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FACTORS HINDERING THE ACCESSIBILITY OF AGRICULTURAL CREDIT BY FARMERS IN EDO STATE, NIGERIA

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ABSTRACT

This paper analysed empirically the relationship between credit sources and agricultural zones in Edo State. The data used were collected from questionnaires administered to four hundred and fifty respondent farmers out of which three hundred and seventy three were valid. A simple random sampling was employed to select the respondent farmers. This study applied a combination of Chi-Square and analysis of variance to analyse the data. Chi-Square was used to establish a relationship between the sources of credit and location of agricultural zones while ANOVA was used to examine variations between zones and between problems. The problems encountered in processing loan application include; high transaction cost, administrative bottleneck that leads to late disbursement of loan. In securing credit facilities, the study also identified some problems such as; inadequate credit information, bank stringent conditions, location of lending bank and bureaucratic processes in the bank. These problems were found not to vary with agricultural zones. It is advised that farmers need to develop more cooperative groups to enjoy economies of scale.

Key words: agricultural credit, farmers, Agricultural productivity

INTRODUCTION

Prior to the advent of oil boom in Nigeria, agriculture was the bedrock upon which the nations' economy stands. This was evidently clear during the days of groundnut pyramid in the North, cocoa and rubber production in the West as well as oil palm production in the East. Therefore, agriculture constitutes a vital part of Nigerian economy. It contributes immensely to employment generation, provides raw materials for agro-allied industries and ensures national food security (A.P.R. 1991). Robust economic growth and development cannot be achieved without putting in place well-targeted programmes and policies to reduce poverty, through increase in the access to the productive resources especially credit (Hulme and Mosley, 1996). Agricultural credit has been described as encompassing all loans and advances granted to borrowers to finance and service production related activities in agriculture such as, fisheries, forestry, distribution and marketing of products resulting from these activities (Okpetu, 2001). Thus, credit availability is one of the prerequisites for agricultural development as well as increased agricultural productivity.

The critical role of credit in economic development cannot be over emphasized and research has established the existence of a positive relationship between agricultural development and availability of credit of farmers (Olaitan, 2006).Nigerian agriculture, however, is still underdeveloped resulting from traditional methods employed by

majority of its farmers. This has translated into vicious cycle of low level output, low savings and investment that leads to poverty. It has been observed that shortage of capital seemed to be the most limiting factor towards improvement in agricultural productivity in Nigeria. To develop agriculture, especially in the rural areas, massive injection of credit is required. To raise productivity and earnings from farm investments and to minimize the incidence of loan default the Federal Government of Nigeria established some credit institutions such as Agricultural Credit Guaranteed Scheme Fund (ACGSF) and Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB). The Nigerian Agricultural Cooperative and Rural Development Bank which was established in 1999 came as a merger between Nigerian Agricultural and Cooperative Bank (NACB), Peoples' Bank of Nigeria (PBN) and Family Economic Advancement Programme (FEAP). Its' major function was to stimulate the production, storage and marketing of agricultural products by making credit available to farmers on easy terms both for short-term and long-term farming operations. NACRDB, which is a development bank as well as agricultural bank ,has been specially established to develop agricultural sector of the economy. It has through foresight and efficiency restored the lost confidence in Nigerian farmers' formal credit institution (NACRDB, 2001).

Agricultural productivity in Edo State, Nigeria, has been at a declining rate for some time now, as agricultural sector in the state is dominated by small scale farmers. Some of these farmers are generally poor, and do not make enough income to enable them save and/or invest in agricultural activities that would facilitate their increase in production. Others who form themselves into cooperative societies have to rely on loans obtained from private or institutional sources. A close look at the Edo State development plan would reveal low fund which is usually allocated to agriculture. For example, in the development plan of the period1999-2007, an average of 12 percent was ear-marked for agricultural sector (ESMA, 2007). In Edo State, the government is the major provider of agricultural credit. During the period 1999-2001, the state government created a micro-credit scheme under the Ministry of Commerce and industry to finance cooperatives and provide loans to farmers. This scheme failed because of the fact that loans were given to applicants who were not using the fund for agricultural project. In addition, the loans were not adequately supervised.

