

**EVALUATION OF MICRO-CREDIT SOURCES, INTEREST RATES AND ADEQUACY OF CREDIT ADVANCED TO FARMERS IN EDO STATE: IMPLICATIONS FOR ENHANCING FOOD SECURITY AND LIVELIHOODS IN NIGERIA**

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**ABSTRACT**

The study examines sources of micro-credit, interest rates and adequacy of credit advanced to arable crop farmers in Edo State, Nigeria. Multi stage random sampling procedure was used in selecting 150 arable crop farmers in the study area. Data were collected with the pre-tested questionnaire and analyzed using descriptive techniques such as mean, frequency distribution, percentages and t- test statistic. The study revealed that micro-credit lending from friends attracted interest rates ranging from 2% to 5%. Credit from family members did not attract any interest rate. Osusu charged interest rates that ranged from 2% to 3%, while Micro-finance Banks charged between 5% to 9% interest. Co-operative societies charged interest rates of between 2% and 3% while Commercial Banks charged the highest interest rate of between 20% and 24% on micro-credit. With the exception of commercial banks whose micro-credit term may extend up to 24 months all others had 12 months. Shortness of repayment time and selling off farm products even when prices are low in order to repay loan are the major problems facing farmers in acquiring and managing credit obtained. The study recommends the need to shore up the capital base of informal credit providers to improve their capacity to disburse high loan sums to farmers. This is expected to improve farmer's ability to generate high annual turnover and hence break the vicious cycle of poverty. International agencies targeting poverty alleviation among rural populace can channel such assistance through informal micro-credit providers. Attempt should be made by micro-credit providers to extend the loan term from 12 months to 2 years as it would give farmers sufficient time to sell their farm products off at remunerative prices. Effort should also be made by farmers in efficiently utilizing credit so as to boost their productivity and income as it will go a long way to improve their loan repayment performance and hence livelihood.

**Keywords:** Micro-credit, farmers, credit, interest rate, arable crops

**1. INTRODUCTION**

The efforts of government towards mobilizing and supporting the agricultural sector of the economy so as to improve standards of living of the farmers are more pronounced now than ever. This is against the increasing awareness that the farmers are capable and willing to pull themselves out of poverty if a conscious effort is made to ease their access to credit. This will increase the level of farm output / income thereby solving the problems of production, consumption and nutrition among farmers.

The accessibility of a good financial service is considered as one of the engines of economic development. Governments of less developed countries have frequently practiced the policy of providing cheap credit to the agricultural sector through financial intermediaries. This cheap credit, it was hoped, would lower the dependence on the rural money lenders (Pinaki, 1998). The provision of credit has increasingly been regarded as an important tool for raising the incomes of rural populations, mainly by mobilizing resources for more productive uses. As development takes place, one question that arises is the extent to which credit can be offered to the rural poor farmers to facilitate their farm operations, all things being equal. Thus, the usefulness of any agricultural credit programme does not only depend on its availability, accessibility and affordability but also on its proper and efficient allocation and utilization for the intended purpose by beneficiaries (Oboh, 2008). However, credit diversion, poor repayment rate and loan default among farmers continue to be a challenge. The extent to which this is true among arable crop farmers in Edo State in terms of rate of credit allocation to the farm sector and the factors affecting it, is not known.

A number of researches have attempted to explain the factors affecting credit accessibility by farmers in Edo State (Izekor and Alufohai, 2010; Alufohai, 2006; Alufohai and Ahmadu, 2005). Also, Asekome and Ogbechie (2011) posited that credit is not easily accessible and if accessible from moneylenders, they charge rates too high for micro enterprises to pay. The high rates contribute to the cost of capital and further negatively impacts on the annual turnover of the farm enterprise. Asekome and Ogbechie (2011), further posited that farmers buy inputs at exorbitant rates because they cannot buy in wholesale markets, thereby reducing their profit margins. According to Ikhelowa (2011), the foregoing underscores the need to make adequate loanable fund available to farmers at the right time and at such rate that will make returns on investment more attractive. But, there is lack of clarity on the relationship between the volume of loan received and farmers' annual turnover among arable crop farmers in Edo State.

