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Micro-credit: Financing Fish Production in Nigeria: A Review

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ABSTRACT
Microfinance refers to loans, savings, insurance, transfer services and other financial products targeted at low-income people. Artisanal fishing is a crucial source of livelihoods in developing nations, particularly for low-income families in rural areas where job options are limited. Nigeria depends heavily on revenues from natural resources, especially oil hence income from fishing is particularly important to Nigeria. Aquaculture is also being practiced with a growth rate that has increased over the years. Sources of funding for the operators of these sectors of the economy who are mostly poor peasants will ensure sustainable production and income generation. Informal microfinance groups have existed before the advent of formal microfinance. Microfinance institutions in Nigeria operate in an environment that is dominated by commercial banks. However, their high deposit rate makes them attractive to the low income group. This paper examines the emergence of microfinance institutions, their contributions to fisheries and aquaculture and constraints to be overcome to enable them serve the fisheries and aquaculture sector better.

Key words: Fisher folk, fish farmers, credit, microfinance institutions

INTRODUCTION
Aquaculture production in the future will rely on fast growing strains which can adapt to changing climatic conditions and also remain capable of withstanding the rigours of an enhanced production system (Ataguba *et al.*, 2009), hence a greater demand on finance. According to the FAO (2007), aquaculture accounts for 43% of food fish supplied worldwide in 2004. Total world fishery production reached about 142 million tonnes in 2005. Fishing and the activities surrounding it-processing, packing, transport and retailing-are important at every scale, from the village level to the level of national and international macroeconomics (Kura *et al.*, 2004). Increased productivity of fish with attributes of faster growth rate is important to ensure fish food security in Africa (Ataguba *et al.*, 2010).

Capital for investment items can be acquired from personal savings or by borrowing. If savings are used, the interest that the savings would have drawn must be charged against the fish production operation hence to get opportunity cost (McCay and Boutwell, 1977). The most important credit needs in the fisheries sector are those relating to working capital and small fixed assets, specifically:

For aquaculture:

- Working capital for the purchase of production inputs such as fish seed, fingerlings and fish feed; labour for pond preparation and repair; nets and other small equipment for harvesting

- Working capital to cover marketing costs such as ice, packaging/storage and transport costs and working capital for processing the harvest

For artisanal fisheries:

- Purchase of fishing gear/nets and small fishing equipment
- Working capital to cover fishing operations such as fuel, ice, labour for crew; repair and maintenance
- Capital to cover marketing costs such as ice, packaging, storage and capital to cover fish processing activities, including fish trading advances

Tietze and Villareal (2003) defined microfinance as the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance. This definition however does not take into consideration the target group for provision of microfinance. However, the FAO (2006) gave a broad definition of microfinance as loans, savings, insurance, transfer services and other financial products targeted at low-income people. Microcredit refers to a small loan from a bank or other institution. A Microfinance Institution (MFI) provides these types of services. Although, MFIs vary considerably, they all share a commitment to supply financial services to clients that are poorer and more vulnerable than clients of a regular bank.

SOURCES OF CREDIT IN FISHERIES AND AQUACULTURE

The level of risk associated with fisheries and aquaculture is linked to socio-economic status of the farmers and fishermen hence it reflects in their access to different types of financial services, the way they use financial services and the extent to which they have benefited from developmental interventions (FAO, 2006). This determines exploitation rate in wild fisheries as well as capacity to produce either on an extensive or intensive scale by fish culturists. Funding for aquaculture depends on the scale and production systems employed. This may entail short to medium term financing for provision of ponds, water supply systems, feed mills, machinery and equipment etc.

Informal microfinance was the order of the day before the emergence of formal microfinance institutions in Nigeria (Anyanwu, 2004). The informal microfinance arrangements operate under different names: 'esusu' among the Yorubas of Western Nigeria, 'etoto' for the Igbos in the East and 'adashi' in the North for the Hausas (CBN, 2000). Arizona-Ogwu (2008) pointed out that the formal financial system provides services to about 35% of the economically active population while the remaining 65% are excluded from access to financial services. These 65% are often served by the informal financial sector, through Non-Governmental Organization (NGO)-microfinance institutions, moneylenders, friends, relatives and credit unions.

Most financial services available to aquaculturists and fisherfolks are provided mostly by the informal sector. According to the FAO (2006), the various types of informal financing windows for fisheries are:

- Intermittent lending by individuals on a non-profit basis
- Guarding money or collecting deposits is also very common, both on a non-profit and for-profit basis

- Intermittent for-profit lending by individuals with a temporary surplus can be in the form of an advance sale of fish by captains to fish processors and traders
- Group finance refers to arrangements where groups or individuals pool their savings and lend primarily to each other

EMERGENCE OF MICROFINANCE

The Central Bank of Nigeria introduced the Rural Banking Scheme in 1977 and by 1991 the numerical target of at least one branch in every Local Government Area was met in 1991. However, these rural branches failed to meet the credit needs of the people and remained mere deposit takers (Yunusa, 1998).

The People's Bank was set up in 1989 to meet the credit needs of the rural and urban poor, artisans, farmers, petty traders, vehicle mechanics, etc. This programme was bedeviled by its dependence on subventions from the Federal Government for its operations and the fact that loan recovery was not very efficient hence de-capitalization due to heavy overheads that outstrip earnings.

The community bank was conceived to answer some of the observed weaknesses in credit delivery to the grassroots. The Community Banking Scheme in Nigeria took off in 1990 and was replaced by the Micro-Finance banking system in 2005 (Okpara, 2010).

Onugu (2000) studied 20 Community Banks and reported that at the end of 1996, the total outstanding deposit mobilised by the 20 banks stood at ₦178,112,292.60 of which 23% had been disbursed. The sectoral allocation of loans and advances is as shown in Fig. 1.

