

Research article

# **An Assessment of the Volume of Loan granted to the Agricultural Sector in Comparison with Other Sectors of the Rural Economy in Kogi State Nigeria, between 2005 - 2010.**

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## **Abstract**

The study assesses the volume of loan granted to rural agricultural sector in comparison to other sectors of the rural economy in Kogi State between 2005 to 2010. A multistage sampling technique was used to select two Local Government Areas from each of the four agricultural zones in Kogi State; Ayetoro-Gbede zone, Anyigba zone, Koton-Karifi Zone, and Alloma zone. One Microfinance Bank from each of the eight Local Government Areas were selected for the study. Primary data were collected through the use of questionnaire which were administered to the microfinance Bank's personnel. Descriptive method of analysis was adopted for the study. The result reveals that 26.48% of the total loan granted major economic activities in the study area went to agriculture and agro-related business while the remaining 73.52% went to other sectors. This has serious implication on rural agricultural growth and hence measures were recommended to reverse this trend.  
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**KEY WORDS:** Microfinance Banks, Credit, Rural Agriculture, Major Economic activity

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## **INTRODUCTION**

The discrimination against agriculture in granting of credit and the high rate of interest coupled with stringent conditions like the issue of collateral and the short term nature of credit granted by the formal financial institutions was one of the factor that led the government into adopting a policy measure that was expected to ensure easy flow to credit and financial services to the agricultural sector and hence the birth of microfinance agencies. The special interest in the accelerating processes of rural community transformation in Nigeria by various governments in the areas of poverty alleviation, provision of rural infrastructure, agricultural extension, and in the development of microfinance establishments that will affect the lives of the rural investors and community organization among others is premised upon the realization of the abundant latent resources available in the rural areas. An increase in rural investment as a result of provision of loans and advances will gear up output levels, and this will in turn raise the consumption level and possibly improved accessibility to

public goods and services within the rural environment (Olawepo 2011). This necessitated the launching of the microfinance guidelines in 2005, creating m Microfinance Banks (MFBs) with a minimum capital of N20 million and directing community banks to convert to MFBs by December 31,2007.

The need for micro credit in agriculture will continue to agitate the minds of policy makers and users of credit at the rural level. Hence various projects or programmes have in one way or another incorporated rural credits so as to make credit available at the micro level to boost the activities of small-scale farmers. Unfortunately, the experience of rural financial support to agriculture has not been impressive. More often than not, disbursement of credit and the recovery rates have been quite appalling.

Onafowokan (2011), noticed a major discrepancy in the amount of deposit mobilized and loan disbursed on yearly basis. Throughout the years, the deposit was far higher than the loans. The implication of this scenario is that cheap funds are sourced from the rural areas without an equivalent disbursement in form of loans and advances to the same community where the deposits were mobilized. Perhaps these funds might have been invested by these microfinance bands outside the rural areas for better income generation ventures. He also observed that while Nigerian micro finance banks agriculture and agricultural related businesses.

The impact of microfinance programme on rural development can be seen based on the contribution of the bank to rural businesses which will eventually lead to rural development. Rural development first and foremost is about agricultural business that is made available in the community.

### **Problem statement and justification for study**

According to Assefa (1987) the poverty trap in the agricultural sector, i.e. the low productivity, low income and again low productivity cycle, can only be broken through the availability of credit for the small holder so that farmers will be fortunate to adopt new technologies, improve productivity, and increase bargaining power to market their outputs at higher prices. On the other hand, formal financial institutions know the rural agricultural sector for its unique set of risks. As a result, banks usually shift their lending business to markets other than agriculture. This leads to stagnation of rural agriculture in Nigeria and Kogi State in particular. There is therefore the need to compare the loan disbursed to rural agricultural sector with those of other sectors of the rural economy. This is with the view to examine the extent of the discrimination against agriculture and to offer recommendation to reverse the trend.

### **Materials and Methods**

**Study Areas** Kogi State is one of the 36 states in Nigeria and was created out of Kwara and Benue State in 1991. It is situated between longitude 5<sup>o</sup>35'E' and 7<sup>o</sup>40'E, and between Latitude 6<sup>o</sup>30'N and 7<sup>o</sup>40'N of the Equator (Ariyo, 2003). It is bounded by the Federal Capital Territory (FCT), Niger and Nassarawa States on the North, Enugu and Benue State on the East, and Ondo, Kwara, Ekiti, Edo and Anambra States to the South. The state comprises of three senatorial districts: the East, West and Central. In the East it is dominated by the Igala but with other minority groups like the Bassa Nkomu and Bassa Nge. The central is predominantly Ebira, but with a minority group known as Ogori, and the West predominantly Yoruba, but with other minorities, especially the Oworo, Ebira Koto and Nupe people. There are twenty one Local Government Areas in Kogi State.

