of loan, credit may be categorised into Short-term credit, Medium-term credit and Long-term credit. Although there are other categorizations of credit by other scholars, categorization based on the length of time is the most generally accepted.

Lenders are often classified on the basis of source of credit into institutional or formal and non-institutional or informal sources. The institutional sources include Government Agencies, Banks, Cooperatives, etc, while the non-institutional sources include personal savings, friends, relatives, money lenders, merchants and middlemen. The non-institutional credit sources still dominate the small holder credit environment in Nigeria, constituting about 86 percent of the total credit.

More than money is needed for the success of a Credit Scheme. Other conditions required include

(1) A new technology which is clearly superior to the traditional methods
(2) Markets that can supply additional inputs and absorb additional output
(3) Institutions willing to lend to small farmers on terms the farmers consider attractive
(4) Farmers must be willing to borrow, to invest and to repay loans
(5) A Credit programme must have clear goals, procedures and evaluation criteria and
(6) The welfare purpose must be separated from the credit purpose.

The major problems encountered by small farmers in obtaining credit from formal credit institutions include bureaucracy, lack of collateral or security, distance from credit institutions and inadequate supervision, while the problems encountered by formal credit institutions in lending to small farmers include high administrative costs, high delinquency and default rates, complicated administrative procedures, poor coordination with other agricultural services, inadequate supply of loanable funds and personnel problems.

Tobacco production in Nigeria started in 1932 when the British American Tobacco Company (BAT), N.T.C, parent company and predecessor commenced sourcing of Tobacco in Nigeria. N.T.C. as a company, commenced growing tobacco in 1934 and was incorporated in 1951 as a successor to BAT. The success recorded in its first few years of existence as a company led to the opening of a full scale factory in 1937 at Ibadan and two other ones later at Port Harcourt and Zaria in 1956 and 1959 respectively. Today, about 96 percent of N.T.C's tobacco requirement is produced in Nigeria, while the remaining 4 percent is imported for blending purposes only. However, only the Zaria factory is operating at present, the other two at Ibadan and Port Harcourt having been closed down due to unfavourable business environment caused by the influx of smuggled cigarettes leading to poor sales of N.T.C's products. N.T.C. has contributed a lot to agricultural development in Nigeria through her tobacco farmers credit programme. Apart from helping to raise rural income through payments for tobacco purchased, the company has also been an important source of revenue to government through the payment of various taxes.

The importance of credit to tobacco farmers cannot be overemphasized. Just like any other agricultural credit programme, the tobacco farmers credit programme is aimed at increasing farmers' productivity and consequently increasing their social equity as a result of increased incomes.

Agricultural development generally involves the adoption by farmers of new and more efficient technology which must be purchased. But only few small farmers have the financial resources to make such purchases, and the indigenous credit system cannot supply the needed funds at acceptable terms. Therefore agricultural modernization is stymied by lack of credit. The need for credit is even more crucial to the tobacco farmers because the cultural requirements of tobacco production are more exacting and require more capital than those of traditional crops. There is high dependence by tobacco farmers on external financing as evident from the results obtained from the field survey. About 85 percent of the respondents were found to depend on this source for funds. The survey also revealed that 75 percent of tobacco farmers gets their credit directly from Nigerian Tobacco Company Plc., 21 percent from friends and

relatives and 4 percent from money lenders. The advantages of the N.T.C's tobacco farmers credit programme include ensuring the productivity of the loans through careful planning and close supervision, favourable repayment conditions and good record keeping. Tobacco credits may be classified into short-term and long-term credits. The short-term credits are mainly materials and services loans which are payable within one cropping season, while the long-term loans include curing barn and tractor loans which are payable in four years.

To determine whether farmers under the tobacco farmers credit programme utilize their credit productively, it is pertinent to examine how the farmers are organized, the timeliness in credit disbursement and the provision of extension services (supervision). The study revealed that N.T.C does not only provide credit to its farmers but also provide the conditions which are conducive for the effective utilization of the credit. To qualify for inclusion in the N.T.C's tobacco farmers credit programme, a farmer has to reside in one of the tobacco growing villages, he has to indicate interest in growing tobacco and he also has to be registered and categorised by the N.T.C field staff in his area.

