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WHY WORRY ABOUT INFORMAL MONEY LENDERS PATRONAGE? A RESEARCH AGENDA: EVIDENCE FROM DELTA STATE, NIGERIA

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Abstract

Credit access will propel economic activities to increase the performance of the farmers to move from everyday for survival to planning for the future. This study assessed informal money lenders patronage by farmers in Delta State, Nigeria. Multistage random sampling procedure was used in the study. Primary data were obtained from 240 borrowers using structured questionnaire and interview schedule. Descriptive statistics, t-test and probit regression analysis were used for the analysis. The result of the study indicated that 54.9% of borrowers had an age range of 34-53 years. Majority of the borrowers were males (77%), married (78.8%), educated (96%) with household size of 1-5persons (48%). About 59% had farm size of less than one hectare while 49.6% of borrowers earned income less than N 100,000. The result of the probit regression analysis showed that patronage of informal money lenders were influenced by education, occupation, household size, farm size, marital status, effectiveness and location. The result of t-test confirmed that there was significant relationship between socioeconomic characteristics of smallholder farmers and informal money lenders patronage in the study area. The result indicates that loans from informal money lenders have helped overall performance. The major constraints of borrowers were high interest rate, small volume of cash disbursed and collateral requirement. This requires government's intervention through the regulation of the activities of informal money lenders with respect to interest rate charged so as to reduce debt burden worries among small-scale farmers.

Keywords: Probit, Money lender, Patronage, Farmer borrower

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1. Introduction

Credit is a key input to activate meaningful agricultural production operations. Agriculture served as the engine of growth, which holds a lot of potentials for the future economic development of the nation. Agriculture accounted for over 60% of its Gross Domestic Product (GDP) as well as being a major source of foreign exchange earnings before the discovery of oil in Nigeria. It provided food and employment for the swarming population and raw materials for the growing industries. In spite of that, the smallholder farmers are the dominant producers of food and other essential materials of the overall economy with their poor financial standing. In Nigeria, empirical evidence has established a positive link between the declining agricultural productivity and limited credit facilities (Nwaru, 2004; Lawal and Abdullahi, 2011). This

situation threatens the capacity of farmers in their quest for sustainable production.

Successive governments in Nigeria have been making efforts to adequately address the financial constraints encountered by the farmers to increase agricultural output through credit programmes. The two functional sources of finance are the formal and informal credit markets. The expectations of the farmers were that the formal sources, which are under the direct regulation of the government, will reduce their financial problem that hindered them from purchasing farm inputs for higher productivity. However, the formal financial institutions to their dismay had refused to provide financial services to them because of their stringent conditions for making funds available to farmers as well as the lack of access to available loans. In a similar view, Mehrteab (2005) supported that, the main obstacle confronting the farmers when trying to acquire loans from formal financial institutions is the demand for collateral by those institutions. He further added that in Africa, only 5% of the farmers had access to formal credit; hence this situation calls for a shift in attention by the Government to the recognition and development of the informal financial institutions that are predominantly found in the rural areas where agriculture thrives.

Konare (2001) stated that the issue of inadequate access to credit by rural farmers, among others, has remained the central concern for farmers and a key constraint to the modernization and diversification of their activities. These smallholder farmers for that reason rely basically on the informal financial institutions in their areas. According to Adeoye (2005) and Olaiya (2005), these informal financial institutions are the major providers of funds for the promotion and development of small-scale farmers in the rural areas. The informal financial sector is an un-organized sector that consists of money lenders, relatives, friends, neighbours, landlords, traders and group of individuals that operates mainly in the rural setting (Mehrteab 2005) who seldom engage in lending money. Okurut and Thuto (2007) affirmed that the informal financial sector plays a key role in resource mobilization and allocation in developing economies. Bouman (1995) reported that in Cameroon, approximately 50% of the national savings and 27% of the total credit requirements was provided by the informal sector while Jones et al (1998) noted that 55% of all private savings in Ghana were mobilized through informal sources. A major obstacle to effective rural banking in the country relates to lack of banking facilities, which necessitates the patronage of money lenders. Evidence abounds that in most rural areas where banking facilities are deficient, informal credit and savings markets are predominant; farmers patronize moneylenders for both consumption and investment credit during land preparation and planting season.

