



Research Paper

Utilization of Informal Sources of Agricultural Credit among Crop Farmers in OFU Local Government of Kogi State, Nigeria

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ABSTRACT

This study investigated the collection and actual utilization of informal sources of credit by rural farmers in Ofu local government area. Two research questions were formulated to guide the study. Survey research design was adopted for the study. The population for the study was 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 heads of crop farming families, obtained through multistage purposive simple random sampling technique. A structured 30-items questionnaire was developed and face validated by three (3) experts. The questionnaire had a reliability index of 0.78. The researchers and two research assistants physically distributed and collected the completed questionnaire for data analysis. The data was analyzed using frequency and simple percentage. Findings revealed a mismatch between the intentions of farmers before collection of credit facilities and the actual/final purpose of disbursement of the collected facilities. Recommendations were made inline with findings to guide the farmers, especially with the rising in the sourcing of credit facilities from informal sources in the area.

KEYWORDS; Credit facility; Repayment, Sources, Farmers, Ofu LGA.

Received 20 Mar, 2021; Revised: 02 Apr, 2021; Accepted 04 Apr, 2021 © The author(s) 2021.

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I. INTRODUCTION

The place of agriculture in development of Nigeria and the entire African countries is well acclaimed in literature. The agricultural sector has been an important component of most countries economy, even in the Nigerian economy with peasant farmers producing over 90% of available food in the country and 70% of the labour force relying on this sector (Ikehi, Ifeanyieze & Onu, 2021). It does not only provide food, clothing materials and shelter but also provides employment opportunities for over seventy-five percent of the people (Ikehi, 2014). Agriculture provides raw materials for industries and market for industrial goods as well as provision of income and foreign exchanges through external trade (Aryeetey, 2001; Ifeanyieze, Alkali, Okoye & Ikehi, 2016). However, indications are that credit to fund agricultural activities are barely available to (rural) farmers (Fakayode, Adewumi, Salau & Afolabi, 2009; Campero & Kaiser, 2013). In order to make funding available to farmers, successive governments in Nigeria established several formal sources of credits for the farmers, such the establishment of the Bank of Agriculture. One of the main objectives of the bank was to make credit available to farmers at macro and micro levels. The government also mandated commercial banks in Nigeria to give credit facilities to farmers in order to expand the scope of farm operations, encourage the adoption of new technology, enhance optimal use of farm inputs and increase agricultural production thus, increase attainment of food self-sufficiency (Balogun & Alimi, 2003; Chukwuone & Agwu, 2005; Ekenta, Onu, Ezebuiro, Ikehi, Omeje & Ibekwe, 2019). In spite of the importance of loan in agricultural production, the process of loan acquisition, terms and agreement, loan components, disbursement plans and repayment plans, farming experience, farm size, gross farm income, interest rate, timing and recently the factors of climate change are issues limiting farmers' access to agricultural credit (Eze & Ibekwe, 2007; Oladeebo & Oladeebo, 2008; Nchuchuwe & Adejuwon, 2012; Ibitoye, Omojola, Omojeso & Shaibu, 2015; Ijioma & Osondu, 2015; Ifeanyieze, Alkali, Okoye & Ikehi, 2016; joel, 2017).

Poor access to formal sources of credit led farmers to focus on sourcing credits for agriculture from informal sources such as family and friends, corporative societies, thrifts, money lenders and produce buyers, among others (Oladeebo & Oladeebo, 2008; Udoh, 2008; Yuan & Gao, 2012; Sambe, Korna & Abanyam, 2013; Sambe, Korna & Abanyam, 2013; Ekenta, Onu, Ezebuiro, Ikehi, Omeje & Ibekwe, 2019). These informal sources, though with various limitations, seem to substantially provide the credits needed to sustain farming in rural

