

CONTEMPORARY ISSUES IN AGRICULTURE: CASE OF NIGERIA AGRICULTURAL INSURANCE

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Abstract

Agriculture is a risky vocation or enterprise due to its cyclical nature, risk or loss from cause by man and natural disasters. As a result, it becomes necessary for the government to established Agricultural Insurance Scheme for farmers in order to protect total loss of farm property, yield or revenue through a fall in Agricultural prices or other disasters. This paper examine the genesis of Agricultural Insurance Scheme in Nigeria, its objectives, problems militating against the scheme such as inadequate funding and lack of data etc. it was concluded that there was increase in the investment level of the farmers after their participation in the insurance scheme. Recommendations were also made such as administration of the scheme should be made simple because services of existing financial institution would be utilized, Farmers should be encouraged to take more credit for increased agricultural production when provided with insurance cover against natural hazards i.e. drought, floods, pests and diseases etc.

Agriculture has been the provider of food for teeming population and the largest employer of labour force in the country (Amaza, 2000). The Nigerian agriculture as in most developing countries of the world is anchored mainly on subsistence farming methods, in this regards small scale farming operators producing about 80% of the total food production for the ever increasing population operate on fragmented farm between 0.5 – 2 hectares. The Federal Office of Statistics (2006) recorded that food production grew at a rate of 3.5% with an annual population growth rate of 2.83%. In a desperate bid to solve the country's food and nutrition problems, various food related policies

programmes and projects were put in place. One of such programmes is the Nigerian Agricultural Insurance Company (NAIC) which was established on the 15th of December, 1987. It was made a Corporation on the 1st of June, 1993.

The Nigerian Agricultural Insurance Scheme has been designed to benefit the small, medium and large scale farmers, either in groups or as individual producers protection from the effects of natural disasters and to ensure payment of appropriate compensation sufficient to keep the farmer in business after suffering a loss. Agricultural Insurance may be defined as the stabilization of income, employment, price and supplies of agricultural products by means of regular and deliberate savings and accumulation of funds in small installments by many in favourable time periods to defend some or few of the participants in bad time periods (Arene, 2005). Agricultural insurance is defined in the Nigerian Agricultural Insurance scheme (NAIS) operation guideline (1989) as the stabilization of income, employment, prices and supplies of agricultural products by means of regular and deliberate savings and accumulation of funds in small installment by many farmers in favorable time periods, to defend some or a few of the participants in bad time periods. The term “insurance” is simply “a risk management strategy.

Aina & Omonona (2012) defined insurance as the elimination of the uncertain risk of loss for the individual through the combination of a large number of similarly exposed individual who can contribute to a common fund, premium payment sufficient to make good the loss caused by any one individual. This definition is consistent with that of Mahul (2010) defined insurance as a social device providing financial compensation for the effects of misfortune, the payment being made from the accumulated contributions of all parties particularly in the scheme. Thus, it may be seen as a kind of fund, into which all those insured will pay an assessed contribution (called premium), in return, those insured will have right to call on the fund for any appropriate payment should the insured event occur. The needs for agricultural insurance arose because the sector is exposed to varieties of risk and losses. Mahul (2010) also defined risk as variability's in outcome which are measurable in an empirical or quantitative manner

The primary motive of any agricultural insurance policy is to serve as a security for losses resulting from natural disasters also serves as collateral for agricultural loan to the farmers from banks. (Arene,2005).Behrens and Pederson (2007) stated that Nigerian Agricultural Insurance Scheme (NAIS) is linked to Agricultural Credit Guarantee Fund Scheme (ACGFS) operated by the Central Bank of Nigeria, and to the agricultural loan scheme from the public sources. The linkage makes it mandatory to farmers obtaining such loans to insure their farms under the NAIS. The NAIS and ACGFS are complimentary or mutually reinforcing each other. The ACGFS guarantees bank against loan defaulters and not farmers whereas under the NAIC scheme, farmers are protected against losses resulting from natural hazards NAIC does not give banks guarantee of

loan payment in the event of defaults unrelated to natural hazard which the ACGFS does.