An assessment of the tobacco farmers credit programme has revealed that the programme has achieved increased productivity, though this has been fluctuating in recent years due to the dwindling fortunes of the company. Also achieved are good loans repayment and increased income levels of the farmers. Farmers' perception of the programme is that they are generally better off.

5.2 CONCLUSION

A small-scale farmer has been described by Dell' Amore (1973) as one with small farm size, technically primitive, short of capital of his own, hence rely to an undue extent on credit from external sources, not only for financing investment with a view to durable productivity gains, but even for covering current operating expenses. This description fits a typical tobacco farmer. Small farmers are poor because they cultivate small plots from which they produce little output which they sell for a very small amount which is grossly inadequate for expanding their farms or acquiring new technology and consequently the cycle continues. It was therefore in an attempt to break this cycle that led to the

establishment of such credit institutions like the Nigerian Agricultural and Cooperative Bank (NACB) by the Federal Government and the setting up of Cooperative Banks by various State Governments in order to extend credit to Small-Scale farmers.

The study has confirmed that tobacco farmers, like most small farmers, need credit in order to enhance their productivity. But credit must be properly utilized if the desired improvement in productivity and profitability are to be achieved. For a credit programme to be successful in making meaningful contribution in increasing production, conditions must exist for the farmer to be able to improve his land, use modern tools and machinery and also adopt better cultural practices. Most of these conditions exist in the tobacco farmers credit programme. However, credit alone cannot turn a poor farmer into a rich one as credit misused can make a farmer worse off due to accumulated debt. An integrated credit programme of supervised credit which is fully backed up by efficient extension services will enhance the success of the programme. The tobacco farmers credit programme provides a very good example of this sort of arrangement, hence its relative success. Most formal credit institutions, especially the commercial banks, find the integrated credit approach very expensive, hence their reluctance to extend credit to this category of farmers. This reluctance by the commercial banks is not unconnected with the high administrative and operating costs often associated with small farmer credit, coupled with the high rates of delinquency and default. Agricultural Credit is usually the least and often the most dispersed of all institutional lending to the various sectors of the economy.

This explains why informal credit institutions still thrive among small-scale farmers despite the high interest rates charged by these institutions. For agriculture, including tobacco production to develop in Nigeria, there is need for formal credit institutions, especially the commercial banks, to rationalise their loan policy and procedures and extend more credit to small farmers.

The N.T.C's tobacco farmers credit programme has been successful because of prevelance of some basic conditions such as the availability of inputs, provision of extension services and assured market for the tobacco. This credit

programme is a supervised one aimed at furthering not only the commercial interests of the company, but the agricultural production of the farmers as well. There is a fundamental understanding that the farmer's production activity should not be treated in isolation, but related to the marketing, distribution and general living standards of the farmer through purposeful extension services.

It is a programme of agricultural education to teach better farming methods and the assurance of a qualitatively viable family unit. Although the ultimate aim is profit, the company finds that it cannot achieve this except when the purchasing power and well-being of the people are improved. In other words, the higher the farmers' socioeconomic status the higher the company's return.

A Credit Scheme such as this has far-reaching policy implications for future credit institutions:

1. The granting of credit in kind and cash is a major issue orienting the conceptualizatiion of an agricultural scheme. This is achieved through a combination of technical advice with desired inputs.
   As farmers show signs that they can absorb additional credit, a lending agency should respond positively with more assistance.

2. Credit alone is not sufficient to bring about increased agricultural production. It must be integrated with farm planning, supervision, follow-up and periodic evaluation. By combining all these factors, the N.T.C. tobacco farmers credit programme has been able to neutralize both the initial inertia of farmers in trying new practices and their illiteracy which would have negated the quick appreciation of the programme. In fact the marketing facilities have become a reference point for non-tobacco farmers in the growing areas, and an incentive to the growers.
3. It might be argued, with much justification, that a merchant credit programme such as this entails a large overhead expense in administration, supervision, book keeping and collection. This is equally true of any other credit institution truly interested in purposeful granting of credit and its retrieval. The economic well-being of the farmer on whom a credit agency indirectly depends for its

progress, would be jeopardised if the cost of credit is not borne by the lender himself.