regions. Adebayo and Adeola (2008) reported that farmers relied on loan from informal sources to fund their farming. In addition to existing limitations to accessing formal sources of agricultural credit, which are usually blamed on the institutions, poor repayment history of previous farmers is also a factor now considered to affect access to credit (Oladebo&Oladebo, 2008; Mgbakor, Uzendu&Ndubisi, 2014; Joel, 2017). Ability to repay credits collected is crucial for the long-term sustenance of the credit sources whether formal or informal. As a result, many studies have tried to examine loan repayment performance of many socio-economic groups (Awoke, 2004; Eze &Ibekwe, 2007; Adebayo&Adeola, 2008;Udeh, 2008; Kolade&Fakoya,2011;Ijioma&Osondu, 2015). Empirical works revealed income, farm size, age of farmers, farming experience and level of education of farmers contributed positively to the credit worthiness of farmers (Bassem, 2008; Kohansal&Mansoori, 2009;Ibitoye, Omojola, Omojeso&Shaibu,2015; Ijioma&Osondu, 2015; Joel, 2017). While these are serious factors that can influence repayment capability, this study wonders if there is misappropriation of credits received for farming. The farmers may receive agricultural credits disbursed for funding the farm but decides to use part or the whole fund for purposes other than farming. This is likely to contribute significantly to repayment ability since the fund was likely not invested in businesses that could yield returns especially when the source is informal which may lack proper documentation and follow up.Ojoin Uguche (2020) reported that 66.99% of small-scale farmers in Nigeria used their loans on farm operations such as hired labour, purchase of implements, fertilizer, seeds and other farm inputs while 31.07% of them utilized their loan for household purpose such as paying for children education and medical treatment. Adebayo and Adeola (2008) reported that payment for labour wages consumed the larger percentage of the credit obtained by most of the farmers. This study reports what farmers inOfu LGA use agricultural credits obtained for, especially with the rise in the sourcing of credit facilities from informal sources in the area. The study is guided by the following research questions;

1. What are usually the intentions of crop farmers in Ofu LGA when collecting credit facilities from informal sources?
2. What are the collected credit facilities actually usedfor after collection?

II. METHODOLOGY

The descriptive survey study was carried out in Ofu Local Government Area of Kogi state Nigeria. The study specifically determined the utilization of credits obtained for agriculture in the area. Ofu LGA occupies a total area of 1,680KM²with annual average temperature of 29°C and precipitation level of 1800mm of rainf. The LGA lies off the shores of the Niger River and 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. 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. At stage 2, two (2) farming communities were randomly selected from the wards, in stage one. At stage three, five (5) heads of crop farming families were randomly selected from the communities, making a total of 80 respondents for the study. The head of farming families were selected as respondents for this study because they contract the various funding sources for farming and further disburse the funds for any purpose, they deem it fit. A structured 30-items questionnaire was used for data collection. The questionnaire was divided into two sections. Section one collected data on the intentions for collecting credit facilities from informal sources while section two collected data on the actual use of the credit facility after collection. The instrument had fifteen (15) items per section. The questionnaire was face validated by three (3) experts from the Department of Agricultural Education in the University of Nigeria, Nsukka. Reliability for the instrument was determined using Cronbach Alpha test which yielded a reliability index of 0.78. The instrument was administered with the help two research assistants. All the copies of the questionnaire administered were successfully recovered and used for data analysis. Data obtained were analyzed using descriptive statistics (such as percentage – % and frequency – F).

III. FINDINGS OF THE STUDY

Data in Table 1 reveal the intentions of the farmers before the collection of the credit facilities and the actual purpose of disbursement of the facility. The data on the table also reveal a mismatch in the purpose and actual utilization of the credit after collection. As contained in Table 1, only two 2 (2.50%) farmers approached the borrower to lend them credits for the acquisition of personal assets/liabilities like house or motorcycle but 6 (7.5%) farmers actually used the credit for this purpose. Also, on the table, 11 (13.75%), 11 (13.75%), 12 (15%) and 12 (15%) farmers intended to use the collected facility for buying inputs, establishment of a new farm/farmstead, expansion of existing farm and land preparation/harvesting but only 3 (3.75%), 2 (2.5%), 2 (2.5%) and 2 (2.5%) farmers actually used the collected credit for the respective purposes. Fourteen (14, 17.5%) farmers intended to use the collected credit to pay wages of laborers but only 11 (13.75%) utilized the

credit for this purpose. However, no farmer intended to use collected fund for hosting or attending ceremonies but 7 (8.75%) farmers ended up using the credit for the purpose

Table 1; Farmers Intentions before and Actual Utilization after Collecting Credit Facilities

S/N	Reasons for obtaining credit	Intentions		Actual Usage	
		F	%	F	%
1.	Acquire personal assets/liabilities (e.g house and motorcycle)	2	2.50	6	7.50
2.	Buy inputs for the farm such as fertilizer and chemicals	11	13.75	3	3.75
3.	Establishment of new farms/farm stead	11	13.75	2	2.50
4.	Establishment storage center for the farm	4	5.00	1	1.25
5.	Expansion of existing farm	12	15.00	2	2.50
6.	Feeding family	3	3.75	13	16.25
7.	Hire farm equipment	4	5.00	0	0.00
8.	Host or attend ceremonies	0	0.00	7	8.75
9.	Land preparation/harvesting	12	15.00	2	2.50
10.	Pay wages to laborers in the farm	14	17.5	11	13.75
11.	Payment of medical bill	1	1.25	9	11.25
12.	Processing and marketing of produce	2	2.50	2	2.50
13.	To pay personal/family debts	1	1.25	14	17.50
14.	To settle disputes	1	1.25	3	3.75
15.	Training in children (payment of fees)	2	2.50	5	6.25

