TITLE PAGE

EFFECTIVE FINANCIAL MANAGEMENT OF SMALL SCALE

AGRICULTURAL BUSINESS

A CASE STUDY OF NTC CO-OPERATIVE FARMERS

OF

KADUNA STATE

BY

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BEING A PROJECT SUBMITTED TO THE POST GRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE DEGREE OF MASTERS IN BUSINESS ADMINISTRATION (MBA.) IN THE DEPARTMENT OF BUSINESS ADMINISTRATION, THE FACULTY OF ADMINISTRATION, AHMADU BELLO UNIVERSITY, ZARIA, NIGERIA.

NOVEMBER 1998

DECLARATION

I hereby declare that this project has been written by me and all the information used here were obtained also by me through personal research and extensive reading and documentation.

I acknowledge all duly referred materials I take full responsibilities for any mistakes in thought, presentation and omissions.

IKBA ANAGA NWOKE — NAME OF STUDENT

STUDENT'S SIGNATURE

5th October 2000

DATE

CERTIFICATION

This project entitled, "Effective Financial Management of Small-Scale Agricultural Business – A Case Study of NTC Cooperative Farmers of Kaduna State" by ***Mba Anaga Nwoke*** meets the regulation governing the award of the degree of Masters in Business Administration of Ahmadu Bello University, Zaria and is Approved in its contribution to knowledge and literary presentation.

NOVEMBER, 1998.

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DEDICATION

DEDICATED TO ALL THOSE INTERESTED IN MAKING AGRICULTURE TAKE A MORE BUSINESS FORM.

PLEASE IMPROVE ON THIS PROJECT.

ACKNOWLEDGEMENT

To God Almighty be the Glory, Amen. I wish to express my profound gratitude and appreciation to all those who contribute in one way or the other in my starting and finishing this course.

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I say thank you all.

Loving Greetings
MBA

ABSTRACT

Agriculture in any nation plays a vital role as the backbone and foundation economy.

It constitutes a basic economic unit making significant impact on the Gross Domestic Product, GDP, of a developing country as Nigeria.

It forms a reflection of the Socio-Economic status of majority of the populace involved in it.

Majority of the operators of this sector is non-literate peasants with little finance and has small holding. They deserve special attention to ensure higher productivity and aggregate production to be able to stimulate and reinforce the secondary and tertiary sectors of our economy.

A major constraints experienced by the farmer are finance and management. Finance when obtained deserve effective management which is routed in efficient management of all operating resources of the farmer which otherwise have financial values.

This research investigates these resources with a view of appreciating their impact on high productivity and efficient use and management of finance.

Chapter One briefly looks at all aspects of the study while chapter two reflects a very elaborate and expansive literature review. The essence of this, being to point all operational aspects of management with probable impact on agricultural business and finance. This also enables the researcher to draw up questionnaires for detailed study. Issues investigated with the help of questionnaires A and B help in drawing relationships with productivity and invested finance.

Chapter Three looks at how the primary and secondary data collected are to be processed for useful information.

The research methodology to be used, suggests both a descriptive and prescriptive approach.

Jn Chapter Four data from the questionnaires are analysed and impact relationships drawn for conclusion.

Finally, the findings from the analysis and relationship of the technical and other issues to the efficient utilisation of finance in this chapter arc used to make conclusions and recommendations in Chapter Five.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Agriculture plays a vital role in Nigeria as the mainstay of the nations economy. This sector positions itself as the foundation and fallback economy. A foundation built upon the strength of the small-scale farmers that constitute about 80% of the nations population located in the rural areas with little access to modern facilities and the cities.

Of this population, 90% are small-scaled in their farm holding classified by international standards and defined in terms of land size, capital, technology, scope of operation e.t.c.

Furthermore, 85% of this farming population are women who in addition, do their basic domestic works. This sector despite its contributions in terms of food and fibre for consumption and utilization in the Agro-based industries respectively has over the years received relatively small share of policy attention at all levels. The result of this is.a declining contribution to the nations Gross Domestic Product, GDP in recent years.

Osakwe et. al. (1986) has this to say – "In 1963/64 agriculture contributed two-third of the nations GDP, Ten year later, this sectors contribution was one-third; and twenty years later in !983 this went down further to one-fifth of the national GDP."

Apart from environmental problems of draught, erosion pest and diseases, several factors have added to cause this periodic steady drop, among which are –

- Lack of policy attention (mentioned above).
- Inadequate and inappropriate technology.
- Institutional deficiencies in the areas of marketing, finance (credit), land tenure, etc.
- Culture and traditional bondage.

- Rural – urban migration
- Over dependency on oil as a major foreign exchange earner.

This project research work directs its attention on issues of finance and financial management.

It is worthy of note, that although the bulk of farm work is done by women, management decisions, control and finance are handled by men.

Quite often investigations have shown that money borrowed for farming activities, has been misappropriated by the men (head of the family), who allocated it to non-agricultural activities.

Credit acquired for purpose of agricultural business are expected to be adequately monitored and managed in the best possible ways as to maximise returns on investment and repay lending sources if borrowed

By this approach, the lender and borrower are benefited to run a viable farm – credit programme that ensures growth of the two parties.

This management should not only be efficiently done within laid down and standardised procedures recommended but also framework of time and environmental situation.

It should also be effective with objective and subjective considerations that address issues of changing time and environment which demand managerial adjustments for attainment of identified goals.

This project therefore, makes an overview of co-operative as ideal management style, which reduces or eliminates various operational constraints by resource pool and commitment to actualise effective utilisation for results.

Few co-operative organisations exist for meaningful study since most of them have been exploited and destroyed after formation in Nigeria.

This is due to the abuse of the basic ethics of mutual trust and respect and the principles of cooperative required for the existence, survival and growth of such organisations.

The Nigerian Tobacco Company (NTC) farmers co-operatives have survived because of the administrative efforts of the company to ensure steady supply of their raw material (Tobacco Leaf) for production of cigarette from contract farmers, organised as co-operatives for ease of management. These co-operatives have effectively and intensively reduced the management problems of the farmers resulting in higher level of productivity and production.

Human and non-human resources are utilised to ensure returns per operational inputs.

This project research study pays attention to finance employed in small-scale agricultural business with emphasis on its effective management.

In doing this is takes a view on the manner in which credit has been managed within the NTC farmers co-operative organisations and options available for effective management.

1.2 STATEMENT OF PROBLEMS

Individual farmers in rural settings receive relatively small share of investment and policy attention of the government. Most often little or no consultation of farmers and their leaders are made for development plans and planning.

It is difficult to reach individual small-scale farmers except particularly when created into co-operative societies for effective participation in organising production, funding, improved techniques of production, better marketing, processing, etc. The question then arises – How can these co-operatives as institutional arrangement be designed and created within the basic co-operative principles to fit into the norms and values of the target societies in order to comply with their traditional milieu?

Since formalised "co-operation" is unknown, teaching the farmers the co-operative spirit becomes essentially necessary in creating successful

co-operatives. It is only by this approach that democratic control and co-operative management as a management style can be used for acquisition and utilization of resources particularly finance.

How can we then achieve this co-operative spirit? Herbert C. Fledeler John generally defined management as "the art and science of organising and directing the resources of an institution (Manpower, Capital, Facilities, etc) toward the achievement of its various objectives".

When a co-operative fails, we say the management is weak but when it grows rapidly, operates successfully in all its aims and render good services, we claim its management is good.

Apart from internal factors, certain external ones such as members education, social, political, economic and legal environment are also considered to make a co-operative successful.

After due considerations of all these factors, effective management remains the most important single issue of attention in business.

How can we adequately attain an effective management that adjusts to such externalities satisfactorily?

In similar consideration Effective Financial Management reflects the effective organisation and directing of financial resources available to the farmer groups towards attaining their objectives.

How do we ensure an effective financial management particularly in a corruption riddled society as ours?

What financial tools and parameters shall we employ for such effectiveness?

Certain problem areas can be identified and addressed for motivation to ensure successful Agricultural credit operations.

Which specific motivations can enhance the participation of the individual borrowers, co-operative organisations, credit institutions and appeal to the government in a credit programme?

Planners of Agricultural finance programmes make investigations into these problem situations as they affect the small-scale farmers.

Certain issues become obvious.

What solution approach packages, strategies and financial policies can be advanced for adequate motivation and participation of participants in the programme.

What policy consideration can be satisfactorily effective at each operational stage and why?

This becomes the problem issue to be addressed by the programme analyst and designer.

How would the strategies be integrated so as to accommodate the basic interests of the relating organisations?

How much particular interests can be accommodated in the mutual relationship between the institutions and within the co-operative specifically?

Would these motivations be appropriate enough to stimulate as well as catalyse the farm credit programme at the short and long run?

What legal and organisational relationship can bind the farmer co-operatives, produce buyers and financing organisation?

How much of all these considerations exist in the relationship between the NTC farmer co-operatives and the NTC.

How effective have they been?

1.3 AIMS OF STUDY

This study among many objectives is aimed at: -

1- highlighting the various operational aspects of general management and financial management

2- Reflecting their essentiality in the financial management of small-scale agricultural businesses.

3- Highlighting relationship between management and financial management of small-scale agricultural businesses.

4- Identifying aspects of management which are/are not essentially necessary for achieving financial effectiveness in small-scale businesses.

5- Understanding and analysing financial indicators/tools as well as their usefulness in goal attainment.

6- Relating some specific management aspects and tools to small-scale agricultural business.

7- Highlighting the most economical strategy or combinations of strategies for fund utilisation by NTC contract farmers.

8- Reviewing the NTC existing financial management system to ascertain effectiveness and improve on it if need be.

9- Investigating the co-operative methods of financial planning, budgeting and budgetary control.

10- Spot lighting the relevance of the co-operative system in effective financial management, survival and growth of the organisation.

11- Using the financial management operation in creating organisations financial policy.

12- Assessing the potential and real impact of appropriate financial management practices in financing small-scale agricultural businesses using co-operative as ideal management style and an institutional setting.

13- Finally justifying the adoption of this approach over and above other options to source their industrial raw material.

1.4 RELEVANCE OF THE STUDY

This study addresses the unique issue of finance that constitutes a major constraint in small-scale agricultural business, which for same limitation has remained traditional and subsistence.

In doing this it has placed emphasis not just on the acquisition of finance or credit but rather the effective management of such fund in order to justify the lending and borrowing exercise.

By this study, various aspects of financial management are being highlighted and more deeply appreciated particularly in line with the overall performances of small-scale agricultural businesses.

It has made an assumption that the lender is operationally sound in its financial administration and given much attention to the farmer-users of the credit, here termed the borrower.

The study has also addressed from small to large group of people of diverse backgrounds' but with common interest in farming for both subsistence and profit.

This study is of significance in the sense that it will shed light at co-operative as an effective management style., which takes care of essential administrative areas such as general management, financial management, technical requirement and knowledge information and farmers education as well as democratic control in-built into the co-operative systems.

The study enables us to ascertain and appreciate the numerous contributions of this management style in activating and consolidating the survival and growth potentials of the various individuals and parties operating it.

The role of this model as a transition strategy from the traditional and subsistence pattern to modern and business oriented form of agriculture is also appreciated in this research project.

The effectiveness of this model as an Agricultural Insurance package is also highlighted by this study.

Operators of the agricultural financial institutions will have a lot to borrow from this research, as approach package to effective financial/credit administration.

From this study also financial policies originating from the users point can effectively be formulated as guidelines to subsequent financiers and needy farmers for mutual satisfaction.

The result of this study will form a guide to potential and prospective operators of agricultural business credits and farmers in selecting the management type, financial management style and tools, contractual legal system to use for effective utilisation of funds.

1.4 SCOPE OF STUDY

This study covers all areas of agricultural credit management by the Nigerian Tobacco Company (NTC) tobacco leaf growers in Kaduna State.

It is concerned mainly with how the 'contract' growers acquire their credit, utilise and repay it while making profits.

It also looks into the use of co-operative as institutional set-up for such financial management programme.

The study pays attention to problems experienced and solution advanced to reduce or eliminate them.

It takes its target as the Maigana Zone.

This project work studies the farmers involved in Tobacco leaf production that are either funded by NTC or financially independent.

The entire study is divided into five chapters.

Chapter One =Introduction= introduces in broad perspective the role of finance, need for effective financial management, role of co-operatives and problems.

It also throws light on the aims and objectives while justifying the study.

Chapter Two is basically a theoretical framework and review of literature existing on the issue of credit management using co-operative as a back-up institution.

This it views from existing, similar schemes both within and outside Nigeria particularly as handled by the Agricultural Co-operative Development International, ACDI, of the United States of America.

This will enable readers of this work evaluate the NTC programme relative to Universal Standard.

In this chapter also attention will be directed to co-operative farmer-users in comparison with non-users so as to relate impact on general performance.

Although emphasis is on financial management all other contributive factors are also given deserved detailed attention.

Chapter Three focuses principally on research methodology employed.

Chapter Four addresses briefly the history of Tobacco industry generally and the NTC in Nigeria specifically. It goes further to analyse the data under study.

Chapter Five deals mainly on the findings of chapter four using it for summary, conclusion on the study. And finally advance suggestions and recommendations where appropriate.

1.5 LIMITATIONS:

Certain problems and/or limitations are found in this study. Popular ones can be discussed under the under mentioned subhead.

1- Spatial Limitation

2- Time Limitation

3- Resource Limitation

SPATIAL LIMITATION: This research project is limited to the effective financial management of finance used for tobacco farming in Kaduna State by the Nigerian Tobacco Company PLc., NTC.

This is particularly as operated through the co-operative management system.

Although limited to five local government areas of Zaria, Soba, Kauru, Lere and Ikara, it is discovered that the participation and attention to some of these local government areas have drastically gone down so much as not to attract any major interest.

Again there is also the problem of accessing every growing village and individual farmers

Many attempts therefore are made in generalising certain issues using available data.

TIME LIMITATION: This project work has time constraint and therefore limits exhaustiveness as well as comprehensiveness of the study.

RESOURCE LIMITATION: Human and material resource limitations on the part of the researcher seriously affected the study.

Limited funds reduced the training and engagement of field assistants. It also affected the extent of travels by field workers to growing farmers and some locations for administration of questionnaires.

Efforts were made to meander through these constraints and produce a reliable and dependable study.

Any conclusion therefore drawn from this study or opinion raised should not be very absolute recognising the above mentioned and other constraint variables.

** ***ACDI*** = The Agricultural Co-operative Development International, ACDI is a private corporation chartered under the Not-for profit laws of the State of Illinois, USA. It is the largest of its kind and most successful in the USA with membership of most major Agricultural Co-operations in the USA including farm credit banks. It provides impetus to agricultural progress in developing countries by assisting in planning, organisation management and services related to Agricultural Co-operative.

DEFINITIONS AND CONCEPTS OF RELEVANT TERMS

- AGRICULTURE: The science of the method of production of plants and animals for human needs.
- AGRICULTURAL BUSINESS: A business unit set and organised to meet the needs of the agricultural sector.
- BUDGET: A representation of operational plan and Goal(s) of a business in quantifiable terms.
- BUDGETING: Act of reflecting operational plan and goal(s) of a business in quantifiable terms.
- BUDGETORY: Use of management instruments to direct and control the operational procedure of a business.
- CONTRACT FARMER: Farmer obliged by law to farm for another individual or organisation in return for an agreed obligation.
- CO-OPERATIVE: Group of individuals with common interest that pool their resources together to achieve stated objectives or attend to needs.
- CO-OPERATIVE MANAGEMENT: Unique management style designed and adopted to meet the need of member-users of the co-operative.
- CO-OPERATIVE SPIRIT: The Willingness and commitment to co-operate formally by members of a Co-operative organization, as reflected in the basic Co-operative principles and bye-laws.
- CREDIT: Process of securing control over the use of money, goods and services in the present, in exchange for a promise to repay at a future date.
- EFFECTIVENESS: Ability to achieve result.
- EFFECTIVE MANAGEMENT: Management style which achieve result by using all ethics and principles of management without infringement with the environment in which it operates.

EFFECTIVE FINANCIAL MANAGEMENT: Financial management style capable of attaining the goals and objectives of an organisation.

- FARMING: This implies the technical production of plant and animal.

* Most often Agriculture and Farming are interchangeable used and acclaimed to be the same in meaning

FARMER-USER: (MEMBER-USER) of COPERATIVE. These are individual farmers that have come together to co-operate, pol resources together to satisfy some of their basic needs. The own and use the cooperative of their need.

FARM MANAGEMENT: This is the process of planning , organizing, directing and controlling the operations of the farm business toward achieving set goals

FINANCE: An economic study of the acquisition and use of capital for an economic activity.

It can also be used to describe the actual capital.

FINANCING: This implies the actual acquisition and use of fund for economic activities at macro and micro levels.

FINANCIAL MANAGEMENT: Thisis the mangement and control of fund in an economic activity at micro-level ie individual farm business.

financial management and farm management are interrelated and interdependent.

FINANACIAL STATEMENT: This is a statement of financial operations used by management, a tool to measure cost, efficiency and to facilitate sound financial decisions

GROSS DOMESTIC PRODUCT (GDP): Money value of a goods and services produced within the country.

MANAGEMENT: Ability to set objective combine ideas, processed, materials facilities and personnel to achieve the said objective

PLANNING: laying down programme of activities in a business regarding the best course of action to be taken over a future period to achieve adentified goal.

- Financial planning and business planning are interrelated and inter-dependent.
- POLICY: A guide for making operational or administrative decision in an organization.
- SMALL – SCALE AGRICULTURAL BUSINESS: An Agricultural business unit limited in all its capacity and scope of opera tion.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1THEORETICAL FRAMEWORK

Certain fundamental principle, theories and concepts consist the background for this study in its very diverse form.

The are used as they relate, explain and give meaning for deep appreciation of various aspects of the study.

Included are the theory of finance, theory of financial management, theory of co-operative and its principles as well as co-operative management.

Also are various concepts and models of management. ,

According to Pandey (1964/5) wealth maximization is a criterion for financial decision and therefore valuations models provides the basic theoretical and conceptual framework.

Tipotch (1974) pg. 51 *his paper on co-operative and economic development in Africa: A* conceptual framework, stated that co-operation or communal self-help is practiced as a means of enhancing productivity, mutual understanding, friendship and other aspects of community development. He stated further that, "acombination of frienship and productivity is usually existent communal self-help.

The relevance of an economic sysytem is its African economic development orientation or contenet. This calls for an ideal socio-economic framework. Communalism is still the dminant way of making a living for most Africans and consequently and system on individualism becomes relatively very difficult for Africans to understand and utilize.

The theory and concept of cooperative and a co-operative management system recognizes this in its design, operation and distribution of wealth. Although the western type co-operatives are now an important feature of the African co-operative economy, they are developing within the context of a mixed capitalistic system in most African economies.

Operation of any system based on individual initiative like the mixed capitalistic system always results in unvenness in the distribution of income and wealth.

A progressive tax system can not correct this ineveness because the higher level technical people will always exploit the tax system better than others. The reason is that they exploit better most of the opportunities offered by the system.

Apart from the socio-economic, financial management effectiveness in the co-operative institution include the basic concepts of

1- Extension
2- Technical Operation and Efficiency
3- Policy and
4- Legal System.

Various principles, concepts, models are highlighted in their relevance to this study in this chapter more.

2.11 THEORY OF CO-OPERATIVE MANAGEMENT

It was in 1844 that a group of twenty eight weavers established the first co-operative society in the town of Rochdale in the United Kingdom. This is linked with the period of the industrial Revolution in Western Europe.

The origin ia Associated with Robert Owen organized the Rochdale weavers to co-op Erate by pulling resources together to improve themselves .

To avoid failure or success by accident the Rochdale weavers adopted certain rules to control their operations. These rules or guidelines principles over a time come to be called the Rochdale rules and often found in the rules of modern co-operatives as the basic principles of co-operative organization and operation.

Co-operation within the social structure is a way of life. Reciprocity as an integral part of neighbourhood group co-operation and in co-operative organization, the principles maintain a close accounting of the mutual obligation.

The theory of co-operative management is primarily concern with the gathering of the principles for co-operation among people to manage co-operation. As management it carries with it the management psychology, philosophy and practices used for ordinary business management.

Co-operative management is special, because of the distinctive management features arising from the special type of people using the co-operative society. Two fundamental principles are useful in co-operative management namely:

1- Basic Principles of co-operatives
2- General Principles of business management

Management is defined as "the act of combining such things as ideas, processes, materials, facilities and people to produce and market products or services.

This is considered from The viewpoint of function encountered and the people involved.

As attitudes towards the role of co-operatives have changed over time, so have the co-operatives themselves through their constitutions or by laws they have begun to undertake a diversity of operations which previously were considered unsuitable for co-operative undertaking. The basic objective remain little changed. The co-operative movement has progressed and spread for a field from humble beginnings on a formal basis of the pioneer co-operative society of the Rochdale England. Co-operative management as a management style addresses the following four aspects of management.

1- PLANING:- This simply put is a management process of thinking, judging and deciding through many alternatives to meet organizational objective. It is preparation for work and not actual performance of work.

2- ORGANISING:- This is the collection and arrangement of resources to execute a plan. It involves grouping of activities and the structural arrangement of personel, facilities and equipment.

3- DIRECTING: This involves a logical and sequential execution of detailed activities in the plan using appropriate human and non-human implementation resources. It entails guiding and oversecing operation or activities by assigning tasks to facilitators using appropriate facilities and methods.

Co-ordination is necessary to ensure integration of activities personnel, facilities and equipment in order to achieve a satisfactory unified operation. The basic aim of co-ordination is to prevent conflict of activity and support oderly flow of work from stage to stage.

4- CONROLLING FUNCTION: It involves checking activities to ensure that they occur according to plan and taking necessary remedial or preventive action to ensure smooth execution of such plan.

In management control, the actions are guided by plan to the expected result. Also the result achieved must be determined, evaluated against expected and adjusted to plans if going astray.

The essence of control is to:-

a- Avoid unauthorized action

b- Predict trend and forecast result (Expectation).

c- Assist management in performance appraisal of work plan executor, and

d- Establish general business policies.

Generally, control is better done by independent person outside the implementation team to avoid bias.

The planning and implementation of rural development policy involves the assistance of truly representative rural institution:

This include where appropriate, co-operatives based on members' self-help, Common interest with participation and dedication to common cause.

Co-operative is therefore managed to fulfill its role as an instrument of economic and social changes.

The developing countries of Africa have so many cases situations needs and problems which are peculiar to themselves. In efforts to resolve some of these problems and attempt to meet the needs, these countries have to take steps which suit their own changing condition. This is true in the field of the co-operative instrument.

In the formative days of the co-operative, pioneer in Rochdale emphasis was placed upon democracy in the management of co-operative and their autonomy and independence from external control.

This principally structured the management principles even at the expense of economically progressive business principles.

Recently we have prevailing Legal framework which not only regulate the operations of co-operatives but appear to dominate the co-operative movements.

There is also control and interference within the legal frameworks by aims of government in not only the development and future direction of co-operative movements but the day-to-day operations of co-operative organization.

Finally in many instances government have chosen on their own initiative to bring about introduction of co-operative either as a total policy for rural development as in certain programes eg. The Family Economic Advancement Programme FEAP in Nigeria and Ujamaa Vijijini in Tanzania or as a selective policy as in the case of Uganda and Kenya co-operative programmes.

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In addition to government-inspired cooperative programme e.g. FEAP, the feature of "membership' is also evident and seen to a viewer to negate certain cooperative principles.

This may not augur well for future growth and health of these cooperatives since the approach is synonymous to backward linkage in ordinary business.

Reporting in 1966, the International Cooperative Alliance according to Akinwumu 91982, 32) stated:

> There is no doubt in the minds of the commission that democracy in the management of cooperative organizations necessarily implies autonomy in the sense of independence of external control apart from the obvious obligation of cooperative societies to bow to the same general laws as all other business undertakings and accept the discipline imposed by the state or the planning authorities.
>
> In a fully developed cooperative unit, the management must rest in the hands of the members and all decisions be taken by the cooperators themselves with no external interference. Autonomy is therefore a corollary of democracy.

In the management and operation of cooperative, three basic principles that distinct a cooperative far outside the ordinary business organization are:

1. **DEMOCRACY CONTROL**:- This implies that the final authority of controlling the affairs of the cooperative rest on the number who use the cooperative called the member – users.

   By this control, the democratic principles are ensured by relating the voting power to the patronage of the cooperative. This principle is built on the belief that member who patronize or uses his cooperative more has greater interest and commitment to its progress and success.

   Implicatively, he should influence a control on it. Most cooperatives permit one man, one vote while others supplement it by addition due to patronage. This

differs from ordinary business organization where the voting or controlling power depends on shares held in the business.

2. LIMITED RETURN ON INVESTMENT: - Cooperatives operate at cost with limited returns on stakeholders invested capital. While the ordinary business is generally acclaimed to operate on profit maximization principle, cooperatives operate on Benefit-maximization to its member – users. To ensure this therefore expected profit is limited and built into reduction of cost.

   For a cooperative to be protected under the Capper – Volstead Act in the United Stated of America, it must endeavour to either limit dividends on stock or membership capital to 8 percent a year or restrict voting right to one – member one vote. These limitations is uncommon in ordinary business management discourages exploitation or control of cooperative by profit maximization oriented individuals interested in returns rather than greater savings or returns to patronage. This results in "Capital flight" on the part of potential capitalist investors.

3. **OPERATION ON A "COST-OF-DOING BUSINESS":**

   BASIS: - Cooperatives do not retain excess of gross proceed over and above expenses (profit). It returns its net savings to its patrons and therefore reducing its gross income. By this it is said to be implementing the principle of Operating – at – Cost.

   The amount involved never becomes corporate income and therefore not subject to tax. Often returns are paid to member patrons as patronage – returns while income accruing from patronage of non-member patrons are subjected to tax like any corporate organization.

Ironically, and quite often cooperatives do not differentiate the sources of income.

There are many types of cooperatives:

- Farmers producers Cooperatives
- Farmers Consumers Cooperatives
- Agricultural Produce marketing Cooperatives
- Thrift and Credit Cooperatives
- Multi-Purpose Cooperative etc.

The management structure and form reflects the type of cooperative and the objective(s) it is to achieve. It then uses the basic principles of cooperatives to achieve such objective(s).

The management of cooperatives is more appreciated from the viewpoint of its expected function and motive. This is reflected in a policy statement by Agricultural Cooperative Development International, ACDI, in its workshop on Assisting and Organising small farmers using the cooperative as vital institutional arrangement. It reads as follows:

1. Cooperatives assist agricultural development primarily by serving the needs of their members as agricultural producers. They can stimulate rural savings and investment, channel credit supplies and information to small farmers from exploitation by traders, moneylenders and urban business. They can take many forms and may need strong governmental help to get started but they should be democratically controlled, should distribute any further gains among their members mainly as a refund on patronage not as profit on ownership.

2. The most effective function of cooperative organizations is to help farmers who have upward mobility in terms of land and water resources and technical capabilities. Upwardly mobile farmers are those who have sufficient motivation, initiative and primary agricultural skills to become effective farmers in spite of their small land acreages. Such farmers are minority of the rural poor.
3. Development aid to small farmers can be channeled effectively only through a group approach such as cooperatives and farmers associations.
4. Agencies both national and international need to understand what agricultural cooperatives can do in reaching small farmers and what lies beyond their capability in the attack on other aspects of rural poverty.
5. Leadership in the organization of cooperatives generally comes at first from medium sized farmers. However, leadership potential exists among all farmers regardless of size of holding and expanded development and growth of cooperatives comes best from small, medium and large farmers working together.
6. While economic development through farmer cooperatives may not appear to directly benefit the entire rural population as the short run, in the long run it should mean increased employment and benefit also for the landless rural poor.
7. Leadership in cooperative involving small farmers should be broadly representative of the interests of both the small and medium farmer and should ensure that all interests in the cooperative are carefully guarded.
8. Leadership at the subsistence level is only potential, but by participation, information and education through cooperatives and farm organization, it can be developed as a major force in agricultural and rural development.

9. Governments should not unduly delay the transition from initial government control to farmer self-determination when farmers in credit organizations, farmers associations and cooperatives are able to manage their own enterprises and affairs.

1.0 In order to realize agricultural progress in developing countries two kinds of organization are needed – on the one hand, farmer association expressing the hopes and aspirations of farmers on legislative and administrative matters and on the other hand cooperatives evolving as economically sound business institutions owned and controlled by farmers.

11. It is highly important that the small farmer organizations and cooperatives, which are expected to participate, is development programmes be involved as directly as possible in all the stages of programme planning and execution.

12. Agricultural development can only be meaningful and successful if the rural population including not only small farmers but also non-farmers is actively involved through local government assembles, associations, cooperatives and other organizations.

13. The major business of cooperative development is to create and maintain viable economic institutions to serve their members. For farmers to achieve this goal it is necessary for governments to provide infrastructure and favourable climate for cooperative organization and growth. Essential elements in such a climate include a sound cooperative laws, access to credit, supplies and markets of favourable terms and often special concessions to counter-balance those of established businesses.

14. Viable cooperative development depends on the combination of grass root primary cooperative societies, which are sufficiently local to call forth full farmer participation and service organizations at the secondary level which are on a sufficient scale to support effective management, competitive marketing facilities and economic distribution of supplies and credits. These two layers of organization need to be developed simultaneously.

15. There is no single universal procedure for solving the problems of the farmers of the third world involving the upwardly mobile group. There is a wide range of experience among developing countries as to how best to mobilize the productive potential of the small farmer both in terms of organization and delivery system. It is important that donor agencies recognize the significant differences among countries in their development planning for cooperative organizations and allow adequate time for sound cooperative development.

16. The approach to international lending in developing countries has up to this time had little relevance to the specific capital needs of cooperatives in the recipient countries. We recommend that the financing agencies adopt more flexibility of approach and criteria suited to the various requirements of cooperatives, which are often different from those of either governments or of business – for – profit.

2i2 **THEORY OF FINANCE**

Stapleton (1970) "In his book The Theory of Corporate finance defined financial theory as "an attempt to explain the investment and financing behaviour of companies".

He further stated that this is unlike theories in economic, which attempt to explain or predict the actions of economic agents. Thus the first requirement of any

economic theory is an assumption as to the motives or aims of the economic agent and for the finance theory is of the company's financial behaviour the aim of the company is assumed to be to further the interest of the owners. For the financial decision to be sound, consideration should be given to the various interest groups, the owner, creditors, management employees, public, government etc.

The theory of finance is also described to concern itself with how individuals and firms allocate resources through time. Stapleton stated that the major issue of financial theory is the determination of the share value of the company, which is the determination of shareholders wealth. The impact of a particular investment decision or finance policy can be analyzed after the share values of the company without the additional investment has been determined.

Thus, the individual investment proposal should be accepted if it increases the share value of the company by more than the amount of additional finance required from the shareholders. Organizations are assumed to choose their investment and financial policies so as to maximize the wealth of their shareholders. Apart from the sourcing of fund, this fund is to be allocated to projects that are identified to be potentially feasible. Investment involves commitment of funds (credit or finance) with the expectation of positive returns commensurate with the level of risk.

Naturally, three states are available in analyzing an investment.

1. Certainty – Assurance of outcome from any investment.
2. Uncertainty – Non-assurance of outcome on investment.
3. Risk – This is the dispersion of outcome around the expected return.

