International Scholars Journals

African Journal of Agricultural Economics and Rural Development ISSN: 2375-0693 Vol. 4 (4), pp. 359-364, April, 2016. Available online at www.internationalscholarsjournals.org © International Scholars Journals

Full Length Research Paper

A study of the challenges of small scale farmers in accessing credit in Taraba State, Nigeria

Orunsadebe B. Justice[1] and Okpilolo A. Blackson[2]

[1]Department of Geography, Taraba State University, P.M.B. 1167, Jalingo, Taraba State, Nigeria. [2] Department of Agronomy, Taraba State University, P.M.B. 1167, Jalingo, Taraba State, Nigeria.

Accepted 24 January, 2016

Farm credit accessibility has been seen as the surest way of breaking the vicious cycle of poverty in the rural areas of developing countries, particularly in sub Saharan Africa. This study examines the challenges of farm credit accessibility by small scale farmers in Gassol LGA of Taraba State, Nigeria. One hundred and forty (140) farmers were randomly selected from 4 communities in the 2 districts of the LGA. Data collected were analysed using descriptive statistics tools. The results of the findings show that 70 percent of the farmers in the study area participated in the local micro credit scheme (bada kaka). 68 percent of the farmers viewed this local method of micro credit as a method of negotiating a farmer's produce before the commencement of the farming season. About 17% of the farmers believed that the local micro credit system is exploitative and does not guaranty increase agricultural productivity. In conclusion, there is need to redesign government agricultural micro credit financing policy to guaranty continuous and timely provision of micro credit to farmers at a very low interest rate.

Key words: Accessibility, *Bada kaka*, challenges, farm credit and small scale farmers.

Introduction

Small scale farmers have always played dominant role in agricultural productivity in Nigeria (Rahji and Fakayode, 2009), but their productivity and growth are hindered by limited access to credit facilities (Odoemenem and Obinne, 2010). Farm credit is an important factor in improving agricultural productivity and strengthening rural economy in most developing countries. Farm credit scheme provide poor people with the institutional support needed to generate a source of income which may help them to achieve food security. Several empirical studies have shown that micro credit have benefited small scale farmers in many ways in the past (Feijo 2001, Oyeyinka and Bolarinwa, 2009 and Okojie *et al*, 2010). The operational mechanism of farm credit services is complicated by emerging new challenges that are changing the context in which rural economic landscape operates. Important lessons from past rural credit programme in the country point to the need to redesign or improve delivery mechanism to minimize institutional barriers and, hence, open access of small-scale farmers to credit. Majority of poor farmers have continued to face limited access to financial services, and where these services are made available, they are often at very high cost (Okojie *et al*, 2010, Phillip *et al*, 2009). Capital has for a long time been considered as a primary means of rekindling and enhancing the growth potential of the rural economy, especially farming activities (Eboreime, 2008). Some scholars believed that a sure way of breaking the vicious circle of poverty especially in the rural areas is through the injection of capital (Jhingan, 1975). Meir (1975) in pointing out the crucial role of capital observed that even though labour may be abundant in developing countries of Sub Saharan Africa, their output remains limited by a shortage of capital. Thus, microfinance, which entails the extension of credits or financial capital to small scale farmers, is viewed as an effective strategy

*Corresponding author E-mail: oruns-justice@yahoomail.com

to increase agricultural productivity and reduce rural poverty (Omobolanle, 2010). Eboreime (1999) found that the provision of financial capital to small scale rural farmers actually led to output growth and increase in gross incomes. Eboreime further observed that the trend can effectively checkmate poverty as increased income is expected to generate increased saving, investment, and capital formation and eventually bring about increased productivity.

Agricultural credit determines access to all of the resources on which farmers depend (Shephard, 1997). Credit serves as a source of funds to farmers that can be utilized in the production process (Awotodunbo, 2008). 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. It has been observed that the agricultural sector has been receiving the least level of credit facilities from commercial banks (Koza, 2007). In Nigeria, it is estimated that only 2.5 percent of the total commercial Bank loans and advances is directed to agriculture (CBN, 2008). This has made government over the years to come up with many different programmes aimed at providing loans and credits to small scale farmers with or without collateral. Some of these programmes include;

i. The Nigerian Agricultural Cooperative Bank (NACB),
ii. Farmers Credit Scheme (FCS),
iii. Family Economic Advancement Programme (FEAP),
iv. Women, Youths Empowerment Scheme (WYES).