From the foregoing, fisheries and aquaculture which is a subset of agriculture shares in the paltry 7.5% of loan disbursement for the agriculture and forestry sector. This situation does not allow the full realization of potentials for production in the sector. The community banks were designed to fill the gap, but their low capital base and isolated mode of operation have not enabled them to make meaningful contributions to microfinancing (Arizona-Ogwu, 2008).

The unwillingness or inability of the formal financial institutions to provide financial services to the urban and rural poor, coupled with the un-sustainability of government sponsored development financial schemes contributed to the growth of private sector-led microfinance in Nigeria (Anyanwu, 2004). According to the FAO (2006), failure of previous credit programmes and a growing concern with poverty and vulnerability in the fisheries sector have drawn attention to making micro-financial services available to fisherfolk. The Nigerian government recognizes the importance of empowering the people themselves to design and manage development efforts. Policies targeting poor rural communities include providing credit and land, agricultural extension

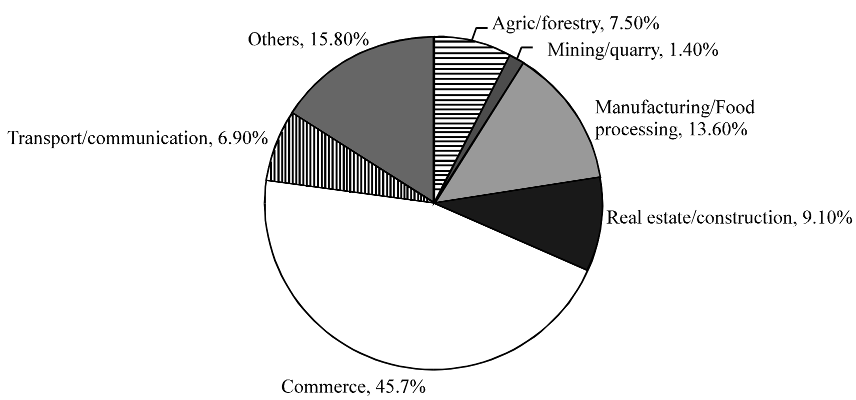

Fig. 1: Loan allocation to various small scale businesses by 20 community Banks (Onugu, 2000)

services and farm inputs. Additional priorities for the government include improving water and electricity supplies, rural roads, schools and health facilities for rural communities (IFAD, 2009).

The emergence of microfinance as an alternative financial delivery mechanism is a response to the failure of past efforts by government and international agencies to effectively provide financial services to the poor (Yunusa, 1998; Arizona-Ogwu, 2008). This led to the piloting of bold experiments and new approaches utilizing market-based solutions to reach the majority of the poor who had been excluded from formal credit sources (Tietze and Villareal, 2003). Microfinance Institutions (MFIs) initially started out by providing micro-credit but have now broadened their services to include other financial products.

AGRICULTURAL MICRO-FINANCE PROGRAMMES IN NIGERIA

The development objectives of microfinance for poor fishing communities should enable fishing households increase income, smoothen their consumption, develop micro-enterprises, manage risks better and enhance earning capacities, thus reducing economic and social vulnerability. Because women constitute a significant proportion of poor fishing households, microfinance should also serve as an effective tool to assist and empower women in fishing communities. Agricultural credit programmes have evolved over the decades but with little impact on Aquaculture and artisanal fisheries. Available formal credit programmes include:

- Agricultural development trust fund credit
- Agricultural credit guarantee scheme (ACGS)
- Agricultural credit support scheme

Although, there are notable successes, before microfinance can significantly contribute to poverty reduction through fisheries and aquaculture, there are a number of constraints to be overcome:

- Scattered and unstructured nature of operators in the fisheries sector
- Poor marketing infrastructure/arrangement
- Lack of quality control and standardization
- Manpower needs

The limited availability of social services in fishing communities that could support financial service delivery contributes to the reluctance of MFIs.

LOOKING AHEAD

These constraints can be surmounted through active partnerships between fisherfolk, aquaculturists, MFIs and other actors in the development and fishery sectors.

ROLE OF GOVERNMENT

- Investment in infrastructure development to support private sector investment in the fisheries sub-sector

- Data base development to guide investors
- Environmental protection

ROLE OF FISHERFOLKS AND AQUACULTURISTS

- **Marketing of products:** Operators of the industry must speak with one voice when it comes to marketing of their products
- **Initiatives:** Opportunities that abound in the sector ought to be tapped into by the operators
- **Attitude to credit:** The right attitude to credit will increase the willingness of banks to offer micro-credit
- **Clustering:** Artisanal fisherfolks and small scale aquaculturists should come together and form clusters to facilitate access to micro-finance and for a centralized purchase of inputs and other services

ROLE OF MICRO-FINANCE BANKS AND COMMERCIAL BANKS

- Take the initiative to learn about the small-scale fisheries sector
- Develop appropriate financial services, including the adaptation of existing products and services to the fisheries sector
- Explore ways to contribute to poverty reduction and fisheries management in fishery-dependent areas and develop services to provide these contributions
- Identify other interventions and/or services that are needed to support and sustain financial service delivery to fisherfolk and seek partnerships with organizations capable of providing such services accordingly

CONCLUSION

The demand for financial services in the fisheries sector is diverse and requires differential financial products and services. Microfinance is just one means in the continuum of providing financial services to cater for this demand. Characterized by small loans, microfinance has inherent limitations in terms of financing the capital investment needs of the fishing industry. It should therefore not replace traditional lending products from mainstream financial institutions, since they are still required to finance large-scale investment needs and priorities necessary for fisheries growth and development. This review forms the basis of further research into the contribution of informal credit sources as well as the formal microcredit sources on aquaculture and fisheries production.

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