Most economic theories and management concepts are involved. Theoretically, this brings us to the economic model and concept of preference and choice. The economic theory of choice is a generalized statement of how choice is made in response to changes in circumstances influencing the decision. It also exposes this study to the class for choice termed Opportunity Set, which is the collection of the set of choices or available optional investment opportunities to select from using preferences of objective or goal parameter within the context. Satisfaction of such objectives takes one to the axiom of utility maximization.

The consumer or investor is assumed to have all necessary and essential information for his choice and probable ranking of his choice. The cardinal utility Thereon:

1. Rationality: - An investor is assumed to be rational and aims of maximizing the return or his investment.
2. Cardinal utility – Both the input to invest and return are measurable in standard terms (e.g. money).
3. Constant marginal utility of money – the measuring value of money is constant over all ranges of such measure.

UTILITY ANALYSIS OF CHOICE

The utility function looks at the investor's investment pattern by relating invested fund against returns. This considers the satisfaction (utility) from return on wealth or fund employed in making choice of investment. Certain assumptions are made for such Analysis.

AXIOMATIC BASES OF CHOICE

1. Comparability criterion; investment under choice should be comparable to enable investor choose one over the other.

$$X_{util} \quad >> \quad Y_{util}$$

He cannot also have an indifference position between two comparable investments.

$$X_{util} \quad = \quad Y_{util}$$

(Util is a measure of psychic satisfaction)

2. Consistency of choice: An investor given options for investment should know whether he prefers A to B or vise versa and consistent with such preference.

3. Transitivity of Choice: In choice among optional investment X, Y and Z

If X is preferred over and above Y

$$X \quad >> \quad Y$$

And Y over and above Z

Then it transitively follows that X is preferred over Z

$$X \quad >> \quad Z$$

4. Investment of Equal Utility are equally desired

X = a util

Y = a util

Then both are Equally desired. An investor is therefore indifferent in his choise between X and Y.

X = Y

5. Ranking: In ranked investment, the addition of a constant "b" to each does not disturb the preference

If X >> Y

X+b >> Y+b

6. Expected Utility Maxim: The Utility of a risky investment is equal to The expected utility of the possible outcome

E( ) = Σ PO: VQ.

This implies that an investor acts to maximize expected utility from such investment. Other economic principles for Financial Theory include:

Principle of Diminishing Returns – This considers the level which an investor should push the yield per hectare, market weight per animal, milk production per cow, size of farm to manage. This centers around Marginal Analysis which is a principal most comprehensive powerful economic tool. Marginal Product of Factor: Change in output resulting from a marginal change in production factor (keeping other factors constant).

MPL = (Marginal Productivity of Labour)

MPc = (Marginal Productivity of Fund).

Used for Equity financing consideration, Interest rate (Borrowing/Lending rate).

Also for Technical Efficiency.

Cost maximization considers the optional level of factor allocation.

MC = MR.

The share value of a company at any point in time depends upon the future uncertain cash returns the company makes to its shareholders. But future cash returns are dependent upon a host of factors, the most important are the investment policy of the company, the efficiency of its operation and the future economic environment in which it operates.

The expectation of investors with regards to all these factors determine whether they are buyers or sellers of a company shares at a particular point in time.

THE MARKET VALUE OF FUTURE CASH RETURNS

The rate of interest "i" at which money can be borrowed or lent determines the market value of future cash returns.

The market value of a cash return receivable at a point in "t" is the immediate cash amount for which the future cash return could be bought or sold.

Xt = Cash Return at time "t"

Pv = Market Value of Cash Return.

"i" = Rate of Interest

Pv = ( )

Market value of a series of Cash return X1 X2 X3---- Xn is the sum of the market value of the individual cash returns as shown below.

Pv = Xi + X2 +----------+ Xn

=

¿** Appraising investment proposal and taking investment decision is basically the principal purpose of financial theory.

BUNCH OF FINDINGS AND SPECULATION IN FINANCE

The essence of a vital financial theory is to, comprehend, retain and use important financial techniques much better and as well as a better understanding and function within complex real financial market and institutions.

The acquaintance of financial theory is necessary for effective financial management.

Boudereaux et al (1977, 4) in their text on Basic theory of corporate finance considered finance "as "economics extended into the dimension of time and uncertainty"

Finance therefore plays some economic principle to take decision at a point in time "to"has impact in time period P1 and P2 through time point "t1" and ending at time point "t2". They went further into the financial market by defining it as a place where market participants get together to exchange time dependent assets among themselves"

Financial market apart from being viewed as place where people come together to lend and borrow money, is also conceived as situation for exchange for money.

Lending is conceived as making resources (money) available to the financial market (supply). In return for lending the financial market gives the lender as asset (IOU) as "to" which promises to return to you later "t1" the exact Amount of resources (money) made available to him (principal) plus compensation (Interest; Price Reward; Cost) for the use of the resource (money) for the time "to" to "t1". Borrowing is therefore the act of acquiring resources (money) from the financial market (Demand). Interest is the payment (price) from the financial market which compensates for the use of your resource (money) during the period between "to" and "t1".

A rational investor loks at the utility he derives from the borrowed money and the price paid. This obeys the basic economic theories of Demand, Supply and Price.

An investor addresses his resource allocation across time by the financial opportunity line.

FINANCIAL OPPORTUNITY LINE.

By lending N20.00 at time "to" to the Financial market at 8% interest rate, our participant moves to a new position at point A (N60 – N97.2).

He has decreased his "to" resources by N20.00 and increased his "t1" resources by N21.60.

The Net Present Value: The final charge on a principal is based on the present value described thus of a promise of present and future cash flows is that sum of money a person would need right now to duplicate the amounts and timing of those promised cash flows by participating in the financial market.

This is represented in the Consistency of Return and Net Present value Rule diagram below.

CONSISTENCY OF RATE OF RETURN AND NET PRESENT VALUE RULES

Pg. 67, Stapleton.

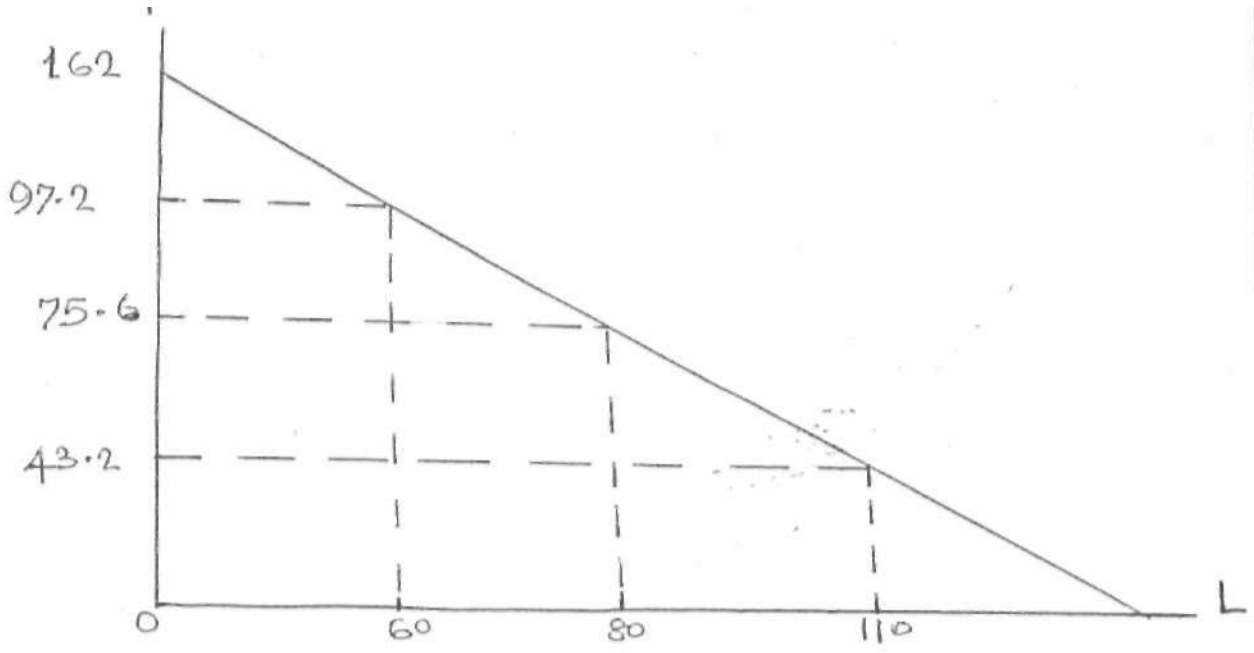
Xo = Cost of Project
X1, X2, Xn etc = Cash Returns
R = Rate of Return or Internal Rate of Return which is calculated without reference to the external market rate of interest
I = Rate of interest.

When Rate of Interest is Zero, NPV = X1 – Xo
At Infinite NPV= - Xo
Rate of interest when NPV=O is internal Rate of Return
(IRR) or Rate of Return of Project, "r".
Value of Equation or Graph is declining continually as the rate of interest increases
If r i; then NPV >O
R; then NPV<O
Ranking of projects according to their rates of return is the same as ranking from Net present values., The single-period individual investment decision is a simple decision either to accept or to reject the opportunity to invest a sum Xo at time O in return for a cash return X1 at time 1.

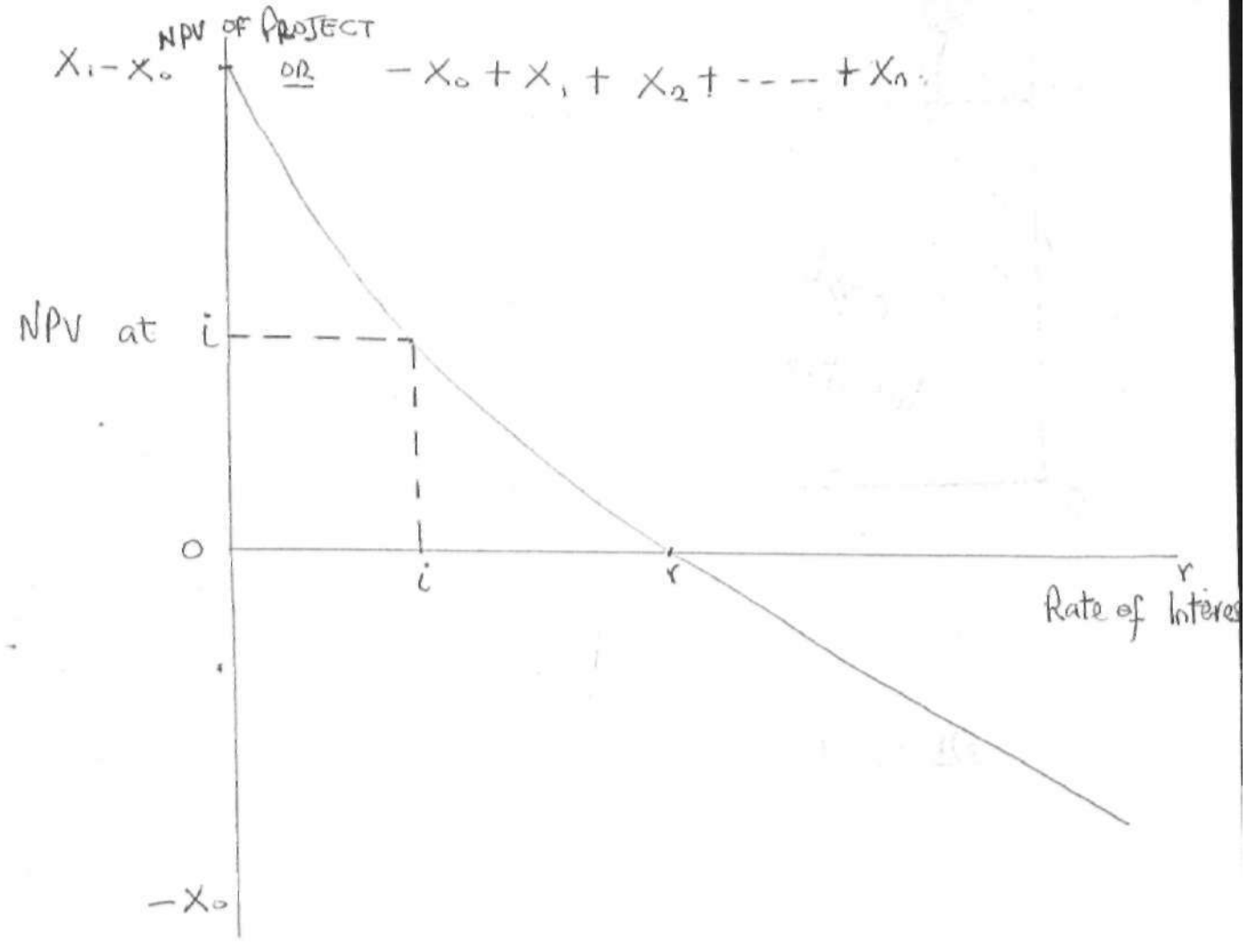
The projhect adds to shareholders wealth is NPV is positive.

NPV is found by substituting Xo and X1 in multi-period investments.

$$NPV = Xo + \frac{X_1}{1+i} + \frac{X_2}{1+i} + \cdots + \frac{X_n}{(1+i)^n}$$

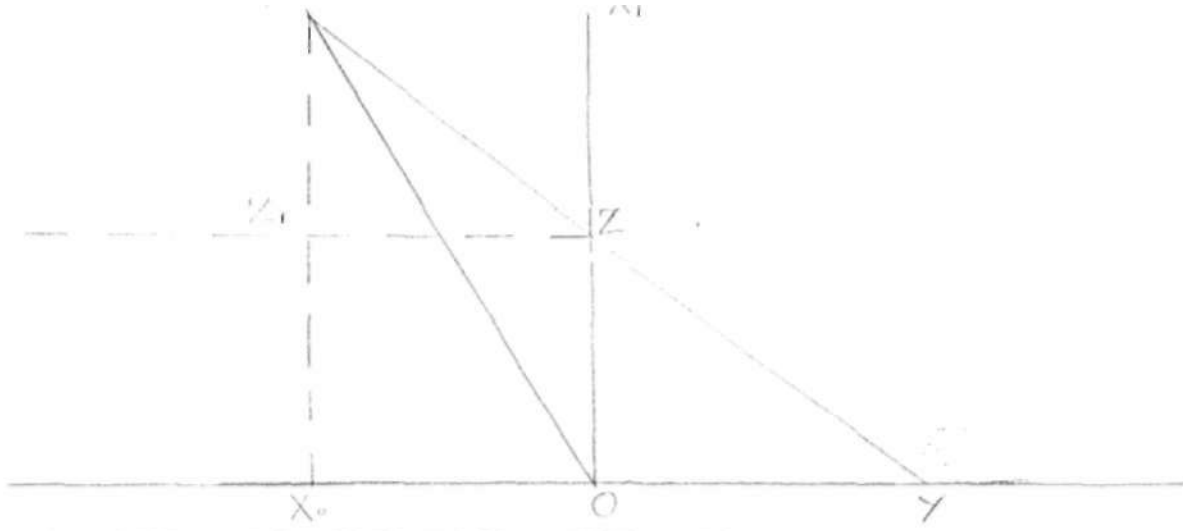


FINANCIAL OPPORTUNITY LINE (STAPLETON Page 12)



CONSISTENCY OF RATE OF RETURN AND NET PRESENT VALUE RA

(STAPLETON Page 67).



A PROFITABLE SINGLE PERIOD INVESTMENT

The 2 Axis show the cash effects and value of
a project at time O and time 1
Xo = cash outlay at time O ie indicated by point 'Y'
X1 = cash return at time 1
Y = NPV of project.

Y shows NPV of project when interest rate is I per period and Tine Y'Y has slope of 1+I
X1 = X1 = 1+I $\frac{X_1}{X_0+Y} = \frac{X_1}{X_0+NPV} = 1+i$

Choice of optimal level of Investment.

Stapleton (1970,56) defines Optimal level of Invetiment at time O as "that level of investment which maximizes the Net present value of the combination of investment undertaken and this maximizes shareholders wealth".

The Optimal investment level must allow all projects with positive NPVs to be undertaken, rejecting all with negatives

Alternatively all project will be accepted that have rate return greater than the rate of interest. $i \quad r_m > i$

2.13 THEORY OF FINANCIAL MANAGEMENT

The fundamental economic facet of a business is classified into Production, marketing and financing.

Business management takes decision on which of those economic activities to undertake.

Financing activities requires decision on capital acquisition and utilization

The scope of the finance function overlaps with the activities of any other aspects of a business.

According to Nelson et al (1963,54) "the theory of financial management assumes tha the financial manager is primarily concerned with maximizing the Net present worth of the future earings of the owners of the business".

This includes consoideration of not only the amount of the net earings but the timing and risk of the earning also.

Financial management they further stated evaluates the returns and risk associated with altenative use of fund in business.

Pandey (1964,3) defined Financial Management as tha managerial activity which is concerned with the planning and controlling of the firms financial resources.

Van Horne et al (1993,2) in their, The Fundamentals of Financial Management described financial management as being "concerned with the acquisition, financing and management of asets with some overall goal in mind"

They also stated that "efficient financial management requires the existence of some objectives or goal because judgement as to whether or not a financial decision is efficient must be made in light of some stadard.

The assumed goal of the firm they said, is to maximize the wealth of the firms present owners (shareholders) wealth maximization criterion is the basis of the theory of financial management. This criterion is also the same for the classical theory of the firm – maximization of owners interests.

Wealth maximization is also a criterion for financial decision and not goal for firm only.

For decisions to be effective they must be consistent with the organizations strategy and pass through the policy screening.

Wealth maximization ti the criterion which ensures that such decision meet the minimum stadard of economic performance.

Finance is a specialized functional aspects of business management.

It is the word used to described both the money resources available to governments, firms or individuals and the management of these monies.

Financial management is the financial agent of firms, owners and also trustee for various constituents of any economic unit.

It is also the responsibility of harmonizing the financial interests of owners with that of employees creditors, government or society.

For this purpose, Pinches (1990,2) described financial management as "the acquisition, management and financing resources for firms by means of money with due regards for prices in external economic market".

Financial management is thus viewed from three perspectives.

1. The acquisition, management and financing of resources needed by the firm.

   Resources are generally physical such as cash inventory, accounts receivable, equipment and machinery or manufacturing and distribution facilities .

   They also include people-employees of the firm. The money for these resources comes from a variety of sources such as borrowing, leasing, stock issues and the internal cash flow generated by the firms activities.

   The firms goal is to provide and manage these resources as efficiently as possible by balancing needs against risk and returns.

2. According to Pinchese the firm keeps tracks of resources in terms of Naira which is a unit used to express the results of almost any activities considered by the firm.

3. The primary concern of financial management is the firm and its operations.

No firm like no person exists in vacuum thus performance is affected by a variety o external factors such as health of the economy, taxes, interest rates, international tension and the prevailing political and regulatory moods.

Such performance of the firm is ultimately judged by the investment community –another external factor.

Financial management also involves evaluation of financial risk which determines how much capital should acquired amidst non-equity capital which can take form of borrowing, leasing and other contractual arrangements.

As leverage increases, the financial commitment increases hence the financial risk increases .

Business risk is the variation in net earnings arising out of the kinds of enterprises in which the firm is engaged.

According to Nelson et al (1973,56) financial management "evaluates business risk to determine how much capital should be required".

The use of non-equity capital creates fixed financial commitement in form of principal, interest rate rent or other financial obligations on the capital

These financial commitments/obligations to the supplier of non-equity capital results in financial risks.

A borrower borrows and lender willing to lend so far as the rate of return on capital invested exceeds the cost of using the non-equity capital.

This implies gain or profit from use of leverage in the form of increased returns to the owners of the business.

Financial function affects sizes, growth, profitability risk and survival of the firm.

Ezra (1969,3) has this to say "the function of financial management is to review and control decision to comit or recommit funds to new or ungoing uses".

Thus in addition to raising funds financial management is directly concerned with production marketing and other functions within an enterprises whenever decisions are made about the acquisition or distribution of assest".

Pandey divided finance function into four broad categories.

1. Investment or capital Budgeting decision thus involves.

   Decision on capital allocation evaluated in terms of Expected Return and Risk, measures the prospective profitability of new investment.

   Commiting and recommitting of fund to investment proposals.

   Selection of standards or Hurdle rate to guide Expected Return of investment proposal.

   The use of opportunity cost of capital.

2- Financial Decision or Capital mix Decision. This entails decisions of when, where and how to acquire funds to meet investment needs.

Also the proportion of equity and debt called the business capital struture financial management strives to have the best financing mix or optimum capital structure.

3. Dividend or Profit allocation Decision . This is the return on the contribution of the participants/owners of the business. In taking this decision attention is also on whether the organization should distributed all profits, retain all, distribute a portion and return balance optimum Dividend payout ratio.

4. Liquidity Decision Business current assets should be efficiently managed to protect the firm against insolvency or liquidity. Investment in current asset affects company's profitability, liquidity and risk.

Therefore decision on management current asset of the company is very important.

These are basically the duty of the top level finance managers, while the lower level finance workers engage on routine financial functions such as

1- Supervision of cash receipts and payment and safeguarding of cash balances.

2 custody and safeguarding of securities insurance policies and other valuable papers.

3. Taking care of the mechanical details of new outside financing.

4. Record keeping and reporting.

According to Pandey (1964,15) the reasons for placing the finance function in the hands of top management may be attributed to the following.

a. Financial decisions are crucial for survival of the firm. The growth and development of the firm is directly influenced by the financial policies.

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2. The financial actions determine solvency of the firm. Solvency is affected by the flow of funds which is a result of the various financial activities, top management being in a position to co-ordinate these activities retains financial function in its control. No prm can afford to threaten its solvency.

   a. Centralisation of the financial function can result in a number of economies to the firm. A more understanding and appreciation of the made by reference to section 2.24 of this chapter it deals on measures of financial management effectiveness.

Also for reference is the aspect of the issues and function on financial management for control in Agricultural credit management.

2.14 MEASURE OF FINANCIAL MANAGEMENT EFECTIVENESS

Certain parameters are used as measure of the financial management effectiveness of cooperative organization.

These are mainly reflected in financial rations that relate financial items in any operation.

According to Pandey (1964; 336) three steps are involved in the evaluation of an investment.

These are-

1. Estimation of Cash flow.
2. Estimation of the required rate of return.
3. Application of a decision rule for making choice.

In measuring financial management effectiveness, therefore Nos. 1 and 2 are used to enable No. 3 to be reasonable and reliable. Financial ratios commonly used to evaluate performance in financial management are:

1. **Current Ratio:**

$$= \frac{\text{Current Asset}}{}$$

2. **Current Liabilities**

This measures the organisations ability to pay its current obligations (due within 1 year) with assets that can be converted to cash within same period of time.

3. **Quick Ratio**:

$$= \frac{\text{Adjusted Current Asset}}{\text{Current Liabilities}}$$

This is an excellent measure of ability to meet current financial need without losing credit rating or forego discounts for prompt settlement.

4. **Member – Equity Ratio**:

$$= \frac{\text{Total member Equity}}{\text{Total Asset}} \quad \frac{100}{1}$$

This is a measure of long term financial strength of the organization. It measures leverage in the finance and then control of cooperative organizations.

5. Rate of Return in member Equity

$$= \frac{\text{Net Operating Savings}}{\text{Member Equity}} \times \frac{100}{1}$$

This is a good measure of performance on use of owners capital.

6. Return on Asset

$$= \frac{\text{Net Operating Savings}}{\text{Total Asset}} \times \frac{100}{1}$$

It measures overall performance in the cooperative organization.

7. Return on Sales

$$= \frac{\text{Net Savings}}{\text{Sales}}$$

Or $\frac{\text{Net Savings}}{\text{Processed or manufactured item}}$

These are net savings (Returns) per Naira of sales, per unit processed or per unit manufactured

Also $\frac{\text{Cost}}{\text{Sales}}$; $\frac{\text{Cost}}{\text{Processed}}$; $\frac{\text{Cost}}{\text{Manufactured}}$

These are costs per Naira of Sales, per unit processed or per unit manufactured. This is a measure of operational efficiency of supply, processing or manufacturing cooperative organizations.

8. Accounts Receivable to Current Asset ratio

$$= \frac{\text{Accounts Receivable}}{\text{Current Asset}}$$

This measures the amount of current asset tired up in Account receivable.

9. Aging Accounts Receivable – This is used with all these above measures to determine the number of times the account of industrial member has been on use. It appraises collection policies.

10 Inventory Turnover

$$= \frac{\text{Cost of Goods sold}}{\text{Inventory (valued at Cost)}}$$

This measures rate of turning inventory to sales.

11. Net Operating Margin (on sales), NOM

$$= \frac{\text{Operating Income}}{\text{Sales}}$$

Operating income is sales less cost of Goods and operating (marketing expenses). *Nom is an indicatory of good or bad business. Increasing* NOM over time is an indication of good business while decreasing NOM implies bad business.

12. Profit Margin in Sales, PMS

$$= \frac{\text{Net Profit}}{\text{Sales}}$$

Net profit refers to operating income less fixed expenses such as insurance charges, depreciation, interest expenses as well as taxes. Profit margin in

sales indicates the relationship between profits and sales. An increasing profit margin on sales is also on indication of good business. It further indicates the role of fixed expenses in relation to scales – which implies a low profit margin on sales – will indicate a need for better utilization of fixed assets probably by increasing production. (note that through this increased production does not imply increased sales0.

It is worthy of note that certain financial ratios for measuring financial management effectiveness are not highlighted here. Issues on tax are not very prominent in small farm business as to involve EBIT in for example Net margin, PAY to EBIT ratio, Return on investment, Return on equity etc.

Also external borrowing is also not prominent as to involve most calculations on financial leverage e.g. Total Debt Ratio, Debt Equity Ratio, Capital – Equity Ratio, Interest Coverage etc.

The design and operation of the cooperative organizations do not permit many issues on shares as in ordinary business and therefore do not very much use ratios such as EPS, DPS, Payout Ratio, Price – Earning Ratio, market value to Book value etc. Due to the aims, design and operational pattern of cooperatives only activity ratios, liquidity ratios and a selected few of other ratios are used when they necessarily adjust into such cooperative forms.

Ratio analysis is a very important tool for addressing relevant issues in managerial practice as it provides basis for investigating performance and drawing conclusion. Such conclusion may not be absolutely accurate or reliable since this also depends on reliability of the financial information functional need and accounting figures. Accounting may suffer from accounting policy charges inflation and arbitrary allocation procedures.

But despite all, financial ratios are generally used to predict management success or failure in a business.

2.2 SMALL – SCALE FARMER IN AGRICULTURAL BUSINESS

Several concepts and character descriptions of the small – scale farmer has been used in trying to understand and appreciate him.

Okoruen (1981, 609) used the following character description and qualities to highlight the small-scale farmers SSP

1. Illiterate and ignorant
2. Small farm holding (Farm size).
3. Consequent small output and revenue
4. Limited input particularly capital
5. Labour force is predominately family labour
6. Farm power is human energy
7. Low level of technology
8. Productivity is low.
9. Little or no capital
10. Rural located.

This study has in addition used several management criteria to further describe the small-scale farmer and understand better the activities involved in small-scale agricultural business. These basically are:

1. **Manpower**: The small-scale farmers are predominantly rural dwellers involved in farming subsistence level with his family. The population of the small-scale farmer, SSF, is prone to regular and high rate of manpower drainage. These are mainly young capable hands. Migrating from the rural to the urban centers. They are replaced by a rather lesser population of weaker and older manpower that are probably retirees from the urban centers. The manpower needs no special skill nor training. He takes farming as a culture and ritual and not a business.

Owing to the weak economic background of the SSFs, this workforce deserves some vocational training to support their income generating ability. High income ability will turn the rural population into a stimulating market for both Agricultural production as well as goods and services from other sectors of the economy.

The motivation of the SSFs is success-defined by personal sentiment an style and not necessary wealth.

A typical success symbol is the ability to sustain the family livelihood and not commerce.

The can only have definitive identities when grouped into cooperative forms.

2. Technical Input Resources:- The SSF uses simple and primitive tools that are man-powered eg. Hoes, Matchet, Sickle etc.

SSFs can be seen using simple equipment that require animal energy as power generator eg. Ox-draw ploughs and ridgers. His landholding is small with a maximum range of 5 – 10 acres. A size that is manageable by use of traditional technology and family labour force. Most often such landholding is in scattered locations that encourages any form of meaningful mechanization.

Land tenure discourages his farming pattern decision on type of crop to plant and the duration of holding. His small, often scattered land holding limits his expansion and further exploitation of land related opportunities including his credit opportunities.

Use of resources such as fertilizers, seeds, chemicals etc is limited or non-existant.

3. Financial Resources: The basic capital of the small-scale farmer SSF is his tools and little finance he uses. He raises his working capital from personal saving that is rather very small and negligible.

His financial requirement is rather small and comes from assistance from his friends, family members and Thrift and Credit cooperative organization which he may belong to.

SSF Does not have access to institutionalized sources of credit.

When exposed to credit from local money lenders the SSF is exploited to the extent that he becomes worse-off than before borrowing such money.

The management of borrowed fund is very poor as he has no knowledge of fundamental book keeping and accounting.

Taking further Miller (197, 23) said no consultation is made with the SSFs by government in formulating financial or credit programmes which affects them.

Study on finance enables cooperative, extension credit officers to appreciate aspects of financial emphasis and formulate operational guidelines to farmer-credit-beneficiaries.

Even where there is available opportunity for institutionalized lending, the SSF local participation is poor due to his character, managerial capability, protocols and his personal credit worthness.

4. Technology – The SSFs' technology both in equipment and skill is not sophisticated but traditional.

   Such unsophisticated technology leads the SSF to experience very poor productivity per unit of acre of land utilized.

   SSFs used non—fuel consuming tractor eg pair of oxen to step up their production capacity and productivity.

   This level of technology perpetuates the SSF on subsistence Level of production.

   This unsophisticated technology portrays farming as an unskilled economic activity capable of accommodating the farmer, his family

and any willing entrants. Thus Agriculture (farming) is often described as fall-back economy.

Most often the need for Agricultural vocational training has been overlooked by planners of the economy leaving the farmer at his perpetual traditional and subsistence level.

Benefits of modern scientific farming eludes the Small-scale farmer.

5. Production and Productivity: The Small-scale farmers production is little and the productivity low. This is as a result of poor tools, low financial outlay, poor management, unscientific skill, and input as well as illiteracy.

   The reason for poor productivity and low holding is low production drained down by family need that results in poor savings or none at all.

   Poor productivity and resultant poor production and savings leaves the Small-scale farmer on various cycle of perpetual poverty.

6. Marketing: A unique characteristic of the SSF is his isolation in the rural area with poor feeder roads. He has limited access to market centers and situations. His share of the market is very little due to little available remnance of yield to sell off the result is his ability to influence price. Or bargain to his favour.

   Middlemen dictate prices and quality to their favour and the SSFs' disfavour.

   Often local credit facilities from such middlemen with high interest rate lead to further exploitation of the SSF. This is in terms of products traded off in repayment of such loans.

   Most institutional frameworks and network of marketing societies to channel and interwoven the Small-scale farmer credit are tactically destroyed by exploitative middlemen.

The middlemen often the supplier and buyer in the small-scale farmer business Suffocates the farmer financially.

SSFs marketing organization and cooperative societies are often not well organized and managed for effective bargaining.

SSFs have poor storage facilities to enjoy benefit of sales at season when prices will appreciate. Poor financial state of the SSFs makes them sell their products at the peak harvest period of high supply to meet family and loans obligations.

7. Organisation and Management: Organisation involving feasibility of venture, planning and budgeting, Sourcing of fund, implementation And control, evaluation and replanning are done not on scientific and modern basis.