The demand for credit is increased as a result of increased economic activities in the informal sector (Tra and Lensink, 2004). Given these circumstances, informal credit sources are unquestionably the most popular sources of finance to the rural and urban population (Gebrekidan, 2006) because the formal credit sources have scared many food crop farmers due to the encumbrances surrounding its use (Udoh, 2005). Unregulated money supply, easy accessibility, easy liquidity and low administrative bottlenecks, absence of collateral security, proximity, timely delivery and flexibility in loan transaction are some of the attractive features of informal credit sources to the farmers (Khandler and Farugee, 2001). This made about 95 percent of the rural credit beneficiaries patronize informal sources such as money lenders. Money lenders makes it easy for those people who are not qualified to obtain loans under the formal banking system to obtain such loans and it ensures that loans are granted within a shorter time span than what obtains in the formal banking system. The interest charged is normally as high as 50 to 100 percent. Despite that, the farmers highly patronize them. However, to the best of my knowledge studies on informal money lender and determinants of loan patronage by borrowers has not been carried out in Delta state, before now. This is a research gap that this study investigated and filled.

The broad objective of this study was to examine the level of money lenders patronage by smallholder farmers in Delta State, Nigeria. The specific objectives were to;

1. describe the socioeconomic characteristics of the informal money lender (IML) borrowers
2. determine the influence of borrowers socio-economic characteristics on informal money lenders patronage (IMLP)
3. ascertain the impact level of informal money lender patronage (IMLP) on the borrowers' farm performance identify the constraints associated with informal money lenders' patronage

The following hypotheses were tested;

1. There is no significant relationship between informal money lenders patronage and educational level of borrower
2. There is no significant relationship between informal money lenders patronage and occupation of the borrower
3. There is no significant relationship between informal money lenders patronage and household size of borrower
4. There is no significant relationship between informal money lenders patronage and farm size of borrower
5. There is no significant relationship between informal money lenders patronage and marital status of borrower
6. There is no significant relationship between informal money lenders patronage and age of the borrower
7. There is no significant relationship between informal money lenders patronage and effectiveness of the borrower
8. There is no significant relationship between informal money lenders patronage and location of borrower.

2. Material and Method

2.1. Study Area

The study was conducted in Delta State, Nigeria. It is lies between latitude $5^{0}00'$ and $6^{0}30'$ North and longitude $5^{0}00'$ and $6^{0}45'$East and has a population of 14,095,391 (NPC, 2006). The State shares boundary with Edo State in the North, South East by Bayelsa State, Anambra to the East and on the Southern frank by Bight of Benin, which covers 160 kilometers of the States coast line. It has a tropical climate characterized by dry and wet seasons. The dry season occurs between December – March and rainy season between March – November with annual rainfall in the coastal areas of about 266.5cm and 190cm in the North fringes of the State and annual mean temperature of about 30 °C. Commonly crops cultivated are cassava, yam, plantain, banana, potatoes, cocoyam, vegetables and pineapple.

2.2. Sampling procedure and data collection

Multistage random sampling technique was employed. Firstly, the three agricultural zones namely; Delta North, Delta South and Delta Central were selected. Secondly, three (3) local government areas were randomly picked from each agricultural zone giving nine (9) LGAs. Thirdly, four (4) communities were randomly chosen from each LGA total twelve (12) communities. At the fourth stage, seven (7) respondents were randomly selected from each community giving a sample size of 252 respondents. At the end 12 questionnaires could not be retrieved resulting in the use of data from 240 respondents. The data for this study were collected through structured questionnaire and interview schedule.

