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Loan delinquency among small-scale food crop farmers and its impact on agricultural productivity: A review of literature

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Abstract

Loan delinquency has been known to undermine the sustainability of credit institutions. The paper therefore reviewed the prevalence of informal loan delinquency among small-scale food crop farmers. The information used was mainly from secondary sources. The review showed that loan delinquency is rampant among small-scale rural farmers in Nigeria. Factors influencing loan delinquency were mainly socio-economic and included farm size, household size, level of education, and farm and non-farm income among others. Informal sources of credit to small-scale farmers were found to include savings and credit associations, money lenders, personal savings, and loans from friends and relatives. The major causes of loan delinquency identified include borrowers' attitudes, the high cost of borrowing, and lack of monitoring and loan supervision. It is recommended among other measures to curb the menace of loan delinquency that farmers should be educated about the negative consequences of loan delinquency on their farming activities.

Keywords: Informal; Loan Delinquency; Small Scale; Farmers

1. Introduction

The importance of credit in agricultural production whether at the subsistence or commercial level cannot be over-emphasized. One of the most important elements among the key components of agricultural productivity has long been recognized as credit. This is because the majority of agricultural technologies require farmers to buy better inputs before they can be adopted. Meanwhile, not all farmers have the financial means to make such substantial purchases, and lack of credit becomes a potential barrier to agricultural development (Yi, et al, 2021; Purnawan, et al 2021; Li, et al 2022). Realizing this fact, overwhelming interest had been shown globally by agricultural economists, planners, policymakers, and other key stakeholders on the need to give rapt attention to farmers as it concerns loans in Nigeria (Okonta et al, 2023).

Several studies have shown that peasant farming is majorly domiciled in rural areas and practiced by smallholder farmers who live and operate under difficult conditions and are constrained by an array of challenges ranging from socioeconomic to institutional problems (Erhieguren, 2022; Duguma 2022; Ndhlovu 2022; Benjamin 2020). Despite this, the bulk of Nigerian agricultural food production still lies in the hands of these rural peasants and as such they need an enabling environment to operate maximally, especially by supporting them financially through access to credit.

Meheja, et al (2018), stated that the emphasis on providing credit to farmers has become necessary given the amount of money needed to operate a farm profitably whether on a small scale or large scale. According to Gbigbi (2017), literature abounds on issues concerning access to agricultural credit and the importance of credit to agricultural development. Credit serves as a social role by enhancing the lives of rural residents in addition to being a tool for

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increasing farm productivity and revenue (Kambali & Panakaje 2022; Si, et al 2021; Shafique & Khan 2020; Truong et al 2020). Kareem, et al (2022) affirmed that credit is essential for reducing poverty, diversifying sources of income, and improving smallholder farmers' business abilities. However, access to credits by small-scale farmers has posed a major challenge in developing countries (Balana et al 2022; Daka 2022; Omodara et al 2022; Echebiri and Nwaogu, 2017).

Stemming from the above, successive governments in recent times had embarked on rural credit schemes to aggressively promote loans to farmers to increase agricultural production but these were flawed by a series of shortcomings such as the inability of the rural farmers to cope with the stringent requirements of these formal credit sources (Amusan et al 2021; Onyiriuba et al 2020; Gbigbi, 2019). It therefore becomes fashionable to acknowledge the widespread significance of informal financial institutions which are largely regarded as responses to the flaws in the formal sector. Again, the acquisition of loans from these informal sources and subsequent repayment are fraught with several problems notably among which is loan delinquency or loan repayment default among the rural farmers which according to Selzing, et al, 2023) has been one of the recurrent issues of agricultural development.

As previously stated by Bourne & Graham (2021), the incidence of loan delinquency in rural farming communities "may negate government policy objective on increased food productivity" if left unchecked and endanger the viability of informal lending organizations. On this premise, this paper seeks to review the incidence of loan/credit delinquency among food crop farmers in Nigeria with the hope that the findings will create a laudable platform from which sustainable credit policy could be made on loan repayment in Nigeria.

Objective of the study

The main objective of this paper is to review the prevalence of informal loan delinquency among small-scale food crop farmers. Specifically, the paper sought to review the following:

- Sources of credit acquisition by rural farmers
- Causes of loan delinquency among rural farmers
- Constraints faced by rural farmers in accessing loan sources.
- Consequences of loan delinquency on agricultural production.

1.1. Underpinning Theories

Certain theories are found to be relevant to this study. One such theory is the theory of planned behavior proposed by Ajzen (1991) as cited by Shih et al. (2022) The theory postulates that an individual's behaviour is best predicted by one's intentions and intentions are in turn predicted by attitude about the behaviour, the subjective norms encasing the execution of the behaviour. Intentions to perform behaviours of different kinds (such as being loan delinquent) can be predicted with high accuracy from attitudes toward the behaviour, subjective norms, and perceived behavioural control; and these intentions, together with perceptions of behavioral control account for considerable variance in actual behaviour. The theory of planned behaviour is an extension of the theory of reasoned action (Sok et al 2021; Tama et al 2021). A central factor in the theory of planned behaviour is the individual's intention to perform a given behaviour.