4. It should also be borne in mind that this form of credit can tie a farmer or community to the advantage of one monopolist. It may become a racket for merchants and bankers and does not allow the farmer to buy or sell where he pleases.

These are valid objections which can be met by the injection of competition into the general credit system. As long as other public and private credit agencies have access to the community of farmers there is no doubt that the farmer can exercise his freedom of choice as to which institution to patronize. Presently, only the International Tobacco Company Ltd. (ITC) has a credit programme which is similar to that of N.T.C, but the programme is not as successful as that of N.T.C, due to the company's weak financial base.

5.3 RECOMMENDATIONS

The following strategies are hereby recommended for the development of a sound institutional credit programme.

1. Loan procedures should be simple and easy to understand by an average rural farmer.

   As rightly observed by Osuntogun (1973),[70] one of the major reasons for the failure of most credit institutions in Nigeria is that they have complicated, cumbersome and time-consuming procedures which result in delays in approval and in loans being made available when required. The use of numerous forms discourages the borrower and adds to the lender's administrative cost.

   Based on first-hand experience, Pate (975)[71] has expressed concern about the toll lending procedures exact from the borrower in time, effort and money, as follows: ``Before a farmer gets a loan he has to make several trips to the divisional/circle office for different purposes such as buying application forms, submitting application forms, taking three guarantors to sign in the presence of an officer, to get photographs, to

inquire two or three times whether the cheque is ready, to collect the cheque, to go to the bank to cash the cheque and to withdraw cash from his account. For a small farmer located 10 to 15 miles from the divisional office, it is really a task making these trips, and it is also quite expensive." When these transaction costs are taken into account, the high interest rates charged by informal lenders on small loans may be more competitive with institutional credit than is generally appreciated.

The tobacco farmers credit programme of N.T.C, does not have the complicated administrative procedure described above. The procedure has been highly simplified. However, farmers still complain of time wastage while collecting materials (inputs) from the M & S Store. Therefore there is need for N.T.C, to address this problem.

2. Loan should be processed quickly, disbursed in time and repayment scheduled to reflect the farming cycle.

For credit to be effective, one of the essential services that usually must be provided is a farm supply system that insure that the fertilizer, seeds, pesticides and the like are available to the farmer at the right time, in the required amounts, and of the proper quality. If the credit is not made available in good time, there is the likelihood that it will be misused, with the result that the farmer finishes with little additional income but with an additional burden of debt to pay. In addition to timely disbursement of credit, the repayment schedule should reflect the farming cycle to enable the lending institution to achieve a good recovery. If the schedule is such that repayment is expected long after the farmer has sold his farm produce, then repayment is bound to be poor, as the farmer would have diverted the proceeds to other uses.

N.T.C, presently does not have much problems with the timeliness of loan disbursement and repayment under its tobacco farmers credit programme. Farmers interviewed confirmed that inputs are being delivered to them promptly. Also the repayment schedule adopted by N.T.C, has greatly enhanced good repayment.

Repayment conditions are such that deductions are made from crop proceeds instalmentally as the farmer brings his crop to the market until the loan is completely liquidated. However, a close monitoring of the farmer is maintained to ensure that he does not divert his crop to the competition (ITC) or sell through another farmer.

3. **Integrate credit with Education, Input Supply and Marketing**.

Providing credit to small farmers will, by itself, accomplish little in increasing food production and raising farmers' incomes. This has to be backed up by effective extension services, profitable technology and markets. There are two approaches to the integration of credit with other services. These are :

a. Multipurpose Cooperatives and
b. Agricultural Service Centres

a. **Multipurpose Cooperatives**:- As the name implies, these cooperatives perform a number of services for their members such as providing credit and other inputs for production, along with storage and marketing facilities for their produce. Member credit requirements could be met through a group loan from the agricultural bank, a Commercial bank or Cooperative bank for on-lending to members.

Ideally, the Cooperative would also serve as the mechanism for encouraging and mobilizing member' savings, which would reduce the amount of outside financing required. The problem of high delinquency rates presumably would be avoided, since the money needed to repay the loan would be deducted by the cooperative at the time the member/borrower sold his produce.

b. **Agricultural Service Centres**:- These centres are intended to provide much the same kind of integrated services for surrounding farmers as do multipurpose cooperatives. Local representatives of government institutions dealing with extension, credit, supplies and

marketing would be housed at one centre under the direction of a coordinating official or manager. Even if no other benefit accrued, this physical centralization of services alone would be an important improvement over the situation which commonly prevails at present, where farmers with limited transport facilities are forced to travel to different locations to seek government services.