The Provisional Population figure of the state was 3,277,487 million as at 2006 (NPC, 2006). About 75 percent of the population lives in rural areas. Kogi State is blessed with fertile arable land because of its location in forest savannah which supports extensive agriculture. The major occupations of the people are farming, civil service, trading and artisan among others.

Tropical climate in the state is marked by two distinct seasons. The raining season which usually starts from April and ends in October and the dry season which starts from November to March of every year. Average temperature range from 33.2<sup>o</sup>C to 22.8<sup>o</sup>C, with an annual rainfall ranges from 1016mm to 1524mm (Kogi State – wikipedia, the free Encyclopedia, 2010).

Agriculture is the bedrock of the Kogi State economy. The state produces cash crops like coffee, cocoa and food crops such as palm oil, peanuts, maize, cassava, beans, yam, rice, melon, economic activities in the state centre largely on food production, processing, marketing and distribution trade.

Kogi State is divided into four (4) agricultural zones by the states Agricultural Development Programme. They are;

**Zone A** – Comprising Yagba East, Yagba West, Mopa – Muro, Ijumu and Kabba Bunu LGAs, with Ayetoro – Gbede as the headquarter.

**Zone B** – comprising of Ankpa, Dekina, Omalla and Bassa LGAs, with Anyigba as the headquarter.

**Zone C** – Comprising Kogi, Lokoja, Ajaokuta, Okene, Adavi and Okehi LGAs, with Koton Karifi as the headquarter.

**Zone D** – Comprising Olamaboro, Ofu, Igalamela/Odolu, Idah and Ibaji LGAs, with Alloma as the headquarter.

### Sample Selection

The multistage random sampling technique was adopted in this study for better and wider spread of the respondents. Multistage random sampling involves a procedure whereby selection of units into a sample is organized into stages. It usually involves a combination of sampling methods (Eboh, 1998).

- Stage 1** - Two local government areas were randomly selected from each of the four agricultural zones. This gives a total of eight local government areas for the study.
- Stage 2** - One microfinance bank was randomly selected from each of the selected eight local government areas making a total of eight microfinance institutions that were used for the study.

### Data collection

Data were generated for this study from two sources that is, primary and secondary sources. Secondary data for this study were generated from published materials like journals, textbooks, government documents and periodicals. Other sources include, unpublished materials like thesis, seminars, workshops and conference papers. Primary data were generated by using a set of well structured questionnaire which was administered on the microfinance banks personnel.

### Analytical Tools

The volume of loan disbursed to rural agricultural sector in comparison to other sectors of the rural economy in Kogi State can be analysed using descriptive statistics through the use of tables, percentages and graphic illustrations.

It is evident from figure 1, that microfinance banks in Kogi State gave 73.52% of their loan to other sectors of the economy; only 26.48% was made available to rural people in agriculture and agricultural related businesses. This finding conforms to the findings of Onafowokan, (2010); Mejeha, and Nwachukwu (2008) and Anyanwu 2004. The implication of this arrangement is that a larger percentage of 73.52 is outside the real sector. This rate appears to show that loans are not being channeled into rural productive area of the nation. Onafowokan, (2010) noted that this is a lopsided arrangement that do not justify the basic reasons for the establishment of microfinance banks in the rural areas of Nigeria. According to Idris et.al. ,(2010) and Adegbite (2009), financial lending institutions in Nigeria often shy away from giving loans to farmers because of high cost of administering such loans and the perceived default rates among farmers.

### Pattern of Loan and Advances to Agriculture

On a single sectoral basis, the loan structures are captured in Table 2 depicting the pattern of loan disbursed to microfinance banks' clients in the agricultural sector.

