Boosting the Performance of Agricultural Micro-Credits in Rice Production in Nigeria: The Promise of Protective Customary [Traditional] Guarantees.

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Introduction

Micro-credit is the name given to small loans made to very poor borrowers who would otherwise not have been creditworthy under conventional Banking system.

A typical micro-credit scheme targets poverty stricken borrowers.

Who are Poverty Stricken borrowers?

Poverty, whether as a result of relative or absolute deprivation is a major global concern, but if policies or programs are targeted to benefit the poor, we must be able to most importantly identify them by their NEEDS, their OUTLOOK, and their DESIRES.

Who Is Exactly The Poor?

We begin by describing the lowest of the unfortunate masses as what Michael Lipton in [1991] called the 'VERY POOR' or what Joe Remenyi in [1991] described as 'The Ultra Poor', in their descriptions of the levels of poverty. The Very poor or the Ultra poor are the base of poverty pyramid and are often described as 'DESTITUTE' or 'PAUPERS'. The World Bank has used monetary criteria of less than $275 per capita income [approximate Naira 100 per day at current rate] to describe the ultra poor. The National Poverty Eradication Program National co-ordinator Dr. Magnus Kpakol says 79 million Nigerians are in this category].

However, definitions of poverty do not identify the same people as poor or extremely poor. A study by Glewe and Gaag [1990] made this point more relevant by reference to the Ivory Coast study of household consumption; rather than household income and expenditure pattern. But poverty is multi-faceted, and to understand it better and to develop policies suited for the particular poor; it may be necessary to go beyond income and expenditure. We must consider more qualitative approaches to fully grasp the question of poverty in our country.

Joe Remenyi [1991] study of income generating programmes for the poor established a poverty pyramid of five levels and warns against the popular image of poverty as some sort of homogeneous mass of unfortunates. His study shows that there are as much diversity among the poor as there are in society as a whole. He defined five different sub- groups or 'level of poverty' from which insights about poverty relieving policies may be tailored. At the bottom of the pyramid are the Ultra Poor, who make up the largest sub-group in many sub-Saharan African countries. This comprises largely households with many children, headed by women, old people without relatives, and the young unemployed without education [including street children]. They are the most neglected and highly vulnerable group among the poor. Because of their weak position in society it is difficult for them to stand out or have any voice in their own affairs. This is the main reason why administrators hardly capture them within policies of growth and redistribution, and often remain poor under any poverty-alleviation programme.

The next group is the 'Laboring Poor', a large sub-group comprising self-employed and casual labourers. No one in this group can count on a stable income, or extended periods of employment. They can be found in the agricultural sector as labourers, in construction and domestic service and in petty trade. This sub-group does contain many women and children; though in some context males heavily outnumber females.

The third sub-group is described by Remenyi as the 'Self Employed Poor', working on their own account in a variety of informal sector activities- fast food, street vending and tailoring. Women can be in the majority in this sub-group, and their part time earnings may be an important source of family survival.

To economists, one of the most interesting sub-groups in Remenyi's 'poverty pyramid' is the fourth group 'The Entrepreneurial Poor'. They are defined as the self-employed with five or more employees. Surprisingly, this is the most innovative and dynamic sub-group in the poverty pyramid, many remain below any internationally defined poverty line. Often they are located in poor districts, producing for and employing the poor. Typical enterprises include textiles, shoe making, cosmetics, Cabinet making, blacksmithing, and repairs.

Finally at the top of the pyramid are 'The Near Poor'. Their earnings are well below the national average, but usually have one member of the house hold at least in regular employment, as driver, civil servant, Contractor, and so on. Although they may live in middle class neighbourhoods, have means of transport of their own, they have no significant assets.

Profiling the poor in this way has important implications for policy strategies to alleviate poverty. .In particular, it enables administrators to assess poverty in more subjective terms, by targeting the individual group rather than the general poor.

For the purpose of this paper, we shall use the globally accepted definition of the poor defined by Michael Lipton, Joe Remenyi and the World Bank as someone who lives on less than two United States (US) Dollars a day. Going by this definition more than 90% of Nigerian population is considered poverty stricken people. In reality, Nigeria with all its human and material resources is ranked among the 10 poorest Nations on earth. What this means is that more than 90% of all Nigerians do not have adequate money to eat balanced food, drink portable water, buy new clothing, live in a permanent shelter, have access to proper healthcare, afford to pay school fees for their children in schools, have electricity in their homes, afford a means of transportation, sustainable employment, recreational and credit facilities, as well as other means of self actualisation.