Government programmes have had little impact at the community level. They are handicapped by severe financial, political and managerial problems to the points of incapacitation (Eboreime, 2008). Eboreime further observed that the delivery systems suffer serious obstacles of implementation, resulting in facilities being uncompleted or lacking staff and equipment. Most of the problems have being attributed to the non-involvement of the people in the planning and execution process of the scheme. This is also exacerbated by the politicization of resource allocation and non accountability by government staff of the resources which they control.

In recent times owing to some of the problems of accessibility of agricultural financing, most rural small scale farmers in Taraba state have evolved a new form of sourcing agricultural loan within their immediate communities known as *bada kaka* in local parlance.

Aim and Objectives

This study examines the challenges of small scale farmers in accessing credit in Taraba State. Specifically, the study examines the principles involved in the *bada kaka* method of agricultural credit, identifies the advantages and constraints of the method, and makes recommendations on strategies for strengthening the method.

Study Area

The study was carried out in Gassol LGA of Taraba State. Gassol LGA is roughly located between latitude $7^{o}32'$N to $8^{o}40'$N and longitude $10^{o}25'$E to $11^{o}15'$E. The LGA has a landmass of 5982 km^2 and a population of 244,749 (125,293 male and 119,456 female) according to the 2006 national census and is one of the most populous LGA in the state. It consists of two large administrative chiefdoms, namely Gassol and Mutum-Biyu chiefdoms. There are six approved district areas in each of the chiefdom.

About three quarter of the populations are crop farmers, while others are cattle rearers and fishermen (Oruonye and Abbas, 2011). Important crops cultivated in the area include groundnut, maize, yam, cassava, millet, guinea corn, melon etc. Most of the farmers cultivate small plots of land. Farming activities usually starts around March with clearing of lands. The soils in the area consist of rich sandy loam soil. Farming activities are usually carried out through family and hired labour. Capital is usually a major challenge. The state government through its Fadama III Programme has provision of capital to small scale farmers as one of its mandate. However, the process and requirements for accessing such credit is usually very cumbersome and difficult for the small scale farmers. Some of these requirements include;

i. Formation of Cooperative Society, with a certificate of registration with the Taraba State Cooperative Society Board.
ii. Presentation of collateral, especially Certificate of Occupancy (C of O) of land property.
iii. Presentation of a surety who must be a civil servant and must sign an undertaken to that effect.

These requirements made it difficult for the rural small scale farmers to access the fund. This situation is further worsened by the fact that the processing of the loan is done at the Head Office of the National Fadama III programme located in the state capital, Jalingo.

MATERIALS AND METHODS

Two district areas were systematically selected from each of the two chiefdoms in the LGA. This involves wrapping the label of the names of the six districts in each of the two chiefdom and asking someone to pick any two wrappers one after the other from the two ballot box. The selected districts are Gassol and Sansani districts in Gassol Chiefdom and Gunduma and Tutare districts in Mutum Biyu Chiefdom. In each of the district, farmers were randomly selected to give a total of one

Table 1. Respondents' demographic characteristics

Gender	Frequency	Percentage (%)
Male	112	65.7
Female	48	34.3
Total	140	100
Age		
20 - 30yrs	32	22.9
31 - 40yrs	48	34.2
41 - 50yrs	44	31.4
51yrs and above	16	11.4
Total	140	100
Marital Status		
Married	108	77.1
Single	28	20
Divorcee	4	2.9
Others	00	00
Total	140	100
Educational qualification		
Graduate	4	2.8
OND/NCE holder	4	2.8
SSCE/Grade II	32	22.9
Pri. Sch. Certificate	32	22.9
Never being to sch	68	48.5
Informal Quaranic	4	2.8
Total	140	100

Source: Fieldwork, 2011.

Hundred and forty farmers for the study. Data were collected from the farmers using interview schedule between May and June, 2011. Data were collected on farmers socio-economic characteristics, sources of finance, participation in the *bada kaka* method of agricultural credit financing, advantages and constraints of the method and how best to strengthen the method. The participatory rural appraisal method was conducted at each of the selected communities to generate additional information required for the study. It was conducted separately for the adult male and female members at the community head residence. Descriptive statistics were used to analyse the data.

