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Rural Farmers Sources and Use of Credit in Nsukka Local Government Area of Enugu State, Nigeria

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ABSTRACT

Agriculture is a major contributor to Nigeria's GDP and small-scale farmers play a dominant role in this contribution but their productivity and growth are hindered by limited access to credit facilities. The study focused on the rural farmers' sources and use of credit facilities in Nsukka local government area of Enugu state, Nigeria. Data for the study were collected from sixty rural farmers through the use of interview schedule. Multistate sampling technique was used in selecting respondents for the study. Descriptive statistic was used to analyse data. Result of the study shows that 53.3% of the respondents had no access to credit, among those that had access to credit, majority got their credit through friends and relations (89.3%) and cooperative society (78.6%). The major constraint on credit access was few availability of credit institution in the area ($M = 3.63$) while the possible ways of improving farmers access to agricultural credit was making the interest rate low and affordable ($M = 2.84$). It was recommended that awareness should be created by extension agents in the rural area on various available credit sources and the existing farmers group can be strengthened while federal government revisit the mandate of Micro Finance Banks to be more responsive to the need to rural farmers in term of credit facility.

Key words: Access, use, agricultural credit facilities, Nigeria

INTRODUCTION

Agricultural credit is the term applied to funds borrowed by individuals, farm business and others for use in producing, storing, processing and marketing crops and livestock products. This includes all loans and advance granted to borrowers to finance and service production activities relating to agriculture, fisheries and forestry. Credit can take the form of money in cash, or bank draft or in kind as a form of biological and physical purchase and supplied to producers. It can also come in form of loans, where a lender gives money or property to a borrower and the borrower agrees to return the property or repay the money, usually along with interest, at some future points in time and the lenders includes banks, credit union and farm credit systems. Credit provision is one of the principal components of rural development which helps to attain rapid and sustainable growth of agriculture. Rural credit is a temporary substitute for personal savings which catalyses the process of agricultural production and productivity (Yehuala, 2008).

Generally, credit accessibility is important for improvement of quality and quantity of farm products so that it can increase farmer's income and also to avoid rural migration. The lack of access to capital and credit in rural areas is one of the major factors which hinder the development of

agriculture (Tefera, 2004). Credit is not only needed for farming purposes but also for family and consumption expenses, especially during the off season period. Credit has a crucial role for elimination of farmer financial constraints to invest in farm activities, increasing productivity and improving technologies. Rural farmers have insufficient savings to finance their various agricultural activities and this has led to a reduction in agricultural production. They are faced with the problem of insufficient fund for carrying out pre-planting, planting and post-planting operations due to indiscriminate allocation of credit. In modern farming business in Nigeria, provision of agricultural credit is not enough but efficient use of such credit has become an important factor in order to increase productivity.

Access to credit is a major problem of rural farmers. The needs for credit however, tends to increase with every passing year as the rural farmers who constitute the work of the agricultural production do not have enough access to these credit facilities mainly due to their lending terms and conditions, interest rate and collateral. Most small scale farmers are poor and lack savings and investment culture besides having limited access to credit. Lack of access to credit causes setbacks to the productivity of farmers as a result of the fact that, these farmers do not have the resources to procure improved seedlings, chemicals and hired labour, as well as transport and market their produce which would have improved their productivity, welfare and ultimately help in achieving economically sustainable production. Rules and regulation of the formal financial institutions created the myth that the poor cannot afford the required collateral. According to Olomola (1990) and Akinbode (2013), credit is a major militating factor against agricultural production and development in Nigeria. There is the problem of lack of nearness of these credit institutions to participants as they have to travel long distance to these credit sources and this inhibits high agricultural production. There is also problem with the use of group for disbursement as some members do not repay loans on time. Also socio-cultural factors is yet another handicap as in most cases, areas, sex, religion, educational level, as well as farm size and year of experience among others are considering factors for loan procurement. Timelessness of loan procurement is poor thus, farmers do not get loan as at when required. The questions therefore were do rural farmers who produced the greater proportion of agricultural products, have access to credit facilities? If they do, what are the sources of these credit facilities? What do they use this credit for? this study attempts to answer these questions.

The overall objective of the study was to ascertain rural farmer's access and use of credit in Nsukka Local Government Area of Enugu State. Specifically the study was designed to: (1) Describe the socio-economic characteristics of the respondents, (2) Identify the sources of credit facilities available to rural farmers, (3) Ascertain the uses of credit facilities available to the farmers, (4) Ascertain perceived problems militating against the use of available credit facilities and (5) Identify the possible ways of improving farmers access to and use of agricultural credit.