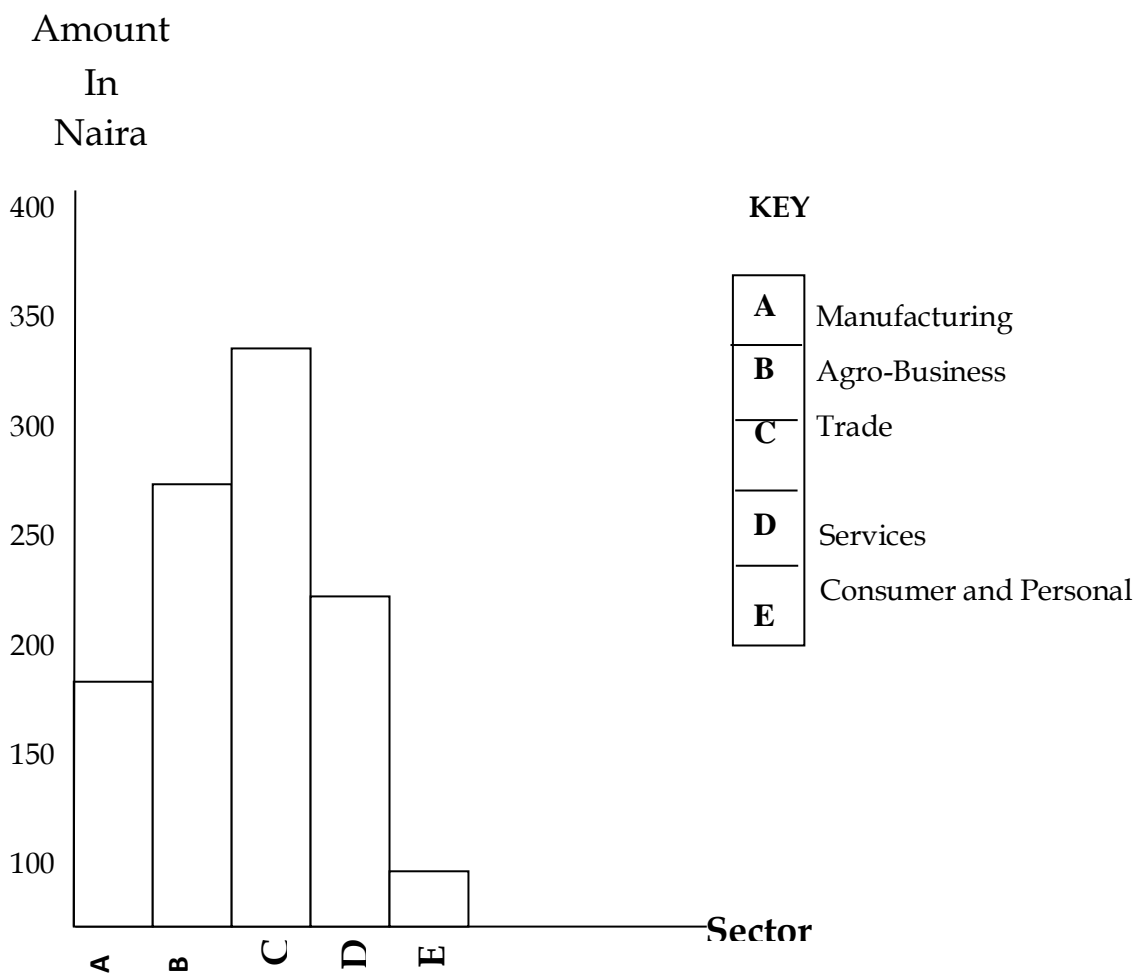
## Result and Discussion

**Table 1:** Volume of loan obtained from MFBs between 2005 and 2010 by major economic activities.

S/N	Name of MFB	Manufacturing Loans (₦)	Agro-business Loans (₦)	Trade Loans (₦)	Service Loans (₦)	Consumer and personal Loan (₦)	Total Loan (₦)
1.	MFB-1	18m	120m	15m	55m	70m	
2.	MFB-2	0.561m	0.72m	0.85m	0.57m	-	
3.	MFB-3	120.41m	120.4m	192.31m	107.81	-	
4.	MFB-4	-	-	32.30m	15.70m	9.10m	
5.	MFB-5	2.7m	33.90	10.50m	2.01	-	
6.	MFB-6	32m	-	55m	24m	22m	
7.	MFB-7	-	-	31.8m	-	-	
8.	MFB-8	4.2m	23.3m	4.6m	1.7m	-	
Total		177.87	298.32	342.36	206.79	101.1	1,126.44
		15.79%	26.48%	30.40%	18.36%	8.97%	100%

