

NIGERIAN JOURNAL of AGRICULTURE FOOD AND ENVIRONMENT.

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ISSN 0331 - 0787



**A Publication of Faculty of Agriculture
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Akwa Ibom State, Nigeria
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Volume 3

2006

Number 1 & 2

COOPERATIVE AND AGRICULTURAL DEVELOPMENT: A STUDY OF FINANCE COOPERATIVE IN AKWA IBOM STATE, NIGERIA.

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ABSTRACT.

Umoh, G. S Ibanga, I. O and Umoh, N. 2006. Cooperative and agricultural development: A study of finance cooperative in Akwa Ibom Sstate,Nigeria. Nigeria. *Nigerian Journal of Agriculture Food and Environment*. 3(1&2): 33 - 38.

This paper examines the impact of cooperative on agricultural development, using Akwa Ibom State Financial Cooperative Association (AKIFCA). Using crop output as a proxy for growth / development of agriculture, the parameter of OLS estimation shows that credit from cooperative positively impact on agricultural growth. It explains 75% of the change in the growth of agriculture. The result of chi-square analysis also supports the fact that cooperative have positive impact on the growth of agricultural output in he state. AKIFCA was found to employ standardized rigid structure of loan disbursement and repayment to achieve financial discipline, which may have led to its positive impact on agricultural production and growth.

Key words: *Impact, cooperative, Financial, repayment*

INTRODUCTION

There has been a consistent declining trend in agricultural value added at constant factor cost since late 1980s in Nigeria. This is in spite the fact that about 64% of Nigerians engaged in farming. Statistics show that, whereas the value added to \$36,275 million in 1989 to obtain 1990 figures was \$1,685 million, it decreased to \$1.535million, \$1,039 million in 1990, 1991 and 1992 respectively. Enquiries into this discomfoting trend have produced diverse causes, but researchers and scholars have singled out, at least theoretically, the dearth of financial resources as being the major cause of low productivity in agriculture. Several studies have shown that where and whenever funds are available, the conditions attached to their accessibility are often beyond the average farmer, particularly the small-scale farmers and when such fund comes from formal financial institution. Such conditions include bureaucratic bottleneck of documentation, interest rate and loan repayment schedule which may not rhyme with the production cycle of agricultural investment. However, the cooperative society is considered capable of supplementing and even filling the gap in financial intermediation for the agricultural sector. For instance, it has been asserted that deliberate use of cooperative societies could reduce the underdevelopment of agricultural (Adegeye and Dittoh,1985; Umoh and Ibanga, 1997). This position is widely shared by policy makers including those at the apex of financial institutions in Nigeria- the Central Bank of Nigeria. For this reason, as far back as 1993 the Agricultural Finance Department of the Central Bank of Nigeria requested banks and agricultural extension officers to encourage the formation of self-help groups and cooperative and to link them to financial institutions and government agencies. This linkage was expected to encourage saving (among its members) which could serve to satisfy, at least partially, the requirement for tangible collateral to support lending. In reaction to the call, existing cooperatives were strengthened and new ones formed in Akwa Ibom State. Among other cooperative societies, Akwa Ibom Financial Cooperative Association Limited (AKIFCA) was also set up as a functional cooperative apex to act as an intermediary between the finance houses and primary societies and unions among other functions.

The Akwa Ibom Federation of Cooperative Association (AKIFCA)

The case study organization, AKIFCA, is a functional body located in Akwa Ibom State Capital, Uyo. It was established on the 12th of January, 1989. It is an apex or an umbrella union for primary cooperative societies in Akwa Ibom State. Its objectives are to promote economic interest of its members, provide facilities for the deposit of its members' funds, being a depository of funds for cooperative movements by government, providing credits for members; assisting, advising and guiding member societies on financial matters, and other things including investment and financing of projects with income generating potentials. It as 109 affiliate cooperative societies and movement. At the head of administration of AKIFCA is the Board of Directors. It also

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has a General Manager who is the effective head for the day to day running of the organization. AKIFCA has two Departments namely the Account and Supervision / General Administration Departments. The two Departments are headed by specialists – an Accountant and Administrative Manager respectively. Affiliate cooperative societies have direct dealings with these Departments. At the bottom of AKIFCA organogram are members of affiliate primary cooperative societies (Fig 1). AKIFCA derives its funding from internally paid up share capital, saving deposits, registration of clubs and members, voluntary/special deposits, fund generated from activities and, externally from government grants and Nigerian Agricultural and Cooperative and Rural Development Bank (NACRDB) and commercial banks.