Also central to this study is the financial literacy theory (Ahmad, 2023). Financial literacy is the combination of consumers'/investors' understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities to make informed choices, know where to go for help, and take other effective actions to improve their financial status.

Furthermore, the theory of adverse selection as cited by Tetteh, et al (2021) is based on the idea that borrowers have better information concerning their behaviour or risks associated with the projects or investments they intend to undertake as compared to lenders. The theory of adverse selection rests on two postulations; lenders cannot make a distinction between good or bad borrowers and borrowers only pay back loans if they have the means to do so. Also relevant to this study is the credit risk theory introduced by Melton (Mainga and Nyariki, 2023). The credit risk theory, otherwise called the structural theory posits that the likelihood of loan defaults and delinquencies is influenced by various factors, including the creditworthiness and repayment capacity of borrowers. Calli and Coskun (2021) suggest that technological innovation can play a significant role in assessing and managing credit risks within microfinance institutions (MFIs) and by extension, other financial institutions.

1.2. Concept of Loan Delinquency

Various authors have lent their voices to the concept of loan/credit default or delinquency. Any breach of a loan's repayment obligations default. In its most basic form, default refers to breaking pre-established rules (Selzing et al, 2023). According to (Lamichhane 2022; Chong et al 2021; Tiwari et al 2020) "a loan is delinquent when a payment is late." A delinquent loan becomes a defaulted loan when the chance of recovery becomes minimal. Ogunsanwo et al, (2020) and Sangwan et al (2020) described credit delinquency as the inability of a borrower to fulfill his or her loan obligation when due. An overdue loan obligation usually includes that part of the principal (unpaid) and accrued interest payments stipulated in the loan agreement schedules which were entered into during loan negotiations.

Tesfaye, 2023) defined loan default as a risk threshold that describes the point in the borrower's repayment history where he or she missed at least three installments within 24 months. This definition is consistent with international standards and does not mean that the borrower had entirely stopped paying the loan and therefore been referred to collection or legal processes or that such loans had been classified as bad or doubtful or written off.

Quaye et al (2017) viewed loan default/delinquency as strategic and it occurs when the borrower is better off defaulting rather than repaying the loan. Most scholars (Kassegn & Endris 2022; Sangoro 2021; Witt, 2021) have agreed that agricultural loan delinquency is socially and economically undesirable and requires urgent measures to curb the menace.

1.3. Empirical Review

Mbam et al. (2021) studied smallholder farmers' repayment of a Bank of Agriculture loan in Ebonyi State, Nigeria. Using multiple regression analysis, the results showed that farm size in hectares and annual net farm income accounted for the highest percentage of the variation in repayment by loan beneficiaries.

Choudhury et al (2022) examined perceived risk and willingness to provide loans to smallholder farmers in Ghana. They employed logistic regression analysis and the results show that individual farmers in Ghana are less likely to be successful in obtaining credit than cooperative farmers because they are perceived to be riskier borrowers. Empirical results also support the hypothesis that the interest rate significantly predicts the willingness to loan bias among lending institutions. Similarly, it shows that an increase in loan maturity length reduces the effect of interest rate on the loan risk.

Kassegn & Endris (2022) examine factors affecting loan repayment rate from Amhara Credit and Saving Institutions (ACSI) among smallholder farmers in Habru district, Ethiopia. In this study, both primary and secondary data sources were used. The study employed a combination of multi-stage purposive and stratified sampling techniques in the selection of 384 borrowers from small-holder farmers in the study area. The Tobit model result found that a total of 10 out of the 15 explanatory variables involved in the model were found to be statistically significant. According to the result demographic factors (age and household size), socio-economic factors (educational level, land size, livestock size, non-farm income, purpose of borrowing), and institutional factors (road distance, contact with development agents, training received on loan use) were among the factors that influenced loan repayment rate of small-holder borrowers in the study area.

Miriti et al (2023) aimed to analyze the effect of borrower's socio-economic profile on the AFC loan default rate in agricultural finance corporation, Mount Kenya Region. According to AFC records Mount Kenya region represents a branch network of 11 branches and a population of 3,002 agribusiness borrowers. Using a descriptive research design, a sample of 300 borrowers was drawn from a combined list through a systematic random sampling technique with an interval of ten. Primary data on borrower's socio-economic profile was collected using a structured questionnaire. The data was analyzed using Statistical Packages for Social Sciences (SPSS V.27) and the Stata version. Using regression analysis, the effect of the independent and dependent variables to predict the default rate was estimated. ANOVA was performed to get the F-statistic to test for the adequacy of the regression model. The logit econometric model was used to specify the statistical relationship between the independent variable and AFC loan default. Results of the study revealed that multiple borrowing and borrower-lender distance were significant at 5%. Farming experience, borrowing experience, and off-farm income were significant at 10%, 5%, and 1%. Multiple borrowing and borrower-lender distance were found to have 5.5% and 0.8% associations with default rates, respectively.