RESULTS AND DISCUSSION

The results showed that 65.7% of the respondents are male and 34.3% are female as shown in Table 1. The demographic data also shows that 22.9% are within the ages of 20 - 30years, 34.2% are between 31-40years, 31.4% between 41-50 years and 11.4% are between the ages of 51 years and above. More experienced and matured farmers were administered questionnaires to because they most often seek for micro credit to enable them undertake farming activity at the beginning of the farming season. Also, the burden of family and social responsibility as well as the wide spread of poverty in the area makes micro credit a basic necessity to farming in the area. The result also shows that 20% of the respondents are single while 77.13% are married. The study also shows that 48.5% of the respondents interviewed have never being to school, while 22.9% have primary school certificate and senior secondary school certificate of education respectively as shown in Table 1.

The result showed a very low level of education and high rate of illiteracy in the study area. Educational level is very important as it increases the farmers' ability to obtain, analyze and interpret information and use their resources efficiently.

When the farmers were asked how they source the capital they use for their farming activities, 31% of the respondents claimed that they sourced credit through the local *bada kaka* microfinance system, while 20% are self funded (Table 2).

About 65.7% of the respondents Claimed that they have problem accessing micro credit to carry out farming activities at the beginning of farming season. The problems of micro credit accessibility in the study area according to the respondents opinion include high interest rate (20%), delay in approval of government loan (37.1%) and 34% of the respondent did not respond to this question as shown in Table 3.

When the farmers were asked to comment on their perception of the *bada kaka* micro credit financing system, about 69% said that it is a method of negotiating their farm produce before the commencement of farming season, 17.1% claimed that it is a dubious method aimed

Table 2. Source of Micro Credit for Farming Activity

S/NO	Source of Micro Credit	Frequency	Percentage (%)
1	Self funding	28	20
2	*Bada kaka*	44	31.4
3	Agric. Loan	36	25.7
5	Neighbours	4	2.9
6	Family friends	12	8.6
7	Micro finance Bank	16	11.4
11	Total	140	100

Source: Fieldwork, 2011.

Table 3. Problems of micro credit accessibility in the Study area

S/NO	Problems of micro credit accessibility in the study area	Frequency	Percentage (%)
1	Amount given is too small	4	2.8
2	High interest rate	28	20
3	Defaulting in payment	8	5.7
4	Delay in approval of government loan	52	37.1
	No response	48	34.3
6	Total	100	100

Source: Fieldwork, 2011.

Table 4. Farmers Perception of the *Bada kaka* micro credit financing system

S/NO	Farmers' Perception of *Bada kaka* micro credit system	Frequency	Percentage
1	A method of exploitation	24	17.1
2	Negotiating your produce before farming	96	68.6
3	Process of reducing poverty	12	8.6
4	Local Banking system	8	5.7
5	Total	140	100

Source: Fieldwork, 2011.

Table 5. Challenges of *Bada kaka* micro financing system

S/NO	Challenges of Bada kaka micro credit	Frequency	Percentage
1	High interest rate	40	28.6
2	High risk and uncertainty	12	8.6
3	Failure in meeting terms of agreement	12	8.6
4	Difficulty in repayment in event of crop failure	32	22.9
5	Litigation (Courts/police cases)	12	8.6
6	Poverty and illiteracy	4	8.5
7	Lack of Fairness and justice	16	11.4
8	The amount giving is too small	4	2.8
9	Total	140	100

Source: Fieldwork, 2011.

at exploiting them while 8.6% believe it is a method of poverty reduction (Table 4).

Some of the challenges of the *bada kaka* micro financing scheme in the study area include high interest rate (28.6%), difficulty in repayment (22.9%), lack of fairness and justice (11.4%) as shown in Table 5.

When the farmers were asked on the way out of the problem, 65.7% of the respondents suggested

Table 6. Ways of solving the problems of bada kaka micro finance system

S/NO	Ways of solving the problems of bada kaka micro credit system	Frequency	Percentage
1	Repayment of same amount borrowed	8	5.7
2	Govt intervention and support	92	65.7
3	Stopping the system because of its exploitation	4	2.8
4	Reducing the harsh condition of the loan	20	8.6
5	No Response	16	14.3
	Total	140	100

Source: Fieldwork, 2011.

government intervention and support as shown in Table 6.

The Principles of the *bada kaka* agricultural micro credit Financing

Bada kaka is a form of traditional micro credit scheme between small scale farmers and agricultural farm produce traders (middlemen) in Taraba State. It operates on the principles of trust and integrity. The traders usually approach the farmers whom they trust with the understanding that the farmers need credit for their farming activities in the season. They negotiate the amount the farmers will require base on cost per bag of maize, beans or other crops as the case may be. This negotiation is usually done in the presence of the village/ward head and some elderly members of the community. This group of people serves as witness to the agreement in the event of default. Sometimes, it is the farmer that goes about looking for traders that will advance some credits to him/her. In which ever case, the agreement is done in the presence of witnesses. After harvest, the farmer pays back his debt in kind (based on the amount and number of bags agreed upon). This is done without prejudice to the current market price of the agricultural commodity.

