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The effects of interest rates on access to agro-credit by farmers in Kaduna State, Nigeria

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This study examined the effect of interest rates on access to agro-credit by farmers in Kaduna State, Nigeria. This study employed survey research methodology which covered the three agricultural zones in the study area. The data generated were analyzed using descriptive statistics, multiple regression and 4-point likert scale rating. It was shown that, majority (40%) were aged between 31 and 40 years and about 41.20% had no formal education while 16.7% had secondary certificate. The study further revealed that about 48.3% of the respondents had farming experience of 20 years and above and majority (41.67%) sourced a total amount of between ₦100,000 and ₦400,000 from formal or informal sources. Age, level of education, interest rate, credit awareness and farm income were the major determinants of (p<0.05) credit sourced by the farmers in the study area. Majority of the farmers obtained their credit more from informal sources than formal sources. Inability to receive the amount applied for, risk of repaying the money and problem of getting guarantors were among the major problems under informal sources while high interest rate and inadequate collateral security were for formal sources. Recommendation was made for government to reduce the high interest rate charged on credit facilities.

Key words: Interest rate, agro-credit access, sources, Kaduna, Nigeria.

INTRODUCTION

With an estimated 140 million inhabitants and a population growth rate of 2.5% annually, Nigeria is the most populated country in sub-Saharan Africa and one of the most populated countries in the world (National Population Commission [NPC], 2006). The agricultural sector is the mainstay of the majority of Nigerian rural poor, with over 70% of the active labour force in rural areas employed in agriculture and the sector contributing over 23% of the gross domestic product (GDP) in 2006 (World Bank, 2007).

Agricultural credit plays a critical role in agricultural development (Duong and Izumida, 2002). Farm credit has for long been identified as a major input in the development of the agricultural sector in Nigeria. The decline in the contribution of the sector to the Nigeria economy has been attributed to the lack of a formal national credit policy and paucity of credit institutions.

The provision of credit or loanable fund (capital) is viewed as more than just another resource such as labour, land, equipment and raw materials (Rahji and

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Adeoti, 2010). It determines access to all of the other resources which farmers require.

Agricultural credit access has particular salience in the context of agricultural and rural development in Nigeria. Some 70% approximately of Nigeria’s farm households live in the rural areas with their main source of livelihood being agriculture. Credit constraint to these farm households thus imposes high cost on the society. This is in terms of rural unemployment, rural poverty, and distortion of production and liquidation of assets. Government over the years has continued to seek the avenues in both developed and developing countries attempt to overcome these problems by subsidizing credit, setting up credit guarantee fund schemes such as Agricultural Credit Guarantee Fund Scheme [ACGFS] in Nigeria, 1977) and specialized agricultural credit banks like Nigeria Agricultural and Cooperative Bank [NACB], 1973 now Bank of Africa [BOA], 2010) and stimulating institutional innovations in the financial system (e.g. People’s Bank, Community Bank, Rural Banking Schemes) (Rahji and Adeoti, 2010).

The Nigerian agricultural sector is among the most heavily regulated sector of the Nigerian economy. The special interest of government in the agricultural sector is due to its relevance in the provision of raw materials for industries and most importantly the provision of food for the teeming Nigerian population and also serving as a source of foreign exchange for the economy (Adofu, Abula and Audu, 2010).

Anyanwu et al. (1997) opined that commercial banks encourage savings. Since investments are made out of savings, the establishment of commercial banks especially in the rural areas makes savings possible hence economic development is accelerated. The government most often thinks it is necessary to intervene in the operation of the banking system with the intention of correcting the short comings of the price fixing mechanism to ensure that what is commercially rational for an individual bank is approximately rational for all (Adofu et al., 2010).

According to Akiri and Adofu (2007), the existence of externalities and imperfection in the financial markets of most developing economies has often called for intervention by the government through its appropriate agent (the Central Bank of Nigeria in the case of Nigeria) to encourage investment and to re-channel credit to those economic units with high social rate of returns but low commercial rate of returns. Under the deregulated interest rate system, the market forces of demand and supply play a very prominent role in the determination of interest i.e. banks and their customers are free to negotiate to arrive at a suitable interest rate on both deposit and loans.