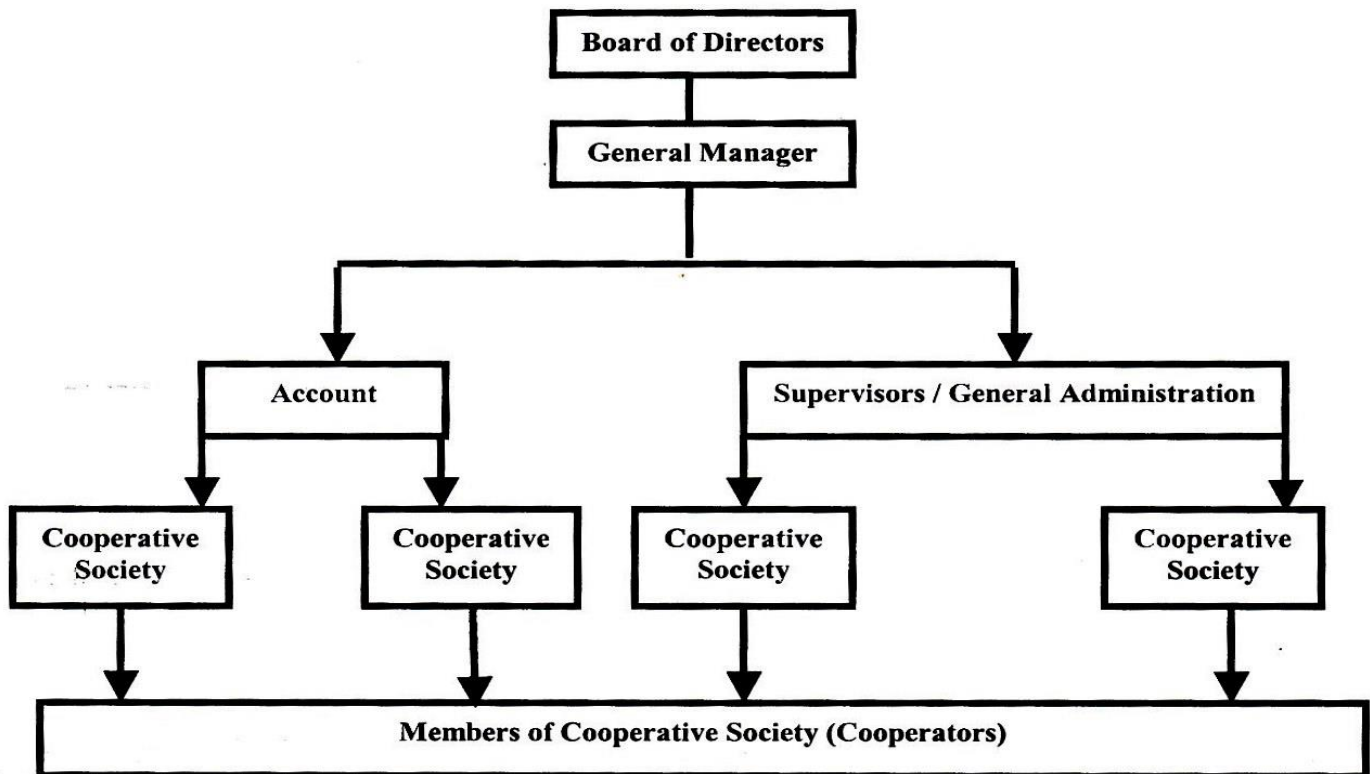


Figure 1: Organizational Structure of Akwa Ibom State Finance Cooperative Association

This study was undertaken to examine the performance of AKIFCA and Farmers Cooperatives in Akwa Ibom State in regards to the provision of funds for agricultural development and to ascertain the impact of credits from AKIFCA on the growth of agriculture in the State. The rationale is that, with positive results obtained, formation of more cooperative organizations would be advocated with the hope that through effectively mobilized farmers' cooperative, immense benefits ranging from encouragement of grass-root participation in agriculture to being a vehicle for rural transformation and development could be achieved. The research questions addressed in this study are:

- (i) How has AKIFCA been delivering credit to its member?
- (ii) What is the cooperative officers' and farmers' perception of the impact of cooperative on agricultural production?
- (iii) What are the policy implications of the findings of this study?