Source: Field survey data, 2011

**Figure 1:** Volume of loan procured from MFBs according to Economic activities 2005 – 2010



Source: Field survey data, 2011

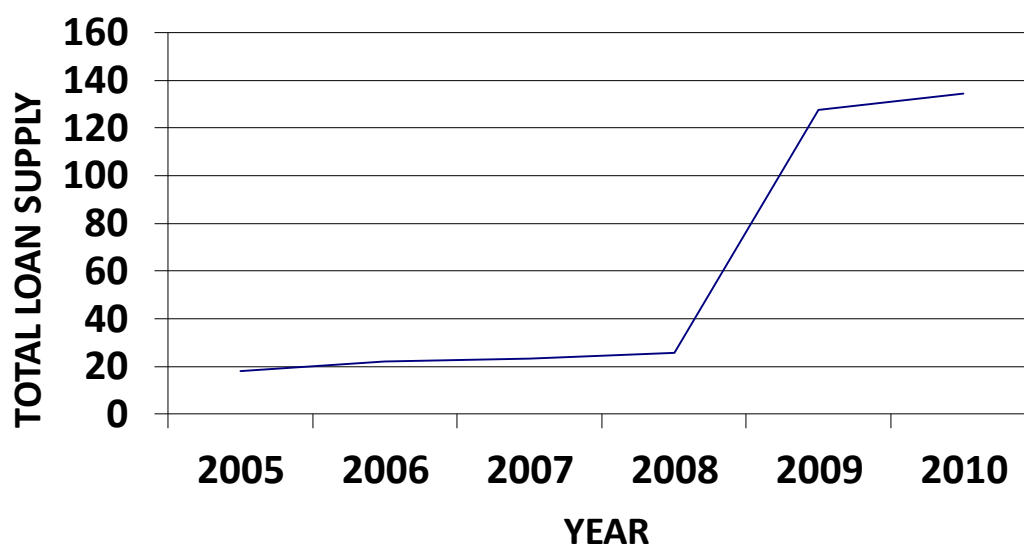
**Table 2:** Pattern of Loan and Advances to Agriculture (₦m)

Name of MFB	2005 ₦	2006 ₦	2007 ₦	2008 ₦	2009 ₦	2010 ₦
MFB 1	3.125	0.5	0.5	0.45	0.95	0.2
MFB 2	-	-	-	-	9.1	13.2
MFB 3	-	-	-	-	-	-
MFB 4	-	-	-	-	1.7	2.25
MFB 5	-	-	-	-	69.88	50.60
MFB 6				0.2	0.1	0.4
MFB 7	10.0	14.0	14.0	14.0	30	48

MFB 8	5.0	7.80	9.0	10.9	16	22
<b>TOTAL</b>	18.125	22.3	23.5	25.55	127.73	136.65

Source: field survey data, 2011

**Figure 2:** Patterns of Loan and Advances to Agriculture.



The pattern of loan and advances to agricultural sector in the study area was on a slow increase from 2005 to 2008. There was a significant increase from 2009 to 2010 where loan disbursed to this sector moved from 25.55m to N127.7m in 2009 and further increased to N134.45m in 2010. This increase is as a result of increase in the number of MFBS operating in the area within this period as more of them commenced operation as from 2009. The slow rate of increase between 2005 and 2008 could be due to the fact that most of the Microfinance banks used in this study started operation in 2009. Onafowokan (2010) observed that loan and advances to agriculture was not stable showing inconsistency in developing the rural economy.

## Conclusion and Recommendation

The study reveals that there was an increase in the volume of loan to the agricultural sector of Kogi State between 2005 to 2010 due to increase in the number of Microfinance Banks operating in the area. Despite this increase, when the volume of loan granted to the agricultural sector is compared to that of the other sectors it shows that the agricultural sector is seriously discriminated against as only 26.48% of total loan went to agriculture. The remaining 73.52% went to other sectors. The implication of this is that a larger percentage of the credit is outside the real sector of the rural economy. This arrangement posed a serious challenge to the rural agricultural sector and does not justify the basic reasons for the establishment of microfinance bank in the rural areas. Microfinance Banks, to live up to its responsibility in the rural areas, should favour the agricultural sector in the disbursement of its loan as more than 80% of the rural business is about agriculture.

Government should as a matter of urgency should encourage and direct Microfinance Banks operating in rural areas to make available at least 60% of their loanable fund to agriculture. Microfinance Banks can improve their services to the rural people by formulating and implementing policies that are farmer friendly. Making credit available to the rural agricultural sector will go a long way in boosting the productivity of the sector and hence improve the life of the rural dwellers.

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