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# **The Role of Financial Institutions in Financing Small-Scale Agricultural Production in Benue State, Nigeria**

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## **Abstract**

*In the study, an assessment of the role financial institutions play in making credit available to small-scale farmers in Benue State was carried out.*

*Two hundred small-scale farmers comprising 100 beneficiaries and 100 non-borrowers were randomly selected for the study. Three financial institutions that provided agricultural credit were also selected for the study.*

*The study revealed that 13 banks had branches in the area out of which only two did not operate agricultural loans scheme. The Chi-square results indicated a significant relationship between all the socio-economic variables, except managerial ability, and the credit needs of farmers ( $P < 0.05$ ). The t-test indicated a significant difference ( $P < 0.05$ ) between the net farm income of borrowers and non-borrowers. However, borrowers had a higher net farm income and expenditure than non-borrowers.*

*Finally, the study revealed that credit granted to farmers was relatively inadequate. Forty per cent of the total loan requested between 1992-1996 was granted, with per capita annual sum of ₦7,184.54. About 58 per cent of the loan granted were also recovered during the period. Inconsistent government policies, poor extension services, poor management and lack of adequately trained credit officers amongst others were identified as factors militating against efficient disbursement and recovery of loans.*

## **Introduction**

Agricultural production in Nigeria generally and in Benue State in particular has been plagued by many factors including the poor financial state of the small-scale farmers who form the bulk of agricultural producers. The lack of adequate credit has been generally recognised as an important constraint in expanding food production and modernising agriculture amongst the small-holder farmers.

Over the years, government in Nigeria have initiated programmes, and established institutions to serve as strategies for increasing agricultural productivity



as well as raising the income of farmers. The Nigerian Agricultural and Co-operative Bank (NACB) and the Agricultural Credit Guarantee Scheme (ACGS) were strategies designed by government to make credit available to farmers at a cheaper rate. The inclusion of credit policy objectives and strategies in the Fourth Development Plan (1981-1985) was a pointer to its importance in the agricultural development in Nigeria (Nwagbo and Mohammed, 1986).

The roles of credit in agricultural development have been well documented by researchers (Baker, 1973; Howse, 1974; Malton, 1978; Nwagbo and Illebani, 1984).

For instance, it is essential in financing the adoption of new agricultural technology (Lipton, 1976 and Ajakaiye, 1990). Experience in Nigeria and elsewhere has shown that unless production credit is made available on suitable terms, majority of small-scale farmers will be seriously handicapped in adopting profitable technologies (Ogunfowora *et al* 1972 and Miller, 1975). By implication, increase in agricultural productivity depends upon the adoption of improved technologies. Adoption on the other hand depends among other factors on the farmers' ability to acquire these technologies.

Farmers source their credit from both institutional and non-institutional sources. The latter which, is a major source of credit to small-scale farmers most often is exploitative given its associated high interest rates. However, this study focuses on the institutional source, principally financial institutions. These institutions tend to be apathetic towards the credit needs of the small-scale farmers in view of the high administrative cost involved in granting loans to those farmers, high default rate of the farmers who have little or no collateral security, and the generally risky nature of agricultural investments. Therefore, to facilitate farmers access to institutional credit and to encourage the financial institutions to grant credit to farmers, government established the NACB and the ACGS and introduced the rural banking schemes.

The present study was therefore undertaken with the following objectives:

- \* To identify available institutional sources of small-scale agricultural credit in Makurdi Local Government Areas as well as investigate their credit disbursement and recovery profile between 1992 and 1996.
- \* To determine the degree of association between some identified socio-economic variables and credit needs of small-scale farmers.
- \* To assess the contributions of the credit institutions to increase farm income of the small-scale farmers.



- \* To identify constraints to loan disbursement and recovery by financial institutions in the study area.

## **Methodology**

### **Study Area**

The study was carried out in Makurdi Local Government Area of Benue State. The area is the administrative headquarters of the State and is inhabited by the Tivs who grow a wide range of crops, such as yams, cassava, groundnuts, sweet potatoes, millet, sorghum, etc. The area also has a good concentration of financial institutions who grant credit facilities to small-scale farmers in the area. A list of the institutions is presented in Table 1.

### **Data Collection And Sample Size**

Data were obtained from a sample of 200 small-scale farmers randomly selected in the study area. Of this number, 100 were beneficiaries (borrowers) while 100 were non-beneficiaries (non-borrowers). Three banks, Union Bank of Nigeria (UBN) Plc., Nigerian Agricultural and Co-operative bank (NACB) Limited, and People's Bank of Nigeria Limited, were purposively selected from the 13 banks identified in the study area (see Table 1).

