

# Sources and Uses of Agricultural Credit among Groundnut Oil Millers in Gombe and Funakaye Local Government Areas, Gombe State, Nigeria

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**Abstract:-** This study analyzed the sources and use of agricultural credit among groundnut oil millers in Gombe and Funakaye local government areas of Gombe state. A two stage sampling technique (purposive and random) was adopted to select the respondents. Two districts (Gombe and Funakaye) were purposively selected for their high number of groundnut millers in the state and 120 respondents were randomly selected from the two districts. The data were analyzed using descriptive statistics. The results show that majorities (96.7%) of the oil millers were male, half (50%) of the respondents were within the age bracket of 31- 40years with the mean age of 36 years. The results also revealed that (39%) of the respondents sourced their credit from the Bank of Industry at (8%) interest rate. (36.1%) also sourced their loan from friends/relatives, while (24.9%) funded their businesses from their personal savings. The results revealed that larger majority (92.5%) of the groundnut oil millers used the credit to purchased groundnut while only 7.5% of the respondents purchased both groundnut and milling machine with the loan. Both formal and Informal source of credit play a vital role in the entrepreneurial development among small-scale agro-processors in the study area. Groundnut millers should form association for self-help and access to formal credit. The government should establish formal agricultural credit system in the rural areas with simple procedures of securing loans among groundnut oil millers for them to play their role in economic development of the country.

**Keywords:-** Groundnut, Oil Millers, Credit, Sources and Uses.

## I. INTRODUCTION

Agricultural sector is leading economic activities in the country; it is a major source of raw materials for the agro-allied industries and a potent source of foreign exchange. The sector has been the highest contributor to growth domestic product (GDP) over the years in 2008 was 42.07%, in 2009 was 35.8% in 2011 was 39.1% and more than 24% in 2015 (CBN, 2016). The percentage of GDP contribution by the sector continues falling. The agribusiness sub-sector also serves as markets for products of the non-farm sector and contributes significantly to GDP (Ajibefun, 2003). This sector may not expand without external financial sources.

Agricultural credit is the process of obtaining/control over the use of money, goods and services on agricultural enterprise in the present to stimulate a positive change to the welfare of the beneficiary in exchange for a promise to repay at a later date. Abdulrasheed and Muhtar (2010) defines credit as a means of obtaining resources at a certain period of time with an obligation to repay at a subsequent period in accordance with the terms and conditions of the credit obtained. The agricultural credit system in Nigeria consists of formal, semi-formal and informal sources of credit supply. The major channels for disbursement of formal credit include commercial banks, and development banks such as Bank of Agriculture (BOA), Bank of Industry (BOI), and state government-owned credit institutions covering the whole length and breadth of the country. Semi-formal are institutions that are registered to provide financial services at a lower interest rate, they accept flexible collateral. They include cooperatives, micro-finance institutions (MFI) and Non-Governmental Organizations (NGO). The informal sources include friends, relatives, commission agents, traders, private moneylenders, etc. The overall thrust of the current policy regime assumes that credit is a critical input that affects agricultural rural productivity and is important enough to establish causality with productivity. Traditional and few formal sources of credit together formed the main sources of investible funds identified as critical to the success of any agricultural policy goals (World Bank, 2007). It is estimated that only (2.5%) of total commercial banks loans and advances was directed to agricultural sector and Also reported that only 0.15% was advance to SMEs by

commercial banks (CBN, 2010). In 2009 only (1.1%) was advance to small scale enterprises by commercial banks (CBN, 2009).

Groundnut remains one of the major sources of livelihood for small scale farmers in Nigeria (ICRISAT, 2013). Credit is the catalyst of economic prosperity for many agro-processing enterprises in many developed and developing countries. It has been a much emphasized that development plan in Nigeria. Lack of funds by ground oil millers has greatly denied them to many opportunities of achieving industrial development which the country has always been longed, hoped and craved for. It sees agribusiness as alternative for providing the basic means of overcoming their economic recession. The exact relationships between various sources of agricultural credit among groundnut oil millers and economic development have not been clearly identified, increase access to credit may increase the capacity of oil millers and enhance their rapid growth and development and transforming the table of economic progress. This study wants to identify the sources and uses of agricultural credit among the groundnut oil millers.

## II. OBJECTIVES OF THE STUDY

The main objective of the study is to determine the sources and uses of agricultural credit among groundnut oil millers in Gombe and Funakaye Local Government Areas of Gombe state Nigeria.

