
Agricultural Financing Using Nigerian Agricultural Co-operative and Rural Development Bank in Adamawa State: A Case Study of Fufore L.G.A.

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Abstract

This study examined the role of agricultural financing in Fufore Local Government Area of Adamawa State Nigeria. Eighty (80) beneficiaries and five bank officials were sampled from three districts. Data were collected using structured questionnaire. Analysis using simple descriptive and inferential statistics indicated that majority (74.1%) of respondents were males with 25.9% as females. Information on the operations of Nigerian agricultural Co-operatives and Rural Development Bank (NACRDB) Ltd, covering a period of three years (2003 – 2005) were subjected to moment correlation analysis, where it revealed a strong positive correlation of 0.99. The study however, identified delay in loan approval, disbursement, collateral and shortage of manpower as well as poor attitude of bank officials as the major problems faced by farmers. The study observed the need for proper awareness of the existence of agricultural loans scheme and proper loan disbursement to farmers.

Introduction

Agriculture is a very important sector in the Nigerian Economy. It forms the backbone of the Nigerian economy with a crucial role to play in the development of this country. It provides food and employment opportunities for the teeming population. It contributes significantly to the provision of raw materials for the allied industries and also an important source of foreign exchange earnings (Tijjani, 1990). Agricultural sector has enabled the rural farmers to feed its ever increasing population to the level of meeting 90% of the country's food requirement.

Research and studies have revealed that the agricultural sector is characterized by the preponderance of small-scale (subsistence) farmers and their families. Nearly, 60 – 80% of the total population in Nigeria has been described as rural inhabitants with agriculture providing means of their livelihood (World Bank, 1985). Igben (1981) stated that share of agricultural contribution to the gross-domestic product has dropped sharply to 2.8% which called for the need by

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government to see how the agricultural production sector will be stimulated. Finance or Credit sources to farmers were identified as the main problem retarding the activities of the agricultural sector.

According to Spencer (1991), although agricultural sector has an important role to play in the economy of Nigeria, its productivity is influenced by so many variables like quality seeds, modern farming implements and their servicing facilities, good storage facilities, technology education to rural farmers and endogenous variables which are all function of finance. Without these variables, it would be difficult for farmers in the study area to adopt new innovation and achieve meaningful expansion in production.

Most of the inhabitants in Fufore L.G.A are subsistent farmers who are financially handicapped. Therefore, there is need for agricultural financial agencies and other donor agencies to boost and increase the growth of the sector. Agricultural finance, acquisition and use of capital in agriculture, are vital to the development and procurement of appropriate technology, design and construction of necessary infrastructure (Williams, 2001). The maintenance of adequate marketing system to this end is the broad concept of agricultural financing which ensures that funds channelled to agriculture are profitably used for its development with a concomitant spill-over effect on the overall strategy for poverty alleviation in Nigeria, and largely targets small-scale farmers that constitute about 70% of the population (CBN, 1990). In the study area, it is virtually difficult for farmers to get credit either in kind or in cash because they can not afford huge interest imposed on formal source and collateral that may be required. But it is contrary with what is obtainable today in Federal farm credit bank funding cooperation (FFCBFC, 2010) where unlike commercial banks, system banks and associations do not take deposits. Funds for loans are obtained through the issuance of farm credit debt securities on a worldwide basis in the domestic and global capital markets. The proceeds are provided for the benefit of domestic agricultural producers and cooperatives through the various system entities. And in the case where the farmer fails to pay back, his or her assets may be auctioned to recover the loan. For this reason, farmers (subsistence) remain in small-scale production. That is why informal source remain the most valuable source of loan to farmers in the study area. It is also observed that there is nothing like bank associations that provides credit and related services through the system banks and related associations. The system banks are cooperatively owned, directly or indirectly by their borrowers, and offer services like real estate mortgage loans, production loans, rural home mortgages, lease, crop insurance etc (FFCBFC, 2010).