Abalu et al (1981,64) assume that "the underdevelopment of agriculture in this country is simply the result of the continued use of primitive technology Small-scale farms are family financed with lots of family interferences which pollute modern plans.

Often the SSFs are run not on purely business principles but on societal norms and values. With personalized organization and management, the policy and control of the SSF are not effective. Decision to participate in any programme is left to head of family and owner-manager.

The Small-scale farmer and his family are in charge of their business destiny as well as their money which they consider a "by-the-side" benefit.

- The SSF are technically easy to manage with little beaurocracy that lead to bad decision making Hardship stimulates entrepreneurial spirit. The small-scale farming is easy to enter and easy to quit with no programmed organization.

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The SSFs are not organized into viable and credit institutions for dialogue and consultation.

According to Roth, (1975,26), the individualistic and isolated nature of the small-scale farmer makes him miss the encouragement and assistance of truly representative rural institution including where appropriate standard co-operative based on self-help community interest, participation and dedication to common cause.exists.

CO-OPERATIVE ORGANISATIONS:

Grouping the small-scale farmers under a common identity is the co-operative. Specific interest for such co-operative unification immediately defines what type of cooperative and the attention it deserve.

The study of the business of the small scale farmer in organized farm is the study of the farmer in organized farm is the study of the co-operative organization in their specialized farms.

Odubangi (1974,25) in his paper on the role of co-operative in Nigerians Agriclture stated that "the improved method of agriculture should be embarked upon through the co-operative movement to ensure success".

In the co-operative organization all the all the characteristics of the small-scale farmers are harmonized and worked upon. Also an organized management of the small-scale farmer is embarked in the co-operative management farms.

Social Status farmer attracts negligible social and economic recognition.

In the words of Gracknell (1974,4) little attention has been paid to the very real problems of farmers and the rural area because they have been considered marginal to growth.

He went further to state that they Government receive very little consultation of farmers and their leaders about rural development plans and planning.

They have also received a relatively small-scale of investment and policy attention he claimed.

The low income, individualistic and unorganized nature, low bargaining power, low education level make the small –scale farmer have very limited social influence. Ironically these attributes are those that forms the source for a community to derive it socio-economic equilibrum and attention.

Small-Scale farmer and vocational need. SSFs are prone to acute financial constraint which result from many reasons. Principal among these reasons is the seasonality of farming activities which exposes the farmer to long idle period of the year after the busy short rainy season. The SSF there finds himself and his family depending on income made in a few months over the entire year. He also finds himself financing the next seasons farming activities from balance of the previous seasons income, if any. Otherwise he depends on external sources of credit which are often not easy to come by and are exploitative when gotten.

The SSF therefore finds himself in a vicious circle of perpetual poverty.

Effective management and operation to full capacity to sustain the economy of the SSF therefore demands a type of diversification into available rural crafts and /or industries.

Robock (1952,346) defines rural industries as 'Industries that possess location advantage when sited proximate to Agricultural raw material, forestry raw material, fishery raw material, other natural resources and/or local government area market. These include traditional coltage industries and the modern small/medium scale industries.

Olayide et al (1981,205) classified rural industries into varying types namely:

Resource-Located Industries- These type of industries may be large medium or small in size but is such that farmers gradually move away from farming nad become industrial workers who depend largely on earning wages for their rural living.

Extractive Industries- These includes metallic or non-metallic minerals located largely in rural areas on the basis of the existence of the resource bas as well as nearness to the unskilled manpower resources for working them. These may not be classified as agro-industries except that the manpower for such industries is from the rural areas in the industries vicinity.

Urban Periphery Industries- located within commuting distances and depend on workers from the city and adjoining villages.

Rural- Marketing-Town Industries: These inclsude those industries that are not located in relation to an established central role in respect of villages around them and in response to communication network. They are oriented to rural industries is its finance to the SSFs who support such industries as manpower source.

AGRO-INDUSTRIES: Any rural industry which is based on agricultural crops', livestock, forestry and fisheries is termed Agro-Industry.

HIRSCHMAN (1958,217) classified agro-industries broadly into two main groups.

1. Forward Linkage Industries – These groups process agricultural raw materials into semi-finished or finished products for consumer group they include alimentary, textile and saw milling industries.
2. Backward Linkage Industries – These include those enterprises that manufacture agricultural inputs needed for production operations such as feed mix, chemical fertilizer, fishing nets, Farm equipment and machinery industries.

To increase the productivity and production capacity of the small-scale farmer, he required vocational training on programmes that would enhance these activities.

Attention is paid to training of the small-scale farmer and his family members in the various direct and/or indirect vocations they are prone to or engage in. This is with a view of improving the skill and increasing their ability to exploit their potential for effective enterpreneuralship, economic survival and Socio-Economic relevance.

By vocational training the SSF's skill in trade and craft is improved. His crafts are modernized to meet appreciable social standard while financial rewards he gets enable him to have a balanced base for his principal agricultural business. The extensioners efforts are not sufficiently result oriented to organize and educate the SSF enough for advancement. They Continue To be non-institutional, non-coordinated in both need and attention. The education required to improve the skill is lacking while the SSF cannot organize and finance it.

The SSF a.e often styled, and because adults learn only what is useful to their organisation for SSF is difficult leaving then with underdevelopment skill.

Bochet (1974, 40) recommended that "field days should be held a week or two prior to the inception of each of the following major farm activities:- preparation of soil sowing and planting pest and disease control, application of fertilizers, harvesting and processing and presentation of produce".

Majority of the SSFs ironically are not opportuned to attend government organised field days, neither do they have radios, Television sets nor exposed to correspondence for agricultural vocational training said Bochet.

Agricultural apprenticeship programmes are not easy to organise and managed. training can not be well monitored when organised nor control measures and productivity incentives easy to institute. Lack of coordination between various public services responsible for vocational training affects the small - scale farmers training.

The SSFs are not well informed and often ignorant of the need for vocational technical and management skill. They do not have faith in the organisers of vocational training as well as governments .

Imposed training does not favour the SSFs and appears strange to their needs since they are not consulted before designing such vocational programme package.

Extra - curricula economic activities are often absent and therefore the SSF is exposed to one - track vocation which he is still not an expert in.

POLICY: Policies are imposed on the SSFs. The SSFs expected to implement agricultural policies are not consulted on the objective or when the formulation is done. Such policies and resultant projects appear strange since they do not originate from the people as expected. According to Cracknell (1974,3) the closer the implementation of policy comes to the grass roots of the population, the more important it is to consult the people about the objectives and implementation of that policy". He concluded that always "farmers have been loser". Agricultural policies have been with several operational bottlenecks. Policy like democracy is supposed to be the "policy of the people, by the people for the people".

It ignores the SSF whose welfare it is supposed to address and make their lives better. On the internal front, the SSFs are not literate enough or rich to come together to formulate internal policy to guide their activities for progress.

2.3 COOPERATIVE AS A MANAGEMENT STYLE

Cooperative begins from cooperation between two or more people who join effort to perform certain jobs or solve problem easier. This could be formally or informally done. With basic purpose of giving people opportunity to serve their own needs and solve such problems.

Formally organised cooperative evolve when people realise the informal arrangement is incapable of organising them to achieve their purpose.

Odubanjo (1981,213) noted, "in Nigeria some form of cooperatives have been in existence long before the idea of cooperative movement was formalised". Cooperative must therefore make adaptation to comply with the local milieu.

The pre-requisite to building a successful cooperative is the teaching of the "cooperative spirit" to people.

This is the spirit imbibed by the association of 28 poor weaver in the village of Rochdale England in 1844 which led many writers to study their methods, their bye-law and condition of association.

Several groups before this time had failed but the Rochdale society of Equitable Pioneers carefully documented and followed certain guidelines which have come to be known as the "Principle of Cooperative" or "Cooperative Principles".

These principles have now become entrenched as the guiding laws of the cooperative movement, though modifications have been inevitable in view of changing conditions and business environment.

Backgrouad of the Rochdale Principles.

The Industrial Revolution in Great Britain which climaxed between 1750 and 1800 led to major changes in economic fortunes and created severe economic and social disparities among the owners of business and labouring classes.

Several small groups were formed by the poor to fight collectively against adverse conditions and to improve their status. They made various levels of success but lack of experience, the systematic guidelines coupled with serious antagonism from wealthy merchants often toward their efforts.

The collapse of the elaborate trade union scheme in 1834 was a major set back to the hundred of consumer cooperatives that were beginning to attain some measure of success.

The Rochdale Society of Equitable Pioneers drew on the experiences of the immediate past

and put together a set of rules to ensure success or prevent collapse.

The said group of 28 pioneer weavers included workers who had been members of the defunct labour unions and who had participated in some cooperative venture.

These people working under the leadership of Charles Howarth discussed details of formation, organisation and operation for about one year. Eventually they formed a society in August 1844 and opened their store to business on December 21st 1844.

Several disadvantaged issues led to the establishment of 14 features of the association that were later formulated into the "Principles of Cooperative". These feature listed by Holyoake 1893 as quoted by Erdman and Tinley 1957 are as recorded below.

The Rochdale Principle Features of Association.

1. To open a store with funds provided marn by members.
2. To supply the purest (best quality)of provision they can get.
3. Giving full weight and measure (no cheating)
4. Charging market prices, hot underselling existing shopkeepers and thus avoiding price wars.
5. Taking no credit and giving none so as to discourage debt among working class people.
6. Giving back the profit made to members in proportion to their purchases so that those who made the profit shared it.
7. Encouraging members to leave some of their profit in the "profit bank" of the store thus accumulating funds for future investment and teaching members to be thrifty.
8. Fixing interest on capital at 5 percent so that labour and trade (which together make capital fruitful) may have a fair chance of gain.
9. Dividing in the workshop the profits among those who earned them in proportion to their wages.
10. Devoting 2 1/2 percent of all profits to education to promote the improvement and efficiency of members.
11. To accord to all members the democratic right to vote (one - man one - vote) on all

appointments and proportions. Also giving women similar voting rights and allowing them to receive their savings whether single or married.

12. Plan to extend cooperative commerce and manufacture by establishing an industry city in which crime and competition should cease.
13. The organization of whole sale Buying Society created a means of fulfilling their own professions supplying genuine product and ascertaining the qualities.
14. The store was seen as an institution, the nucleus of a new social co-existence which should be a well directed self - help organization maintaining morality and competence for all member.

These fourteen features constituted the burning issues that played early cooperative societies. Kirkman (1979, 2) in his book "Understanding Your Cooperative", therefore defined Cooperative as a "Voluntary contracted organization of persons having a mutual ownership interest in providing themselves a needed service(s) on a non-profit basis".

Cooperative is usually a legal entity to accomplish an economic objective through joint participation of its members.

In a cooperative the investment and operational risks benefits gained or loses incurred are shared equitably by it's members is proportion to their use of the cooperative's services.

A cooperative is non - biased and democratically controlled by its members on the basis of their status as members - users and not as investors in the capital structure of the cooperatives.

From the 14 cooperative features emerge the 10 Rochdale principles of cooperative highlighted below:

1. Open membership:- The pioneer cooperators wanted any one (man or woman) who wanted to be a member without discrimination of any type. But in all cases cooperative undergo careful screening admitting only those who are likely to contribute to success of the society. They retain the freedom to expel irresponsible members of chronic agitators.
2. One - Man, One-Vote:- This reflect the cooperators opposition to the show of economic power by large investors in capital business through one - share, one - vote. This is for fear of domination by richer members.
3. Distribution of Profits to members in Proportion to their patronage:- Cooperatives were organised by members for their mutual benefits therefore "profit" or "Surplus"

arising from membership business transactions should be returned to members. Two other principles stated that sales should be at prevailing market prices and that return on shares should be limited. The first of these two prevents price wars while ensuring cost is covered with some average return to owner - user.

Some service organizations reduce their charges to members to minimum as "Service - at - cost".

4. Limited Interest on Capital Stock:- The Rochdale pioneers were very sensitive to capitalist effect so they pegged their interest on members investment as 5 percent. This is to avoid "Capital flight" from the society.

   The believe that if interests were not limited cooperatives will tend to operate like any other business emphasising profits and dividends rather than services to member-patrons.

5. Limited Number of Shares owned by each member. The pioneer cooperatives ensured that no members had much money to stimulate a controlling share of investment. In recent past no member is permitted to have more than 20 percent of the total invested capital. The believe still centers around the fact that no one, however well meaning can lodge large sum of money in a business venture without seeking to control it. They wanted the ownership and control to be in the hands of members who are reasonably equal through their investment.

6. Goods to be Sold at Regular Retail Price:- The Rochdale Pioneers never wanted to upset the existing price structure in England, at that time despite wanting to be good to themselves.

A probable reduction of price in order to help members could have led to a "price war" A retail cooperative tend to maintain existing price for the following reasons.

a. Management want to avoid retaliatory measure by order business i.e. price war.

b. Larger profits at the end of accounting year would permit setting aside resources so that management would not ask for more contributions.

c. Selling at lower prices would give non-members users of the cooperative undeserved advantages.

d. Operating cost may rise and so the society may be unable to continue charging the lower prices and member already used to lower prices will be disappointed.

   Cooperative management permits efficient operations and economies of scale that

reduce unit cost thus making big surpluses (Profit) which will be distributed by the principle of proportional patronage refund

7 Cash Trading Only:- The Pioneers saw the evils of credit sales and purchases and tried to avoid them.

Credit is bad habit for consumption goods but pardonable for production goods. Living on credit is faulty living and bad for the Rochdale people of 1844 and also everywhere today. Cooperative selling on credit may be absolutely necessary but it must first work the detail of collection is be sure of the credit worthiness of the prospective creditor.

8. No unusual Risk should be taken: - No body has unlimited money at his disposal. Management should carefully define risk, usual and unusual risk to be able to ensure conservation in choice of a project. The meager resources of the group should be put into venture with high propensity for success. Highly risky projects tend to have highest probability for large profit but one should be cautious.

9. Political and Religious Neutrality:- Religion and Politics were controversial subjects capable of breaking up an association in the days of the Rochdale pioneers. Cooperators played their civic roles by voting or belonging to religious and political parties of their choice. The cooperative society as a body stood neutral. Ironically recognizing the power in politic the Rochdale pioneers themselves violated this principles by forming a political party and gave their support to the labour part in one occasion. They supported it. Basically no individual's religious or political interest should be fostered on the floor of cooperative house.

10. Continuous Education of Members:- Few people understood what cooperative were and what they did. So the pioneers set aside fund and other resources to get member well informed on cooperative. They emphasis social and economic issues, social reform of business and the rights and obligations of members. Cooperative students and writer have discussed the principles and attempted to sort out core principles from the "good business" procedures.

According to Akinwumi (1982,9) the result of such discussions has been selection of a few principles which distinguish cooperatives as a form of business in comparism to single, proprietorships partnerships or corporate business".

The core principles centre around the ownership and control of business by the patrons for

the benefits of the patrons.

Good cooperative management is essential to cooperators out of their perceived problems. It involves careful selection of objectives that are attainable and skillful use of means (resources) to achieve these objectives.

No matter how closely cooperators abide by the pioneer principles, they would fail if proper business methods are not followed, Adewumi added.

1 Suitable Corporate and Financial Structure:

a. This entails the well definitions of the revolving fund method of financing cooperatives to enable inside and outside suppliers of fund understand their positions.

b. Ownership and voting rights should be transferable from one generation to another to prevent loss overtime of the cooperative structure and characteristics.

c. New plans should be guided by legal advises from legal practitioners that are familiar with cooperative practices and problems.

2. Efficient Record Keeping, Accounting and Audits:

There are good instruments of business management and serve as guidelines for future operating plans.

3. Competent Management: This is a joint assignment of the directors of cooperative organizations and the executive manager employed to supervise daily operations

It involves business planning based on above principles as guidelines. A competent manager employs the right people for a job. Gets the workers to do their works. Gives clear instructions. Ensures employees are fully occupied. Plans for profit and seize profitable opportunities when available.

He gains members confidence and represents the society well in the public. He should be able to work with the directors.

4. Dynamic Leadership:- The initiative and drive of a single leader most a times sustains a cooperative society. At the exit of such leader the cooperative begins to collapse. Potential leaders are therefore created as reservises while leadership is rotated for steady improvement of leadership quality.

Education for management is emphasised to avoid running a good cooperative society following the retirement of a dynamic leader.

2.31 IMPACT OF THE INTERNATIONAL COOPERATIVE ALLIANCE ICA

The constant review by the International Cooperative Alliance ICA, is a major factor in the development and modification of cooperative principles and procedures.

A special committee of the ICA was set up in 1930 to inquire into the conditions under which the Rochdale principles are applied in various countries and if necessary to define them. Alliance membership by them involve 40 countries with diverse kind of societies.

In 1934 the committee sent in its report but returned for further review. In 1937 the report was adopted. (ICA report 1937, 45 - 173)

The report listed 7 principles as follows:

1. Open membership
2. Democratic control (One-man One - vote)
3. Distribution of surplus to members in proportion to their transactions or patronage.
4. Limited interest on capital
5. Political and religious neutrality
6. Cash trading; and
7. Promotion of cooperative education.

The committee recommended specifically that only Nos 1 - 4 should be required as condition for membership of ICA

Following this, ICA laid no emphasis on sales at current marke: price, highest quality of goods and the avoidance of unusual risks.

ICA instituted another renew committee in October 1964 to look into the structural changes in and application of the cooperative principles world over. It got its findings from all over the world and in 1965 finalised it in Helsinki and Moscow. In September 1966 the final report was presented at the Vienna congress.

The (1966,85 - 86) report listed 6 principles considered as essential to genuine and effective cooperative practice for the time and foreseeable future, These include:-

1. Membership of a Cooperative society should be Voluntary and available without artificial restrictions or any social, political or religious discrimination to all persons who can make use of its services and are willing to accept that responsibilities of membership.

2. Cooperatives societies are Democratic organizations. Their affairs are administered by persons elected or appointed in a manner agreed by the members and accountable to them. Member of primary societies enjoy equal rights of voting (one -man one-vote) and participate in decision affecting their societies.
3. Share Capital should only receive a strictly limited rate of interest if any.
4. Surplus (Profit) if any, arising out of the operations of a society belongs to the numbers of such society and is distributed in a manner as to avoid any member gaining the expense of the other.

   This may be done by members deciding to:-

   a. Provide for development of the business of the cooperative
   b. Provide common services, or
   c. distribute the surplus among members in proportion to patronage.
5. All cooperative societies make provision for the education of their members, officers, employees and the general public, economically and democratically. To this is added the principle of growth by mutual cooperation among cooperatives.
6. All cooperative organizations in order to best serve the interest of their members and the communities should actively cooperate in every practical way with other cooperatives at local, national and international level.

The committee observed that these principles are not arbitrarily associated but constitute an inseparable system that support and reinforce each other. They suggested that these should be observed in its entirety by all cooperatives whatever their objectives and area of operation if they claim to belong to the cooperative movement.

The principles accepted in 1937 but excluded in 1966 were not to be disregarded or thrown aside as "they remain appropriate for young, unexperienced cooperative societies which can not take the risk, the strains on their finances or on the unity of their membership" said we committed.

Self - Management Theory and the Cooperative Organization:-

The cooperative management abides by the self - management theory, a concept whereby the workers control operations hierarchy with the rotation or election of member to high level position.

This is the common practice in the old Socialist Republic of Yugoslavia.

It constitute a voluntary hierarchy which distinguishes it from the capitalist form where

shareholder enjoy property rights to any residential income after payment of labour and other cost are made from reverence. In this system such balance is the business incentive to monitor or appoint managerial agent to monitor the activities of employees to reduce shirking of responsibilities. In general the Self - management theory is distinguished from the central planned enterprises where the enterprise director monitors the workforce by the central planner

It is a worker - managed style where members not only control the enterprise but also own it collectively. Most often they finance investments out of individual entitled to some "stake" in the firm. Broadly speaking, 'like the cooperative organization it offers a desirable distribution of income and afford workforce opportunity for self - actualization and release from the alienation allegedly suffered in hierarchical capitalist and planned enterprises.

From issues discussed above Olayide et al (1981, 222) defined cooperative as a system of social organization based on the principles of unity, economy, democracy, equity and liberty".

A group of persons meeting periodically for purpose of discussing issues of mutual interest may be cooperating but such organization may not be called a cooperating organization.

Erdman and Tinley (1957) gave a usable definition as follows:

"A cooperative association as a voluntary organization of persons with a common interest formed and operated along democratic lines for the poor pose of supplying services and business".

According to Olayide et al (1981, 223) over a century of cooperative activities has crystallized some of these ideals which originated from the working rules of the Rochdale pioneers. They went further to claim that "seven of these ideals have so crystallized as to become the "tenets" or the "creed" of cooperation as prescribed by Cole these ideals include:-

1. The ideal of University - which state that cooperative should make no distinction to race, religion, colour, sex etc.
2. The ideal of democracy - Which enjoys all cooperatives to combine humanitarianism with economic efficiency and freedom to every cooperator to have a say in the operation and to be kept fully informed through inspection and access to the records of the association's activities.
3. The ideal of liberty: - which states cooperators have to enjoy economic liberty through the principle of voluntaries in joining, patronising resigning or not patronizing the association. In other words te tools of compulsion, and coersion in

fostering membership and patronage can not be used in cooperat6ive associatioh.

4. The Ideal of fraternity and unity:- which enjoins all cooperators to adopt the philosophy of brotherhood in all their operations.
5. The Ideal of Self-help:- which states that only members can help themselves out of economic misery since to expect others to through aid is to introduce another form of comic subservience.
6. The Ideal of Strict Economy:- This is operating through cost reducing operation of all its activities.
7. Finally the Ideal of Equity and Justice: This stipulates that:
   i. all patrons must receive equal treatment.
   ii. all labour must receive equal treatment and fair wages
   iii. collective bargaining process must be fully utilized
   iv. the profit motive service at all times be replaced by the objective of service cost minimum "surplus' or "average"
   v. the surplus or average must be distributed in proportion to the business done by each cooperator or member, and
   vi. Capital invested must be rewarded which at a limited rate of ineterest if any reward is to be given.

Cole (1944,10) listed these ideals as constituting the "main preconditions for the success of cooperative.

Four main propositions often stated as principles that deserve attention. Olayide et al (1981, p 224) lists them as follows:

1. Issue of fundamental need for the Association
2. Issue of Adequate volume of Business - the volume of business must not be too small to make effective use of
   a. The minimum physical business unit necessary to conduct the desired operation and
   b. The particular physical resources and manpower at the disposal of any given association.
3. Issue of continuous Expansion - This is essential if co-operatives were to effectively meet or beat competition and

4 Finally the issue of the scope of Activity:

Every association in business must incur overhead expenses and this must be minimised so that conflict between:

a. The desire to attain efficiency by specializing in one activity and

b. Attaining economies by arranging to shape the overhead with other serious or commodities, do not assume mystifying proportions.

To achieve this objective, many students of co-operation have indicated the need to found successful co-operation among farmers in a single industry or commodity basis.

Laidlay (1962, 6) went further to highlight the motives for co-operative societies which they listed as follows co-operative should:

1. Seek to enhance economic improvement
2. Serve as an instrument of education
3. Operate as school of democratic living
4. Work as a centre for social harmony
5. Function as an agent for international understanding and
6. Strive continually to attain cultural and spiritual improvement

DISTINCTIVE NATURE OF CO-OPERATIVES

From the United States Department of Agriculture, USDA definition, Co-operative is voluntary, and contractual. It involves persons having a mutual ownership interest to provide for themselves a needed service on a non-profit basis.

WHAT A CO-OPERATIVE BUSINESS IS

The above definition by the United States Department of Agriculture reveals what a co-operative is. It is organized as a legal entity to accomplish economic objective through joint participation of its members. The report went further to state - "In a co-operative the investment and operational risks benefit gained or losses incurred are shared equitably by its members. In proportion to their use of the co-operative services. It is democratically controlled by its members on the basis of their status as member users and not as investors in the capital structure of the co-operative" this is spelt out by Kirleran (1979, 2).

WHAT A CO-OPERATIVE DOES

A co-operative provides it user - owners goods and services at cost of operations. Co-operatives are business organizations usually Incorporated owned and controlled by members or stockholders as patrons. Co-operatives operate on a cost-basis after allowing for expenses of operation and maintenance and other authorized deductions for expansion and necessary reserves. The basic purpose of co-operatives is to give groups of people, opportunity to serve their own needs and solve their own problems more effectively than when acting individually.

THE PLACE OF CO-OPERATIVE IN THE COMPETITIVE ENTERPRISE SYSTEM:

As business organization, co-operatives are method of doing business under the private competitive enterprise system.

They are usually incorporated and as such classified in the business enterprise system as a form of corporation - a member - user - owned co-operative corporation.

Method of doing business in private competitive enterprise system are by three types:

Individual ownership

Partnership

Corporate form

The corporate form is yet divided into two kinds:

Investor - owned corporation and member - user - owned co-operative corporation.

Investors in an investor -oriented corporations invests their money to obtain profit from service to others called customers.

In a co-operative - oriented corporation people called members invest their money to obtain services for themselves. Members are the investors and the customers called patrons in a co-operative organization.

HOW CO-OPERATIVE RESEMBLES OTHER BUSINESS

Co-operative business are like other corporate business organizations in physical appearance, functions or services performed and operations based on some business practices.

Co-operative corporations physically resembles other corporate forms that perform similar services in areas of personnel, financial transactions administrative hierarchy etc.

DISTINCT FEATURES OF CO-OPERATIVE

Agricultural co-operatives have first distinctive features:

1. **Democratic member - user control** - It is fundamental that those who use and benefit from the co-operative organization must own and control the business.

By this they actualize the benefit they are looking for. Member - user of a co-operative corporation has one-vote despite know much they have invested in or how much patronage they gave to the association.

For a farmer co-operative to be protected by the Capper- Volstead Act in the United State of America it must either limit amount dividends in stock or membership capital or restrict voting right to one - member one vote.

In some co-operative however the basis membership vote is supplemented to permit additional votes based on previous years patronage in money value or quantity of business done. Still maximum number of vote e.g. 5 - 10 is established.

This is in contrast to regular corporate business which allows voting power in proportion to shares of stock owned or in proportion to investment i.e. One - share, One - Vote.

Democratic principle is maintained by relating voting power to patronage. A Member - user as a voluntary participant has a greater invest in the progress and success of the co-operative organization.

Members have voice in controlling the business they own and use by voting to elect the boar of directors to pilot the affairs of the co-operative. Directors decide the policy, hire the

managers and are responsible to the members for efficient operation of the co-operative organization.

Service - at - cost or operation - at - cost: Any net savings after expenses otherwise called profit or net income. In investors - owned cooperated business belongs to the members patronizing the co-operatives.

Net margin returned to member - users is called 'Patronage refund' At least 20 percent of this by law must be in cash. Remaining portion may be allocated to each patron's account when retained by the co-operative to provide additional capital. This is a legal binding contract on the organization.

Cost cannot be accurately estimated in advance so patrons always pay on-going or competitive price for goods and services purchased. They generally receive an advance for product marketed by their co-operative less than end of the year when costs are known and balance returned to member-patrons.

Cooperatives are adjusting operation to a cost basis when they allocate or return all net margins to patrons. Patronage refund is not taxed as corporate income but rather listed on each members personal income tax form for taxation. Patronage refunds are convenient means of assisting members finance co-operatives. Portion not distributed as cash are often issued in non-cash form as certificate or other forms of evidence of ownership to show amount of accumulated capital credited to each member.

Patronage refunds may not be distributed on the same basis to both member and non-members by some co-operatives.

Some return patronage refund only to member despite business transacted with non-members, while some distribute to non-members at lower rate. All business done with non -members realise business profit therefore patronage refunds to members may include elements of corporate net income liable to taxation.

Other co-operatives yet strictly adhere to the operation - at - cost principles and distribute refunds to all patrons (members and non-members alike) at the same

rate.

Limited Returns on money members invested in their co-operatives: As in event other firm, capital is necessary in co-operative business. Capital invested in co-operative is only a

means of an end. Members are interested priority in advantages they desire as patrons of the organisation - not as an outlet or place to invest capital at a high rate of return.

Benefits in co-operatives are distributed to patrons on the basis of their use of services, therefore such benefits do not enhance. The value of shares of stock or provide a return on invested capital. Members of co-operative must provide most of the invested capital for operating funds and facilities either by direct subscription or by investment of their patronage allocations.

For this reason the equity capital of co-operatives for the major part only comes from member - patrons.

Limitation by co-operatives of returns on capital by the Capper - Volstead Act of the US. Federal Co-operative Law sets a maximum dividend rate at 8 percent per year with little tolerate variation of + 1.

4. **Co-operative is member - owned and financed**: People forming co-operatives are the owners - they not only invest their money in the business but they also agree to use the co-operative services.

Co-operatives are unique for people who want to remain independent to own and operate their own business firms and to increase their earnings.

In a co-operative, people with similar problems interests desires come together to combine their investment and influence in a business or service area. They retain their right of individual ownership and decision making and at the same time enjoy the advantage of mutual effort on pooling their resources to obtain needed services.

Co-operative owners are called members, members patrons or member-owner-users. It is a common tendency to associate co-operative with farmers. Actually, it is for both farmers and city people.

5 **Limited co-operative operation**: Used internationally as model. The Copper-Volstead Act provides producers with the limited Anti-trust exemption. It speculated that farmers "may act together" in collectively marketing their products in their own association. They can also join with other association of producers to have a common marketing agency.

The limitation in the exemption is that:

I An association must be operated for the mutual benefit of its members in so far as

they are producers of agricultural products.

2 "An association must not deal in products of non-members in an amount greater in value than such products that it handles for its members"

This is according to Kirkman (1979, 6). The Capper-Volstead Act protects the general public by limiting the possibility of undue price enhancement caused by monopoly position that a group of producer can legally achieve by getting together those five distinctive features discussed above do not guarantee the success of a co-operative organization. It merely enables members to legally co-operate business in such a manner that benefits achieved get to members. There is no margin in co-operative itself.

CLASSIFICATION OF CO-OPERATIVE ORGANISATION

Co-operatives are classified using three approached

1 **ORGANISATION**

This is based on membership that is servsed.

a. Centralised Local or Regional Co-operative which is an area based classification and deals with individuals as members.

b. Federated Corperative or Co-operative of Corperations
This deals with co-operatives as members

c. Mixed Hybrith co-operatives - This can take the form of income producers plus local co-operatives plus centralized local co-operatives. That could take the form of Inter regional or National co-operatives organizations

2 **TYPE**

This description is based on the operations and functions performed by the organizations. These include Producer, Supply Marketing, Thrift and Credit. General Service and combination of either or all of those function.

Ijere (1981,316) in his contribution to central Bank of Nigeria listed some examples of type of cooperatives as follows:

cooperative marketing societies.

cooperative thrift and credit societies

Multi-purpose cooperative societies

Group Farming and cooperative community farms.

Cooperative fishing societies.

Cooperative consumer societies.

Farm settlement Cooperative societies.

Cooperative produce marketing societies

Oil Mill Cooperative societies

Rice Mill Cooperative societies

He claimed that 90% of coperatives in Nigeria are Agricultural Cooperative societies taking the farm mentioned above.

He also listed non - agricultural Cooperative as follows:

Industrial Cooperatives

Transport Cooperatives

Weavers Cooperatives

Building Cooperatives

Craft Cooperatives

Contractors Cooperatives

Textile Cooperatives.

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Purchasing cooperative are often called production supply, Farm Supply or supply cooperative.