The food requirement of the teeming population has not been met over the years by small scale agricultural production practiced mainly in the rural and peri-urban areas of Edo State. As a result, government and some corporate organizations are still making concerted effort to provide adequate, timely and purposeful finance for agricultural activities through the establishment of agricultural banks and funding of agricultural projects. The state has a number of agricultural cooperative societies which the farmers/producers belong. This is why the farmers find it less cumbersome to form Fadama cooperative groups. Ozigbo (1998) asserted that the best forms of organisation suitable for the small-holder farmers will be production-oriented multipurpose agricultural cooperative to which, by state legislature, the peasant and small farmers will associate themselves. Such multipurpose cooperative should perform among other things, the function of granting of credit and promotion of savings as well as developing into cooperative farms. In line with the above, Igbinere (2002) observed that the inadequate supply of agricultural credit is one of the factors militating against agricultural development in Africa. Therefore the credit scheme should be administered through cooperatives since they are capable of providing

guarantee and that members repay loan given to them. He believed that cooperative group represent a productive and efficient means of transforming the traditional rural communities into contemporary economic formation and adopt principles that ensure social security. Having established the importance of agricultural credit towards boosting food supplies, government and other agencies have sought to enhance the accessibility of these credits to farmers through financial and credit institutions in the state. This will go a long way to providing information on whether Edo State has contributed to agricultural development and increased food production through credit facilities. Also it will identify problems associated with the process of securing agricultural loan as it affects the borrowers (farmers) in an attempt to reduce the bureaucratic processes of obtaining loan. Specifically, the study seeks to examine the factors that hinder the process of securing agricultural credit by farmers in Edo State, Nigeria.

METHODOLOGY

The study was carried out in Edo State Nigeria. There are three agricultural zones in the state which is in line with the senatorial district in the state. These are Edo North, Edo South and Edo Central. Edo State is bounded in the North by Kogi State, in the South by Ondo State and in the East by Delta State. It is made up of eighteen Local Government Areas. According to 2006 census, it has a total population of 2,159,848.The main occupation of the people is mainly farming with some involvement in art work. The three agricultural zones were selected purposively because of ubiquitous nature of cooperative societies in the State.

Primary data were collected through the use of structured questionnaire and oral interviews for farmers. Four hundred and fifty respondents were randomly selected using proportional allocation from the three agricultural zones i.e Edo South-175, Edo Central-125 and Edo North-150. A total of three hundred and seventy three validly completed questionnaires were returned representing 83 percent response rate. Edo North agricultural zone comprised of six Local Government Areas namely: Etsako-West, Etsako Central, Etsako-East, Akoko, Owan West and Owan East. Edo Central comprised of five Local Government Areas namely; EsanWest, Esan North-East,EsanSouth-East,Igueben and Esan Central. Edo South Agricultural zone comprised of seven local government areas namely; Egor, Ikpoba-Okha, Orhionmwon, Ovia North-East, Ovia South-West, Oredo and Uhunmode.

Data collected were analyzed using simple descriptive statistics and chi-square as well as analysis of variance (ANOVA).Descriptive statistics of percentage was used to obtain the frequency of loan application and receipt. Chi-square test was used to show the association between the source of credit and agricultural zones while analysis of variance was used to examine variations between zones and between problems.

RESULTS AND DISCUSSION

Table 1: Frequency of loan application **Zone**

Respondent	Very Often	Occasionally	Not at all	Total	
Central	125	17	61	22	$100^{(27)}$
North	150	20	80	28	$128^{(34)}$
South	175	23	90	32	$145^{(39)}$
Total	450	60 (16%)	231 (61.93%)	82 (22%)	373

Source: Field Survey, 2008

The result shows that larger proportion of the respondent farmers from the three zones (61.93%) have occasionally applied for loan facilities. This is an indication that most respondent farmers do not actually request for loan. This may be as a result of the lack of the collateral security required by bank for obtaining loans which most farmers do not possess.

Table 2: Frequency of loan received on application

Zone	Very often	Not at all	Total
Central	24	76	100
North	31	97	128
South	35	110	145
Total	90 (24%)	283 (76)	373

Source: Field Survey,

Table 2 shows that a larger proportion of the respondent farmers (76%) have not received any loan even after application, while 24 percent agreed that they received loan very often. This shows that not every farmer that applies for credit gets approval. This may be as a result of bank not having sufficient fund to reach every farmer that got loan approval. As noted by Oboh (2008), inadequate amount of loan facilities are common problems among publicly owned agricultural credit institutions in Nigeria.

