

CREDIT FINANCING OF AQUACULTURE
PROGRAMMES - A REVIEW

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INTRODUCTION

The purpose of this paper is to assist in clarifying the role of credit financing in the development of aquaculture programmes in Nigeria. Three limiting factors of production have been identified:

- i) natural resources;
- ii) technology and management;
- iii) capital.

Amongst these, availability of capital is the most important factor. An attempt has been made here to examine the constraints militating against credit availability to aquaculture vis-a-vis the competition between aquaculture and other agricultural and industrial sectors for the allocation of available credit facilities. We have also suggested possible ways of enhancing preferential allocation of capital to the aquaculture industry from the various sources of credit available to the Nigerian agricultural economy.

Aquaculture has developed in many countries of the world under different natural and socio-economic conditions. There are the traditionally fish farming nations whose peoples have developed the art of fish farming as a house-hold enterprise hundreds of years before. Modernization of the art is therefore, easy in terms of technology and management. To many of these nations and peoples, availability of finance has been a major constraint, even though notable progress have been made over the years. These countries include China, Japan, India and many South East Asian countries and the Pacific States.

There are also the developed nations of the world, who through advance technology and immense resources, have mostly taken to fish farming as a way of diversifying investment opportunities. Although they are not traditionally fish farmers, laudable technological and management progresses have been made through the availability of resources, notably capital.

The third group are the late comers - most of these nations have enormous natural resources conducive to fish farming but are not fish farming nations. The art is alien to them. Technology is not available and capital is either lacking or misappropriated. But in the wake of high population growth, these nations are faced with the realities of how best to fight hunger and famine. Fish farming suddenly became an alternative source of activity/investment for rural development and animal protein production - Nigeria falls into this category.

However, irrespective of the social and economic differences of these nations and groups of people, the interests of all nations are now directed towards the establishment of viable industries - the productive utilization of resources. Consequently, aquaculture, like other economic ventures, must merit their investment objectives to attract capital for development. This is the reason for a re-appraisal of aquaculture programmes in the poor, non-fish farming nations of the world to enable the industry attract necessary financial assistance for growth and development.

Need for Credit Facilities in Aquaculture Financing

There have been substantial expansion in aquaculture production in recent years because of, among other reasons, downward trends in world capture fisheries production and food economy which have made it necessary to look for new sources of animal protein supplies for human consumption. There have been tremendous development plans in aquaculture world wide. Realization of the ambitious aquaculture programmes will depend on the availability of finance.

Most aquaculture ventures are still new. There are therefore, no good prospects of generating enough funds from within the industry itself. Development programmes will undoubtedly rely on credit facilities for survival and to achieve the desired growth targets.

Constraints Militating Against Credit Financing

1. Aquaculture has always been considered by bank officials along with fish capture or agriculture, as such, risk elements - the main yardsticks for evaluating loan applications have been considered with risk factors in fisheries and agriculture. The situation does not augur well for aquaculture loan processing. In consequence, financial experts and loan application analysts who process aquaculture loan requests are not technically competent to assess loan applications. As a result, there is always a misjudgement of credit worthiness of aquaculture ventures. In Nigeria, as in many non-fish farming nations, there is a dearth of technical knowledge of aquaculture, therefore,

there are only a limited number of existing viable and successful reference projects from which officials would draw yardsticks for appraising project proposals.

2. Where ownership rights can be established for fish farm site, the value placed on such land is always minimal since sites for aquaculture are considered waste land and therefore not always useful for other purposes. This invariably affects the use of such land for security purposes in bank lending.
3. Aquaculture is disadvantaged as a new industry because it lacks appropriate organisational structures as well as the political support. Thus, aquaculture in most cases has not been able to obtain for itself, certain benefits from the State, such as production subsidies which farmers and capture fishermen have come to accept as part of what is naturally due to them.