Most cooperatives are affiliated with other cooperatives often through national and international federated cooperatives in effort to reduce farmers costs. Through federated cooperative they may establish plants or factory to manufacture or process products. Distribution to producer members as major concern at the local level because added services are needed.

Marketing cooperatives are organized to market any of the many products farmers produce or one third of all products sold by farmers. Some of the items are sold as raw materials, yet others are process before sold.

Service cooperatives provide services related to production, marketing of farmers commodities or they may provide general services.

Such services affected location, farms, quality of the farm products or supplies handed for members. Service may be part of the operation of the particular cooperative or performed by separate cooperatives General service cooperatives provide a number

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of specialized services assisting farmers - members in their business eg credit, a through farm credit system and credit unions for the rural residence. Rural electric and telephone cooperative provide their respective services. Also include are insurance cooperatives, mutual irrigation cooperatives, dairy herd improvement association, artificial breeding cooperatives, research cooperatives, pest management cooperatives etc.

3. LEGAL STATUS

Legally cooperatives aro classified as (1) un incorporated and incorporated (2) whether setup on a stock or non - stock plan.

Cooperative business ventures are generally incorporated under special cooperative state statutes. In Nigeria eg. in Lagos, cooperative is registered under section 10 of the Cooperative Societies Law - the cooperative Ordinance No. 39 of 1958. Although with distinct features, the cooperative are as much a corporation as any other business corporation.

If organized on stock basis members of incorporated cooperative organization receive stock certificates as evidence of their ownership interest in the association. If otherwise on non - stock basis certificates are issued to show membership and others are issued to evidence capital contributions which are providing - fund certificates many non - stock cooperatives raise original member capital through collecting membership fees and takes member capital to operate a cooperative business regardless of legal and financial structure.

Un-incorporate cooperatives have a legal status somewhat similar to a partnership. They are usually small, informally operated and require few facilities or little capital.

The International legal foundation for cooperative lie in the Capper - Volstead Act and the particular nation or state statute for chartering.

Abrahamsen (1977,491)in his various book collectively summarized the provisions of the Act as follows:

1. The cooperative must operate for the mutual benefit of members.
2. Members can be only farmers, planters, ranchmen, dairymen nut or fruit growers.
3. A cooperative, to obtain the protection of the Act must operate so that non -

member business does not exceed member business and either (a) no member shall be allowed more than one vote because of amount of stock or membership capital he owns (b) divided on stock and member capital can not be in excess of 8 percent.

4. A cooperative may be incorporated or non-incorporated.
5. A cooperative may be organised on a stock or a membership basis.
6. A cooperative may have marketing agencies in common.
7. The cooperative may engage in processing.
8. Only marketing cooperatives are covered by the act.
9. Consumers are protected from unreasonable price enhancement by cooperative under provision of section two.

ADVANTAGE OF COOPERATIVE STYLE OF MANAGEMENT OVER OTHER FORMS OF BUSINESS

Cooperatives have certain advantages over other forms of business which are embedded in the distinctive features designed for the benefit of the members.

1. SERVICE OR OPERATION AT COST is a key feature in lying benefits to users of the organization. Other firms seek to make profit for the benefit of investors while cooperatives seek to provide services that result in increased net income for their member-users. Members using the organization must logically become those who benefit must from using the services.

2. DEMOCRATIC MEMBER CONTROL or restricting voting right to one-member, one-vote provides that members control is shared equally. The practice of voting persons desiring to retain independence feel greater sense of involvement in the cooperative activities and business.
3. The distinctive feature of limited return on investment and voting on a basis other than investment makes successfully cooperatives safe from outside takeover. Profit incentive that causes one to invest in corporate stocks are not present in cooperative stocks. Strict adherence to this characteristic of Limited returns has rather not been easy.

Early farmer association drifted into the lands of individual or group other than cooperatives

because control was based on capital with no limit placed on the amount of returns on that capital.

DISADVANTAGES OF COOPERATIVE STYLE OF MANAGEMENT OVER OTHER FORMS' OF BUSINESS.

1. The distinction feature of Limited returns on Investment means that source of cooperative financing usually are limited to direct member subscription and investment of patronage allocation. Thus cooperative uses members investment as security in borrowing additional capital from financial institutions.
2. Cooperatives have distinctive features and therefore there is need to educate members to understand these features and explain to others for smooth function of the associations. Members must be provided with the good and bad facts by their cooperative - what it is, how it functions, what are its problems and options or choices they have when voting in meetings.

   Members must be well informed by newsletter newspaper or magazine at meetings or through personal contact and must have the opportunity to ask question and express their desires and opinions to the cooperative board and management.

   Such education programme require money time and other form of resources to implement.
3. Another major disadvantage is the Limited scope of operation. The association must pay attention to, as well as benefit members and it is limited in the amount of business it can do with non members. Therefore possibilities of expansion are limited to membership growth and member business.

EVALUATING THE COOPERATIVE SO FAR.

In trying to evaluate the performance of cooperative, Edwin G. Nourse, one of the founders of American Institute of Cooperation believed the Rochdale principles ought to be re-examined in light of changing agricultural conditions.

He emphasized the role of marketing cooperatives with the central ideas of democratic control, limited returns on equity capital and distribution of savings to members on the basis of their patronage.

His greatest contribution to cooperative thinking were his emphasis on business efficiency

equitable distribution of control and benefits and the relation of law to cooperative structure and operations.

Nourse believed that efficient cooperative performance depends on avoiding unnecessary duplication of effort, identifying members needs with association performance, achieving sufficient size to bargain effectively and adjusting production to market requirement"

He stressed the idea that cooperative should be an effective tool for equitable distribution of wealth. **His emphases on limited capital holdings, restricted voting privileges and democratic, control bringing into focus the importance he attached to the individual member.**

To round up his philosophy regarding cooperative, course feared political expediency in government believing that the inherent conflict of self help versus government assistance was unresolved.

Edwin G. Nourse was a staunch enemy of monopolies and looked on cooperatives as a counter balancing force that could help farmers to achieve equality in the market place.

POTENTIAL ADVANTAGES OF COOPERATIVES

Cooperative and farmers organisations have various vital roles to play in organising small farmers and to ensure that they get a fair share of their efforts.

A combination of grassroot primary cooperative societies are needed as well as service organisations at the secondary level of sufficient scale, to support effective management, competitive marketing facilities and economic distribution. The advantages are reflected in the policy attention given to cooperatives and other farmers organistions.

The third consultation of African Rural Leaders organised by International Federation of Agricultural Producers IFAP in 1974 and the Agricultural cooperative Development International, ACDI, workshop paid much attention to problems of cooperatives. This is to ensure their survival and growth by helping cooperatives in developing nations with technical Aid, sponsorship and other means of promoting inter-cooperative development.

IFAP also urged governments to adhere to the second resolution of world food conference calling on them "to promote the development of cooperative organisation and other association of rural people for mass of farmers and rural workers for agricultural and rural development and for generating greater self reliance, self sufficiency and motivation"

All these expressed need for survival and growth of cooperatives can only be possible when cooperative has some potential advantages.

Such advantages include:

1 cooperative assist agricultural development primarily by serving the needs of their members as producer

2 Cooperatives stimulate rural savings and investment channel credit supplies and information to small farmers who could not otherwise get them

3 Cooperative protects the small scale farmers from exploitation by traders money lenders and urban businessmen.

4 They take many forms with democratic control and have strong reserves and investments from which they distribute gains to members as refund to patronage no as profit on ownership or share holding.

5 An effective function and benefit of cooperative is their help to farmers with upward mobility ie those with sufficient motivation initiative and primary agricultural skill in terms of physical resources and technical capabilities to become effective farmers despite their small holding.

6 Development assistance to small farmers can be channeled effectively only through a group approach such as cooperative and farmers organisations.

7 Leadership in the organisation of cooperative generally come first from medium sized farmers. Such leadership at subsistence level is only potential but by participation, information education through cooperative it is developed as major force in agricultural/rural development.

8 Cooperative growth is a transition from initial government control to farmer self determination when farmers in credit organisations, farmers associations and cooperatives are able to manage their own enterprises and affairs.

9 Farmers cooperatives and organisations express the hopes and aspirations of farmer in legislative and administrative matters.

10 Cooperative evolve as economically sound business institutions owned and controlled by farmers.

11 Cooperatives are needed in all stages of programing planning and executive since they are expected to participate in development programme

12 To enable cooperatives create and maintain viable economic institution for serving their members, it designs sound cooperative laws, access to credit, supplies and

market of favourable terms and often special concessions to counterbalance those of established businesses.

13 Cooperatives have potential growth from strength to strength for combination at efficient scale to support effective management, competitive marketing facilities and economic distribution of supplies and credit.

14 Cooperatives can be utilized as agents of change by dissemination o appropriate technology, use of various new and improved inputs and channeling of rural credits to farmers.

15 Leaders trained through cooperative act as link between government and the rural people and participate fully and effectively in planning decision making and implementation.

ACDI (1975,28) report on assisting and organising small farmers went further"

- Cooperative provides opportunity for rural people to express their opnions, to influence government policy and solve their problems through self-help.

The International federation of Agricultural Producers IDAP in its 21st general conference (1974) went on to state this:

- By building cooperative supply or marketing or credit institution to serve farmers we are dealing with people who have differing problems cultures histories and traditions.
- Cooperative constitutes an economic institution through which broader understanding, more viable approaches and new mechanism for agricultural progress is possible and the technology truly useful.
- Through cooperative the economic, social political agronomic as well as physical forces for agricultural development can by deliberate but careful adjustment be altered and directed at a *minimum socio-economic cum political cost.*
- Monitoring the agricultural production, distribution and utilization systems by the government through cooperative enables the government formulate policies to assist the system
- Cooperative is the mechanism for transforming the subsistence peasant into higher income progressive small farmers.

Odubanjo (197, 25) emphasised some of these points when he stated that "production credit made available through cooperative credit institution has a better chance of repayment than that made through other types of Agricultural credit institutions"

He went further to give his reason as being due to close local knowledge and contact so important to all credit transactions which are inherent in cooperative structure and being a group loan. It has the advantages of:

- reducing supervisory and administrative costs
- reliance on the group to ensure that the conditions of the loan are met and repayment effected on a joint and several liability basis
- exercising control and coordination of the absence of other competing forces in the marketing policy of the government.
- Providing the medium through which large number of farmers can have access to other support services of the government such as improved farm technology, distribution of seed, fertilizer etc.

The IFAP report further stated that government have not proved effective at carrying supporting business services to small farmers and business will do so only at prices that cover very high costs and risks.

Farmer organisation can help break the impasses through collective nation that reduces and meet the cost of extending the net of supporting supplies services can market to the small farmers.

The cooperative or other farmer organisations can increase the volume of input purchasing through member education and reduce the cost through bulk purchasing and by handling retail distribution themselves. This ensures promoting the principles of "Ongoing Education".

They can increase the effectiveness of agricultural research and extension by operating test/demonstration plots on members fields and spreading technical information among their members.

They can extend the farmers own efforts deep into marketing processes and expand their shares of the consumer price by themselves handling granding packing bulking, transporting and storage of commodities and through collective selling.

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By accumulating capital from members shares, from commercial farm operations, from undistributed earnings, of supply and marketing operations, they can finance some part of the equipment and facilities needed for these operations

Equally important they can radically improve the access of their members to institutional capital either through the cooperative or directly from the bank under organisational guarantee.

Medium and large farmers benefit as well from participating in organisations which provide such services and their participation may be essential to building the needed volume and providing the needed leadership.

Involvement in cooperatives is essential to the transformation for the subsistence peasant into the higher income progressive small farmer without it the supporting network can not reach him unless he happens otherwise to live near a market city.

We observe that presence in the farmer organisation of both larger farmers on whom it depends importantly for volume and perhaps leadership and the small ones who depend heavily on it for improvement in their way of faring and living bring problems.

These two groups may have quite different views and interests on such issues as pricing policy or on the uses of accumulated organisations earnings for investment or for patronage refund.

There is a danger on the one hand that a one-man one-vote structure in line with Rochdale Principles may enable the neediest to undermine the financial soundness and growth of the organisation.

On the other hand, there is danger that a one-share one-vote structure in line with corporate business practice or other structure reflecting economic realities may permit the powerful few to dominate and manipulate the affairs of the organisation to their exclusive advantage.

How best to address these opposite dangers is a matter for careful judgement in each case.

TYPES OF AGRICULTURAL CREDIT

The word credit comes from the Latin word "credo" meaning "I believe"

Hence credit is based upon confidence in the future solvency of the person and in his repaying the loan as per agreement.

In this context Agricultural credit means ability to command the capital of another in return for a promise to pay at some specified time in the future. This can be short medium and long term credits.

Few farmers operate without using credit. Using credit as means of obtaining control of resources is similar in some respect as leasing since return for use of capital is paid in form of interest and rent respectively.

Credit permits greater flexibility as it can be used to acquire any type of resource or service needed by farmer while rent is limited to few types of resources.

Two main purposes for which farmer borrow are:

1 For Business

2 For Consumption

This study limits itself to Business credit. Business credit can be time classified – short medium and long term credits.

It can also be purpose classified – Production loan for fertilizer, chemical, livestock feed etc. Real Estate loan for purchase of farm estate financing building, irrigation, drainage etc. Farmer cooperative borrowing to pay expenses, finance, patron, commodity, storage, buildings, equipment, real estimate, refinancing etc.

According to Olayiele et al (1981,203) credit is monetary or financial aspect of capital resources which comes in several forms.

1 monetary in cash or bank draft

2 in kind as forms of biological and physical capital purchased and supplied to producers

Credit can yet be security classified:

I secured Loan

A short term/medium loan

B Loans secured by tangible personal property (stored crop livestock, machinery, equipment etc).

2 Loan secured by intangible personal property (government bond, stock, life insurance policies etc)

3 Warehouse receipt loans

4 Conditional sales contracts

B Long term loan

1 real estate Mortgage Loan

2 Land Contract

II Unsecured Loan

LENDER CLASSIFICATION

Credits can be classified from the point of view of the lender:

1 Short term and medium term (Non-real estate) loan

A Commercial Bank loan

B Production credit Association loan

C Nigerian agricultural Cooperative Bank loan

D Commodity Credit loan

E Merchant and Dealers Loan

F Individual and other loan

2 Long Term (real Estate) Loan

A Commercial Bank Loan

B Merchant Bank Loan

C Individual and other loan

Most often people who own land and have funds to lend are not operating farmers. The capital owing group is made up to older people, retired farmers, widows, endowment funds, estates, banks, and wealthy individuals. Operating farmers fitted by training experience and age to carry out crop/livestock production often do not have the needed capital to execute required assignments.

There are various reasons for lending and borrowing credits.

An efficient and effective credit system is a precondition for effective fulfillment of agricultural role of:

1 generating internal capital through savings

2 producing sufficient food of high quality for feeding the growing population.

3 Providing raw materials and other fibres for home industries.

4 Providing surplus food and fibre for export in any given country.

One of the principal factors militating against modernising agriculture particularly with the small-scale farmers of lack of adequate credit supply to the farmer.

Most innovations in agriculture requires increase in capital requirement which often comes externally as credit to the farmer.

Low rate of adoption to most agricultural innovations is mostly due to lack of adequate credit to implement them.

An example is the recent innovative practices of intensive system of poultry keeping which were introduced in the early 50s for egg and broiler production had limited effect due to lack of adequate credit.

Also increased productivity of tree crop due to the control of pests and diseases eg Black pod of cocoa was also limited by lack of credit to obtain pesticides and spraying equipment by small scale farmers.

NEED FOR AGRICULTURAL CREDIT

Murray and Nelson (1973) in their book on agricultural finance state that "the survival in the agricultural economy of the future will depend largely upon the individual farmers management and ability, and whether he has sufficient credit of the right type".

Farming has become big business to both farmers and lenders for credit to make its contribution to capital requirement.

A farm operation should therefore be recognised as an integrated business in credit analysis and extension.

While long, intermediate and short-term financing is needed extension of the maximum amount of credit required that it is based upon the earning, repayment and risk bearing ability of the farm unit as a whole. It should not be on separate parts of the business or on adequacy of collateral as has often been the case.

This therefore calls for (a) current operations needed expansion and improvement and (b) Earning expected to result from such expenditure.

This planning should be based upon analysis of overall financial resources and credit requirement of the business.

The need for credit by the small scale farmer SSF, can be explained by the following facts:

1 Majority of small-scale farmers are primary producers and produce particularly for subsistence with small marketable surplus. They can hardly save from their earning to enable them take full advantage of modern farming practices.

2 Primary production especially in agriculture by SSF is seasonal and so is the income most often exposes the farmer to debt which at repayment eats into his small capital resulting into a vicious cycle of poverty and resultant need for loans.

3 Large sales of SSFs products at harvest time without efficient processing or storage demands the need for extra credit to enable him delay such sell-off until favourable price can be realised. He needs credit to obtain storage and processing facilities.

4 Credit is also needed to provide supplementary enterprises for the SSF at off-season for efficient labour utilization programme and reduce labour idle time and seasonal migration. The farmer should be constantly at his farming location and environment to avoid distraction as much as possible.

Generally credit is needed to fulfill certain requirements in agricultural business.

1 To meet the tremendous strides in technology

2 To meet the balance sheet reflection of increase need for fund/credit

3 Since balance sheet report can not show separation in farm business and farm household, much fund is therefore required to achieve it.

4 Farm credit therefore reflects the farm business financial need and utilization but not absolute account.

5 Credit is required to meet rising prices of input

6 Rising need for credit in agriculture is rather a reflection of advanced and sophisticated technology involved in recent time.

7 Credit is required to operate agriculture as a modern business and not subsistence

8 Credit is needed to meet with operating cost, current expenses, fixed cost etc

9 Fund is required to contribute to improvement in farm income and farmers standard of living. And a continuous trend demands continuous rise in farm investment and funding.

Apart from the above, credit is needed specially by small scale farmers in his business for several other reasons.

The following is what Anania (1974.18) has to reflect on credit in his paper titled "Using Cooperatives for managing small-farmers production credit".

- It is a part of an overall approach to rural development problem.
- It is a part of the price incentive, marketing supply and extension service package.
- It is a factor that coordinates different decision centres operational in the credit programme namely – Borrowers, lending credit institutions and government.
  ++(Enhance operational welfare of the borrower)
- Improve quality of life and income of beneficiaries
- Means of maximizing profit to capital of lending institutions
- Promotion of economic development
- To afford the borrower the opportunity of acquiring innovations particularly production inputs.
- Facilitates effective marketing in face of increase production.
- By agricultural credit the credit institutions can advise government on the impact of price policies on credit programmes.
- Credit institutions ensures use of resources and favourable terms for credit to small farmers
- Establish link with marketing organisations for repayment of loan in cash or kind and accept delayed repayment in case of seasonal drop of price.
- Agricultural credit facilitates certain arrangements such as share cropping and tenancy particularly with tenants and share croppers cooperatives eg NTC farmers cooperatives.
- Agricultural credit facilitates increase net incomes of small farmers which is allocated amongst basic consumption, savings and the additional non basic consumption implied in a decent level to life as a matter of crucial economic and political importance.
- Agricultural credit enables cooperatives to perform its potential role of providing essential economic services to its members while organising that active participation

in the life in the village and of the larger society. With effective economic and social functions the cooperatives take up increasing share of political power.

- Credit is an integral part of the overall socio-economic planning of the national set up.
- Cooperative farmers can not raise enough money through their subscribed share-capital for their inputs.
- Production credit made through cooperative credit institutions has better chances of repayment.

SOURCES OF FARM CREDIT

There are two main sources of credit to the farmer

- Non-Institutional source
- Institutional source

The non-institutional source can be referred as the unorganised sector or informal lenders. It can also be described as traditional financial institution which stems from the traditional and cultural background of a people. Institutions such as ESUSU, town union/associations, various social group age groups are involved.

Non-institutional source:

Sources of non-institutional credit include personal savings, loan from friends and relatives, local money lender, landowners traders shop keepers etc

The non-institutional sources are very highly patronised by farmers since there are no administrative delays in obtaining the loans and most times without security or collaterals. Study conducted by Miller (1975,23) reveals that credit corporation provide only 2.9 percent of the credit used by 302 farmers

Credit Corporation	-	2.9 percent
Friends and relatives	-	47/48 percent
Money Lenders	-	24.4 percent
Traders/Merchants	-	**14.9 percent**
Commercial Bank		

This source he noted has not provided enough credit to support modernisation.

In yet another study on agricultural development programme in Nigeria, Jose (1972) found that private credit constituted about 86 percent of the small scale farmers credit facilities. The table below shows the credit pattern as highlighted by the World Bank in some developing countries.

Source of Agricultural Lending in Selected Countries

Countries	A	B	C	D	E
Indian	**8000**	**26**	**4**	**51**	**19**
Philipines	1245	16	26	51	7
Thailand	912	7	1	36	56
Colombia	**43**	27	69	3	1
Costa Rica	157	70	0	20	10
Sri-lanka	150	20	0	45	35

A total loans to farmers (US Million Dollars)

B Loans from Public Institution (percent)

C Loans from Private Institution such as Commercial Banks. (percent)

D Loans fromm Commercial Lenders eg Landlord, storekeepers, Middlemen, Merchants, Money Lender (percent)

E Loan from non-commercial lenders eg friends and relatives;

Source: Agricultural credit, World Bank 1974 in Johnson D. T. 1982.pg 96

Money lenders generally charge exhorbitant interest rate to farmers because of risk involved in farming. In some cases farmers pledge their crops, kind or house hich they often lose due to inability to pay the high rate charged.

Adegboye (1981,63) has this to say "similarly the merchants and produce buyers _generally make loans to selected farmers on conditions which limit the farmers freedom to sell or buy in markets of their choice and at time most opportuned to the farmer".

Despite the high rate of interest on loan by private lenders and other conditions the farmer still patronises this source.

The reason are as follows:

Lower Risk: Lender and borrower live in the same environment. This proximity affords the lender the opportunity of close watch of the operations of the borrower and also his credit worthiness and degree of entrepreneural; capacity.

This gives the money lender some comparative advantage over the institutional sources in terms of access of borrowers information. The lenders find it easy to choose and elate with low risk farmers.

Lower Administration Cost: Loan administration cost is low in terms of enquiries, advancement , supervisions and collections. He knows the borrower beyond the loan, so he can apply any personified approach to monitor and retrieve his principal and interest at the time agreed upon eg age group, club membership, family membership, local chief etc.

Lower Transaction **Transaction in the entire lending, borrowing and management in the credit scheme is handled with less cost in the inforal than the formal.**

Investments in building, vehicles, personnel and other official aspects are not involved as in the institutional credit scheme.

It is highly personified, unofficial and face-to-face.

DISADVANTAGES:

The non-institutional credit system has certain disadvantages associated with it.

Principal among these are the high interest rate mentioned above, small, inadequate amount for modern farming activities. operation. The money lender does not have the capability to advance guiding agricultural technical advice to protect the loan.

Despite the obvious disadvantages of the unorganised credit scheme, it would be difficult to repay it due to its cultural bondage.

The credit scheme harmonises with the farming structure which it serves in all its ferms. Agricultural development programmes therefore try to accoodate and build in this system for effectiveness in performance.

Personal or Self Savings: Savings as net worth less gift and inheritance form foundation of farm financial structure.

Except for gift and inheritance, savings produce backbone for farm capital. It provide not only capital but risk-bearing ability (reserves) and demonstrates capacity to earn and save. These are very essential components of a strong credit.

Personal or self saving is limited because the small scale farmers' holdig is small and productivity low resulting in low profit to ensure savings.

Seasonality of production lack of storage and processing facilities, low price resulting from these altogether does not make for self saving.

Farming is big business and big business requires a large amount of capital and a sound financial foundation and framework which savings alone can not provide. Since farm business often mixed up with household, savings must be accumulated by successful farm family to provide a sound financial base.

Credit from friends and relatives which also attract little or no interest to facilitate farmers growth is limited in amount as source of expanding credit.

Family arrangements are made to provide gift and loan to beginning farming family for young family member.

Certain considerations are made by the big family which include:

- desire for farming family to far (ie sharing common objective)
- satisfactory living condition for the two families (father's and son's family)
- ability to get along with each other
- belief that a farm partnership is desirable
- adequate size of farm business is maintained (for employment and good living condition)
- good farm management by son (a guarantee for success reinforces fathers commitment)
- knowledge of farm business by son (skillful for good quality management)
- son's good business judgement in use of money (financial management)
- partnership in the entire farm business (partners welfare of farm operation
- good partnership agreement (mutual agreement what obligations to hold – written to avoid misunderstanding)

gifts and inheritance provide many farm families with equity base needed to finance successful business. Older far furnish smaller family member farm.

DISADVANTAGES:

- It is not received at wish by user both in terms of amount and time
- It has some obligation attached to it
- It could be made with implicit and explicit restrictions on use ie often monitored or controlled.

Savings and gifts and inheritance constitute equity financing while outside equity are partnership, incorporation or other agreements.

Non-equity financing include leasing, borrowing producer contract can be used to supplement the equity capital base.

INSTITUTIONALISED SOURCES OF FARM CREDIT

The Nigerian Local development Board, a nationwide credit institution established to extend credit to farmers failed in 1946.

The Paton Commission of Inquiry was therefore set up to investigate among other things, the possibility of creating an agricultural bank and/or a cooperative bank.

Limitation of its recommendations include avialability of land, the title to which is clear and free of any restriction. These were absent in Nigeria due to our land tenure system.

In 1955 the western region finance Corporation was established for responsibility for industrial and agricultural credit.

In 1962 the Western Nigerian Agricultural Credit Corporation was created.

In 1963 Fund for Agricultural and Industrial Development was established for the eastern Region.

In 11964 the Mid-Western Nigerian Agricultural credit Corporation was' established.

In Northern Region most of the agricultural credit was in form of government guarnateed overdraft of the commercial banks.

Their operations in all these cases were unsatisfactory and disappointing.

According to report of the Nigerian Agricultural Bank as written by Nwankwo (1984, 112) was a story of trails, error and failure. Political considerations mostly overweighed economic: There were deficiencies in the preparations of farm plans and budgets, in the timing of release of loans in loan supervision and collection, corruption etc.

The loan volume of these institutions was far too small to make an impact on Nigerian Agriculture.

In 1963 World Bank and United State Aid for International development, USAID, experts, released a feasibility study on Nigerian Credit Scheme which was never implemented due to the national crisis.

In 1969 the Stoneham Report was released after a feasibility study requested by the federal government.

The recommendations of the stoneham report was accepted and included in the 1970 – 74 National development plan.

On March 6th 1973, the Nigerian Agricultural Bank Ltd was inaugurated to advance short and long term loans mainly.

According to Olayide et al (1975), failure of the various credit programmes indicated one thing "a mere advancement of money to farmers without applying proven farm management principles to the individual loans does not guarantee its effective use and beneficial results". This experience reflects the essentiality and necessity of farm management in effective financial management in agricultural business as studied in this project.

In 1963 the western Nigerian Agricultural Credit Corporation was redesigned to correct these lapses by adopting a technical supervised credit scheme credits were advanced to farmers in cash materials or services administered by trained personnels from the college of Agricultural, Akure, established in 1957 for effective management of farmers credit.

The benefit of such farmers supervised credit scheme include:

- creating farmers vocational training programme.
- Increasing farmers opportunity to acquire new modern farming skill by putting improved farm management practices into operation
- Ensuring loans are put into their must productive uses
- Ensuring Agricultural credits are used for the agricultural purposes for which they were approved
- Increased number of farmers adopted improved farming practices as advocated by the extension officers since adoption of such practices was prerequisite for issuing of the loans.

This increased farmers performance productivity profit and thus his repayment ability.

- It protected the lending institution by ensuring repayment and recycling of loans.
- Agricultural production was effectively directed in pre-determined manner as to meet national goals such as increased production of food and fibre.

ESTABLISHMENT OF AFRICAN DEVELOPMENT BANK – ADB

The African development Bank, ADB, was established in 1964 with the primary objective of promoting the economic development and social progress of its regional member countries.

Its principal mission therefore is to assist regional member countries (RMSs) to break the vicious cycle of poverty in which they are trapped.

To achieve this the bank facilitates and mobilizes the flow of external and domestic resources (human and non-human) public and private to promote investment and provide technical assistance and policy advice to Regional member countries (RMCs).

Presently the ADB has a total of 77 members comprising of 53 regional and 2 non-regional countries.

The African Development Bank group comprises of the African Development Bank, ADB, the African Development Fund ADF and the Nigeria Trust Fund, NTF.

With its headquarter in Abidjan, Cote D'Ivoire the bank commenced operations in July 1st, 1966 with projects and programmes and studies in agriculture, Public Utilities, transport and Communication, industry, health and education.

Established in November 1972 the ADF commenced operation in August 1974.

Its membership include ADB and 25 non-African countries.

It sources its operating fund mainly from contributions from members which is replenished every 3 years. The ADF finance s used for projects and technical assistance plus studies.

The third member of the bank group is the Nigerian Trust Fund NTF which was established by the Government of Nigeria in February 1976 to assist in the development effort of the poorer members of ADB group.

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BANK GROUP OPERATIONS IN NIGERIA ON AGRICULTURE

As at the end of December 1993 NTF lending had amounted to total of US $293.6 mill for 54 loans advanced to 28 African nations.

The sectoral allocaton was as follows:

Sector	Amount US $Mill	Percent
Transport	102.5	34.9
Public Utility	67.82	23
Education and Health	49	17
Agriculture	47.3	16
Industry	27	9.2

Source: ADB country profile (1993) sectoral allocation.

Agriculture attracts the highest attention by the NTF in order to improve upon the countries export earnings and rural income.

As at may 1994 a total of fifteen operations had been approved in the agricultural sector for eight projects and seven studies amounting to approximately US %499.59 millions from ADB and US &78.25 from ADF.

These include – Bacita sugar Expansion Project:

1 Ondo/Ogun states Forestry Development Project; the first Agricultural lines of credit to Nigerian Agricultural and Cooperative Bank, NACB; and the Savannah Sugar Rehabilitation Project which the ADB co-financed with ADF.

ADF specifically financed the Hadejia Valley Irrigation project and the Nigerian Agricultural Cooperative Bank institutional strengthening projects. ADFs technical Assistance Grants of Us$11.3mill was used for seven agricultural studies which include – River state Rice study, middle Rima Valley study, Enyong Creek Rice study, Agroclimatological zones study, River Basin Irrigation Planning study and vaccine Production Study and the Forestry Resources study.

Based on resource commitments agriculture constitutes the second leading Bank group sector of operations in Nigeria (first being public utilities)

Agriculture in terms of number of operations stands first in Nigeria.

With a total Bank group commitment of US $577.84mill. Agriculture takes 28 percent of the lending to Nigerian.

Nigeria Agriculture also takes 8.9 percent cummulative Bank group lending to the sector in Africa.

Average loan amount committed to each agricultural operation is US $41.27mill. Out of fifteen agricultural operations handled by Bank group in Nigeria only two projects – the Bacita Sugar expansion 1 and the first line of credit to the Nigerian Agricultural and Cooperative Bank have been completed.

The Forestry Development Project is at an advanced stage and making satisfactory progress.

The Bank group identifies five crises in the entire African Agricultural sector and operation to adjust them positively. These include:

Food production decline; Drop in export Earnings, Degradation of the Natural resource Base; Population Pressure; High level of official debt.

In addressing these problems the RMCs Nigeria inclusive have committed themselves to the Lagos Plan of Action LPA of 1980 and the Africas Priority Programme of Economic recovery (APPER) of 1985.