2.3. Statistical analysis

Descriptive statistics such as charts were used to describe the socio-economic characteristics of the borrowers. Means derived from Likert type scale of strongly agree (SA) = 4, Agreed (A) = 3, Disagree (D) = 2 and strongly disagree (SD) = 1 with a cut-off score of 2.50 was used to achieve impact of informal money lender patronage (IMLP) on the borrower. T-test was used to achieve the research hypothesis of the relationship of borrowers characteristics and informal money lenders patronage. Probit regression was used to ascertain the determinants of informal money lenders patronage by borrowers. The model is appropriate when the response takes one of only two possible values representing patronage or none patronage. The model was adopted as used by Gujarati (2003). The equation is explicitly stated as:

$P_i\ [y=1] = [Fzi]$

where

$Z_i = \beta_1 + \beta_1 X_1$ (1)

$Y_1 = \beta_1 + \beta_2 X_{2i} + \ldots + \beta_k X_{ki}$ (2)

Y_i* is unobserved but $y_i = 0$ if $y_i* = 0$, 1 if $y_i* = 0$

$P\ (y_1 = 1) = P\ (y_i* = 0) = P(U_1 = -\beta_1 + \beta_2 X_{2i} + \ldots + \beta_k X_{ki})$ (3)

where

Y_i = the observed patronage (Dichotomous variable: 1 = if farmer patronize informal money lender, otherwise = 0)

β = a vector of unknown coefficients

X_i = vector of patronage characteristics of ith farmer, and is the independent variables which are defined as follows.

X_1 = educational level (years)

X_2 = occupation

X_3 = household size (number of people living together under one roof)

X_4 =farm size (ha)

X_5 = marital status (married = 1, otherwise = 0)

X_6 = age of farmer (years)

X_7 = effectiveness of patronage (effectiveness = 1, otherwise =0)

X_8 = location (km)

e = error term

2.3.1. 4-point likert- type scale

The impact index was computed thus: the borrowers were asked to indicate their impact level on a 4-point likert- type impact scale as adapted from Uzokwe et al. (2017).Their response categories to impact statements and corresponding weighted values were done as follows: Strongly agree = 4; Agree = 3; Disagree = 2; strongly disagree = 1. The impact index was computed as follows: 1. Computation of the total mean (M) inclusion score. This was computed by dividing the total impact scores by the number of respondents involved.2. Computation of the grand mean (M) impact score. This was computed by skimming all the mean impact scores and dividing them by the number of impact statements captured.3. Computation of impact index was done by dividing the grand mean (M) impact score by 4 (i.e. the 4^{th}point of the likert scale).

3. Results and Discussion

3.1. Socioeconomic Characteristics of Borrowers

Figure 1 depicts that majority (28.9%) of the borrowers were between 34-43 years of age. This was followed by 26% of the borrowers that were between 44-53years. It also indicates that 22.4% of them fell within 25-34 years, 18.9% were between 54-63 years and 3.3% of them were above 63 years. By implication, they were within the middle age group, energetic, productive and rational decision makers for judicious utilization of fund borrowed. This result is in agreement with Ajagbe et al (2007).

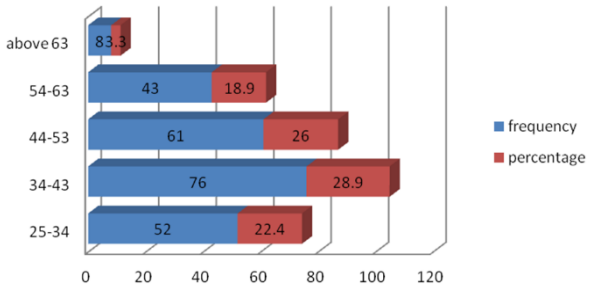

Figure 1. Age of borrowers (years)

The result as presented in figure 2 further showed that 77% of the borrowers were male, while 23% were female. This result implies that informal money lenders were mostly patronized by males. This can be attributed to the fact that men were more involved in farming activities. This result contradict Osundu et al (2015) study on informal loan demand and repayment potential of farmers in Abia State, Nigeria that majority (61.67%) of the informal credit farmer borrowers are females while 38.33% of them are males.