It is hoped that finding answers to these questions will throw more light on the effectiveness of cooperative society as vehicle of agricultural and rural development, particularly in a developing country like Nigeria.

Hypothesis

Two hypotheses were tested in the study. These are stated below:

Hypothesis 1: On Cooperative Officers Perception

Ho: The perceptions of cooperative officers of the impact of cooperative on agricultural output do not differ significantly i. e. $\chi_{cal} = \chi_{cal}$

Ha: The perceptions of the cooperative officers of the impact cooperative on agricultural output differ significantly i. e. $\chi_{cal} \neq \chi_{cal}$

Hypothesis 2: On Farmers' Perception

H₀: The farmers' perceptions of the impact of cooperative on agricultural output do not differ significantly i. e. $\chi_{cal} = \chi_{cal}$

H_a: The farmers' perceptions the impact cooperative on agricultural output differ significantly i. e. $\chi_{cal} \neq \chi_{cal}$

Methods of Data Collection:

Data were obtained from two categories of respondents on whom two different sets of questionnaires were served namely. These were the management staff of both AKIFCA and its affiliates and the farmer members of the primary societies. In all, the set of questionnaires were administered on 209 respondents – 109 were the management of the primary societies under AKIFCA and the remaining to the Departments' management staff of AKIFCA. The key question in this questionnaire was that which strived to find out from these management staff in their opinion, credits from AKIFCA have helped boost the aggregate output of farmers in Akwa Ibom State. The respondents were required to answer 'agreed' or 'disagreed', to the question. Of the 209 questionnaire issued, 156 were returned (74.6% response rate) with useable information and were thus employed in the analysis.

In the second round of data collection, a set of 200 questionnaires were issued to farmer-members of the 109 societies in AKIFCA. The farmers were categorized into rich farmers – (A); not very rich – (B); Average – (C); Below Average – (D) and poor farmers – (E) depending on how much in high esteem the association considered them based on their individual saving with the societies. Of the 200 questionnaire administered, 190 were returned (95% response rate).

Methods of Data Analysis:

The study adopts both descriptive and analytical research methods. The Chi – square technique was used in evaluating the perception of both AKIFCA officials and farmer-members of the impact of credit on the output.

The Chi – Square: The chi – square model adopted in the analysis is given as:

$$\chi^2 = \frac{(O - E)^2}{E}$$

Where O = Observed Values

E = Expected Values

χ^2 = Chi – square statistics

RESULT AND DISCUSSION.

AKIFCA Loan Disbursement and Crop Output

Table 1 contains information pertaining to the activities of AKIFCA in giving credits to its farmer – members and the response of the agricultural output to the enhanced financing of farmers in the sector. The table reveals that at its inception AKIFCA has given out credit worth ₦447, 639.03 to 255 members. The amount of loan disbursed and number of beneficiaries increased steadily over the years. However, the percentage change in loans given out fluctuates. From a 1.09 percentage change in 1990, it rose and reaching its peak of 16.19 in 1993.

Table 1: Loans Disbursement to Farmers and Agricultural Output in Akwa Ibom State.

| Years | Output of Agric. Sector (Tonnes) | Percentage Change (+++) | Loans to Farmers by AKIFCA (₦) (++) | Percentage Change (+++) | Numbers of beneficiaries of AKIFCA Loans (++) | Percentage (+++) |
|-------|----------------------------------|-------------------------|-------------------------------------|-------------------------|---|------------------|
| 1988 | 1,026,580 | - | - | - | - | - |
| 1989 | 2,090,650 | 103.65 | 447,639.03 | 1.09 | 225 | - |
| 1990 | 2,236,500 | 6.97 | 452,513.00 | 1.09 | 265 | 29.0 |
| 1991 | 2,358,600 | 5.46 | 491,710.40 | 8.66 | 296 | 3.9 |
| 1992 | 2,433,150 | 3.16 | 504,576.85 | 2.61 | 321 | 11.7 |
| 1993 | 2,478,040 | 1.85 | 589,735.73 | 10.57 | 369 | 8.4 |
| 1994 | 2,522,500 | 1.79 | 622,867.00 | 5.62 | 423 | 14.9 |
| 1995 | 2,584,247 | 2.45 | 630,956.35 | 1.30 | n.a | n.a |

Sources: (-) Planning Division of Akwa Ibom State Agric. Development Project, (++) Account Division of AKIFCA Limited. Uyo
(---) Computations by the researchers., n. a = Not Available.