The LPA policy provided outline for establishing better balance among sectors in development investment in fostering regional economic ties and in directing financial flows.

Supporting the APPER re-emphasises the need to accelerate implementation of the Lagos plan and laid down a five year orientation for the programming of economic recovery and development that addressed the crisis faced by African economies. It accorded highest priority to the Agricultural sector.

The bank groups involvement in Agricultural sector for two decade has exposed the group to considerable experience in attending to problems of investment in Agricultural development.

This experience has made the bank to move towards a more explicit policy for guiding its programme of Agricultural investment in RMCs.

In analysis of its potential future role in the African Agricultural sector the bank came up with the following objectives:

1. To identify major problems limiting the development of improved production and marketing in the Agricultural sector.

2. To provide a strategy by which the Banks agricultural lending programme can systematically address those problem areas over time.

3. To present detailed policy guidance on investment approaches and priorities for the use of Bank staff outside consultants and other collaborating agencies in assessing specific project opportunities.

4. To assist African Agriculture to adjust to trends in long term demand such that alternative commodities are produced to offset decline in long term demand for some of the traditional commodities; and

5. To contribute to deepening and enriching the banks dialogue with member states and other donors on Agricultural policy issues, on more detailed country programming and on the identification, design and execution of more effective investments in the sector.

To operationalise the policies the lending priorities take cognisance of the country to country diversity in agricultural potential and adjust to this through the Economic Prospects and Country Programme, EPCP.

NIGERIAN AGRICULTURAL AND COOPERATIVE BANK LIMITED (NACB)

The Nigerian Agricultural and Cooperative Bank Ltd. (NACB), was established as a limited liability company under the company decree of 1968 on the 24th of November 1972. Wholly owned by the federal government, it has its headquarters in Kaduna, Kaduna State with several branches spread mostly in the state capitals and selected cities.

It has three major departments for executing its operations, namely:

PROJECTS AND CONSULTANCY:- This department is concerned with project identification, formulation and loan processing; assisting in setting credit institutions and monitoring the loans. It is also involved in developing credit policies from practical field experiences. It deals with medium and long term loans.

OBJECTIVES:- It has long and short term objectives notably:

1. **Short term:** Creation of viable agricultural banking institutions to support implementation of its long term objectives.

2. **Long term:** Enhancing the level and quality of agricultural production including horticulture, poultry farming, piggery, fisheries, forestry and timber production, animal husbandry and other types of farming. Also inclusive is the storage and marketing of such production in Nigeria defined within the framework of approved plans of the federal and state governments. Generally stated, the NACB is established to:

    1. Grant loans for agricultural production including horticulture, poultry farming, piggery and others as stated in the long term objectives. Other loans for purpose of storage distribution and marketing related with such production to any state, collection of states and/or any institution for on-lending to farmer(s) or corporate body subject to state, group of state and/or institutions guaranteeing repayment of such loans.

    2. Grant direct loans to individual farmers cooperative societies or other bodies (both corporate and non-corporate in appropriate cases provided that the bank is satisfied that the schemes attracting such loan are viable and adequate securities to cover such loans.

    3. Do all such other things as may be deemed incidental or conducive to attainment of the above objectives.

The above stated objectives are as highlighted by G.O. Nwankwo (1984, 112).
This study in ascertaining effectiveness in financial management may briefly look

at the banks modus of operation to ensure sch effectiveness. The NACB undertakes an on-lending programme by establishing intermediary institutions for effective lending operational control and guide as well as repayment.

- These include state government and other governmental bodies e.g. NALDA, cooperative bodies, and cooperative banks.

  Secondly, is the inclusion of direct lending to individual farmers and farming organisations attract different interest rates with the former being lower due to loan administrative reasons.

2.67 INTERMEDIARY AGRICULTURAL CREDIT INSTITUTIONS COMMERCIAL AND MERCHANT BANKS

The operations of the commercial and merchant banks in Nigeria as their contemporaries elsewhere in the world are designed and concerned in their very objectives for large and quick profit.

Such operations in the case of these banks are demonstrated in two aspects in their resource profile namely (1) source of fund and (2) the use of fund.

These banks obtain their funds through two sources namely:

(1) Capital and Reserve

(2) Deposits

Although similar in their operations the merchant do not operate current account (except recent times when they offer cheque accounts for their big corporate customers).

Merchant banks are "wholesale" bankers operating large deposits with certain minimal fixed amount that also bear interest. Like commercial banks (retail banks) they extend loan which are rather larger.

Only a small proportion of such Merchant Bank loans ad advances is in form of overdraft common with commercial banks little or no cash reserves are held by

the merchant banks since they do not provide retail current account nor cheque facilities like the commercial banks.

Also the merchant banks do not have wide spread branch network typical of commercial banks for chasing "common" customers.

Furthermore while the commercial banks accept deposits from a wide variety of individuals and institutions both public and private, the merchant banks obtain their funds a part from their capital almost entirely from banks as well as public and private corporations.

In all above similarities and differences highlighted it will be difficult to accommodate the small-scale farmers in the operations of the commercial and merchant banks. This is particularly so when viewed against the basic background of making large and quick profit by these banks since by nature investment in Agriculture does not field such profit and most often very risky.

To encourage these banks play additional role of financial intermediaries in financing agriculture, the Nigerian government established the Agricultural Credit Guaranteed Scheme Fund ACGSF under the Agricultural Credit Guaranteed Scheme Fund Decree 1977 (Decree No. 20).

The decree provided for a fund of N100 million subscribed to by the then federal military government (60 percent) and the central Bank of Nigeria, CBN, (40 percent).

The aim of the fund is to provide guarantee in respect of loans granted by any bank for agricultural purpose wit the principal motive of increasing the level of bank credit to the agricultural sector.

Loans under the ACGSF include advances, overdrafts and any other credit facilities advanced by any bank.

Agricultural purposes for which the loans can be guaranteed include tree crop establishment and management, food and fibres crops, animal husbandry and fisheries.

Certain issues are stipulated for the effective. Management of this programme of protecting Agricultural credit.

This include: Forms of security for loans procedure for loans application, Banks assistance to loan applicant; safeguard of loan against diversion to other uses by disbursement in kind and making payment directly to suppliers who will furnish the bank with a copy of delivery note or other document in evidence of the delivery of the livestock, finger, machinery and farming equipment to the farmer-borrower.

Other also include form and terms of loan agreement in compliance with section 8 of the ACGSF Decree reflecting amount of loan, rate of interest and duration of the loin, including moratorium period if any which is relevant to the gestation period of the project being financed. Another issue of specific attention is the limits of liability of the fund in respect of guarantee.

It is worthy of note that interest rate chargeable by the intermediaries (banks) on credit facilities under this scheme will be as prescribed by the commissioner for finance from time to time.

Security requirement for ACGSF loans include one or more of the following:

1. A charge an land in which the borrower holds a legal interest or a right to farm or a charge on assets on the land including fixed assets, crops or livestock.
2. A life insurance policy, a promissory note on other negotiable security.
3. A charge on moveable property of the borrower (this is actually not attractive to banks and other financiers).
4. Stocks or share certificates.
5. A personal guarantee, and
6. Any other security attractive and acceptable to the bank or financier.

6.2 This is as highlighted in extension guide under the topic of sources and method of obtaining agricultural loans by the National Agricultural Extension Resources and Laison Sconce cooperation series No. 5 pg. 4.

It is worthy of recalling that this system of extending credit to farmers has been used in the Northern region of Nigeria in the early period of Agricultural financing in Nigeria.

This system was grossly disappointing and unsatisfactory in attending to the need requirement of farmers, loan administration and loan repayment than the ACGSF as practised in recent years.

The operation was in the farm of government guaranteed overdraft of commercial banks since there were no merchant banks then.

Other subsidiaries or intermediaries for financing Agricultural protects include government-owned marketing or commodity boards. They often advance credit to produce buyers to source commodities specifically needed by the Ministry of Trade and Commerce particularly for international trade to boast the nations foreign exchange reserve.

In the United States of America government sponsored and government owned credit institutions exist and include:

Federal land Banks for cooperatives, Federal Home Loan Banks and the Federal National Mortgage Association.

They obtain funds primarily by sale of their own debt securities. Unlike the Nigerian intermediaries they are not explicitly guaranteed by the government of the USA. Rather most of the investors in these institutions feel there is strong moral obligation in this regard.

The Federal Land banks, Federal Intermediate Credit Banks and Bank for Cooperatives provide credit for Agriculture.

The Federal Home Loan Bank system makes loans to savings and Loans Association on the basis of mortgages pledged as securities.

The Federal national Mortgage Association ("Fannie More") buys and sells home mortgages

- provides secondary market for mortgages as means of adding liquidity in the market and increasing the attractiveness of mortgages as an investment for financial institution (including Agricultural Institutions). Thereby increasing the supply of mortgage funds available to home buyers. Government owned financial institutions include:
  - Farmers Home Administration - The uses funds obtained in the financial markets to provide direct loans and insure loans of other lenders to agriculture and other areas of rural economy.
  - Commodity Credit Corporation - Similar to the operation of the Nigerian Marketing/Commodity Board, provides commodity price support loans to farmers.

This is a price stabilization and guarantee exercise to guarantee farmers income stability and incentive to produce and operate credit based on projected yield and income.

The Federal Housing Administration – This institution insures or guarantee mortgages made by private financial institutions and thereby substantially increase the flow of capital into home mortgages. This has much impact indirectly on the farmers finance and welfare in the rural communities.

The credit flow in and out of the farming system (directly) and around (indirectly) is necessary in this study to understand and appreciate a needed financial stability that will ensure an effective financial management.

A financial imbalance around the farmer and his need disrupts very seriously the management of his credit in the best way expected.

The model for determining the minimum cost combination of factors of production and substitution is an appropriate model to use in determining the amount of capital

to obtain from various sources. This deals with the opportunity cost of used factor of production.

Credit obtained from a source substitute for credit from another source on Naira basis. When rate of substitution is constant then the problem is simply to determine the most economical source of fund and obtaining the required fund from such source.

Capital issue still persist for consideration namely:

1. Limitation on fund available from such sources.
2. Increasing cost (both monetary and non-monetary of fund derived from a given source.
3. Lumpiness of equity acquired by renting capital available through saving or equity may still be the most economical source but this in most instances are limited and can be increased at higher cost and longer time period than any other.

Borrowed fund is also limited due to security mortgage or by government loan guarantee policy certain issues are considered by borrowers in the choice of the lender to patronized among varying options.

Principal among these issues are the terms of lending and repayment. This involves such issues as interest rate, size of farm, management skill, type of products, technology, market potential of the product, credit worthiness of farmers which relates to repayment potential of the farm which could permit the intervention of the lender in order to protect and prevent liquidation.

Apart from farm financing from savings and gift and inheritance other outside equity and noh-equity financing are addressed with total business consciousness of the lender.

This is more outside the simple issue o giving out money expecting repayment.

The repayment method of credit as principal issue in choice of loan has led to the classification of loan as:

1. Single payment loan or Lump sum payment loan which calls for payment of entire loan on the expiration of the terms of credit. This type of loan is not a comfortable leverage for steady business growth.
2. Partial Payment Loan – Single Payment Loan with small fixed principal payment or installments each year during the repayment term of the loan.
3. Amortization loan.
4. Decreasing payment plan.
5. Variable or flexible payment loan - This calls for payment of interest or principal or both which are scheduled to fluctuate with crop yield or income.

2.5 PRE-REQUISITE FOR SUCCESSFUL AGRICULTURAL CREDIT MANAGEMENT PROGRAMME

Like every management programme Agricultural credit management is designed to approach certain perspectives.

It views the programme from both the lenders and borrowers perspectives.

In doing this it applies management considerations

1. Identifying objectives.
2. Understanding the objectives by programme justification.
3. Highlighting plan, method, procedure and approach for achieving the objectives.
4. Highlighting the circumstances for the application of the steps of approach.
5. Looking at the manpower involved to implement the lending and monitoring activities as well as level of the borrowed management skill and guiding him.

These considerations when duly put in place enables the designers of the lending programme come up with activities that give expected positive results.

The pre-requisite is therefore highlighted in the lending policy of the lending institution. Most often the farmer has no borrowing policy but even if he has, the need pressure makes him to till more to the lenders policy.

2.81 **WHAT A CREDIT MANAGEMENT PROGRAMME ENTAILS:**

1 **LENDERS ASPECT**

Lender sources his finance at good rate and amount. Good rate implies rate at which the lending institution can still make reasonable profit after taking care of (1) the sourcing rate (2) lending rate (3) handling cost.

Handling cost is variable and involves (1) Internal processing expenses including office operation materials used staff and overhead expenses (2) External Expenses namely recovery cost from defaulting farmers, general management of borrower e.g. extension education and probable cost of bad debt to be written off. The final balance, net profit should be positive.

Good amount involves the expected total amount of fund to satisfy the needs of the farmer-borrowers plus all the above stated handling charges. It also takes care of the cost for monitoring farmers operation – periodic monitoring and advising of the farmer technically and managerially to ensure mistakes are not so much as to affect his productivity. This entails some good degree of extension worked on the part of the lending institution. The success of the farmer-borrower is the success of the lender.

The lending institution ensures a good network of sources of enough funds for the on-going exercise and makes provision for alternative sources at all times. The farmer-borrower grows to depend on a particular institution when much of his needs – financial, technical and managerial are adequately satisfied by such institution. Farmer-borrower appreciates any institution that has his concerning this at heart.

Following this the lenders credit advancing format must address all issues essentially necessary to ensure the farmer operates at technical and managerial comfort and efficiency because he is less literate particularly in handling finance.

The lending institution must have quality staff realizing the caliber of clients they serve, their socio-economic position and their expectation for growth. Such staffs much have extensioners qualities and extension ethics.

They should also be adequate in number to meet up with the required attention to the farmer-borrowers.

The staff should understand that they have a vital stake in the success of the programme and not necessarily to farmer.

Advancement of unguided loan with hope of disposing farmers security or pledge has a lot of business repercussion in Agricultural credit programme.

Farmers trust each other and therefore effort should be made to group them together in cooperatives for group orientation and influence. An easy Agricultural credit management system with internal control, close system and self involving, operated on mutual trust and respect helps' the lending institution to create an effective financial management programme for farmers. The fundamental philosophy held by agricultural operators is to exist with mutual trust and respect for one another.

Farmers must be assisted to have proven faith in the programme to enable them trust rely and regularly patronize the scheme. This not done they fall back to their traditional, protective unprogressive subsistence practices or expose themselves to the exploitation of merchants.

POLICY: The lending institutions should formulate policies and guidelines that will enable them to serve the farmers and improve their standards. Policy formulation should take foundation in the target farmers who the policy affects. The farmer should therefore be constituted and encouraged to participate in the decision that affects them at every stage of such policy formulation adjustment and implementation.

Farmers learn and adopt innovations very slowly and with caution despite potential and expected advantages.

Cracknell (1974,3) in his paper on government – cooperative relationship stated that "the closer the implementation of policy comes to the grassroots of the population the more important it is to consult the people about the objective ad implementation of that policy".

Policy he said concerns and affects the people. Generally speaking the quality of the farmer constitute a risk to he lender in the farm credit programme. Far credit institutions therefore find it necessary to educate the farmer vocationally to enable them appreciates opportunities. By this, the lender adequately helps the farmer to help himself and the programme.

FARMER-BORROWER ASPECT

The farmer-borrower wholeheartedly waits for a "messiah" to change his socio-economic position to a better one. One to make his farming activity worthy of being called a business.

Despite all this dream the farmer is very continuos in his ambition. He takes the loan we manage. Enough he can repay and in condition that does not expose him to lose his family land and/or other pledges.

He wants to know how other loan users have fared in the scheme. He prefers taking the risk of borrowing in a group. Apart from such group orientation the farmer wants to have a local leader he trust, who knows better than himself about the programme. He wants to be sure he is not alone.

Through some effective local leaders the farmer begins to learn and practice the basic record keeping, becomes capable of contributing in planning budgeting and budgetary control.

The ore the number of such local leaders with good leadership quality, the easier the organisation of the credit scheme for success. Hey also assist in designing rural/collage business to act as supplementary source of income. Such business

should not distract the farmer from his farming activity but rather assist him meet his loan repayment obligation.

To be viable for NACB loan a project must be economically desirable, demonstrating a clear developmental value to the nation, be commercially viable, capable of exhibiting satisfactory evidence of good return on investment (ROI), has no conflict with state and/or national policies and must guarantee enough fund to repay advanced loan in accordance with stipulated ad agreed terms and conditions of lending.

Applicant must have proven ability to manage such project as a business, with sound business reputation and financial standing or shows evidence of attitude receptive to vocational education. He should have a title to land make an undertaking not to borrow elsewhere without permission and approved of the NACB, he should also have adequate backup securities for such loan(s).

Emphasis is most particularly placed on farmer borrowers capability to repay loan due to technical and economic aptitude.

To avoid diversion of funds effort is high on advancing loan in kind rather than cash. Repayment considerations are made with to gestation period of such project most often period of grace or moratorium is granted to the farmer-borrower for a comfortable repayment. Effective financial management reflected in the performance and satisfaction of farmer-borrowers and lender's expected result has not been very satisfactory over he years with he NACB.

This is due to several reasons, namely:

- NACB is a refresh institution, strange to farmers and other expected users.
- the "quality" and "quantity" of NACB staff has not been adequate.
- the performance expected of the farmer-borrower has not been optional.
- the institutional setting has not been fully exploited by farmers, while lapses and regular adjustments are still going on, implying optional functioning as not been reached.
- borrowers have not been effectively organised for best result.

- The vocational skills of he lenders and borrowers are still not at there best for effectiveness. Technical and managerial skills are to be improved for financial management effectiveness.
- With the above situations, policies are not very befitting and appropriate.

In addressing agricultural credit both from the lender's and borrower's perspective, Goroano (1973,24) stated that "specialization was the most efficient system for Agricultural credit which every government should work towards as an ultimate aim".

The farmers cooperation and cooperative society. The farmer is trained on basis modern and effective productive techniques of farm business particularly in financial principles, tools and ethics.

The organisation of the farmers organisation or cooperatives should be self motivated on the farmers. Laidlay (1962,25) stated that "---------- a cooperative must remain a self-reliant and self governing organisation involved in the last interests of all its members, failing which a sparious model of a cooperative would have been created". He went further to say that …." The straight of cooperative lies in the cooperatives self-motivation, self-help and self-expression".

Using the cooperative as a viable institution for financial management effectiveness, the result of long matured decision, patience and the continued effort by every of its farmer-member will be realised. The creations of cooperative entails identify pre-cooperative groups capable of training and motivation, to realise specific interest and purpose.

The motive behind the cooperative cooperation is not for cooperative to take over from or reduce the individual initiatives but rather to supplement it. It is only in this circumstance that the various aspects of farm management e.g. modern management practices, marketing, Thrift and credit as well as sourcing of fund and financial management practices can be effectively done including socio-political recognition and bargaining. The farmer begins to acquire and grow certain mental attitude and confidence that generates a peculiar progressive way of life.

This attitude and confidence is expressed in all the farmer does including his financial management and fund repayments. Success begets success and the progress' of any individual farmer or group motivates other.

LEGAL ASPECT

The fundamental issues in management are planning organizing directing and controlling. But to smoothen and straighten the management is the legal aspect of he various transactions in the credit system. These concretely depress the rules and regulation guiding the activities. It also ascertains several controls and penalties for derailment default and deliquesces in the contracts and obligations.

Planning the scheme entails formulating a design that adequately attracts the farmer into utilizing a credit opportunity presented b the lender. Such attraction should in many aspects be better than existing credit opportunity options to the farmer. This could be in form of defined terms of relationship, technical, managerial and financial advice's to prevent project failure, on lending rate availability and timeliness of funds, allocation of funds based on operational requirements, allocation of funds based on operational requirements. They can also be helpful, for provision of essential inputs organizing for the farmers for easy management, concern for the farmers beyond their professional problems, finding and suggesting best market for best price at best time, addressing he farmers repayment obligation at the earliest and best time.

The activities in most instances are built into the activity modalities for the credit programme. They are also the legal conditionalities and terms for management and administration of loans. The legal aspect therefore does not look at the controls and penalties but also the obligation and contributions by lender for effective credit management.

ANALYSES AND CONTROLS IN AGRICULTURAL CREDIT MANAGEMENT

TECHNICAL: Effective financial management involves putting all financial principles into harmonious operation and synchronism while operating a business, using appropriate technical management as a foundation block.

Technical issue considered in the analysis and control in Agricultural credit management deals specifically on the actual production operations in the farm.

It involves whether or not the agricultural project to be undertaken is techinically feasible. If it is the project planner begins to choose between technical alternatives with financial constraints.

Within the cost framework and financial returns expected tentative choices and workable plans are drawn to reflect.

1 - Level of production technology

2 - Input requirement including labour

3 - Equipment

4 - Method of production

5 - Organising the operation

6 - Facilities location and design

7 - Ecological considerations

Analysis of this nature is vital to the fiscal decision of carrying out the agricultural project or to abandon the proposal in order to avoid non-feasible projects.

According to Barnard et-at (1973, 68) the principle to guide the producer is that "he should select the cheapest methods of operation within each enterprise consistent with obtaining that level of output beyond which no further profit is possible." The farmer does this to minimise the input of scarce and expensive resources in the method employed for each enterprise within the entire combination of enterprises.

This study addresses the issue of technical operation, understanding the role it plays in effective financial management as a foundation.

One must be skilled and technically competent to ensure fund employed to finance any project is not wasted.. The technical issue when well addressed ensures optimal productivity per input resource being financed. It also enables projection to be scientific based in the

fundamental way prescribed for specific operation in Agriculture. It forms an insurance agaainst failure in Agricultural operations and financing.

The technical aspect take decision on what agricultural operation one should legitmately undertake – crop to cultivate, livestock to rear or any other agricultural and/or agriculturally related economic activities.

The technical requirement of such activity he undertakes; Best location/zone for such operation; best soil type for such production (if crop). Type and best variety of seed or breed of livestock; Time of planting and input/operational requirements; male; feale stock ratio; Inter-crop spacing-intra/inter-row spacing; type of ferilizer blend and quantity required per plant and per hecare; Feeding quality and quantity per stock at various ages and state.

Time of fertilizer application; Chemicals to apply for various operations; Type and time of weeding; Routine stock management programme; Croping method – monocropping or mixed cropping; crops or crop with livestock – mixed faring; Resource utilization – Labour intensive, complete mechanization and mixed, as well as degree and level of mix towards maximum return on invested fund. This takes cost of fund into consideration. Also considered is used family labour to avoid "false profit" often obvious when children leave for other jobs. More issues are general farm management considerations; time and method of harvest; Handling of products – storage processing, time of selling for best price; organising the market for best price bargaining; market channel and target as well as transportation type; Farmers level of technical knowledge and skill required by experience and training; farmers attitude to improved technology of such technology and steady linkage to such source; Networking for technical improvement either by inter-farmer share of idea, field day experience or any other source form.

In the abstract on United States Pepartment of Agriculture (USDA), technical bulletin tittled "Measurement of Usl Agricultural Productivity, a Preview of Current Statistics and Proposals for change" an American agricultural economics Associaltion task force examined the sources and procedures and recomends that USDA:

1 Places greater emphasis on improving methodology

2 Move further towards a complete factor productivity measure

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3 Replace the requirements approach by direct sampling in contracting the labour input

4 Use the products approach in defining the agricultural sector

5 Improve accounting for quality change in inputs, and

6 Adopt a series of specific improvements for contracting specific inputs and aggregating procedures.

Key issues here are Agricultural productivity, Index numbers, efficiency, Inputs and Outputs.

Certain activity standards are recommended by researchers and consultants in agricultural operations. These are in the combination of the various production factors in order to realise high level of productivity.

To check, progress on critical jobs quickly, a visual aid may be used: a work progress chart, using a separate for each major job. This contains date to start a job, date it hopes to end and the hectare to cover.

The perod involved depends as in the gangwork day chart on the expected crop, weather and soil condition as well as the way the job fits into the overall farm plan.

Matching "actual" against plan shows immediately not only whether the job is behind or ahead of schedule but also by how much.

PRODUCTIVITY:

Agricultural productivity is measured and made useful with the complete knowledge of on-going operation, what it should be, what is wrong and what should be done about it. But what is meant by productivity and how is measured?

To some it is output per man-hour, to others it is crop production per hectare, and yet to others it is output per unit of total input used in production.

Productivity is one of those terms that we tend to feel free to use without explicit definition as if its meaning were intuitively obvious. Most people know that productivity has to do with the ratios of outputs to inputs.

There are problems both at the conceptional level-low productivity ought ideally to be measured, and at the pratical level of obtaining data, how to measure reliably the conceptually appropriate variables.

Points attracting attenton here are:

1 Obtaining appropriate measures of input used thought to be an especially serous problem for labour and capital services

2 Capturing changes in quality of inputs, and

3 Otaining appropriate weights on inputs and outputs categories and keeping weights updated eg Net Present Value, NPV, of funds.

The Agricultural sector in any given year makes use of certain quantities of service flows from scarce resources. There results a corresponding flow of agricultural output.

The question which leads to the measurement of productivity is how mush output is obtained from the resource committee.

The primary purpose of a productivity measure is to answer this question by means of a number, a score by which different times places and sectors may be compared.

Productivity statistics naturally have the characteristics of a performance measure. Among the many conseptual issues that arises with respect to productivity statistics perhaps the most difficult from the point of view of the general publics understanding is the distribution between a technical and an economic performance measure.

Here we are concerned with technical performance measure.

Before moving to specific problems two general issues in the meaning of productivity statistics which tend to cause confusion will be discussed.

4 The relationship between productivity and the theory of production

5 The relationship between productivity and efficiency

PRODUCTIVITY MEASUREMENT AND TIIE THEORY OF PRODUCTION

Productivity is measured by an index of output quantities divided by input quantities.

Many alternatives indexes are possible because there are several different ways to measure output and inputs and to aggregate output and input categories.

Assuming for the moment that measurement and aggregation on the output side are satisfactorily accomplished, then there are two main types of commonly used productivity measures distinguished by their handling of input.

1 Partial productivity of an input-this is the ratio of output to a single input.

2 Total factor or multi-factor productivity – this is the ratio of output to all input combined

Although the term "Total" is more often used than multi-factor , the later term is preferred especially when considering emperical work because any feasible productivity statistics will exclude some non-conventional "input and hence be less than total".

Since partial productivity relates output to a single input many partial productivity measures can be constructed eg labour productivity or land productivity.

The most important and commonly used partial productivity measure in the non farm economy is labour productivity.

In agriculture the conception lies behind such statistics as "how many people a farmer can support?" For example in the comparism that in 1945 an American farmer produced enough food for 11 people, while in 1980 one farmer produced enough food for 65 people – 47 at home and 18 abroad. (USDA Technical Bulletin No 1614 pg 4).

Labour productivity is the average product of labour in the terminology of production because labour is an important factor of production, estimates of man-hours are regularly calculated and this partial productivity index is easy to compute and comprehend.

Indeed labour productivity is the standard measure of productivity in manufacturing. It has been used for such purposes as deciding which product price increases are justifiable under formal anti-inflation programmes.

While labour productivity may be a useful index its uses are severely limited.

It can be a meaningful performance measure if labour is the dominant fraction of total inputs or if the amount of other resources used remains unchanged. In agriculture while labour constitutes a substantial fraction of total input in production other inputs are considerably more important.

Also the amounts of non labour resources used have changed substantially overtime and their changes are not taken into account in computing the labour productivity index . Therefore labour productivity does not measure output obtained from given resources. None does it measure the attributes of labour as a productive resource because higher output per man-hour can be achieved by increasing use of machinery, fertilizer and other capital equipment. The economic theory of production is helpful in conveying a more exact understanding of the deficiencies of partial productivity measures.

It leads us immediately to suspect that an important reason why labour productivity increases so much more rapidly than multi-factor productivity us the historical increase in non-labour inputs per an-hour in agriculture.

If production function is known we can even calculate how much measured labour productivity would change with a given change in the input mix without any change in the production function.

Generally, the theory of production is an aid in looking for two types of error – a type of error in which productivity changes but our index fails to measure the change property and a type of error in which productivity does not change but our index does common instances of the second type of error can be avoided by using a multi-factor rather than a partial productivity index.

However multi-factor productivity measurement also involves problems on which the theory of production can aid our understanding.

INDEX NUMBER PROBLEMS

A major difficulty in computing multi-factor productivity is constructing an aggregate input index.

Disparate quantities such as hours of work, hectares of land, kilograms of fertilizer and numbers of tractors are combined to produce a single aggregation.

Unfortunately the use of money as a measuring rod can not remedy problems in computing multi-factor productivity. The input must be weighted to combine them for an aggregate and no weighting scheme is faultless.

THE PRODUCTION FUNCTION APPROACH

Some have attempted to evade index number problems by basing a productivity measure directly on the production function. On this therefore changes in multi-factor productivity are defined as shifts in the production function. Thus if the form of the production function is fully specified and this function can be observed at different times productivity changes may be measured as the change in a shift parameter in the production function over time.

Unfortunately not every plausible shift of a production function permits representation by means of a single statistics.

The popular Cobb-Douglas or Constant Elasticity of Substitution (CES) production functions contains shift forms which can be used to represent productivity change but they may not accurately depict the production technology.

Attempts have been made to specify ore generalised production functions such as the Variable Elasticity of Substitution (VES) production, generalised power production function, homothetic production function and transcendental logarithmic production function. Each functional form has contributed to the study of production but they all possess limitations in the study of productivity changes. Some like the VES can be readily estimated for only two inputs. Production functions that can be estimated with more than two input variable often involve interaction terms which cause the number of terms in the function to multiply expenentially as the number of input variables increase. Consequently estimation becomes difficult.

There remains problems even if the production function form can be correctly specified. The coefficient of inputs in the production function represent a given state of technology.

As technology changes take place, these coefficient will also change unless technical change happens to be factor neutral.

It is therefore difficult to capture all relevant shifts of the production function by means of a single parameter.

Finally we frequently compare productivities in different time periods in which equilibrum (ie value of the marginal products of inputs is equal to input prices) does not exist. Thus, more output may be obtained from given inputs even without a shift in the production function.

Therefore for practical purpose, the production function is not a suitable device for directly measuring agricultural productivity. This should not deter users from employing it since it leads to improved empirically applicable productivity measure.

INDEX NUMBERS AND PRODUCTION THEORY

While production functions may not be usable directly, production theory is helpful in the choice of index numbers. It helps in determining the appropriate method of aggregating inputs by increasing the appropriate method of aggregating inputs by increasing the understanding of the sources of error in a alternative approaches.

Let the production function be

$Q = f(K,K)$ ------ Eq1

Where QLK are quantities of Output, Labour and Capital (here capital represents everything except labour)

If Production function has constant return to scale, then

$Q = f_L L + f_K K$ ----------Eq2

Where f_l and f_k are marginal products of Labour and Capital.

Multiplying both sides by Price of Output P yeilds

$PQ = Pf_L L + Pf_K K$

Or

$V = VP_L L + VMP_K K$ ---------- Eq3

Where V is the value of Output and VMP is the value of marginal product.

If the industry is operating competitively and is in equilibrium, the factors of production are paid the values of their marginal product, that is

$VMP_K = r$ ---------- Eq4

$VMP_L = w$ ---------- Eq5

Where r is the rental price of Capital and w is the wage rate.

Equation 3 can be rewritten as

$V = rk + WL$ ---------- Eq6

Equation 6 is the formula used to aggregate inputs in computing the arithmetic multi-factor input index. Therefore arithmetic aggregation with factor prices as weights exhibits an inherent congruence with production theory.

