

Appraisal of Finance Constraints to Small Scale Farming in Etsako East Local Government Area of Edo State

Awotodunbo, A. A.

Rural Enterprise Development Department,

Leventis Foundation (Nig.) LTD/GTE, Agricultural Training School,

Dogon Dawa, Kaduna, Kaduna State

e-mail: bayoawotodunbo67@yahoo.com

Abstract: The study examined the finance constraints to small scale farming in Etsako East Local Government Area of Edo State. Data were obtained using questionnaire from 150 farmers randomly selected from 11 villages in the Local Government. Findings show that majority of the respondents (58%) are female; 79% are between 21 and 60 years old; 53.3% are married, 46.7% have no formal education. The result also shows that only 7% have access to bank loan while most (93%) access loan from other sources like cooperative societies; personal savings and relations. The correlation analysis shows that farmers' net income is significantly related to finance constraints ($r = 0.15$; $p < 0.05$); but farmers' age is not ($r = 0.18$; $p < 0.05$). Chi square analysis shows that finance source is significantly related to finance constraints ($\chi^2 = 26.27$, $p < 0.05$). The study therefore recommends that strategies that would enhance agricultural financing with the aim of improving the standard of living of farmers in the area, be put in place.

Keywords: Finance, constraints, small-scale farmer, Edo state.

INTRODUCTION

Agricultural business is vested mainly with small-scale farmers who are found mostly in rural areas in Nigeria; and are responsible for production of food that is consumed both in rural and urban communities; and raw materials needed by the industrial sector of the economy (Rahji, 1999). In discharging these responsibilities; they face a lot of problems that include inadequate or restricted access to capital and limited access to credit facilities (Ajakaye, 1985). FAO (1990), attributed the downward trend in per capita food production in Nigeria to increase in farming population which demands a continuous cropping on the soils without adequate fallow periods resulting into infertile

soil, nature of land tenure in the country and restricted access to credit facilities to expand farm holdings.

According to Shephard (1997); credit determines access to all of the resources on which farmers depend. Credit serves as a source of funds to farmers that can be utilized in production process. Ogundeji (1998) stated that agricultural business like any other business can be financed through personal savings, friends or family assistance, partnership, bank loans, private placements, credit terms, hire purchase and cooperative societies. Though, the Federal Government of Nigeria, in recognition of the need to finance agricultural business, directed all licensed banks through Central Bank of Nigeria (CBN) in 1977 to open bank branches in the rural

areas. This is to encourage banking habit, provide agricultural credit with minimal interest and redress the lopsidedness in the availability of banking services in rural areas; farmers are still constrained in their access to credit facilities from banks and other funding sources.

Objectives

The main objective of this study is to appraise the finance constraints to small scale farming in Etsako East Local Government Area of Edo State; and specifically, the study intends to:

- i. identify the socio-economic characteristics of the farmers.
- ii. identify the sources of finance available for farming.
- iii. identify the constraints to finance of farm business.
- iv. make recommendations on strategies for strengthening Agricultural finance.

Hypotheses of the Study

The hypotheses proposed for the study, in null form, are as stated:

- i. There is no significant relationship between some selected socio-economic characteristics (Age and Net Income) of farmers and their finance constraints.
- ii. There is no significant relationship between sources of finance and finance constraints

METHODOLOGY:

The study was carried out in Etsako East Local Government Area of Edo State. The population of the study consists of all farmers in the 36 villages that make up the Local Government. Thirty percent of the villages (about 11) were selected for inclusion in the

sample. A total of 150 farmers were randomly selected and interviewed. Questionnaire used to collect information on farmers' socio-economic characteristics; sources of finance; constraints to finance and suggestions on how farm financing can be strengthened, was face validated by experts. The following hypotheses were; however, tested:

Measurement of Variables

Independent Variables: The independent variables measured and analyzed were age, net Income and sources of finance.

Age: Respondents were asked to state their actual age in years.