With women population making most of the poor in Nigeria, it is not surprising therefore that most, Non-Governmental Organisations (NGOs) and Government micro-credit programmes target women as the most desirable beneficiaries; partly because women are more cautious borrowers. Some people argue that poverty in Nigeria cuts across gender, urban and rural dwellers and therefore, micro-credit programmes should target not only the gender poor.

If we define poverty in its general terms of low living standard devoid of all access to basic needs, essential for human existence such as enough food, water, shelter,, clothing, education, health care, stable political, economic and social environment, then we can say the starting point for any poverty eradication program is to examine our economic, educational and social policies that discriminate against the poor.

Poverty Alleviation

Several poverty programmes being created by NGOS and Governments in an effort to alleviate the sufferings and misery afflicting the poor in Nigeria fails to recognise the different levels of poverty. Unlike micro- credit which is specific by nature, poverty alleviation programmes should target all levels of poverty not just one or two levels of poverty neglecting the others who form substantial size of the poor to their fate. Despite these serious lapses, on the part of policy makers and or managers of poverty alleviation, the issue of sustainable development of the individual, family and community has been recognised as the starting point for meaningful success.

Qualitative poverty assessments carried out by our community bank recently, indicate that poverty has many dimensions. Poor people do not only lack money and tangible assets: but also are very insecure, exposed to all kinds of risks, and dependant on other peoples decisions. On the positive side, we discovered that there are many individuals who are dynamic and innovative, who developed coping strategies to make the best use of their conditions. The most common coping strategies in my Emirate are the raising of small livestock, gardening, and tendering of economic trees.

Determining our Fight Against Poverty and Hunger in our Society.

The cumulative effects of the following have continued to make the poor poorer by the hour, day, month, and year.

Education And Poverty

No Nation has ever developed beyond the level of basic needs, with uneducated citizens. Education therefore is not only the weapon to fight poverty, but also the key to wealth generation.

Heath Is Wealth

The ravaging effects of deadly diseases mainly endemic among the poor such as Malaria, HIV/AIDS, Measles, Cerebral Spinal Meningitis, Guinea worms and many others, certainly have tremendous effects on the productive capacity of not only the poor but the society as a whole.

Tribal And Religious Conflicts

Within the last five years, Nigeria witnessed more than seventy five serious ethnic and or religious strife resulting in substantial loss of thousands of human lives and the destruction of properties [mainly housing and livestock]; With the disruption and destruction of their abode and businesses; Several families and or communities were forced to migrate in most cases to a less productive land or sometimes another hostile environment.

Drought and Other Natural Disasters

Floods, Drought, Soil erosion, Birds and Pest invasion are some of the most common natural disasters militating against sustainable life style of the poor in most of the Nigerian States. While Floods, Soil Erosion, and Pest Invasion are easily controllable, Drought will require a more long term approach.

Corruption and The Poor

By far the most destructive and devastating influence on our society as a whole is the level of corruption in government, civil society, judicial functions, police and military services. Few week ago, the chairman of ICPC Hon Justice Mustafa Adesayo Akanbi admitted his commissions failure to achieve its objectives after four years of its establishment. Besides its problems with funding, even its statues are been challenged in court by a high government official. Transparency International and The World Bank have not only ranked Nigeria in the second position of the most corrupt Nations; its indictment of the police as an instrument of corruption, does not give us any hope in our fight against corruption. * Although corruption eats every segment of society, its impact on the poorer people is even more tragic. This is a very wide topic , but for the purpose of this paper we need to mention briefly its effect on the poor.

[A] Denies them of all basic needs leading to very poor standard of living.

[B] Corruption breeds unstable political, social and economic environment, which has direct bearing on their livelihood.

[c] Corruption denies the poor the opportunity to make free and informed choices that are not coerced.

[d] Corruption denies the poor the opportunities to participate in democratic environment with the ability to have a say in their own future.

[E] Corruption undermines their efforts to develop full potential and lead productive life in accordance with their needs and interest.

