

Constraints of Small Scale Farmers' Access to Agricultural Credit in Osun State, Nigeria

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Abstract

Agriculture is crucial to food security, improved economy and reduction in unemployment. Despite this fact, it has not been given necessary attention. Paucity of funds has continued to militate against small scale farmers, which has significantly hampered their operational expansion for greater output. The study examined the constraints of access to farm loans by the small-scale farmers in Ila local government of Osun State. Using the multi-stage random selection technique, two hundred farmers from selected communities across the local governments participated in the empirical study. It was revealed that owing to the lack of funds for the farmers through formal sources like government and financial institutions, majority of the farmers operate at the subsistence level, while relying on shylock local money lenders with exorbitant interest rates for the much-needed credit. The constraints in accessing credit from formal sources include; bureaucratic bottlenecks, stringent demands for guarantors and collateral, high interest rates, late approval of loans, and unavailability of banks in the rural areas. It was recommended that government at all levels in conjunction with financial institutions should institute a functional agricultural micro-credit scheme that will ensure the timely provision of credit for the real farmers, create a policy that will compel high net-worth companies to dedicate a percentage of their profits to agricultural financing, as a well as a monitoring mechanism that will ensure judicious use of the loans by the beneficiaries.

Keywords: Agriculture, constraints, farmers, government, loans

Introduction

Small scale farmers have always played a dominant role in agricultural productivity in Nigeria (Rahji and Fakayode, 2009), but their productivity and growth are hindered by limited access to credit facilities (Odoemenem and Obinne, 2010). Nigerian agriculture is made up of mainly peasant farmers and majority of these rural farmers live in the rural area and operate at subsistence level with land holding average of less than five hectares. Farmers are faced with the problems of low productivity, inadequate access to logistic support and input, crop infestations, pest and diseases and massive loss of crops and animals (Ijere,1998). According to Ojo (1998), a major problem confronting small scale enterprises including that in agriculture is inadequate capital. It is obvious that agriculture is the mainstay of the people of sub-Saharan Africa. It has been established that about 70 percent of Nigeria's population is engaged in agriculture (Obasi and Agu, 2000) while 90 percent of Nigeria's total food production comes from small farms and 60 percent of the country's population earn their living from these small farms (Oluwatayo *et al.*, 2008). Peasant farming is characterised by a small capital base. Small-scale farmers in Nigeria are classified as resource poor due to the poor resource-base available to them (Odoemenem, 2001). This causes low productivity due to the fact that they produce purely for subsistence consumption and little marketable surplus. Food production in Nigeria, as in many developing countries is linked with small-scale agriculture (Ozowa, 2002).

Farm credit is an important factor in improving agricultural productivity and strengthening rural economy in most developing countries. Farm credit scheme provide poor people with the institutional support needed to generate a source of income which may help them to achieve food security (Okojie *et al*, 2010). The operational mechanism of farm credit services is complicated by emerging new challenges that are changing the context in which the rural economic landscape operates. Important lessons from past rural credit programmes in the country point to the need to redesign or improve delivery mechanism to minimize institutional barriers and, hence, open access of small-scale farmers to credit (Okojie *et al*, 2010, Phillip *et al*, 2009). Capital has for a long time been considered as a primary means of rekindling and enhancing the growth potential of the rural economy, especially farming activities (Eboreime, 2008). It has been observed that the agricultural sector has been receiving the least level of credit facilities from commercial banks. It is estimated that

only 2.5 percent of the total commercial bank loans and advances is directed to agriculture (CBN, 2008).

