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Factors Influencing the Use of Agricultural Credit: A Case Study of Agricultural Credit Guarantee Scheme Fund in Ikwuano Local Government Area, Abia State, Nigeria

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Abstract

The study examined the socio-economic characteristics influencing the use of credit obtained by farmers through the Agricultural Credit Guarantee scheme Fund in Ikwuano Local Government Area of Abia state, Nigeria. The objectives of the study were to ascertain the socio-economic characteristics of the respondents in the study area, determine the volume of loan and the farm enterprises for which the credit was obtained and used, determine the socio-economic factors influencing the use of credit and ascertain the constraints to the use of credit obtain through the ACGSF in the study area. Forty eight (48) respondents were randomly selected from four (4) communities out of the sixteen (16) communities that make up the Local Government Area. Structured questionnaires and interview schedules were used to obtain the necessary information for the study. Data collected were analyzed using frequency distribution, mean, percentages and regression analysis. The results obtained revealed that the respondents had a mean age of 34 years, the area has a higher male population (64.58%) with a mean household size of 7 members, 77.08% of the respondents have had some form of education, about 72.92% of the respondents were married and 75% of the respondents earn above 60,000 per annum. The regression analysis showed that 5% significance level educational level - (2.243), household size-(2.207), farming experience (2.429) and the type of farm enterprise-(2.756) significantly influenced the level of credit use in the study area. Factors which constrain the use of credit obtained include; loan repayment period, late disbursement of funds, long lending procedures and low level of application of improved agricultural innovations. The study therefore recommended that there should be an extension of the one year loan repayment period, a feedback and monitoring mechanism should be put in place to ensure prompt information delivery and timely disbursement of funds, lending procedures should be speed up to enable farmers meet to with the farming season and research institutes through extension agents should ensure the transfer and adoption of appropriate technology to farmers.

Keywords: Factors, Agricultural credit, Ikwuano, Abia State, Nigeria

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Introduction

Effective financing of agricultural activities in an emerging world could have positive effects on GDP growth, which ultimately translates to the entire economy's wellbeing. Agriculture is an effective engine of growth for most agriculture based countries like Nigeria (Olowu, 2011). Since independence in 1960, the agricultural sector has experienced various reformations and programmes all in the bid to ensure sustainability and development of the sector. Several agricultural credit policies have been adopted in this respect but the sector continuously falls short of achieving its developmental objectives. As some of these efforts have failed, the operation of the remaining leaves one to wonder if they are actually their intended objectives, as rural poverty is on the increase yet a large portion of the population engage in agricultural activities (Iheanacho *et al.*, 2006)

The CBN (2007) also notes that the challenges of financing Nigeria's agriculture in respect of policies are as a result of the fact that most schemes are not adequately funded for effective performance and long gestation projects are not funded, there is undue political influence on the lending procedures, private financial institutions are skeptical about government agricultural programmes due to cumbersome procedures and high transaction cost; inadequate infrastructure and because of weak legal systems. Also, low awareness of existing credit programmes in rural areas has been documented in several major studies among farmers, indicating that illiteracy, remoteness from existing facilities and hindering procedures are major problems.

Agriculture is a major contributor to Nigeria's GDP and small-scale farmers play a dominant role in this contribution (Rahji and Fakayode 2009). Credit is considered the catalyst that activates other factors of production and make under used capacities functional for increased production (Ijere, 1998). According to Rahji (2007), credit or loanable capital is viewed as more than just another resource such as labour, land, equipment and raw materials. The important role of credit in agricultural enterprise development and sustainability has prompted the Federal Government of Nigeria (FGN) to establish credit schemes such as the Agricultural Credit Guarantee Scheme (ACGS) and Agricultural Credit Support Scheme (ACSS) to ensure farmers' access to agricultural credit (IFPRI policy note No.25, 2010). The ACGS was established by Decree 20 of March, 1977 and as amended on 13th June, 1988. It provides for a fund of N100 million subscribed to by the Federal Government (60%) and Central Bank of Nigeria (40%). The fund was enhanced to N1 billion on the 8th December, 1999 and later to the present level of N4 billion as at early 2006 (CBN, 2007). Due to the low level of rural income, credit is an important tool for the improvement of the standard of living of the rural people through increase in agricultural output and income. Olatona (2007) stated that a closer look at the determinants of rural income provides an in-depth knowledge into the factors that explain low income yields and poverty in rural regions where these rural farmers constitute about 90% of the total population.

