

SOURCES OF FINANCE TO AGRICULTURAL SECTOR IN EDO SOUTH SENATORIAL DISTRICT OF EDO STATE, NIGERIA

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ABSTRACT

The study focused on sources of finance to the agricultural sector with particular reference to Edo South Senatorial District. Data were collected using well-structured questionnaires administered to one hundred (100) randomly selected farmers from the district. Simple descriptive statistics and t-test were used for data analysis. The result revealed that formal and informal financial institutions are the sources of fund available to farmers in the study area. The formal financial sources were found to be significantly more efficient as they contributed 69.13% of the total fund to the farmers while the informal financial sources contributed only 30.87%. However, a majority of the farmers (88%) patronized the informal sources and only few farmers (12%) patronized the formal sources. The reason adduced for this was the difficulties of getting loan from the formal sources. In view of this, it is suggested that the formal financial institutions should simplify their cumbersome method of loan disbursement.

KEYWORDS: Sources, problems, finance, agriculture and Edo South.

INTRODUCTION

Finance, according to Aniemeke and Gbanoba (1990), is defined as the money or sum of capital which any business organization may employ to acquire further wealth, raw materials, land, building, plants and machinery which may be needed for business operations. Agricultural finance, therefore, is usually defined as the economic study of the acquisition and use of capital in agriculture and agricultural credit refers specifically to the process of obtaining control over the use of money, goods and services in the present in exchange for a promise to repay at a future date (Adegeye and Dittoh, 1986).

Adegeye and Dittoh (1986) went further to say that agricultural finance can refer to the financing of agriculture at the national, state or at the farm level. At the national and state levels, agricultural finance is concerned with agriculture's contribution to and share of the national or state resources as well as the role of banks and other financial institutions in the financing of agriculture as a sector of the economy. At the farm level, agricultural finance refers to the financial management of the farm. Agricultural finance naturally leads to agricultural credit as governments obtain loans internally and externally to finance agricultural projects and farmers also obtain loans for the purpose of using them on their farms.

The role of finance in agricultural growth in particular and the global economic growth in general cannot be overemphasized. It is in line with its enormous role that the International Monetary and Financial Committee (IMFC) gave a strong support to International Monetary Fund (IMF) to help its members to develop sound financial sectors to protect against vulnerability and to mobilize financing for productive investment (Zile and Steinbuka, 2001). The finance or credit from this type of financial institution (IMF) to agricultural sector will stimulate its growth and development. It is in view of this

that the government of Nigeria, at various times, established credit institutions to serve as formal financial resources to agricultural sector. These, Imoudu and Famoriyo (1996) pointed out to include Agricultural Credit Guarantee Scheme Fund (ACGSF), Nigerian Agricultural and Cooperative Bank (NACB), Commercial and Merchant Banks, Cooperative Societies and Agricultural Development Projects (ADPs). There are also other sources of finance to farmers, which Ijere (1986) referred to as informal financial institutions. They include personal savings, lending and gifts from relations, friends, moneylenders, merchants and pledging.

Despite the formal and informal sources of finance available to agricultural sector, small-scale farmers still lack adequate fund to finance their farming business. This may be due to the fact that the financial sources are often scarce, expensive, unreliable and most of the time their existence is not known. This work seeks to identify the sources and problems of finance to agricultural sector with reference to Edo South Senatorial District with a view to suggesting ways of enhancing more efficient agricultural finance.

Data were collected by the use of well structured questionnaire administered to one hundred (100) randomly sampled farmers from Edo South Senatorial District which comprises Oredo, Egor, Ikpoba-Okha, Ovia South West, Ovia North East, Umunwonde, and Orhionmwon Local Government Areas.

The data were analysed using simple descriptive statistics and t-test statistics to test the significant difference if any, between formal and informal sources of finance to farmers.

RESULTS AND DISCUSSION

Sources of Finance to Farmers

The available sources of finance to the respondents in the study area are shown in Table 1

Table 1: Sources of Finance to Respondents

Source of fund	No. of respondents	Percentage (%)	Cumulative %
Personal Savings	55	55	55
Money Lenders	8	8	63
Relations	12	12	75
Friends	10	10	85
Traditional Credit Group	3	3	88
Co-operative	6	6	94
NACB	4	4	98
Commercial Banks	2	2	100
Total	100	100	100

Source: Field Survey, 2001.

The table shows that the highest percentage of the respondents (88%) depended on informal sources of finance with 55% solely relying on their personal savings. A total of 12% relied on borrowing from family relations; 10% from friends, 8% relied on borrowing from moneylenders and 3% used traditional credit group as their source of fund. The formal financial sources, on the other hand, recorded a total of only 12% respondents that patronized this source. Of this, 6%, 4% and 2% obtained their loans from Cooperatives, NACB and Commercial Banks respectively.

It is clearly indicative here that informal sources of finance played an over-riding role over the formal sources in the study area as a majority of respondents patronized the informal financial sources than the formal institutions. This is due to the ease of getting funds from the informal sources. This result agrees with the finding of Ada-Okungbowa and Aigoro (1996) on agricultural credit acquisition and use of small-scale farmers in Osun State that 91% of the respondents obtained their credit from informal financial sources while only 9% got theirs from the formal sources

VOLUME OF FUND FROM THE VARIOUS FINANCIAL SOURCES

Table 2 shows the size of fund obtained by the respondents in the

Study area from the various available financial sources. It reveals that informal finance sources contributed on the average, a total of ₦16,750.00 representing 30.87% of the total fund to the respondents, while the formal financial sources contributed on the average, a total of ₦37,500.00 representing 69.13% of the total fund.