Despite the centrality of micro-credit for investment in farm enterprise, Ikhelowa (2011) asserted that banks are often very reluctant to give loans to farmers because of the risky nature of agricultural enterprises. This is due to many unforeseen and uncontrollable factors like weather problems, flood, pests and diseases. The irreversibility of investment made in agricultural enterprise may have reinforced the reluctance of banks to give credit to farmers. According to Onietan and Afolayan (2010), the foregoing factor is closely connected to the biological nature of agricultural sector which includes long gestation period, seasonality of production and perishability of raw products.

Past studies by scholars, including Umoh (1981), Idachaba (1985) and Ikhelowa (2011) stressed that commercial banks do not respond adequately to the needs of the farmers especially the small – scale farmers. The poor responses include delayed processing of application, lack of or poor supervision of funded projects, inadequate amount of money compared to the requirements of the farmers (Ikhelowa, 2011). Hence the choice of micro-credit sources by farmers which include traditional savings associations, cooperative societies, micro finance banks, friends, family and relations (Osagie, 2006). But the interest rates, adequacy and timeliness of the different sources of micro-credit patronized by arable crop farmers are not known.

If farmers are to improve their operations they must have access to credit (Oyedeji 2008). This will allow them to invest in their farms and small businesses. Ana (2007) corroborated this when he said that most of the efforts made by Governments through their programmes and policies have not appreciably impacted on poverty alleviation in the country. In spite of the problems inherent in obtaining credit by arable crop farmers, they still manage to eke out a living. The extent to which this is the case has received little research interest. But, understanding the problems associated with the different sources of micro-credit delivery for arable crop farmers will enable policy makers proffer solutions to them and eventually enhance their access to purchase inputs. This study analyzes the sources of micro-credit, ascertains the interest rates, adequacy and timeliness of the different sources of micro-credit patronized by the arable crop farmers. It also examines the problems associated with the different sources of micro-credit delivery for arable crop farmers and proffer solutions. A study of this nature will assist farmers in realizing their potentials for increasing output and incomes. Secondly, it will show the adequacy and timeliness of micro-credit intermediaries both formal and informal and help to strengthen their operations. Thirdly, international donors and financiers will be provided local information in order to maximize existing facilities.

## **2. METHODOLOGY**

The study was conducted in Edo State, Nigeria. According to Edo State Government (2008) the state has an area of about 19,794 km<sup>2</sup>. It lies roughly between longitudes 05° 04'E and 06° 43'E and latitudes 05° 44'N and 07° 34'N. It is bounded on the north by Kogi State, on the west by Ondo State, on the south by Delta State and on the east by both Kogi and Anambra States. The state had a population of 2,159,848 (National Population Commission 2007). Edo State is made up of 18 Local Government Areas (LGAs) grouped into three agricultural zones of Edo North, Edo Central and Edo South. Edo North is made up of Akoko – Edo, Owan West, Owan East, Etsako West, Etsako Central and Etsako East LGAs. Esan North – East, Esan South-East, Esan Central, Esan West and Igueben LGAs constitute Edo Central. While Edo South is made up of the following LGAs: Oredo, Ikpoba – Okha, Egor, Orhionmwon, Uhunmwode, Ovia North – East and Ovia South – West.

The climate of Edo State is equatorial in nature. It is characterized by humid conditions in the southern parts and sub-humid conditions in the northern parts (Okoro, 2002). The rainfall pattern, which is bimodal, varies from 200cm a year in the southern part to 115cm a year in the

north spanning about eight months of the year (Azeke, 2002). The temperature is about 27°C on the average with a monthly range of 22°C to 35°C and relative humidity of 79% to 90%. The vegetation zones distinguished the agricultural zones. Geologically, the state overlies the sediments of the “Ogoni Sand” or the Benin formation (Lar, 1974). These soils are derived from sand stone and shale and are of very recent deposits and very susceptible to leaching and thus lose their fertility very fast (Okoro, 2002). The soil type ranges from low productive sand to fertile clay soil.

The people are predominantly farmers. Arable crops grown by the respondents/farmers in the study area are cassava (*Manihotesculenta*), rice (*Oryza sativa*), maize (*Zea mays*), tomatoes (*Lycopersiconesculentum*), yam (*Dioscorea species*), and groundnuts (*Arachishypogeeae*). Besides farming, other major occupations are trading, carpentry; block making, teaching, shoe making and pottery (Aligbe, 1999). Other sources of employment include the civil service and general contracting business concerns.

