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AN ECONOMIC ANALYSIS OF PARTICIPATION IN CREDIT MARKET AND CREDIT RATIONING AMONG FARMERS IN KANO STATE, NIGERIA

IBRAHIM YUSUF KOFARMATA

DOCTOR OF PHILOSOPHY
UNIVERSITI UTARA MALAYSIA
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AN ECONOMIC ANALYSIS OF PARTICIPATION IN CREDIT MARKET AND CREDIT RATIONING AMONG FARMERS IN KANO STATE, NIGERIA

By

IBRAHIM YUSUF KOFARMATA

Thesis Submitted to
School of Economics, Finance and Banking,
Universiti Utara Malaysia,
In Fulfilment of the Requirement for the Degree of Doctor of Philosophy
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ABSTRACT

Apart from providing fertilizer and machineries, agricultural credit provides access to all other resources, which may lead to remarkable improvement in output. However, due to lack of farm credit, agricultural production particularly in Kano-State, Nigeria does not significantly improve over the years. Therefore, this study aims at estimating the demographic and socio-economic indicators that are responsible for influencing farmers’ decision to participate in credit market and factors that constraint them from accessing the farm credit. Micro data is used in this study involving 835 households and 45 microfinance banks, respectively. The result of the logistic model reveals that commercial farming, credit information, neighbourhood credit participation, traditional title and possession of radio and television relate positively to the credit market participation whereas a negative impact is noticed on the application of traditional tools. Similarly, results from the discrete choice models show that farmers who are either being engaged in subsistence farming or trading have a significant effect on the choice of credit market and credit rationing with the greatest impacts found on the farm profit and farmers’ location. Moreover, the result of the partial proportional odds model indicates that the amount of credit received by farmers shows a positive relationship on irrigation, vehicle, farm record, number of creditors, financial literacy and location, albeit negatively related to subsistence farming. Even though proximity to lenders seems to play a role in credit supply equation, creditworthiness in general and its staff in particular are even more important. In conclusion, this research attests that poorer farmers are more likely to be excluded from the credit market than better-off households. Consequently, the finding in the credit market model recommends that there is need to build trust, encourage commercial farming, apply modern farming tools, strengthen property rights and increase financial literacy among farmers.

Keywords: agricultural credit, credit participation, credit choice, credit rationing, partial proportional odds model
ABSTRAK


Kata kunci: kredit pertanian, penglibatan kredit, pilihan kredit, catuan kredit, model ganjil berkadar separa
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<tr>
<td>ACGSF</td>
<td>Agricultural Credit Guarantee Scheme Fund</td>
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<td>ACSS</td>
<td>Agricultural Credit Support Scheme</td>
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<td>ADP</td>
<td>Agricultural Development Project</td>
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<td>AIC</td>
<td>Akaike Information Criterion</td>
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<td>ASCAs</td>
<td>Accumulated Savings and Credit Associations</td>
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<td>BIC</td>
<td>Bayesian Information Criterion</td>
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<td>BOA</td>
<td>Bank of Agriculture</td>
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<td>CACS</td>
<td>Commercial Agricultural Credit Scheme</td>
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<td>CADP</td>
<td>Commercial Agricultural Development Program</td>
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<tr>
<td>CBN</td>
<td>Central Bank of Nigeria</td>
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<td>CDF</td>
<td>Cumulative Distribution Function</td>
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<td>DCM</td>
<td>Discrete Choice Model</td>
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<td>DEM</td>
<td>Direct Elicitation Method</td>
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<td>DMO</td>
<td>Debt Management Office</td>
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<td>FAO</td>
<td>Food and Agricultural Organisation</td>
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<td>FEAP</td>
<td>Family Economic Advancement Program</td>
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<td>FMAWR</td>
<td>Federal Ministry of Agriculture and Water Resources</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GOLOGIT</td>
<td>Generalized Ordered Logit Model</td>
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<td>IM</td>
<td>Information Matrix</td>
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<td>KSME</td>
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<td>LPM</td>
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<td>NA</td>
<td>Native Authority</td>
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<td>NACRDB</td>
<td>Nigerian Agricultural Cooperative and Rural Development Bank</td>
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<td>OLS</td>
<td>Ordinary Least Square</td>
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<td>PBN</td>
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<td>Probability Normal Density Function</td>
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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

About 3.5 billion of the world population live in rural areas in 2014 (mostly in the developing world), 75 percent of them are in the poverty trap. In Sub-Saharan Africa (SSA) or Nigeria in particular, the ratios are higher with rural dwellers amounting to more than 50 percent (Todaro & Smith, 2011; World Bank, 2015a). Most of these people have been bypassed by economic progress, and engaged primarily in subsistence agriculture. Survival is their ultimate goal. Report from the Food and Agricultural Organisation (FAO) indicates that more than a billion people in the world are without adequate food supply to meet the basic nutritional requirement (Babatunde, 2012). This leads to the malnutrition of more than 270 million Africans. There is an increasing concern by economists over the growing number of farmers, missing market, poor rural infrastructure, access to working capital and decreasing agricultural productivity, especially in African nations (Todaro & Smith).

Evidence from the World Development Indicators show that in 2014, only 1.6 percent of the total workforce was committed to agriculture in the United States (U.S.), 12.2 percent in Malaysia and 4.6 percent in South Africa. However, when it comes to Nigeria, more than half of farmers engaged in agricultural sector, but not produce adequate for the country (World Bank, 2015a). In fact, the average cereal crop yield per hectare in Nigeria was three times lower than that of Malaysia (3889.23 kg per hectare) and South Africa...
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