Tetteh et al (2021) study sought to empirically examine the determinants of loan non-repayment of credit unions operating within rural communities. 330 customers of thirty-six (36) credit unions in the Eastern Region of Ghana constituted the sample frame. A structured questionnaire was used to solicit data from the respondents. The Logistic Regression method was employed to analyze the hypothesized model. The results identified factors that affect the

probability and extent of loan delinquency in credit unions. These variables pertain to the borrower's, lender's, and loan's attributes. The probability of loan delinquency is influenced by the borrower's number of dependents, education, other sources of income, and the purpose for which the loan is taken. Factors that affect the extent of loan delinquency are the number of other sources of credit available to the borrower, education, Loan monitoring, Prompt loan disbursement, Default signals, Clients' screening, and Loaners' appraisal experience.

Gichuki & Kamau (2022) empirically examine and compare the factors or determinants of financial inclusion in commercial banking institutions, microfinance banks, mobile banking platforms, and table banking groups (informal banking groups) in Kenya. The data used in the study were obtained from 631 small and micro-sized (SMS) farming enterprises in Kenya. We use the probit model to empirically establish the factors that determine the probability of small and micro-sized farming enterprises in accessing agricultural credit from the four major lending institutions. Also, we apply the Heckman selection model to establish the determinants of agricultural credit rationing. The OLS model is used to investigate the determinants of agricultural credit delinquency rates in lending institutions. agricultural credit delinquency in mobile banking is significantly reduced by distance to the banking agent. The availability of mobile banking agencies within village centres would considerably enable agri-entrepreneurs to make credit repayments within the required period.

RL & Mishra (2022) attempts to understand the pattern of credit (loan) among agricultural households and identify the correlates of their access to institutional credit for policy imperatives. It also focuses on the inclusivity of institutional credit and debt patterns in terms of outstanding loans in the southern region of India. This study employs the Tobit model along with the Heckman selection model to study the impact of various factors on institutional borrowing and the amount outstanding. The findings reveal that access to credit is strongly associated with the socio-economic and demographic characteristics of agricultural households in South India. The likelihood that a household will be able to obtain institutional credit is positively correlated with the asset position and size of the holding. Education and family size are also associated with higher access to formal credit. On the other hand, socially disadvantaged households have lower access to formal credit. Similarly, other variables –assets, holding size, and education – are associated with higher credit per household.

Svotwa et al (2020) study sought to establish the determinants of credit demand among farmers in the Hurungwe District of Mashonaland West Province in Zimbabwe. A questionnaire survey was conducted on 354 farmers selected by stratified random sampling. The Direct Elicitation Approach was applied to comprehend the credit demand constraints faced by farmers using frequency statistics. Logistic Regression Analysis and Thematic Analysis were also used for analyzing data. Farmers in Hurungwe District face price (95%), risk (79%) and transaction cost (58%) constraints. Interest rates, collateral, and fear of debt have a negative and significant ($p<0.05$) effect on credit demand. Loan processing time emerged as another key determinant of credit demand among farmers.

Kiros (2022) analyzes the factors affecting loan repayment of MSEs financed by Somali Microfinance institution by considering lender characteristics. Both primary and secondary data were employed. The primary data was collected by distributing questionnaires and through interviews. A total of 175 MSEs were selected using the purposive sampling technique. A variety of Somali microfinance institutions' annual reports as well as those of other relevant organizations provided the secondary data. . Both descriptive analysis and econometric model, which is, binary logistic regression were employed to analyze the effect of the literature-driven variables on loan repayment by MSEs. The econometric model used revealed that among the variables hypothesized to affect loan repayment are loan repayment period, grace period, and timeliness of loan release have statistically significant effects on loan repayment by the MSEs Whereas loan size has a statistically insignificant influence on loan repayment by the MSEs.

Using descriptive and Logit regression analyses, Asom and Ushahemba (2017) studied credit accessibility of rural farmers in Benue State using the Bank of Agriculture (BoA) as a case study. The study findings revealed that rural farmers have a moderate level of accessibility to the BoA loan with a high level of inadequacy in terms of the volume of the loan granted to the farmers, while most of the non-beneficiaries have informal financial institutions as their main source of income. The study also showed that gender, age, marital status, household size, and lending interest rate are among other socio-economic factors that have significant influence on the farmers' access to BoA loans in the study area.

