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Impact of Agricultural Credit on Women Small-Scale Cottage Agribusinesses in Kura Local Government Area of Kano State

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Abstract

Adequate availability of credit on time is an important requirement for the investors, particularly under conditions of scarcity of resources and uncertainty. Convenient and safe-saving facilities are perhaps even more important to smooth out the peaks and troughs in incomes and expenditures. This study assesses the impact of agricultural credit on women small scale cottage agribusinesses in Kura Local Government, Kano State. The study employed both primary and secondary method of data collection with 45 selected small scale women cottage businesses in Kura Local Government. The study employed survey approach through cross sectional design as method used in data collection. Statistical Package for Social Sciences (Version 21) was used to analyze the data from the respondents where correlation and regression analysis was used to analyse the data. The findings of the study revealed bank's agricultural credit has been established one of the basic human rights access to credit in cottage agribusinesses for productivity and rural empowerment. An overwhelming success can be achieved positively when a change in the loan default attitude among the borrowers and the society can be redirected to small scale women cottage agribusinesses. The study recommends that women farmers should be encouraged to be applying for loans from the participating banks or other lending sources to enhance their agribusinesses activities and productivity; and also to repay the loans as and at when due.

Keywords: Agribusinesses, Cottage, Small-scale, Women self-help Groups

Introduction

Agriculture in Nigeria is the most dominant sector and major source of livelihood for the majority of the population. It accounts for about 70% of employment and in spite of this Binswanger, *et al.*, (1999) reported that it has not been able to achieve the major objectives of agricultural development which the World Bank (1997) identified to include: (I) increase food production and firm income, (ii) make household food, water and energy secure and (iii) restore and maintain the natural resources. They stated that the failure of agriculture to meet these objectives is due to limited use of purchase inputs and mechanization. This limitation is tied to undercapitalization or lack of credit (Aku, 1995).

To help women meeting their needs, micro-credit initiatives have been taken by the women self-help groups (SHGs), who come together with the purpose of saving and rotating loans among the members. These groups get formal support for widening their lending network and capacities. This entire process starting from formation of a group to regulating finances for women is in itself empowering. Since the past decades, women's organizations like Agricultural Co-operative Credit Societies (ACS) have been doing a great job in fulfilling the credit needs of the women in the respective states, and their efforts have made a huge difference in the life of women, and have created a paradigm shift in the quality of micro-finance delivery (Deshmukh-Ranadive, 2002). For many years, financial institutions have been fighting with the problem of large scale loan default. Their agricultural credit programs are performing better than their large scale projects. Therefore, it is necessary to examine why agricultural credit programs are not performing well and what could be done to make

those financial institutions competitive in such agricultural credit programs. Most of the women agricultural credits are the small-scale loans for the poor entrepreneurs, it allows them to access from lending institutions to borrow fund and start their own business. Several financial institutions developed several strategies, including provision of small loans to the rural poor without collateral. These loans are repayable in predetermined installments. Borrowers are organized into groups, which reduces the risk of being default. These credits also help disseminating valuable information about the borrowers and their living standards (Adegeye and Dittoh, 1985). The agricultural sector in Nigeria was a major source of foreign revenue prior to the discovery of oil in commercial quantity. Then Nigeria was reckoned with the production and export of ground-nut, cocoa, rubber and other agricultural crops in Nigeria. The discovery of oil at large scale exploration in the 1970s turned the tide against the agricultural sector in favour of the oil sector. For instance, as at year (2000), oil and gas exploration accounted for more than 98% of export earnings and about 83% of federal government revenue (Export Import Bank, 2009). The oil sector also accounted for more than 40% of the gross domestic product (GDP) in Nigeria and about 95% of the foreign exchange earnings. Despite this seemingly high revenue from the oil sector, the paradox of it that over 70% of the Nigerian population is engaged either in the informal sector or in agricultural production (Olaitan, 2006).