Interest in an amount charged to a borrower for the use of a lender’s money over a period of time. From the lenders’ perspectives, the money the lender is investing is changing over time due to the interest being added. For this reason, interest is sometimes referred to as the time value of money. According to Organization for Economic Cooperation and Development (2013), interest can be said to be the price paid by the borrower for the use of funds saved by the lender and the compensation to the lender for his deferring expenditures. This compensation comprises two elements, namely a payment equal to the loss of purchasing power of the principal during the term of the loan and a balance that represents the real interest accruing to the lender. However this simplicity does not extend into the area of rate determination since rates vary not only because of inflation, as implied above, but also because of a number of other influences, including the amount, purpose and period of the transaction; the credit-worthiness of the borrower; the collateral offered and/or other guarantees/guarantors available; the competition for the transaction; and government policy.

Interest rates charged on loans to farmers in developing countries like Nigeria have generally being a contentious issue since the spring review of small farmer credit sponsored by the United States Agency for International Development (USAID) in 1973. Interest rate is an important economic price. This is because whether seen from the point of view of cost of capital or from the perspective of opportunity cost of finds, interest rate has fundamental implication for the economy.

Socially, interest rate charged by banks could be regulated to encourage savings mobilization, ensure and foster adequate investment for rapid growth and development, bearing in mind the view of Goldsmith (1969) that the financial superstructure of an economy accelerates economic performance to the extent that it facilitates the migration of funds to the best user, i.e. to the place in the economic system where the funds yield the highest social return.

In Nigeria, there is a wide gap between owned and required capital for financing most agricultural activities of farmers due to increase in the cost of borrowing (Iroh, 2012). The lack of access to capital due to high level of interest rate is one of the major factors which hinder the development of agriculture (Tefera, 2004). One of the major problems responsible for inadequate credit facilities required by farmers for their agricultural activities is constant and persistent increase in the cost of borrowing, despite the fact that these farmers produce the bulk of the food consumed in the country.

Among the studies reviewed, little or none has successfully investigated the effects of interest rate on farmers’ access to agro credit especially in Kaduna State, Nigeria. Few of these studies concentrated on the impact of interest rate variability on the entire economy of Nigeria without any particular reference to agriculture. For instance, Wasser and Kuoteiner (1994), Fahrer and Rohling (1990) and Bono (1995) only used interest rate as one of the tools of monetary policy with no particular interest in agriculture, thus this work tends to fill this gap.
in literature.
These gaps then raise the questions on the effects of interest rate on farmers’ access to agro credit in Kaduna State as interest rate variability can determine the level of investment, consumption, production and the growth of output.

The speculative movement of funds into/out of Agricultural activities depends on the level of interest rates. There is however an apparent lack of information regarding the effects of these variations in interest rates that may help to determine to what degree government should modify her interest rate policy especially with respect to agro credit. There is also the need to understand the effects of interactions of high/low interest rates and how they affect credit supply to farmers. It is expected that this study will help to widen the knowledge of farmers on the available credit and proper interest rate level that will enable them to achieve the best level of agricultural practices and thus improving their means of livelihood and nations’ food security status. The output of the study will be invaluable to policy makers and governments agencies interested in food security and agricultural development.

The study specifically sought to:

(i) Identify the socio-economic characteristics of farmers in Kaduna State.
(ii) Determine the sources of credit used and amount of credit sourced by the farmers.
(iii) Determine the factors affecting the volume of credit sourced, and
(iv) Determine the problems encountered in obtaining loans from formal and informal sources.

MATERIALS AND METHODS

The study was conducted in Kaduna State in Nigeria. Kaduna State occupies part of the central position of the Northern part of Nigeria (with Kaduna as its capital) and shares common borders with Zamfara, Katsina, Niger, Kano, Bauchi and Plateau State. To the south-west, the state shares a border with the Federal Capital Territory, Abuja. The global location of the state is between latitude 90 and 140 north of the equator and longitude 70 and 100 east of the Greenwich meridian. The state occupies an area of approximately 48,473.2 sq km and has a population of more than six (6) million (NPC, 2006) with a population density of 130 people per sq km that accounts for 4.3% of Nigerians total population.