IMF-World Bank Loan Conditions

Structural adjustment programs are the regular prescription administered by the World Bank to any desperate nation that falls into the debt trap of the advanced capitalist countries. In all cases the poor of these nations are the major victims of the harsh medication. Our country fell into this trap after we squandered our wealth to stage a Festival known as Festival of Arts and Culture (FESTAC) in 1977.

One year later in 1978, we were forced to take the first loan to keep our extended life style. Since then the Nigerian rich have always found their way out, leaving the middle class and the poor to continue with the never ending erosion of their income and standard of living.

In 1989, when I was a member of the Constituent Assembly, I made several attempt to show the evil of foreign Loans and the need to curve our insatiable demand for such Loans by both Federal and State governments. Today I am vindicated as even the World Bank Consultants and our economists have agreed, that such loans are not only inimical to development but also a source of high level corruption.

Part of the conditional ties of the IMF prescription is the total withdrawal of agricultural and all other subsidies that benefits the poor including water and medical care. The greatest irony of this is that while the poor farmers in Nigeria or elsewhere in the third world country are been denied the meagre fertilizer subsidy; farmers in OECD countries enjoyed last year a total subsidy of more than 400 billion United States Dollars.*

The cumulative effect of all these injustices is that while a farmers of advanced nations enjoying full subsidies and technical and scientific advantage could produce more efficient crops at highly competitive price; a farmer in a third world country is made to compete without any support from his government. This is the situation our farmers find themselves today, as more and more agricultural commodities are dumped into our markets.

Globalisation Of Trade

The World Trade Organisation (WTO) arrangements have always been in favour of the rich Industrialized Nations, to the utter detriment of the poor nations. Their urge for greater control of political, economic and social life of the less privileged poor Nations, has always blinded them from the realities. Those policies are inflicting on the poor nations. For example, an equally productive worker in any Third World country who produces a unique and similar product to the one produced by a worker in an Industrialized Nation earns an equivalent of one United States Dollar per day, while an equally productive worker in an Industrialized Nation earns three dollars an hour. The two equally productive workers are by WTO arrangement considered economically equal in terms of purchasing power. The consistent claims by the Industrialised Nations are that free trade is best for everyone. Ironically today's International trade is influenced by the wealthy nations not by the poorer countries. Under this scenario, a worker from a third world country will have put in three days of work to earn equivalent of one hour's work of an equally productive worker of an Industrialised Nation.

Local Costs Of Production and Consumption

Inadequate storage and processing facilities have forced poor farmers to sell their farm produce at peak production period at a price much below their production costs. For a poor farmer who has no alternative means of livelihood will have to continue to produce same or similar crops over and over again until he falls into a debt trap.

Brain Drain

The movement of professionals out of our country for greener pastures overseas has been a major source of concern and a serious minus in our efforts to get out of the poverty trap. In the last two decades a substantial number of our seasoned professionals in all fields of endeavour have cause to leave this country for employment overseas. Without the services of these professional, the nation will never achieve its objectives

Micro-Credit As Away Out?

Having examined poverty and its causes, we should now return to our main topic and examine areas where micro-credit could be used for the benefit of the poor. It is however, important to bear in mind that as good as Micro-credit is, it is not the cure of poverty as I have indicated earlier in this paper. Nevertheless, it can only hold the line against poverty. Under these circumstances we must look for other non conventional ways by examining the alternative sources of capital or working capital available to the poor under a traditional or informal setting.

The origin of Micro-credit movement is usually attributed to the works of Muhammad Yunus of Grameen Bank in Bangladesh about twenty years ago. Despite the spread of micro-credit programmes and their growing popularity with policy makers the world over; hard data on the successes of these programmes are somewhat lacking.

There is also little standardization across studies as to how to define critical process and measures of success. I found the definition of poverty and especially what constitutes its alleviation tends to vary from one study to the other. Such terms as 'Poverty alleviation', 'Women Empowerment', and many other terms used by policy makers tend to be vague.

Sources Of Funds And Credits

Livelihood resources which are the various sources of income capital available to the poor from whom they can fashion their livelihood under the traditional settings in Hausa societies can be classified into formal and informal sources.

Informal Sources.