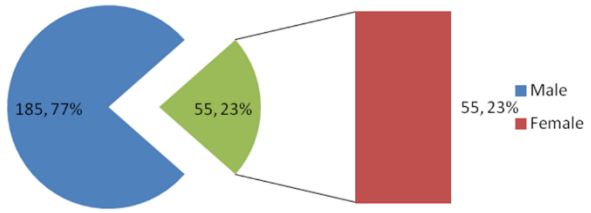

Figure 2. Gender of borrowers

Majority (78.8%) of the borrowers were married, while 12.5% of them were single. Also 6.3% of them were widowed and 2.5% were divorced (Figure 3). Since most of them were married this will increase more borrowing for consumption if the labour force available is insufficient to produce for the home but on the other hand, it could assist in reducing borrowing tendency if the husband and wife harness their resources together.

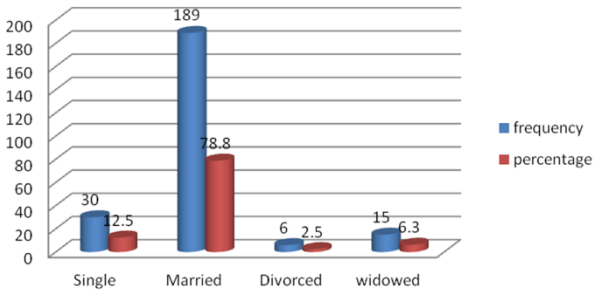

Figure 3. Marital status of borrowers

The result in figure 4 indicated that 56% of the borrowers attained primary education while secondary education accounted for 34%. Furthermore, 6% of the borrowers had tertiary education while 4% of them had no formal education. This implies most of them had basic knowledge on credit, which can improve their performance. This is consistent with Ezeh et al (2012) study in Imo State, Nigeria.

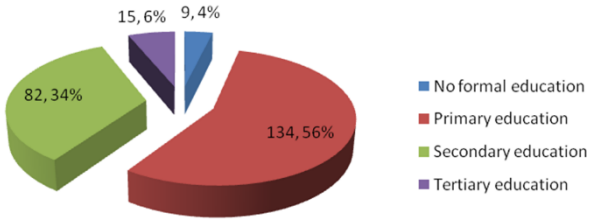

Figure 4. Educational level of borrowers

The result in figure 5 indicated that 48% of the borrowers had a household size ranging from 1-5 persons, followed by 46% of the borrowers that had 5-10 persons. The least was 6% of borrowers having household sizes above 10 persons. The household size was relatively small thus the reason for borrowing for farm labour.

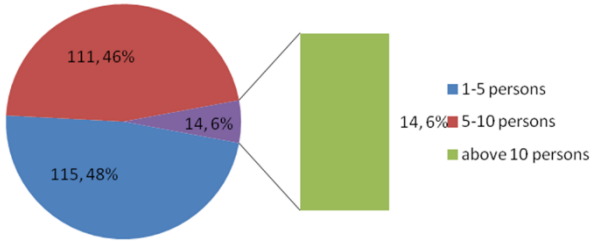

Figure 5. Household size of borrowers

The result as presented in figure 6 showed that 59% of borrowers cultivated less than one hectare while 26% of them cultivated 1-2 hectares. Also 15% of the borrowers cultivated above 2 hectares. This implies that most of the borrowers in the study area were small scale farmers. This could be unavailability of capital for the farmers.

