

Impact of Farm Credit on Farmers Socio-economic Status in Ogun State, Nigeria

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KEYWORDS Loan. Productivity. Beneficiaries. Technology. Adoption

ABSTRACT Dwindling farmers productivity as a result of lack of adequate capital to increase yield necessitates this study. Information was obtained from a total of 250 farmers randomly selected from Ogun state, Nigeria. The farmers' were stratified into beneficiaries of credit and non-beneficiaries. The study shows that there is inadequate provision of loan from formal credit institutions with about 40% of beneficiaries securing loan from formal credit institution and 80% from informal credit institution. Beneficiaries recorded higher 80,000tons cocoa production compared to lower 21,000 tons of cocoa production recorded by non-credit beneficiaries. Consequently, 28% of beneficiaries recoded higher mean income of between ₦21,000-50,000 compared to 10.4% of non-beneficiaries. Beneficiaries 54.1% were of higher socio-economic status compared to 10.4% of non-beneficiaries in the same category. There was positive and significant correlation between performance of farm production operations and securing of credit for crops production level ($r = 0.382$) adoption of new technologies ($r=0.490$) and proper processing, storage and utilization ($r=0.224$). The study recommends that for positive impact to be recorded on farmers' socio-economic status credit should be given to the farmers and research should be intensified at the farm level for farmers to benefit.

Key Words: 192

INTRODUCTION

The performance of the nation's agricultural sector has often been described as being far below optimum (Akinbile 2003) Nigeria continues to import agricultural raw materials, which on average accounted for 16% of total imports during the period of 1991/1994. As a result the Nigerian economy is totally dependent on oil for export earnings despite the nation's vast agricultural resource base.

In the early seventies agricultural exports contributed nearly 62% of total exports now it accounts for less than 10%. Decline in agricultural contribution was attributed to neglect of the rural sector, comprising mainly the small-scale farmers. (Akinsoye 2006). As the role of agriculture in the economy declines food importation increase leading to the depression of locally produced food which has decreased farmers expected income that could have been used to improve their socio-economic status. Socio-economic status (SES) is the position that individual or family occupies with reference to the prevailing average standards of cultural possessions effective income, material possession and participation in the group activities of the community (Akinbele 2007 and Oyeyinka 2002).

SES greatly influences the social behaviour of rural farmers and it is necessary to be able to identify and control those variables that indicate SES, especially in a study where other aspects of social behaviour are studied. Wilson (1985) described SES as a classification, of individual household or family according to occupation, income, education on some other indicators of social status.

Farmers with higher SES are much more likely to become involved in voluntary actions than lower status people and it is of major importance in extension programmes because for extension programmes to be successful, it must start where the people are. Thus in the field of agricultural extension status plays an important role in the understanding of clients and planning of development concerns. The major factor affecting adoption of innovative economic strategies is SES, which is more important as a predictor than world view and attitude towards change. The goods which people strive to acquire as soon as they could possibly offered them to change with time the indicator of SES also change as those needs change. In Tanzanian crop type cultivated was an indicator of difference in SES among farmers and that farmer with high SES engaged their land more

in the production of coffee and tea, while those on the lower level were more into maize and cassava production (Sender and Smith 1990).

In Nigeria agrarian-based community is made up of some poor ruralite and generally poverty ridden farming population (Olawoye 2002). Thus, the higher a farmer's social status, the better his adoption behaviour tends to be when compared with other farmers.

It has been observed that rural farmers do not have enough to eat and poverty is prominent with them. Consequently, savings have become an unaffordable luxury and over 60% of Nigerian farmers live below poverty line (Okunmadewa 2003).