Three Local Government Areas (LGAs) were selected from each of the 3 agricultural zones of the state using purposive sampling method. The LGAs selected are those with high concentration of arable crop farmers. The researcher with the assistance of the State Agricultural Development Programme (ADP) identified and selected the LGAs with the highest concentration of arable crop farmers in each agricultural zone. From Edo North Agricultural Zone, the following LGAs Etsako West, Owan West and Akoko-Edo. From Edo Central Agricultural zone, Esan North-East, Esan West and Igueben LGAs were selected while from Edo South, Uhunmwode, Ovia North East and Orhionmwon LGAs were selected. Communities in Edo South according to the ADP are more involved in arable crop production. In each LGA, two communities were randomly selected. With the assistant of the Agricultural Development Programme (ADP) extension workers in each of the selected communities, the arable crop farmers were identified and a sample frame consisting of the names of the farmers was obtained from the extension agents. A simple random sampling technique was used in selecting eight (8) respondents among the identified arable crop farmers in each of the selected communities in Edo north and Edo central. In Edo south, nine (9) arable crop farmers were randomly selected. This brought the sample size of the study to one hundred and fifty (150) respondents. A pre tested structured questionnaire that elicited information on micro-credit sources, interest rates, loan term, timeliness and adequacy of loans obtained as well as constraints facing crop farmers in obtaining loans was used for the study. Data were analyzed using frequency descriptive techniques such as mean, frequency distribution and percentages, as well as other appropriate statistical tools such as t-test statistic.

Comparison of differences in the means between amount of micro-credit applied for and amount obtained from the different sources was facilitated using t-test statistics for independent samples. The t-test statistic is given as:

$$t = \frac{X_1 - X_2}{\sqrt{\frac{s^2}{n_1} + \frac{s^2}{n_2}}}$$

$$\sqrt{SE^2_1 + SE^2_2}$$

Where:

$\bar{X}$  = Means of 2 independent samples

$SE^2$  = Standard errors

$S^2$  = Sample Variance

### 3.RESULTS AND DISCUSSION

#### Micro credit Sources and Interest Rates

Table 1 shows micro-credit sources, interest rates and loan term. Table 1 shows that micro-credit lending from friends attracted interest rates ranging from 2% to 5% with a loan term of 12 months. Micro-credit from family members did not attract any interest rate. While Osusu charged interest rates that ranged from 2% to 3%. Micro-finance Banks charged between 5% - 9%. Co-operative societies charged interest rates of between 2% and 3% while Commercial Banks charged the highest interest rate of between 20% and 25% on micro-credit. The interest rate charged on micro-credit from the different sources depends to a large extent on the relationship between the borrower and the lender. This accounts for why people obtain loan from the same source at different interest rates. With the exception of commercial banks whose micro-credit term may extend up to 24 months, all others had 12 months. Short micro-credit term may pose repayment problems for arable crop farmers. To this end, Aligbe (2016) suggests an extension of micro-credit term from 12 to 24 months.

**Table 1: Micro-Credit Sources, Interest Rates and Loan Term**

Sources of Micro-credit	Interest Range (%)	Loan Term
Friends	2-5	12 months
Family /Relations Contribution	Nil	12 months
Osusu	2-3	12 months
Micro-finance Banks	2-3	12 months
Co-operative Societies	5-9	12 months
Commercial Banks	20-25	12 – 24 months



**Source: Field Survey, 2013**

**Adequacy of Loan Amounts from the Different Sources**

In determining the adequacy of micro-credit received by arable crop farmers, the means of the amounts applied for and the amounts obtained were compared. Results obtained in Table 2, shows that in all the sources, farmers got lower amounts of micro-credit than the amounts they applied for. The difference in means as revealed by the t-test result is statistically significant at the 1% level of probability. This implies that the amount of loan applied for from all the sources within the period covered by the study is significantly greater than the amount obtained and therefore inadequate to meet the needs.

