POVERTY ALLEVIATION THROUGH AGRICULTURAL INSURANCE

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Ogun State University, P.M.B. 2002
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Abstract

The paper examines poverty alleviation from employment perspective. It argues that enduring poverty alleviation programme goes beyond mere provision of social amenities and job creation but should encompass sustainability of peoples' jobs.

Since agriculture occupies majority of the people in Nigeria the focus of the paper is on sustaining farmers' interest in farming so as to prevent social ills that rural-urban drift of the farmers may result into. Because of the risks and uncertainties embedded in traditional agriculture, the paper advocates that the farmers be protected through a risk-transfer approach known as insurance. It is, therefore, suggested that agricultural insurance be properly publicised in the grass roots through the mass media and agricultural insurance as a subject be incorporated into the curriculum of studies for training agricultural extension workers. In addition, the Nigerian Agricultural Insurance Company (NAIC) should be properly funded to meet its obligations toward farmers so as to encourage them to accept the scheme and remain in farming thus increasing agricultural production. This is expected to lead to lower food and agricultural produce prices thus transforming the people living above poverty level.

1.0 Introduction

Poverty alleviation entails enhancing the income generating capacity of the people to be able to live above poverty level. Hence poverty alleviation can be better achieved through improving the income generating activities of the people rather than cosmetic approach of mere provision of social amenities. Production of real goods must be encouraged on a continuous basis for any attempt at improving the lot of the people to be meaningful. A more enduring poverty alleviation programme should, therefore, go beyond mere job creation. It should address the sustainability of such jobs and the existing ones. A more fundamental issue is, therefore, that of forestalling the desertion of existing jobs such that more severe problems are not created in the process. One of such principal jobs is farming. Efforts should be made to prevent further rural-urban migration of able-bodied men.

2.0: The Place of Agriculture in Poverty Alleviation Programme.

The importance of agriculture in any developmental programme in Nigeria cannot be over-emphasized. That the majority of the workforce in Nigeria is engaged in agriculture and allied works is not debatable. It is also known that despite the rural-urban drifts in the recent past, majority of Nigerians (at least 60%) still reside in the rural areas. Since farming/agriculture is the main occupation of the rural dwellers, it becomes necessary to address poverty alleviation via farming. Failure to retain practitioners in farm work will mean serious social and economic problems for the nation. The situation will be similar to the one brought about by the oil boom era of the 1970s and 1980s.

Such desertions will lead to further shortages in food and other agricultural products leading to higher prices of food and raw materials for local agro-industries. As an extension, there will be a reduction in the country's foreign exchange earnings and the gross domestic product (GDP) thus reducing the wealth of the nation. There will be social problems caused by the deserters of farming who are unable to get gainful employment in the cities. There will be overcrowding in the cities thus leading to higher
cost of living in the urban centres. Social ills like, high level of crimes such as fraud, robbery and hooliganism are bound to follow. A reasonable way of preventing this undesirable situation is to ensure that the single largest employer of labour (agriculture) remains not only lucrative to the practitioners but also attractive to others outside the profession. This can be achieved through a scheme that will reduce the farmers’ losses significantly and make farming comparable with other high income-generating occupations. Hence, agricultural insurance scheme is considered a good instrument to address this very important issue. The scheme is capable of protecting the farmers against the different types of risks that make agriculture unattractive.

3.0 Types of Risks In Agriculture

The relatively long time lag between the putting in or the consumption of inputs/resources and the time when products are released in agriculture introduces risks and uncertainties into the production process. Some other random variables in agriculture associated with the weather further complicate decision-making. The interaction of these random variables makes the probability estimates associated with the outcomes of the farmers’ actions difficult to obtain thus introducing uncertain situation. Given, however, that the associated probability estimates can be calculated out of known information, the farmer is said to face a risk situation.

There are different types of risks associated with different activities on the farm. Oni (1985) classified the more common types into five broad groups viz:

3.1 Production and technical risk

Production and technical risk is that type of risk connected with the probability of the farmer attaining a given minimum level of output for a specific level of inputs. In other words, it is a risk associated with input/output co-efficient of the production system. This is in the face of the activities of some natural phenomena such as, weather variations, erosion and insect-pest as well as disease conditions.

3.2 Market risk:

Market risk has to do with the expected prices of inputs and commodities. The degree of deviation of prices from the expected determines the level of risk involved. For instance, a price risk may arise from price fluctuation as a result of lack of perfect knowledge of market price. Such may be found in a situation where a producer chooses to store his or her produce with the expectation that the future price would cover both the current price and cost of storage.

3.3 Financial Risk

Yield and price uncertainties combine to generate financial risk about a farmer’s ability to repay a loan or debt. Financial risk, therefore, deals with the probability of a given farm’s debt to asset structure being able to facilitate the farm’s financial survival or bankruptcy.

3.4 Government Policies Risk:

Instability in government polices introduces risks into agriculture. Such include unstable agricultural policies as well as policies on other agricultural related sectors of the economy.

3.5 Personal Risks

Personal risk has to do with individuals and their unpredictable nature of agricultural practices and operations. Unprecedented strikes by farm labourers would introduce some risks as well.