Farmers access to credit facilities is supported to be an accelerator of agricultural development through a wide spread break away from traditional technology and by fostering the generalized adoption of developed and improved technology. Flores (2004) corroborating this assertion "stated that institutional credit if made available to farmers could ameliorate some of the farmers problems such as small farm size, low output, low income and low social –economic status. It can also relieve farmers of the excesses interest impose on them by the informal creditors who usually charge high interest rate of between 100-300 percent per annum. Based on the above consideration and the vital role of credit in agricultural development, government initiated different policy measures for extending financial assistance to small-scale farmers through a farm credit scheme at low interest rates. Some of the credit institutions established are the:

- Agricultural Credit Guarantees Scheme
- Nigeria Agricultural Insurance Scheme
- Rural Banking Scheme
- Agricultural Credit Corporation
- Cooperative Thrift and Credit Society

It has been confirmed that a well-managed institutional credit scheme aided agricultural development while poorly managed credit programme has been instrumental to agricultural stagnation in many developing countries (Alabi et al. 2007). These farm credit schemes have been functioning for many years, it is therefore become pertinent to ascertain their impact on the beneficiaries.

To accomplish this laudable objective the following specific objectives were set:

- (i) Ascertain farmers' personal characteristics

that influence patronage of farm credit scheme.

- (ii) Identify sources of credits to farmers.
- (iii) Ascertain production level of farm credit beneficiaries and non-beneficiaries.
- (iv) Ascertain SES of credit beneficiaries and non-beneficiaries.

METHODOLOGY

The study was carried out in Ogun state of Nigeria. The data were collected from a total of 250 farmers (small-scale and large scale) using a multistage sampling procedure. Efforts were made to ensure adequate representation of farmers in the two ecological zones and local government areas of the state. Structure and pre-tested sets of questionnaires were used to collect the relevant data. Akinbile (2007) weighted score developed for rural communities' items were adopted to calculate adoption scores for farmers. The information so gathered was used to estimate the farmers SES. The various analyses carried out including the use of frequency counts and correlation analysis.

RESULTS AND DISCUSSION

Personal Characteristics of Farmers that Influence Demand for Credit Facilities

As shown in Table 1 majority 84.0% of farm credit scheme beneficiaries were in their active economic/productive age 30-50 years while fewer 41.6% of non-beneficiaries belonged to age 30-50 years. This implies that majority 58.4% of non-beneficiaries were not in active economic age. It has been found that old people tend to be more risk averse than young people (Olarinde et al. 2004). This reason may account for why beneficiaries demanded for credit facilities more than non-beneficiaries. The table also indicates that 67.2% and 71.2% of beneficiaries and non-beneficiaries respectively were males, this calls for desegregation of sex into uniform cohorts with attendant separate programmes. Beneficiaries 70.4% and non-beneficiaries 32.8% had formal education, thus beneficiaries education accounted for their access to credit facilities. It was found that 84.0% of the beneficiaries engaged in non-farming income generating activities while 38.4% engaged in non-farming income generating activities. Non-farm income generating activities enhances far-

mers' risk bearing ability to demand for credit facilities. Alabi et al. (2007) stated that a farmer with profitable supplementary income could become an early adopter of new technology that may require demanding for credit facilities.

Table 1: Distribution of farmers by selected personal characteristics influence demand for credit

| Variable description | Beneficiaries | | Non-beneficiaries | |
|-------------------------|----------------|----------------------|-------------------|----------------------|
| | Freq- uency | Per- cent- age | Freq- uency | Per- cent- age |
| <i>Age</i> | | | | |
| Less than 20 years | 8 | 6.4 | 5 | 4.0 |
| 21- 30 years | 7 | 5.6 | 10 | 8.0 |
| 31 – 40 | 23 | 18.4 | 23 | 18.4 |
| 41 – 50 | 67 | 53.6 | 19 | 15.2 |
| 51 – 60 | 9 | 7.2 | 65 | 52.0 |
| Above 61 | 11 | 8.8 | 3 | 2.4 |
| Total | 125 | 100 | 125 | 100 |
| <i>Sex</i> | | | | |
| Male | 84 | 67.2 | 89 | 71.2 |
| Female | 41 | 32.8 | 36 | 28.8 |
| Total | 125 | 100 | 125 | 100 |
| <i>Education</i> | | | | |
| Literate | 88 | 70.4 | 41 | 32.8 |
| Non –literate | 37 | 29.6 | 84 | 67.2 |
| <i>Major Occupation</i> | | | | |
| Farmers | 68 | 54.4 | 101 | 81.8 |
| Non farmers | 57 | 45.6 | 24 | 19.2 |
| Nil | 20 | 16.0 | 77 | 61.6 |
| 1 – 25 | 40 | 32.0 | 21 | 16.8 |
| 26 – 49 | 62 | 49.6 | 24 | 19.2 |
| 50 and above | 3 | 2.4 | 3 | 2.4 |