Thereafter, it started falling to 5.62 in 1994 and 1.3 in 1995. Output of agricultural sector (crop) on the other hand is found to be steadily increasing over the years but the percentage change had been falling. The table shows that, it fell from 21.13 in 1986 to 18.47 in 1987. In 1988, it assumed negative values. However, with the inception of AKIFCA, there seems to have been renewed efforts at boosting production and accordingly, the

percentage change in output rose significantly to 130.65. The boom was short-lived as agricultural output started declining and has been declining while agricultural output and number of loan beneficiaries has increased in minimal terms.

Loan Delivery Mechanism: Several factors may contribute to the effectiveness of credit delivery and achievement of set objective and target. The delivery mechanism- loan processing procedures, loan repayment, among others are identified in the literature. Some of the loan delivery approaches as practiced by AKIFCA are discussed below. It is hoped that this could throw more light on the achievement or otherwise of AKIFCA credit delivery objective.

As stated earlier, AKIFCA is an apex financial cooperative source and obtain funds from various sources including government, commercial as well as development banks, development donor agencies, etc. It has devised loan delivery mechanism devoid of the deficiencies that have impeded the progress of traditional rural financial institutions in self-sustainability and significant outreach. This mechanism is discussed under loan processing, social mechanism and loan repayment.

Loan Processing: AKIFCA has a loan application form which is used by affiliate cooperative to apply for loan. The form is simple, reflecting the basic information required to know the financial capability and strength of the affiliate societies and members. The processing is simple and the line of decision making is kept short to avoid delays. This approach is capable of enhancing credit accessibility. Since information is passed to the members through primary cooperative society, the problem of information asymmetry is reduced.

Social Mechanisms: AKIFCA uses existing social structures of its affiliate cooperative societies to ensure that borrowers are selected appropriately and repayment are made on time –two key areas in which the problem of asymmetric information puts the formal rural finance institution at a distant –age (Lianto, 1990; Hoff and Stightz 1990). Loans are disbursed to affiliate cooperative for on-lending to members. Individual cooperative societies subsequently screen and disburse loan to deserving members. Thus, AKIFCA has used the authentic and official leadership in the cooperative societies to help screen loan applicants and secure prompt loan collection. The problem of inadequate information on the credit worthiness of potential borrowers is passed onto the primary societies, who, due to their closeness to the members, can easily monitor their action leading to effective utilization and prompt repay by members.

Loan Repayment: AKIFCA has applied a standardized rigid structure of loan repayment to achieve financial discipline. The routine meeting of the primary cooperative society members ensures that social pressure is applied to achieve prompt repayments. This also reduces administrative cost. In addition, the cooperative is also concerned with social, health and education issues which create a common bond between members, making default an occasion for loss of social standing within the cooperative society. Members who make timely repayment gradually increased the amount of credit they are eligible to receive. In general, timely repayment is a sure way to gain access to repeated loans to the cooperative society as well as individual members of these societies.

Perceived Impacts of Cooperatives on Agricultural Development:

(i) Cooperative Officials' Perception:

The result of AKIFCA officials' perception of credit from the apex cooperative on agricultural output is presented in Table 2. Of the 156 respondents whose responses were used, 78.2% of the responses was on the affirmative that the associations contribute significantly to the development of agriculture in the State. The remaining 21.8% responded in the negative. Also 19.55% of the respondents agreed that AKIFCA credit impact positively on rich farmers' output while 29.72% agreed that AKIFCA credit impact on poor farmers output. Judging by the percentage of officials who perceive the impact of AKIFCA credit on a particular category of farmers, it may be concluded that the impact may be more on the poor farmers than rich farmers. In addition, taking the collective views of the officers into consideration, it seems obvious that AKIFCA is delivering on its objective of enhancing agricultural output and growth.