It has been argued that inadequate level of agricultural credit facilities is a major factor preventing the adoption of innovation technologies (Ater, 2003). Limited access to credit perpetuates poverty and low quality of life among farmers. This is because some of the innovations which the farmers wish to adopt may be too expensive to procure if they have restricted access to credit facilities or don't have access at all (Kolade and Fakoya, 2011). In an attempt to tackle the problem of access to agricultural credit by peasant farmers, government at different levels in the country resorted to establishing specialized credit institutions such as the Nigerian Agricultural and Co-operative Bank (NACB), Nigerian Agricultural and Rural Development Bank (NARDB), Agricultural Credit Guarantee Scheme (ACGS), Peoples' Bank, Microfinance Banks etc (Asogwa et. al. 2014), for the purpose of making agricultural credit acquisition easy for the farmers. However, these institutions seem to have largely failed to make the desired impact in the peasant farmers' lives.

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 the 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 point in time. The lenders include banks, credit unions 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 (Akinagbe & Adonu, 2014; Yehuala, 2008).

Agricultural credit is any of the several credit vehicles used to finance agricultural transaction, including loans, notes, bills of exchange and bankers' acceptances. These types of financing are adapted to the specific financial needs of farmers, which are determined by planting, harvesting and marketing cycles. Short term credit finance operating

expenses, intermediate term credit is used for farm machinery and long-term credit is used for real-estate financing (Adebayo & Adeola, 2008). According to Mudi (2007), credit is regarded as a major factor in agricultural development and lack of it is usually given as an explanation for many of the problems facing the sector in developing nations, if credit were made available, the retarded agricultural sector will start moving by their contributions to the modernization of the sector.

Credit has been the main focus of many research workers in agricultural finance. To some, credit is "all in all" for a farmer to produce (productive input) while others hold different opinions. Whichever way it is looked at, credit is an important instrument in the development of agriculture. According to (Ghorbani *et al*, 2005), credit is defined as the ability to obtain goods and services or money now in exchange for promise of payment in future. Ihimodo (2005) looked at agricultural credit as the process of obtaining control over the use of money, goods and services in the present in exchange for promise to pay at a future date for agricultural use.

Credit is considered as a catalyst that activates other factors of production and makes under-used capacities functional for increased production. Thus, farm credit plays a crucial role in agricultural and rural development as it enables farmers reap economies of scale, venture into new fields of production, employ new technologies and empower them to provide utilities for a widening market (Ayegba & Ikani, 2013; Ijere, 1998).

Agricultural credit is often seen as any of several credit vehicles used to finance agricultural transactions, including loans, notes, bills of exchange and bankers' acceptances. These types of financing are adapted to the specific financial needs of farmers, which are determined by planting, harvesting and marketing cycles. Agricultural credit enhances productivity and promotes standard of living by breaking the vicious cycle of poverty of small scale farmers.

According to African Development Report (2001) credit should be given to peasant farmers in kind rather than in cash, which according to them, will relieve farmers from diverting loans from the intended project. Akingbade and Eluwa (2003) in support of African Development Report, explained that such credit prompt repayment in the form of deduction from later sales. In a contrary opinion, African farmers observed that giving credit to farmers in kind will hinder them from using the money from the

inputs needed which cannot be supplied by the members of the farm family. That though, credit in kind is considered a safer risk for lenders, it is not always the best for the peasant farmers. Often, a farmer's greatest need is not for seed or for pesticide but for vehicles to transport produce and money to run the business. In such cases, farmers will borrow from local moneylenders despite the high interest rate in order to have the flexibility of a loan in cash (Asogwa et. al. 2014).

Adomola & Umar (2001) summarized that credit may serve as a component to other government activities in facilitating investment or a substitute for it. It may be tied to the provision of specific services and supervision or it may simply funnel loanable funds to promote capital formation in the agricultural sector. It may fulfil a simple need of working capital to cover the period between planting and harvesting or it may represent long term capital formation in the provision of building equipment and establishment of tree crops. In all of its varied form and use, credit is essential to the working and growth of an economic sector involving substantial private enterprise and the development of effective institutions for mobilizing and allocating loanable funds as a crucial element in promoting economic growth.

Ghorbani (2005) noted that at a certain stage of agricultural development, agricultural credit thus clearly becomes a strong force for further improvement when a man with energy and initiative who lacks only the resources for more and efficient production is enabled by the use of credit to eliminate the block on his path to improvement. Consequently, credit has a crucial role for the 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 (Akinagbe & Adonu, 2014).