Difficulties arise when two periods must be compared between which relative factor prices have changed.

The problem arises as to which of the two price-weights is best.

Can production theory help out in this solution?

Yes at least partially by indicating limiting cases in which productivity can be measured unambiguously even when relative prices change.

1st Example: If the production function has zero elasticity of substitution that is fixed coefficient relating each input to output, then arithmetic aggregation is appropriate even if factor prices change.

2nd Example: Arises from the Cobb-Douglas production function. Equilibrium conditions (4) and (5) imply that the coefficients on the input quantities are factor shares.

Therefore a geometric index of aggregate inputs which combine inputs L and K as

$Q = L^{SL} . K^{SK}$

Is a natural and unambiguous means of aggregation when production is Cobb-douglas.

Iruing fisher (1967,360) suggests crossed – weights formulae as an ideal resolution of the problem of bias in fixed weights although he was well aware that the result are not necessarily unbiased.

Fisher index is the geometric mean of the Laspeyres and Paashe indexes.

Rather than using the base period weight (of Laspeyres)or the comparisin period weights (of Paasche), the fisher Index uses an average of weights n the base period and comparison period.

Diewert (1976,115) put forth several technical arguments in favour of fisher ideal index numbers. However the fact that this fisher averages two opposite biases from the Laspeyres and Paasche indexes does not guarantee that it provides accurate answers.

An approach that recently has received considerable attention is the Divisa Index.

Divisa Index is a weighted sum of growth rates where the weights are the input components shares in the total value of inputs used.

Divisa Index is consistent with a wider variety of production functions than either the arithmetic or geometric indexes.

It is an exact satisfaction for the homogenous production function. This means basically that a Divisa index does not imply restriction on the substitution possibilities as is doen in CES production function.

The Divisa index approach had been recommended by Jorgenson (1971,227 and Griliches (2960,141) and its properties spelled out by Hulten (1973,1017).

Unfortunately some of the desirable properties depend on its being specified in continuous time form. In a desecrate time approximation, the factor share weights may change. Of the many ways to approximate the Divisa Index in discrete time, the most widely used is the weighted log-change index.

$$I_N (q_i - Q_{it}) = \qquad W_i I_N (q_i - q_{it})$$

Where

IN (Q_i - Q_{ii}) is the rate of change of the aggregate quantity index.

IN (q_i - q_{ii}) is the rate of change of the output components; and

W_i are the relative value shares of each component ($W_i = 1$).

The W_i are calculated by applying the Fisher cross-weight approach being the mean of base and current-period shares.

PRODUCTIVITY AND EFFICIENCY

Efficiency in its broad economic sense is usually taken to refer to the value of output from resources to given value.

Efficiency refers to the attainment of equality between ratios of marginal products and corresponding factor price ratios in a commonly used narrower sense of the term.

Koutsoyanis (1982,67) stated that "a method production A is technically efficient relative to another method "B" if A uses less' of a least one factor and no more from the other factors as compared with B".

Productivity differs from efficiency in that it refers to relationships among physical units.

Economic efficiency in its narrower sense of meeting all the appropriate marginal conditions is not the same thing as productivity.

The contrast is most clearly brought out by Schultz (1964,7) who stated that "efficiency is a characteristic of poor countries in which productivity is stagnant: whereas tests for allocative efficiency typically fail in an agricultural sector where productivity is growing.

The point here is to recognise possible sources of confusion and not to legislate definitions of productivity and efficiency.

It is possible to define efficiency in such a manner that it is equivalent to productivity. Kendrick (1973,1) defines changes in total factor productivity as changes in productive efficiency.

Fabricant (1959,714) defines productivity as a measure of the efficiency with which resources are concerted into the commodities and services that men want.

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He went further to explain that;

> We can become more (or less) efficient in the use of a particular type of resource, say plant and equipment as well as of resources taken as a whole.
>
> A given volume of products might be obtained from a smaller amount of plant and equipment used in conjunction with an unchanged amount of labour, land, inventory and other resources.
>
> This would be a real gain. It would be proper to consider it the result of increase in efficiency and we could measure the increase in efficiency by calculating the ratio of an index of physical output to an index of the volume of plant and equipment. We could also refer to this ratio as a productivity index.

USE OF ISOQUANTS

Isoquant is described by Koutsoyanis (1982,68) to, "include all the technically efficient methods for producing a given level of output"

Some aspect of the relationship between productivity and efficiency can be clarified with reference to the Isoquants (labelled with Q_s) in the figure below.

Let us assume two agricultural inputs-labour and capital.

The points one each Isoquant represent the combinations of capital and Labour which may be purchased for specified cost. A profit maximizing firm or a sector consisting of

profit maximising firms will desire to operate at a point of tendency between an Isoquant and Isocost line.

We assume a given production function yields Isoquant Q_i (as in the figure). The Isocost line which is tangent to Q_i is C_i. The point of tendency, B. shows the efficient combination of capital and labour.

ISSUES

A shift in the production function transforming inputs to output is represented by a shift in the Isoquants.

Particularly the specified output level of Isoquant Q_i can be produced by the input combinations on Q_i after the shift.

In addition the output yielded by the B combination of capital and labour after the shift is represented by Q". A movement from B on Q_i to B on Q should be attributed solely to the shift in the production function.

Neither an increase in inputs nor an increase in efficiency in the narrow sense of the term shown played a role in the shift of output from Q_i to Q.

A change in allocative efficiency can be represented in the figure by a movement along an Isocost line. Attaining greater efficiency implies movement towards the point of tangency. Such movements may be necessitated by shifts in input price ratios. Farmers must shift input proportion to remain efficiency as indicated by shifting point of fangency. A movement from D to B increasing output from Qo to Qi should be attributed solely to an increase in allocative efficiency.

Neither a changed production function nor a net change in outputs helped increase output. Observed changes in inputs and outputs typically contain elements of all three influences:

1 Allocative efficiency

2 Shifts in Production Function

3 Levels of Inputs

Note: Defining and identifying the role of each factor is a complex task which can be done with only limited success in most practical situation.

USES OF PRODUCTIVITY MEASURE

While their limitations must be kept in mind, productivity statistics are potentially valuable as performance measures.

Even when there are substantial doubts about the validity of a particular productivity index, the output and input quantity indexes (basic technical issue) may be and in fact have been used as raw material in designing alternative performance measures. (choice of alternative technical approach)

A survey of the uses to which the existing statistics can be and have been put in order to assess how agricultural productivity measures have actually served the purposes for which they are developed.

The most important uses are the following:

1 Identifying the sources of economic growth

2 Justifying the appropriation of agricultural research

3 Estimating production relationship

4 Serving as an indicator of technical change

5 Choice of best technical method

6 Comparing intersectural economic performance

7 Justifying price increase (both input and output items)

8 Evaluating and justifying general investment

MANAGEMENT

Milton (1973,1) defined management briefly as "the act of directing affairs". This may involve the training of personnel or directing any identified operation or task. Generally speaking cooperative management is confronted with more problems than the management of ordinary business corporation with comparative activities. This is so even in credit management.

The job of management is simplified by use of management principles. These principles assisting management are important for basically two reasons.

1 Eliminate trail and error that would have otherwise been present without principles.

2 Their implication for management training is profound.

For this, principles that underlie successful business management can be learned and applied by all.

There is more to management than learning the principles and understanding when they are to be applied.

Emphasis is therefore placed upon the reality that much management can be reduced to scientific principles.

Much of the task of credit management is to solve problems as they emanate and also make decisions that will best accomplish the aim of the farming operations.

Richards (1957,9) conceived management as "the act of combining such things as ideas, processes, materials, facilities and people to produce and market products and services"

The keyword here being "combining".

Basic management functions are involved namely planning, organising, directing and controlling the operations in the farm.

Within the framework of this study, two functional groups are involved in the management of the entire activities of the small scale farmer.

1 the farmer –borrower

2 the lender – extensioner

With a comprehensive analysis of the small scale farmer and his activities

And expectations of his job can be understood.

There are two principal ways to look at management in business.

- What the management does functions encountered in respect of specific operation.
- Who management is – the people involved in running the business.

Proper management creates a comfortable frame work in a business feasible for credit or funding. Certain aspects of management are left with the farmer-borrower cooperative members.

They agree on goals plan for the future of the cooperative and their activities, organise and direct work of the team, supply leadership and establish controls to check results.

Management is continuously evaluated and adjusted for improved results.

According to Abrahamsen (1959,10) "the first and most important job of cooperative management is to seek continuously for improvement"

MANAGEMENT VALUATION

Management uses historical reports on operations to evaluate progress or lack of progress. Periodic management analysis and evaluation is the first step for improving the function of management. This is inventory of current management.

Evaluation is done by experienced individuals with insight into the aspects of management under review.

Since the main purpose of evaluation is to effect needed improvement, evaluating individuals should be chosen that can influence needed changes into action.

Evaluation are done as often as changes occur in the business operation.

IMPROVING MANAGEMENT

There is little if any merit in making an evaluation merely to establish score on how well management has been performing.

Rather the principal value emanates from pinpointing aspects where management needs to be improved.

If problems are envisaged, the organised, the organisation can avoid the. And if detected steps are taken to solve the. Unless there is an immediate and vigorous effort to effect improvements, the evaluation is of little or no practical relevance.

Improvement on the operators of the management function leads to training.

TRAINING AND EDUCATION

Education is looked at as the process of acquiring background knowledge of a subject and can be formal or informal.

Training on the other hand is learning to use background knowledge in specific work situation. It is concerned with job performance and application of knowledge at work.

Extension training involves extending. What to extend is knowledge technical, managerial financial etc knowledge that is useful to farmer for improving his operational skill. Source of this training can be government research organisation, private consultant etc.

TRAINING IS ADDRESSED IN FOUR STAGES

1 Identifying the training need of farmers by understanding what stage they are and where they are expected to be. This is their performance gag or deficiency.

2 Analysing what to learn (ie the deficiency) in order to close the gap.

3 Implementing the learning process

4 Evaluating learning - How much of the gap has been closed

The training exercise involves the two interacting human elements in the farm management operation – the farmer and the extensioner.

The farmer is trained to be technically more effective and efficient in handling his farming activities.

The Extensioner is trained to be a more effective and efficient trainee trainer.

Effective and efficient management guarantees to a high degree a safe involvement of fund or credit in a business.

CONTROL RULE IN COOPERATIVE MANAGEMENT

Williams (1975,11) stated that "if used properly, the performance appraisal can be one of the most powerful monitoring controls a manager has at his disposal".

It is vital to review the nature of responsibility for implementing control function.

The function is initiated by the director of the cooperatives and implemented by the members through the guidance of the society manager. Management control activities can be divided into two kinds – Primary and Secondary Controls.

1 Primary Control deals with long-range activities or activities involving items of a trusteeship. These include controls over the managers, long-run policies, long range financial commitments and control for overall performance of the cooperative associations.

2 Secondary controls have to do with the short-run operational aspect of the associations. These include control over the subordinate managers eg heads of departments and all the employees.

Activities such as production, marketing, procurement occurring at short run are involved as well as office procedures.

Performance appraisal is therefore an early warning system or signal fundamental to effective control in every cooperative organisation that depends for its growth on the sound use of its resources and managerial talent.

William went further to acknowledge the fact that the largely group phenomena of authority sanction, leadership and control are fundamental to successful management.

EXTENSION

Extension handles information that are technically and managerially useful to the farmer in his agricultural activities.

Extension information is also useful to the farmers in organising themselves into functional groups.

Webster dictionary defines information as "knowledge communicated by others or obtained by study and investigation"

Fenley et-al (1975,1) define communication as a "conscious attempt to share information and idea with others"

Pett (1970,21) states that the "key to this store of information is effective communication – getting the information from those who know to those who need to know in such a way that they understand, accept and most important act"

Communication involves getting the communicator (sender) and the receiver (farmer) together for message or services of messages.

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BASIC CHARACTERISTICS OF COMMUNICATION IN EXTENSION

1 Communication in Extension is a two way process

2 Must communicate ideas that are clear, accurate and appropriate to the need or aspiration of the receiver (farmer).

3 Communication must be organised with facts carefully arranged step by step and logical to cover subject matter or topic without creating boredom.

4 Communicator or extensioner should present himself and his materials in such a way to win the cooperation of the receivers.

5 Extensioner should adjust to cultural form and standard by:

A Using right words and symbols which he knows their meaning

B Conforming to local norms, value customs and courtesy.

C conforming to local authority patterns

D Maintaining harmonious relationship with the farmers

6 communication must assume a social responsibility by extending ideas and practices that are not harmful to the society.

For communication to occur, there must be meeting of the extension worker and the target farmer.

This can be informal eg farm and home visits or farmer visit to the exensioner. It can also be a village meeting.

The extensioner can use a demonstration method or film show to highlight issues.

The teaching situation is made of five elements namely

- the communicator the receiver, the message, the communication channel and the atmosphere for communication. The teaching situation is the opportunity for teaching and can be created and it may happen wherever the extension worker is

To communicate means to transmit ideas from one person to the other. Message as implied is the information the communicator gives to his receiver (farmer)

Such message is of little value unless

- It is understood completely by receiver
- It is acceptable and accepted by receiver
- It conveys with it the motivation to act upon it

Such message therefore must be

- In line with the needs and interests of the receivers
- Valid, factual, accurate applicable and timely
- Given in understandable terms to receivers specially in line with the mental, social, economic and physical characteristics
- Appropriately organised leading from simple to complex ideas in reasonable sequence of major points.
- Presented within the proper time limit to prevent boredom.

Fundamental management involve knowing what to do, how to do it, when to do it and who to do it. The essence of extension is to build in the "who" the potential of "how" and acquainting – him with the "when" in order to do "what" to be done.

Extension involves teaching, which is a casual factor in learning and may be physical or psychological conscious or unconscious.

Learning is the process through which changes in behaviour and attitude are achieved. It is a response to teaching process.

Effective teaching is a process of impacting idea or knowledge in line with learner needs.

It involves the establishing of teaching situation and/or making already existing ones more effective.

The main aim is to influence the farmer make decision through the teaching situation.

People learn more by practice and understand expected result, knowing this the extensioner keeps verbal explanation minimal while demonstrating what is expected and encouraging the learner to try immediately.

He also ensures learner understands what constitutes standard performance.

Extension is more than mere information although information is a vital contributor and is dedicated to help farmers put knowledge to work out matters for themselves.

The easiest thing about extension is the extending of ideas while the difficult thing is to get farmers to understand, appreciate, accept and apply such ideas. This is therefore the principal challenge before the extensioner in his programme.

Certain fundamental principles are worthy of note in order to make learning and overall extension exercise fruitful:

1 People learn what and when they ant to. So motivation to learn is vital.

2 People motivate themselves. The extensioner therefore should create the conditions in which people are likely to be motivated.

3 Praise is more effective than critism

4 We learn through the senses, so extensioner should appeal to the eyes as well as the ears and introduce variety.

5 Practice is the best method of learning

6 People vary, they learn at different speed and must therefore be treated as individual though in the group

7 Knowledge of results and of the results expected, speeds, and learning ie gap, should be obvious

8 Build on what is know since all that we hear and see is immediately related inour minds to what we already know.

9 Proceed from the simple to the difficult issues so as to develop confidence

10 Learner should be told the essence for quality, quantity, particular method service expected etc

11 They must be kept fully in the picture in all matters that concern them.

Training is job enrichment and capacity building which allows the farmer more personal responsibility and discretions.

Barnard et-al (197,150) defined man-management as " the skill of controlling and energising an employee in the execution of his task so that the employees effort, sense of responsibility and attention to detail are the best possible in the circumstance"

Extensioner to ensure adoption of idea therefore must never lose sight of the fact that all the mechanisms of his trade- all the communication, all the mass-media, all the extension methods and visual aids are mere means of extension and not the end of extension.

Extensioner can not learn for the farmer. He must only have the credibility to move the farmer from stage of Awareness of needed change and idea to cultivating the farmers interest and desire for change and the approach.

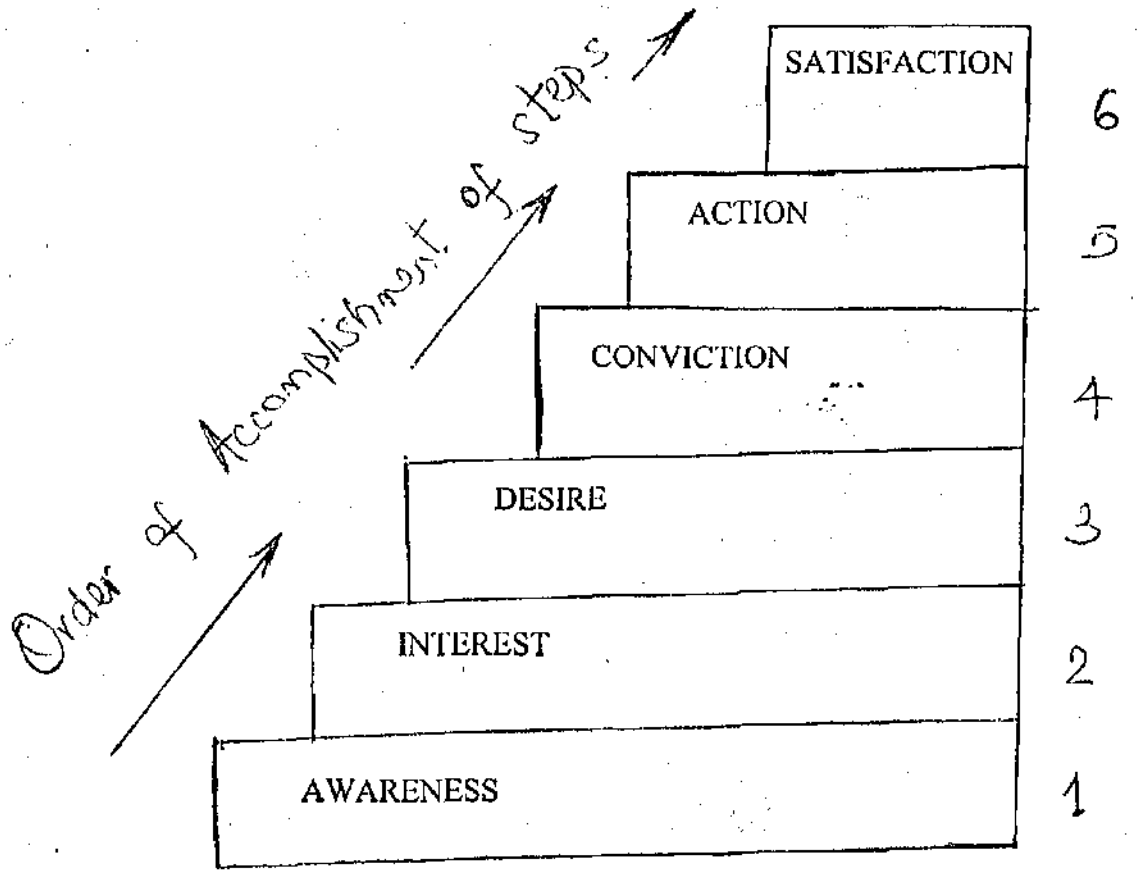
He should be capable of creating a conviction in the farmer that the practice is for him in his prevailing situation and thereafter build a confidence in him to act.

The farmer is now guided to Action. When such action is satisfying he repeats the action or operation leading to the adoption of a practice.

Apart from credibility describing the Extensioner in the eyes of the farmer, the receptivity describing the farmers attitude to learning is another important issue in extension service.

High receptivity is a reflection of trainers high credibility. The trainer or extensioner must therefore find the farmers response or receptive cord and use it accordingly by bringing them the message they need and wand for their progress.

The credibility of the extensioner is high when the farming community feel successful not only in the result but also in the learning process.



Order of steps in teaching and relating of steps to a time sequence.

Source: Communication in extension as developed for western Nigeria by Fanley and William pg 11.

With the technical and managerial training well understood and practised, the general performance including credit management becomes effective.

The entire extension programme is a skill acquisition and development scheme designed to mold the attitude of the farmer towards a sound agricultural business ethics. The farmers become model for other farmers.

As the farmers learn to do the technical and managerial duties effectively, the lender is relieved of much stress of managing them.

The farmer now contributes in the planning and budgeting operations and policy formulation. They become entirely part of the functional agricultural business system.

Finally farmers that benefit from extension programme are capable of managing agriculture as an ideal business and operating agricultural financial management tools to ensure effective financial management.

POLICY

An important aspect of control is policy.

Lasswell et-at (1970,71) in their book "Power and society" defined policy as "a projected programme of goals, values and practices"

The issue here is from whose perspective or viewpoint.

Friedrich (1963,79) his view states that "It is essential for the policy concept that there be a goal objective and purpose"

Easton (1953,129) defines public policy as "the authoritative allocation of values for the whole society.

It turns out that only the government can authoritatively act on the whole society and everything government chooses to do or not result in allocation of value he further stated Public policy there focuses on the description and explanation of the causes and consequences of government activity.

Such activity includes the effect of various institutional arrangement and political processes of public policy.

In describing policy further, schellenberger and Bosseman defined it as "a broad guideline to actions in the pursuits of objectives."

It sharpens the meaning of the fulfilling objectives and guides specific decision in a direction that surpport the action.

Furthermore they described policy as guide to authority utilization providing control for recurring situations so that a manager does not become personally involved in his subordinate decision making.

Such manager therefore defines objectives provide policy and supervises results.

In formulating and defining policy, the government often assess the poeples needs and feelings and strategises approach for solution. People know their needs and aspirations better and should be consulted during any plan. This assist their ability to understand and implement such plan.

Cracknell (1974,5) stated that the problem of internally induced development are enormous especially if viewed exclusively from the narrow viewpoint of government-induced policies.

He recognised that the skills, labour, traditional structures could be mobilised to contribute for more private initiative and inputs into development efforts.

This he said can only be done by associating the people and their representatives at all levels with planning, implementing rural development policy.

The corollary he advieed is the encouragement and assistance of truly representative rural institutions including where appropriate cooperatives based on self help, community interest participation and dedication to the common cause".

Odubanjo (1974,23) stated that every cooperative society is conditioned by its environment which determines its pattern and rate of growth, its success or failure, its efficiency etc"

He went further the highlight that this environment comprises of variety of elements, the most influential among these elements is the attitude of the government toward cooperatives which attitude creates the politico-economic policy climate for the development of cooperatives.

This attitude implies a declaration of the governments intention to secure the existence of cooperatives and to provide for the optimum utilization of their capacity.

Government policy on farm inputs identifies the farmer cooperatives and organisations as institutional arrangement for effective credit administration and management.

Odubanjo stated that experience has shown that production credit made available through a cooperative credit institution has a better chance of repayment than that made through other types of agricultural credit institution. This is attributed to close local knowledge and contact so important to all credit transaction are usually inherent in cooperative structure and because being a group loan it has the advantages of:

- reducing supervisory and administrative cost
- reliance on the group to ensure that the condition of the loan are met and repayment effected on a joint and several liability basis.
- Exercising control or coordination of the marketing of members produce subject of course to the absence of other competing forces in the marketing policy of the government.
- Providing the medium through which large numbers of farmers can have access to other support services of the government such as improved farm technology, distribution of inputs etc.

The success of policy however depends largely on competent management and group leadership which the government must also ensure at the local level by other infrastructural support.

Several policies exist to promote agricultural development such as production, credit farm input distribution, progressive farm technology, extension/training, marketing subsidy agricultural marketing etc.

All these policy objectives are inter-related parts of a master policy objective aimed at providing a balanced technology/supply/credit/marketing package to agricultural cooperatives in order to make them the socio-economic nerve centre for rural development within the framework of a national development plan. Such integrated policy will harmonise with the multi-purpose/integrated nature of the agricultural cooperatives themselves.

Nwankwo (1980158) identified key operators and actors in the financial arena as the customers, the financial institutions and the policy makers.

He stated, that, "while the customer is known and can be easily identified , this is not always true of the financial institutions and the policy maker"

In the context of securing the operational and institutional transformation of the financial system the policy maker must be defined.

They include the board of directors of the financial institutions, their general anagers at the head office level and their branch managers at the branch or operational levels.

These Nwankwo singled out as those who set the legal and operational philosophy in which the banker (lenders) and the customers operate. Unless the philosophy and environment are right, the entire edifice of finance may crumble or go wrong.

The policy maker he went on is outstandingly and unquestionably the most important of the three operators of the banking scene.

This is not only because he establishes the operational, psychological and legal environment but also because without his leadership and initiative the customer will remain helpless and the financial may never adapt positively to requirement of effective economic development.

Agabin (1981,53) in her study on policies on small farmers credit in Philipines described it as a *mix of credit policies.*

She conceived it an attempt to shore up the eligibility and bank ability of small farmers on the one hand and to increase the availability of funds for small farmers and to protect the funding institutions on the other hand.

Furthermore, the rediscounting policy she stated is "often used to influence the volume and direction of credit in the financial system.

This is geared towards providing preferential treatment on borrowing for priority areas. Policy on seed fund are on special fund that serve as "seed" or starter funds on government sponsored programmes given to rural bank in form of special time deposit with stipulated interest rate and maturity period.

CREDIT QUOTA POLICY:

Governments in many Asian countries resort to legislation to persuade or require a reluctant banking community to venture into agriculture and small farming financing. This is to reduce problem of credit supply to this group.

LOAN GUARANTEE POLICY:

According to Agabin in her paper guarantee policy theoritically serves to insulate the financial institution from total long loss and to safeguard their liquidity through cash advances from the guarantee fund upon filing of claim"

A typical example is the Agricultural credit guarantee scheme, AGGS, in Nigeria.

CROP INSRUANCE POLICY:

It is in recognition of the more direct benefits farmers can derive from an insurance scheme that primarily motivated its adoption. Countries like Nigeria, Philipines etc perceived that the crop insurance scheme will effectively be able to provide protection to the farmer against crop losses due to calamities. In case a loan obligation is incurred on the lost crop the loan is extinguished to the extent of damage.

According to Nelson et al (1973,196) there are two main types of crop insurance policies in the United States of America namely crop hail and all risk insurance policies.

Crop-hail insurance is available through commercial insurers and some state insurance department. The policy protects farmer against crop loss due to hail and in some cases wind or fire as specified in the policy. The policy can be purchased any time from before seeding to immediately before the harvest date.

All-risk crop Insurance corporation FCIC, a federal agency established in 1938 in USA. This policy cover losses caused by virtually all natural harzard including drought, flood hail windstorm, froist, insect damage, diseases and other unavoidable causes.

This is according to Bailey et al (1970, 25) in their paper on Economic consideration in Crop Insurance.

INTEREST RATE POLICY

The interest rate policy for Nigeria and most other developing nations has been characterised by the 1) maintenance of low and inflexible interest rate, and 2) extension of subsidized interest rate of specific sectors in the economy such as food production and agrarian reform, small and medium scale industries, tourism and low cost housing.

Agabin noted specifically that, to introduce monetary reforms in the monetary economy of Philipines, the Central bank is entrusted with the power to adjust interest rate as the economy may requires against the previous arrangement of adjusting not more than twice during the year.

The floating interest rate was introduced to create a competitive financial environment, improve financial intermediation, reduce distortion in the financial markets and encourage long term savings and lending. The policy on lending rate consist of differential interest rates charging low nominal rates to small scale farmers The rationale for this is to reduce the cost of borrowing of small scale farmers and encourage their participation in government programmes.

Ironically, this low lending rate however serves to discourage active involvement of lending institution. In such programmes. Since the interest charges do not reflect the higher cost of lending to small scale borrowers and to compensate for higher risk cost incurred.

CROUP LENDING SCHEME:

To minimise administrative cost of lending and encourage farmers to pay their loan obligation through the use of social or group pressure, the group lending scheme was designed and introduced in Philipines as Masagana 99.

In Nigeria similarly family Economic Advancement Programme, FEAP was also introduced. In many instances however this scheme had not worked out since grouping of farmers were artificial and done in haste.

Criteria such as continuity of far holding affinity, comparable size of farm etc were even applied in determination of group membership.

Grouping was made for the sole purpose of securing a loan and the loan can not absolutely be said to be a "group Loan" since lending (Philippine) and utilization (Nigeria FEAP) were on individual basis.

Some practical lessons from the Philippines policy experience in small scale farmers credit programme:

1 Viable, small farmers credit programmes can not be achieved from a production oriented approach. While national production problems are solved. The problem of poor liquidity, low repayment capability, poor access to input and marketing services etc are bound to remain. There are evidences that well managed small scale farmers

credit programmes which address the problems and developmental needs of small farmers on an integrated manner can demonstrate more than a fair degree of success.

2 The problem of small farmers credit is not merely one of a access to credit funds. This is while shoring up the supply of institutional funds for lending equal emphasis must be given to savings by policy makers.

Savings are more stable longer terms of loanable funds. Corollary to this interest rate on funds from government on rediscounting sources should not be priced too low in comparism with deposit rate in order not to foster unhealthy reliance on these funds to the detriment of savings generation.

3 Specialised credit institutions established to cater for agriculture and small farm clientele should be designed to not only as lenders but also as deposit takers and be able to offer a wider range of financial service to the rural community

4 The financial stability of the lending channels should be safe-guarded. A credit programme which undermines the financial stability of the credit institution can not be termed a success.

The framework for the subsidy policy in small farmers credit should imply recognise that:

A by the very nature of the small scale farmer clentelle certain social and political cost arising from losses incurred by lending institutions I government-sponsored credit programmes are inventable at least initially and government must be prepared to share in such cost.

B lending programmes that are essentially social amelioration in nature and where no fair amounts of repayment are anticipated should not be implemented through the banking system.

Generally speaking policy, in order to be an effective guide, should be formulated in consultation with the affected group and implementers.

It is often stated that policy of the peoples, should be by the people for the people. Government should guide the people to make such policy that affects them.

Such policy made by the people for themselves will remain rooted even as government change since the foundation is at the grass root.

FINANCIAL MANAGEMENT

The background definition and concept of financial management has earlier been given under the subhead of theories of financial management. This section considers the contribution of financial management as control in Agricultural Credit management.

Financial management is a key area in credit management since all aspect of agricultural business activities are reflected in its finance.

Resources used and output produced are reported in financial records.

According to USDA report (1973) financial management as a business management perspective enables the controller have a clear view of the business in terms of:

1 Consideration of fund available to the organisation and the terms of acquisition

2 Allocation of such funds among assets to be financed

3 Insure that all areas of financing are carried out in ways consistent with sound cooperative principles and procedures.

Sound and effective financial management calls for optimal financing since any amount smaller or larger than the ideal creates less efficient operation.

According to the report on "the Farm Credit System" (1972,21) the statement of sources and use of funds is a valuable technique for financial analysis and useful for control of fund".

1 Direct investment by members eg equity capital approximately in proportion to the services used by cooperators

2 Non-member investment (individuals) – restricted to creditors capital by non-member users of the cooperative society who are willing to extend credit to the cooperative o loan basis.

3 Operations of the cooperative- This is an important source of capital addressed by the financial manager once the cooperative establishes. This involves revolving

funds from several operations eg Amount, Retained per operation, Net saving from patronage etc.

4 Credit institutions- This can be in the form: 1 Bank for Cooperative, Commercial Bank Insurance Companies, Designated Agencies for loan facilities.

Each and every one of these, have specific financial system it operates and an impact on the borrowing organisation.

Another aspect of management in credit control is Budget and Budgetary control. They assist the management of finance in the applications of the cooperative.

