



Reasons for Delay in Repayment of Agricultural Loan by Farmers in Kwara State, Nigeria

N. A. Jatto^{1*}, T. O. Obalola¹, B. A. Shettima¹ and E. O. Okebiurun¹

¹*Department of Agricultural Economics, Usmanu Danfodiyo University, Sokoto, PMB 2346, Nigeria.*

Authors' contributions

This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

Article Information

DOI: 10.9734/AJAEES/2019/v31i230126

Editor(s):

- (1) Dr. Jagjeet Singh Gill, Assistant Professor, Institute of Agricultural Sciences, Chandigarh University, India.
- (2) Dr. Sailendra Narayan Goswami, Agriculture, Natural Resource Management, Government of Assam, India.
- (3) Dr. Kwong Fai Andrew Lo, Agronomy and Soil Science, Chinese Culture University, Taipei, Taiwan.

Reviewers:

- (1) Dr. Fave Bulus Filli, Federal University Wukari, Nigeria.
 - (2) Mr. A. Thayaparan, Vavuniya Campus of the University of Jaffna, Sri Lanka.
- Complete Peer review History: <http://www.sdiarticle3.com/review-history/38664>

Short Research Article

Received 19 October 2017
Accepted 04 January 2018
Published 30 March 2019

ABSTRACT

This study highlights the factors causing loan default among farmers in Kwara state. A total of 3100 agricultural loan defaulters (from the members of Kwara State Apex farmers' cooperatives union) were obtained for this study. The study frame was stratified into four, based on the existing ADP zones. A proportionate sampling technique was used in selecting the 400 agricultural loan defaulters. Data collected with questionnaire were analyzed using descriptive statistics. The result showed that high-interest rate was the reason why farmers default agricultural loan. The view of the agricultural loan desk officers was that miss utilization of loan causes default among farmers. It was concluded that interest rate, family commitment and delay in disbursement were the cause of default from the view of the farmers while miss utilization, political approach and change in business were the what causes default from the points of agricultural loan desk officers. To reduce the incidence of loan diversion, efforts should be made to monitor borrowers regularly so as to ensure they use the loan they received for the agreed and intended use. Getting regular account statement from borrowers and as well as regular visiting the borrowers' enterprise can also enhance this.

Keywords: Delay; repayment; agricultural loan; Kwara state.

1. INTRODUCTION

Agricultural sector remains one of the largest employers of labour in an economy, despite this critical importance, the sector has been suffering a secular decline over time [1]. In order to cope with the situation, injection of sufficient agricultural credit and its proper utilization are prerequisites to accelerate the pace and volume of the economy of the nation [1]. Some studies [2,3] shows that growth rate of investment in agriculture is less than other economic sectors. On this note, financing agriculture is one of the most important factors necessary for the improvement of the quality and quantity of farm harvest leading to increasing in farmer's income as well as reducing poverty. Studies like Mehmood et al. [1]; Olagunju [4]; Nosiru and Omobolanle [5] and Fayaz et al. [6], reported that in time availability of agricultural credit whether institutional or non institutional provides financial assistance to farmers for the purchase of inputs such as seeds, fertilizers, small implement etc. The Agricultural Credit Guarantee Scheme Fund is unarguable, one of such policy interventions in agricultural financing in the country [7]. These responses by the tiers of government were seen as palliative measures because of the inadequate attention are given to formal financial institutions (the credit supplier) in the agricultural sector.

Therefore, agricultural credit whether obtained from institutional or non-institutional sources is working on the rule of "give and take" and farmers enjoy an increase in profit margin if they properly utilize the credit, whereas financial institutions gain benefits in term of markup as reported by [1]. This study features the factors responsible for default from the view of the farmers and loan institutions desk officers in the state.

2. METHODOLOGY

Kwara State is located between parallels $8^{\circ}30'$ and 10° North latitude and 3° and 6° East longitude. It is situated in the North-central zone of Nigeria and occupies an area of about $36,825\text{km}^2$. The state falls within the Guinea Savannah vegetation Zone with hot and humid season and lies along the country's most important commercial route linking Northern part to the Southern parts of Nigeria. Important tourist attractions in Kwara State

include Esie Museum, Owu Falls, Imoleboja Rock Shelter, Ogunjokoro, Kanji Lake National Parks and Agbonna Hill, Awon Mass Wedding in Shao.