Source: Field survey, 2019

Furthermore, 3 (3.75%), 1 (1.25%), 1 (1.25), 1 (1.25%) and 2 (2.5%) farmers intended to use the collected credit for feeding their family, payment of medical bills, payment of personal/family debts, settling disputes and training of children respectively. But a staggering 13 (16.25%), 9 (11.25%), 14 (17.5%), 3 (3.75%) and 5 (6.25%) used the collected credit for the respective purposes. On a positive note, the percentage (2.5%) of farmers who intended to use the collected credit for processing and marketing of produce were the same for those that actually used the collected credit for the initial/intended purpose. Fig. 1 presents a comparison of the bars for intention and actual usage of collected credits among crop farmers in Ofu LGA of Kogi State in Nigeria.

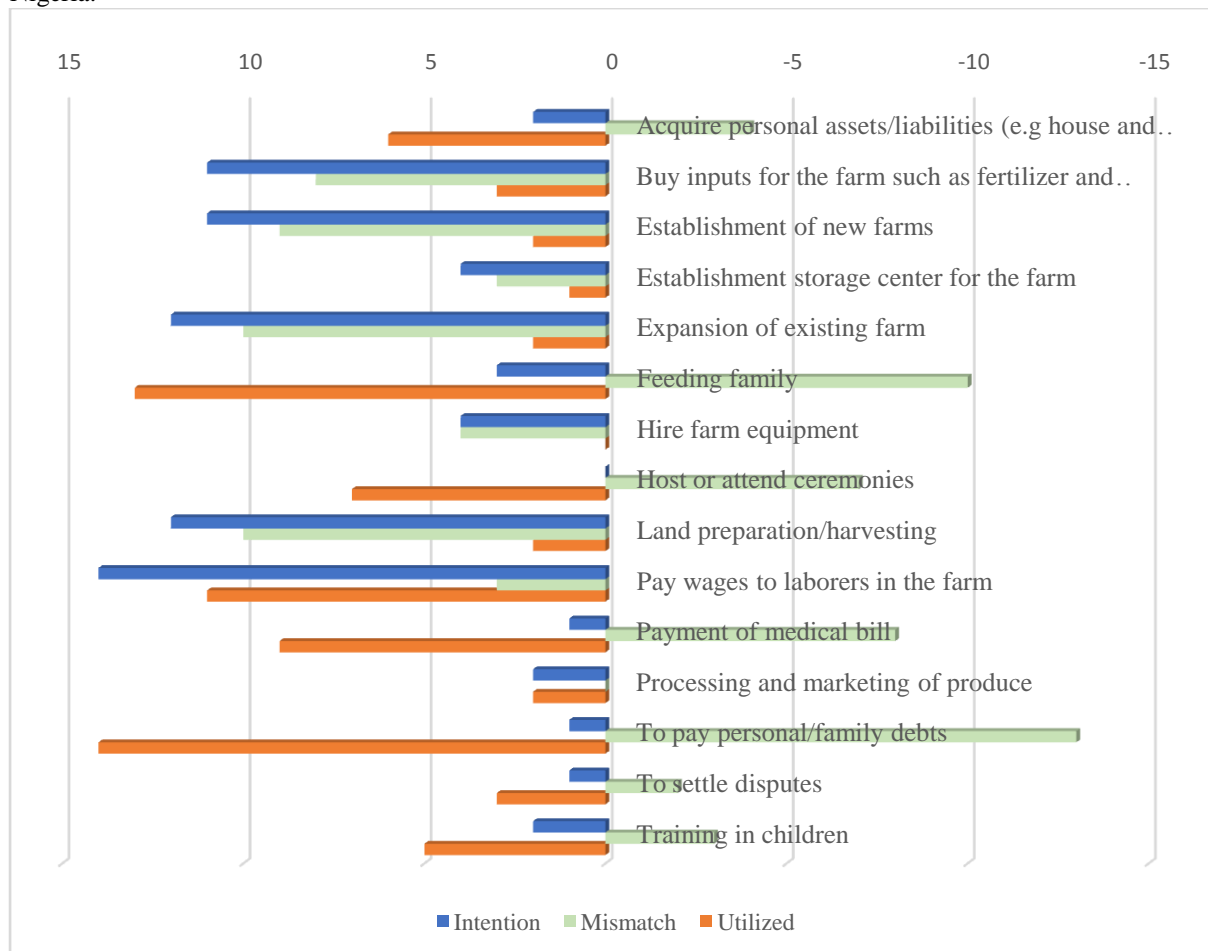


Fig. 1; Intentions and actual utilization of collected credit facility from informal sources by crop farmers