The specific objectives were to:

- Describe the socio-economic characteristics of groundnut oil millers;
- Identify the main sources of agricultural credit among groundnut oil millers;
- Examine the main activities financed by the credit received from the various sources

### ➤ *Role of Agricultural Credit in Economic Development*

Agricultural credit is a requisite for Nigeria to overcome agricultural stagnation because credit as a capital determines access to all resources on which farm depends (Ayinde *et al.*, 2012). In the study of “relationship between agricultural production and formal credit supply in Nigeria” Ammani (2012) found that formal credit is positively and significantly related to the productivity of the crop, livestock and fishing sectors of Nigerian agriculture. Also Anthony (2010) revealed that agricultural variables have impact on economic growth and their contribution to export growth has been encouraging. The evolving role of credit in agricultural development and in strengthening the rural economy in a country cannot be overemphasized. Several studies have shown that the critical role played by credit in the establishment and expansion of small and medium scale enterprises commonly found in developing economies. Agribusinesses rely heavily on external sources to survive

and sustained (Akingunola, 2011). Agricultural credit is considered an important factor for increased agricultural production and rural development because it enhances productivity and promotes standard of living by breaking the vicious poverty cycle of the beneficiary. Credit also acts as a catalyst for rural development by motivating latent potential or making under-used capacities functional (Olagunju and Babatunde, 2011). In Nigeria, empirical evidence has established a positive link between the declining agricultural productivity and limited access to credit facilities (Essien, 2009 and Nwaru, 2004). This situation threatens the capacity of farmers and agro processors in their quest for sustainable production. Adinya *et al.*, (2008) opined that cooperative societies are aware of the importance of funding processing mills which resulted to the state’s growth and development. Hence, access to credit is viewed as being necessary for economic growth and the alleviation of rural poverty (Hazarika and Alwang, 2003). If well applied, credit should increase the size of farm operations facilitates, the introduction of innovations in farming; encourage capital formation; improve marketing efficiency and enhance farmers’ consumption (Nwaru, 2004).

## III. METHODOLOGY

Gombe State was selected for this study largely because groundnut is one of the major crops cultivated and processed over a long time in the area (Discover Nigeria, 2011). Geographically, it is located between latitude 9°30' and 12°30'N and longitudes 8°45' and 11°45'E of the Greenwich Meridian. The state has an area of 20,265 km<sup>2</sup> and a population of around 2,353,000 (NPC, 2006). Gombe has two distinct climatic regimes, the dry season (November-March) and the rainy Season (April-October) with an average rainfall of 850mm. A two stage sampling technique was adopted to select the respondents. Gombe and Funakaye Local Government Areas were purposively selected because of the large concentration of groundnut oil millers. Random sampling method was used to select 120 of respondents from the study area. Structured questionnaire was used for data collection. Data analysis was done using descriptive for easy understanding. (Frequency and percentage).

### ➤ *Socioeconomic Characteristics of the Respondents*

Table 1 show that the larger proportions (96.7%) of the respondents were male. This shows that groundnut oil miller’s male dominated business. This could be due to the nature of the business as it requires hard work. The age bracket 31-40 dominated (50%) of the respondents with a mean of 35.5 years. This is the vulnerable age of groundnut oil millers, this will give them ability to endure the hardness of the work as they are at youthful age. Out of 120 respondents 117 of them were married. It could be due to their environmental culture, old age as their mean age is 36years. The majority (84%) of the respondents has more than 6 members in their family with an average of ten (10)

persons per family. This shows that groundnut oil millers has more persons to do their business. The results also show that 65% of the respondents' possess senior secondary school certificate while only 7.5% possess tertiary education. This shows that majority of the groundnut oil millers have lower educational background. The (79%) of the respondents have more than 6 years of experience in groundnut oil milling.

This may give them more understanding of the business activities. The findings shows (39%) and (28%) source their information on agricultural credit from friends and lending agents respectively. This shows that formal agricultural credit lender are responsible for credit awareness and campaign as marketers in Bank of industries use to go and meet with the groundnut oil millers and introduce their credit scheme.