Adequate availability of credit on time is an important requirement for the investors, particularly under conditions of scarcity of resources and uncertainty. Convenient and safesaving facilities are perhaps even more important to smooth out the peaks and troughs in incomes and expenditures. Lack of savings facilities also force families to rely on inefficient, inconvenient and costly alternatives. Agricultural credit is a solution for this perspective (Singh, Squire and Strauss, 1986). According to Garba (1987), mainly commercial banks are currently burdened with classified loans. But the collateral free financing offers a new opportunity to invest their funds with little risk. Previous experiences of financial institution show that small credits have proven feasible of lending to the poor for rural development. However, the persistent failure of the above institutions and conventional banks to adequately finance agricultural activities in the mid-1970s was a clear evidence that the country was in need of further financial and institutional reforms that would revitalize the agricultural sector by encouraging the flow of institutional credit into it. Also, the unpredictable and risky nature of agricultural production, the importance of agriculture to our national economy, the urge to provide additional incentives to further enhance the development of agriculture to solve the problem of food insecurity, and the increasing demand by lending institutions for appropriate risk aversion measures in agricultural lending provided justifications for the establishment of the Nigerian Agricultural Credit Fund (ACGSF) by the Federal Government of Nigeria in 1977 (Mafimisebi *et al.*, 2009).

The objective of this study is to examine the impact of agricultural credit on women small scale cottage agribusinesses in Kura local government area of Kano state.

According to Ekezie (1997), mostly Agricultural Credits are the extension of small loans to the entrepreneurs

through financial or non-financial institutions. Agricultural Credit has been used as a facilitator in many other community development activities, used as an entry point in a community organizing program or as an ingredient in a larger education/training exercise.

Challenges of Agricultural Credit Policies

According to Eyo (1985), the following challenges have been the reason for failure of previous policies, and they continue to threaten existing ones.

1. Lack of adequate skills to deliver services effectively.
2. Low management capacity of farmer-clients.
3. Unwillingness of conventional banks to support agriculture.
4. Paucity of loanable funds.
5. Weak institutional support in the sector.
6. Poor funding of public financing institutions.
7. Some of the policies have been criticized for being excessively skewed against the small farmer, given the eligibility requirements and documentation
8. Undue political interference in lending operations.
9. Credit flowing into unproductive areas leads to policy dislocation or distortion.

Agricultural development is a process that involves adoption by farmers (particularly small farmers) of new and better practices (Garba, 1987; Orebiyi, 1999). This is due to the fact that most of the new practices have to be purchased but few farmers have the financial resources to finance it. It was in recognition of this fact that the Federal Government at various periods put in place credit policies and established credit institutions and schemes that could facilitate the flow of agricultural credit to farmers. (Adegeye and Dittoh, 1985).

According to Swinnen and Gow (1999), access to agricultural credit has been severely constrained in developing countries. This is because of the imperfect and costly information problems encountered in the financial markets. Such problems are known to be particularly important in agriculture (Stiglitz, 1993).

As a result of the informational imperfections between the lenders and the borrowers, rationing of credit demand becomes necessary for financial institution (Stiglitz, 1994). Credit rationing policy is, however, regressive to the smallholder farm households as it has serious implication for growth and equity objectives of development policy. This is because when credit is rationed some borrowers cannot obtain the amount of credit they desire at the prevailing interest rate, nor can they secure more credit by offering to pay a higher interest rate. In such circumstances, liquidity can become a binding constraint on farmers' operations. Yet the rationing behaviour by the banks may be due to their rational and efficient response to information and contracting problems inherent in agricultural credit markets.

Okorie (1998) identified poor project supervision, evaluation and management; untimely loan disbursement; diversion of funds; and dishonesty of loan beneficiaries as causes of loan default. A study in India found that defaults were, by and large, willful and mostly large borrowers were responsible (World Bank, 1975; Padmanabhan, 1988).