Essential Requirements for the Enhancement of Aquaculture Credit

The problems of credit financing of aquaculture projects have plagued many fish farmers for years. Experience from different countries have therefore resulted in the recommendation of a number of requisites for the enhancement of aquaculture credit facilities, as applicable to older industrial sectors:-

1. Feasibility Study: Since aquaculture is being considered as a viable economic industry and usually in competition with other industries, the conduct of a comprehensive and thorough feasibility study would assist creditors to assess project viability irrespective of concessions given to assist in the granting of credit for the sector. Such study has to cover human resources and environmental constraints that may affect the implementation of an otherwise promising programme, in addition to biological, technological and economic factors. Thus, it is important that would-be investors identify capable and competent organisations in the conduct of sound feasibility studies.
2. Careful integration of loan with other development support operations in coordination between supply, marketing and other services for the achievement of aquaculture development aims is important. This shall indicate that credits are used for the purpose intended and in the most efficient manner.
3. Availability of infrastructural facilities is another essential requirement for the successful operation of a credit scheme. For instance, availability of high quality fish seeds, fish feed and other inputs are essential. If these infrastructures are seen

as constraints to the successful implementation of a project, it will jeopardise the prospect of credit approval. It is either that such infrastructure are considered as part of an integrated large fish-farm project for which credit request shall be made. In other cases, separate private companies provide these services. Infrastructural facilities are still far from being adequate for the optimum development of aquaculture prospects in Nigeria. Many private groups provide fish seed and fish feed while a lot more need to be provided in terms of research findings and extension services by government. These could pose initial problems to rapid development, they are by no means unsurmountable.

Structural Differences in Credit Financing

Creating efficient credit system for aquaculture development will depend on the type of needs to be filled by the financial request. Financial request could fall into one of the following categories:

- (1) Investment: needed for the physical construction, acquisition of machinery and equipment and other fixed costs.
- (2) Working Capital: for the day to day running of the enterprise.
- (3) Consumption Funds: for the procurement of consumables.

Within these categories, requirements may differ substantially according to size and type of operation and stage of development of the industry in the country of interest.

For instance, a large-scale commercial fish farmer in Nigeria will incur more initial investment costs on infrastructure. He may operate an intergrated venture, producing his own feeds, market his own products and learn more by experience. Whereas a large scale operation in Europe, America or the developed Asian countries already has well developed infrastructural system and marketing channels for disposing off his produce. In this instance, request for credit will vary in terms of need and therefore, the amount. The structural difference may be handled by different credit agencies to ease the credit management and to avoid unequal assessment of application since the conditions of request are different.

Again, large-scale fish farm operators are likely going to be individuals or cooperate bodies with substantial financial and material resources necessary to meet the cost of such projects. They may not find it difficult to secure loan funds needed for their project, since they will not lack collateral to support such application for credit extension.

Category of investment may also vary from a minimum amount such as the case where existing water area like burrow-pits, village ponds and multi-purpose community-owned water bodies are used; to substantial sums where expenditure for removal of trees, excavation, re-filling and levelling in dam construction for water supply, drainage canals and water-gates are involved. The case of Rock Water Fish Farm in Jos, a developed fish farm using burrow-pits for water supply in the old tin-mining area of Plateau State comes to mind. The operators of such farm will need minimal capital investment compared to money that would have gone into clearing, stumping, damming and construction, were the project to be embarked upon in the rain forest zone of Southern Nigeria.

In the opinion of this author, these are some of the structural differences in the credit requests that should be reflected in government guidelines and policy objectives concerning the management of credit scheme from different sources. Geographical differences, investment objectives, and scale of operation should have bearing on the merit and scale of credit facilities.

Suggestions for the Management of Credit Schemes

Success of credit scheme is an interplay between funds availability, scheme management, and funds utilization. The following credit management bodies have been suggested and the role of Fisheries Society of Nigeria (FISON) in the scheme highlighted:

1. An Aquaculture Credit Scheme:

The establishment of an aquaculture credit scheme (ACS) to be managed by a committee will be desirable. It suggested that competent members of the Fisheries Society of Nigeria (FISON) form the core of the scheme committee members who should also include bankers, preferably with academic background in the fishery sciences or agriculture.