Net Income: The net income was measured as the Estimated Total Revenue less the Estimated Total Cost of Production per enterprise per hectare for each respondent. It is a measure of farmers' propensity to save. Farmers' access to financial assistance from banks or other financial agencies is at times, among many other factors, dependent on their savings with such agency, which is a function of their net income. In estimating the total cost, respondents were asked to state the crops produced, the hectareage cultivated, the quantity and the amount spent on inputs: seeds, seed dressing chemicals, weeding or herbicides, insecticides, harvesting and processing last season. The total cost was then estimated as the total amount spent per crop per hectare for the last cropping season.

Total Revenue: In estimating total revenue, respondents were also asked to state the crop yield obtained in bags or baskets and sold after harvesting and the amount realized from the sale was estimated and used as the total revenue.

Sources of Finance: Respondents were asked to indicate their sources of finance; which were categorized as formal and informal sources and

assigned scores of one (1); and zero (0) respectively. Responses in each category were counted and used.

Dependent Variable: Finance constraint is the dependent variable. This was measured by asking respondents to indicate their responses on a 3-point likert type scale. The response categories ranged from “not at all” to “very strong” and scaled 1 to 3 respectively. The nine finance constraints factors used were unavailability of processing and storage facilities, fluctuating commodity prices, interest charged by lending agencies (La Due *et al*; 1992, Nayak and Turvey; 1997, Lot; 1996). Others include collateral adequacy, farm size and farmers’ income, size of loan or credit requested, loan repayment ability and previous loan performance (Ekong; 1988, Asala, 2000, Rahji 2000). The maximum finance constraints score for any respondent was 27 while the minimum was 9. Finance constraints scores were obtained by adding the response scores in each category for each respondent and used to test for relationship between age and farmers net income. The finance constraints scores were then operationalised as very strong (21 to 27), strong (15 to 20) and weak finance constraint (9 to 14), and responses in each category counted and used in the determination of the relationship between finance sources and finance constraints.

RESULTS AND DISCUSSIONS

Socio-Economic Characteristics of farmers

Data in Table 1 show that women (58%) are more actively engaged in farm works than men (42%). The age structure reveals that majority (79.4%) are between productive ages of

21-60 years. The average age of the farmers is, however, 40.6 years. These groups, given all necessary assistance, have the strength to increase hectareage cultivation and output.

Majority (53.3%) of the respondents are married and majority (46.6%) had no formal education. This implies that even if they can access technological information from agricultural journals and bulletins, they may have little comprehension of such information and may not be able to put them to profi Table use without outside assistance.

The Table also shows that 87% are engaged in farming as their major occupation; though, they are also engaged in other income generating activities outside rain-fed farming. These other enterprises have the potentials of being properly harnessed and developed to further improve the income and standard of living of the rural poor.

Table 1. Distribution of Farmers according to socioeconomic characteristics

Characteristic	Frequency	Percentage
Gender:		
Male	63	42
Female	87	58
Age (Years):		
Below 20:	10	6.6
21 – 40	70	46.7
41- 60	49	32.7
61 and Above	21	14.0
Marital Status:		
Single	25	16.7
Married	80	53.3
Divorced	10	6.7
Separated	20	13.3
Widowed	15	10.0
Level of Education:		
No Education	70	46.7
Primary Education	22	14.7
Secondary Education	48	32.0
Others	10	6.6
Major Occupation:		
Farming	132	88
Others	18	22

Other Income

Generating Activities:

Teaching	25	16.7
Farming	15	10.0
Trading	60	40.0
Brick laying	05	3.3
Barbing	12	8.0
Food Vendor	23	15.3
Security Personnel	10	6.7
Total	150	100

Farmers' Enterprise Characteristics

Eighty-eight percent access fairly large farm size of between 0.5 hectare to 10 hectares but majority (74.7%) only cultivate between half to three hectares of their farmland. The average farm size owned and cultivated by the farmers are 2.46 and 2.36 hectares of farmland, respectively. In rural areas, these are fairly large hectarages; though, other factors of production may be limiting in the area. The study shows that though 86% obtained their landholdings through inheritance while 73.3% have put in more than 10 years into farming; the average years of farming experience of farmers in the area was 9.12 years while their average annual income amounted to N30,316.67.