In addition to technical advice, the centre would stock the supplies needed by farmers and provide storage and marketing facilities. As the centre develops, other services could be provided, such as machine hiring and repair. The centres could start modestly by concentrating on the supplying of the most essential services for their area and expand as they proved their effectiveness.

While government probably would be involved in whatever constitution is deemed necessary at the outset, and paying the salaries of its employees, the other services could be provided on a cooperative or private basis. As in the case of a multipurpose cooperative , competent management would be an imperative. Also, the centres should establish an advisory committee of elected famers to represent the villages in the centre's service area. Committees would meet on a regular basis to advise on policies, programmes, and operating procedures at the local level. This should avoid the mistakes often made by organizations which are directed from the top down without benefit of consultation with the groups they are designed to serve.

Most Service Centres established by government have failed due to incompetent management and/or corruption. However, Nigerian Tobacco Company Plc. has successfully adopted this approach to integrating credit with other services.

4. Provision of Education and Subsidized Inputs in lieu of Credit.

The numerous problems associated with extending credit to small farmers have led to the idea that perhaps equal or better results could be achieved at less cost by stressing the education of farmers and by

subsidizing the recommended new inputs to a point where credit would no longer be a limiting factor. A far larger number of farmers can be assisted by effective extension service than by a loan scheme, and all farmers can be reached, even those who would not qualify for unsecured loan. In addition, improved husbandry methods taught by extension agents can reduce the need for fertilizer and can raise yields for many crops even higher than the application of fertilizer alone. When fertilizers are shown to be necessary for crops with local markets, it is preferable to subsidize small-holder fertilizer purchases rather than offering loans. As is the case with extension, subsidies can reach even those farmers who could not qualify for loans. Costs would vary with the extent of subsidy, and they could be substantial, but they should not be greater than the costs of a nation-wide small-holder credit scheme with large administrative overheads and probably a high defaulting rate. The cost of a subsidy could be planned for in advance in a way that is not possible with a loan scheme where the precise defaulting rate cannot be predicted.

The tobacco farmers credit programme has incorporated both farmers education and inputs subsidy.

5. Using Informal Lenders and Groups to Deliver Institutional Credit.

Here, formal credit agencies, instead of dealing directly with small farmers, should provide funds to suppliers of farm inputs, to local produce buyers, trader-merchants, and money-lenders who would on-lend to farmers (stickly, 1974)[72]. These individuals know the local farmers and therefore would make more accurate appraisals of farmer credit worthiness, which would reduce delinquency.

They would also have much lower administrative costs for staff, office space and transport , while at the same time they would be able to provide credit on a more timely basis, free of delays, expense and frustrations of bureaucratic procedures. In addition to providing the financial support, the banks or credit agencies could supervise their local agents to make sure that the system was in fact serving farmers, rather

than further enhancing the economic power and income of the local lenders and traders.

Generally, the use of existing informal lenders as channels for delivering credit has not generated much enthusiasm. It is debatable whether the system could in fact be regulated and supervised to prevent its abuse, although competition among lenders could provide considerable self-regulation. Further more, the plan would do little to provide the education and other facilities needed for productive use of the loans. The best possibilities for utilizing this approach would be through farm inputs suppliers and licensed buying agents.

6. The Credit programme should be integrated with a saving programme for farmers.

So little attention has been given to the promotion of savings, despite the importance of capital formation in agriculture. As Penny (1968) has emphasized, ``The main tasks of government bent on development are to mobilize capital, in both the agricultural and non-agricultural sectors, and to insure that it is used in the most economic way, on farm and off.'' [73].

In agriculture the meagre efforts as to encourage savings are especially conspicuous when compared with the numerous programmes to provide credit for farmers. Part of the explanation lies in the assumption that small farmers do not have the capacity or the inclination to save, or if they do, the amount would be too small to justify the effort. This assumption has been questioned by Adams (1973)[74], who after reviewing the available information on rural savings concluded that the data are ``strongly suggestive that substantial voluntary savings capacities do exist in the Less Developed Countries. It also suggested that aggressive programs to mobilize these savings could energize rural capital markets.''