Although the ACGSF has improved commercial banks' lending to the agricultural sector, one is left to wonder how this credit is actually being used by the beneficiaries as well as the constraints to the use of the credit so obtained. The objectives of the study were to ascertain the socio-economic characteristics of the respondents in the study area, determine the volume of loan and the farm enterprises for which the credit obtained was used, ascertain those socio-economic factors influencing the use of credit and determine the constraints to the use of credit obtain through the ACGSF in the study area.

Materials and Methods

The study was conducted in Ikwuano Local Government Area (LGA) of Abia State. Ikwuano LGA is made up of four clan: Ibere, Oloko, Ariam and Oboro. The LGA is bounded by Bende LGA in the East, Umuahia North LGA in the North, Isiala-Ngwa LGA in the West and Obot-Akara LGA of Akwa-Ibom State in the South. Ikwuano LGA was purposively selected for the study because it is one of the rural areas in which agriculture is the main stay of majority of its inhabitants. Multistage sampling technique was used to select 48 respondents from the four clan. Primary data were obtained through the administration of structured questionnaire and the use of interview schedules. Secondary data was obtained from Government publications, Journals, Newsletters and Other related published and research materials.

Data collected were analyzed using descriptive statistics such as frequency distribution, percentages and mean as well as regression analysis.

Results and Discussion

The table shows that 64.58% of the respondents were males while 35.42% were females (Table 1). This implies that a greater percentage of the beneficiaries in the study area were men. This result conforms to the findings of Odukoye (1997) that women in Nigeria are unable to secure credit facilities from financial institutions due to lack of collateral. In most of the developing countries, 30% of women receive less than 1% of the total credit given annually (Asogwa, 1995). Also, Ikeduru (2002) added that experience has shown that majority of women especially those in rural communities do not benefit from the programmes of the various governments even when they are involved in economic activities that need support. Micro-credit facilities in some cases do not extended to rural women for enhancement of their production and trade.

The table also shows that the mean age of the respondents is 34 years which indicates that they sampled beneficiaries were in their active farming age. The result showed that 8.33% of the respondents were within the age of 21-30, 37.5% were within the age range of 31-40, 31.25% were within the age range of 41-50, 16.67% were within the age range of 51-60 and 6.25% were above 60 years. From the results in Table1, there is a relatively low proportion of the young age (21-30 years) and the old age (above 60 years). This is mainly because majority of the farmers that fall with the

age bracket of 21-30 years were not married and have relatively less responsibilities and farmers that fall into the age bracket of 60 years and above were gradually reducing their farming activities and preparing to retire from active farming activities. A higher proportion of the respondents were of middle age (31-40 and 41-50 years) which is the active farming age. Eze (2002) stated that active age of farmers is a positive factor to sustainable food production and poverty alleviation among farmers and improved agricultural extension in the rural communities. This view was buttressed by Nwaru (2004) who said that the ability of farmers to adopt innovations and bear risks decreases with age. It therefore implies that the respondents in the study area are within the age to be more receptive of innovations and credit information.

The results also show that 72.92% of the respondents were married, 12.50% were single and 14.55% were widowed. This high percentage of married people agrees with the high proportion of respondents that fall between the ages of 31-50 which is the age bracket which most married people fall within due to economic realities in the rural areas. This also shows that a large proportion of the sampled beneficiaries in the study area have responsibilities and this may be the major reason for sourcing for loans to increase their farm productivity and income.

It was also revealed that 27.08% of the respondents have a household size of 1-4 persons, 60.42% have a household size of 5-9 persons and 12.50% have a household size of more than 10 persons. The mean household size of the sampled respondents is 7. This implies that farmers in this area rely more on their family member for farm labour. This was confirmed by Effiong, (2005) who stated that a large household size is expected to increase the level of adoption of innovation due to availability of cheap labour. About 77.08% of the respondents have had some form of formal education while 22.92% of the respondents had no formal education. This implies that majority of the respondents were educated. Okoye et al, (2004) posited that educated farmers are expected to be more receptive to new and improved technologies than farmers with informal level of education or no formal education. Also, educated farmers are in a better position to understand loan procedures including the terms and conditions and fill loan application forms.