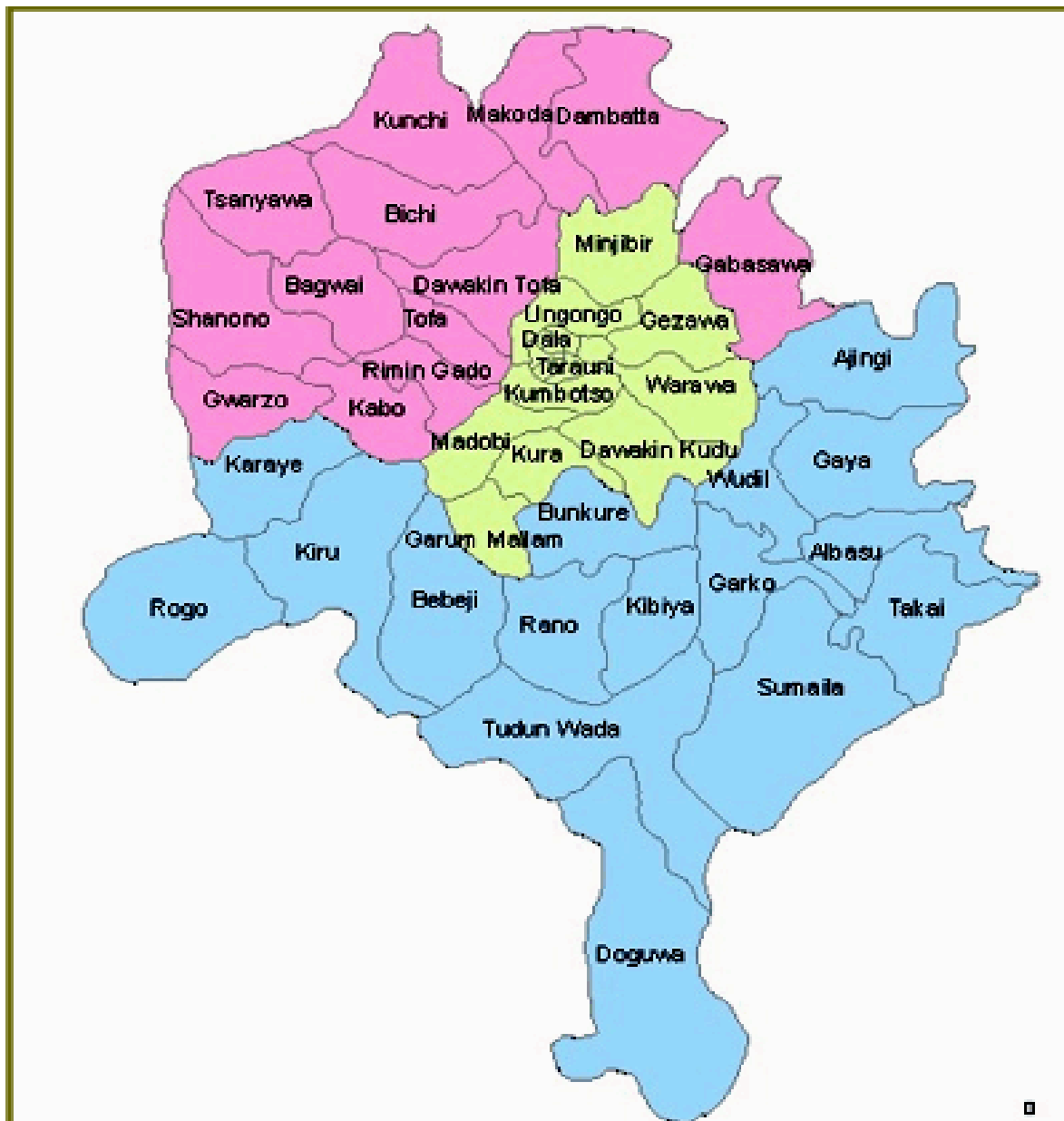
Studies have shown that big farmers have tended to be the major beneficiaries of agricultural credit throughout the world. According to the World Bank (1975), "it is common

to find 70 to 80 per cent of small farmers in a given country with virtually no access to such credit". In Nigeria, big farmers have benefited mostly from official farm credit programs and they have also been the greatest defaulters. Given the variety of reasons for credit risks in bank lending to the agricultural sector, it may be necessary to classify them into three broad sources: causes at borrower level, at financial institution level, and at economy level. Such a classification offers a quick checklist and guide to Credit Risk Managers of banks in dealing with credit risks emanating from bank lending to agricultural firms.