The aquaculture credit scheme should be the administering agency for government finances for private fish farm development. Sources of funds should also include grants and financial assistance from International organisations as might be needed for small and medium scale farmers.

2. Integrated Rural Development Scheme (IRDS):

To bring development to the generality of Nigerians, the government has inaugurated a Directorate of Food, Roads and Rural Development to evolve a system of development for the rural communities where more than seventy five per cent of Nigerians live. Any good programmes of rural development usually embrace a wide range of mix of activities. In the new dispensation, this rural development body has a vital role to play in the incorporation of aquacultural programmes within the rural communities

activities in its effort to increase food supplies for domestic use and possibly later for the export market. In the planning and execution of this basic macro-economic objective, the comprehensive programme must involve the optimum use of water resources which will not be complete without the incorporation of aquacultural programmes. This should aim at producing food at minimum cost with the ultimate goal of improving the socio-economic conditions of the rural populace.

3. Fishery Bank:

The development of a fishery bank should be the ultimate goal. Although this facility might be under-utilized if immediately established, it should eventually work in collaboration with or take over the responsibilities of other coordinating agencies and the administration of funds from governmental, regional and international organisations. Achievement of the objectives of a fishery bank will depend on how ready the government is to invest in the provision of infrastructural facilities so as to minimise the capital cost requirement of would-be investors. Timely establishment of a fishery bank will no doubt facilitate early growth for the industry.

Available Sources of Credit Facilities

1. International and Regional Institutions

(e.g. FAO, UNDP, ECOWAS, EEC)

Funds are regularly disbursed from these various organs of the United Nations and other regional bodies. Although the allocation depends on the sectoral importance and development of the particular industry. Many South East Asian countries have benefited immensely from Fishery Funds. Although Nigeria has benefited substantially, an aggressive and well articulated fishery development programme can further enhance her chances.

2. The Government:

The Government has an important role to play in making funds available for credit financing of aquaculture. Apart from investment in basic infrastructural facilities, it is suggested that a "farmers assisted programme" is employed through the River Basin and Rural Development Authorities (RBRDA). This programme has been run for agricultural projects by some RBRDAs. The authorities should provide the basic infrastructures, select sites for fish farms, construct and supervise the management, while the farmers' labours are employed. During harvesting, the proceeds are sold by the authorities for the farmers while partial deduction of input and machinery costs are made over a period of time. At the end of say five years, the fish farmer must have been well skilled to look after his farms,

while obtaining input and other requirements on credit from the authority and repayment made during harvest. This will ensure grass root participation and will make the money allocated to aquaculture reach the farmers who need it since the authorities are liable to government and they must be made to account for their performances. Set target should be given to the RBRDAs on the number of farmers to be assisted or size of fish farms that must be accomplished over a period of time.

3. The Banking System

The Nigerian Banking System is important in the provision of credit facilities to fish farmers as it is important in agriculture. Since there are always more profitable outlets for banks loan funds, government should see to it that banks are instructed on the amount, schedule of release and guidelines of loan processing and management as it affects the fish farmers. Failure to meet specified amount of credit based on a percentage of bank reserve or annual loan facilities should attract a penalty. This should encourage banks to ease the processing of credit application for fish farming.

Government guidelines to banks should include the following:

- (i) Concessional rate of interest, particularly during the initial stage of development. This may also vary between different types of operations (large scale and small scale, export - as in the case of shrimp culture) and domestic oriented products.
- (ii) Banks should be made to employ and train fishery sciences graduates to enhance the technical evaluation of credit applications.
- (iii) Because inability to produce collateral acceptable to lending institutions has in many cases prevented small scale operators from deriving full benefits of credit schemes, banks should be made to accept good and thorough feasibility studies in lieu of security. Such loans should again be guaranteed by the government. In this instance, the bank should in addition to ensuring that a feasibility study is good and realistic, if possible avoid paying money directly to fish farmers but banks should pay directly for the services and materials needed on the farm. This will avoid an abuse of the privilege and will make banks develop expertise in the field to the advantage of the industry.
- (iv) Banks should be categorised on the scale and amount of credit they can grant and according to the people they will serve. For instance Merchant and Commercial banks should be directed and guided on the granting of loans to large scale investors, while small scale investors are serviced through the rural banking

programme of the Commercial banks. For immediate development goals, the banking system shall be very useful. Government should be made to give specific instructions to enhance credit financing in aquaculture as distinct from fish capture and agriculture.

4. Estate Financing

Agricultural estates could finance credit facilities to individuals and farmers. This scheme could be similar to what the Nigerian Tobacco Company (NTC) employed in the sixties to ensure adequate raw materials sources for its factories. The Company employed and trained many agriculture technicians and superintendents. These men were used as extension workers who directed and monitored the planting, and management of tobacco farms. Only the land and labour are supplied by the farmers. The Company supplied the seeds, fertilizers and other requisites on credit to farmers. The total cost of such facilities are deducted from farmers' sales at the end of the season.

Estates financing of fish farming however, may depend on the availability of other infrastructures which government shall provide, otherwise cost of implementing the programme could be too high so that it will not be attractive to either the estate financier or the prospective fish farmers.

The IBRU Group is a prospective estate financier with regards to its vast resources and experience in food and agricultural production.

5. Suppliers of Materials

Materials and requisites suppliers could be a source of credit to farmers. For instance, the U.A.C. Group among others with its chains of distributive stores can supply equipment and materials to fish farmers on credit. Produce can be bought by the Group for its chains of supermarkets nation-wide, while the cost of supplies are deducted from the farmers.

6. Private Financing

In a situation where the basic infrastructures are available or the investment costs are reduced either as a result of the use of burrow-pits, flood plains or community reservoirs, private individuals could be good sources of credit. The fish farmer must however, ensure that efforts is going to be worth the while through adequate returns, to be able to pay both the principal and interest and as well leave enough margin for profits.

7. Oil Industry

Because the Nigerian Oil comes from the riverine states, a great deal of the indigenous fisheries potentials have been destroyed by oil pollution. The government could make the Oil companies assist the development of fish farming. A percentage of the companies earning could be made available under the Aquaculture Credit Scheme or the Integrated Rural Development Scheme.

CONCLUSION

Although there have been great technical advances in aquaculture, the growth programmes and development projects have not been fully realised. Shortage of funds is the principal problem confronting the industry.

In the early years, small projects were useful to show the potential of aquaculture industry but the need now is for projects capable of demonstrating technical and economic feasibility in order to attract investments for large scale development. The funding available for the majority of projects from national or international sources is too inadequate to achieve this objective. Aquaculture planning programmes must meet the current need of economic ventures for it to compete with other industries in funds and resources allocation.

The momentum being gathered by aquaculture development efforts requires that institutional arrangements are adopted to assist development programmes with a view to strengthening aquaculture credit schemes for the industry's requirements for investment capital, input purchase, crop financing and essential consumption expenditure of the operations.

Specific review of conditions and need of the Nigerian situation is necessary in the planning of aquaculture development programmes. Such programmes should lay emphasis on the provision of infrastructures by government and other institutions and a machinery of easy access to credit facilities by would-be investors. The banking institutions have an important role to play in the provision of credit for aquaculture. In addition to their experienced credit operations specialists, they should work in close collaboration with fish farming experts and develop their own expertise in the sector to be able to provide improved facilities and procedures for aquaculture credit administration.

The Fisheries Society of Nigeria (FISON) has to step up its activities to influence government planning programmes so that aquaculture will have a place in the national development programmes. The current lag in technical management and economic activities within the aquaculture sector may retard credit facilities, and correspondingly affect development. Efforts have to be made to urgently improve these areas so that other activities in the development programmes are not unnecessarily jeopardised.