The research also indicated that 37.50% of the respondents had farming as their only occupation while 62.5% of the respondents combine farming with other activities such as trading, civil service and other businesses. The high percentage of respondents that combine farming with other non-farming activities is due to the seasonality of agricultural production, decreasing farm productivity and unavailability of credit. Therefore they engage in other non-farm activities during to augment their farm income.

About 43.75% of the respondents had a farming experience between 1-10 years and 56.25% had farming experience above 11 years. This implies that majority of the respondent were experienced in their respective farm enterprise and should be able to put loans obtained into productive uses. It can also be deduced from the Table 1 that only 25% of the respondents belong to cooperative societies. The poor performance of cooperative societies is one of the reasons why most farmers do not participate. The socio-economic characteristics of cooperatives hinder cooperative access to development resources include sex, of cooperative members, the age of the cooperative society, and the distance the cooperative society has to cover to get to the location of the service provider. 22.92% of the respondents belong to farmers group and 52.08% do not belong to any social organization. This is because most farmers rely on family labour to carry out their farming activities; and as such, not show any interest in belonging to any farmers group.

Finally, the study showed that all of the respondents are small holder farmers. This was revealed by their farm size in which 29.92% had less than one (1) hectare of land and 77.08% had between 1-3 hectares of land.

Table 2 shows that 68.75% of the respondents borrowed below ₦100,000, 22.92% borrowed between ₦101,000-₦200,000, 6.25% borrowed between ₦201,000-₦300,000 and 2.08% borrowed between ₦301,000-₦400,000. None of the sampled respondents borrowed above ₦400,000. This can be attributed to the short repayment period, their scale of operation and the particular farming activities for which the loan was obtained. Table 3 shows that 33.33% of the respondents obtained the loan for cassava farming while 29.17% obtained the loan for poultry production, 12.50% obtained the loan for maize production, 4.17%, 4.17%, 6.28% and 10.42% obtained for piggy, goat, cocoyam and yam respectively. From this distribution, it can be seen that all the sampled farmers were involved in short gestation farming. This is mainly because of the short duration given for loan repayment (1 year) which does not favour long gestation farming activities. The table also shows that cassava and poultry farming were the predominant farm enterprise farmers engage in within the research area.

Table 4 shows that only 12.5% of the respondents used the credit obtained to pay for labour. This was as a result of the high prevalence in the use of family labour for farming activities. The study also revealed that 66.67% of the respondents used their credit to purchase inputs, only, 6.25% of the respondents admitted that the credit obtained was used for household responsibilities and 14.58% did not disclose what activity for which the loan was used.

Table 5 shows the determinants of the level of credit use in the study area. The double log functional form was selected as the lead equation because it has the highest coefficient of multiple determination [R^2], which is 0.741 or 74.10%, it has the highest F-value and the highest number of statistically significant independent variables at 5% significance level, with the least standard error. This implies that 74% of the dependent variables were explained by the independent variable. The results show that marital status [$X_1, -2.142$], Educational Level [$X_2, 2.459$], Farming experience [$X_4, 2.305$], Farm size [$X_5, -2.168$] and labour cost [$X_6, 6.286$] were significant at 5% level of significance. Household size [$X_3, 0.024$] and Age [$X_7, 0.565$] were not significant in the level of credit use in the study area.

From the regression result, marital status of the respondents [$X_1, -2.142$] is inversely related to the level of credit use and it is statistically significant. This implies that marital status is an important socio-economic characteristic that influences the level of credit use in the study area. While single respondents may use credit more efficiently as a result of less family responsibilities, married respondents may divert some of the credit for household uses. The educational level of the respondents [$X_2, 2.459$] is directly related to the level of credit use in the study area and it is statistically significant. This