The Advantages and Constraints of the *bada kaka* Agricultural Micro Credit Financing System

Some of the benefits of the *bada kaka* micro credit system include;

i. It is usually the last resort at the disposal of the small scale farmer when every other means failed.

ii. The capital required by the farmers is accessed almost immediately, thus eliminating the delays in fund disbursement often associated with commercial bank or government agricultural loan scheme.

iii. It affords the farmer the opportunity to undertake farming activity during the season, since he can not do without capital.

iv. It helps the farmer to expand his farmland and thus increase productivity etc.

The constraints of the *bada kaka* micro credit system on the other hand include;

i. The method is very exploitative. The farmers are made to dispose the farm produce at a very low prize that is not commensurate to their effort or labour. The amount of money advanced to the farmers depends on the number of bags he/she is certain to deliver at the end of the farming season. This trend often placed the farmer at disadvantage position whereas the traders reap the fruits of the farmers labour. This is corroborated by earlier report by Okojie *et al* (2010) and Anyanwu (2004) that one of the principal characteristics of informal credit is the higher interest rates imposed on loans relative to those of the formal banking sector.

ii. It increases the risk that the farmers have to bear. The farmer is made to pay to the last amount even when there are problems such as excessive rains or drought, outbreak of pest and diseases that may result in low yield or crop failure.

iii. The method is not sustainable because it does not guarantee the welfare of the small scale farmer.

iv. The method does not also guarantee increase productivity in agricultural activity because of its harsh and exploitative conditions.

Financial constraint is one of the greatest challenges facing small scale farmers in Nigeria and Taraba State in particular. This study is in agreement with earlier study by EFInA (2008) which report that only 24 percent of the adult population in Nigeria has access to informal financial services while 53 percent are financially excluded. The farmers (65.7%) claimed that they are financially bankrupt at the beginning of the farming season, and cannot afford to embark on meaningful farming activity without some form of financial assistance. This is because they need to hire labourers to clear their farmlands, purchase improved seed varieties, fertilizer and pesticides. Consequently, some farmers (8.6%) resort to borrowing money from family members (who are mostly in urban centres) and neighbours (2.9%) who are well to do. In most cases, these sources are neither readily available nor reliable, thereby compelling the farmers to borrow money from traders who are usually

middlemen. Thus, they negotiate and sell their farm produce even before the commencement of farming activities or season to these middlemen. This situation forces them to dispose off their farm produce immediately after harvest to enable them pay back their loan. As a result, the small scale farmers receive a price for their goods that are far below the market price.

The rural area is too risky for sustainable development of micro finance institutions for a number of reasons. Firstly, agriculture which is the economic mainstay of the rural areas is characterized by high uncertainties. Its high dependence on rain and traditional farming systems as well as an externally determined pricing system make output and income from this sector low and unpredictable. The results are low consumption/savings/assets that are key in attracting Micro finance institutions. The rural poor have limited skills that are required to manage credit. Small and inexperienced farmers often do not separate between family and farm transactions, either because they lack the simple book keeping skills or do not appreciate the need to do so. Sometimes finances of several farm activities are managed together without a clear system of separating the performance of each, making it difficult to distinguish between profit and loss making ventures. All these factors taken together have led to either limited credit accessibility or high cost of the credit provided. In addition to interest rates, low operating costs and high repayment rates are key factors among the issues that determine the sustainability of micro finance scheme. On the other hand, traditional credit providers usually do not require a deposit relationship, which may be responsible for the high interest charged as no collateral is required (Ben-Yami n.d. 2008; World Bank, 2000 and Okojie *et al*, 2010). Yet in order to raise viability of rural credit the savings culture must be developed.

Conclusion

The findings from this study show that access to agricultural credit constitutes a major challenge to farmers in the study area. This led the people in the area to evolve a local system of micro finance (*bada kaka*) to enable them overcome these challenges. However, the evolution of the local micro finance (*bada kaka*) as indicated by most farmers has failed to achieve the desired result due to the harsh and exploitative conditions associated with it. Consequently, most farmers have continued to operate at small scale due to lack of access to micro credit. The inability of the farmers to access alternative sources of farm credit has compelled them to endure the exploitative tendencies of the middlemen (traders) through the *bada kaka* micro credit scheme over the years.