Table 2. Distribution of Farmers' Enterprise Characteristics

Characteristic	Frequency	Percentage
Farm Size Owned/Ha:		
½ - 5	95	63.3
5 - 10	37	24.7
10 and Above	18	12.0
Hectarage Cultivated:		
½ - 2	52	34.7
2 - 3	60	40.0
3-5	38	25.3
Years of Farming Experience:		
1-5	7	4.7
5-10	33	22.0
10 and Above	110	73.3
Estimated Net Annual Income (N):		
10,000 – 20,000	37	24.7
20,000 – 50,000	85	56.7
50,000 and above	28	18.6
Total	150	100

Distribution of Farmers According to Access to extension services, Ownership of farm record, Sources of and Access to loan

The study also shows that few respondents (30%) had access to extension services while majority (83%) did not keep adequate record of their farming activities. This may be due to low literacy level in the area. There is, therefore; the need to beef up extension activities in the area. Only seven percent accessed bank loans while 93% accessed loans from other sources. Thirty one percent and 46% respectively accessed loans from credit cooperative societies and personal savings to skip bank bottlenecks and problems of collateral security. This supports the assertion of Thorsten (1996) that Cooperative Financing Agency made sizeable amount of loans available to farmers though Cooperatives thereby overcoming problems of collateral experienced with the banks. It also supports the claim of Adewale and Ogunniyi (2000) that rural banking scheme have not been very successful in granting attainment of its objectives of encouraging banking habits and granting of loans to agriculture. They reported that few rural farmers have developed bank savings habit that most of the farmers, in addition, did not benefit from the bank credit facilities; that a large proportion made savings to cooperative societies and also obtained credit for farming activities from these societies.

Table 3. Distribution of Farmers According to access to extension services, ownership of farm record, sources of and Access to loan

Characteristic	Frequency	Percentage		
Access to Extension Services:				
Yes	45	30		
No	105	70		
Ownership of Farm Record:				
Yes	25	16.7		
No	125	83.3		
Sources of loan:				
Personal Savings	69	46.0		
Relations and friends	23	15.3		
Local money lenders	-	-		
Commercial bank	-	-		
Cooperative society	47	31.4		
Community bank	-	-		
Agricultural bank	11	7.3		
Access to loan:				
	Bank	Other Sources	Bank	Other Sources
Yes	11	139	7.3	92.7
No	139	11	92.7	7.3
Total	150	150	100	100

3.4 Relationship between Farmers' Net Income and their Finance Constraints

It was found that there is a statistical significant relationship between farmers' net income and their finance constraints ($r = 0.45$; $p < 0.05$). The implication is that farmers with higher net income have higher saving capacities and tendencies, and, unexpectedly have higher constraints to finance their farm holdings compare to low-income farmers. This may mean that those who have higher income may have larger family size that places higher demand on

their income and hence may not have developed banking habit.

Data however show that farmers' age was not significantly related to their finance constraints ($r = 0.18$; $p < 0.05$). That implies that both young and old farmers are affected by different finance constraints. This is in line with findings from previous studies by Adewale and Ogunniyi (2000) that the ages and formal education of farmers have no significant relationship with their access to bank agricultural credit.