Sources of Credit to Farmers

Table 2 disclosed that majority (64.0% and 76.0%) of farmers obtained credits from relative/friends and moneylenders respectively while 12.0% and 25.6% of farmers secured loan from commercial banks and Nigeria Agricultural and Rural Development bank. It is obvious from the table that farmers depended on informal creditors who charge exorbitant interest rates. They have not been able to exploit the low interest rate charge by formal credit institution.

Table 2: Sources of credit to farm credit beneficiaries

| Variables | Beneficiaries | |
|---|---------------|------------|
| | Frequency | Percentage |
| Commercial banks | 15 | 12.0 |
| Cooperative societies | 85 | 68.0 |
| Nigeria Agric. and Rural Development bank | 32 | 25.6 |
| Money lenders | 95 | 76.0 |
| Relative/friends | 80 | 64.0 |

Source: Field Survey

Beneficiaries and Non-beneficiaries Production Level

The estimated total crop production for cocoa 80,000 tons and yam 22,510 tons for beneficiaries were higher than cocoa production 21,000 tons and yam production 9,110 tons by non-beneficiaries (Table 3). Low production level of non-beneficiaries may be attributed to poor capital base needed to purchase inputs necessary to improve production. That is limited capital available to the farmers in form of unspent farm incomes and present level of credit supply are generally not enough to embark on any meaningful improvement of their farms.

Table 3: Beneficiaries and non-beneficiaries production levels

| Crops | Beneficiaries production level (0.00) tons | Non - bene- ficiaries pro- duction level (0.00) tons |
|---------|---|---|
| Cocoa | 80,000 | 21,000 |
| Maize | 45,000 | 11,000 |
| Cowpea | 5,000 | 2,100 |
| Yam | 12, 510 | 9,110 |
| Cassava | 62,000 | 15,131 |

Source: Field Survey

Income Level of Beneficiaries and Non-beneficiaries

Table 4 shows that 35.0% of the beneficiaries of the farm credit scheme have income level of ₦21,000 – 50,000 compared to 10.4% of non beneficiaries in the same income level. Discrepancy in income level of beneficiaries and non-beneficiaries are reflected in farmer's productivity. That is the availability of credit is required for the purchase of needed innovations and agricultural inputs which are utilized to increase income.

Table 4: Income level of beneficiaries and non-beneficiaries

| Income | Beneficiaries | | Non-Beneficiaries | |
|------------------|----------------|----------------------|-------------------|----------------------|
| | Freq- uency | Per- cent- age | Freq- uency | Per- cent- age |
| Less than 10,000 | 15 | 12.0 | 50 | 40.0 |
| 11,000 – 20,000 | 70 | 56.0 | 62 | 49.6 |
| 21,000 – 30,000 | 25 | 20.0 | 10 | 8.0 |
| 31,000 – 40,000 | 10 | 22.8 | 3 | 2.4 |
| 41,000 – 50,000 | - | - | - | - |
| Total | 125 | 100.0 | 125 | 100.0 |

Source: Field Survey

Socio-economic Status of Beneficiaries and Non-beneficiaries

Table 5 endeavors to make some comparison between the socio-economic scores of beneficiaries and non-beneficiaries. The results show that 16.0% and 73.6% of beneficiaries and non-beneficiaries respectively belonged to low socio-economic status. Credits availability accounted for majority (84.0%) of beneficiaries in above average SES while 26.4% of non-beneficiaries belonged to the same categories. Generally beneficiaries have higher SES than non-beneficiaries, a result of the accessibility to credit, which enable them to purchase many SES items, which non-beneficiaries could not afford.