BUDGET

This is a financial management tool especially valuable for planning and controlling and very helpful to cooperatives.

Barnard et al (1973,305) define budget as "the detailed quantitative statement of a farm plan and the forecast of its financial result"

They further described it as "an aid to, rather than a method of farm planning".

Budgeting is the most widely used method of farm planning. It sets out a) the physical and the resources needed and b) the financial aspects of the plan —the expected cost and return and thereafter profit.

Most atimes budget is used in regards to b) Barnard et al described budgeting as being partial or complete.

They looked at partial budgeting as a "rough form of marginal analysis, in that it looks at the changes that occurs in costs and receipts as a result of a marginal change in the farm plan.

Three basic changes lead to this:

1 Product substitution where one enterprise is substituted for another

2 Change of enterprises without substitution which may occur when non-land using enterprises eg Pigs or Poultry are introduced or expanded, discarded or reduced or where stocking rate of an existing area of grassland is altered.

3 Factor substitution eg change in production technique from manual to machine, applying fertilizer to grassland and increasing stocking rate etc.

Budgeting is complete when involving the following six steps:

1 Listing available resources and stating objectives

2 Estimating crop increases and/or livestock number

3 Estimating physical inputs and outputs

4 Estimating factor and product prices, thus calculating costs and returns

5 Estimating regular costs eg regular labour machinery, rent, and general overhead remain to be calculated together with other payments such as interests and mortgages.

6 Totals and layout which involves setting out the information, totaling the costs and returns and calculating the expected profit from the entire plan or each of the plans.

Another controlling tool is the operating statement.

Operating Statement

It gives an overall picture of cooperative operations. Its use is limited for controlling and planning since it reports only what has happened. It serves more as a guide for the future so gives little assistance to planning. Records actual performance but does not include standard of comparism to evaluate such performance Operating Budget: This is a very helpful controlling tool.

According to Manuel (1973,23) Operating Budget is "a special management technique designed for carrying out planning and controlling function."

It is devised to remedy the weakness of the operating statement..It is a plan of overall operations for a future period giving estimated volumes and expected income including anticipated expehses. Whereas operating statement covers past operations the budget is the equivalent of an operating statement before the beginning of the new fiscal year.

It requires planning, forecasting business services need by ember and now best to perform them . set goals and plans to achieve them, provide frame work of recording cooperative goals in terms of volumes, margins, costs and net savings.

The success of a budget according to USDA, depends largely on the participation of the many people involved in the cooperative. It requires a cost-and –benefit analysis.

- Over the operating period, operating budget can be checked against budget goals and any undesirable consequences detected as they develop.

Corrective actions are therefore effected promptly judgement on proposed costs and capital expenditure made early.

Decision Making Budget: Changes take place ragpidly in agriculture and cooperatives are often confronted with problems of dropping or adding functions. Other decisions such as changing price strictures or decision whether to rent, lease or purchase needed assets also exist.

"Budgeting technique furnishes a framework for recording expected income and anticipated costs to estimate the net benefit of a change" states the USDA

In adding a function new pattern of operation are formulated and analyzed against its income.

- The Net income being change income being change in income offset by the change in associated cost is calculated. This feasibility of alternatives open to he cooperative enables it take its decision.

A proposed branch operation might be planned by budgeting to discover the net effect on the branch of the cooperatives total operation.

The new costs needed to support added (new) function is also computed against new income for decision for decision on the new function.

Elimination of function – The issue is centered on cost unlike income consideration in addition of function. This may result in drop on resource use but not cost eg warehouse space and therefore not budget.

Dicken (1961) adviced therefore that if expenses exceed income, then the function could be eliminated and the final decision must be based on what net effect dropping the function would have upon the cooperatives total operation by measuring the income caused by the

- action against the change in expenses resulting from that action.

The USDA therefore described budgeting as "a technique to formulate new patterns of operations and analyse the likely out come of those particular patterns".

The essence is for a farmer to be guided effectively along his plan of action to the expected goal.

FUNCTIONAL ACCOUNTS : For specific information functional accounts sometimes called enterprise accounts are created as special statements of income and expense that pertain to a specific line of business services.

For example it could be handling of fertilizer as special function which account will reflect total fertilizer sales, cost of fertilizer sold and the resulting Naira of gross margin (profit). The fertilizer functional account can now evaluate how well the cooperative is doing in fertilizer.

According to the US department of Agriculture, Farmer Cooperative service, two methods are used in developing functional accounts.

1 Net Savings – all cost associated with the particular operation including certain portion of the general overhead and administrative cost. When all such costs are computed and subtracted from the gross margin the resulting figure is Net saving from the specific operation.

2 Contribution Income (saving) – Here only those costs that reasonably can be associated with the specific function are considered. It is the amount of income available for contributing to other costs (general overhead and administrative) and to total Net savings.

Dickens claims that Net savings shows absolute level of profitability for each function and is well suited for making long term evaluations of various cooperative functions. On the other hand he went further, the contribution income (Savings) is derived more easily and is excellent in showing the relative profitability of the various enterprises in the cooperative portfolio.

The chief financial management value of the functional accounts stems from the fact that cost and income data are matched by function ie finance and management/technical.

Financial manager must have knowledge of its sources of savings, costs incurred and something about net savings being generated by functions.

- *Special Accounts: Cooperative as a unique management style has certain special accounts* namely – I) those needed to achieve services at cost for members and 2) those associated with member – patron financing.

Nelda (1958,29) describes both the patronage record and the revolving fund plan.

Patronage record – this is a special is a special account kept by the cooperative to show all business transactions (patronage) performed on behalf of a given patron.

It furnishes data needed to determine each members prorata share of total net savings that is available for refunding (return on Patronage).

In addition to patronage records, pooling cooperatives must provide for recording advanced payment made to members.

- *Patronage records are needed whether an association uses the technique of pooling or making* patronage refunds both of which are means of making adjustments to members in such a manner that services are performed for members at cost.

Revolving Fund plan: Nelda et al goes further to describe yet another type of record needed by cooperatives using special patron financing as revolving fund plan.

This technique is unique with cooperatives because embers with capital investments obligations to finance also are patrons of the cooperative services.

Special capital ledger accounts are established and maintained for each patron participating in the revolving fund.

This may be in the form of

- retain ie a stated amount per unit of operation handled or
- it may stem from net saving ie a portion of the percentage allocation of patronage refunds.

- According to mather, "capital accumulated always must be identified with accounts of individuals and at initial stages the fund can be thought of as a sinking fund".

Financial Management Appraisal

This is done to appraise the operational soundness of the cooperative financial soundness.

The USDA uses several ratios to compute this. They nevertheless have shortcomings since as averages, they are subjected to all limitations of average.

Ratios can be used for financial management appraisal in two ways

1 Comparing ratio for a given cooperative with standard ratio of similar cooperative. By this management of a cooperative can determine obvious weakness and take corrective actions. This can address ability to pay obligations.

2 Ratio of a particular cooperative for a time period is used to compare with sae ratio for another period

Common Ratios for financial appraisal include:

1 Current Ratio - this is the ratio of current assets to current liabilities. It measures the cooperative organisations ability to pay its current obligations which are due within the year with assets that are convertible to cash within one year ie current assets eg A ratio of 2:1 is considered desirable.

2 Quick ratio – This is a refinement of the current ratio and consequently more useful. Current assets are adjusted by being reduced by those current assets not easily converted to cash. Examples include – Inventories, slow accounts, not receivable etc.

The adjusted current assets are divided by current liabilities to get the cooperative financial quick ratio. This is an excellent measure of a cooperatives ability to meet current financial requirement without losing a credit rating or without being forced to forego discounts for prompt settlement.

3 Member – Equity Ratio - This measures the cooperative long term financial strength. It is represented in percentage as the percentage of total members equity to total cooperative asset.

It reveals the "Leverage" that member owners have in the financial structure of the cooperative and also in its control. A high ratio of over sixty percent reflects

financial strength and stability which is a desirable target for financial management in a cooperative.

PERFORMANCE AND EFFICIENCY APPRAISAL

Financial managers of cooperatives appraise operating efficiency of their cooperative societies and evaluate results. This creates opportunities to compare performance of the societies with established objectives.

It is difficult to make a complete appraisal of the societies performances because net results of the cooperatives and their corresponding farming operations must be combined. The financial and technical operations of the cooperative can not be divorced and much useful information for financial management can be obtained by careful analysis of the business operation.

The USDA report on improving management of farmers cooperative listed yet other measures of performance efficiency namely:

Rate of return on member equity - This is obtained by stating net operating savings in percent of member equity.

This performance measuring criterion reflects the efficiency with which owners' capital is being used in the cooperative. Cooperative financial experts often state that if prices to members continue unchanged an increase in the rate of return would mean an improvement in performance.

Return – on – asset - This is the net operating savings in percent of total assets and is another measure of overall performance in a cooperative. Here asset represent capital committed to the business and in competitive situation certain rate of interest must be obtained. Financial management watches carefully the annual trend of return on asset s indicator of financial achievement of a cooperative organisation.

Return – on Sales: This is used as an indicator of the performance of a supply cooperative. It can also be used by processing and manufacturing association by computing net savings per unit processed or manufactured.

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Operating efficiency can also be determined by calculating cost per Naira of sales per unit processed or manufactured.

USES OF FUND

Statement of sources and use of fund prepared at the end of the accounting year is especially helpful for analysing the balance between long and short term finances.

Increase and decrease in balance sheet items can be found by comparing the current balance sheet with that of the previous period for control. Sources of fund come from I) Increase in liabilities 2) Increase in Net worth, 3) Decrease in assets.

Uses of fund stem from 1) Decrease in Liabilities 2)Decrease in Net worth and 3) Increase in assets.

The total decrease and total increase must be and are equal.

In financial management a rule of thumb is that log term uses of fund should be financed from long term sources.

The Economic Research service of the USDA (1985) in its summary report on the financial management of family size commercial farms stated that in cooperative management authorities advocate that ideally equity capital should be sufficient to finance fixed assets including investment in regional cooperative.

It went further to suggest that it is necessary to initially use long term loan which gradually will be replaced by equity capital as loan is retired. Short term uses should be financed also from short term sources such as liabilities.

Statement of sources and uses of funds will shoe amounts of changes and where they occur while the financial manager analyses the "why". Equipped with this knowledge financial management ensures steps to keep finance in balance.

Establishing control over accounts receivable is a crucial issue in financial is a crucial issue in financial management in cooperative that make sales to members eg farm supplies. Care must be taken to avoid too much cooperative assets invested in account receivable.

Care must be take to control rise in cost due to :

1 Little or no interest receive direct from these account

2 Some accounts developing into bad debts causing pronounced losses to the cooperatives certain accounting ratios are useful here also

1 account receivable to current asset ratio

$$\frac{\text{Account Receivable}}{\text{Current assets}}$$

This is a standard means of appraising and controlling the amount of current assets tied up in account receivable.

2. **Accounts Receivable Turnover**

$$\frac{\text{Net Sales}}{\text{Account Receivable}}$$

This a very useful measure which reveals both the magnitude and liquidity of accounts receivable in the cooperatives.

3. **Aging Account Receivable**

This goes along with the above measures and determines the period individual member's accounts have been in operation.

This summary enables financial manageable appraise collection policies and determines how the real value of these assets should be evaluated.

4. **Inventory Turnover**

$$\frac{\text{Cost of Goods Sold}}{\text{Inventory Valued at Cost}}$$

This is an indicator of the number of times on the average within the year that the inventory was converted into sales. This ratio shows the need for keeping inventory items up to date and also stocking the inventory properly in relation to sales volume.

Guide for Balanced Financial Programmed in Financial Management

Certain steps are necessary in developing sound financial programme in financial management. In this regards consideration must be given to short – and long-term capital needs and to amounts of Equity and creditor capital to be used.

Considerable choices for developing a sound financial programme are:

1 Cooperative members are required to make equity capital investments approximately in proportion to services used by each.

2 Equity capital should be accumulated to equate investments in fixed assets (and possibly investments in other cooperatives).

Initially some long term loans may be used for this purpose but should steadly be replaced with equity capital as such loans are repaid.

3 Equity capital normally should be paid an equivalent return to a normal interests at their normal interest charge when net savings are made.

4 Capital required to finance non-cash current assets at their annual minimum level should come largely from members but may be in form of creditor capital. Logically, this could be held by non-member investments.

5 Extra capital to meet seasonal pea requirements should be secured from credit institutions as short term loans.

6 Finally a policy should be adopted to retire equities of members no longer using the services of the cooperative and to keep the equity capital in the hands of those who are using the cooperative services.

7 **LEGAL ASPECT OF BORROWING IN CREDIT MANAGEMENT**

Borrowing involves an understanding that item or money or its equivalent will be returned at agreed time and form. This obligation between the parties are legal, whether written or unwritten. Such agreement exist between the lender and the borrower.

A contract is involved. Fisk et al (1972,157) describe a contract in very simple term as "an agreement in which one party says to another, "if you do this to me, I shall do that for you".

The thing which one person as another to do in return for his promise is the consideration. Consideration may be the giving of promise or it may be an Act. Consideration may also consist of forbearance that is refraining from doing what one has a right to do.

Example is the NTC tobacco leaf farmers refraining fro selling tobacco leaf to other user(s) except after selling to NTC.

Consideration necessary to make a promise enforceable may consist of (a) a return promise (b) an act performed, or (c) a forbearance.

Such consideration must (a) be lawful and (b) require conduct that is not already required by law or must prohibit conduct which is not already prohibited by law. If such consideration is a promise, such promise must also (c) be definite.

Fisk et al further highlighted by explaining the ability to make legally binding agreement as "capacity to contract whereas persons who have capacity are know as "competent parties". Large number of credit instruments and papers that are parts of loan procedure awe and discourage the farmer when obtaining his first loans particularly. Reading and understanding content of notes and mortgages seems a formidable task to hi also. When in addition affidavits, acknowledgments, releases, waivers and abstracts have to be obtained or studied the prospective farmer-borrowed appears truly bewildered.

The difficulty lies not only in the large number of documents but also in the unfamiliar legal language induced in the paragraph of the forms.

NOTE: The promissory note which is the written promise of the borrower to repay the loan is the primary document in most credit transaction.

Lender gives the loan funds to the borrower promising to pay the lender a certain stated principal amount with interest on a certain agreed date.

MORTGAGE: The mortgage is specific listing of certain property set aside to guarantee the payment of the promissory note.

Mortgages vary but are identical in their provisions. The provisions not only identify the property to back up the note but establish priority of claim among lenders according to time of filing or recording of the mortgage in the court.

Nelson et al went further to define and describe credit legal issues when he explained that the recording of a mortgage is considered public notice to everyone concerned. Often they said "abstract of title' which is a brief summary of all recorded transactions or events that have affected the mortgaged property are also revealed to public. When abstract is brought "down to date" it shows the current status of the title including any outstanding mortgages.

Title of insurance insures the title of the subject property against defects except for those shown in the policy.

In a situation of sale of mortgage, two different methods of purchase may be specified in the deed.

1 the property may be bought subject to the mortgage, or

2 the purchaser may buy the property assuming the mortgage.

Nelson et al (1973,215) defined the term subject to the mortgage to mean "that the buyer does not agree to pay the mortgage although if he fails to pay or meet any of the terms of the mortgage, the lender may foreclose and the property in due course will be sold at foreclosure sale".

Also defined is the term "assuming the mortgage to mean that "the buyer in effect is endorsing the original mortgage note and hence is liable up to the limit of his property which may be attached for sale to settle any debts not covered by the real estate mortgaged.

Fulfillment of the conditions in the mortgage prevents the conveyance from taking effect. But in case of default by borrower the mortgage specifies that the property is to belong to the lender.

In practice actually, the lender takes the pleas to the court for judgement. Often government auctioneers sell the property and any extra cost above the property value gives the lender the benefit of deficiency judgement against additional property of the borrower.

Two major ways of interpreting a mortgage ore:

1 Title theory – Here the borrower actually gives the lender title to the property but such title revert to the borrower if he (the borrower) fulfills his obligations. In case of default such title belongs to the lender who makes sales direct or through court

in order to obtain a settlement. If borrower makes sufficient payment after default and places the mortgage in good standing the he ist obtain a deed from the lender under the title theory to regain his former position.

2 Lien Theory - The lender here obtains only an interest in the property irrespective of the wording in the mortgage.

At borrowers default the lender has claim on the property for the amount due to him only. Certain terms demand further clarification in legal matters involving lending and borrowing.

They include:

Borrower - Debtor or Buyer

Lender - Secured party of Seller

Lien - Security Interest

Collateral - Personal property given as security.

Security Agreement – An agreement which creates or provides for a security interest..

Collateral - such personal property can be tangible or intangible.

Tangible – These are called goods and are classified into four:

1 Consumer goods – include tangible property bought or used.

2 Equipment – consist of personal property bought for use primarily in business including farming

3 Farm Products- include crops, livestock and supplies used or produced in farming operation. They can also be in their manufacturing stag.

4 Inventory - include good held by a person who holds them for sale or leasing or to be furnished under contract of service. It also include raw materials, work in progress or materials used or consumed in business

Intangible personal property - These include items such as promisory notes, bonds, stock certificates, accounts and contract rights which have little or no value in and of themselves but are valuable because of the legal right or rights they represent.

Six classes are noted

1 Instruments – Include items such as a promissory note, bond and corporate stock certificates

2 Documents of title – Items such as warehouse receipt, dock receipt and gin ticket

3 Chattel paper – This is writing or writing which evidence both a monetary obligation and a security interest in or a lease of specific goods.

Example – a farmer buys a tractor "on time" gives the tractor as collateral for the obligation. The farmer signs a written security agreement that identifies the tractor and acknowledges the debt.

4 An Account - Any right to payment for goods sold or for services rendered that is not evidenced by an instrument or chattel paper or account receivable.

5 A Contract right- Any right to payment under a contract act not yet earned by performance and not evidence by an instrument or chattel paper.

6 General Intangibles - Any personal property not included in the above classification eg rights under insurance policies and passbook accounts

Security Interest may arise in two ways:

1 In connection with purchase or rental of property

2 By obtaining loan on property already owned.

Nelson et al (1973) explain these thus- a farmer buying a machinery on part payment gives the dealer a purchase money security interest in the machine as a collateral for the balance payment. Also if a bank advances the loan for the machinery and enter into a security agreement with the farmer, then the band would have a purchase money. Security interest in the item purchased as collateral for the loan used for such purchase.

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On the second aspect to have a security interest "attach" to a collateral already owned by a farmer certain conditions are necessary.

A there must be a security agreement

B value must be given

C the farmer must have "rights" in the property.

Nelson et al made further explanations that "Attach" means loosely "create". Thus a security interest attaches to collateral means "a security interest is created in collateral.

"Value is given" when a loan is made by the lender or "secured party"

the farmer has "rights" in crops when they are planted or when they otherwise become growing crops, he has rights in the young livestock when they are conceived.

CONTRACT FARMING

Apart from the legal issues involved in direct borrowing, other indirect legal aspects of extending credit are involved. an increasing amount of capital used in farming is being furnished by farm input supplies, processors and distributors under various types of producers contracts.

1 Vertical Coordination Contract - contract farming can come in the form of vertical coordination where at the extremes of the spectrum are the traditional open market arrangement that link the faring unit on one side with input suppliers and output purchaser on the other eg the NTC and Premier Seed contract farming agreement;

Contract farming as a way for farmer to obtain additional resources to work with, is not new in agriculture.

2 Vertical Integration - where two or more firms merge into one ownership and management unit and where the supplier, processor or distributor takes over the farm production operation and stocks it on top of his normal function is relatively a new farming approach.

FORWARD CONTRACT

One of the three basic types of forward contracts exist when the traditional open market method coordination fails to provide:

1 the needed outlet for input suppliers

2 farm products of the proper specification at reasonable prices for marketing firms.

Three Basic types of forward Contract may be used:

1 Market Specification contract - This is an agreement under which farm inputs or products will be exchanged at some specified future date at an agreed-upon price or basis (formula) for calculating price. The contract specifies the average that is to be grown, the price per ton and in some instances the delivery schedule.

2 *Production – Management Contract-* this provides the same features as the market specification contracts but in addition the farmer receives technical advice and management services from the input supplier or processor. Example is the contract agreement between NTC and its leaf growers. Technical issues such as seed varieties, fertilizer application rates, and other cultural practices eg plant spacing, cultivation harvesting date and processing are packaged.

+Market specification and production – management contracts typically do not provide any financing per se although they have financial implication for the farmer.

3 Resource – providing contracts: The farmer receives financing from the marketing firm as well as a guaranteed market outlet and production-management assistance.

NTC provides short term financing for seasonal growing and long term finance for curing barns. Murray et al listed some advantages and disadvantages of this contract process.

ADVANTAGES:

1 Finance - this constitutes the principal advantage as the farmer receives both directly from the contracting firm and indirectly from other lenders who are more assured of loan repayment when a contract exists.

2 Production and marketing risks are shaped by both the farmer and the contracting firm.

3 Farmer usually receives managerial advice and technical assistance such as production schedule, high quality, seed varieties, fertilizer recommendations, curing barn and other supplies and services that would not otherwise be available to the farmer.

4 Contracting usually leads to better coordination of the production and marketing phases thereby resulting in higher profits and reduced risk for both farmer and contracting firm.

5 The consumer receives better supply products at best price.

DISADVANTAGES:

1 Most obvious is farmer's loss of managerial control

2 Farmer may become little more than hired hand

3 Farmer may accept lower net return to compensate the contracting firm for provision of finance and sharing production and marketing risks.

4 Farmer may be over extended due to ease of obtaining finance.

5 Farmer loses opportunity to gamble in market and lose benefit from high market prices.

CREDIT ADMINISTRATION AND PROBLEMS

Most discussions on agricultural credit have been done from the viewpoint of the borrower.

According to Nelson et al (1973), "those who have broader knowledge of loan and service policies of lenders and of their obligations and responsibilities will aid the borrower in formulating plans for use of credit" The book went further to claim that such knowledge will enable the borrower too understand better the viewpoint of the lender and why he must do certain things there by contributing to a greater degree of mutual understanding essential for most effective teamwork.

Lender sells credit and loan services in a competitive market bearing in mind certain loan and service policies. These policies form the basis for the credit administration.

- Most often lenders lend other peoples money and therefore serve as managers or trustees of such money.

In order to protect the borrower's interests laws are formulated which form the legal framework within which the lending institution operates.

They define the type, size and quantity of individual loans as well as the aggregate.

There must be periodic review of the loans to ensure they meet standard for sound and feasible investment. Any loan falling short of the standard must be made good by the lender working with the borrower to obtain more collateral or a partial payment that will strengthen the security position of the loan.

Every farm loan institution should prepare for certain percentage of loan breakdown due to drought, excessive rainfall and other natural/artificial hazard.

- Lenders use several procedures for making loans. Such procedures implying detailed forms and approaches differ from borrower to borrower and should therefore involve the borrower in their formulation.

The credit management should involve the creation of credit file containing the following basic records.

1 Loan Application documents

2 Comment sheet – highlighting farmers personal details for analyses to assist in predicting him

3 Two basic financial statements

   a) Balance Sheet

   b) Income Statement

3 Inspection report - for first class information on the farming family and business useful for analysis of loan.

4 Other important credit administrative activities include operational control using the Annual Operating Budget and Credit Plan Format.

This highlights inputs and their cost. Items requirements reflecting a detail inventory – Beginning and Ending inventory with attached comment.

Cash flow over operating period, and the family Budget constituting basic unofficial expenditure that need to be accommodated to some degree.

Finally a summary of the entire budget which is followed by a projected profit and loss statement.

Loan analysis relating to repayment plans collateral to use and how much credit to extend to prospective borrowers.

This is with a viewpoint of repayment capacity and risk bearing ability involving both natural and artificial hazards.

Considerations on returns, Repayment capacity and risk bearing ability are referred as the "three Rs" of credit according to Nelson et al.

Credit rating of the farmer is of vital importance and is determined by the credit character of the individual farmer.

The credit character include those qualities that will make the farmer want to pay when a loan is due for repayment – qualities of honesty and integrity denoting determination to fulfill his obligation irrespective of contigencies that may arise

Nelson et al went further to claim that "a borrowers previous record in meeting obligations is much more impressive to a lender than any amount of promises".

It is this credit character that enables a lender extend loan to a prospective borrower in case of non-collateral lending or request for collateral in other cases.

SERVICING LOAN: The most important aspect of loan administration is the servicing of loan. While the most vital objectives in servicing loan by lender are:

1 Fulfilling the responsibility in safeguarding funds entrusted to the lending institution.

2 Helping the borrower make effective use of the credit and thereby adding to the goodwill and business potential of the lender in the community.

The loan services needed always varies somewhat with type of loan.

On approval of a loan the modern and progressive lender considered the farmer and the loan advanced to him as his personal obligation and responsibility.

He keeps in touch with the farmers farm operation and progress watching for repayment. He makes plan and projections.

He creates a feeling of confidence between the lending officer (ie himself) and the farer borrower as an administrative virtue.

By this the farmer can discuss his future plans and present problem to extensioner for the benefit of advice and experience.

According to Hoag (1975) in his book "a history of financial self help, credit organisation is best done by using existing credit system to administer credit in any community.

Loan disbursement channels should consider using existing financial institutions.

They should gradually improve on them to reduce risk while formulating credit policies from such practices.

Much information and system research is also needed.

Policy makers should design and administer farm credits. Such redit must be well managed in terms of tie, amount budgeting, all tailored to specific operation.

Agricultural policy programme should build in several sub-sectoral insurance schemes as agricultural credit risk protection design.

PROBLEMS

1 Credit administration has often taken borrowers attention approach

2 Efforts from the farmer-borrower has often been neglected

3 Farmer has little ability and capacity to contribute in the credit administration eg record keeping.

4 Administrative expenses are high in lending and loan recovery.

5 Lending is often not well timed

6 Loan diversion is still high

7 A lot of lapses among extension workers in guiding the use of fund and other resources.

8 No clearly defined policy for loan disbursement and repayment made to participating farmers.

9 When policies exist they are often made without the participation of and consultation with the farmers.

10 Problem of sourcing finance at good rate for extending to farmer-loan-users.

11 Extending credit at unattractive and unaffordable rate to farers.

12 Lending administrative staff are of poor quality and often numerically low without adequate facilities.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 INTRODUCTION:

This chapter focuses on the methodology of this research work. It concerns itself with the method employed in this study. It begins with stating and discussing the various hypotheses of the study. Following this is a discussion on the sources of data. Here two main sources namely primary and secondary sources are discussed. The remaining parts of the chapter deals with the techniques of data analysis.

3.2 HYPOTHESIS

A strong basis for discussion makes for a reliable discussion. Therefore to conduct a comprehensive study or research of this form can not proceed without formulating some basic hypotheses. Such hypotheses serve the dual function of guiding the collection of data as well as the organisation of such data for most effective analysis and logical reasoning. Consequent upon this, the hypotheses of this study are stated as follows:

NULL HYPOTHESIS (Ho): Tobacco farmers supporting the NTC for raw material (Tobacco leaf) need external source(s) of Agricultural credit to produce such quantity of leaf required by the Industry. Such credit and its management will ensure increased productivity and production. This hypothesis assumes that the tobacco farmers are characterised by small holding, small finance, traditional farming technique and skill, thus low productivity and production and absence of or low savings both individually or collectively. Their ability to auto-finance their farming activities and ensure growth makes them therefore highly susceptible to external sources of finance. Such external credit could be exploitative and destructive to the farmer. Beneficial credit therefore when accessed should be well administered and managed for mutual growth of both the farmer-borrower and the lender. Apart from financial management, technical aspects are also considered. Other issues still under consideration include the following:

- The farmers holding.
- Internal loan/savings.
- Consistency with the NTC
- Co-operative membership etc.

The Null hypothesis (Ho) postulates that the NTC does not operate an effective financial management of the small-scale farming business that support the industry and therefore ends in poor productivity and production. This is by way of not managing effectively and efficiently the various variables for effective financial management eg Technical, Management, Institutional, Financial etc

ALTERNATIVE HYPOTIIESIS (Hi): This postulates that the NTC operates an effective financial management by ensuring efficiency in technical management institutional and financial engagements. All these and their minor variables are tested to enable the research make conclusions and recommendations. Effective financial management is made feasible by way of co-operative credit scheme.

The hypothesis assumes that credit is given adequate supervision via this approach. Such credit will be effectively managed to ensure continuity of the farming relationship between the farmers and the NTC. Cooperative therefore is involved as a vital institutional setting for achieving this. It ensures organising, controlling and directing the farmer to mutually beneficial goals.

Supervised credit entails a system of credit provision that aims at increasing productivity through proper co-ordination of credit and provision of effective extension services by utilizing the advantages from co-operative system mentioned earlier. The study looks at the utilisation method of the cooperative system for:

- Determination of level of credit to member.
- Loan disbursement.
- Provision and participation of extension workers.
- Handling and marketing of tobacco leaf.
- Loan repayment system.

These form the basis upon which the null hypothesis (Ho) is rejected and the Hi alternative accepted and vis versa. Certain variables are also studied for their influence on the major ones under investigation for Ho and Hi decision. They are mainly operational constraints in the essential financial operations. These include variables such as timeliness in release of funds, attitude of farmer's, commitment of extension workers etc.

The researcher relates these to the effectiveness of the financial operations involved in the study.

3.3 RESEARCH METHODOLOGY:

Research is defined by Osuala (1993) as "the process of arriving at dependable solutions to problems through the planned and systematic collection, analysis and interpretation of data".

Both primary and secondary data have been employed principally in this research project. The methodology adopted in the course of this research is therefore both descriptive and prescriptive. Descriptive to the extent that the information obtained shall be explained within the context of the study. This approach is used in the literature review mainly. Prescriptive in the sense that specific recommendations are made on how effective financial management of small scale agricultural business can be realised via the co-operative management system.

This prescriptive is done in subsequent chapters of the study, while still working within the limitations of this work.

3.4 SOURCES OF DATA:

Data for this research were gathered through primary and secondary sources. Personal interactions and discussions for details were also held with both NTC field workers and the participating farmers.

3.41 **PRIMARY SOURCE**: The primary source of data is through two sets of questionnaires. The first set is designed to gather information concerning the farmer and his activities particularly as it relates to NTC. Attention is here placed on his personal details, management and financing of his farming operations, sales of product (tobacco leaf) and repayment of his loans.

The second questionnaire is addressed to the management and staff of the farmer dependent NTC. Attention is given to source(s) and management of farmer's credit including loan recovery. This aspect gives the researcher an insight on the experience of

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the NTC leaf department as it concerns the sourcing of tobacco leaf for the tobacco industry.

3.42 **SECONDARY DATA**: This research made extensive use of secondary data. These include information from leaf department in the forms of leaf conference/workshop papers, end of year crop commission sheets, annual cropping details, loans Kalamazo cards, divisional monthly reports etc.

Others include NTC annual reports, journals, bulletins, government gazettes books on tobacco, public write-ups, discussions and unpublished lectures.

3.5 **TCIINIQUES OF DATA ANALYSIS**: A total of one hundred questionnaires are served to tobacco leaf farmers in some producing centres around Kaduna States. This is particularly done among growers of NTC by random sampling. The analysis of collected data is made by simple statistical averages and percentages. The answers of the respondents is tabulated while the average/percentage weighting are attached to each response of the respondents. This technique of data analysis is therefore devoid of complicated statistics.

