

## **Sources of Agricultural Credit to Small-Scale Farmers in EZEAGU Local Government Area of Enugu State, Nigeria**

\*<sup>1</sup>Mgbakor Miriam N., <sup>2</sup>Uzendu Patrick O. and <sup>1</sup>Ndubisi Divine O.

<sup>1</sup>Department of Agricultural Economics and Extension, Enugu State University of Science and Technology (ESUT) Enugu, Nigeria.

<sup>2</sup>Department of Agricultural and Bioresources Engineering, ESUT, Enugu Nigeria.

---

**Abstract:** This research work analyzed the source of agricultural credit to small holder farmers in Ezeagu Local Government Area of Enugu State, Nigeria. This research described the various farm enterprises in the area. It determined the socio economic characteristics of the farmers, sources of credit to the farmers and the problems farmers face in loan procurement and repayment. The research showed that most farmers are married and preferred to borrow from institutions. Most of them fell at the age range of 45 years with family size of 6-10 children. Most of the farmers had informal education and operated 1-3 hectares of land for food production. The research also showed that the farmers engaged in crop production as the main enterprise and animal production as source of meat. Farmers obtained their loan from both formal and informal sources. The credit was used to increase productivity by purchasing new varieties of farm input, acquire piece of land, etc. Problems encountered by the farmers include high interest rate, illiteracy, diversion of fund, long time of loan increase their farm produce at low interest rate and with consideration of the enterprise type for period of repayment.

**Keywords:** Credit, farmers, loan, repayment, interest rate and inputs.

---

### **I. Introduction**

It is a well known fact, that no meaningful development in developing countries can take place without the development of agricultural sector which is the main stay of any nation. For Nigerian economy to be stable and prosperous, priority must be given to agriculture. The place of Agriculture in development of Nigeria and the entire West African countries is mostly outstanding.

It does not only provide food, clothing materials and shelter but also provides employment opportunities for over seventy-five percent of the people, Agriculture provides raw materials for industries and market for industries and market for industrial goods as well as provision of income and foreign exchanges through external trade according to (1). Agriculture is the source of the bulk of resources needed for education, health and other forms of rural development (1).

Agriculture is also a major contributor to Nigeria's Gross Domestic product (GDP) and small scale holders play a dominant role in the contribution (2) but their productivity and growth are hindered by limited access to credit facilities (2). Despite its importance to the nation, agricultural development in Nigeria is bogged down by several constraints. The most critical of these include lack of appropriate technology, land tenure system and lack of finance (Capital and credit) (2). While most of these problems to some extent have attracted the attention of Federal Government, much still needs to be done in the area of agricultural sector, it can be seen from the stand point of its ability to energize or motivate other factors of production. It can reawaken latent abilities and makes under-used capabilities functional thereby directing productivity and growth to the desired path. With credit rural farmers can now embark on those productive opportunities which they were not able to go for lack of credit. They no longer limit themselves to the cultivation of food crops when they could have added vegetable gardening, fish farming, and poultry. These lead to improved agricultural productivity and increase in the standard of living of rural farmers. In the processing, storage and market of agricultural produce, credit as a moving force, push these products from local markets to a distant markets where better market prices are possible.

Modernization of agriculture, is possible only if there is enough credit enable small-scale farmers to adopt new production technologies like improved seeds and seedlings, fertilizer and other plants protection chemicals, equipment like tractors, ploughs, harrows, and other machinery which reduce drudgery, improve timelines and efficiency of farm operations (3). From the foregoing, it could be seen that credit is a prerequisite for the empowerment of small-holders farmers for the production of more food and fibre to feed the increasing number of hungry mouths and provide raw materials for industries. Agriculture credit as any of several credits used to finance agricultural transaction, including loans, notes, bills of exchange and banker acceptances (2). These types of financing are adapted to the specific financial operating expenses, intermediate-term credit is used for farm machinery and long term credit is used for real-estate financing. (3) defined Agricultural credit as

the ability to command the present use of goods and services, commonly through the medium of money, in return for a promise to pay at some point in the future. It covers all loans and advances granted to borrowers to finance and service production activities relating to agriculture, fisheries, forestry and also for processing, marketing, storage and distribution of products resulting from these activities.