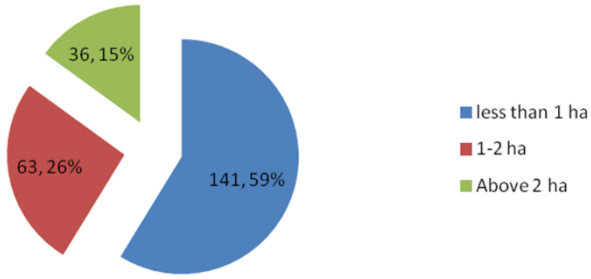

Figure 6. Farm size of borrowers

The result as presented in figure 7 showed that 49.6% of borrowers earned income of less than ₦ 100,000 per season from the farm production, 36.7% of them had income between ₦ 101,000-N200,000 per season from farm production while 10% of the borrowers earned

between ₦ 201,000 – ₦ 300,000 per season. The least was 3.8% of borrowers that earned above ₦ 300,000 per season from arm production. This trend shows that income has a great positive influence on production.

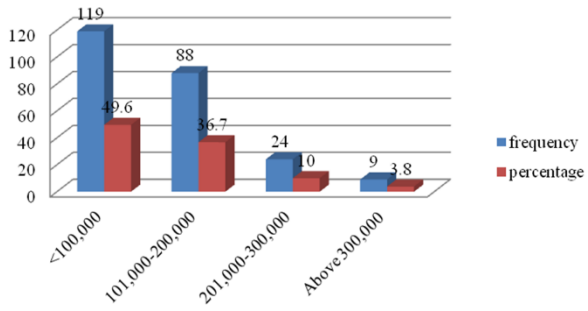

Figure 7. Income level of borrowers (₦)

3.2. T-test Relationship between Selected Loan Borrowers Personal Characteristics and Informal Money Lenders Patronage

The t-test statistics was used to test significant difference between informal money lenders patronage and selected socioeconomic characteristics of respondents. The results are presented in Table 1. A critical look at Table 1 showed that the t-cal for informal money lenders patronage and educational level was -11.56 while the t-tab was 1.65 at 5% level of significance which showed that there is a significant relationship between informal money lenders patronage and educational level of the farmers. The implication is that the educated farmers would tend to avoid the high interest rate thereby prefer to source other alternatives with lower interest rate.

Table 1. T-test relationship between selected loan borrowers personal characteristics and informal money lenders patronage

Variable	Mean	Std.error	Std. mean	t-cal	t-tab	Decision
Education	1.46	0.04	0.68	-11.56	1.65	S
Occupation	0.83	0.03	0.37	-3.33	1.65	S
Household size	6.76	0.19	2.37	-29.79	1.65	S
Farm size	1.30	0.06	0.69	-8.73	1.65	S
Marital status	0.71	0.04	0.46	-0.44	1.65	NS
Age	44.97	0.67	8.23	-65.73	1.65	S
Effectiveness	0.78	0.03	0.42	-1.79	1.65	S
Location	0.46	0.04	0.50	3.68	1.65	S

The t-cal for informal money lenders patronage and occupation of the respondent was -3.33 while the t-tab was 1.65 at 5% level of significance which showed that significance which showed that there is a significant relationship between informal money lenders patronage and occupation of the farmers. This implies that respondents with occupation that generate viable fund will not be willing to borrow fund from informal money lenders. However, respondents with poor occupation might tend to patronize informal money lenders to support their income level of their occupation.

The t-cal for informal money lenders patronage and household size was -29.79 while the t-tab was 1.65 at 5% level of significance which indicated that there is a significant relationship between informal money lenders patronage and household size of the farmers. This implies that increase in household size could discourage borrowing from informal sources because large household size would provide enough labour force in the farm for greater productivity. In the same vein, larger household could lead to borrowing from informal money lenders as a result of increase in the amount of mouth to feed.

The t-cal for informal money lenders patronage and farm size was -8.73 while the t-tab was 1.65 at 5% level of probability which showed that there is a significant relationship between informal money lenders patronage and farm size of the farmers. This means that increase in farm size will lead to a corresponding decrease in informal money lenders patronage because increase in farm size will lead to increase in farm output and income that will discourage borrowing.