Recommendation

Based on the findings of this study and in order to achieve the anti-poverty objectives of the federal government's National Poverty Eradication Programme (NAPEP) and the Millennium Development Goals (MDGs), there is need to redesign government agricultural financing policy. This new measure should be designed in such a way that it can guaranty continuous and timely provision of micro credit to farmers at a very low interest rate. Also, negotiations between the farmers and the middlemen should be made in such a way that the farmers will be obliged to repay only the exact amount borrowed with minimum interest. The ward/village heads could assist in this regard by ensuring that stipulated low interest rates become part of the terms of the *bada kaka* micro credit system. By and large the government should evolved a sustainable micro credit financing method that will help the small scale farmers in their farming activities.

Reference

Anyanwu CM (2004). Microfinance institutions in Nigeria: Policy, practice, and potentials. In Badiru I. O. (2010). Review of Small Farmer Access to Agricultural Credit in Nigeria. International Food Policy Research Institute (IFPRI). Policy Note No. 25.

Awotodunbo AA (2008). Appraisal of Finance Constraints to Small Scale Farming in Etsako East Local Government Area. Int. J. Agric. Econ. Rural Dev. 1 (2). Pp. 35-41.

Ben-Yami Mnd (2008). Integrated of traditional institutions and people's participation in an artisanal fisheries development project in southeastern Nigeria In Badiru I. O. (2010). Review of Small Farmer Access to Agricultural Credit in Nigeria. International Food Policy Research Institute (IFPRI). Policy Note No. 25.

Central Bank of Nigeria (CBN) (2008). Statistical Bulletin, Golden Jubilee Edition.

Eboreime MI (1999). ''Development Prospect of Sustainable Microfinance: A study of Afribank Group Lending Model in South Eastern Nigeria''. M.Sc. degree thesis. Department of Economics, University of Port Harcourt.

Eboreime MI (2008). Approaches to Microfinance in Developing Countries: Lessons for Rural Poverty Reduction in Nigeria. In Igbozurike et al (eds.) Rural Poverty in Nigeria. Cape Publishers Int'l Ltd. Abuja, Nigeria. Pp. 343-354.

EFInA (Enhancing Financial Innovations and Access). (2008). Access to financial services in Nigeria: Key findings. <<http://www.efina.org.ng/Key_Findings.pdf>>

Feijo RLC (2001). The impact of a family farming credit program on the rural economy of Brazil. In Badiru I. O. (2010). Review of Small Farmer Access to Agricultural Credit in Nigeria. International Food Policy Research Institute (IFPRI). Policy Note No. 25.

Jhingan ML (1975). The Economics of Development and

Planning. New Delhi: Vani Educational Books.

Meir GM (1975). Leading Issues in Economic Development, London; Oxford University Press.

Odoemenem IU, Obinne CPO (2010). Assessing the factors influencing the utilization of improved cereal crop production technologies by small scale farmers in Nigeria.<< http://www.indjst.org/archive/vol.3.issue.2/innocent-17.pdf>>

Ogundeji A (1998). How to Run a Small Scale Business. Able Press Publication, Nigeria. P. 40.

Okojie C, Monye-Emina A, Eghafona K, Osaghae G, Ehiakhamen JO (2010). Institutional environment and access to microfinance by self-employed women in the rural areas of Edo State. NSSP Brief No. 14. Washington. D.C.: Int. Food Policy Res. Inst.

Oruonye ED, Abbas B (2011). The Geography of Taraba State, Nigeria. LAP Publishing Company, Germany.

Oyeyinka RA, Bolarinwa KK (2009). Using Nigeria Agricultural Cooperative and Rural Development Bank Small Holder Direct Loan Scheme to increase agricultural production in rural Oyo State, Nigeria. International Journal of Agricultural Economics and Rural Development 2 (1).

Phillip D, Nkonya E, Pender J, Oni OA (2009). Constraints to increasing agricultural productivity in Nigeria: A revie*w*. Nigeria Strategy Support Program (NSSP) Background Paper No. NSSP 006.

Rahji MAY, Fakayode SA (2009). A multinomial logit analysis of agricultural credit rationing by commercial banks in Nigeria. Int. Res. J. Fin. Econ., 24: 91. http://www.eurojournals.com/finance.htm;

Shephard WG (1997). Market Power and Economic Welfare, Random House, New York, P. 51.

World Bank (2000) Rural Financial Markets in Nigeria: Focus Notes on the Issue and Options. World Bank Rural Development 2. Washington DC