Table 2: Cooperative Officers' Perception of the Impact of Credit from Cooperative on Agricultural Production.

| Responses | Rich Farmers | Not very Rich | Average | Below Average | Poor Farmers | TOTAL |
|--------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Agreed | 25 (19.55) | 20 (27.37) | 25 (20.33) | 26 (20.33) | 26 (29.72) | 122 (78.20) |
| Disagreed | 0 (5.45) | 15 (7.62) | 7 (6.97) | - (5.16) | 12 (8.28) | 34 (21.80) |
| TOTAL | 25 (16) | 35 (22) | 32 (21) | 26 (17) | 38 (24) | 156 |

$\chi^2 = 34.64$; Figures in parenthesis are the expected values.

Source: Field Data.

The chi square statistic shows that whereas the tabulated value at four degrees of freedom and 0.05 level of significance is 9.49, the calculated value is 34.64. This implies the significance differences exist in the perception of the Cooperative officials of the impact of AKIFCA loan/credit on the agricultural output of various categories of members. The ratio of the number of official who agree (122) to cooperative impacting on agricultural production to those who disagree (34) clearly points to the existence of differing opinion or perception. Nonetheless, the fact that majority of the officials are in the affirmative is indicative of the positive impact of credit from cooperatives on the livelihood of its members.

(ii) Farmers' Perception of Cooperatives credit on Agricultural Output

Having obtained the opinion of credit administrators on the impact of credit on cooperative members' agricultural output, it was imperative to also seek the views of the beneficiaries of credit. The result of this exercise is presented in Table 3. Of the 190 farmer cooperative members interviewed, only 40 (21 percent) disagreed that credit from the cooperative impact on their agricultural production. However, almost twice the numbers of farmers who disagree affirm that credit from the cooperative impact on their output. Unlike the cooperative officials, more rich farmers (23 percent) accepted being impacted upon by credit from the cooperative. This was followed by not very rich farmers and the poor farmers. The output of those farmers categorized as "average" and "below average" seems to be less impacted upon by credit from the cooperative society. Chi - square estimate confirms significant differences in the perception of farmers of the impact of credit on their output.

Table 3: Farmers' Perception of the Impact of Credit from Cooperative on Agricultural Production.

| Responses | Rich Farmers | Not Very Rich Farmers | Average Farmers | Below Average Farmers | Poor Farmers | TOTAL |
|-----------|---------------|-----------------------|-----------------|-----------------------|---------------|----------------|
| Agreed | 30 (34.70) | 33 (32.36) | 27 (21.32) | 29 (30.00) | 31 (31.57) | 150 (79.00) |
| Disagreed | 14 (9.29) | 8 (8.63) | - (5.68) | 9 (8.00) | 9 (8.40) | 40 (21.00) |
| TOTAL | 44 (23) | 41 (22) | 27 (14) | 38 (20) | 40 (21) | 190 |

$\chi^2 = 10.49$; Figures in parenthesis are the expected values; Source: Field surveys Data

POLICY IMPLICATIONS AND CONCLUSION

The study has shown that in recent years, agricultural value added in the state has been on the decline. This was previously blamed on paucity of fund for purchase of inputs. The study has indeed shown that, with improved financial standing of farmers, output can be enhanced. In addition the cooperative society is found to be a veritable instrument for enhanced funding of farmers. The result reveal that the volume of credit and agricultural output have been increasing in absolute term. The percentage change in quantity of output is declining while the loan volume fluctuates. The administrators of the cooperative society perceived that credit/advances from the cooperative impact positively on agricultural output. Again, since credit goes with payment of interest, decreasing return to investment would put the borrower in difficult position regarding loan repayment. The implications of these are not far to fetch. Firstly, if farmers stop investing in agricultural sector agricultural output will eventually decline. This could ultimately lead to food insecurity in the country. Secondly, poor returns on investment and subsequent loan default which may follow would impede the revolving nature of the loans, and ultimately lack of funds to agricultural sector from this source. The consequences of such lack for investible funds are well documented in the literature.

To continue to enjoy the benefits of vibrant cooperative societies, it is recommended that, brotherhood economies achievable through cooperative should be encouraged. The government should, in addition to increasing its grants to cooperatives, creates an atmosphere more conducive for commercial bank to participate in the granting of loans to societies through umbrella union like AKIFCA. It should as well help in the making of regulations that will reduce loan default so as to ensure the sustainability of the cooperative society. In addition, the beneficiaries of funding from the cooperatives must employ measures that will bring about commensurate yield from investment. These done, the cooperative can continue to add to the agricultural development.

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