Materials and methods

The study was carried out in Ila local government area of Osun State, Nigeria. A multi-stage random sampling technique was used to select the respondents. In the first stage, five rural farming communities namely Idi-Odan, Abalagemo, Ayetoro, Ominla, Ajaba and Oyi Ayegun were selected using simple random sampling technique. In the second stage, a list containing 100 farmers in each of these communities was collected from the

various farmers' groups. From the list, 40 farmers were randomly selected using simple random sampling technique. Thus, making a total of 200 respondents for the study, from whom data were collected using a structured questionnaire.

Table 1: Demographic Characteristics of Respondents

Category	Frequency	Percentage
Gender		
Male	198	90
Female	22	10
Age		
20 < 30	6	3
30 < 40	18	9
40 < 50	40	20
50 < 60	78	39
>60	58	29
Marital Status		
Single	12	6
Married	176	88
Divorced	2	1
Widowed	8	4
Educational Qualification		
No formal Education	68	34
Primary Education	112	56
Secondary Education	18	9
Tertiary Education	2	1
Farm Size (ha)		
1 < 3	154	77
3 < 5	32	16
5 < 7	12	6
7 < 10	2	1

Source: Field Work, 2015

Table 1 shows that majority of the respondents (90%) are male. Also 88% of the respondents are above 40 years of age while only 12% are below 40 years. It also shows that the farming population is an aging population. This age distribution of the respondents shows the prevalence of youths' apathy towards agriculture. Eighty-eight percent (88%) of the respondents are married and this is reflective of the age distribution of the respondents. As regards their education, the majority 56% of the respondents have a certificate of primary education as their highest qualification. Thirty four percent(34%) had no formal education, 9% had secondary school education while 1% had tertiary education. This level of educational distribution is likely to make the farmers open to adoption of innovations for expansion

and greater productivity if they have the resources required. As regards the farm size of the respondents, the table reveals that majority of them are subsistence farmers as 77% have between 1 - 3 hectares of farm land size, 16% have 3 - 5 hectares, 6% have 5 – 7 hectares, while only 1% have more than 7 hectares of farmland.

Table 2: Challenges of Accessing Credit from Formal and Informal Sources

	Frequency	Percentage
Awareness of Government Agricultural Credit Schemes		
Yes	32	16
No	168	84
Total	200	100
Access to Agricultural Loans from Government/Banks		
Yes	16	8
No	184	92
	200	100
Access to Agricultural Loans from Private Informal Sources		
Yes		
No	200	100
Total	00	00
	200	100
*Challenges of Accessing Credit from Formal Sources		
Bureaucratic Bottlenecks	192	94
Guarantor	182	91
Collateral	194	97
Lack of awareness	66	33
High Interest Rate	176	88
Failure to Repay Past Loans	48	24
Short Repayment Period	188	94
Lack of Banks in Rural Areas	170	65
Inadequate Fund	168	84
*Challenges of Accessing Credit from Informal Sources		
Inadequate Fund	198	84
High Interest Rate	200	100
Guarantor	192	86
Collateral	148	74
Sentiment	196	88
Short Repayment period	122	61
*Sources of Informal and Formal Credit		
Cooperative Societies	112	56
Private Money Lenders	146	73
Esusu/Ajo	86	43
Friends and Relations	102	51
Government/Commercial Banks	16	8

Source: Field Work, 2015. *Multiple responses

Table 2 shows that majority (84%) of the respondents are unaware of government or other agricultural loan schemes. This may be largely due to lack of adequate information from the government to the farmers on the availability of agricultural credit. Also, 92% of the respondents have never had access to credit from government or finance institutions. This implies that majority of the rural farmers did not have access to credit for their farming work through formal sources. This agrees with the view of Akinbode (2013), that Nigerian banks give an average of 2% of their total loan portfolio to the agricultural sector. However, all the respondents held that they have access to credit from informal sources to meet domestic and farming needs.