In agriculture one of the important possibilities for stimulating savings would be to link credit and savings in the same or closely associated institutions whenever possible. Over time this savings/credit linkage when successfully combined with education, timely inputs and profitable markets, should put rural credit programme on a productive, self-sustaining basis.

7. To reduce high administrative costs credit should be chanelled through the cooperative societies or farmers groupings.

In view of the apparent disadvantages observed in the earlier suggestion that credit should be channelled through informal lenders and groups, it would perhaps be much better to channel such credit through cooperative societies or farmers groupings. Many scholars have recommended cooperative societies as the panacea for solving the problems of small-scale farmers' credit . The argument is that as grassroot organizations, cooperatives can be of emense assistance to a credit institution, as they are able to provide full information to the institution (lender) about prospective borrowers who, of course, are their members. In addition cooperatives can be used as agents for credit institutions to give and collect money on its behalf, thereby greatly reducing the high administrative costs the credit institution would have incurred in doing that. It is therefore germane to advise N.T.C to revert back to its old system of channelling credit through cooperatives, instead of the individual farmers system, with its attendant high administrative costs and the relatively high delinquency and default rates.

8. Loans in kind should be combined with cash to enable the farmer pay for hired labour.

The abolition of operational (cash) loans has imparted negatively on the farmers, as they are now forced to go to informal sources to obtain credit for payment of hired labour, Those of them who are unable to secure such loans have no choice than to live their farms poorly maintained leading to poor yields and consequently poor proceeds (income) and unpaid loan. Moreover, these informal credit institutions charge very high interest rates, thereby eating deep into the farmer's profit. Tobacco production is very labour intensive and with the ageing family farm labour head, it is not surprising that many aged and ageing farmers are dropping out of tobacco production. Therefore, the labour problem must be talked if there is to be a boost to tobacco production.

9. Provision of Sufficient Credit

Some farmers claimed that limited credit facility has hindered the expansion of their scale of production. This is not unconnected with the very strict posture adopted by N.T.C in loan disbursement in the past few years due to the poor cash flow situation. It is therefore necessary for N.T.C to expand its credit programme to

sustain correct growers and to attract new entrants. Such a credit programme needs to incorporate tobacco and other good crops so as not to disrupt the farmers' desire to grow food crops.

10. Government should show more interest in tobacco production by incorporating it in its agricultural development programmes.

Tobacco production in Nigeria has been the sole responsibility of the two tobacco companies in the country. In view of the importance of tobacco production in terms of generating income for the government, source of foreign exchange, employment generation and the positive impact it has on agricultural development generally, government should not fold its arms and allow the production of tobacco to be monopolised by these two tobacco companies. These companies do not involve themselves in disect product, but produce through peasant farmers scattered over several villages. The disadvantage of the tobacco farmers credit programme of N.T.C is that it can tie down a community of farmers to the advantage of one monopolist. Farmers do not have a free hand in determining their production targets as these are determined by the users.

Production targets for any given year are determined by the level of leaf stock the user has, thereby leading to fluctuation in production.

These problems can be solved by the injection of competition into the general credit system. If other public and private credit agencies show interest in the tobacco industry and penetrate the tobacco farming communities, there is no doubt that the farmer will be able to exercise his freedom of choice as to which institution to patronize. The competition will eliminate the unwelcome aspects of the merchant credit scheme.

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APPENDIX I

QUESTIONNAIRE FOR N.T.C. FARMERS

1. a. Name of Farmer:.....

2. b. Sex:.....

3. c. Age of Farmer:.....

4. a. Marital Status: Single ( ) Married ( )

   b. No of wives:.....

   c. No. of children:.....

   d. No of other dependants:.....

5. Level of Education:

   i) No Schooling ( )
   ii) Primary School ( )
   iii) Secondary School ( )
   iv) Post Secondary ( )
   v) Koranic School ( )
   vi) Others specify:.....