Two sets of structured questionnaires were administered to the respondents (the farmers and Banks respectively) to elicit information on the following selected variables as applicable: age, farm size, educational level, managerial ability, interest rate, income and expenditure, credit taken and amount desired.

### **Data Analysis**

Descriptive statistics, specifically response frequencies and percentages, were used to present data on the selected socioeconomic variables. Also inferential statistics, the chi-square test, was used to determine the relationship between the socio-economic variables and the farmers need for credit. Finally, the student t-test, another inferential statistics, was applied to determine if a significant difference existed between the average net farm income of borrowers and non-borrowers in the study area. A significant difference in average net farm income in favour of the borrowers would imply positive condition by the credit institutions towards agricultural development.

## **Results and Discussion**

### **Institutional Sources of Agricultural Credit in Makurdi**

A total of 13 banks were identified in the study area during the study period



(1992-1996). Table 1 presents the names of the banks, year of establishment and year they started granting loans to farmers in the study area. Of the 13 banks, African Continental Bank (ACB) and Savannah Bank PLC were the only Banks that had not started granting loans to farmers, while the New Nigerian Bank (NNB) PLC had stopped giving out loans to farmers in 1978.

### **Credit Profile of the Financial Institutions (1992-1996)**

Table 2 indicates that, out of the total of 2,523 farmers who applied for a total loan of ₦21,840,883, only 1220 farmers were granted loans to the tune of ₦8,765,138 only. This means that only 40.13 per cent of the loan requested was granted. An annual average sum of ₦1,753,026.60 was therefore granted during the period, with each farmer receiving a paltry average sum of ₦7,184.54 annually. This was rather meagre considering the capital-intensive nature of modern agriculture. Of the ₦8,765,138 loan granted during the period, ₦5,047,409 or 57.59 per cent of the loan was recovered. Ijere (1975) and Osuntogun (1973) had observed similar situation in their studies. The study also revealed that these banks hardly met the Central Bank of Nigeria (CBN) minimum target.

### **Relationship between identified Socio-economic Variables and Farmers credit needs.**

#### ***Age of Borrowers:***

About 53 per cent of the borrowers were within the age range of 30-39 years. The Chi-square results (Table 3) indicated that age was an influential factor ( $P < 0.05$ ) in the desire for credit by prospective borrowers. The significance of this variable was an indication that this age range, being the most economically active population according to Oluwansanmi (1987), would always have need for credit.

#### ***Farm Size:***

Approximately 60 per cent of the borrowers and non-borrowers combined, had farm size ranging from 0.1 to 5 hectares, indicating the predominance of small-scale farmers in the area (Okoye, 1988; Olayide, 1980). Precisely 57 per cent of the borrowers and 62 per cent non-borrowers had farm size within this range. The Chi-square results (Table 3) also revealed that farm size was a determinant of the credit need of farmers ( $P < 0.05$ ) that borrowed from Banks. This implies that borrowers would need credit to be able to increase their farm sizes and acquire more inputs in order to increase their yields.



### ***Educational Level:***

The study revealed that 30.69 per cent of all the respondents did not have formal education. This result was expected and it confirmed Opeke's (1984) findings that rural farmers were characterised by low literacy level. A statistically significant relationship ( $P < 0.05$ ) was therefore observed between educational level of borrowers and their desire for credit (Table 3). Education is an important factor necessary for dissemination of scientific information to farmers; it creates awareness for innovation, which is the basic step in adoption process. An educated farming population is amenable to adoption of new technologies. Technology adoption, on the other hand, is capital intensive and therefore creates a desire for credit.

### ***Managerial Ability:***

The Chi-square analysis (Table 3) detected no significant relationship ( $P < 0.05$ ) between farmer's managerial ability and their credit need. Peasant farming is an age-old tradition and peasant farmers have developed sufficient skill and competence to manage their subsistence farming businesses.

Farmer's credit need is, therefore, not influenced by their managerial skills and competence, farmers may have the need for loan. In other words, whether he is a novice or a veteran in the profession, a farmer may need financial assistance in form of loan to establish or expand a farming business, depending on circumstances.

### ***Interest Rate:***

The results of the Chi-square analysis (Table 3) further revealed that interest rate influenced the desire for credit amongst the borrowers ( $P < 0.05$ ), an indication that a higher rate charged by banks would tend to discourage the demand for credit. For this reason, majority of the borrowers involved in this study decided to patronise the NACB and the People's Bank in their demand for credit facilities.

The two Banks are not purely commercial in nature and therefore charge very low interest on agricultural and small-business loans.

### **Net Farm Income of Respondents**

Table 4 indicates that the average net farm income of borrowers was N40,450.55 while that of non-borrowers was N34,892.80. The t-test revealed that the difference between the average farm incomes of the two categories of respondents



was significant ( $P < 0.05$ ).