The study further revealed that the low level of access to formal agricultural credit is as a result of many factors which include late approval of loans due to bureaucratic bottlenecks (94%), lack of high profile guarantors (91%), banks demand for collateral (97%), high interest rates on loans (88%), non-existence of commercial banks or agriculture finance institutions in most of the rural areas (86%), failure to repay past loans (24%) and 94% of the respondents held that the loans have a short repayment period. Other challenges include inadequacy of loans disbursed (84%) as the amount given are sometimes lower than the amount requested. This finding is in line with the views of Okojie *et al* (2010), the lack of bank accounts, guarantors, collateral, and information regarding the procedure for accessing credits from banks limited peasant farmers and rural women's access to credit from formal institutions. Also, according to Olomola (1990) and Akinbode (2013), there is the problem of lack of nearness of these credit institutions to participants as they have to travel long distances to these credit sources and this inhibits a high level of agricultural production.

Furthermore, as a result of the constraints of accessing credit from the government or formal sector, majority of the farmers are compelled to turn to informal sources to seek for credit finance for their farming activities. Sources of informal credit patronized by the farmers include cooperative societies (66%), private money lenders (73%), friends and relations (51%), Esusu/Ajo (43%). However, accessing credit through these informal sources is also fraught with numerous challenges. Majority of the respondents (99%) held that funds from informal sources are inadequate to meet the needs for farm expansion. Eighty-seven (87%) held that the interest rate is too high especially with private money lenders who sometimes charge as high as 100% interest rate on loans. Others (74%) said getting

collateral for the loans especially from private money lenders, 88% held that loans are granted based on sentiments, while 61% of the respondents held that informal sources of loans are on a short-term basis. These challenges clearly show that it is difficult to attain greater agricultural expansion and productivity through the use of loans from informal sources. According to Okojie *et al* (2010), one of the principal characteristics of informal credit is the higher interest rates imposed on loans relative to those by the formal banking sector. High interest rate becomes inevitable since the informal sources mainly private money lenders, who provide the bulk of the informal funds, are unregulated and not monitored by any government institution. These challenges, both from the formal and informal sources of credit for farmers, have made farming and expansion difficult, and consequently hinder productivity.

Conclusion

Government should urgently redesign its agriculture finance policy. This is to be done by making adequate budget provisions for agricultural development which will involve a revolving loan scheme for farmers. This will go a long way to boost the production capacity of the farmers thereby increasing their farm income.

Government should embark on rural awareness about availability of farm credit. Extension officers should be deployed to the rural areas to create awareness and also train the farmers on effective use of agricultural credit.

Agriculture finance institutions should be located in the rural areas to ensure easier access for the farmers, and effective monitoring of the use of loans disbursed. This will go a long way to minimize the rate of loan default.

There should be timely approval and disbursement of loans. Any loan approved and disbursed outside of the planting season cannot meet the desired objectives and so, bound to be diverted to other uses detrimental to agricultural expansion. Government and finance institutions should ensure that agricultural loans attract low interest rates so as to meet the set goals.

Agriculture loan should not be short term loans. Agriculture by its very nature, is seasonal. Therefore, for a loan to be effectively deployed for

maximum agricultural benefit, such loan should be on middle and long-term basis. Thus, finance institutions should endeavour to create credit instruments and services that are tailored to the risks and cash flow patterns in the agricultural sector.

Lending institutions should make agricultural loans accessibility flexible in the areas of collateral, guarantor and repayment pattern.

Farmers should be committed to loan repayment. The beneficiaries of agricultural credit should be sensitized in such a way that they will not see the loans given to them as their own share of the national cake. The danger of default on them and the scheme should be clearly spelt out for them.

Rural farmers should be encouraged to join cooperative societies to increase their chances of accessing formal agricultural credit facilities, as it is sometimes easier for government and finance institutions to grant loans to individuals through cooperatives and other allied societies.

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