



Research Paper

## Informal Sources of Agricultural Credit Available Among Rural Farmers in OFU Local Government Area of Kogi State in Nigeria

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### ABSTRACT

The study investigated the leading source of informal credit for farmers in Ofu local government area of Kogi State, Nigeria. The study reports the socio-economic characteristics of farmers in the area and identified the informal sources of agricultural credit used among rural farmers. Survey research design was adopted for the study. Two research questions guided the study. A structured questionnaire was used for data collection. The instrument was face validated by three (3) experts. The copies of the instrument were physically distributed and retrieved by the researchers. The data collected for the study were analyzed using frequency and simple percentage. Findings revealed the favoured informal sources of agricultural credit in the locality. Based on the findings, recommendations were made.

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### I. INTRODUCTION

Agriculture is the cultivation of crops and rearing of livestock for the satisfaction of man and industries. Agriculture is one of the most important sectors in the development of any nation (Adebayo & Adeola, 2008), as it provides avenue for employment, income and food, and contributes to Gross Domestic product (GDP) (Chukwuone & Agwu, 2005). Despite its importance to the nation, agricultural development in Nigeria is faced with several constraints, ranging from lack of appropriate technology, land tenure system and poor access to agricultural credit (Chukwuone & Agwu, 2005; Sambe, Korna & Abanyam, 2013; Ijioma & Osondu, 2015).

Agriculture credit are any of several financial sources for supporting agriculture (Chukwuone & Agwu, 2005; Mgbakor, Uzendu & Ndubisi, 2014). It covers all loans and advances granted to borrowers to finance and service production activities relating to agriculture, fisheries, forestry and also for processing, marketing, storage and distribution of products. Credit can be considered from its ability to energize or motivate other factors of production (Adebayo & Adeboye, 2008; Awotide, Abdoulaye, Alene & Manyong, 2015; Ibitoye, Omojola, Omojoso & Shaibu, 2015; Joel, 2017). Credit is highly of importance in the improvement of agriculture, from purchase and use of modern tools in farm production. In the processing, storage and marketing of agricultural produce, credit as a moving force, push farm products from local production points to a distant market where better market prices are possible (Development Bank, 2005). These lead to improved agricultural productivity and increase in the standard of living of rural farmers. In an attempt to tackle the problem of poor access to agricultural credit by peasant farmers, government at different levels in the country resorted to establishing specialized credit institution such as Bank of Agriculture for agricultural purpose and also to make credit acquisition easy for the farmers. However, the inability of farmers to obtain and maintain formal sources of credit has lingered and this is gradually pushed rural farmers to consider informal sources of credit.

Credits supplied by non-institutional agencies are referred to as informal sources (Pradhan, 2013). Informal credit sources are established without the effort of government (Sambe, Korna & Abanyam, 2013; Campero & Kaiser, 2013; Mgbakor, Uzendu & Ndubisi, 2014; Ijioma & Osondu, 2015; Joel, 2017). Which often means less regulations and restrictions in the borrowing process. In Nigeria, informal creditors could be family or friends, lenders, produce buyers and farmers cooperatives to enables the farmers to fund farm activities (Adebayo & Adeola, 2008; Nnanna, 2010; Hormoz, 2017). According to Awoke (2004), one of the problems confronting rural farmers in Nigeria is inadequate capital, despite the fact that small-scale farmers produce the

bulk of the food consumed locally and some export crops which generates foreign exchange for the country. It has been observed that a rising percentage of small-scale farmers depend on informal credit sources largely to fund their farming activities, for reasons such as encumbrance efforts involved in the procurement of formal credit (Balogun&Alimi, 2003; Omonona, Lawal&Oyinlana 2010).According to Pradhan (2013), the inadequate and untimely credit along with procedural hassles from formal institutions are among the leading problems of credit access by rural farmers. Furthermore, micro finance institutions (MFIs) that were established to encourage small business owners have been criticised for seeking higher interest rate. According to Pradhan (2013), the performance of some of the public sector banks in rural and agricultural lending is also inadequate while that of the private and foreign banks is even lower. These inadequacies have push farmers to rely more on informal sources of funding where their needs can be met. As the need to seek out informal sources of agricultural credit increases, it becomes imperative to determine the various options available to the farmers in order to offer suitable recommendations.

**Research Questions**

- i. What are the socio-economic characteristics of farmers in Ofu local government area?
- ii. What are the informal sources of agricultural credit available among rural farmers in Ofu local government?