Variables	Categories	Frequency	%	Mean
Gender	Male	116	96.7	
	Female	4	3.3	
Age	18-30	11	9.2	35.5
	31-40	60	50	
	41-50	39	32.5	
	51-and above	10	8.3	
Marital status	Married	117	97.5	
	Single	3	2.5	
Household size	1-5 members	19	15.8	10
	6-9members	54	45	
	10 and above	47	39.2	
Educational level	Primary	32	26.7	
	Secondary	79	65.8	
	Tertiary	9	7.5	
Experience	1-5 years	25	20.8	7.9
	6-9 years	74	61.7	
	10 and above	21	17.5	
Sources of information	Relatives	26	21.2	
	Friends	46	38.3	
	Co-workers	7	6	
	Neighbors	8	7	
	Lender agents	33	27.5	

Table 1:- socioeconomic characteristic of the respondents

Source: Field Survey, 2014 (n=120)

#### ➤ Main Sources of Agricultural Credit of Groundnut Oil Millers

Table 2 shows that Bank of industry is the major source of credit among groundnut oil millers in the study area as it comprise 39% of the total respondents with an average amount of #470,833 naira at 8% interest rate. Bank of industries has the lowest interest rate among formal credit institution (Banks) in the country. Friends and relatives plays

their vital role in lending money among the respondents as 36% of respondents sources their credit from them with an average amount of #21,900 naira at 0% interest rate, addition to no collateral from the respondents and this type of informal lending is base on trust. Some of respondents got their money to start their business from their personal saving. This group takes 25% of the respondents with an average amount of #51,000 naira.

Variables	Categories	Types	Frequency	%	Average loan	Interest rate
Sources of credit	Bank of Industry	Formal	47	39	470,833	8%
	Friend/relatives	Informal	43	36	21,900	0
	Personal saving	Informal	30	25	51,000	0

Table 2:- main sources of agricultural credit among groundnut oil millers  
Sources; Field survey, 2014 ( n=120)

➤ *Activities Financed by the Credit Received from both the Formal and Informal Sources*

The groundnut oil millers utilize the credit received from formal and informal sector. Table 3 below shows that out of 120 respondents, larger majority (111) of the respondents purchase groundnut for oil milling and that comprises 92.5% of the total respondents. This shows that majority of the credit being utilize in buying groundnut. That

means the respondents have the infrastructure/fixed assets and capital for doing the business (milling machine and building). Again this shows the business is established. While only nine (9) of the respondents put the credit into fixed and capital assets for the business (milling machine, land and groundnut). This fewer minority (7.5%) of the respondents may be they wants to start the business because of the opportunities and strength of the business in the area.

Variable	Categories	Frequency	%
Credit utilization	Purchase Gnut	111	92.5
	Purchase Gnut/Miller	9	7.5

Table 3:- Main activities done by the credit received from both formal and informal sector  
Source; Field survey, 2014 ( n=120)

➤ *Formal Credit Applied and Received by the Respondents*

Accessing credit is the main problem to agricultural development. Table 4 shows that amount applied and received by the respondents are categories base on minimum, average and maximum loan. The minimum amount applied by the respondents is 500,000 while the minimum amount received is 200,000. This could be due to their risk analysis and lack of collateral from the respondents or the BOI credit

regulation. The average amount applied is 8,200,000 while the average amount received 2,000,000. And the maximum amount applied is 15,000,000 while the maximum amount received is 2,000,000. This may be based on their assessment of the groundnut oil business by the BOI and concluded not to give more than 2,000,000 to small and medium enterprise in the study area.

Variable	Categories	Applied	Received
Credit applied and received	Minimum	500,000	200,000
	Average	8,200,000	2,000,000
	Maximum	15,000,000	2,000,000

Table 4:- Formal credit applied and received from the Bank of industries in Naira  
Source; Field survey, 2014 ( n=120)

**IV. CONCLUSION AND RECOMMENDATION**

The study concluded that lager majority of the respondents are male and most of them has low educational background, they source their information from family and friends. The main sources of their credit is bank of industries (BOI) at 8% interest rate and majority of respondents bought groundnut with the amount received from the Bank of Industry (BOI) and the maximum amount received from BOI is two million (N2,000,000) naira while the minimum amount is two hundred thousand (200,000) naira only. Equivalent to \$10,000 maximum and \$1000 minimum @200/\$ as at the time they received (2014).

The study also recommended that:-

- The groundnut oil millers should joint association in other to have a collateral and negotiating power for maximum amount they required from formal financial institutions.
- The BOI and market extension agent should collaborate and teach groundnut oil millers on how to spend the loan and payback at due time, and record keeping of their transection.
- The government should establish a flexible policy that will ease the access to agricultural credit for small and medium scale enterprises.

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