(3 and 4), credit is the use of or possessing of fund and services without immediate payment. It can be in form of money borrowed or agricultural credit which includes trade credit and bank credit. Agricultural credit therefore can be in various forms for example : seed, fertilizer with deferred payment, use of tractors, labours, storage facilities and so on. However, it is the credit in monetary term that has been prominent in Nigeria Agriculture. The term credit also means the capacity of borrow. The provision of credit means that the control of resources belongs to somebody else is transferred to the borrowers at a cost represented by the payment of interest. The resources will have been made available by savings or taxation or credit creation.

Credit can be considered from its ability to energize or motivate other factors of production. So the need for credit facilities cannot be over emphasized. Credit is of paramount importance in simulating the adoption of improved farm practices by farmers.

Supporting this view, (4 and 5) noted that credit is required for improvement on the land, for the purchase of fertilizer, seeds and supplies of the payment of wages of labour, the purchase the of implements, machinery and breeding stock e.t.c. Credit constitutes the power or key that unlocks latent, talent, abilities, visions and opportunities which in turn acts as the mover of economic development. With an influx of credit facilities, agriculture and industry find much in common and eventually neutralize the historical distinction of physiocrats and mercantilists as to the superiority of one over the other. Agriculture can thus supply the base or by products for industry, satellite industries can develop from the patent body, and a continuous supply of utilities is guaranteed overtime. This is enhanced by credit administration policy (4 and 6).

Credit enables the entrepreneur to train the right caliber of manpower, attract skilled ones where possible and provides them with a conducive environment for optimum performance. Since trained manpower is necessary for healthy economy, illiterate and unskilled person are highly limited in their ability to go beyond their defects, so credit provides one with rights caliber of management personnel with the proprietor can confidently hope for a proper organization of his farm.

In any developing country demand for agricultural subsidies usually exceed the available resources while government spending in this direction is generally limited and this constitutes problem for small-holders farmers in Nigeria. The main type of security a farmer can provide for agricultural loans is land. Since most farmers are substance, they are not capable of providing the required security for the loans they demanded. Majority of farmers are illiterates, who cannot read or write. The farmer tend to have some negative multiplies effect on bank funding of agriculture. Most farmers find it extremely difficult to complete necessary farms or loans and in some cases, farmers have to hire the services of literate people at exorbitant price to fill their farms. For the same reason most farmers cannot keep appropriate records, which are often required by the lending institutions, to determine the borrower's credit worthiness. Farmers also find it difficult to open and operate current accounts which are one of bank's conditions are processed.

Ezeagu is in no doubt blessed with enterprising farmers, who are engaged in production of various crops, such as cassava, livestock, yam, cocoyam and maize. Despite the fact that over the years, these farmers have made tremendous efforts in lifting their productive capacities to a greater height, by using local and low yielding varieties, farmers in Ezeagu Local Government Area of Enugu state have been faced with so many constraints, such as poor infrastructures, inappropriate technology, poor marketing system but the most critical of these include inability of farmers to generate sufficient income to finance their investment in agriculture. Marketing their commodities is right there at the farm gate and in the village market instead of transporting them to distant markets where better prices are sure, and storage produces using local and efficient. A close look at these situations reveal that most farmers are still small-scale farmers operating land area between 0.5-2 hectares with little or no funds to expand their farm enterprise beyond subsistence level. The only ways open to a rural farmer to derive some income include non-farm production activities wage, labour and production activities. It is obvious that these sources cannot supply all the credit needed for adoption of improved technology, farm expansion and marketing of produce. In order to be free from poverty and economic deprivation occasioned by lack of credit available to farmers and how their accessibility to these sources of credit needed for adoption of improved technology, farm expansion, marketing of produce. In order to be free from poverty and economic deprivations occasioned by lack of credit available to farmers and how their accessibility to these sources of credit can be enhanced. Access to affordable credit is one of the most important factors affecting production and therefore income of the poor. The poor agrarian and support services are attributed to socio-economic factors of farmers as well as constraints encountered by these farmers in institutions constraints encountered by the financial institutions is serving small-scale farmers and the poor involve high risk and high transaction cost (5, 6, 7 and 8).