METHODOLOGY

The study was carried out in Nsukka Local Government Area of Enugu State, Nigeria. Rural farmers constituted the population for the study. A multi-stage random sampling technique was used to select the respondents. In the first stage, six rural farming communities namely Obukpa, Obimo, Opi, Ede-oballa, Eha-alumona and Nsukka were selected using simple random sampling technique. In the second stage, a list containing twenty farmers in each of these communities was

collected from the various farmers' groups, from the list, ten farmers were randomly selected using simple random sampling technique. Thus, making a total of sixty respondents for the study.

A detailed interview schedule was used in collecting relevant information on each of the objective from the respondents. To ascertain rural farmers' sources and access to credit facilities, two response options yes and no was provided for the respondents to indicate their opinion on the list of possible sources and access. To ascertain the perceived constraint militating against access to credit facilities, a four-point Likert type scale with response options to a great extent, to some extent, to a little extent and no extent with values of 4, 3, 2 and 1 was provided for the respondents to tick from. These values were added up and divided by 4 to get the mean value of 2.5 as the cutoff point. Any variable with a mean score of greater or equal to 2.5 was regarded as possible constraint, while variable with mean score of less than 2.5 was not regarded a major constraint.

To identify the possible ways of improving farmers' access to and use of agricultural credit, a 3-point Likert type scale with response option of very effective, effective and not effective with values of 3, 2 and 1 was used. These values were added up and divided by 3 to get the mean value of 1.5 as the cutoff point. Any variable with a mean score of greater or equal 1.5 was regarded as ways of improving farmers' access to and use of agricultural credit, while a variable with a mean value of less than 1.5 was not regarded as possible ways of improving farmers' access to agricultural credit. Descriptive statistics (frequency, percentage, chart and mean statistic) was used to analyze the data.

RESULTS AND DISCUSSION

Socio-economic characteristics of the rural farmers: The results of the study in Table 1 revealed that greater proportion (46.7%) of the rural farmers were between the age of 40 and 45 years while their mean age was 45.2 years. This implies that the rural farmers are still in their active years. Majority (60.0%) of the respondents were male, while 75.0% of them were married. About 37% completed secondary school education. The mean farming experience of the farmers was 18.5 years, indicating that they have been in the farming business for quite reasonable years. The average household size was 7 persons indicating a typical rural pattern of large household size. All (100.0%) the respondents sampled belong to social organizations. As regards to the type of social organizations the respondents belong to, 58.3 and 18.4% belong to cooperative society and Esusu, respectively.

Farmers' access to credit facilities: Data in Table 2 shows that about 53.3% of the rural farmers sampled had no access to credit while the remaining 46.7% had access to credit. Out of those that had access to credit often get it occasionally (78.6%). About 11% of the respondents asserted that they had access to credit facility sometime and always, respectively. As regards to the time of access to credit, 42.9% asserted that they got the money during farming activities, while only (28.6%) got it at the beginning of the farming season and after the farming activities, respectively. This implies that few rural farmers had access to credit for their farming work and those that had access to credit, do not have access to the fund before the beginning of farming activities. They accessed their credit during the farming activities. This could affect the use of the credit for agricultural purpose and also agricultural productivity, since credit enhances productivity.

Table 1: Percentage distribution of rural farmers according to social-economic characteristics (n = 60)

Variables	Frequency	Percentage	Mean
Age (years)			
20-29	8	13.3	45.2
30-39	6	10.0	
40-45	28	46.7	
50-59	12	20.0	
60-69	6	10.0	
Sex			
Male	36	60.0	
Female	24	40.0	
Marital status			
Single	11	18.3	
Married	45	75.0	
Widow	4	6.7	
Divorced	-	-	
Academic qualification			
No formal education	7	11.7	
Primary school attempted	8	13.3	
Primary school completed	8	13.3	
Secondary school attempted	6	10.0	
Secondary school completed	22	36.7	
NCE/OND Holder	6	10.0	
HND/Degree holder	3	5.0	
Farming experience (year)			
4-6	3	5.0	18.5
7-9	7	11.7	
10-12	15	25.0	
13-15	5	8.3	
16-above	30	50.0	
Household size (No.)			
1-2	1	1.7	7
3-4	7	13.3	
5-6	17	28.3	
7-above	34	56.7	
Participation in social organization			
Yes	60	100.0	
No	-	-	
Type of social organization belonging to			
Farmers group	9	15.0	
Co-operative society	35	58.3	
Esusu group (traditional saving association)	11	18.4	
Religious group	5	8.3	

Sources of credit available to the respondents: Results in Table 3 revealed that majority (89.3%) of the rural farmers indicated that friends and relations were the major source of their credit facilities. This was closely followed by co-operative society (78.6%). Esusu (traditional savings possibly because of the additional benefit some of them offers. Both cooperative society and Esusu association) accounted for 71.4%. It is evident that these three sources (friends and relations, cooperative society and Esusu) were the major sources of credit available to the rural farmers are