[A] Bashi- This is usually a very high interest loan offered in cash or in kind to a desperate borrower to meet immediate unavoidable commitment. Bashi is usually rolled over and over for a very long period of time provided the borrower agrees to service the high interest charged usually on a monthly basis. This is the abode of **Money Landers.**

Despite the higher interest charged by money lenders, poor peasants tend to rely heavily on them rather than the conventional banks, because they know each borrower personally and do accept the type of collateral a poor peasant can offer as security. For example the peasant may offer future labour services if he defaults. The local money lender may indeed be able to undervalue the collateral by making use of his local knowledge.

[b] Jingina- interest free collateral based loan for either a short, medium, or long term, usually sourced through friends or relatives. The usual benefit accruing from this loan to the lender is the unrestricted use of the asset pledged as collateral.

[c] Musanya- A barter form of trade-in between friends, relatives, or immediate family members of assets that could be used to further enhance other assets or used to generate funds. Douglas North studies [1989] draws distinction between economies dominated by personal exchange, and those dominated by impersonal exchange. In the simple economy, where personal exchange is the norm, transactions costs are low; formal contracts are unnecessary because exchange is based on personal knowledge. There are few opportunities for cheating, shirking and so on.

[d] Inkiya- A system of inter-regional commerce, where a rich merchant offers credit facilities through transfer of goods to his agent or agents in different towns, with mutual goods in demand on both sides. Typical example is in the Livestock and Kola- nut trade between the Northern and the Western Nigeria.

[e] Adashi- a non interest bearing mutual saving scheme comprising members coming together to pool and allocate small savings on rotational basis. Mutual savings are usually attractive to petty traders, housewives and lower level people of the civil society . Small commission is usually charged by the collector to cover his labour.

[f] Kiwo- This is another form of saving, unlike the Adashi, the poor raise small livestock chicken, goats and sheep, in anticipation of future expenditures.

Despite the complexity of informal financial activity, development economist tends to argue that all the arrangements have certain advantageous features. They are relatively easy and based on personal knowledge.

Formal Sources Of Credit Facilities Available To The Poor

Having examined the informal sector of sourcing credit by the poor, we should examine and compare these sources against modern sources of credit. While the former is usually a unwritten agreement based on trust and usually based on local knowledge and information; the latter is highly structured on written and sometimes cumbersome documentation that is alien to the poor.

As it is very unlikely that the informal sector could be eliminated in developing economy such as ours; it is therefore incumbent upon the Federal government to either integrate or inter-link the two institutions. Integration or inter-linkage between formal and informal sectors however, presents some obstacles. Admittedly an economy without an informal sector is easier to manage from the point of view of physical and monetary policy. But the reality in this argument is the dynamism, and potential entrepreneurship of this sector.

[A] **Conventional Banking System**

Several banks under many different schemes offer to assist the poor in obtaining small credits. In practice, these schemes are mainly to satisfy Central Bank requirements on their loan Portfolio. Besides requiring adequate collateral and or guarantees, the conventional banking requires the borrower to establish a track record usually established after several transactions over a long period of time. In addition the borrower must prepare a bankable proposal and sometimes must provide a mandatory deposit as part of his contribution to the project.

[B] Cooperative Societies And Trade Associations

Conditions for obtaining loan under cooperatives or trade associations are softer than that of conventional Banks. However, for a poor farmer to qualify for a loan, he must be a full-fledged member of the association and must contribute a specific amount of money towards the project or be guaranteed by someone of standing in society.

[C] Government Agencies

Several Government aid-agencies in collaboration with international bodies [ADP's, EU- schemes, etc] tailor their programs to meet the immediate needs of the poor. The greatest irony is that for any poor farmer or petty trader to benefit from these schemes must be able to provide about one quarter of the entire loan before he or she could qualify.

[D] Savings And Loans.

There are ample evidences, that the poor are capable of small savings for acquiring future assets, or meeting unavoidable expenditures. The Saving and Loan schemes even though not widely available to the poor in Nigeria; could be a valuable source of financial support.

Micro-Credit Loan Delinquencies

Regardless of what promoters of micro-credit schemes will make us to believe about its beauty, the reality is that loan recovery is still very low. Even though statistical data is somewhat lacking to generalise on why small farmers find it difficult to meet their obligations under the micro- credit schemes, there are several reasons why there is a high rate of default in repayment.