It can be deduced here that the fund from the informal sources of finance which a majority of respondents relied on (Table 1) are grossly inadequate while the formal sources contributed reasonable and substantial amount which is more effective, but only to the few privileged respondent (Table 1). The reasons adduced for this is that cumbersome procedure, untimely disbursement of loan, demand for feasibility report and collateral security, coupled with farmers illiteracy constrained majority of the respondents from getting loans from the formal financial institutions. The institutions also are restrictive in the amount of loan given out to farmers due to the risky nature of agricultural business. As a result, the respondents resorted to the informal sources. The overall consequence is the depression in the agricultural sector. If this problem is not tackled, agriculture in Nigeria cannot grow beyond subsistence level.

Table 2: Size of Fund to Respondents by Various Sources

Source of fund	Size of fund N	mid size of fund N	Percentage (%) mid size	Cumulative % mid size
Personal Savings	1,000-5,000	3,000	5.53	5.53
Relations	200-2,000	1,250	2.30	7.83
Friends	1,000-2,000	1,500	2.76	10.59
Money Lenders	2,000-5,000	3,500	6.45	17.04
Traditional Credit Group	5,000-10,000	7,500	13.83	30.87
Cooperatives	10,000-15,000	12,500	23.04	53.91
NACB	10,000-25,000	17,500	32.26	86.17
Commercial Banks	5,000-10,000	7,500	13.83	100.00
Total		54,250	100.00	

Source: Field Survey, 2001

HYPOTHESIS TESTING

The formulated and tested hypothesis was that there was no significant difference between formal and informal sources of finance to agricultural sector.

The result from table 3 shows that the two sources of finance (formal and informal) differ significantly from each other ($P < 0.05$).

Table 3: t-Test Analysis of Informal and Formal Sources of Finance to Agricultural Sector

No. of fund source	Size of fund N		Variance (6^2)		t-calculated	t-tab.
	Informal	Formal	Informal	Formal		
1	3,000	12,500				
2	1,250	17,500				
3	1,500	7,500				
4	3,500					
5	7,500					
Total	16,750	37,500				
Mean	3350	12500	6,300,000	2,500,000	6.324**	2.447

Source: Field Survey, 20001

Financial Problems Facing Farmers in the Study Area.

The study revealed that many problems affect the farmers in their quest for fund.

Of the 12 respondents that obtained loan from the formal institutions (Table 4), a great deal of them (42%) complained of cumbersome procedures involved in loan acquisition, and 25% complained of inadequate loans. This might be due to inadequate fund by the institutions, restriction

imposed on them by CBN, and risky nature of agricultural business which made them to be restrictive in the amount of loan to farmers. Other problems include untimely loan disbursement, high interest rate, and collateral security, with 17%, 8% and 8% respectively of percentages of respondents that complained. The current interest rate of 17% charged by NACB was considered to be high by the respondents.

Table 4: Problems Faced From Formal Sources of Fund

Category	No. of respondent	Percentage (%) respondent
Inadequate Loan	3	25
Cumbersome Procedures	5	42
Untimely Loan Disbursement	2	17
High Interest Rate	1	8
Collateral Security	1	8
Total	12	100

Source: Field Survey, 2001

Table 5: Problems Faced From Informal Sources of Fund

Category	No. of respondent	Percentage (%) respondent
Inadequate Fund	68	77
Exorbitant Interest Rate	15	17
Bad Treatment by Lender	5	6
Total	88	100

Source: Field Survey, 2001

Table 6: Why Loan was not obtained from Formal Financial Institutions

Reason	No. of respondent	Percentage respondent
Formal Institutions	Nil	Nil
Not Aware of Formal Institutions	Nil	Nil
Cumbersome Procedures	57	65
Collateral Security	20	23
Untimely Loan Disbursement	10	11
Inadequate Loan/High Interest Rate	1	1
Total	88	100

Source: Field Survey, 2001

In table 5 above, 77% of the 88 respondents that patronized the informal sources of fund complained of inadequate fund. The high percentage here shows the high intensity of low capital or fund available for use or to give as credit 17% and 6% complained of exorbitant interest rate charged and bad treatment given by moneylenders respectively.

In table 6, respondents were questioned why they did not obtain loan from the formal sources. They all professed their awareness and the existence of the institutions as indicated by "Nil" in the table. But the reason for this, they attributed to the institutions' cumbersome loan procedures, demand for collateral security which most of them lack, untimely loan disbursement, and inadequate loan/high interest rate. The corresponding percentages of the complaint by respondents are 65%, 23%, 11% and 1% respectively.

CONCLUSION AND RECOMMENDATIONS

The finding revealed that formal and informal financial institutions are the available sources of fund to farmers in the study area. It was also found that most farmers patronized the informal sources of fund (which are inadequate and more expensive) than the formal sources due to the ease of getting fund and the difficulty of getting it from the latter. Therefore, it is suggested here that the formal financial institutions should simplify their cumbersome methods of loan disbursement and it should be timely and adequate. Farmers should avoid loan diversion and default in repayment. The informal financial sources should be fashioned into improved lending institutions.

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