

ECONOMICS OF UTILIZING INFORMAL SOURCES OF CREDIT FOR AGRICULTURAL PRODUCTION IN YAGBA AREA OF KOGI STATE, NIGERIA.

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ABSTRACT

This paper examines the utilization of informal sources of credits for agricultural production in Yagba area of Kogi State. A set of structured questionnaire was administered to 105 respondents. The results showed that only 22.9% of the available loan was invested on agriculture. The average loan volume per respondents was ₦15,142.8. An increase in the amount of loan per beneficiary to take care of both the production and consumption needs of the rural farmers was recommended.

KEYWORDS: - Informal credit, utilization, "Esusu" groups, agricultural production

INTRODUCTION

It has often been said that credit institutions have a major role to play in enhancing food production. Empirical studies have shown that emphasis is being place on rural development (Adams and Firchett, 1992; Oni, 1999). This is in appreciation of the fact that 70-90 percent of the population in Nigeria lives in the rural area (Okoye, 2001).

Agricultural credit is essential in agricultural development. If we want the farmers to adopt new methods, that is, use of improved seeds and high producing livestock, simple hand operated machines, fertilizers and other agro-chemicals, there must be credit.

Okorie (1991) asserted that production credit will permit farmers to buy improved production inputs that they would otherwise, have been unable to produce. If these are profitable, credit would permit small holders to increase their agricultural production, at the same time pay and realize higher net farm income. One could say therefore, that the low level of savings and credits are responsible for low level of agricultural development in Nigeria.

Many studies of varying orientation by scholars exist on the sources of credit available to farmers. Nweze (2001), Okoye (2001) and Oni (1999) classified the sources of credit for the financing of agricultural production into informal and formal sources. Olokuntoye (1999) on his part, classified credit institutions into two major categories-Non-institutional and institutional sources. According to Oshuntogun (1993) lenders can either be formal or informal, institutional or non-institutional.

Formal or institutional sources according to Nweze (2001) include government credit institutions, cooperatives, commercial banks and Nigerian Agricultural Cooperative and Rural Development Banks (NACRDB). They are formal in the sense that their operating procedures and loan terms tend to be standardized and subject to Central Bank of Nigeria's control. Adams and Firchett (1992) classified informal sources of credit into two-financial self help groups, and individual financial brokers such as money lenders. They further asserted that the most widespread and most important financial self help or mutual aid associations are the savings and credit associations. These forms of credit associations according to Oni (1999) can further be sub-divided into rotating or non-rotating associations, and associations with or without a loan scheme.

Oshuntogun (1993) listed some of the characteristics of this type of savings as (1) grouping of few savers who trust each other (2) lack of legal protection, (3) no formal procedures, (4) existence of some links between members, (5) regulating and uniformity of deposits based more on personal rather than business relationship. Other characteristics include lack of earnings (interest) from the savings and the period for which such management could stay in force is doubtful.

According to Okorie (1991) indigenous savings are called different names among the different ethnic group in Nigeria. "Esusu" among the Yoruba, "isusu" or "otutu" among the Igbo, "osusu" among Edo, "Asusu" among the Hausa, "Adashe" among the Nupe and Igala, "Efe" among the Ibibio and "Oku" among the Ijaw. Generally, "Esusu" is regarded as an indigenous system of thrift and credit in which a group of very familiar people come together, contribute a specified amount at stated intervals and giving the sum of money in bulk to one member in rotation. Okorie (1991) observed that "Esusu" are the most prevalent indigenous method of savings in Nigerian villages. He further stated that "Esusu" can be found among people of all walks of life including farmers, business men, government workers, petty traders, artisans and students.

The Need for this Study.

Agricultural credit is essential in increasing agricultural output and raising the level of income. Most farmers cannot save enough from their meagre earnings to enable them take full advantage of the improved techniques and tools which science has made available for profitable farming. Numerous inventions and innovations, which are products of technology, would have no meaning to mankind if they were not put into actual practice on the farm. Adoption of such devices involve a lot of capital outlay which farmers cannot finance from their savings. Credit has thus become an important tool in modern agriculture.