The state has 23 local government areas (LGAs). A large populace of the state practice agriculture as their major economy means. The 23 LGAs in the study area were grouped into three agricultural zones, namely; Kaduna Central (zone one); Lere, Kubau, Soba, Sabon-gari; Zaria, Ikara, Kudan, Makarfi; Kaduna North (zone two); Kaduna north, Chukun, Kajuru, Kaduna south, Giwa, Igabi, Birnin-gwari; Kaduna South (zone three); Jama’a, Sanga, Jaba, Kagarko, Kauru, Kachiya, Zango kataf, Kaura.

A three level multistage random sampling method was use for this study. At the first stage, two LGAs were randomly selected from each of the three agricultural zones making a total of six LGAs. At the second stage, a random selection of two wards from each LGA making a total of 12 wards. Lastly, 10 farmers were randomly selected from each of the wards giving a total of 120 respondents to be used for the study.

Data for this study were collected from primary sources. The data were generated by the use of well structured, validated and pretested questionnaire. The data were analysed using descriptive statistics and ordinary least square model. Descriptive statistics was used for the description of the socio-economic characteristics of the farmers, the sources of credit used, amount of credit sourced by the farmers and determination of the problems encountered in obtaining loans from formal and informal sources. Ordinary least square (OLS) estimation technique was used to determine the factors affecting the volume of credit received by farmers in Kaduna State, Nigeria. The linear model can be stated implicitly as:

\[ Y = f(X_1+X_2+X_3+X_4+X_5+X_6+X_7+X_8), e \]

Where: \( Y \) = Volume of credit sourced (\( M \)); \( X_1 \) = Age (years); \( X_2 \) = marital status (dummy); \( X_3 \) = Level of education (years); \( X_4 \) = Farming experience (years); \( X_5 \) = Interest rate (%); \( X_6 \) = Credit awareness (dummy); \( X_7 \) = Farm income (\( M \)); \( X_8 \) = Co-operative membership (dummy); \( e \) = error term.

In addition, Likert type scale rating of 4-point was applied to assess the problems encountered in obtaining loans from formal and informal sources. This was carried out by asking the respondents their opinions about the problems they encounter in obtaining loans from both formal and informal sources. The 4-point scale was graded: very serious, serious, undecided and not serious, which have values of 4, 3, 2 and 1 respectively. Thus, the mean score of the respondents was obtained as follows:

\[ \text{Mean} = \frac{\sum fx}{\sum x} \]

Using the interval scale of 0.05, the upper limit cut-off point is 2.50+0.05=2.55, while the lower limit cut-off is 2.50-0.05=2.45. For a given view the mean score is computed by taking the sum of the products between the number of responses and the grade point and then divided by the total number of responses.

RESULTS AND DISCUSSION

Socio-economic characteristics of the farmers

The socio-economic characteristics of the farmers are shown in the Table 1. It shows that majority (57.5%) of the respondents were males while 42.5% of them were females. The implication is that men dominate the production of crops and animals in the area. This is an added advantage to the area, since men have more opportunity to obtain credit than females’ counterparts due to issue of collateral required by most of the financial institutions. The result equally shows that (40%) of the farmers were between the ages of 31 and 40 years. About 5% were 51 years and above, while those within 21-30 years and 41-50 years constituted 32.5 and 18.33% of the farmers, respectively. This means that majority of the farmers were middle aged. These categories of farmers could be considered to be the economically active population, as the age of the farmers dictates and affects the amount of credit he or she will
Table 1. Distribution of respondents according to their socio-economic characteristics.