Although government has made some advances in broadening the access to credit, but most small-holder and emerging farmers still do not have access to technology which is necessary for expanding and intensifying agricultural production or diversification of production into high value crops or production.

### **Objectives Of The Study**

The broad objective of this study was to examine the source of agricultural credit available to small-holders farmers in Ezeagu.

The specific objectives were to:

1. Examine socio-economic characteristics that may influence farmers' decision about whether or not to use credit.
2. Describe the main farm enterprise in the area.
3. Identify the sources of credit available to farmers in the area.
4. Identify problems farmers face in loan procurement and repayment.

## **II. Research Methodology**

### **Study Area**

The study is Ezeagu Local Government Area of Enugu State. It is one of the seventeen Local Government Area of the state. Ezeagu is bounded in the North by Uzo-uwani in the south by Orji-River in the West by Udi and in the East by Anambra State. It comprises twenty one towns and these are: Olo, Amagu-Umuolokpa, Iwollo, Oghe, Okpogho, Ihionya, Akama, Imezi-Owa, Aguobu-owa, Mgbagbu-owa, Awha-Ndiagu, Awha-Imezi, Umana-Ndiagu, Umaana-Ndiuno, Obeleagu-Umana, Obinuofia-Ndiuno, Aguobu-Umunba, Isingwu-umuana and Umualor.

It is located at the south-west part of Enugu state, on the latitude  $06^{\circ} 12/N$  and  $06^{\circ} 42/N$  longitude  $7^{\circ}E$  and  $7^{\circ}281E$ . it has a humid hot air temperature. The Local Government Area is inhabited by Igbo people with a population of about 169,718 people (6) and landmass of about 633sqkm ( $633km^2$ ). The soil is mainly sandy-loam and vegetation is thick rainforest.

Ezeagu is a known for its agricultural activities, since about 85% of its population is engaged in one form of agriculture activities, since about 85% of its population is engaged in one form of agricultural activity or the other. These rages from crop production, processing, marketing and animal husbanding production. It is an agrarian area.

### **Samplng Technique**

In carrying out this study, multi-stage random sampling technique was used for data collection out of the twenty one towns that made up the local government area, ten was randomly selected for the study. From the ten communities selected, five communities were randomly selected and twenty farmers was randomly selected and twenty farmers was randomly selected from each of the five communities for the study making the sample size to be 100 respondents.

### **Data Collection**

The data for this study was derived from both primary and secondary sources structured questionnaire and personal observation served as primary source of data while secondary data was collected from textbooks , magazine , seminar papers, newspapers, journals and other relevant literatures to the study.

### **Data Analysis**

The data collection was analyzed using descriptive statistics which include frequency distribution tables, percentage and average to achieve the objectives of the study. Objective 1,2,3 is achieved using descriptive statistics.

## **III. Results**

This deals with the results of analysis, interpretation and processing of the data collected from the respondents on the role of agricultural credit to small-holder farm enterprise in Ezeagu Local Government Area of Enugu State. A total of 100 questionnaires distributed to the farmers were completely filled and daily returned. Thus the analyses are as follows.

**Socio- Economic Characteristics Of The Farmers**

**TABLE 1: Age Distribution of Farmers**

Age	Frequency	Percentage
19-30	8	8.00
31-40	30	30.00
41-50	45	45.00
51-60	15	15.00
61 and above	2	2.00
<b>Total</b>	<b>100</b>	<b>100</b>

**Source: Field Survey (2013)**

From the table, 8% falls into the age bracket of 19-30 years, 30% of the respondents were within the age range of 31-40 years, 45% fell within the age units of 41-50, 15% and 2% fell into the age range of 51-60 and 61 and above respectively.

The small number of people within the age of 19-30 years was as a result of youth migration to the urban centers where they expect to find better conditions of life. Majority of the farmers fell within the mean age of 45 years and above which showed that agriculture in the study area is in the hands of the ageing and aged groups and this calls for proper and urgent re-orientation of youth towards agriculture so that they will succeed these ageing groups when their labour input no longer yield enough output.