6. How did you acquire the land?

   a. Inheritance ( )

   b. Purchase ( )

   c. Lease ( )

   d. Hire ( )

   e. Others (Specify): ( )

7. For how long have you been a tobacco farmer?

   a. 1-5 years ( ) (b) 6-10 years ( ) (c) 11-15years ( )
   d. 16-20 yrs. ( ) (e) Over 20 years ( ).

8. Are you a full time or part time farmer?

   a. Full time ( )
   b. Part time ( )

9. What is the size of your tobacco farm (in Hectares)?

   .....

10. What other crops do you cultivate (Specify hectarage)

Crop	Hectarae
i).....	.....
ii).....	.....
iii).....	.....
iv).....	.....
v).....	.....

11. What is your average annual production of tobacco in Kgs?.....

12. What is your average gross income from tobacco production?

i) Less than ₦1000 ( )
ii) ₦1001 - ₦2000 ( )
iii) ₦2001 - ₦3000 ( )
iv) ₦3001 - ₦4000 ( )
v) ₦4001 - ₦5000 ( )
vi) ₦5001 - ₦6000 ( )
vii) Above ₦6000 ( )

13. a. Are you satisfied with your present level of tobacco production? Yes/No

b. If yes why?.....

c. If No, which of the following reasons do you think constitutes a barrier to increased tobacco production?

i) Shortage of labour ( )
ii) Lack of land for expansion ( )
iii) Not profitable to increase production ( )
iv) Inadequate/lack of credit ( )
v) Others reasons (Specify):.....

14. How do you finance your farming activities? Through:
a. Savings, (b) Borrowing, (c) Both ( )

15. Which of the following sources of credit are open to you?
a. NTC ( ) (b) Bank (c) Government Agencies ( ) (d) Money Lenders(
e. Friends and Relatives ( ) Others (Specify):.....

16. What problems do you encounter in obtaining loan from NTC?

1) Complicated Administrative procedure ( )
ii) Distance from village to Divisional Office ( )
iii) Insufficient credit ( )
iv) Delays in loan disbursement ( )
v) Repayment period too short ( )
vi) Others (Specify):.....

17. How do you assess the disbursement of NTC loans in terms of timeliness?
i) Timely ( ) (ii) Late ( )

18. Are you expected to offer any security for the NTC loans Yes/No
b. If yes, state type of security:.....

19. What type of loan do you collect from NTC?
i) Mds Loan (Current) ( )
ii) Capital loan ( )

20. In what form do you collect the loan?
i) Cash ( ) (ii) In kind ( ) (iii) Both ( )

21. Do you divert the whole or part of the loan to other purposes other than tobacco production?.....Yes/No

b. If yes, to what purposes and why:.....

.....

22. a. Are you satisfied with the present supply of farm inputs by NTC? Yes/No

b. If No, why not?.....

23. a. Do you have any problem with your loan repayment? Yes/No

b. If yes, state reasons:.....

24. What is your general perception of the NTC tobacco farmers credit programme? In which way has it affected your standard of living?

i) Better-off ( )

ii) No change ( )

iii) Worse-off ( )

25. What suggestion(s) do you have for the improvement of the tobacco farmers credit programme?.....

ii) .....

iii) .....

iv) .....

v) .....

APPENDIX II

QUESTIONNAIRE FOR NTC MANAGEMENT/STAFF

1. Name of Organisation:.....

2. Which are your main tobacco growing areas in Nigeria?:.....
.....

3. Where do you grow tobacco in Kaduna State?.....
.....

4. What criteria do you use for recruiting your farmers?
   i). .....
   ii) .....
   iii) .....

5. What type of farmers are financed by your organisation?
   i) **Individual farmers**
   ii) Cooperative farmers societies
   iii) Others (Specify):

6. What types of farming activities are financed by your organiusation?
   i) Foodcrops production
   ii) Tobacco production
   iii) Livestock production
   iv) Mixed farming
   v) Others (Specify)

7. How do you finance credit needs of your tobacco farmers?
   i) Provision of farm inputs
   ii) Provision of operational loan
   iii) Provision of capital loan
   iv) All of the above
   v) Others (Specify)

8. What are the sources of your loanable funds?
   i) N.T.C.
   ii) Bank through NTC
   iii) Both

9. How long does it take to approve an application for loan from the date of subscription?.....
.....

10. Do you specify how a loan is to be utilized?
   i) Yes ( ) (ii) No ( )

11. Do you supervise loan utilization?
   i) Yes ( ) (ii) No ( )

12. What precaution do you take against loan diversion?
   i) By giving loans in kind
   ii) By giving cash loans instalmentally
   iii) By maintaining close contact with the borrowers
   iv) Others (Specify)

13. How do you normally recover your loans from the farmers?.....

.....