Table 4. Relationship between Age, Net Income and Finance Constraints

Characteristics	Critical Value @ P = 0.05		Decision	Remark
	r calculated	r tabulated		
Age	0.18	0.1946	Accept H_0	Not significant
Net Income	0.45	0.1946	Reject H_0	Significant

Relationship between Finance sources and Farmers' Finance Constraints

The study reveals that finance source is significantly related to finance constraints ($\chi^2 = 26.27$; $P < 0.05$). This implies that the ease or

difficulty with which farmers' access fund varies from source to source. The easiest accessible source is personal savings of farmers. The collateral requirements of banks, need for adequate farm record and the unwillingness of banks to finance agricultural

enterprises is likely to make banks fund more difficult to access.

Table 5. Relationship between Sources of Finance and Farmers' Finance Constraints

Characteristics	Critical Value @ P = 0.05		Decision	Remark
	χ^2 calculated	χ^2 tabulated		
Sources of finance	26.27	5.99	Reject Ho	Significant

CONCLUSION

The study reveals that Agricultural business is still not adequately funded in the study area. If all stakeholders in areas of agricultural financing or funding fail to revive agricultural production through carefully planned; and well-monitored agricultural financing programmes, farmers may further be pushed below their subsistence level of living and still live in abject poverty.

RECOMMENDATIONS

Based on the findings of this study; it is recommended that small-scale farmers be mobilized into true Self Help Groups/Cooperative Societies. Managers of these groups and Extension personnel should, as a matter of necessity, continuously build the capacities of members through their various educational programmes, and encourage them to rely more on their group savings. Any outside credit assistance should then be channelled through the groups, which will effect disbursement to members and ensure timely repayment. Government should identify the implementation bottlenecks and review the implementation strategies of the defunct Agricultural Credit Guarantee Fund Scheme; and also increase her equity contribution to the fund. Besides, government should also come up with policies and action plans that would ensure regular market and attractive market prices for agricultural produce. These would encourage

farmers to expand their farm holdings and increase significantly their output. This is expected to bring about the desirable standard of living to farmers and their family.

REFERENCES

- Adewale, J. G and L. T. Oguniyi (2000). "Assessment of the Rural Banking Scheme in Ogbomo Zone of Oyo State". Nigerian Agricultural Development Studies; Vol. 1, No. 1, PP 1 – 6, March.
- Ajakaye, M. B. (1985). "Financing Agricultural Programmes in Nigeria: The Role of the Nigerian Agricultural and Cooperative Bank Limited". In Aja Okorie and Martin O. Ijere (Eds.) Reading in Agricultural Finance; Nigeria, Longman pp 59 – 65.
- Asala, C. O. (2000). "Credit Availability and Administration for Small/Medium Enterprises in the Fadama Sub-Sector: Strategy for efficient management". Paper presented at the National Fadama Development Project Stakeholders' workshop.
- FAO (1990). Sustainable Food Production in Sub-Saharan Africa.
- La Due E.L, W.F Lee, S.D Hamson and D.M Kohi (1992). "Credit Evaluation procedures at Agricultural Banks in the North East and Eastern Cornbelt". Department of Agricultural Economics Research Report 92-93. Cornell University, February 1992

- Lot, C.A (1996). "Monitoring and Supervision of Agricultural Projects". A paper presented at the first National Agricultural Finance and Credit Administration Training (NAFCAT) workshop. University of Nigeria, Nsukka. September 10-11
- Nayak, G.N and C.G Turvey (1997). "Credit Risk and the opportunity costs of loan misclassification". Canadian Journal of Agricultural Economics. 45, 285-229
- Ogundeji, A (1998). How to Run a Small Scale Business, Able Press Publication, Nigeria. 40pp.
- Rahji, M.A.Y (2000). "An Analysis of Agricultural Credit Approval/Loan Size by Commercial banks in South Western Nigeria". In Nigeria Agricultural Development Studies. Vol 1, No 1 pp.16-25
- Shephard, W. G. (1997). Market Power and Economic Welfare, Random House, New York, P. 51.
- Thorsten, J. (1996). How an Agricultural Development Bank revolutionized Rural Finance: The Case of Bank Rakyat Indonesia. FAO and University of Cologne