Genesis of Agricultural Insurance in Nigeria.

Agricultural insurance scheme as an alternative for risk management actually started as crop hail insurance in Europe more than 100years ago and spread to the United States at the beginning of the century. It has since been embraced by a lot of develop and developing countries of the World viz: USA, Canada, Japan, Mexico, Brazil, Bolivia, Coast Rica, Panama, Mauritius, India, Australia, Iran, Sri Lanka, Zambia, Philippine, Israel, Chile, Jamaica, Egypt, Cyprus, Sweden, Bangladesh and Venezuela – with varying degrees of successes and failures. In Nigeria, commercial agricultural insurance scheme was pioneered by Niger insurance in May, 1987. National Insurance Corporation of Nigeria (NICON) fully owned by the Federal Government and the National Cooperative Insurance Society of Nigeria (NCISN) were also known to have operated insurance schemes with agricultural implication on a limited commercial scale.

Banks such as the United Bank for Africa (UBA) and Union Bank of Nigeria which were actively involved in giving credit facilities to the agricultural sector had to raise the sum assured of life assurance of loan applicants to qualify as suitable collateral for providing loan. Agricultural insurance scheme (NAIS), which was formerly launched on the 15th of December, 1987, was later followed by the incorporation of the Nigeria Agricultural Insurance Company (NAIC) in 1988 to implement the scheme.

Objectives of Nigeria Agricultural Insurance Scheme

The objective of the Nigeria Agricultural Insurance Scheme (NAIS) are:

1. Promote agricultural production since it would enhance greater confidence in adopting new and improved farm practices and in making greater investments in the agricultural sector of the Nigeria economy, thereby increasing the total production;
2. Provide financial support to farmers in the event of losses arising from natural disasters;
3. Increase the flow of agricultural credit from lending institutions to the farmers
4. Minimize or eliminate the need for emergency assistance provided by Government during period of agricultural disasters.

Challenges of Nigeria Agricultural Insurance Scheme

Jafaya (2002) identified the following to be among the problems militating against the effective and efficient operation of the Nigerian Agricultural Insurance Scheme (NAIS).

(i) Inadequate Infrastructure and Support services

Inadequacy of infrastructural facilities such as good roads and other efficient means of transportation, good communication facilities, uninterrupted power supply, could hamper the successful operation of the scheme. These facilities are needed in order to facilitate prompt and speedy intimation of losses by the farmers for assessment of losses and payment of indemnities.

(ii) Inadequate funding

Adequate and timely funding of the scheme will be essential for its success. Agricultural insurance is a very costly venture and as such, arrangement for adequate funding should be made. Delay in approving and releasing funds and especially undue political interference in funding and management of the scheme will affect its success.

(iii) Lack of Trained Personnel

The scheme requires the availability of personnel trained in agriculture and insurance at the national, state and local government levels as evaluator, supervisors, loss adjusters, salesmen and extension staff. The country is short of this cadre of personnel.

(iv) Ignorance and Lack of Awareness of the Scheme by Farmers

The ignorance and lack of awareness by the majority of farmers of the need, practice and lack of awareness by the majority of farmers of the need, practice and values of agricultural insurance, constitute problem to the scheme.

(v) Lack of Data

A major problem affecting the scheme is the dearth of data on farm operations, particularly on crop yields and losses arising from natural hazards, these data are necessary for the computation of premiums and indemnities.

Yusuf (2010) also confirmed that Nigerian Agricultural Insurance Scheme (NAIS) had significantly benefited farmers though faced with some challenges. These include, low penetration of the scheme, scarcity of data for actuarial determination of important underwriting parameters such as crop yield and farming population. Lack of qualified personnel in the field of agricultural insurance, high moral hazard and adverse risk selection, low participation of commercial banks in agricultural finance; inadequate agricultural infrastructure; especially inadequate number of veterinary personnel; undue interference from government; lack of interest from insurance companies in the scheme and difficulty in designing new agricultural insurance products.