Ahmad, Farid (1980) in a study, "some aspects of agricultural credit in Bangladesh", observed that all development efforts for the economy have to fight against vicious cycle of poverty and large number of constraints. He said that agricultural credit facilities assumed a greater and growing importance in Bangladesh particularly in view of meeting the food deficit. It is observed that there are gaps between the policy procedure of institutional farm credit and their execution, for which proper distribution of credit cannot be ensured.

Methodology

Kura local government is situated in Kano state with a GPS coordinate (Latitude of 11° 46' 20.35" N and Longitude of 8° 25' 34.72" E). Its headquarter is in Kura and has a total population of 144,601 (2006 Census) and an area of 206 km². Descriptive survey was used because the study described the characteristics of the sample and the relationship between agricultural credit and women cottage agribusinesses in Kura local government area of Kano state. The researcher selected the required sample size of 45 women cottage businesses to represent the sample size for the study. Primary and secondary source of data collection were used extensively in this study. The study used descriptive cross sectional design due to its advantages over other designs in terms of cost saving, less time taken, accuracy of the data and conveniences. The data generated was analyzed using statistical package for social science (IBM SPSS, 21) and correlation and regression models were also used in interpreting the data.



Map of Kano State

Results and discussion**Table 1:** Descriptive Profile of the Respondents

Demographic Variables	Category	Frequency	Percentage (%)
Gender	Male	-	-
	Female	45	100%
Academic Qualification	GCE/WASCE	31	68.89%
	OND/NCE	11	24.44%
	HND/B.Sc	3	6.67%
	MBA/M.Sc/MA	-	-
Age Group	Less than 25yrs	7	15.56%
	Between 25-35yrs	14	31.11%
	35 – 50yrs	19	42.22%
Marital Status	Above 50yrs	5	11.11%
	Married	29	64.44%
	Single	12	26.67%
	Divorced	4	8.88%

Source: Field Survey 2018, Generated from SPSS Version 21

Table 2: VIF and Tolerance Value of Independent Variables

Independent Variable	Tolerance	VIF
Agricultural Credit	.930	1.075
Growth of Agricultural Credit	.408	2.451
Financial Institutions	.414	2.418

Source: Generated from SPSS Version, 21

Table 3: Summary of Reliability Test

Variables	Number of Items	Cronbach Alpha
Agricultural Credit	5	0.856
Growth of Agricultural Credit	5	0.803
Financial Institutions	5	0.768
Women Cottage Industries	5	0.729

Source: Generated from SPSS Version, 21

Table 4: Correlation Matrix

		Agricultural Credit	Growth of Agricultural Credit	Growth of Agricultural Credit	Women Cottage Industries
Agricultural Credit	Pearson Correlation	1			
Growth of Agricultural Credit	Pearson Correlation	.295	1		
Financial Institutions	Pearson Correlation	.233	.765	1	
Women Cottage Industries		.874	.453	.342	1

Source: Generated from SPSS Version, 21

Table 5: Summary of Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.188	.077		2.422	.016		
Agricultural Credit	.794	.017	.904	48.056	.000	.930	1.075
Growth of Agricultural Credit	.053	.030	.049	1.732	.084	.408	2.451
Financial Institutions	.124	.032	.109	3.863	.000	.414	2.418
R	R²	Adj. R²	R² Change	F. Change	Sig.		
.953 ^a	.908	.907	.908	920.600	0.000		