| Variable                  | Frequency | Percentage |
|---------------------------|-----------|------------|
| **Gender**                |           |            |
| Male                      | 69        | 57.5       |
| Female                    | 51        | 42.2       |
| Total                     | 120       | 100        |
| **Age**                   |           |            |
| ≤20 years                 | 5         | 4.2        |
| 21-30                     | 22        | 18.33      |
| 31-40                     | 48        | 40.0       |
| 41-50                     | 39        | 32.5       |
| 51 and above              | 6         | 5          |
| Total                     | 120       | 100        |
| **Marital Status**        |           |            |
| Married                   | 78        | 65         |
| Single                    | 19        | 15.83      |
| Widowed                   | 15        | 12.5       |
| Divorced                  | 08        | 6.7        |
| Total                     | 120       | 100        |
| **Educational level**     |           |            |
| No Formal                 | 50        | 41.2       |
| Primary Education         | 41        | 34.2       |
| Secondary education       | 20        | 16.7       |
| Tertiary Education        | 09        | 7.5        |
| Total                     | 120       | 100        |
| **Farm size (Ha)**        |           |            |
| ≤1.0                      | 30        | 25         |
| 1.0-1.9                   | 24        | 20         |
| 2.0-2.9                   | 41        | 34.2       |
| 3.0-3.9                   | 18        | 15         |
| 4.0 and above             | 07        | 5.83       |
| Total                     | 120       | 100        |
| **Experience (years)**    |           |            |
| 1-5                       | 04        | 3.3        |
| 6-9                       | 14        | 11.67      |
| 10-14                     | 23        | 19.2       |
| 15-19                     | 21        | 17.5       |
| 20 and above              | 58        | 48.3       |
| Total                     | 120       | 99.97      |
| **Type of farming**       |           |            |
| Crop farming              | 32        | 26.7       |
| Animal farming            | 17        | 14.2       |
| Both crop and animal      | 71        | 59.2       |
| Total                     | 120       | 100        |
| **Annual Income**         |           |            |
| ≤40,000                   | 24        | 20         |
source at a particular interest rate. This finding agrees with Olarinde et al. (2005) who found that old people tend to be risk averse than young people.

The study further showed that most (65%) of the farmers in the area were married, 15.83% were single and 12.5% were widowed while only 6.7% of them were separated. This shows that the contribution of the farmers in the study area towards agricultural development should be favourable as a reasonable number of them were married and were expected to be able to attract support from their children. This result supported the findings of Ojo and Jibowo (2008) who reported that married people are responsible individuals whose views are highly respected within rural communities in Africa.

Farmer's educational attainments showed that (41.2%) of the farmers had no formal education; while about 34.2% of them attained primary education. Also, 16.7% attended secondary education while only 7.5% of them attended tertiary institutions. The above result evidently indicated that most of the respondents lack formal education, by implication it would be difficult for them to obtain credit from financial institutions as this requires formalities such as filling forms as well as being rational enough to select the financial institution that offers the best interest rate at a given time. Less than 25% of the respondents had less than or equal to 1 hectare of land, 20% had between 1.0-1.9 hectares, while (34.2%) of them had between 2.0-2.9 hectares of land. Also, the result further showed that 15% and only 5.83% of the sampled respondents had a farm size of between 3.0-3.9 hectares and 4.0 and above hectares of land respectively. This implies that most of the farmers were small holders and subsistence farmers, a situation that may not allow them to engage in large production, have access to bigger credit facilities. The small farm size by the farmers could be attributed to the high capital intensive nature of agricultural production.

Furthermore, it was observed that 3.3% of the respondents had years of farming experience between 1-5 years, 11.67% indicated between 6-9 years and 19.2% had between 10-14 years. More so, majority (48.3%) of the sampled respondents had a farming experience of 20 years and above while about 17.5% had farming experience between 15-19 years. This implies that the farmers in the study area had been engaged in one form of agriculture or the other which means that they must have acquired good farming experience. This indicates active participation of the respondents in agricultural production in the area. Majority (59.2%) of the respondents were fully engaged in both crop and animal farming, 26.7% of the farmers were engaged in crop farming only while 14.2% of them engaged in animal farming as their primary occupation.