Table 2: Percentage distribution of respondent according to access to agricultural credit

Variables	Frequency	Percentage
Access to credit		
Yes	28	46.7
No	32	53.3
How often?		
Occasionally	22	78.6
Sometimes	3	10.7
Every time	3	10.7
Time of access to credit		
Beginning of the farming season	8	28.6
During the farming activities	12	42.8
After the farming activities	8	28.6

Table 3: Percentage distribution of respondents according to sources of credit facilities available (n = 28)

Sources of credit	Frequency	Percentage
Cooperative society	22	78.6
Money lender	3	10.7
Esusu	20	71.4
Friends/relations	25	89.3
Farmers organization	8	28.6
Religion group	5	17.9
Commercial bank	1	3.6

*Multiple responses

forms of thrift and credit found in rural areas in Nigeria and working purposely for their members' welfare. This study is in line with the finding of Bolarinwa and Fakoya (2011) in which friends and relations were the major source of credit.

It is interesting to note that commercial Bank accounted for only 3.6%. Only 1 person indicated that he/she got credit facility from the Bank. This could be as a result of so many factors like non existence of commercial Banks in most of the rural area, issue of loan interest and lack of collateral security on the part of the rural farmers. According to Akinbode (2013), Nigeria Banks give an average of 2% of their total loan portfolio to the agricultural sector. This explains the reason for small proportion of the credit gotten from banks. This could affect the farmers' productivity.

Amount of money applied for and amount granted: The result in Fig. 1 revealed the amount of money applied for as loan by the respondents and the amount of money granted. The average volume of money applied for by the respondents was N27,897.96 while the average volume of money granted as loan to the rural farmers was N25,275.50. This implies that not all the volume of money applied for as loan was granted. It could also be deduce that amount of money rural farmers' source for as loan was too small, probably there are afraid of taking a large sum of money as credit because of the risk involved. Apart from this, some credit source may not be able to grant huge amount of money to the rural farmers because of their capacity to pay back or could be because of possibility of spreading the loan to their members.

Uses of the credit facilities: The results in Table 4 revealed that all (100.0%) of the respondents use their loans for planting activities/operations like weeding while 89.2% of the money was used

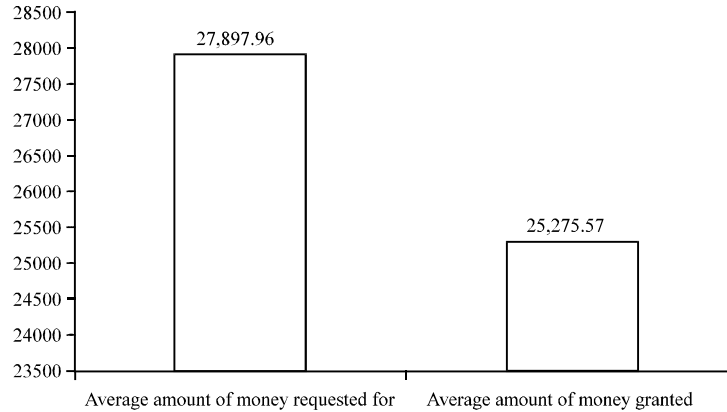


Fig. 1: Amount of credit applied for and amount of money granted

Table 4: Percentage distribution of respondents on the use of the credit granted (n = 28)

Uses of the credit facilities	Frequency	Percentage
For agricultural purpose		
Acquisition of new land	7	25.0
Land preparation (clearing, stumping etc.)	10	35.7
Purchase of farm inputs like seeds and seedlings	25	89.2
Planting operations (planting, weeding, spraying etc.)	28	100.0
Hiring of labour	23	82.1
Increase hectares under cultivation	14	50.0
For non agricultural purpose		
Payment of school fees	24	85.7
Social activities like marriage ceremony, child naming and burial ceremony	9	32.1
Building projects	3	10.7

*Multiple responses

for purchasing farm inputs like seeds, seedlings, herbicides and insecticides etc. About 82% used the money to hire labour for farming activities. Very few (25.0%) used their money for acquiring new land for cultivation. This finding is in line with the early result that rural farmers got their money during farming activities; this perhaps could be responsible for the reason why it was used for planting activities/operation. This portrays the facts that labours still constitute a major problem to agricultural production in the rural areas despite the huge family size. This could be attributed to the fact that younger members of the family may be schooling or learning some vocational skills in the cities and hence could not participate in the farming activities as noted by Adebayo and Adeola (2008).

On the other hand, 85.7% of the respondents used their money to pay for their children school fees, while 32.1% used their loan for social activities like marriage, child naming and burial ceremonies. Most rural farmers often find it very difficult to pay for their children school fees because of the little income. Hence they tend to borrow money so that their children will be better in future. About 11% used the money for building project. This is also necessary for them to provide shelter for their family members. View from another perspective, it could affect investment in agriculture.