CHAPTER FOUR

4.0 DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION:

Research must be interpreted in the light of the purpose and condition under which it was conducted. This makes it meaningful and useful. According to Osuala (1993, 1) raw data of an investigation are the means by which the research problem is answered and the stated hypothesis are tested. Analysis therefore is defined as the ordering and breakage down of data into constituent parts. It involves the statistical calculation performed with the raw data to provide answer to the basic questions and issues under investigation. Interpretation of research thus takes the results of analysis, makes inferences pertinent to the research relations studied and finally draws conclusion about the relations. In this chapter, the researcher presents analysis and interprets collected data with a view to determining the effectiveness in financial management of small scale agricultural business using the NTC Cooperative tobacco leaf farmers of Kaduna State as a study group. The mutual relationship between the group and the NTC, therefore entails the use of two sets of questionnaires – one for the NTC Management/Staff and the other for the farmer – borrowers. This analysis therefore is done on the responses from these two questionnaires.

4.2 THE TOBACCO INDUSTRY

4.21 HISTORICAL BACKGROUND OF NIGERIAN TOBACCO COMPANY NTC, PLC.

The Nigerian Tobacco Company Plc, NTC, started business in Nigeria as a Trading Company in 1912 when its predecessor the British – American Tobacco Company Ltd. established a depot and sales network. In 1933 it established a pilot factory in Oshogbo to produce cigarette from imported tobacco leaf. This factory survived with some growth potentials.

In 1937 therefore the first full-scale factory was started in Ibadan, Oyo State. This company NTC Plc was incorporated as successor of the British – American Tobacco Company Ltd, BAT in 1951. The growth potential, economically, was so obvious that in

1960 the first ordinary share of the company was sold to the Nigerian public projecting the company as one of the first few publicly quoted Nigerian companies.

More shares were sold in 1964 and by 1980 the NTC share holders stood at about 50,000 (Fifty thousand) in number. The activities of the NTC spread all over Nigeria particularly on tobacco leaf production and sales of cigarette. The company maintains very close association with tobacco farmers principally in Sokoto, Kaduna, Bauchi, Plateau, Benue, Edo, Oyo, Osun States etc.

It operates two (2) factories both in Ibadan and Zaria and has its head office in Lagos. Until 1940 all tobacco produced in Nigeria was air-cured and the main production areas being Ogbomosho, Oshogbo and Zaria. There was need for flue-cured tobacco for blending into cigarette. Field trials were conducted on Zonal basis i.e Zonal trials, to ascertain the best suitable varieties for specific zones including time of planting, harvesting and curing, planting space trial, fertilizer levels trials, preservation and processing methods. The local tobacco leaf production programme yielded good results and by 1983 – 85 about 97 percent of total NTC industrial requirement of tobacco leaf was locally produced, while the balance was imported

TABLE 4.1

TOBACCO: AREA, YIELD AND PRODUCTION IN NIGERIA (1983 – 85)

	(Hectares)	(000 Kg)	(Metric Tonne)	(Metric Tonne)
1983	3550	0.71	2533	350
1984	6285	0.95	5990	277
1985	11500	1.00	11550	200

Source of Data;

Two types of air tobacco were grown.

1. Northern Nigerian Bright (NNB) which grow in the Fadama Marshy lands of Kauru and Ikara areas.
2. Zaria Air Bright (ZAB) which is rain fed variety grown around Zaria, Maigana, Soba, Pambegua, Ikara and Saminaka areas.

By 1988 over 2000 tobacco farmers existed in Kaduna State supporting the NTC with total production level of 2.5 million kilogram of ZAB and NNB. These farmers were organised in co-operative societies and assisted by NTC extension workers for ease of management. Several pilot programmes were designed to support both the tobacco leaf production and some food items. The Nigerian Tobacco Company Plc NTC supports a high population of employees. This attraction is both in the area of job opportunity and remuneration. This industry makes a good economic progress and shows a high profit potential amidst all other businesses at all economic conditions. Such progress is achieved by the adjustments of brands qualities and prices to meet the psychological states and needs of potential consumers at various economic conditions. The result of this business growth is the growing demand for raw material from growers. No concrete statistics are available concerning the smoking habit of Nigerians. But generally speaking cigarettes are among the world most profitable consumer products. They are bought most often as instant item which gradually turn users into addicts since nicotine is one of the most addictive substances in existence. Observations show that men are most involved in the smoking habit and commercial trend recently involve women and youth clamoring to express themselves. The later group now constitutes a high percentage of consumer target. Various advertising strategies are used to capture this target group.

According to Awake magazine (1995 May 27) several thrilling advertisement attract children and teenagers to this habit of smoking and claims they constitute about 90 percent of new smokers. On the international scene, the magazine claims that 50 percent of smokers in Latin America are youth.

In Philippines 22.7 percent of all smokers are children under 18 years of age.
In Hongkong, the magazine further states that "Children as young as 7 years smoke and transfer this habit to their contemporaries in neighbouring China. In China specifically, the magazine claims that 61 percent of adult men population smoke, while 7 percent of women do. This brings the total population of smokers to 300 million people in China only. The magazine claims also that about 700 different additives are used in the tobacco industry for cigarette, constituting a very wide range of trap for patronage. Such is the statistics for

appreciating the business potential of the tobacco (cigarette) industry and could be the representation of most developing countries as claimed by Awake magazine. This situation thrives, despite economic health, religious, cultural and social anti-smoking campaigns. Particularly on health, one of the editions of the magazine captioned "KILLING MILLIONS TO MAKE MILLIONS" claims that 42000 Americans die each year due to smoking.

The Nigerian Federal Ministry of health in its radio jingle says "Cigarette smokers are likely to die young". Manadatorily written on the packet of cigarette is the write-up that "Cigarette Smoking is dangerous to health".

Consumers spend their hard earned income on cigarette for psychic satisfaction and go poorer while enriching the tobacco companies putting them firmly in business. The religious magazine, Awake (March 20, 2000) wrote further on cigarette smoking under a caption, "How you can quit smoking".

It looks at the dangers of smoking and the benefit of quitting smoking. It claims that each day in the United States alone 1.5 billion cigarettes roll off production lines in tobacco factories. With very huge market and profit, analysts say that despite all odds, some of which are already mentioned above, against the industry including hundreds of millions of dollar it pays as law suits, the growth potential is still very high. This is the industry with tobacco leaf as its principal raw material.

Multi-national tobacco companies hire local farmers as contract farmers to grow tobacco, a product though with narrow market track is very promising and attractive. They grow lucrative tobacco crop instead of less profitable food crops. The farmers cut down trees surely needed for cooking, heating house and forest conservation and use them as fuel for curing tobacco. This ever growing industry requires a steady supply of raw material to sustain this growth. To ensure this quality management is given to the farm for high productivity and production.

Apart from the technical aspect of farm management emphasis is placed on the finance involved in the farms that support the raw material base.

Johnson (1972, 15) observes that lending to small holders is much more complex than lending to large farmers because the small loans and the spread of borrowers over vast areas make small holders credit very costly. It therefore follows that all forms of efficiency should be employed for effective financial management of the small-scale farming business.

Dooren (1978, 10) says that credit utilised in the proper way even have a self-liquidating character. Imposed proper use of inputs – fertilizer, herbicide etc. at correct time and quantity ensures high yield, high income, increased repayment potential particularly short-term loans at the end of the season. Certain financial management related functions are always considered in the planning process. This study is split into two sections. A and B, for a perfect view of the two principal operating groups in the tobacco leaf production programme.

4.3 SECTION A:

This section directs its attention to the activities around the NTC "contract" farmer in the production of tobacco leaf to support principally cigarette production among few other items. One hundred questionnaires we designed and administered to the farmers in the programme. Their various names were recorded in No. 1 and their age brackets from No. 2.

TABLE 4.1

FARMERS' AGE BRACKET

RESPONSE	**RESPONDENT**	**%**
30 – 33,years	36	36
40 – 49 years	46	46
50 – Above	18	18
TOTAL	**100**	**100**

Record here shows majority of the farmers are in their forties and reflect those mainly considered under the programme setting. This is followed by few younger ones in the

thirties willing to stay to farm. The last group are those at and above 50 years of age and they are below a fifth of the entire population of the participating farmers.

Record in No. 3 shows the gender position of the farmers as men. No. 4 reflects on their educational or literacy level. The later is highlighted below:

TABLE 4.2 EDUCATIONAL LEVEL

RESPONSE	**RESPONDENT**	**%**
SECONDARY EDUCATION	35	35
PRIMARY EDUCATION	45	45
NO EDUCATION	20	20
TOTAL	**100**	**100**

Majority of the farmers 45% have basic primary education. They can appreciate the technology involved for high productivity. This is followed by secondary education holders who are left behind in the farm or encourage to stay. Least in the programme 20% is the non-educated participants who may be good followers in the programme.

No. 5 in the questionnaire takes a look at the number of years the farmers have participated in the programme.

TABLE 4.3 PERIOD OF PARTICIPATION.

RESPONSE	**RESPONDENT**	**%**
UNDER 5 YEARS	8	8
5 – 10 YEARS	40	40
ABOVE 10 YEARS	52	52
TOTAL	**100**	**100**

The bulk of the farmers 52% have been NTC growers for over 10 years. This is followed by those who have operated between 5 – 10 years. This group consists of 40% of the entire population of the farmers. Only a few 8% are new entrants with participation period of under 5 years.

In No. 6, enquiry is made whether the farmer grows other crop(s) other than tobacco.

TABLE 4.4 WHETHER FARMER GROWS OTHER CROP(S) OR NOT

RESPONSE	RESPONDENT	%
YES	80	80
NO	20	20
TOTAL	**100**	**100**

From the table, 80 percent of the farmers grow other crop(s) in addition to tobacco. 20 percent grow only tobacco. From personal interviews the percentage that grows only tobacco are financiers of such projects.

The study in No. 7 goes further to verify how the farmer finances his farming activity i.e his source of credit.

TABLE 4.5 SOURCE OF CREDIT

RESPONSE	RESPONDENT	%
PERSONAL	25	**25**
FRIENDS AND RELATIVES	5	**5**
BANK	-	
NTC	55	**55**
NTC AND ONE OF THE ABOVE	15	**15**
TOTAL	**100**	**100**

On the source of credit for farming, over half of the interviewed population, 55 percent, get their finance from NTC. 25 percent go by personal support, 15 percent finance their farm operation partially through NTC assistance and supplemented by other means. Only about 5 percent take their support from friends and relatives. None of the farmers claim to take credit directly from the bank.

Credit can be advanced to farmers in various forms for various reasons including control and/or convenience. This is the investigation in No. 8.

TABLE 4.6 FORMS OF CREDIT

RESPONSE	RESPONDENT	%
CASH	25	25
INPUT	45	45
BOTH CASH AND INPUT	30	30
TOTAL	**100**	**100**

Much of the credit to the farmers 45 percent is in form of input resources. The inputs are at their best prices, quality and in good time. About 30 percent is in both input and cash while only about ,25 percent is in cash. From interset 0it will be found that a very high percentage of the entire loans by the NTC to its support farmers come in the form of farm inputs. Another issue of attention in farm financing is the regularity of fund. The implication of this is to ascertain how much the farmer can rely on NTC for fund.

TABLE 4.7 REGULARITY OF FUND

RESPONSE	RESPONDENT	%
REGULAR	55	55
NON-REGULAR	45	45
TOTAL	**100**	**100**

On the investigation concerning regularity of fund 55 percent of the respondents claim the fund is regular while 45 percent claim otherwise. In No. 10 another related sensitive issue is investigated. This is the timeliness of the fund advanced. Timeliness of loan or credit makes it useful, purposeful, meaningful, dependable, reliable and meeting obligation. Otherwise, such loan is meaningless.

TABLE 4.8 TIMELINESS OF FUND

RESPONSE	RESPONDENT	%
TIMELY	65	65
LATE	35	35
TOTAL	**100**	**100**

Here 65 percent of the farmers claim the loan is timely given, but 35 percent say it comes late. Another issue yet under review is the membership of the farmers in cooperative organisation. This is very important consideration for general effective management of the farmer group in terms of technical and general administration. Membership in cooperative organisation enhances group negotiation, advocacy, training general management etc.

TABLE 4.9 COOPERATIVE MEMBERSHP

RESPONSE	RESPONDENT	%
YES	82	82
NO	18	18
TOTAL	**100**	**100**

Table above reveals that 82 percent of the farmer population belong to one cooperative society or the other. 18 percent do not belong to any cooperative. Planning is very important in management being a detailed sequential placement of activities to be undertaken. It guides and controls the operation. It forms the basis for efficient financial budgeting and resource allocation (Human and Non-human).

For effective manpower development, therefore, planning should involve the farmers.

Question No. 12 address the actual person(s) involved in the planning of the use of operating fund.

TABLE 10 WHO PLANS THE USE OF FUND

RESPONSE	RESPONDENT	%
COOPERATIVE	50	50
FARMER	15	15
NTC	35	35
TOTAL	**100**	**100**

A total of 50 percent say that planning is done through the cooperative. 35 percent say it is through the NTC extension worker who work easier through the cooperative than, individual farmers 15 percent work their plan on their own.

Farmers must be guided in the planning and execution of such plans. Technical plans are not easy to implement by the farmers alone. They often require the guidance of the extension worker to ensure success. Number 13 investigate whether or not the farmer receives technical guide from the NTC extension worker.

TABLE 11 DO YOU RECEIVE TECHNICAL GUIDE FROM THE EXTENSION WORK?

RESPONSE	RESPONDENT	%
YES	91	91
NO	9	9
TOTAL	**100**	**100**

A total of 91 percent of the farmers say they receive technical assistance from the NTC extension worker, while only 9 say they do not.

On the regularity of the extension attention, table 12 gives the detail.

TABLE 12 REGULARITY OF EXTENSION ATTENTION

RESPONSE	RESPONDENT	%
YES	30	30
NO	70	70
TOTAL	**100**	**100**

30 percent of the farmers claim the extension visits are regular, while 70 percent say they are not.

On how the farmer receives his loan, as enquired in No. 15, the table below reflects the response.

TABLE 15 FORM OF REPAYMENT

RESPONSE	RESPONDENT	%
CASH	20	20
CROP YIELD	25	25
CASH AND CROP	55	55
TOTAL	**100**	**100**

TABLE 18: ADVANTAGES OF BEING NTC "CONTRACT" FARMER

RESPONSE	RESPONDENT	%
FINANCE	**36**	36
SHARING PRODUCTION AND MARKETING RISK	**24**	24
TECHNICAL AND MANAGERIAL ASSISTANCE	20	20
HIGH PROFIT RECOGNITION, UNDERSTANDING MODERN FARMING	-	-
	20	20
TOTAL	**100**	**100**

On the advantages derived by being NTC tobacco grower 36 percent say it is financial, 24 percent say it is sharing of production and marketing risk, yet 20 percent still say it is technical and managerial assistance while finally another 20 percent claim it is social recognition and understanding modern farming. In No. 22, the farmer is asked if the NTC restricts his free hand to manage his farming operations.

TABLE 19: IS FARM MANAGEMENT RESTRICTED BY NTC?

RESPONSE	RESPONDENT	%
YES	45	45
NO	55	55
TOTAL	100	100

To certain level the farmer's management is restricted particularly on some essential operations to be in conformity with expected or recommended. This is the directing and controlling action of the extensioner.

No. 23 investigated the reason for restriction to tobacco leaf production.

TABLE 20: IS RESTRICTION TO TOBACCO LEAF PRODUCTION DUE TO FINANCIAL AND OTHER SUPPORTS FROM NTC?

RESPONSE	RESPONDENT	%
YES	58	58
NO	42	42
TOTAL	**100**	**100**

Fifty-eight percent of the farmers claim that product loyalty is due to the financial and other supports from NTC. Forty-two percent say it is not for that reason. Investigating further the issues of restrictions and possibly track lines of obligation number 24 discusses sale-out channel and NTC financing.

TABLE 21: IS SALES – OPPORTUNITY RESTRICTED BECAUSE OF NTC FINANCING

RESPONSE	RESPONDENT	%
YES	72	72
NO	28	28
TOTAL	**100**	**100**

Seventy-two percent of the respondents feel restricted to sales to other prospective buyers due to financial obligation of NTC. Meeting this obligation through sale of produce ensures early and ready repayment. This reduces default in loan repayment. Twenty-eight percent feel financial obligation to the NTC does not form restriction in their sales opportunity.

No. 25 addresses the impact of NTC assistance on selling decision of the farmers.

TABLE 22: WOULD FARMER SELL TO OTHER BUYERS IF NOT FINANCED BY NTC?

RESPONSE	RESPONDENT	%
YES	66	66
NO	34	34
TOTAL	**100**	**100**

Sixty-six percent of the farmers say that if not assisted by NTC, they would sell their produce to other buyers. This confirms question number 24 on the direction for sales or restriction due to

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Twenty percent of the farmers repay their loans in cash, 25 percent in crop yield while a majority 55 percent pay in both cash and crop yield i.e tobacco leaf.

No. 19 addresses the issue of loans repayment.

TABLE 16: DEFAULT PAYMENT

RESPONSE	RESPONDENT	%
YES	66	66
NO	34	34
TOTAL	**100**	**100**

Sixty-six percent of the growers have at one time or the other defaulted in the repayment of their loans. Thirty-four percent have not. The implication is the smooth running of re-circled or revolving loan. With high rate of default a high reserve of fund over and above the actual seasonal need should be kept to enable financiers fund the next seasons operation. In the long run high default affects funding of farming project as the fund diminished to zero and the number of farmer-beneficiaries also go down. Reasons for default repayment of loans were looked into in number twenty of the questionnaire.

TABLE 17: CAUSES OF DEFAULT REPAYMENT

RESPONSE	RESPONDENT	%
DROUGHT	35	35
FIRE AT CURING	-	-
POOR YIELD	20	20
THEFT	-	-
OTHERS	45	45
TOTAL	**100**	**100**

From the table above 35 percent advanced their reason as drought while 20 percent say it is due to poor yield. 45 percent of the farmers have reasons they never specified which may be personal, social or economic commitments.

obligation of finance by NTC. Thirty-four percent feel they will still sell to NTC with or without NTC assistance. Given financial and other support not by NTC, the farmers production obligation to tobacco is as reflected on table below.

TABLE 23 WITHOUT NTC SUPPORT, WILL FARMER PRODUCE OTHER CROP(S)?

RESPONSE	RESPONDENT	%
YES	80	80
NO	20	20
TOTAL	100	100

80 percent say they will produce other crop(s) not tobacco if not supported by NTC while 20 percent would not be influenced by non-NTC support. The high percentage shows the impact of the NTC assistance on loyalty and obligations of the farmer. This and other impact studies in the above numbers make the programme appear as a contract.

No. 27 investigates the farmer's satisfaction of his "contract" farming.

TABLE 24: ARE YOU SATISFIED AS NTC CONTRACT FARMER?

RESPONSE	RESPONDENT	%
YES	45	45
NO	54	54
TOTAL	100	100

Forty-five percent of participating farmers in the NTC programme claim they are satisfied with the programme, while fifty four say they are not. One farmer never responded to this question. Many reasons can cause dissatisfaction. These include finance – the amount and method of disbursement and time, repayment style as well as other subjective issues.

4.4

SECTION B

NTC MANAGEMENT/STAFF QUESTIONNAIRE

This section of the questionnaire analysis takes a look at the effective farm credit management from the perspective of the management and staff of the NTC. Questions numbers 1 and 2 relate to the name of the organisation and what services it renders respectively.

Numbers 3 and 4 address what product the NTC produces and the principal raw material involved respectively. The answers here are cigarette and tobacco leaf respectively. Questions 5 and 6 investigate the financier of the raw material production and the source of such finance for lending to farmers. The answers are given here as the NTC and internal source respectively. On who plans the farming operation it is revealed to be the Leaf Division of NTC.

In No. 8, it is found that the implementation of this plan is ensured by the Extension activities of the NTC field workers. On the type of farmers financed by the NYC, No. 9 mentioned both small and large scale farmers. No. 10 reveals criteria for qualifying for such loan as (1) Farmers farm holding (2) Previous sales of tobacco leaf measured in kilograms (3) Farmers loan repayment ability from past record. Farmers productivity is rated by the capacity of his holding measured in terms of land area he cultivates with tobacco according to number 11.

The staff questionnaire in number 12 agrees that a relationship exists between productivity and loan advancement. In reflecting the relationship and the impact of the loan advancement number 13 reflects the provision of fertilizer and other production inputs in quantities needed on his holding.

Number 14 states that it takes two months to process the farmers loan while numbers 15 and 16 respectively state that the management specifies the loan is to be utilised and also supervise it. In number 17, the management says it prevents diversion of the farmers fund by farmer through follow-ups to ensure the utilization is based on farm needs. Number 18 states that fund is given both in cash and kind while 19 says that only tobacco and no other crop is funded. No security is required for procurement of loan according to number 20 and therefore non is mentioned in number 21. Number 22 says that the extension worker gives extension advises and guide on

efficient resource utilisation especially credit facilities in the credit scheme. According to number 23 of this questionnaire the credit worthiness of farmer is rated on the basis of his (1) holding capacity (2) Previous sales in kilograms and (3) repayment efficiency.

Number 24 reveals that farming loans are recovered through installmental deduction from sales of tobacco leaf. Repayment ability according to number 25 forms a measure through which the farmers are rated, thus;

SCORE	PERCENTAGE REPAYMENT ABILITY
A	90 – 100%
B	70 – 89%
C	50 – 69%
D	30 – 49%
E	Below 30%

Generally speaking, the repayment of NTC loans has not been encouraging according to enquiry in number 26, while number 27 adduces the principal reasons to drought effect and farmers dishonesty. In answering number 28 on the relationship between the individual farmers repayment rating and access to loan, the respondent states that the higher the farmers repayment rate, the more qualified he is for subsequent loam and the higher the amount too. The problem of loan recovery according to number 29 principally lies on the farmers dishonest diversion of tobacco sales, using small non-loan holding farmers as avenue. Recommending channel(s) that may enhance efficiency of the credit scheme in number 30, the respondent suggests that loans should be backed up with securities. Finally in number 31 the management of NTC made a general comment that the production of tobacco leaf as so arranged is not purely through contract farming. This according to explanation is because all contract agreements, regulations, terms and laws are not fully observed. The management claims that despite all identified lapses, that the scheme has been very successful.

4·5 **CONCLUSION:**

In most instances studies taking non-obvious statistics as experienced here do not have the rigid H_O: H_1: approach. This is more because issues under investigation are numerous in ascertaining the principal. Despite all, it is still the rejection and acceptance of these issues and hypothesis to draw conclusions, recommendations and suggestions. The null hypothesis, H_O states that NTC has not fully adopted or operated an effective financial management of small-scale agricultural business. Issues considered include the integration of the management into the operational style of the farmers. The researcher from the questionnaire (Section A) viewed certain efficiency issues, namely: Technical, Management. Institutional, marketing and the resultant financial management efficiency. Similar issues are viewed in questionnaire (Section B) from the management/staff perspective. These aspects cumulatively constitute the deciding factors for effectiveness of financial management of the small-scale agricultural business.

Certain aspects of the questionnaires investigations reflect cost minimization by per-farmer-input-cost through the economics of large scale purchase. Management and financial processing cost per farmer is also reduced particularly by using the services of the extensioner through cooperative groups. Total cash disbursement may expose farmers to high cost input, poor bargain and diversion. Technical guide and control by NTC extensioner either done directly or via cooperative, guarantees effective management of field operation as well as handling and processing activities. This apart from protecting crop failure ensures improved productivity. Centralised planning, with farmers organised participation, using the cooperative organisations assists uniform execution, control and adjustment of operations. The cooperatives also form institutional setting and adjustment essential for operating agriculture as viable business. All the above issues, when matched together against optimal price levels and guaranteed market/payment by NTC, make for better evaluation of the financial effectiveness of the farming business both on the part of the farmer and the Nigeria tobacco company Plc.

CHAPTER FIVE

5.0 REVIEW AND RECOMMENDATION.

5.1 REVIEW:

From the overall study on the effectiveness of financial management it is worthy of note that the major attention is how well the finance is used and not the amount disbursed. This is basically the use of funds.

Project feasibility analysis is necessary for considering the potential repayment ability of the farmer-borrower before extend credit to him. The potential repayment ability helps the lender (NTC) take decision on the source of finance among varying options. Farmer-borrower repayment ability is related to good technical and management skill.

From the record of the financial and management operations as conducted by the NTC, it is easy to deduce that for financial management to be effective among small-scale farmers, certain technical and administrative strategies are to be designed and employed. Such strategies involve details of what to do, how best it can be done; and under what situations. The essence is efficient use of resources that have monetary values. The strategy formulation is the function of the planning team of the NTC Plc. Two functional groups are identified despite the planners. These include the farmers on the farm and here identified as the borrowers and users of funds. The other is the extensioner extending the technical and field management package as contained in the operational guide to the farmer. Another aspect is the organisation of the farmers into cooperative groups for ease of management and control by the planners.

5.2 RECOMMENDATION:

Farmer-credit-users are generally of low literate level and therefore the extensioer's farming knowledge should be update to meet the technical needs of the farmers. He should very well understands what to extend and effectively extends it for expected positive results. The farmers should be encouraged to form functional cooperative societies. Low risk production operations should be undertaken by the farmer while higher risk ones such as land preparation, nursery preparation, transplanting, mixing of

chemicals and fertilizer as well as application, handling and curing of tobacco leaf should be guided by field extension workers.

Practical operational guides and training should be provided to control and guarantee high technical productivity. Finance in the absence of sound technical operation and prudent management leads to non-effective use of fund and financial losses. Institutional adjustment and rearrangement essential for conducting agriculture as a business particularly at small scale level is found in cooperative organisation. Such effective institutional setting should be done using the inherent and in-built attributes found in cooperatives.

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QUESTIONNAIRE FOR NTC 'CONTRACT' FARMERS

1. NAME: .....

2. AGE: .....

3. SEX: .....

4. What is your level of formal education? .....

5. How long have you farmed for NTC .....years

6. Apart from Tobacco leaf, do you produce other crops

   a) Yes ( )
   b) No ( )

7. How do you finance your farming?

   a) Personal
   b) Friends and Relations
   c) Bank
   d) NTC
   e) NTC and one of the above

8. In what form is your fund?

   a) Cash
   b) Input
   c) Both Cash and Input

9. How steady has your funding been?

   a) Regular
   b) Non Regular

10. How timely has your funding been?

   a) Timely
   b) Late

11. Are you a member of any Cooperative Organisation?

   a) Yes ( )
   b) No ( )

12. Who plans the use of your farming fund?

   a) Cooperative ( )
   b) Input ( )
   c) Both Cash and Input ( )

13. Do you receive Technical guides from NTC Extension Worker?

   a) Yes ( )
   b) No ( )

14. If yes, is it regular?
   a) Yes ( )
   b) No ( )

15. How do you receive your farming loan

a) Direct ( )
b) Through Cooperative ( )

16. Who buys your products?

.....

.....

17. Do you sell to any other buyers?

a) Yes ( )
b) No ( )

18. How do you repay your loan?

a) Cash ( )
b) Crop yield ( )

19. Have you ever defaulted in repayment of your loan?

a) Yes ( )
b) No ( )

20. If yes, why?

a) Drought ( )
b) Fire at Curing ( )
c) Poor Yield ( )
d) Theft ( )
e) Other ( )

21. Tick the Advantages you get by being NTC Contract farmer.

a) Finance ( )
b) Sharing Production and Marketing risks ( )
c) Technical and Managerial Assistance ( )
d) High Profit ( )
e) Other Benfits e.g. Social recognition, understanding Modern farming ( )

22. Do you feel restricted by NTC in managing your farming operations?

a) Yes ( )
b) No ( )

23. Do you feel restricted to Tobacco Leaf production because of finance and other assistance from NTC?

a) Yes ( )
b) No ( )

24. Do you think the opportunity to sell Tobacco Leaf to other buyers is restricted by NTC financing?

a) Yes ( )
b) No ( )

25. Given finance and other assistance (not by NTC) would you want to sell to any other buyer?

a) Yes ( )
b) No ( )

26. Given finance and other assistance (not by NTC) would you produce other crop rather than Tobacco leaf

a) Yes ( )
b) No ( )

27. Are you satisfied as NTC contract farmer?

a) Yes ( )
b) No ( )

QUESTIONNAIRE FOR NTC MANAGEMENT/STAFF

1. NAME OF ORGANISATION: .....

2. What Service or Product do you produce?.....

3. What is your principal raw material?.....

4 How do you source the raw material?.....

5. Who finances the production of this raw material?.....

6. How do you source the fund advanced to farmers?

   a) Internal ( )
   b) External ( )
   c) Both ( )

7. Who plans the farm operation? .....

   .....

8. How do you ensure implementation of such plan

   a) Extension Activity ( )
   b) Farmers' Training ( )
   c) Technical Guide ( )
   d) Other(s) (Mention it/them) ( )

9. What types of farmers are financed by NTC? .....

   .....

10. What are the criteria for farmer's loan qualification?

    ....

    .....

    .....

11. How do you rate farmers in terms of productivity?

    .....

    .....

12. Has this any relationship with Loan Advancement?

    a) Yes ( )
    b) No ( )

13. How? .....

.....

.....

14. How long does it take to process a Loan Application?

.....

.....

15. Do you specify the way loan should be used by farmers?

a) Yes ( )
b) No ( )

16. Do you supervise loan utilization by farmers?

a) Yes ( )
b) No ( )

17. How do you prevent diversion of farming funds.

.....

.....

.....

18. In what form do you advance fund to contact farmers?

a) Cash ( )
b) Input ( )
c) Both Cash and Input ( )

19. Do you fund any other crop produced by the farmer apart from Tobacco?

a) Yes ( )
b) No ( )

20. Do you take any Security for farmers loans?

a) Yes ( )
b) No ( )

21. If yes, mention such securities.

.....

.....

.....

22. What are the contributions of NTC Extension workers in the CreditSchemes?.....

.....

23. Name various bases for rating credit worthiness of NTC farmers.

.....

.....

.....

24. Highlitght briefly steps in recovery of your farming loan.

.....

.....

25. How do you rate your farmers in terms of loan repayment?

.....

.....

26. What has been the general performance of NTC farmers in terms of loan repayment?

.....

.....

27. What is the principal reason for such performance?

.....

.....

28. Is there any relationship between individual farmer's repayment rating and access to loan? Explain briefly.

.....

.....

.....

29. Any problem in loan Recovery? Mention if any.

.....

.....

30. Recommend briefly any changes that may enhance efficiency in the Credit Scheme.

.....

.....

.....

31. Make a general comment on the NTC production-management contract farming programme.

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Your Ref: _____

Our Ref: DBA/MBA/EX/11/03A

6th August, 1998

TO WHOM IT MAY CONCERN

LETTER OF INTRODUCTION

Mal/Mrs/Miss/Mr. NBA A. NWOKE (G93BAP7381) has completed the course work leading to the award of the Degree of Master of Business Administration (MBA) in this University. He is currently undertaking a research study entitled *"EFFECTIVE FINANCIAL MANAGEMENT IN SMALL-SCALE AGRICULTURAL BUSINESSES: A CASE STUDY OF NIGERIAN TOBACCO COOPERATIVE FARMERS IN KADUNA STATE"*.

For this purpose, we urge you to assist him with the necessary data and information he requires . The department has given instruction to the students that data and information so obtained should be kept in strict confidence and should be used only for the purposes of research.

We would be very pleased if permission is granted and the above named student given as much assistance as possible.

MAL. SANI A. ABDULLAHI,
Co-odinator, MBA Programme
For: Head, Department of
Business Administration.