Conclusion

The study showed that there was increase in the investment level of the farmers after their participation in the insurance scheme. This can be attributed to their accessibility to farm credits which is one of the objectives of the insurance scheme. The farmers also increased their farm sizes which can be related to their increased input consumption power ensured by the access to credits which also brought about increase

in output. This indicates that objectives of the agricultural insurance scheme are been achieved.

Way Forward of Nigeria Agricultural Insurance Scheme

The scheme should be made compulsory for farmers obtaining institutional credit for the following reasons:

- (a) Institution lenders should be encouraged to lend more for agricultural production because of added security of insurance for the loans;
- (b) Farmers should encouraged to take more credit for increased agricultural production when provided with insurance cover against natural hazards i.e. drought, floods pests, diseases etc.
- (c) Bank loan repayment will improve because of added supervision of farmer's activities by the insurance Agency and other institutions participating in the operation of the scheme;
- (d) Administration of the scheme will be made simple because:
 - (i) Services of existing financial institution will be utilized;
 - (ii) Premium will be built in and deducted straight from the loan for payment to the Agency by the financial institution;
 - (iii) Insurance contracts are made between the insurance Agency and the lending institutions rather than directly with the farmers;
 - (iv) Indemnities are paid to the farmers through the credit institutions and
 - (v) Compulsion for insurance is easily enforced however farmers not taking institutional credit can avail themselves of the protection offered by the scheme.

Agricultural sector is exposed to all normal business risks and uncertainties as well as other natural calamities which are not only unpredicted but fall outside the control of individual farmer. This situation leads to low production in Agriculture. As a result of this, a series of scheme were introduced to alleviate these problems. Mabogunje (2000) outline some of these schemes, they include:

- (i) Plantation Agriculture Development Scheme between 1950's and 1960's
- (ii) Farm settlement schemes, since the late 1950's
- (iii) Government owned food companies or corporation in the 1970's
- (iv) The National accelerated food production programme in the 1970's
- (v) Operation feed the Nation in 1978
- (vi) World Bank Assisted Agricultural Development Projects, 1974
- (vii) River Basin Development Authority
- (viii) The Nigeria Green Revolution.

Other government programmes include Directorate of Food, Road and Rural Infrastructure (DFRRI) and now Nigeria Agricultural Insurance Company with the main objective of protecting the farmers from devastating effects of natural disasters and to ensure payment of appropriate compensation sufficient to keep the farmer in business after suffering a loss and consequently improve Agricultural production level.

Pederson, G. and Zech (2009) are of the view that apart from protecting farmers against losses, an insurance scheme would enhance farmer's ability to obtain loan from financial institutions thereby increase their total production. Adeyemi (2000) confirms and that crop insurance policy is a viable tool for increasing crop production and promoting exports thus promoting agricultural sectors as whole. In the same vein, Ejemai (2002) highlighted the benefits of agricultural insurance to include expanded agricultural output. This is possible because the policy holders are assured of a certain income in a case of crop and livestock failure. This may include them to take more risk in an attempt to increase production. NAIS is linked to Agricultural Credit Guarantee Fund Scheme (ACGFS) operated by the Central Bank of Nigeria (CBN), and to the agricultural loan scheme from the public sources, the linkage makes it mandatory to farmers obtaining such loans to insure their farms under the NAIS. The NAIS and ACGFS are complimentary or mutually reinforcing each other. The ACGFS guarantees bank against loan defaulters and not farmers whereas under the NAIC scheme; farmers are protected against losses resulting from natural hazards. NAIC does not give banks guarantee of loan payment in the event of defaults unrelated to natural hazard which the ACGFS does.

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