**Table 2: Difference in the Means between Amount of Micro-Credit Applied For and Amount Obtained from the Different Sources**

Source of Micro-Credit	Status	Mean ₦	Standard Deviation ₦	Df	t-values
Osusu	Amount Applied	80056.3380	30883.13794	70	21.843*
	Amount Obtained	72014.0845	19528.36249	70	31.073*
Co-operatives	Amount	73000.0000	26886.33482	16	11.195*

	Applied				
	Amount	71647.0588	17765.63106	16	16.628*
	Obtained				
Micro-Finance	Amount	81655.1724	15710.04197	28	27.990*
Banks	Applied				
	Amount	71586.2069	14814.36861	28	26.022*
	Obtained				
Family Contribution	Amount	93750.0000	31481.28696	7	8.423*
	Applied				
	Amount	76250.000	26692.69563	7	8.080*
	Obtained				
Friends	Amount	114545.4545	34165.37322	10	11.120*
	Applied				
	Amount	100000.0000	26267.85107	10	12.626*
	Obtained				
Commercial	Amount	246428.5714	49862.44816	13	18.492*
Banks	Applied				
	Amount	226428.5714	83261.14089	13	10.175*
	Obtained				

Source: Computed from survey data, 2013

Note: \*Significant at  $P \leq 0.01$

Table 3: Farmer’s Perception of Problems Associated with Different Sources of Micro – Credit

Problem	Friends/ Relations	Family contributions	Osusu	Microfinance Banks	Cooperative societies	Commercial Banks	Total
Short loan term	6.06%	3.03%	46.96%	25.7%	18.2%	-	66
Inadequate loan amount	16%	8%	40%	36%	-	-	50
High interest rate	12.5%	5%	30%	22.5%	-	30%	40
Sur – charge on repayment default	-	-	-	35.7%	28.6%	35.7%	28
Forced to sell farm products even when price is not encouraging in order to repay loan	-	-	21.7%	41.66%	23.3%	13.3%	60

Source: Field Survey, 2013

Farmer’s perception of problems associated with various sources of micro-credit is presented in Table 3. Majority of the farmers (66) are of the opinion that the one year duration of the loan is too short. They opined that an additional 12 months would suffice them to harvest their crops and sell them at good prices rather than sell them at harvest. This is closely followed by those respondents (60) who were of the opinion that they were forced to sell farm products even when prices were not encouraging in order to repay loan. This phenomenon makes most farmers’ to forfeit good prices if their farm products were sold at a time there was no glut (off season). The



implication of flooding the market with farm products at harvest is that there will be food scarcity at off-seasons with prohibitive prices. This has serious consequences for national food security. Moreover, selling farm products at poor prices at harvest will limit the amount of income generated from farming, standard of living and ability to invest. This phenomenon could aggravate the poverty status of farmers. Fifty respondents were of the opinion that the loan amount obtained was inadequate to carry out their farming activities the way they would have preferred. This is because in almost all instances, the amount of micro-credit applied for was lower than that approved. The implication of this result is that business expansion and growth is thwarted with no respect for progress. This may pose serious problems for agricultural development and food security. Twenty-eight respondents were of the opinion that high interest rate and surcharge on repayment default constitute constraints of borrowing from the various sources. It is the attempt at avoiding the payment of surcharge upon default of repayment that may have driven most of the respondents to sell their farm products immediately after harvest at poor prices. This calls for the extension of loan term from 12 to 24 months.

#### **4. CONCLUSION AND RECOMMENDATIONS**

Even though interest rate from the various micro-credit sources is moderate and loan is disbursed on time, the loan amount obtained by arable crop farmers from micro-credit providers is inadequate to meet their production needs. This suggests that with higher loan sums, farmers have the potential for generating higher annual turnover. The study recommends the need to shore up the capital base of informal credit providers to improve their capacity to disburse high loan sums to farmers. This is expected to improve farmer's ability to generate high annual turnover and hence break the vicious cycle of poverty. International agencies targeting poverty alleviation among rural populace can channel such assistance through informal micro-credit providers. The performance of the informal micro-credit sub-sector as it presently stands cannot be relied upon to achieve these objectives. This calls for urgent and pragmatic steps to be taken to improve the systems performance.

It is imperative to grant farmers the required amounts of loan to enhance their loan repayment performance. There is an urgent need for increase in the rate of agricultural credit allocation to the farm sector to ensure increased productivity of crops grown for increased welfare and livelihood of these farmers and the citizens of the State as a whole. Attempt should be made by micro-credit providers to extend the loan term from 12 months to 2 years as it would give farmers sufficient time to sell their farm products off at remunerative prices.

Effort should also be made by farmers in efficiently utilizing credit so as to boost their productivity and income as it will go a long way to improve their loan repayment performance and hence livelihood.

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