Late Disbursement

Beneficiaries' main complain is the late disbursement of loans. Agriculture in most parts of Nigeria is a 'Season specific' and therefore has a definite time schedule. Failure to obtain all inputs at a specific time frame may result in serious losses to the farmer. This is why many a times a farmer will critically weigh the timing before deciding on weather to use the input or divert the funds to other less risky projects.

Very Low Rate Of Return

One of the most fundamental problems with micro-credit programs is the difficulty involved in actually turning a profit on the loans .In most cases the small farmers must bear not just the cost of the loan and interest payments; they invest significant part of their time in group activities mandated by their programmes. In addition they hardly count their labour as part of the input when considering prices for their produce. Despite that, they have no control over the market due to their size and fragmentation of output. A case of point is the ever rising cost of inputs as against the falling rate of market prices. This is what happened exactly this year to Kadawa tomato producers where their cost of production is three times the market value.

Insurance Against Natural Disasters

Until very recently agricultural insurance covers very limited crops and livestock, even then the premium rate could be as high as 8%, while indemnity is calculated on the basis of approved inputs costs less the value of crops harvested if any. For the livestock, indemnity is the value of the animal at the commencement of the policy plus small input cost. For a poor farmer, natural calamities such as drought, flood, and pest invasion are a major source of loan default, because of their inability to pay the premium. There is a likelihood that any natural disaster will wipe out all his investments and render him incapable of even feeding himself or family.

Conceptual Frame Work Of Micro-Credit Guarantees

With the ever increasing popularity of Micro-credit as a solution to poverty, there is an on going argument about its effectiveness in developing financial systems. For the purpose of this paper we should restrict the types of guarantee schemes available globally, and advance less on the arguments for and against in order to understand the theoretical as well as the practical workings of Micro-Credit guarantees.

What Is A Credit Guarantees Scheme?

For the purpose of this paper, I would limit the classifications of micro-credit schemes to six major categories. Many guarantors limit their choices to one or two depending on their level of involvement and prevailing circumstances.

[A] Direct And Indirect Guarantees

[1] Direct Guarantees- The donor agency seeking to establish a guarantee fund acts as the guarantor and in case of default repays up to a percentage agreed. The advantages of this system are that it is easy to establish and to administer, since the role of the donor agency is clearly defined. The disadvantage is that it operates in an isolated way, with few institutional relations, which affects its impact on the target group. It also requires stringent control measures, making administrative costs relatively high.

[2] Indirect Guarantees- The difference with direct funds is that a third party administers the fund established by the donor agency. These guarantees also guarantee the loan up to a certain percentage. The central Bank or Governments usually sponsor these guarantee systems, whose advantage is the continuity. On the other hand lack of confidence and bureaucratic tardiness are inherent in these systems.

[B] Individual And Portfolio Models

(i) Individual model- A guarantor directly linked with the participating institution approves individual borrowers. They are required to fulfil the lender's conditions. When the loan is approved, individual borrowers will pay a fee to the entity depending on the size of loan or guarantee. It is also possible that the lender collects the fee and pays the guarantor.

(ii) Portfolio model- Under this method, the guarantor does not approve single loans, but negotiates the criteria for the portfolio it will be guaranteeing. These criteria may vary depending on the target group, either small or medium enterprises. All loans meeting these criteria will automatically be guaranteed by the fund.

The major advantage for participating institutions is that the maximum possible loss is known in advance .That loss could be determined to fall into an acceptable level. However, the fund has to be established in such a way that the participating lender will consider the financial viability and security aspect.

[C] Funded and Unfunded Schemes

This classification relates to the funding of the scheme. Funded schemes vary according to the country, in our case the Central Bank of Nigeria is the sole financier where Banking and Non Banking Institutions participates in the fund.

In unfunded schemes, the government finances the guarantees and pays whenever a loan is defaulted. On the other hand commercial banks administer the fund and decide if a loan is to be guaranteed or not. Nevertheless, banks have to share part of the risk, usually up to 25% and have to take all precautions, since the government has the right to reject claims.

[D] Open and Targeted Schemes

This classification relates to the target group.

A credit guarantee scheme is normally created to grant access to credit for certain target groups. When there is no special requirement for the target group, the scheme is said to be open. A close scheme is usually introduced to support a particular target group, e.g. a specific cooperative society. Nevertheless, not every member of the targeted group will qualify for the loan. They have to meet the criteria set by the fund. A person will not even qualify unless he is part of the specific group.