implies that as the educational level of the respondents' increases, the level of credit use also increases in the study area. Farming experience[X_{4,2,305}] is positively related to the level of credit use and is statistically significant. This implies that as the farming experience increases, the level of credit use also increases in the study area. That is to say that the more experienced the farmer has, the more efficient he/she is in the use of credit. Farm size[X_{5,2,168}] is negatively related to the level of credit use and is statistically significant. This implies that as the farm size available to farmers were not good enough for economic activities, as the farm sizes decreases or remain constant, the more the level of credit use decreases in the study area. This can be attributed to the fact that most farmers with larger farm size require more credit than farmers with smaller farm sizes; also the loan duration of ACGS for all loans must be repaid in year irrespective of the amount or purpose borrowed for. Hence larger farmers requiring large sums of money were more averse to borrowing than smaller farmers who may require smaller sums that can easily be repaid with the stipulated time frame. Labour cost[X_{6, 6,286}] is positively related to the level of credit use and statistically significant. This implies that labour cost influence the level of use of credit in the study area. This is due to the fact that farming activities were mainly carried out using family labour instead of hired labour in the study area, as a result, farmers were able to invest the portion of the credit they would otherwise have used for labour in other aspect of their farming activities

Table 6 reveals that 19.84% of the respondents were constrained by the loan repayment period and high interest rate. Philip *et al* (2009) stated that high interest rate and the short-term nature of loans with fixed repayment periods do not suit annual cropping, and thus constitute a hindrance to credit access. The ACGSF has a loan repayment period of one (1) year for loans borrowed from the commercial banks. This period however is short for most farmers to raise, harvest, sell their produce and generate enough income to service their loans as well as meet their daily family responsibilities.

The study also showed that 21.43% of the respondents were constrained by household responsibilities in the access and use of credit obtained for agricultural purposes. This is due to the low income level which is characteristic of rural households. This also agrees with the findings of Okoye (1998) who 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.

The study also reveals that 22.22% of the respondents were constrained by late disbursement of loans. Olatona (2007) reported a delay in loan disbursement to small scale farmers in Nigeria. Also, this finding agrees with one of the problems of the ACGS identified by Akinleye *et al.* (2005) who said that in some cases where loans were approved, it arrives too late for it to fulfill the purpose for which it was intended. This delay seems more of administrative than any other.

It can also be seen from table 6 that 18.25% of the respondents were constrained by lack of information. Rahji and Fakayode (2009) blamed the limitation on imperfect and costly information problems encountered in the financial markets; credit rationing policy; and banks' perception of agricultural credit as a highly risky venture. While Agnet (2004) opined that the complex mechanism of commercial banking is least understood by the small-scale farmers, and thus, limits their access.

Finally, it was found that 18.25% of the respondents consider the loan procedures as too long with elaborate requirements. According to Akinleye *et al* (2005), the lack of bank accounts, collateral, and information regarding the procedure for accessing credits from banks limit rural women's access to credit from formal institutions. The location of banks in urban centers as a limiting factor, among others earlier mentioned. Adegbite (2009) stated that financial lending Institutions in Nigeria often shy away from giving loans to farmers because of the high cost of administering such loans and the perceived high default rates among farmers.

Conclusion and Recommendation

This study concludes that the use of credit obtained through the ACGSF in the study area is quite poor. This is not only as a result of the socio-economic characteristics of the respondents but also as a result of certain constraints which affect the access and use of credit by the respondents. Socio-economic factors which were found to influence the use of credit are; marital status, educational level, farming experience, farm size and labour cost. Constraints to the use of credit identified include; short loan repayment period, high interest rate, late disbursement of loans, lack of information and lengthy loan procedures. The study recommends that government and institutions concerned should ensure the timely disbursement of funds to farmers to enabled them carry out their farming activities at the appropriate period, this will also reduce the rate of loan diversion to other uses. There should be effective publicity of the scheme in rural area and complete information about the terms and conditions of the scheme should be made available to the farmer to enable them understand the implications and benefits of the scheme. The loan procedures should not be too cumbersome for the farmers as this will discourage them from applying and there should be an extension of the one year repayment period to enable the farmers fulfill their loan obligations. The youth should be encouraged to take to farming as a means livelihood with credit facility in order to reduce youth employment.

