

Credit Uses and Causes of Repayment Default among Farmers in Chanchaga and Bosso Local Government Area, Niger State, Nigeria

S. I. Umar¹, A. M. Ndanitsa¹ and A.Y. Iliyasu²

¹Dept. of Agricultural Economics & Extension Technology, FUT Minna.

²Vocational & Technology Education Programme, ATBU Bauchi.

iumarsheshi@yahoo.com

Abstract

The study examined the credit uses and repayment default among farmers, using loan beneficiaries of Nigeria Agricultural Cooperative and Rural Development Bank (Minna Branch) as the respondents. Structured questionnaire were used to collect data from randomly selected 130 farmers. Data were analysed using descriptive statistics and chi-square test. Findings of the study showed that all the respondents (100%) used the credit for farm activities while 39.23% of the respondents also utilized part of the credit for non-farm activities for payment of debt, school fee, hospital and food bills. The result further reveals that 10% of the respondents did not receive any complementary services apart from the loan package. Some of the major root causes for repayment default identified includes unconducive collection term, lack of market for produce and high cost of input. Other causes were due to pest and diseases, misallocation of credit funds and poor health problems. A significant relationship exists between respondent's household sizes ($\chi^2 = 0.034$, $P < 0.05$) and repayment default. To alleviate the problem of unconducive collection term, it was suggested that the lending institutions should assist the farmers by accepting repayments in kind in special cases where farmers do not have market for their produce. Furthermore, lending agencies in collaboration with ADPs should provide adequate complementary services to loan beneficiaries to reduce diversion and misallocation of credit funds.

Introduction

Nigeria, with more than 70 percent of her population directly engaged in agriculture, should be self sufficient in food production but for the peasant nature of agricultural sector, the nation's agricultural potential are far from being fully realized and this has unpalatable implication for food security and sustainable economic development (Olomola, 1995). Improving the productivity of the agricultural sector will involve the modernization of

agricultural production. The modernization process will involve the adoption of new improved practices by farmers.

Most of the so called new techniques of farming are capital intensive and adoption of these techniques by farmers means increased capital spending on agriculture. Most of peasant farmers lack the financial resources for adoption of these new techniques as a result of their production system; characterised by low investment, output, income, savings and

productivity. This is a vicious cycle from which they find it difficult to escape without outside financial assistance. This outside financial assistance should come in form of credit. (Nmagbo, 1981).

In realization of the importance of credit to agricultural development, various government administrations set up public financial institutions to provide credit to farmers in Nigeria. However, these efforts have not yielded meaningful results. Many of these public credit institutions were abandoned because their performances did not justify the large sums of money spent on them. Most of these institutions were accumulating debt for the government because of their inefficiencies in managing resources and in ability to recover loans from the beneficiaries. These findings raise a number of questions which include the followings.

1. Do farmers benefit from loans allegedly disbursed by these institutions?
2. Do the farmers utilize the loans for the purpose they are meant for?
3. Do the farmers receive other complementary services apart from the loan package?
4. If the above conditions are satisfied, then what are the root causes of repayment default especially among the small-scale farmers?

This study is, therefore, aimed at finding answers to some of these questions, using

Nigeria Agricultural Co-operative and Rural Development Bank (Minna Branch) loan beneficiaries as a case study. The specific objectives of the study include to:

1. Find out ways in which farmers utilize their agricultural credit.
2. Find out the extent to which the loans are accompanied with complementary services.
3. Determine the type of crops grown by the farmers.
4. Identify some of the root causes of repayment default among farmers.

Methodology

The Nigeria Agricultural Co-operative and Rural Development Bank Minna branch covers both Chanchaga and Bosso Local Government areas. The two local government areas are located in the Southern Guinea Savanna zone of Nigeria. Average annual rainfall varies from 1100mm to 1600mm while average monthly temperature ranges from 23°C to 29°C. The major occupation of the people is crop and livestock farming (NGSG Diary 2003). To achieve the objectives of the study, 130 loan beneficiaries were randomly selected. The sample consists of 65 non-defaulters and 65 defaulters from the list obtained from the NACRDB. For the purpose of this study, emphasis was on crop production farmers who were loan beneficiaries during 2002/2003 and 2003/2004 farming

seasons.

Data from the lending agency were collected in form of personal interviews, which covered information on loan disbursement, complementary services offered and loan collection procedures. While structured questionnaire was used in generating data from the farmers which include information on personal characteristics, uses of credit, extension services rendered and constraints associated with the credit. The collected data were analyzed using descriptive statistics and chi-square test.

Results and Discussion

Loan Disbursement

The lending requirements for individual farmer include two reputable guarantors, savings account with cash deposits and one year tax clearance receipt. Loan repayments start at the beginning of harvesting season and all repayments are in cash. Repayment is accepted in instalments or in full. Default is established if a farmer refuses to pay all or part of the loans issued to him.