Agriculture is the primary source of the economy with annual rainfall is between 1000mm and 1500mm, while the average minimum temperature is between 21.1°c and 25°c while the maximum temperature is between 30°c and 35°c . The principal food crops and livestock are cassava, yam, maize, millet and chickens, goats, sheep respectively. The production is largely peasant and small-scale relying on the use of manual labour, improved seed and agrochemicals to some extent, while the cash crops are: cotton, tobacco, beniseed and palm produce while mineral resources in the state are Gold, limestone, marble, feldspar, clay, kaolin, quartz and granite.

The objective of this study is to highlight the reasons causing loan default among farmers in Kwara state. For this purpose, data were obtained from the members of Kwara State Apex farmers cooperative union (KSAFU) Kwara State branch, a list of 3100 agricultural loan defaulters who has defaulted at least once from loan 2011 to 2014 was obtained to form the sampling frame. The sampling frame was stratified into four, based on the existing four Agricultural Development Projects of the zones in Kwara state. A proportionate sampling technique was used to select the 400 agricultural loan defaulters in the study area. Data were collected by questionnaire and were analyzed using descriptive statistics.

3. RESULTS AND DISCUSSION

3.1 Reasons for Delay in Repayment of Agricultural Loan by Farmers

Defaulters explained why there is an interruption on refunding of credit loan giving to them. Table 1 and fig. 1 shows the result on why defaulters delay repayment of agricultural loans in the study area.

The result shows different reasons for delay in repayment reported by loan defaulters. All of the loan defaulters (100%) reported that they did not pay back the amount of loan because of interest rate. This result concurs with the findings of Mehmood et al. [1], who reported that majority of

farmers did not pay back the loan amount because of a high-interest rate that affects the loan behaviour of the farmers. It is narrated that commercial banks charge markup rate of 28% to 32%, which in addition to the principal amount affect the repayment capacity of the farmer.

Table 1. Reasons for delay in repayment of agricultural loan-by-loan defaulters

Reasons	Frequency	Percentage
Interest rate	400	100
Family commitment	362	90.5
Delay in disbursement	301	75.25
Less loan than required	296	74
Prices of inputs	62	15.5
Elements of bribery	60	15
Climatic conditions	14	3.5

Source: Field survey 2016

Further, 90.5% were not in a position to repay the outstanding amount because of a family commitment. Delay in disbursement accounted for 95.25% reasons why the loan was defaulted in the study area, while 74% received fewer loans than required. A sudden increase in the prices of inputs also put the farmers (15.5%) in a position not to honour the obligation to repay back. Element of bribery (15%) and unfavourable condition (3.5%) were also cited as the reason for the default.

3.2 Reasons for Delay in Repayment by Financial Institutions Desk Officers

Financial institutions explained why there is an interruption on refunding of credit loan giving to

farmers. Table 2 and Fig. 2 shows the result on why defaulters delay repayment of agricultural loans in the study area.

The result of Table 2 and Fig. 2. reveals different reasons for delay in repayment reported by loan administrators of the institutions providing the loan to the farmers. All of the administrators (100%) reported that they did not pay back the amount of loan because of miss utilization of loan.

Table 2. Reasons for delay in repayment of agricultural loan by financial institutions desk officers in the study area

Reasons	Frequency	Percentage
Miss utilization of loan	12	100
Political approach of the borrower	10	83.3
Change in business	9	75
Death or accident of the farmers	6	50
Willful defaulter	4	33.3

Source: Field survey 2016

Further, 83.3% were not in a position to repay the outstanding amount because of political approach of the borrower. The other reason offered was that change in their business activities accounted for 75% default, which causes a delay in repayment of their loan obligations while 50% delay was caused by death or accident of the farmers. Willful defaulters are about 33.3%.