Thus, the need for this study arises because of the prevalence of poverty in the rural community of the area of study. The area is also one of the most actively involved in this informal savings in Kogi State. Finally, there has actually been a serious shortage of meaningful research studies on the utilization of credits for agricultural production in the area of study.

Research Questions

The following questions were formulated to guide in the analysis of this work;

- i. what is the average amount of money received by individual member of informal credit groups?

- ii. what are the general uses of the most recent fund received by members?
- iii. to what extent do farmers utilize these funds for agricultural purposes?

Background of Yagba Area

The area of study is Yagba area of Kogi State, Nigeria. The area consists of three local government areas of the state which are; Mopamuro, Yagba-East and Yagba-West. Yagba people are part of the Yoruba speaking area of Kogi state of Nigeria. The area is bounded by latitudes 5°E and 6°E and longitudes 7°N and 8°N approximately. The area has a population of about 350,000 people (KADP, 2003).

The area covers a land area of about 10,700 square kilometers or 1.07 million hectares, out of the total land area, about 20 percent of the land is occupied by people. Rivers and streams occupy two percent while hills and mountains occupy about five percent. The remaining 73 percent of the total land area which is about 781,100 hectares is available for cultivation (KADP, 2003).

The area lies in the guinea savannah zone with predominant grass vegetation, scattered trees and occasional forests. The climate is divisible into two major seasons-dry season and wet season. The wet season normally begins towards the end of March and ends towards the end of October. Dry season normally begins in November and lasts until late February. The average annual rainfall ranges from 850mm to 2000mm. During the rainy season, the daily mean temperature is 28°C, while in the dry season, the average temperature is 35°C. High humidity is also common (KADP, 2003).

Farming is the predominant occupation of Yagba people. Mixed cropping is the predominant type of farming in the area. The land use pattern is fallow-cropping system operated with hoes and cutlasses. After cultivating a piece of land for between three to five years, it is left to fallow for some years and the farmer shift to a new land in a more fertile area. An average farm family in the area cultivates several plots of land totaling between two to three hectares. The farm holdings are usually fragmented. A typical farm family may have an early yam plots in the fadama, cassava, grains and late yam in the upland. All these farming activities have implications for land acquisition.

Samples Selection

This study is carried out in Yagba area of Kogi State. The area comprised of three local government areas out of the 21 local government areas in the state. The three local government areas includes: Mopa-Amuro, Yabga-East and Yagba-West.

The study involved the use of questionnaires on a total of 105 respondents. The questionnaires were designed purely for beneficiaries of informal credits in the area. A sample of eight villages/communities was randomly selected with equal probability from the list of villages/communities in the area. In each of the selected villages/communities, minimum of ten and maximum of 15 beneficiaries were randomly selected from the list of members of informal credit organizations in the villages.

Primary data were collected through personal interview conducted with the use of structured questionnaire. The questionnaire elicited information on respondents' informal sources of fund

and utilization of these funds, problems encountered among members of the groups and other related questions on agricultural credit. Prior to the administration of the questionnaire, the instruments were validated. Face and content validity of the instrument were established by team of research experts. The instruments were pre-tested and all the corrections were incorporated into the questionnaire.

Data Collection Techniques.

The distribution and collection of completed questionnaire were done by the researcher. All the instruments were successfully completed, recovered and analyzed by the researcher.

RESULTS AND DISCUSSIONS

This study revealed that, there are three major types of informal sources of credit available to farmers in Yagba area of Kogi State. They were "Esusu", "Ajo" and money lending. Of these three types, "Esusu" organization is the largest in number, hence 88 members were interviewed which is 83.8% of the total respondents interviewed. This is followed by "Ajo" with 15.2% of the total respondents. Money lending was only one out of 105 respondents. This is not surprising because money lending is only employed for procuring business capital in the area when all other sources have failed to meet the needs of the borrowers. This result also agrees with similar observations made by Okorie (1991) when he says that "Esusu" is the most prevalent indigenous method of savings in Nigerian villages. The answer to research question one is presented in Table 1.

Table 1: Range of Amount Received per Respondent.

Range of Amount Received (N)	No. of Respondents	Percentage. (%)
Less than 10,000	68	64.5
10,000-20,000	11	10.5
20,001-30,000	15	14.5
30,001-40,000	0	0.0
Above 40,000	11	10.5
Total	105	100.0

Source: Field Survey, October, 2009.