**II. METHODOLOGY**

The study adopted descriptive survey research design and was conducted in Ofu Local Government Area of Kogi state Nigeria. Ofu LGA occupies a total area of 1,680 square kilometres and has an average temperature of 29°C and 1800mm of rainfall per annum. The LGA lies off the shores of the Niger River and witnesses two major seasons which are the dry and the rainy seasons. The area has a rich agricultural heritage and is known for the cultivation of a number of crops such as rice, yam, and maize. Trade also blossoms in Ofu LGA with the area hosting several markets that provide platforms for the exchange of various agricultural and another goods and services. Ofu LGA is also popular for the rearing of a number of domestic animals such as cows and rams. The population of the study is 247,930 people, which is the estimated number of people living in Ofu Local Government Area of Kogi state. The sample for the study is 80 farmers. A three-stage purposive simple random sampling technique was employed to select the final respondents. At stage one, eight (8) wards with a good number of farming communities were selected form the LGA. At stage 2, two (2) farming communities were randomly selected from the selected wards. At stage three, five (5) heads of crop farming families were randomly approachto respond to the questionnaire. A questionnaire, that focused on the socio-economic characteristics and the various informal sources of agricultural credit, was used for data collection. The questionnaire was face validated by three (3) experts from the Department of Agricultural Education in the University of Nigeria, Nsukka. A total of 80 farmers respondent to the instrument, thus were analysed for the study. Data obtained were analyzed using descriptive statistics (such as percentage and frequency) and presented on a Table 1 and Figure 1. For each socio-economic data collected and presented in Table 1, the average of the responses of the respondents were take and reported as their mean or the most reoccurring response was indicated as the mode.

**III. RESULTS AND DISCUSSION**

**Table 1; Socio-economic Distribution of respondents**

N=80			
Age group (years)	Frequency	Percentage	Mean
<20	1	1.25	
21-30	11	13.75	
31-40	21	26.25	38 years
41-50	40	50.00	
>50	7	8.75	
Gender	Frequency	Percentage	Mode
Female	22	27.5	
Male	58	72.5	Male
Marital Status	Frequency	Percentage	Mode
Single	14	17.5	
Married	63	78.75	Married
Divorced	2	2.5	
Widow	1	1.25	
Household Size	Frequency	Percentage	Mean
<5	31	38.75	
>5	49	61.25	3 persons
Educational Level	Frequency	Percentage	Mode
No formal education	23	28.75	
Primary education	30	37.5	Primary education
Secondary education	7	8.75	

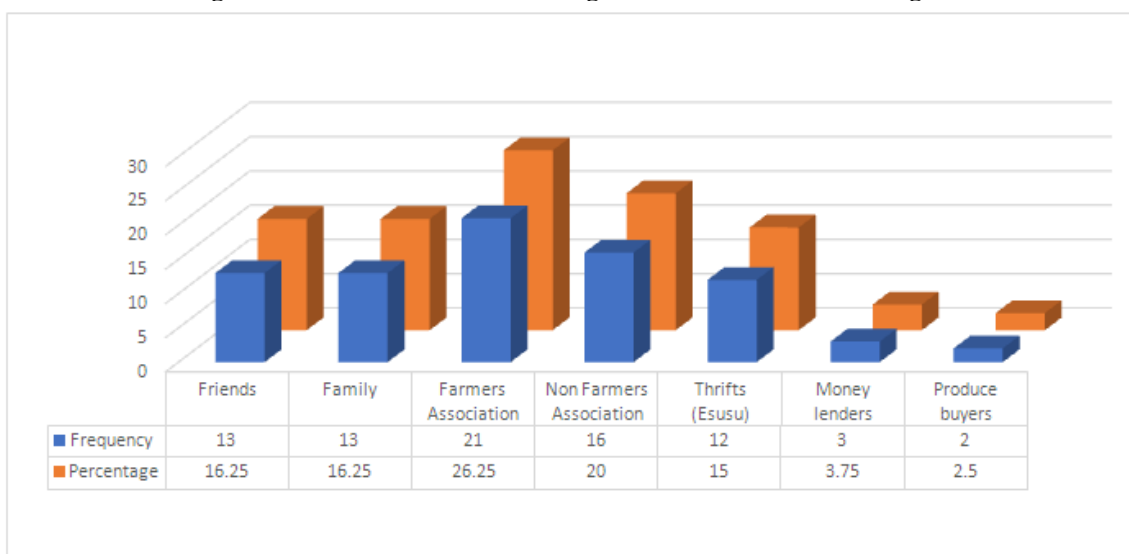
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Tertiary education	20	25.0	
<b>Farming experience</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Mean</b>
<5 years	12	15.00	3 years
>5 years	68	85.00	
<b>Primary Occupation</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Mode</b>
Farming	37	46.25	Farming
Trading	25	31.25	
Civil service	10	12.50	
Artisanship	8	10.00	
<b>Annual farm income</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Mean</b>
1-100,000	15	18.75	₦107,500.26k
100,001-200,000	27	33.75	
Above 200,000	38	47.50	
<b>Social Organization</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Mode</b>
No	10	12.5	Yes
Yes	70	87.5	
<b>Access to formal credit</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Mode</b>
Yes	8	10.00	No
No	72	90.00	
<b>Relies on informal sources of credit</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Mode</b>
Yes	74	7.50	Yes
No	6	92.50	