Table 3: Problem(s) encountered in the process of loan application

Zone	Yes	No	Undecided	Total
Central	76	0	24	100
North	97	0	31	128
South	110	0	35	145
Total	283 (75.8%)	0	90 (24.13%)	373

Source: Field survey, 2008

Table 3 shows that most of the respondent farmers (75.87%) agreed that there exist problems in the processing of loan application. They include; high transaction cost, administrative bottleneck that leads to late disbursement of loan, denial of loans even after passing through the processes of loan application. This may stem from lack of adequate information or information asymmetry in the credit markets. However, Akubuilo (1997) observed that the delay in providing loan to the farmers as well as asking farmers to provide collateral security before loans will be granted to them is a way of denying farmers such credit.

Table 4: Problems associated with securing credit facilities

Zone	Inadequate information	Bank conditions	Location of lending Bank	Bureaucracy in the bank	Total
Central	30	36	34	0	100
North	27	40	31	30	128
South	23	36	28	58	145
Total	**80**	**112**	**93**	**88**	**373**

Source: Field Survey, 2008

Table 4 shows that farmers encounter numerous problems while securing credit

facilities. They range from inadequate information, bank stringent conditions, location of lending banks to bureaucratic processes in the bank. However, these factors generally cut across the three agricultural zones.

Hypothesis: The problems associated with credit do not vary according to agricultural zones

Table 4a: Analysis of variance (ANOVA) Table

Source of variation	Degree of freedom	Sum squares	Mean square	F-ratio
Between zones	2	258.25	129.13	0.26
Problems	3	184.99	61.66	0.13
Residual	6	2933.76	488.96	
Total	**11**	**3377.00**		

For between zones:

$F_{0.05}$ (2,6) 5.1433, and

$F_{0.05}$ (3,6) 4.7571

From Table 4a, we see that F-cal is less than tabulated F-tab at 5percent level, therefore we do not reject the null hypothesis (H_0). In conclusion we assert that the problem associated with credit administration do not vary according to the agricultural zones.

The chi-squared (χ^2) test:

The chi-squared test is association between the sources of credit and the three agricultural zones in Edo State.

$\chi^2 = \sum \frac{(0-e_j)^2}{e_j}$ ij

Where 0_i = observations

e_j = expected

and e_j = Column total x Row total / Grand total

Table 5: Sources of agricultural credit

Zone	Source of credit				Total
	Community Banks	NACRDB	Friends/Relation	Personal Savings	
Central	(9.92) 16	(23.06) 26	(29.76) 28	(37.27) 30	100
North	(12.7) 10	(29.51) 30	(38.09) 36	47.70 52	128
South	(14.38) 11	(33.43) 30	(43.15) 47	(54.03) 57	145
Total	**37**	**86**	**111**	**139**	**373**

Source: Field survey, 2008

Ho: The source of credit is associated with agricultural zone.

Note: The figures in parentheses (in table 5 above) are the expected frequencies

represented by e_j while 0_i depict the actual frequencies.

Computed χ^2 = 7.63
Degree of freedom, df = (r-1) (c-1) At 5 percent □ - level
χ^2 (0.05, 6) = 12.59
But 7.63 <12.59, therefore the null hypothesis (Ho) is not rejected. Hence sources of credit are associated with location of agricultural zone. This is because every agricultural zone has its' own sources of credit. For instance, NACRDB is not found in all the agricultural zones; farmers source their credit based on the credit associations, schemes and/or institutions that are available for them. Okojie, Monye-Emina, Eghafona, Osaghae, and Ehiakhamen (2010) reported that the rural poor have limited access to financial services and that the main source of finance for the majority of women in Edo State is their contribution to the savings/market associations.

CONCLUSION

Funds for agricultural investment are sourced primarily from savings and credit. Loans from credit institutions are mostly inadequate because a large proportion of it is spent in servicing the loans and attending to the financial needs of the farmers' household. It has been shown from this study that not every loan applicant receives the credit in the study area. This may be attributed to lack of adequate information and a lot of problems encountered during loan processing. If the target of reducing malnutrition and poverty as stipulated in the Millennium Development Goals (MDGs) must be achieved, there is urgent need for credit institutions to be reorganized to ensure that farmers benefit greatly from their services. Farmers on their own need to develop more cooperative groups; in order to enjoy and expand large scale of economies from lending institutions, since informal sources of finance cannot provide the required credit needed to transform agriculture and solve the problem of shortage of capital for agricultural investment.

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