The annual income level refers to the farmer's legitimate financial income. The result shows that majority (43.3%) of the respondents earned between N41, 000 - 60,000; 20% earned less than N40, 000. Also, about 18.3% of them earned between N61, 000 and 80,000; 8.3% earned between N81, 000-100,000. Only 10% earned above N101, 000. The implication of the finding is that farmers in the study may not have limited access to credit facilities. This is because access to credit is enhanced by high income than earning capacity. This finding shares a common view with Alabi et al. (2007) who reported that a farmer with a profitable supplementary income could become an early adopter of new technology that may require demanding for credit facilities.

### Sources of credit used and amount of credit obtained by farmers

#### Sources of credit used by farmers

Table 2 shows the sources of credit used by farmers in agricultural production in the area.

It is evident that most farmers found it difficult to obtain agricultural credit. Various sources of credit by the farmers in the study area were identified. Table 2 disclosed that majority (65% and 52.5%) of the farmers obtained credit from Personal Savings and Rotating Savings and Credit Association (RoSCAs) respectively. Also, 45% and 50% of the respondents obtained credit from friends and money lenders respectively, while only 32.5% of them sourced their credit from relatives. More so, 15% of the farmers secured credit from commercial banks, 19.2% from co-operative banks and majority (42.5%) secured their credit from development bank e.g Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB), while only 6.7% sourced from merchant banks.

It is obvious that majority of the farmers depend on informal creditors who charge exorbitant interest rate. This means that they have not been able to exploit the
Tables 2. Distribution of respondents according to the sources of credit used.

| Source              | Type                          | Frequency | Percentage |
|---------------------|-------------------------------|-----------|------------|
| Formal              | Commercial banks             | 18        | 15         |
|                     | Co-operative banks           | 23        | 19.2       |
|                     | Development banks (NACRDB)   | 51        | 42.5       |
|                     | Merchant bank                | 08        | 6.7        |
| Informal            | Friends                      | 54        | 45         |
|                     | Relatives                    | 39        | 32.5       |
|                     | Personal Savings (Adashi)    | 78        | 65         |
|                     | Moneylenders                 | 61        | 50.8       |
|                     | RoSCAs                       | 63        | 52.5       |

Source: Field Survey, 2014. **Multiple responses.

Table 3. Distribution of respondent according to the amount of credit obtained.

| Amount of credit obtained (₦) | Frequency | Percentage |
|-------------------------------|-----------|------------|
| ≤ N100,000                    | 31        | 25.83      |
| 100,001-400,000               | 50        | 41.67      |
| 400,001-700,000               | 13        | 10.83      |
| 700,001-1,000,000             | 18        | 15         |
| >1,000,000                    | 08        | 6.67       |
| Total                         | 120       | 100        |

Source: Field Survey, 2014.

low interest rate charged by the formal credit institutions. This agrees with the survey carried out by Krain (1998) who observed that credit from formal financial institutions meet only a small portion of the total credit demand of the agricultural sector. He found out that credit from the formal financial sources accounted for only 9.9% of the total credit available to the agricultural sector.

The remaining 90.1 percent is from the informal financial sources mainly comprising loans from relatives, friends, rotational savings groups and one’s superior at work and other sources. This could be that poor farmers in the area lacked title deeds for pieces of land they own and as a result they do not qualify for bank credit where collateral are mostly required.

This was further reinforced by the findings of Steel et al. (1997) who reported that reliance on collateral by banks often however, exclude many otherwise credits worthy small-scale farmers in many African countries where land title are not well documented or readily transferable. This implies that agricultural practices in such areas suffer setbacks because of insufficient amount of credit since majority of the farmers depends mainly on informal sources.

**Amount of credit obtained by farmers**

The amount of credit obtained by farmers in the area is shown in Table 3. The study indicates that 41.67% of the respondents obtained credit at the range of ₦100,001-400,000 and 25.83% obtained credit less than or equal to ₦100,000. Also, 10.83%, 15%, and 6.67% borrowers had obtained credit to the tune of ₦400,001-700,000, ₦700,000 - 1,000,000 and more than ₦1,000,000 respectively. This shows that most of the borrowers obtained credit less than ₦500,000. It may be that majority of farmers in the area are peasant farmers with small land holdings who need small amount of money mainly for production. Also, it could be because of the exorbitant interest rate charged by most financial institutions especially in the informal sector.