**TABLE 2: Distribution of Respondents According to Level of Education**

Level of Education	Frequency	Percentage %
No formal Education	28	28.00
Primary School	38	38.00
Secondary School	24	24.00
College of Education	8	8.00
HND/B. Agric	2	2.00
Other High degrees	-	-
<b>Total</b>	<b>100</b>	<b>100</b>

**Source : Field survey (2013)**

The data above on educational level of the farmers revealed that 28% did not attend any formal educational institution, 38% attended primary school, 24% of the farmers attended or completed secondary school, 8% obtained higher certificates from colleges of Agriculture and only 2% acquired degree certificate in Agriculture. The table above showed that most of the farmers were illiterate and semi-illiterate with very few was educated among them.

**TABLE 3: Distribution of Respondents According to Marital Status**

Marital Status	Frequency	Percentage %
<b>Marriage</b>	<b>56</b>	<b>56.00</b>
<b>Single</b>	<b>10</b>	<b>10.00</b>
<b>Widowed</b>	<b>20</b>	<b>20.00</b>
<b>Divorced</b>	<b>4</b>	<b>4.00</b>
<b>Separated</b>	<b>10</b>	<b>10.00</b>
<b>Total</b>	<b>100</b>	<b>100</b>

**Source: Field survey (2013)**

Reading from the table, it is clear to establish the facts that greater proportion (56%) of the respondents were married, 10% were single, 20% were widowed, 4% were divorced and 10% of the respondents were married but not together with their spouse.

**Table 4: Distribution of Respondents According to sex**

Sex	Frequency	Percentage%
Male	60	60.00
Female	40	40.00
<b>Total</b>	<b>100</b>	<b>100.00</b>

**Source: Field survey (2013)**

Out of the total of 100 farmers studied, 60% were male while 40% female. This showed that the farmers in the study area were more of male than female.

**TABLE 5: Distribution of Farmers According to the Type of Farm Enterprise they were Engaged in.**

Types of farming	Frequency	Percentage %
Crop farming	22	22.00
Livestock	18	18.00
Livestock/crop mixed	60	60.00
Fisheries	-	-
Total	100	100.00

**Source : Field survey (2013)**

From the figures above, more than half of the farmers (60%) said that they engage in crop production and in small scale animal production, 22% were in crop production only 18% were in full-time livestock production. Nobody agreed to specialize in fishery as a sole enterprise but a small chunk of the farmers agreed to have small fish ponds as complementary enterprises.

**Table 6: Distribution of Farmers According to their Crop Types**

Types of crop	Frequency	Percentage %
a)Cassava	20	20.00
b) Cocoyam	30	30.00
c) Maize	10	10.00
d) Groundnut and vegetable	20	20.00
Total	100	100.00

**Source : Field survey (2013)**

Data above showed that there was no single crop farmer in the study area. All the farmers plant many crops such as yam, cassava, vegetable etc. on the same piece of land without regard to their nutrient requirement. The farmers said that the reason for this was that a means of natural crop insurance since the disease/pest which the rest of the crops. The farmers also agreed that crop each person (male/female) could cultivate any crop of his choice even though yam is taken as the male crop and cocoyam and vegetables (fruit and leafy vegetables) as female crops.

**Table 7: Distribution of Respondents According to Size of Farm**

Farm size	Frequency	Percentage %
Less than 1 hectare	32	32.00
1-2 hectare	42	42.00
3-4 hectare	20	20.00
5 hectare	06	06.00
Total	100	100.00

**Source : Field survey (2013)**

From the study as it is on the table 7 above, 32% of the farmers operate less than 1 hectare for their overall food production, 42% used between 1-2 hectare while only about 6% cultivated up to 5 hectares or more land area for food and fibre production. It could be seen that almost all the farmers in the study area were subsistence farmers with very small number of commercial farm operators.