Source: Field Survey, 2019.

Data on Table 1 revealed that most head of farming families in the study area are within 38 years age grade and are mostly male. Most are married, with about three persons making up the household and are educated up to primary school. They have about 3 years farming experience as farming is their primary occupation. Their annual income from agriculture is about N107,500.26k and they usually belong to a social organization. However, their access to formal sources of credit for agricultural purpose is very limited as only 8 persons reported to have had credit grant through formal sources. Therefore, majority (over 92%) of the farmers rely on informal sources for funding their agricultural production, processing and marketing engagements.

**Informal sources of agricultural credit available among rural farmers in Ofu local government?**



**Fig. 1; Informal sources of agricultural credit available to farmers in the study area**

Result in Fig. 1 shows that majority (26.25%) of the respondents' source of credit is their fellow farmers. This reveals that the most accessible source of credit available to the farmers for agricultural production is through farmers' association groups. The implication of this is that the farmers in the study area are in unity thereby putting their resources together to help themselves. The result also shows that borrowing from other non-farming association is a dependable means of funding agricultural activities in the study area. By implication, cooperative society plays a vital role in providing credit to small business owners, including farmers. Result in Fig. 1 further shows that family and friends are important sources of informal credit available to farmers. This indicates a good social relationship existing within the people in the study area, to ensure that farmers continue to cultivate and provide food even in the absence of formal credit support.

These findings are in line with Nchuchuwe and Adejuwon (2012) and Ekenta et al (2019). According to the authors, many of the farmers that have obtained credit prefer informal sources, like family, friends and non-farmers association for easy accessibility, minimize formalities and timely disbursement of loans, to formal institutions. Like Nigeria, rural credit markets in India (Pradhan, 2013) and China (Yuan & Gao, 2012) is characterised by the coexistence of both formal and informal sources of finance and the market is fragmented. However, about two-fifth of the rural households depend on informal credit, even today (Pradhan, 2013). Although, formal and informal sector credit do not have similar lending methodologies (in terms of size, tenure, repayment schedule, collateral requirements, etc.), farmers appear to continue sourcing fund from informal sources.

Of the informal sources highlighted in the findings, the sourcing of credit from money lenders and produce buyers were the least used. The indications are that the money lenders are not readily available or that their terms and conditions before disbursement, such as interest rate or tenure, were not favourable to the farmers. This agrees with the findings of Sambe, Korna and Abanyam (2013) and Ijioma and Osondu (2015). According to the authors, some conditions presented to the farmers in need of the credit can be so extreme such as the interest rate and tenure. The sourcing of fund from produce buyer seems low. This, however is disappointing. As potential buyers, it will be a good idea to offer credits to farmers to enable them produce. This scenario will benefit both the farmer and the produce buyer. For the produce buyer, he is sure of getting his produce at initially agreed amount even in the case of scarcity and inflation. For the farmer, the fund becomes helpful in ensuring a smooth cultivation period, and the satisfaction of a stand-by customer waiting to take off the produce from the farmer.

#### **IV. CONCLUSION AND RECOMMENDATION**

Funding in every business is crucial and the level of availability could mean growth or the death of the business. Formal sources were designed to provide regulated funding for businesses including farming. But the difficulty in accessing the credits from formal institutions by the less educated indigent farmers has given rise to the proliferation of informal sources of credit. These informal sources are accessible to the farmers yet come with limitations. With the rising interest in informal sources of credit, it will be important to consider favourable policies and approaches that could strengthen and standardize lending through such avenues. Enlightenment and direct or indirect support can be provided for farm produce buyers to encourage them to be more willing to offer agricultural credits to farmer. Encouraging farmers to seek credits from produce buyers and providing policy enablement to enable the buyers offer such support could have unprecedented impacts on agriculture and micro economy as the rural levels.

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