The t-cal for informal money lenders patronage and marital status was -0.44 while the t-tab was 1.65 at 5% level of significance which revealed that there is no significant relationship between informal money lenders patronage and marital status of the farmers. This implies that marriage is not a strong determinant of borrowing from informal money lenders because even the unmarried people can access loan from informal sources.

The t-cal for informal money lenders patronage and age was -65.73 while the t-tab was 1.65 at 5% level of significance which showed that there is a significant relationship between informal money lenders patronage and age of the farmers. This implies that age is a contributing factor in accessing credit from formal financial institution but not a restriction when patronizing informal money lenders provided the borrower agrees to the terms of payment.

The t-cal for informal money lenders patronage and effectiveness was -1.79 while the t-tab was 1.65 at 5% level of probability which showed that there is a significant relationship between informal money lenders patronage and effectiveness of the farmers. This implies

that as the respondents become effective in handling of farm business that generate sufficient income, the respondent will then discourage he/herself from borrowing from informal credit sources since profit derived could be used for farm improvement.

The t-cal for informal money lenders patronage and location of residence to sources of informal credit institution was 3.68 while the t-tab was 1.65 at 5% level of significance which revealed that that there is a significant relationship between informal money lenders patronage and location of the farmers. This means that increase in distance of respondents residence to informal money providers determine the level of informal money lenders patronage by the respondents in the study area.

3.3. Determinants of Informal Money Lenders Patronage

The result in Table 2 shows the probit regression estimates of the determinants of patronage on informal money lenders. The result revealed that the chi-square value of 33.87 was highly significant at 1% level of probability indicating that the model is a good fit. The R2value of 0.1801 also indicates 18.01% variability in patronage of informal money lenders explained by the independent variables. The coefficient of education (0.182) was negatively signed and significant at 5% level of probability. This implies that increase in educational level of the respondent will lead to decrease in the probability of informal money lenders patronage. This conforms with a priori expectation.

Table 2. Determinants of informal money lenders patronage by borrower

Parameter	Coefficient	Std Error	Z score
Education	-0.182**	0.080	2.28
Occupation	0.680**	0.331	2.05
Household size	-0.096*	0.050	1.91
Farm size	-0.502**	0.171	2.94
Marital status	-1.122***	0.309	3.63
Age	-0.013	0.012	0.80
Effectiveness MGT	-0.955***	0.331	2.89
Location	-0.437*	0.245	1.79
Constant	3.171***	0.991	3.20
LR chi^2	33.87		
Prob > chi^2	0.000		
Log likelihood	-77.098		

***, ** and *= variables are statistically significant at 1%, 5% and 10% respectively

The coefficient for occupation (0.680) was positively signed and significant at 5% probability level. This implies that the nature of occupation generate income for their improvement in production. This indicates that, occupation is a strong determinant of informal money lenders patronage. The coefficient of household size (0.096) of the respondent was statistically significant at 10% level and negatively related to informal money lenders patronage. This means that as the household size of the respondent increases, the patronage of informal money lenders for credit decreases because of availability of sufficient labour force to carry out farming activities. The result is at variance with Osundu et al (2015) who reported that an increase in household size will increase the amount of informal credit demanded by the farmers. The coefficient of farm size (0.502) was negatively signed and significant at 5% probability level. This implies that any increase in farm size will lead to corresponding decrease in the probability of informal money lenders patronage. This is in consonance with a priori expectation probably because increase in farm size will result to increase in output and income which discourages borrowing from informal money lenders

The coefficient of marital status (1.121) was significant at 1% probability level and negatively related to informal money lenders patronage. This implies that as more of the farmers get married, patronage by farmers on informal money lenders credit would be reduced than their counterparts who are either single or widowed. This is expected because spouses are able to join resources to better improve their output and productivity.

The coefficient of effectiveness of farmers (0.955) was statistically significant at 1% level of probability and negatively related to patronage of credit from informal money lenders. The implication is that as the farmer become more effective, the willingness to patronize credit from money lenders decreases. The effectiveness of loan management by the respondent could be due to experience acquired from other credit sources on loan management for efficient productivity. The coefficient of location (0.437) was negative and statistically significant at 10% probability level. This means that as the location of the informal money lenders get far away from the reach of the farmers, the rate of patronage would decrease.