**TABLE 8: Distribution of Respondent According to Types of Livestock They Keep.**

Types of Livestock	Frequency	Percentage %
Sheep/goat	50	50.00
Rabbit	5	5.00
Pigs	10	10.00

*Sources of Agricultural Credit to Small-Scale Farmers in EZEAGU Local Government Area of Enugu*

Poultry	35	35.00
Total	100	100.00

Source : Field survey (2013)

Half of the farmers' kept goat/sheep while 35% kept poultry, 10% and 55 respectively kept pigs and rabbit. Most of farmers of the study area said that they kept livestock as a complementary enterprise to crop production. It was only about 10% of the farmers that agreed that they kept poultry as their sole enterprise.

**Table 9: Distribution of Farmers Based on Other Occupation Apart from Farming**

Other Occupation	Frequency	Percentage %
Yes	91	91.00
No	9	9.00
Total	100	100.00

Source: Field survey (2013)

Figures from the table above showed that (9%) of the farmers depend wholly on farming while (91%) were involved in one complementary business or the other especially during the farm slack period. Some of these activities which the farmers involve themselves include local basket weaving, wine tapping, mat weaving and hunting.

**Table 10: Distribution of Respondent that Obtained Credit**

Obtained credit	Frequency	Percentage %
Those that got credit	20	20.00
Those that did not get credit	56	56.00
Those that applied but did not get	24	24.00
Total	100	100.00

Source : Field Survey (2013)

From the figures above, it should be noticed that up to 56% of the farmers in Ezeagu Local Government Area have never obtained loan while only 20% interviewed farmers got loan whatever sources that was available, in addition 24% applied but did not succeed.

**Table 11: Distribution of Respondent According to Various Sources of Farm Credit**

Sources	Frequency	Percentage %
Commercial Banks	12	12.00
Money lenders	38	38.00
Relative/Neighbours	30	30.00
Corporate societies/ Isusu	20	20.00
Total	100	100.00

**Source : Field survey (2013)**

From the data above, it is clear that out of numerous sources of credit to farmers, the most available ones to Ezeagu farmers were through individual money lenders which is 38% and it is closely followed by neighbours and relatives which constitute up to 30% of the entire population. Cooperative societies/ Isusu and commercial Banks played minor role in making credit available to farmers.

**Table 12: Distribution of Respondents According to Problems Farmers Face in Loan procurement**

Problems	Frequency	Percentage %
High rate of interest	10	10.00
Lack of collateral	40	40.00
No assistance to loan	15	15.00
Not aware of such	30	30.00
Long loan processing period	5	5.00

**Multiple response recorded**

**Source : Field survey (2013)**

### *Sources of Agricultural Credit to Small-Scale Farmers in EZEAGU Local Government Area of Enugu*

The table above represented the problems encountered by farmer while procuring loan from institutions. Lack of collateral security was the cankerworm that stood in the way of farmers to credit. The percentage of farmers that could not afford security was 40. This was followed by the farmers not being aware of the existence of such institutions. The farmers also lacked assistance to loan which made up of 15%. Very few farmers complained about interest rate and loan processing time.

**Table 13: Distribution Of Respondent According To The Problems They Encounter in Loan Repayment**

Problems	Frequency	Percentage %
Loan size too small	10	10.00
High interest rate	30	30.00
Late disbursements of loan	40	40.00
Diversion of fund	5	5.00

**Multiple response recorded**

**Source : Field survey (2013)**

The above table explained the post credit problems of farmers and it would be observed that the number of farmers that got credit after carrying out the activities for which the loan was procured were 40%. The farmers also complained that the interest rate on loans were very high and about 30% of the entire farmers. 15% also believed that poor harvest/weather hazards was responsible for their inability to repay loans while 10% and 5% complained to small size of loans and diversion of funds respectively.

**TABLE 14: Distribution Of Respondents According To Farmers' suggestions**

Suggestions	Frequency	Percentage%
Need for extension officers	20	20.00
Establishment of more banks In the area	42	42.00
Low interest rate	28	28.00
Establishment of insurance company	10	10.00

**Multiple response recorded**

**Source: Field survey (2013)**

#### **IV. Discussion**

The study was on analysis of sources of credit to small-holder farmers in Ezeagu Local Government Area of Enugu State. Ezeagu was purposely selected for the study because agriculture is still in small scale. Multi-stage random sampling technique was used to collect data from one hundred respondents from Ezeagu farmers. In the analysis of the data collected, simple descriptive statistic such as frequency distribution table and percentage were used.