Table 5: Socio-economic status of beneficiaries and non-beneficiaries

| Category | Scores | Beneficiaries | | Non-beneficiaries | |
|----------|---------|----------------|-----------------|-------------------|-----------------|
| | | Freq- uency | Percen- tage | Freq- uency | Percen- tage |
| High | 21 – 30 | 68 | 54.4 | 15 | 12.0 |
| Average | 11 – 20 | 37 | 29.6 | 18 | 14.4 |
| Low | 1 – 10 | 20 | 16.0 | 92 | 73.6 |
| Total | | 125 | 100.0 | 125 | 100.0 |

Source: Field Survey

Correlation Analysis Showing Linear Relationship between Securing Credit from Credit Institutions and Farmers' Performance of Farm Operations.

Data in Table 6 show positive and significant correlation between the farmers performance of farm operations and securing of loan from farm credit institutions as indicated in adoption of new technologies ($r = 0.490$) processing, storage and utilization ($r = 0.224$) and crop production level ($r = 0.1382$). Coefficient of determination r^2 in the percentage indicates variations in farmers' performance of farm operations, as index by their income from farming (y variable) as explained by each of the x variable of the study. The table indicates that 15.3% variation in beneficiaries' annual income was attributed to increase in farmers' crops production level, 23.8% to adoption of new technologies and 5.0% to proper processing, storage and utilization. The analysis indicated that the more the intensiveness and effectiveness of

disbursement of loan to farmers, the more are likely, the beneficiaries would be able to perform in production which will consequently increase income from production and raised their SES.

Table 6: Correlation analysis showing linear relationship between securing credit from Credit Institutions and farmers' performance of farm operations

| Field operations | Correlation coefficient | r^2 | Coeff. of determ. |
|--|-------------------------|--------|-------------------|
| Land preparation | 0.181 | 0.0367 | 3.7 |
| Use of modern tools | 0.216 | 0.0455 | 4.5 |
| Adoption of new technology | 0.490* | 0.2308 | 23.08 |
| Crop production | 0.382* | 0.1539 | 15.39 |
| Processing and storage and utilization | 0.224* | 0.0500 | 5.0 |
| Farm management | 0.026 | 0.007 | 0.7 |

*Significant of 0.05 level.

df – 80 critical value of $r = 0.2172$

CONCLUSION

The study found that majority of beneficiaries were literate. This accounted for their access to credit institution. Farmers' secured loan from informal credit institutions more than formal credit institutions. Hence, they paid high interest rates of about 300% on loan collected per annum. Agricultural credit facilities influence farmers' crops production, income level, and consequently rated beneficiaries higher in SES.

Finally there is a positive, significant relationship between securing loan from credit institutions and farmers performance of production operations. The study just suggests that extension agents and other community development workers as well as rural sociologists would be more successful in their efforts if the socio-economic status of farmers are raised through giving loan to farmers. This is important to aid adoption of innovations in their efforts at achieving agricultural production so that the nation can progress towards achieving the much desired food security. This becomes important as peasant farmers in rural communities in the study area produce the bulk of food consumed in the country (Okunmadewa 1999).

RECOMMENDATIONS

To raise the farmers' socio-economic profile in the study area, the following recommendation are suggested:

1. Government should re-organize all the existing institutional credit schemes.
2. Agricultural Extension agents should educate farmers on the sources of credit facilities available to them.
3. Commercial banks, and other credit institutions should improve upon their loan procedures, so as to facilitate more farmers assess to their credit facilities.
4. The extension agents should mount education and enlightenment programme on the significance, impact of credit.

Agricultural loan interests should not be too high so as to discourage farmers from borrowing money from moneylenders.

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