The amount of funds received by each respondent from these sources of credit was found to be generally small. 64.5% of the respondents received less than N10,000. 10.5% received between N10,000 and N20,000, another 15 respondents received between N20,001 and N30,000. Incidentally, no respondent was found to receive between N30,001 and N40,000 only 10.59% of the respondents received above N40,000 (see Table 1). The responses of respondents on how

they spent their last (pre-interview) amount received are presented in Table 2, (Research question two).

Table 2; Uses of Most Recent Fund.

Use of Fund	Amount (₦)	% of Total Amount
Pay children school fee	515,160.00	32.4
Feeding family (food)	166,950.00	10.5
Invested on agriculture	64,110.00	22.9
Deposited in the Bank	30,201.00	1.9
Buy durable goods	333,900.00	21.0
To pay debts	149,460.00	9.4
Others (Ceremonies)	30,201.00	1.9
Total	1,590,000.00	100.0

Source: Field Survey, October, 2009.

The total amount received by all the 105 respondents was found to be ₦1,590,000.00 which means that on the average each respondents received ₦15,142.80. Out of the total 32.45% (₦515,160.00) was expended on the payment of school fees of children. Investment on agriculture carried 22.9% (₦64,112.00). This was closely followed by purchase of socially necessary. Only ₦30,210.00 was deposited in the bank and this is only 1.9% of the amount received. Family consumption takes ₦166,950.00 of the lot. 9.4% of the total amount was used for debt payment, while ₦30,210.00 (1.9%) was used for ceremonies like marriages, funerals and other festivals.

It was discovered during the course of this interview that 70.5% of the respondents engaged in full-time farming. The breakdown on how the 22.9% of the total money received was spent on agriculture is presented on Table 3(Answer to research question 3).

Table 3: Break-Down of Total Amount invested in Agriculture.

Farm Operation	Amount (₦)	% within 22.9%	% of Total Amount
Labour Hiring	290,924.00	18.3	79.9
Purchase of fertilizer	11,288.00	0.7	3.1
Purchase of land	52,432.00	3.3	14.4
Agro-chemicals	1,456.00	0.1	0.4
Improved seeds/plants	8,010.00	0.5	2.2
Livestock	0.0	0.0	0.0
Total	364,110.00	22.9	100.0

Source: Field Survey, October, 2009.

Labour hiring carries the lion share of the total expenditure on farm. Labour hiring includes manual labour and tractor hiring. This carries 79.9% (₦290,924.00) of the total amount invested on agriculture. This is followed by purchase of land. This constituted 14.4% of the expenditure on agriculture. Expenditure on Agro-chemicals purchased carried the lowest amount (₦1,456.00). Improved seeds/plants and fertilizer purchase amount to ₦8,010.00 and ₦11,288.00 respectively.

In a similar study, Umeh and Adebisi (1998) discovered that hired labour, purchase of seeds, fertilizer and farm implements were allocated about 24, 23, 31 and 8 percents of the available farm credit respectively. While Orebeyi and Njoku (2001) found that about 56% of agricultural credits in Imo State was used directly for financing agricultural activities like hired labour, purchase of seeds, fertilizer, agro-chemicals and farm implements. About 31% was diverted for consumption while the remaining 13% according to them could not be accounted for.

It was also discovered during the course of this study that 86.7% of the respondents agreed that informal sources of credit are better than formal sources. Some of the reasons given were that informal sources of credits are more timely and easy to obtain. Similar result was also recorded by Okories (1991)

CONCLUSION AND RECOMMENDATIONS

Agriculture plays a dominant role in the Nigerian economy and a large part of the population is on farm. From these research findings, it is apparent that farmers in the area of study are using informal credits in substantial amounts. Nevertheless their requirements are not met. This requirement will increase as farming is further intensified to meet the needs of the growing

population. This calls for more modern tools and equipment, improved seeds and agro-chemicals all of which make additional demands for credit.

It is therefore recommended that rural loan beneficiaries should be granted sufficient loan to cater for both their production and consumption needs. The operators of credit scheme should also adopt effective monitoring network in order to discourage diversion of loan to unproductive ventures.

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