Table 5: Mean score of constraints in the source and use of credit facilities

Variables	Mean
Interest rate associated with credit procurement is high	3.48
Lack of acceptable collateral security required to secure loan	3.60
Communication problems between farmers and money lender	3.13
Few availability of credit institution in the area	3.63
Lack of adequate knowledge in the use of credit	3.17
Poor management and handling of credit by farmers	3.10
Lack of information regarding the credit facilities	3.20
Lending terms and condition are too difficult for farmer	3.45
Unfair attitude of the lender toward the farmers	2.96
Risk associated with credit facilities	3.27
Problem of weather conditions (climate change)	2.97
Small plot size of the farmers	3.00
Risk of diversion of the credit for the purpose	2.62
Insincerity and corruption on the part of our leader	2.73
Favoritisms	2.32
Long time lag between application and disbursement of credit facility	2.98
Lack of guarantors	3.03
Non-approval of loan	2.72

Perceived constraint militating against the source and use of credit facility: Results in Table 5 showed the constraints to sources and use of credit facilities. The major constraints were few availability of credit institution in the area ($x = 3.62$), lack of acceptable collateral security required to secure loan ($x = 3.60$) and high interest rate associated with credit procurement ($x = 3.48$). Most of the credit institutions are not available in the rural area, majority of the commercial banks are located in the urban centres, hence farmers may not be able to have access to them. The few that have access to the commercial bank were constrained in accessing credit because of factors such as collateral security. Most credit institutions often have high interest rate which may discourage many rural farmers.

Other constraining factors against source and use of credit facility include, lack of information regarding credit facilities ($x = 3.20$), lack of adequate knowledge in the use of credit ($x = 3.17$), poor communication problem between farmers and lender ($x = 3.13$) poor management and handling of credit by farmers ($x = 3.10$), unfair attitude of the lender ($x = 2.98$) weather condition ($x = 2.97$), time between application and disbursement ($x = 2.92$), insincerity and corruption ($x = 2.73$), non-approval of loan ($x = 2.72$) and risk of diverting credit ($x = 2.62$) and favouritism being the last with a mean score ($x = 2.32$).

Information is very crucial in all aspect of life. Most rural farmers do not even know the various sources of credit facility available in their domain. Some of those that are aware that credit facility exist in the rural area lack information and adequate knowledge on the procedure to follow so as to access the loan. This could also be linked to the poor communication problem between the lender and the rural farmers for those who obtained such loan. Some of the rural that applied could not access the exact amount they requested for while those that were granted received their loan as a later date. All these are some of the constraint that could hinder the source and use of credit by rural farmers.

Table 6: Ways of improving farmers' access to and use of agricultural credit

Variables	Mean
Making the interest rate low and affordable	2.84*
Farmer awareness on the sources of credit	2.48*
Encouraging farmers group formation	2.53*
Enhance communication link between them and lenders	2.34*
Adjusting the lending terms and condition	2.70*
Strengthening of the existing farmers group/association	2.43*
Micro finance banks should be more responsive to the need to rural farmers in term of loan facility	2.83*
Improve the timelines of the credit to the farmers by credit operators	2.21*

*Strategies

Ways of improving farmers' access to and use of credit: From the farmers opinion, the major ways of improving farmers access to and use of agricultural credit as indicated in Table 6, include making the interest rate low and affordable ($x = 2.84$), making micro finance bank to be more responsive to the need of farmers in term of credit facilities in rural area ($x = 2.83$) and adjusting the lending terms and condition ($x = 2.70$). The interest rate of the financial institution should be reduced and made affordable to farmers and also the term and condition could be make to favour rural farmers since agricultural activities is time bond.

Other ways of improving farmers' access to and use of credit include encouraging farmers group formation ($x = 2.53$), sensitizing rural farmers on how to source for credit ($x = 2.47$), strengthening existing farmers organization ($x = 2.43$). The existing farmers organization could be use to sensitize other farmers on information on how they could come together to access credit for the production purposes. The information on how and where to source for the credit facility could be provided by the extension agents. This will go a long way in improving farmers' access and use of credit and improving the timeliness of the credit too.

CONCLUSION AND RECOMMENDATIONS

The study revealed that the rural farmers had limited access to agricultural credit. They are mostly constrained by many factors like non-availability of credit institution in the area, high interest rate required by the operators, lack of acceptable collateral security required to secure loan. To improve rural farmers' access to agricultural credit, the existing social organization/farmers groups should be strengthened and fortified. The group should be made accessible to all farmers in the rural area. Extension agents would be of great assistance in this respect. Awareness should be created by extension agents and also linking the rural farmers to available credit facilities. Farmers should also be encourage to applied for the credit as early as possible to avoid delay experienced in disbursing the fund.

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