Table 1: Amount disbursed and recovered for 2002/2003 -2003/2004 farming seasons

| Season | Amount Disbursed | Amount Recovered | Amount In Default | |
|-----------|------------------|------------------|-------------------|---------|
| 2002/2003 | 979,800 | 862,500 | 117,300 | (11.97) |
| 2003/2004 | 1,195,300 | 998,900 | 196,400 | (16.43) |
| Increase | 215,500 | 136,400 | 79,100 | (4.46) |

Sources:- NACRDB Miina branch (2006)

Note: Figures in bracket are percentages.

From Table 1, it is evident that there was an increase in the amounts of loan disbursed to farmers over that of 2002/2003 season. The total amount recovered also increased by ₦136,400 over that of 2002/2003 season. However, a critical look at the figures reveals the trend in the incidence of default for the period. In 2002/2003 season, the incidence of default was 11.97 percent while the total amount in default was ₦117,300 for that season. During the 2003/2004 season, the total amount in default was ₦196,400 representing 16.43 percent of the total amount disbursed for that season. This shows an increase from 11.97 percent in 2002/2003 season to 16.43 percent in 2003/2004 season.

Uses of Credit

There are many ways in which farmers use their credit. Table 2 below shows the different ways in which farmers utilized their credit.

Table 2: Credit uses

| Credit Uses | Frequency | Percentage |
|---------------------|-----------|------------|
| Farm activities | 130 | 100.00 |
| Non-farm activities | 51 | 39.23 |

Source:- Field survey (2006)

* Multiple response

Table 2 above indicates that all the respondents used the credit for farm activities while 39.23% of the respondents pointed out

that they also used part of the credit for non-farm activities. Among such non-farm activities were payment of debt, school fees, hospital and food bills. Finding further revealed that most respondents spent more on land preparation than on other operations. Other operations in the order of their importance include weeding, harvesting, planting and others. The most important inputs with regard to credit needs were labour, fertilizer, seeds, chemicals and storage/ packaging materials.

Types of Crops Produced.

The ability of a farmer to repay his loan to a large extent depends on the types of cash crops produced and the amount of income realized from the sells of such crops. The table below shows the various types of crops grown by the respondents.

Table 3: Type of Crops Grown by Respondents

| Crops | Frequency | Percentage |
|---------------|-----------|------------|
| Yam | 96 | 73.85 |
| Millet | 114 | 87.69 |
| Rice | 79 | 60.77 |
| Maize | 123 | 94.62 |
| Cowpea | 88 | 67.69 |
| Sorghum | 119 | 91.54 |
| Groundnut | 82 | 63.08 |
| Fruit crops | 77 | 59.23 |
| Vegetables | 72 | 55.38 |
| Melon (Egusi) | 54 | 41.54 |
| Pepper | 65 | 50.00 |
| Tree crops | 41 | 31.54 |

Source:- Field survey (2006)

*Multiple response

A close look at Table 3 reveals that while the percentage of farmers who grow food crops was high, it was low for cash crops. The composition of the list revealed that the commonest cash crops in their order of importance are rice, groundnut, cowpea, melon and yam in addition to fruits and tree crops. The percentage of respondents who grow fruit crops, tree crops and vegetables were 59.23%, 31.54%, 55.38% respectively. These crops were not grown on large scale as compared to other crops. From the above findings, it can be deduce that the respondents misallocated the credit funds because most of the respondents were not interest in maximizing profit but food security was their primary goal in farming. Abe, (1981) also reported that wrong selection of enterprise may lead to default payment of agricultural loan.

Complementary Service

The success of any credit programme in increasing the productivity of the farmers depends on the extent to which the credit is accompanied with complementary services like effective extension services and supervision.

Table 4: Extension services rendered

| Extension Service | Frequency | Percentage |
|-------------------|-----------|------------|
| Fort nightly | 16 | 12.31 |
| Monthly | 27 | 20.77 |
| Quarterly | 46 | 35.38 |
| Yearly | 28 | 21.54 |
| Not at all | 13 | 10.00 |

Source:- Field survey (2006)

Table 4 shows that the extension services in the study area was not encouraging because only 12.31% and 20.77% of the respondents indicated that they received extension agents fortnightly and monthly during the seasons. Also, from the information obtained from the credit agency, supervision of respondents was very poor. The loan packages were therefore given to the respondents with little or no supporting services. Provision of extension services has many advantages especially if it is linked with supervision of credit. Supervision if properly carried out provide an insurance against mass diversion of credit to non-farm sources and provide a means of assessing the effectiveness of the farmers with regard to their ability to combine resources to maximize profit. Adeyemo (1982) stressed the need to accompany credit with complementary services because it is only then that farmers will derive maximum benefit from the credit package.

Credit Problems

It is an established fact that no credit package can provide all the credit needs of the farmers. Table 5 below shows the distribution of respondents as regard problems associated with the credit.

Table 5: Credit problem

| Problems | Frequency | % |
|-------------------------------|-----------|-------|
| Credit is inadequate | 53 | 40.77 |
| Credit is untimely | 34 | 26.15 |
| High interest rate | 11 | 8.46 |
| Collection time not conducive | 25 | 19.23 |
| Repay term not conducive | 49 | 37.69 |
| High prices of input | 35 | 26.92 |
| Lack of market for produce | 32 | 24.62 |
| Low price for produce | 26 | 20.00 |

Source: Field survey (2006)

*Multiple response

From the table above, it is evident that 40.77% respondents complained that the loan was inadequate. Similarly, 37.69% respondents pointed out that collection term was unconducive. The respondents stressed that the idea of collecting repayments only in cash is not doing any good to their repayment abilities because they lack market for their produce. Other major problems indicated in Table 5 include untimeliness of credit (26.15%), high cost of inputs (26.92%) and lack of market for produce (24.62%).