The agricultural sector has many problems. Most of all is the inadequate flow of funds to the farmers who produce raw materials for industries and food for the rural and urban population. However, agricultural credit association make both long-term loans for the purchase or improvement of real estate or refinancing of debt on real estate. Similarly, they make available short-intermediate – term loan to finance

expenses related to the production, processing and marketing of our nation's food and fibre, as well as equipment, facilities and livestock (FFCBFC, 2010).

This study is therefore, important since it seeks to identify the problems of agricultural financing in the study area. It will also acquaint future researchers with base-line knowledge for further research into the field.

Objective of the Study

The major objective of this study is to examine the role of agricultural financing in Fufore Local Government Area. The specific objectives include to:

1. describe the socio-economic characteristics of the farmers in Fufore Local Government Area;
2. examine the types of loan used by the farmers in the study area.
3. determine the relationship between the amount of loan disbursed and the amount recovered by NACRDB bank in agricultural financing in the study area; and
4. identify the major problems militating against the availability of finance to farmers in Fufore Local Government Area.

Methodology

The Study Area

This study was carried out in Fufore Local Government Area (LGA) of Adamawa State. Fufore is the largest of the 21 LGAs in the state. The area lies between latitude 9⁰N and longitude 12.30E. It has an estimated population figure of 209,460 with 89,511 and 88,896 as males and females, respectively, during the national population census 2006 (NPC,2006).

The study area lies in the humid climatic zone of Nigeria with mean annual rainfall from 700mm – 1000mm. The rainy season lasts for five to six months with an average temperature of about 39⁰C (Adebayo, 1999). The major ethnic groups found in the area includes: Verre, Bwatiye and Fulani. The local government is situated in the northern guinea savannah. Large swampy areas (Fadama) are found in Fufore LGA which supports rice production during wet season. Rice production using irrigation is also practiced where such fadamas are located. Other crops grown in the area includes groundnut, maize and sorghum (Sajo and Kadams, 1999).

Sampling Techniques and Data Collection

The study covered Gurin, Ribadu and Karlahi districts. Purposive and random sampling techniques were used for the study. The list of beneficiaries of NACRDB loan in Fufore Local Government formed the sampling frame. five (5) bank officials and Eighty (80) respondents were purposely and randomly selected because they are the senior personal that can offer adequate information and also to avoid bias in the selection methods respectively, for the study.

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Fifty eight (58) out of eighty five (85) administered questionnaires were successfully retrieved and used for the analyses.

The data for this study were collected from primary source by the use of administered questionnaire and personal interview to the beneficiaries and bank officials. However, twenty seven (27) enlightened respondents out of the (85) who were given only questionnaires could not return them.

Data Analysis

The analytical tools adapted in analysing the data were simple descriptive statistics which involves the use of tables, frequency distribution, percentages and averages. The latter were used to achieve objectives one, two and four. Inferential statistics which involves the use of product moment correlation co-efficient (r) was used to determined the relationship between the amount of loan disbursed to farmers and the amount of loan recovered by the bank. The product moment correlation is given as:

$$r_{xy} = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}}$$

Where:

X = the amount of loan disbursed by bank (₦)

Y = the amount of loan recovered by the bank (₦)

n = number of years

r = correlation co-efficient

r_{xy} = correlation co-efficient between the amount of loan disbursed and the amount of loan recovered.

Results

Table 1 : Socio-economic Characteristic of Respondents

Parameter	Frequency	Percentage (%)
Gender		
Male	43	74.1
Female	15	25.9
Total	58	100.0
Age		
20-35	19	32.8
36-50	32	55.1
51-above	07	12.1
Total	58	100.0
House Hold Size		
0-3	10	17.2
4-6	25	43.1
7-9	15	25.9
10-above	08	13.8

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Total	58	100.0
Educational Background		
Primary	06	10.3
Secondary	12	20.7
Tertiary	33	56.9
Informal	07	12.1
Total	58	100.0
Occupation		
Civil servant	25	43.1
Full time farming	19	32.8
Others	14	24.1
Total	58	100.0

Source: Field Survey, 2006.