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Tables

Table 1: Distribution of the Socio-economic characteristics of the respondents

Variables	Range	Frequency	Percentage (%)
Age	21 – 30	4	8.33
	31 – 40	18	37.50
	41 – 50	15	31.25
	51 – 60	8	16.67
	Above 60	3	6.25
Sex	Male	31	64.58
	Female	17	35.42
Mean age (Years)	34		
Marital Status	Single	6	12.50
	Married	35	72.92
	Widowed	7	14.58
Household size	1 – 4	7	27.08
	5 – 9	13	60.42
	Above 10	29	12.50
Mean Household Size	7		
Educational Level	Non-Formal Education	11	22.92
	Primary Education	6	12.50
	Secondary Education	21	43.75
	Tertiary Education	10	20.83
Occupation	Farming Only	18	37.50
	Farming And Trading	8	16.67
	Farming and Civil Service	16	33.33
	Farming and Other Businesses	6	12.50
Farming Experience (Years)	1 – 10	21	43.75
	11 – 20	11	22.92
	21 – 30	11	22.92
	Above 30	5	10.41
Farm Size (hectares)	> 1	11	29.92
	1 – 3	37	77.08
	Above 3	0	0
Social Organization Membership	Cooperative	12	25
	Farmers Group	11	22.92
	None	25	52.08

Source: Field Survey, 2012.

Table 2: Distribution of respondents according to volume of loan obtained.

Amount (₦)	Frequency	Percentage
Below 100,000	33	68.75
101,000 – 200,000	11	22.92
201,000 – 300,000	3	6.25
301,000 – 400,000	1	2.08
Above 400,000	0	0
Total	48	100

Source: Field Survey Data, 2012

Table 3: The distribution of farmers according to the farm enterprise

Enterprise	Frequency	Percentage
Poultry	14	29.17
Piggery	2	4.17
Goat	2	4.17
Cassava	16	33.33
Yam	5	10.42
Cocoyam	3	6.25
Maize	6	12.50
Total	48	100

Source: Field Survey Data, 2012.

Table 4: Distribution of farmers according to their use of credit obtained

Utilization of credit	Frequency	Percentage
Payment of labour	6	12.5
Purchase of inputs	32	66.67
Household responsibilities	3	6.25
Did not disclose use	7	14.58
Total	48	100

Source: Field Survey Data, 2012.

Table 5: The determinants of factors influencing the level and use of credit in the study area

Variables	Double Log	Linear	Semi-Log	Exponential
X ₁ (Marital Status)	-0.269 (-2.142)*	-19137.486 (-1.741)*	-0.177 (-2.390)*	-26553.958 (-1.339)
X ₂ (Education Lev)	0.026 (2.459)*	801.066 (0.465)	0.013 (1.143)	-3585.687 (-0.403)
X ₃ (Household Size)	0.003 (0.024)	1254.230 (0.289)	-0.003 (-0.117)	14613.502 (0.654)
X ₄ (Farming Exp)	0.027 (2.305)*	560.181 (0.425)	0.005 (0.524)	2616.795 (0.186)
X ₅ (Farm Size)	-0.020 (-2.168)*	-1722.752 (-0.117)	0.003 (0.027)	-5293.844 (-0.281)
X ₆ (Labour Cost)	0.713 (6.286)*	2.885 (6.286)	1.717 (5.555)	110989.713 (6.186)
X ₇ (Age)	0.215 (0.565)	-490.745 (-0.335)	-0.004 (-0.393)	37028.983 (0.616)
R ²	0.741	0.544	0.500	0.527
Adjusted R	0.461	0.465	0.412	0.444
Standard Error	0.37731	58512.64247	0.39401	59643.54375
F – cal	16.746	6.829	5.712	6.357
Constant	3.602 (2.015)	83754.581 (1.690)	11.504 (34.467)	-1148659.396 (-4.065)
N	48	48	48	48

T-tab = 2.021

Significant at 5% Significance level

() t – values

Source: Field Survey, 2012.

Table 6: The distribution of respondents according to the problems of access to credit under the ACGS

Problems	Frequency	Percentage
Short loan repayment period/high interest rate	25	19.84
Household responsibility	27	21.43
Late disbursement of funds	28	22.22
Lack of information	23	18.25
Long procedures	23	18.25
Multiple response	126	100

Source: Field Survey Data, 2012