General Production Problems

The distribution of respondents with regards to the general production constraints in the study area is presented in Table 6.

Table 6: General production problems

| Problems | Frequency | Percentage |
|-------------------|-----------|------------|
| Drought | 0 | - |
| Flood | 6 | 4.67 |
| Pest and diseases | 31 | 23.85 |
| Fire out break | 10 | 7.69 |
| Health problem | 27 | 20.77 |

Source:- Field survey (2006)

Agricultural production is characterized by a lot of uncertainties, the fact that 23.85% respondents had problem of pest and diseases justifies this assertion. On the other hand, 20.77% of respondents indicated that they had poor health problems and therefore, spent part of the credit on hospital bills and could not recover what they invested because they were absent from the farm for several months. The result also reveals that there were enough rains throughout the production seasons because no respondents indicated any problem of drought.

Table 7: Relationship between respondent's personal characteristics and repayment default

| | (χ^2) value | Df | Asymp. Sig. (2 sided) | (χ^2) tab | (Decision) 0.05% |
|--------------------------|-----------------------|----|-----------------------------|---------------------|---------------------|
| Family size | | | | | |
| Pearson (χ^2) | 13.633 | 6 | 0.034 | 12.59 | Sig. |
| Likelihood Ratio | 14.572 | 6 | 0.024 | | |
| Number of valid cases | 130 | | | | |
| Age | | | | | |
| Pearson (χ^2) | 4.816 | 3 | 0.186 | 7.81 | Not Sig. |
| Likelihood Ratio | 4.926 | 3 | 0.177 | | |
| Number of valid case | 130 | | | | |

Source:- Computer from field survey data (2006)

Results in Table 7 indicates that a significant relationship exists between the respondents' family size and repayment default ($\chi^2 = 0.034$, $P < 0.05$). This may not be unconnected to the fact that family expenditure for large families, tends to draw more on family income so that only a meager sum is left for investment or loan repayment. This suggest the need to provide credit to cover both consumption and production needs of the farmers. Furthermore, Table 7 indicates that there was no significant relationship between age of the respondents and repayment default ($\chi^2 = 0.186$, $P > 0.05$). This means that the age of the respondents will no affect their repayment abilities

Conclusion

From the findings of the study, it can be concluded that the respondents used credits for both farm and non farm activities. Among such non-farm activities are payments of debt, school fees, hospital and food bills. Credit package does not include adequate complementary service. Some of the root causes of repayment default are unconducive collection term, high cost of inputs and lack of market for produce. Other causes are due to natural and biological uncertainties, misallocation of credit fund as well as failure of investment due to poor health.

Recommendations

1. Credit institutions should make available adequate amounts to cover both consumption and production needs of the farmers; taking into consideration household size and cost of various operations and inputs. This can be determined through adequate research or assessment.
2. Credit institutions should try as much as possible to make loans available to small-scale farmers through cooperatives. This will minimize individual influence on loans by farmers and hence help to minimize repayment default. It will also reduce cost of supervision and appraisal of loans.
3. Lending institutions should provide complementary services to accompany the credit package to reduce diversion and misallocation of credit so that farmers will derive maximum benefit from the credit package.
4. Lending agencies should put into consideration the problems of the farmers in terms of marketing and prices of their produce. The lending agencies could help the farmers by accepting repayments in kind in special cases where farmers do not have market for their produce.
5. Finally a nationwide crop insurance scheme should be introduced to reduce the effect of biological, climatic and price uncertainties on the farmers.

- Abc, S. I. (1981) *Agricultural Credit and Finance in Nigeria: Problems and Prospect Proceedings of Seminar Organized by Central Bank of Nigeria* on April 27-30, Published by Central Bank of Nigeria.
- Adeyemi, R. (1982) "Strategies for Improving Agricultural Credit in Nigeria." *Sources and Development* Vol. vi No I pp 85 - 96
- Ajakaiye, M. B. (1983) *Financing Cooperative Development: A note on Nigerian Experience.* A paper presented for AER Workshop on Cooperatives ABU Zaria.
- Nigeria Agricultural Cooperative Bank, NACB (1993) *Guide to Applicants.*
- Niger State Government Diary (2003) A year publication by the Ministry of Information and Culture, Niger State, pp. 1-6.
- Nwagbo, E.C. (1981) "Managing Agricultural Development in Nigeria, the Credit Institutions ARMTI seminar series No. 1,
- Olomola, A.S (1995) *Source of Growth Performance Trend in Nigeria. Agriculture 1960 - 1992 in K. AA and Olayemi J.K. (eds) Sustainable Agriculture and Economic Development in Nigeria.* Washington International Institute for Agricultural Development Arlington 43-56p.