Fig. 1 sideloads the result of intended (blue bars) use of credit before collection, the actual (orange bars) use of the facility by the farmers after collection and the mismatch (difference) purpose (green bars). The green bars show evidence of mismatch or misappropriation of obtained credit. The green bars on the right side of the chart bear negative values, indicating extreme case of mismatch between intentions and utilization of the obtained credit.

IV. DISCUSSION, CONCLUSION AND RECOMMENDATIONS

The hope of every business person is for the business to grow into a bigger and productive one. While most farmers in Nigeria, particularly in Ofu LGA area of Kogi state, are subsistent in nature, they constantly seek out ways of expanding in the face of harsh limitations such as scarcity of land and extremely poor funding. Farming like any other business require funding for maximum production and utilization of modern tools. The poor access to formal sources of credit for farming (resulting from the terms and condition, unavailability in rural settings, and cumbersome nature) has led farmers to consider getting credits from informal sources. These sources though not regulated endeavour to meet the demands of the rural farmers and farmers are relying on them as dependable source of funding for their farms. This is in line with the reports of Fakayode, Adewumi, Salau and Afolabi, (2009), Campero and Kaiser (2013), and Ibitoye, Omojola, Omojoso and Shaibu (2015).

However, serious situation pending or actually happening in the rural communities is the rising rate of defaulters in the repayment of the obtained credits. Majority of the farmers in the locality obtained credit either under false pretence of purpose for the credit or were not stringent in the disbursement of the credit or were overtaken by situations needing more attention and funding than the farming for which the credit was initially collected. Whatever the case, credit collected must be repaid and failure could attract severe sanctions by the borrower, especially as the source is not regulated by any government or formal institution. Such sanctions or actions could include ban from future transactions, increase of total indebtedness, confiscation of farmland, produce and other assets of importance to the farmers or the borrower, intimidations, court/police case and even forced marriage (of minors) as settlements for the failure to repay the credit (Udoh, 2008; Pradhan, 2013; Sambe, Korna & Abanyam, 2013; Mgbakor, Uzendu & Ndubisi, 2014; Joel, 2017; Ekenta, Onu, Ezebuiro, Ikehi, Omeje & Ibekwe, 2019).

Several reasons have been cited in literature as factors influencing the inability of farmers to repay collected credit (Awoke, 2004; Eze & Ibekwe, 2007; Adebayo & Adeola, 2008; Kolade & Fakoya, 2011; Ijioma & Osondu, 2015; Joel, 2017). This study reports such reason as primarily mismatch of purpose of credit collection and actual utilization. Indications are that some farmers initially obtained credits for buying of inputs, establishments of new farms/farmstead or storage facilities, expansion of existing farms, hiring of farm equipment, land preparation/harvesting, payment of wages and for processing and marketing of farm produce. But, however, ended up using the fund to acquire personal assets/liabilities like houses and motorcycles, feeding of family members, host/attend ceremonies, payment of medical bills, paying off of personal/family debts, settling of disputes and train children (payment of fees). While these purposes for which the credits were used for might be important and of priority to the farmers when the credit was collected, they limit the ability of the farmers to make repayments as the activities does not yield (significant) economic return for the farmers. This case of misuse of credit for agriculture, whether obtained through formal or informal sources, undermine the funding efforts of agricultural production in any region. While reports could indicate a rise in the funding of agriculture in region, the outcome might not be felt as bulk of the provided fund might not actually be invested in the agricultural production chain.

The study thus recommends;

1. The continuous orientation of farmers in the rural areas, through the extension agents and other relevant stakeholders in agriculture, on the need to maintain intended purpose for seeking out credits in agriculture. Ensuring this will enhance agricultural production and reduce indebtedness of the farmers.
2. Regularization of informal sourcing of fund for agriculture to an extend where the operators can function in accordance with economic or customary laws in their localities.

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