3.4. Impact Level of Informal Money Lender Patronage (IMLP) on the Borrowers Activities

Table 3 showed the level of informal money lenders impact on borrower, which indicates that patronizing informal money lender's loans has helped overall performance as all the means meet the cut-off mean of2.50. This is further confirmed by the impact index of

0.80, which implies that 80% of the borrowers' agricultural activities were improved positively. This is attributable to the fact that many of these farmers see the informal money lender sources of credit disbursement as quick and simple without bureaucratic bottleneck unlike the formal credit sources. This finding is in consonance with Ghazala (2006) that informal financial institutions had positive effects on beneficiaries welfare by improving their living standard.

Table 3. Impact level of informal money lender patronage (IMLP) on the borrowers activities

Borrower's activities	Strongly agree	Agree	Disagree	Strongly disagree	Score	Mean
Increase in output (INQ)	4(127)	3(86)	2(24)	1(3)	817	3.40
Increase in labour in (INLBR	4(40)	3(172)	2(2)	1(26)	706	2.94
Increase income in (INIC)	4(144)	3(64)	2(20)	1(12)	820	3.42
Increase in farm size (INFSZ)	4(118)	3(73)	2(38)	1(11)	778	3.24
Improvement in living standard (ILSD)	4(103)	3(117)	2(17)	1(3)	800	3.33
Increase in farm assets (IFAS)	4(78)	3(64)	2(72)	1(26)	674	2.81

Cut-off score = 2.50 (≥ 2.50 = impact; < 2.50 = no impact), Grand mean = 3.19, Impact index = 0.80

3.5. Constraints Faced by Borrowers of Informal Money Lenders Source

The result as presented in Figure 8 showed that that majority (55.0%) of the borrowers of informal money lenders source had the challenge of high interest rate.

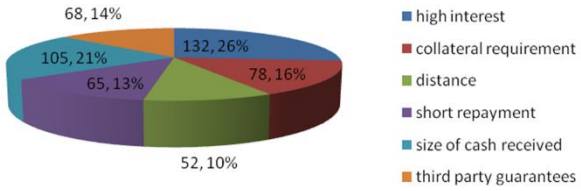

Figure 8. Constraints faced by informal money lenders borrowers

The result congruent with Von-Pischke et al (1991) findings that, informal money lenders generally charged exorbitant interest rates. The result also indicates that 43.8%of the borrowers encountered the problem small volume of cash disbursement by the informal money lenders source. The reason might be as a result of their low capital base. This is in consonance with the findings of Tra and Lensink (2004) that the volume of cash lends to the farmers by the informal credit sector is very small and this might affect meeting their needs. Moreover 32.5% of the borrowers faced collateral problem. These informal money lenders demand these collaterals from the borrowers for security reason so that if the borrower defaults the collateral would be seized to offset the money borrowed. It is worthy of note that collateral demand is a serious issue based on the financial strength of the borrowers. About 28.3% of the borrowers complain of third party guarantees demand. The result further showed that 27.1% of the borrowers reported that short repayment period was their problem while 21.7% of the borrowers complain that distance from residence to informal money lenders source was their challenge because it will increase the transaction costs. The result is in agreement with Okorie (2001) findings in his study on management of risks and defaults in agricultural lending in Nigeria.

4. Conclusion

Based on the empirical evidence emanating from both descriptive and inferential statistics employed for this study, the research had shown that education, occupation, household size, farm size, marital status, effectiveness and location influenced informal money lenders patronage in the study area. The result of the study calls for government policy to safeguard the farmers from the shackles of informal money lenders monopoly of high interest rate. The government should provide interest free loans to the farmers to encourage sufficient food production.

Conflict of interest

The authors declare that there is no conflict of interest.

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