[E] Ex-Ante And Ex-Post Schemes

This classification relates to when the guarantee is issued.

In Ex-ante scheme, the borrower presents his /her project and financial proposal to the guarantor, if he agrees to guarantee the project, a letter of guarantee is issued favouring the borrower. He then presents his documents to the lender, which is a participating financial institution. However, a guarantee from the Credit Guarantor Scheme does not mean automatic approval of the loan.

In Ex-post scheme, the lender evaluates the borrower and once the loan is approved, the latter is referred to a Credit Guarantor Scheme for the guarantee. If the guarantee is turned down by the scheme the borrower is disqualified.

[F] Intermediary Model

This model is especially suitable for micro finance. It consists of a guarantee of a bank to non bank micro finance institution. Then the micro lender uses the funds to finance a line of credit to micro entrepreneurs. This is usually attractive for banks, since micro credit institutions are more reliable, and in case of default, the guarantee can be redeemed.

Arguments For And Against Micro-Credit Guarantee Scheme (MCGS)

[A] One of the basic assumptions in MCGS is that the target group does not have access to credit due to collateral. Therefore, the guarantee fund would provide guarantees to the extent that the loan would be secure. In case of default, the guarantee is executed and the lender recovers the loan easily

[B] Micro-credit target group are considered high risk, as there is no distinction between their family cash flow and that of the business. Without appropriate accounting systems, lenders do not have evidence on how the beneficiary is doing, which makes credit to them very risky. The greatest risk is that the target group are more vulnerable to harsh economic and weather conditions, since their cash flow tends to be seasonal and erratic. MCGS can reduce the lender's reluctance and perception of risk. Since big lenders are usually not disposed to deal with micro-credits, due to its small margins and documentations required in processing applications, implies additional costs. Micro credit operators can address this problem by gathering information and generating adequate interest both to the borrowers and lenders alike.

Arguments Against Micro-Credit Guarantee Schemes

[A] The characteristics of the financial markets generate an excess of demand for loans. This excessive demand makes micro-credit lending unattractive for lenders. In addition, financial markets are as close as competition triggers more commercial activities.

[B] The other argument advanced by some people is that MCGS does not produce additionalities. Since lending requires capital, which is scarce, the excessive demand for micro-credit tends to surpass the amount of available capital. There is strong evidence that MCGS produces additionalities

[C] MCGs are costly and not sustainable over time, as they tend to consume their capital quickly. Most MCG funds failed to generate a large operational base able to cover their costs. Guarantors face a trade off between charging a premium that will allow the cost to cover its costs and having attractive rates for borrowers.

[D] Moral hazard and adverse selection are often associated with MCGS. If borrowers have a guarantor backing their debts, they do not have incentives to repay the loan. Similarly, since lenders have the loan insured, they will approve loans with high risk of defaulting and will not take the necessary measures to assure the repayment of the loan.

Considerations

There are several considerations to be taken in this issue. In order to analyze the overall impact of a MCGS, according to well known researchers in this field, [Meyer and Nagarajan] the impacts on the three parties have to be taken into consideration. The Guarantor, Lender, and Borrower. The impact on the guarantor depends on various aspects, such as objective of the scheme, its design, management and the extent to which is used as a political tool. For the lender is more complex than a matter of sustainability. Lenders should always be aware of good clients in any target group and begin lending to them with softer terms. Additionally, if the fund is poorly designed the effect on the lender may be negative and provoke adverse selection and negligence both in the process of allocation and collection of the loans. As for the borrowers, additionality is an important question: Did borrowers receive loans before the scheme? Were they smaller or larger? It is also necessary to analyze the impact of the loan by comparing what the borrower has done with the loan to what he would have done without it.

Other factors also need to be considered, for instance the financial sector development, which determines the credibility of the fund and viability of the banking partner, the inflation rate, which may increase the risks and financial costs and local network.

The Promise Of Protective Customary Guarantees

For the purpose of this paper and in the light of our experience at Dutse Community Bank, in which we established three years ago several ways of ensuring full repayment of our micro-credit loans. Our experience however does not necessarily mean universality; neither does it remain provincial in nature.