It was therefore safely concluded that the borrowers had higher farm income than non-borrowers. This implies that with the judicious application of their credit, the borrowers had realised a resultant increase in yield, which had translated into higher income. This agrees with the findings of Singh (1986), Alivu-Aucha (1986) and Nwagbo and Ilebani (1984). However, borrowers tended to incur more expenses on farm inputs than non-borrowers. Hence, credit was observed to boost the income vis-à-vis the welfare of farmers in the study area.

### **Constraints to Loan Disbursement and Recovery**

The study identified the following constraints to disbursement and repayment in Makurdi Local Government Area of Benue State.

- \* *Government Policies:* Since these financial institutions operate in social—political environment, government policies often have impact on the success of loan schemes. Some contradictory policies of government have had a negative effect on loan disbursement and recovery. For instance, the liberalisation of wheat importation into the country had resulted in wheat farmers incurring losses due to the fall in price of their product. This resulted in their inability to repay loans and thus discouraged the lending institutions from granting more loans to these farmers since loans were supposed to be revolving. The study revealed that the deregulation of interest rate by government had led to the arbitrary charging of higher interest rates by the banks, thereby discouraging the demand for loans by farmers in the study area. Government policies tend to marginalize small-scale farmers in their desire for credit from financial institutions in the study area.
- \* *Ineffective Extension Service:* Increased productivity requires the transformation of the obsolete traditional and laborious farming practices into modern and mechanised mode of production. To bring about this, research, extension service and credit must be integrated into the traditional farming systems. The study revealed that extension services in the area were not adequately available to the farmers. Hence limited awareness of efficient use of credit by farmers was observed, with the consequence that most beneficiaries lacked the ability to repay their loans on schedule and many had indeed become insolvent.
- \* *Poor Management and Shortage of Credit Personnel:* The study revealed that the Banks in the area lacked adequately trained personnel to effectively appraise and supervise agricultural projects, thus resulting



in the waste of funds projects that were not self financing. Also the farmers lacked the skills necessary to manage large-scale, modern agricultural enterprises that depend on the application of new technologies. This situation often times, leads to inefficient application or even diversion of loans meant to finance such technologies and consequent low productivity. This eventually leads to the problem of repayment, which affects further disbursement by these institutions.

- \* *Problem of Loan Default:* The study found out that loan default by farmers in the area, especially default on loans granted by government institutions like NACB and People's Bank was higher than default on loans from other sources. This was based on the belief of the farmers that it was their share of the "national cake". Sufianu (1984) observed this same situation in his study. It was also revealed that default also existed in the administration realm where bank officials connived with the defaulters to hide them or give them preferential treatment.

## Conclusions and Recommendations

The following conclusion are based on the findings of the study:

- \* Only two of the 13 Banks in the study area did not grant loans at all to farmers during the study period. This implies that 84.6 per cent of the Banks in the area operated agricultural loan scheme during the period.
- \* A total of about 2,523 farmers applied for a loan totaling ₦21,840,883 during the period but only 1,220 farmers got a paltry sum of ₦8,765,138 with each farmer receiving an average of ₦7,184.54. About 58 per cent of the total loan was recovered.
- \* The borrowers' credit needs were positively influenced by their ages, farm sizes, educational levels and the low interest rate charged by some of the banks, in particular the NACB and the People's Bank of Nigeria.
- \* Loan beneficiaries (borrowers) had higher net farm income than the non-beneficiaries during the period covered by the study (1992-1996).
- \* The following constraints were identified as militating against the disbursement and recovery of agricultural loan in the area:
  - (i) Government inconsistent policies
  - (ii) Ineffective extension services
  - (iii) Poor management and inadequate credit personnel
  - (iv) Loan default by farmers.



In order to enhance the Banks' role in increasing small-scale agricultural production in the State, the following recommendations were proffered:

- \* Financial institutions should relax the stringent requirements involved in the granting of loans to farmers to encourage the small-scale farmers to demand for credit.
- \* Adequate fund should be granted to the farmers on request at the appropriate time to avoid the diversion of such loans and in view of the time bound nature of agricultural operations. Farmers need credit to facilitate or even execute most of these operations for increased productivity:
- \* Farmers should be encouraged to form co-operatives in order to pool their resources for increased productivity. Co-operatives also provide collective collateral necessary for bank loans.
- \* Banks should endeavour to employ enough credit officers who have background in agriculture to enhance their effective supervision and appraisal of agricultural projects. This will check the incessant waste of fund that disrupts prompt repayment of such loans.
- \* Field extension staff should be well educated on credit matters to enable them advise farmers adequately on proper and efficient utilisation of credit obtained by them. This would also enhance the ability to repay such loans.

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