a. Dependent Variable: WOMEN COTTAGE INDUSTRIES

The table 1 above illustrates the gender distribution of the respondents which shows that all the respondents (45) representing 100% are female. However, this shows that women of cottage industries in Kura local government area of Kano state are the respondents used for this study. The table above also indicate the age of the respondents in which out of the 45 respondents, 7 respondents representing 15.56% are below 25yrs, 14 respondents representing 31.11% are between 25 – 35 years, 19 respondents representing 42.22% are within the bracket age of 35 – 50 years, while the remaining 5 respondents representing 11.11% falls within the age bracket of over 50years. In the same table above also revealed the academic qualifications of the respondents in which 31 respondents constituting 68.89% are GCE/WASCE holders, 11 of the respondents representing 24.44% are OND/NCE holders, while the remaining 3 respondents representing 6.67% are HND/B.Sc holders. This shows that majority of Women Cottage Industries in Kura Local Government area of Kano state are GCE/WASCE holders. As with regards to marital status of the respondents, 29 respondents constituting 64.44% are married, 12 respondents which constitutes 26.67% are single, while the remaining 4 respondents representing 8.88% are divorced. Table 2 depicts that besides, another device for finding Multicollinearity is to look at the variance inflation factor (VIF) and tolerance value. Hair (2010) asserted that any VIF exceeding 10 and tolerance value lower than 0.10 indicates a problem of Multicollinearity. Therefore, in this study results proved absence of Multicollinearity as presented in table 2.

Table 3 explains the Cronbach alpha which judged that an alpha coefficient which is greater than 0.90 is considered as excellent, more than 0.80 is categorized as good, while greater than 0.70 is acceptable, greater than 0.6 is questionable, greater than 0.5 is poor, and finally less than 0.5 is generally unacceptable (John and Reve, 1982). The reliability of 0.60 can be considered as average coefficient, whereas 0.70 could be regarded as high reliability coefficient (Hair, *et al.*, 2006, Nunnally, 1978, Sekaran and Bougie, 2010; Sekaran, 2003).

In general, a Cronbach alpha of 0.7 has been accepted as the minimum benchmark for examining reliability. None of the variables under the study that reached the benchmarking among the variables

Table 4 present the inter relationship between the study variables. According to Pallant (2011) a correlation of 0 indicated no relationship at all; a correlation of 1.0 show positive correlation and -1 indicate a perfect negative correlation. Cohen (1988) suggested that r between 0.10-0.29 is small, 0.30-0.49 as medium and 0.5-1.0 as large.

Table 5 examines the survey on the impact of agricultural credit on women cottage industries in Kura Local Government area of Kano state and try to interpret the present findings of the study conducted using a regression analysis. Three (3) predicting variables including Agricultural Credit (AC), Growth of Agricultural Credit (GAC) and Financial Institutions (FI) were examine to see their impact on agricultural women cottage businesses. The results of regression analysis presented in table 4.6 shows $R=0.953$, this implies that multiple correlation coefficients between the predictors and the criterion was 95%, while R^2 of .908 implies that predicting variables (Agricultural Credit, Growth of Agricultural Credit and Financial

Institutions) under the study were able to account or explain 91% variance in the dependent variable (Women Cottage Industries), while the remaining 9% was not captured by this study. The results also show adjusted R^2 of .907 which implies that Agricultural Credit, Growth of Agricultural Credit and Financial Institutions were able to explain 91% variation in the Women Cottage Industries. The significant F.test of (920.600, $p<0.000$) signifies that the overall significant prediction of independent variables to the dependent variable, this further implies that, p value of 0.000 the model fitness in regressing the relationship between Agricultural Credit, Growth of Agricultural Credit and Financial Institution on Women Cottage Industries, therefore, F-statistics value measure the strength of regression model with a value of 920.600.

Recommendations

Based on the findings of the study, the following recommendations are proffer:

Women farmers should be encouraged to be applying for loans from the participating banks to enhance their agricultural activities and productivity; and also to repay the loans as and at when due. Thus enough sensitization exercise must be carried out to local areas where majority of farmers need the funds.

Financial institutions should recruit young, energetic graduates with excellent academic background. They then should be trained by the bank's training institution as per recruitment for serving the rural poor. However, they should increase their recruitment and training budgets for this purpose.

It is suggest that agricultural credit activities should be entirely controlled by special units of the financial institutions. Field workers should have enough authority and responsibility to execute all agricultural credit function. This will result in speedy decision making.

Financial institutions should ask the branch manager to set up their own recovery targets each year. They must investigate any discrepancy between the targets and actual result. However, they should link performance to pay, e.g. bonus for achieving the targets and vice-versa.

Finally, government should ensure that bank claims as a result of default and borrowers' interest draw backs are paid without delay. This will not only motivate both participating banks and farmers in the scheme but will also attract others who are skeptical.

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