Table 2: Data on Loan Allocation to the Respondents

Parameters	Frequency	Percentage (%)
Financial Needs		
Below ₦100, 000	11	19.0
₦110, 000- ₦150, 000	26	44.8
₦160, 000- ₦200, 000	07	12.1
₦210, 000- ₦250, 000	14	24.1
Total	58	100.0
Types of Credit		
Micro	43	74.2
Marco	15	25.8
Total	58	100.0
Problems Encountered		
Poor attitude of bank officials	25	43.1
Approval	11	19.0
High Interest rate	05	08.6
Collateral deposit	09	15.5
Man power shortage	08	13.8
Total	58	100.0

Source: Field Survey, 2006.

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Table: 3 Relationship Between the Amount of Loans Disbursed and the Amount of Loans Recovered

Year	No. of Farmers	Amount Disbursed	Amount Recovered	Amount Defaulted	Percentage Recovery %
2003	55	5,405,000	3,915,637.1	1,649,341.0	82.2
2004	98	16,398,120	10,498,568.1	7,567,910.0	79.1
2005	200	28,537,000	21,222,659.9	16,191,454.7	90.1

Source: NACRDB, 2006.

Discussion

Socio-Economic Characteristics of the Respondents

Table 1 shows that majority (74.1%) of the respondents were males while 25.0% were females. This implies that the males benefited more from agricultural loan than the females. The same Table 1 also indicates that 55.1% of the total respondents were within the range of 36-50 years; who were mostly (74.1%) married. Thus explains why they need credit facilities in order to increase their agricultural production and by extension the family consumption.

The same Table 1 also reveals that 56.9% of the respondents had attained tertiary level of education and 43.1% were civil servants who engaged in farming as a secondary occupation. It could be the reason why loan repayment was rarely faulted because beneficiaries had alternative source of income.

The result from Table 2 Indicates the financial needs of the respondents. While 19.0% of the respondents collected below ₦100,000 as loan, a larger proportion (44.8%) fell within the range of ₦110,000 – ₦250,000. This variation could be as a result of scale and method of farm operations adopted by the respondents. It is also indicated that 74.2% of the respondents preferred the micro-credit than macro-loan because of the low risk associated with it and for the fact that no collateral was required.

The same Table (2) also reveals that 43.1% of the respondents attributed poor attitude of some bank officials and loan approval (19.0%) as the major problem faced by beneficiaries of agricultural loans. This was found to affect farmers negatively, especially those involved in seasonal production. Also, farmers in the study area have had no adequate collateral to pledge as an insurance against default which hinders the loan accessibility.

The result from Table 3 indicates that, of the total amount of loan disbursed in 2003, 2004, and 2005, about 82.2%, 79.1% and 90.1%, respectively, were recovered from the beneficiaries. The huge success in the recovery trend could be attributed to the awareness of the farmers on the importance of loan in increasing their agricultural production.

The relationship between the amount of loan disbursed and the amount recovered in the period of three years was subjected to moment correlation analysis. The result revealed a positive coefficient of 0.99% indicating a very strong positive relationship. This implied that as the farmers increase collection of loan, so do they repay to the financial institution when it is due.

Recommendations

Based on the findings, the following recommendations were made:

1. The need for more awareness by the Government and non-Governmental organization on the existence of financial institutions' so that farmers can access agricultural loan easily;
2. The institution concerned for the loan disbursement should give out loans to farmers at the right time to enable them utilize the loan package properly;
3. The financial institutions should involves famer's representative and extension workers in the processing of loan and disbursement of same in order to over- come the poor attitude of bank officials; and
4. The Bank officials should monitor and evaluate loans extended to farmers to make sure they are used for the intended purpose.

Conclusion

Findings from this study showed that Nigerian Agricultural Co' operative Rural Development Bank in Fufore recovered over 90% of all agricultural loans disbursed to farmers. It is therefore, an efficient source of finance to farmers. However, the problems identified should be address in order to eliminate barriers in agricultural credit to farmers.

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