Traditional agriculture is still greatly nature-dependent. Hence the success of the traditional small-scale farmer is still subject to vagaries of nature. Apart from farming being purely rain fed, it is highly vulnerable to insects pest attacks, seasonal variations and market instability among others. The practice is thus bedevilled with risks of crop failure, pilfering, flooding and drought. Unless the small farmers are protected from these risks, they may in fact lose all their investments in just a single unfavourable season. It is, therefore, very important to address the issue of protecting farmers against the risk situation. The principal objective of risk management according to Edema (1988) is to make the most efficient pre-loss balance between resources needed and resources available to preserve the efficient operation of the business. This can be achieved through a risk transfer process of insurance.
4.0 The Role of Insurance in Sustaining Increased Agricultural Production

Several efforts have been made by the Nigerian government to increase agricultural production in the country. Such include supply of improved seeds to farmers, plans for improved distribution of fertilizers, producer price incentives and commissioning of more processing facilities in some locations. In addition, a ban was placed on importation of certain agricultural products to serve as encouragement for domestic production. All these were enhance farm incomes.

However, it is expressed in the Central Bank's report that the favourable impact of these factors was significantly reduced by the heavy floods which destroyed many farm lands and aggravated the problem of soil erosion. Also there were outbreaks of pests and diseases. The major pests that ravaged grain farms in parts of Kano, Plateau, Katsina, Sokoto, Borno and former Gongola States include quela birds, locust and grasshopper. Sigatoka outbreak was also reported on many plantain farms in the old Bendel state, Ogun, Oyo and River Sates (CBN, 1989).

All these disasters were unforeseen occurrences that hindered the optimal productivity of the affected farmers as far back as 1988. These limitations imposed by the uncertainties of weather, natural disasters, diseases and pest cannot be controlled by human action. They lead to wastage, low yield, destruction of farm and they constitute a lot of threat and risk to successful farming and hence a reduction in agricultural production and income.

In order to boost agricultural production considerably, it is imperative to reduce the impact of these risk and uncertainties to the barest acceptable minimum. The need, therefore, for a mechanism that functions specifically to keep the farmers in business cannot be overemphasized. There is the need for an appropriate risk management strategy in the Nigerian agricultural production system.

The purpose of risk management, is to choose intelligently from among all the available methods of dealing with risk, in order to secure economic survival of the farm. The costs of quasi-insurance gadgets like irrigation schemes are beyond what an individual small farmer can afford. A plausible approach to reducing the loss that may arise from such unprecedented unfavourable situation is risk transfer through proper insurance policy. Under the policy, the insurer promises to pay the insured a specified sum of money at the happening of the insured peril. In turn the insured agrees to pay periodically a sum of money called the premium to the insurer. In other words, insurance may be seen as payment of known small amount (premium) to avoid a possible relatively large amount of loss.

Although it can be argued that some forms of insurance were in existence before the coming of the British to Nigeria, it was not until 1921 when modern insurance, as we know it today, was introduced.

The Royal Exchange Assurance Company of London was the first to establish a branch in Lagos in 1921 (CBN, 1996). Since then the practice of modern insurance has been growing in most sectors of the economy ranging from transports, marine, life and accidents insurance to mention just a few.

5.0 Agricultural Insurance In Nigeria

Risk management as well as risk aversion practices have been in existence in Nigeria from the beginning of the farming age. These methods can be described as informal agricultural systems being employed in various forms to minimize or prevent risk. Some of the methods include:

5.1 Shifting cultivation and bush following.

5.2 Crop rotation

5.3 Intercropping

5.4 Mixed farming.

However, as farming becomes more formalized and human population continue to grow, the land/man ratio continues to diminish thus limiting the practice of the traditional methods of shifting cultivation and bush fallow. The practices of intercropping and mixed farming are also becoming unpopular with the modern practices of large-scale operation and use of modern inputs that are enterprise specific. Thus.
there is the need for modern insurance techniques adapted to various production practices.

Since 1976, the need for evolving a worthwhile and more permanent national approach to risk management in agriculture has attracted the attention of the Nigerian government; hence, the Nigeria Agricultural Insurance Company (NAIC) was established by the Federal Government in December 1987, and it started operation in July 1988. The broad objective of the NAIC is to offer protection to the farmer from the effects of natural disasters and to ensure payment of appropriate compensation sufficient to keep the farmer in business after suffering a loss (Kujore, 1998). Hence, according to Idowu (1988) agricultural insurance is one of the ways of reducing the impact of risk in the farm with a view to stabilizing farm income. It enables the policy holder (the farmer) to convert the chance of a possible large but unknown loss of income into a certain known and fixed cost. Adedoyin and Adefuye (1988) have also observed that agricultural insurance would assure farmers a minimum protection against the uncertainties of yield and productivity.

Therefore, if the specific objectives of the NAIC are achieved then the scheme would:

- promote agricultural production
- provide financial support to farmers in the events of losses arising from natural disaster
- increase the flow of agricultural credit from lending institutions to farmers and
- minimize or eliminate the need for emergency assistance provided by government during periods of agricultural disaster.

6.0 The Way Forward

The level of awareness of agricultural insurance is still considered very low among Nigerian farmers. It may be said that only the NACB loans beneficiaries do (compulsorily) partake in the scheme. And yet the scheme is for sustaining agriculture. Hence, the scheme still demands for grass roots nationwide publicity. As a way of achieving this, it is suggested that:

6.1 agricultural insurance scheme be incorporated into the curriculum of training of agricultural extension workers.

6.2: deliberate efforts should be directed towards enlightenment programmes on agricultural insurance through the mass media.

6.3: government should ensure adequate funding of the scheme at this stage for it to win the acceptability of the generality of farmers and thus become self reliant or self-sustaining and

6.4: the scheme should ensure prompt payment of claims to its clients so as to encourage further participation.
References


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