**Factors affecting the volume of credit sourced by farmers**

The result of regression analysis is presented in Table 4. The multiple regression analysis was used to predict the factors affecting the volume of credit sourced by farmers. Output of the regression analysis showed a co-efficient of multiple determination $R^2$ value of 0.65. This implies that about 65% of the total variations in volume of credit sourced by farmers were accounted by joint actions of the independent variables. The overall regression result was significant as F-Statistic value of 4.28 was statistically
significant at 1% level of probability which shows the goodness of fit on the estimated model.

Five out of eight predictors, namely; age, level of education, interest rate, credit awareness and farm income was statistically significant at various levels of probabilities.

**Age (X₁)**

The result indicated that age had negative sign but statistically significant effect on the volume of credit sourced by farmers from either formal or informal financial institutions. This relationship is in consonance with the a priori expectation of the study, because older people are always risk averse and would not like to enter into debt obligations. In addition, the older people find it difficult to understand the operations and conditions of formal and informal financial institutions and are also afraid of credit conditions.

**Marital status (X₂)**

The co-efficient of marital status was found negative and not statistically significant. This finding suggests that being married or single does not matter in terms of the volume of credit sourced by farmers in the area either from formal or informal financial institutions.

**Level of education (X₃)**

The variable level of education was positively signed and statistically significant at 10% level of probability. This agrees with the a priori expectation, because it was believed that chances to obtain credit from formal or informal financial institutions improve with increase in the level of education. This implies that majority of the credit beneficiaries in the area were the educated farmers.

**Farming experience (X₄)**

The relationship between interest rate charged and the volume of credit sourced by farmers from either formal or informal financial institutions conforms to a priori expectation of the study. That is, the lower the interest rate charged by financial institutions, the higher the volume of credit sourced by farmers and vice versa.

**Interest rate (X₅)**

The relationship between interest rate charged and the volume of credit sourced by farmers from either formal or informal financial institutions conforms to a priori expectation of the study. That is, the lower the interest rate charged by financial institutions, the higher the volume of credit sourced by farmers and vice versa.

**Credit awareness (X₆)**

Awareness to credit availability had a positive and significant relationship at 1% level of probability with the volume of credit sourced by farmers from either formal or informal financial institutions. The positive relationship was expected because those individuals who are aware of the credit availability in the financial institutions have better chances to obtain more credit than those who are not aware. This finding agrees with Kashuliza et al. (1998) who found that gender, level of education and awareness of farmers of the available credit facilities in

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### Table 4. Determinants of credit volume sourced by farmer.

| Variable            | Coefficient | Standard error | t-value | Significant |
|---------------------|-------------|----------------|---------|-------------|
| Constant            | 3.029       | 0.316          | 9.577   | 0.00        |
| Age                 | -0.117      | 0.058          | -1.995  | 0.048       |
| Marital status      | -0.192      | 0.040          | -4.817  | 0.324       |
| Level of education  | 0.080       | 0.044          | 1.838   | 0.069       |
| Farming experience  | 0.01        | 0.014          | 0.052   | 0.958       |
| Interest rate       | -0.012      | 0.019          | -0.644  | 0.052       |
| Credit awareness    | 0.021       | 0.024          | 0.855   | 0.001       |
| Farm income         | -0.034      | 0.041          | -0.841  | 0.024       |
| Co-operative membership | 0.059     | 0.042          | 1.410   | 0.161       |

F-statistics=4.28

R²=0.65

Source: Field survey, 2014.
Table 5. Distribution of respondents according to problems encountered in obtaining credit from formal sources.