14. How do you rate your loan recovery:

i)	Excellent	ii)	Very good
iii)	Good	iv)	Fair
v)	Poor	vi)	Very poor

15. What are the major factors that influence your choice of borrowers in your tobacco farmers credit scheme in order tax of importance?

i) .....

ii) .....

iii) .....

iv) .....

v) .....

16. Please state any problem(s) you encounter in your financing of tobacco farmers:.....

.....

17. What sanctions do you apply to loan repayment defaulters?.....

.....

18. How many farmers do you have at present?.....

19. How many extension staff do you have?.....

20. Do you consider the staff/farmers ratio as adequate? i) Yes ii) No

b. If No, what are you doing about it?.....

.....

Tobacco Farmers Requisition Note

(For Services/M & S/Cash Requisitions)

NAME / SOCIETY: _____ No 405190

CODE NUMBER: _____ DATE _____

Please advance me/us the following cash, services and/or materials and debit my/our Current Account with N. T. C. with the cost as stated below. I/We agree that the cost should be deducted from my/our Tobacco sales.

DETAILS	Quantity Requested	Quantity Issued	Unit Cost	Amount ₦	K
			TOTAL		
			B/F		
			Total loan to date		

LOAN LIMIT ₦ _____

I/We hereby authorise _____ to collect the above materials on my/our behalf from N. T. C.

Signed _____ Recommended by (Society) _____

Signed _____ Recommended by (Field Staff) _____

Signed _____ Recommended by (Chief Instructor) _____

Authorised by _____

DISTRIBUTION

1. Original Div./Dist. Office 2. Duplicate Leaf Accountant 3. Triplicate Farmer's Copy 4. Book Copy

printed in nigeria by augustino printing press, zaria

MS 1

APPENDIX IV

NIGERIAN TOBACCO COMPANY LTD.

DELIVERY/DEBIT NOTE.

No 200 304361

DEBIT NOTE NUMBER

REQUISITION NUMBER

FARMERS/SOCIETY/CONTRACTOR _____

CODE NUMBER | | | | | | | | | | | STORE NO | |

DATE	CODE NUMBER	DETAILS	M & S CODE	QUANTITY	UNIT COST	AMOUNT ₦

MATERIALS COLLECTED BY _____ DATE _____

CHECKED BY _____ TOTAL ₦

printed in nigeria by augustino press, zaria

ACCOUNTS USE ONLY

DATE	CODE NUMBER	DETAILS	REQUISITION NUMBER	DEBIT NOTE	AMOUNT ₦

DISTRIBUTION

1. Original Division/District Office 2. Duplicate Leaf Accountant 3. Triplicate Farmer's Copy

MS 2

Nigerian Tobacco Company Plc

(INCORPORATED IN NIGERIA)

CG2

STATEMENT OF TOBACCO PURCHASES

№ 30110

Crop Type _____

Code No _____ Station _____ Proforma No _____

NAME _____ DATE _____ 19 _____

GRADE	BUYING CENTRE _____									Total Kgs	RATE K/Kg	VALUE ₦	VALUE K	Total Bales
Total														

TOTAL

Total Bales

Deductions from:

Current Loan ₦ _____

Capital Loan ₦ _____

Total Deduction ₦ _____

Net Amount Paid ₦ _____

_____ Naira

_____ Kobo)

Bill No _____

	Kgs	₦	K
Previous Sales			
Sales Today			
Sales to-date			

	₦	K
Repayment to date		
Balance Indebtedness (Cap)		
Balance indebtedness (Curr)		

Original: Farmer
Dupl: Leaf Acct (N/S) Zaria
Trip: DLM.
Quad: Book Copy

Signed _____

For Nigerian Tobacco Company Plc