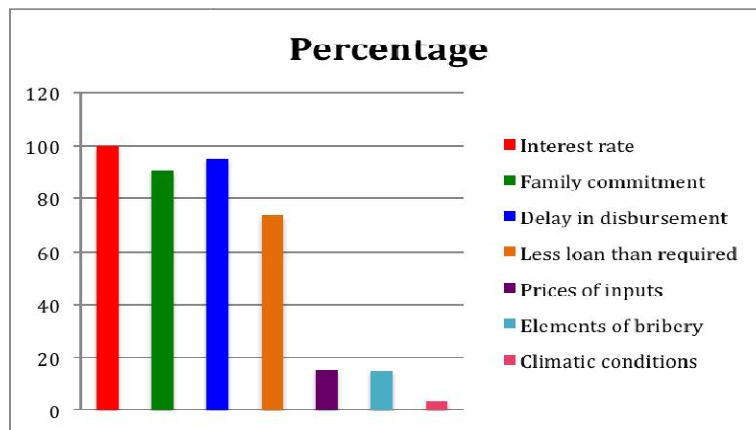


Fig. 1. Reasons for delay in repayment of agricultural loan reported by farmers

Source: Field survey 2016

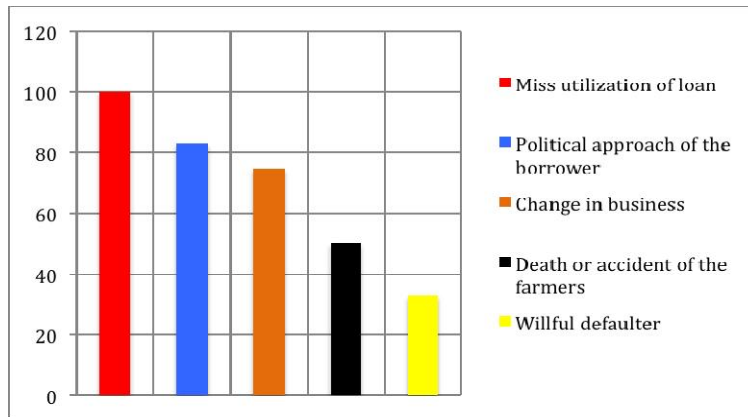


Fig. 2. Reasons for delay in repayment by financial desk officers in the study area

Source: Field survey 2016

4. CONCLUSION AND RECOMMENDATION

According to the farmers, the cause of default was the interest rate, family commitment and delay in disbursement. On the other hand, agricultural loan desk officers think that miss-utilization, political approach and change in business were the primary factor that causes the default.

To reduce the incidence of loan diversion, efforts should be made to monitor borrowers regularly to ensure they use the loan they received for the agreed and intended use. Getting regular account statement from borrowers and as well as daily visiting the borrowers' enterprise can also enhance this.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

REFERENCES

- Mehmood Y, Ahmad M, Anjum M. Factors affecting delay in repayments of agricultural credit; A case study of district Kasur of Punjab province. *World Applied Sciences Journal*. 2012;17(4):447-451.
- Kohansal MR, Mansoori H. Factors affecting loan repayment performance of farmers in Kharasan-Razavi province of Iran. Conference on International Research on Food Security. Hamburg: University of Hamburg; 2009.
- Okarie A. Major determinant of agricultural smallholder loan repayment in developing economy: Empirical evidence from Ondo state Nigeria, *The Journal of Socio-Economics*. 2004;21(4):223-234.
- Olagunju F. Impact of credit use on resource productivity of sweet potato's farmers in Osun-state. *Journal of Social Sci*. 2007;14 (2):175-178.
- Nosiru, Omobolanle M. Microcredits and agricultural productivity in Ogun State, Nigeria. *World Journal of Agricultural Sci*. 2010;6(3):290-296.
- Fayaz M, Jan A, Hussain B. Effect of short term credit advanced by ZTBL for enhancement of crop productivity and income of growers. *Journal of Agriculture and Biological Sci*. , 2006;1(4):15-18.
- Akpan S, Patrick I, Udoka S, Offiong E. Determinants of credit access and demand among poultry farmers in Akwa Ibom State, Nigeria. *American Journal of Experimental Agriculture*. 2013;3(2):293-307.

© 2019 Jatto et al.; This is an Open Access article distributed under the terms of the Creative Commons Attribution License (<http://creativecommons.org/licenses/by/4.0>), which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Peer-review history:
 The peer review history for this paper can be accessed here:
<http://www.sdiarticle3.com/review-history/38664>