| Problem                                                             | Mean score |
|----------------------------------------------------------------------|------------|
| A lot of time is spent on getting the credit                         | 2.58       |
| Procedures are complicated                                           | 2.71       |
| Interest rates are high                                               | 2.80       |
| The cost of transaction is high                                      | 2.43       |
| One is not given the full amount applied for                         | 2.02       |
| Inadequate collateral security to obtain credit                       | 3.00       |
| Transportation cost from home to source of credit is high             | 2.38       |
| Problem of collateral cheques                                        | 2.44       |
| Repayment time is short                                               | 2.55       |
| Illiteracy                                                           | 2.98       |
| Lack of good information about agro-credit                           | 2.81       |
| Lack of presence of banks in the rural areas                          | 2.68       |

Source: Field survey, 2014.

their areas are important factors in determining access to credit.

Farm income \((X_7)\)

The relationship between farm income and volume of credit sourced by farmers was statistically significant at 5% level of probability, but negatively signed. The negative co-efficient does not conform to a priori expectation of the study. Nevertheless, the implication of this result is that most of the credit was made available to those with low farm income. Also, most of the available credit scheme had eligibility criteria favouring people with relatively low income in rural areas.

Co-operative membership \((X_8)\)

The co-efficient was found positive but statistically not significant. The a priori expectation was not met, because being a member of co-operative societies is an advantage for sourcing more credit especially in informal financial institutions where familiarity and guarantors are always considered. Meanwhile, the implication of this result is that, farmers being a member of co-operative or not has nothing to do with the volume of credit sourced from either formal or informal financial institution in the area.

Problems encountered by farmers in obtaining credit from formal financial institution in the area encountered some problems which hindered them from access to both formal and informal financial institutions to boost agricultural production. However, the mean score of 2.55 and above was used as a decision rule, which implies that any problem equal to or greater than 2.55 was considered a serious problem in the area. From formal financial institution perspectives, this problem includes the following with mean score: A lot of time is spent on sourcing the credit (2.58); procedures are complicated (2.71). Interest rates are high (2.80), Inadequate collateral security to obtain credit (3.00). Agnet (2004) opined that complex mechanism of commercial banking is least understood by the small scale farmers and thus limit their access. Also, among the problems are lack of awareness of credit packages (2.63) and lack of presence of banks in the rural area (2.68).

Problems encountered by farmers obtaining credit through informal financial sources

The problems encountered by farmers in obtaining the credit from informal financial are shown in Table 6. The problems encountered by the respondents in sourcing credit from informal sources were: lack of trust to pay back the credit (2.89), one is not always given the full amount he/she applied for (2.93), risk of not paying back because of crop failure (2.84), difficulties before getting the credit (2.63) and problem of getting guarantors (3.00).

Conclusion and recommendations

The decline in the contribution of Agricultural sector to the Nigeria economy has been attributed to the lack of a formal national credit policy and paucity of credit...
Table 6. Distribution of respondents according to the problems encountered in obtaining credit from informal sources.

| Problem                                      | Mean score |
|----------------------------------------------|------------|
| Lack of trust to pay back the credit         | 2.89       |
| Transportation cost is high from home source | 2.08       |
| One is not always given the full amount he applied for | 2.93       |
| Risk of repaying the credit because of crop failure | 2.84       |
| Time in repaying the credit is short         | 2.24       |
| Difficulties before getting the credit       | 2.63       |
| Problem of getting guarantors                | 3.00       |
| Illiteracy                                   | 2.43       |

Source: Field survey, 2014.

institutions. Commercial interest rate and collateral requirement charged by both formal and informal financial institutions, largely restricted farmers from seeking credit from these sources. However, Farmers secured credit from informal financial institutions than formal sources. The interest rate, age, level of education, credit awareness and farm income were identified as the major determinants of the volume of credit source.

Interest rate charged on credit facilities should be reduced to motivate the farming communities to source for credit and finally credit policy for rural and micro enterprise lending needs to be formulated in order to mobilize savings and maximise the availability of credit to the population in rural and urban areas.

It is also important that Agricultural extension agents and other relevant agencies should intensify effort in educating farmers on the sources of credit facilities available to them. Complicated application procedures adopted by most financial institutions should be modified to enable more farmers to source for credit.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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