[A] Peer Group Guarantee- recovery under peer group pressure has worked in many countries including Nigeria. Under the peer group method of repayment, borrowers are lumped into cells of five or more people. If one person doesn't pay, others in the cell do not obtain further credit. The person in the cell who wants another loan has the incentive to get all the money one way or other in order to benefit from additional loans. This system is self policing but observers note, its coercive nature goes contrary to the philosophy of granting such credits in the first place.

[B] Traditional And Religious Institution Guarantee- Under this system, recovery is based on moral and social persuasions by religious and traditional leaders, [the Imam or priest, village or ward head] who guaranteed the loan or help in securing it. The guarantor is involved at every stage of the process by identifying borrowers on the basis of his knowledge of their needs and capabilities to repay the loan. The only disadvantage of this method is that the borrower is put under intense moral and social pressure to repay the loan even when there is evidence of uncontrollable factors.

[C] Cooperative Marketing Guarantee- The borrower's loan is tied to the possession of his output, until he or she has fully paid the loan. The advantage of this type of guarantee is that the borrower is secured, that he or she has a ready market of his output and at a reasonable price. The disadvantage of this guarantee is that he may be required to bear certain administrative costs, and the limited choice of market for his crops.

[D] Family/Household Guarantee- The household as the smallest and most bonding unit, usually live and work as a unit.. The survival of one member is linked to the other and therefore beneficial to the lender. This form of guarantee places tremendous pressure on the head of the family particularly in time of poor harvest.

[E] Input Supply Guarantee- Important inputs particularly in agricultural production under this system could be supplied to farmers on condition that they will repay in cash or in kind. The advantage of this system is that it tallies very well with the traditional practices.

[F] Important Community Member Guarantee- Another, well known practice in many communities, is the personal guarantee of a highly influential member of a community. The guarantor will on his own standing receive and distribute small loans on a piecemeal basis based on particular need of the borrower. The main advantage of this method is that the guarantor will, in an effort to safe guard his integrity in the community will be forced to supervise the activities of the borrower.

[G] Market Guarantee- Having examined in a nut shell the types of customary guarantees and the promise of Micro-Credits and its contribution in poverty reduction among the poor in general; one important factor for its success and sustainability is the proper development of market outlets. Failure to recognise the central role of marketing in the strategic planning of micro-credit schemes has been the major source of default.

One line of enquiry in the neo-classical tradition has been to investigate sources of market failure in developing countries, and to suggest in which certain forms of intervention i.e. adopting the preferred solutions of taxes and subsidies, can lead to improvements in the allocation of resources.

[H] Local Knowledge Guarantee- The local knowledge of the people and the value of collateral security they offer enables the money lender to take on the leading function which the formal banking institutions are reluctant to carry out. Banks fail to supply credits in this situation because they have only incomplete or imperfect information about their potential customers and their collateral security.

[I] Share Cropping Guarantee- may similarly be an institutional arrangement for dealing with imperfect information. It is an arrangement whereby the land lord allows the peasant to occupy and cultivate land, in return for share of output. In an agricultural setting where labour is dispersed spatially, sharecropping is a way of ensuring that workers produce a sufficiently high level of output. Wage contracts in such a situation are very costly to monitor.

Thus, both money lending and sharecropping can be efficient institutional arrangements despite appearance to the contrary. They represent ways of coping with market failure-in this case imperfect information. Again neo-classical analysis suggests that the government should work with, rather than against, these institutions, reinforcing efficient equilibrium contacts between the parties.

Conclusion

Having examined the causes and possible solutions to the sordid situation most of our people find themselves; and the likely ways and means of softening their predicaments. We can comfortably use Micro-Credit in conjunction with other poverty relieving measures to support agricultural entrepreneurship, enhance productivity, profitability, and investment for the benefit of the poor.

However, Micro-Credit as it operates in Nigeria today needs a serious re-examination by social scientist and financial institutions if it is to achieve the desired goals and objectives. Rice as a major food and cash crop world wide has tremendous opportunities in lifting not only the status of the poor, but also offers great promise for sustainable development, and job creation.

The integration of formal and informal sources of credits could enhance further economic empowerment and enhancement of the productive capacity of small farmers and the poor in general. The two sources are indispensable in the sustainable delivery of financial services to rural micro- entrepreneurs.

Here I want congratulate the organizers of this summit for their foresight, commitment and piety; But more importantly for their perseverance and patience.

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