Results of the study showed that most of the farmers were between 41-60 years of age, married and are heads of families. Average family size of the farmers was 6-10 children and the number dependents was between the range of 5-6 persons. The educational level of most farmers were very low but the wealth of experience accumulated over the years, offered them the knowledge and skills to improve on their productivity. The farmers were mainly crop and animal producers though animal production was on much smaller scale than crop production.

These farmers engaged themselves in the production of crops like cassava, maize, yam, oil palm and vegetables. Majority of these farmers agreed to have other complementary work such as wine tapping, hunting, weaving of local baskets and petty trading. Most of the farmers agreed to have sought and obtained credit while some said that they have not sought credit because of fear of adverse crop yield/weather hazards and not being aware of the existence of credit institutes. Many of the farmers that have obtained credit prefer informal sources, like relatives, neighbors and money lenders for easy accessibility, minimize formalities and timely disbursement of loans, to formal institutions. The respondent who sought credit obtained it on basis or repayment security offered. Some found the lending exercise time consuming, some cumbersome while some believed there was no

stress in collecting credit. The problem encountered by farmers while sourcing for credit include high interest, collateral problem, illiteracy, long time of loan processing and scant number of banks in the rural areas.

The benefit from credit includes improved profit from agricultural production, increase in productivity and enhanced making of agricultural commodities.

## **V. Conclusion**

In conclusion, credit availability lifts the affairs of any economic ventures to greater height and Nigerian agriculture is no exception. In view of the importance of farming in the economy, it has become necessary for government and every institution connected with agricultural development in Nigeria to continue to give the financing of agriculture attention it deserves.

## **Recommendations**

In order to ensure that credit is being used properly, some socio-economic attributes which include age, household size, income, size of loan etc. should be considered.

1. Loan should be extended more to respondent with higher age and low family size.
2. Loans extended to young farmers with high number of dependents should be monitored by the lending institution to ensure that these loans are applied to activities for which they are advanced for.
3. In order to alley fear of weather hazards/crop failure which prevent some farmers from getting loans, government should adopt and implement the agricultural insurance/ on failure which prevent some farmers from getting loans.
4. Government should adopt and implement the agricultural insurance scheme to encourage greater investment in agriculture
5. Non-availability of banks resulting in farmers having to wait in banks for several hours to be attended to should be given considered attention by government by making more banks available in the area. This will go along way in minimizing time, distance and travel cost farmers incur in order to obtain loans. These banks will also make effort to mobilize rural savings for more agricultural investment.

## **References**

- [1]. Aryeetey , E. (1994). Financial integration and development in sub-saharan Afric: A study of informal finance in Ghana. Overseas Development institute working paper 78, London : ODi.
- [2]. Chukwuone, N.A & Agwu, A.E (2005), A.E (2005). Funding of agricultural extension in a democratic and deregulated economy: The cost Sharing approach. Journal of Agricultural Extension. 8:90-98.
- [3]. Development Bank of South Africa (2005). Development Report 2005, Agriculture in South African's second Economy (chapter 7), W.dbsa. org/document/development/dev.accessed 12/11/09.
- [4]. FAO and World Bank (2001), "Farming system and poverty-improving farmer's livelihood in a changing World" Rome and Washington D.C.
- [5]. Holden, S and Bekele Shife (2004), "Land degradation, drought and food security in a less-favoured area in the Ethiopian highlands. a bio-economic model with market imperfections", Agricultural Economics, vol. 30, issue1 pp31-49.
- [6]. Ijere, M .O. (1998) Agricultural credit and Economic Development. In yere Mo; Okorie, A ceds) Reading in Agricultural finance, Longman, Lagos, pp 4-9.
- [7]. Okurut, F.N., Banga, M. and Mukungu, A. (2004) Micro Finance and Poverty Reduction in Nigeria: A critical Assessment. Australian Journal of Business and Management Research 2 (3), 33-40.
- [8]. Rahji, M.A.Y, and S.A Fakayode. (2009). A multinomial logit analysis of agricultural credit rationing by commercial banks in Nigeria. International Research Journal of Finance and Economics, 24:91.