Moreover, a study on the analysis of loan repayment and defaults among beneficiaries of the Bank of Agriculture (BoA) loan scheme in Ogun State by Akerele and Ayodele (2018), revealed that poor weather conditions, late disbursement of loans, marketing problems, delayed in loan approval, short repayment period, lack of business advisory services and high interest rates are the reasons for loan default in BoA loan scheme. In terms of constraints to the BoA loan acquisition, high interest rate, bureaucracy, and inability to provide a guarantor ranked as the main constraints to loan acquisition in the Bank of Agriculture in Ogun State.

Ume et al (2018), as cited in Ahmad 2023) assessed the determinant factors of loan repayment performance among broiler farmers in Enugu State, Nigeria, and found that household size, extension services, membership of the organization, farming experience, educational level, and off-farm income influenced loan repayment positively while high interest rate, low productivity, high collateral, poor loan assessment and changes in bank policy influence loan repayment negatively. Asom, et al, 2023) investigated sources of agricultural credit to small-scale farmers in the Ezeagu Local Government Area of Enugu State, Nigeria. The findings showed that most farmers prefer informal credit to formal credit. They prefer informal sources for easy accessibility, minimal formalities, and timely credit disbursement.

Mustafa, et al (2019) examined the factors affecting the loan repayment performance of banks in Garowe District, Puntland, Somalia. The results showed that loan period and business purpose, educational level, domestic purpose, availability of other sources of income, and social use have a positive significant effect on loan repayment performance.

Selzing et al. (2023) employed logit regression analysis to identify the variables impacting poultry producers' loan default. Four of the nine predictors—household size, income, age, and educational attainment—were statistically significant at various probability levels. According to the respondents' reports regarding the amount of loan repayment, 35% of the farmers made loan repayments and 65% did not.

Okpachu, et al (2017) deployed a regression analytical technique to assess the impact of informal financial institutions on agricultural production in Yobe State, Nigeria. The study showed that the provision of agricultural credit by rural informal financial institutions had enabled rural farmers to increase their production on a larger landholding with increased farm laborers. The study concluded that while periodic contribution and rotational savings positively impacted agricultural production, moneylenders negatively. Summarily farmers are motivated by the credit given to them by informal financial institutions.

1.4. Sources of Credits Acquisition by Rural Farmers in Nigeria.

Two functional sources of finance or credit for rural farmers can be identified: Formal and informal credit markets or institutional and non-institutional financial sources (Sani, 2017; Gbigbi, 2019). Corroborating this, Selzing, et al (2023) stated that other than owned sources, the two main sources of loans available to Nigerian farmers are formal and informal. From another perspective Haruna, et al (2023), in a study categorized sources of microcredit available to groundnut women processors into formal, semi-formal, and informal sources. This seems to agree with that of Silong and Gadanakis (2020) who posit that in Nigeria, the major source of finance available to rural farmers is categorized into three groups, namely; formal, semi-formal, and non-formal credit institutions. However, the semi-formal and non-formal credit sources are further classified as informal credit institutions/markets.

The formal sources of credit acquisition are those that are prescribed by law and are subject to the impact of government directives. They operate in a more structured way, operate under strict and complex rules and conditions for accessing credit, and are deposit-based with the requirement of physical collateral security (Silong and Gadanakis, 2020). Accessing credit from these institutions requires in most cases, customers to have an account with the banks and tangible or intangible collateral security. Deposit Money Banks (DMBs), Insurance Companies, Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB), Microfinance Institutions (MFIs), other Government Agencies, and International Development Agencies and Cooperative Societies are among the Nigerian formal sources of finance relevant to the agricultural sector (Owoeye, 2023). To increase the supply of credits to the Nigerian agricultural sector, the Federal Government of Nigeria implemented several policies such as the Agricultural Credit Guarantee Scheme (ACGS), the Agricultural Credit Support Scheme (ACSS), the Nigerian Agricultural Insurance Corporation (NAIC), the Bank of Agriculture (BoA), Fund for Agricultural Finance in Nigeria (FAFIN), the Commercial Agriculture Credit Scheme (CACS), the Nigeria Incentive-Based Risk Sharing for Agricultural Lending (NIRSAL) among others.

The whole gamut of non-institutional, at times traditional, or indigenous arrangements for savings and credits, which often lack legality and are outside any statutory control constitute the informal financial sector or credit sources. According to Asom et al (2023), informal financial institutions are unregistered, unlicensed, and officially unorganized. Olukosi, et al (2016), see non-institutional or informal credit sources as those that do not have any uniformity in their lending procedures, their interest rate, or their collateral requirements. Loans from such sources are usually made directly to the borrower by the lender and they are prevalent in areas where individuals are quite familiar with and share confidence in one another.

The relevance of informal credit sources, especially as they affect rural farmers cannot be downplayed as formal sources of credit refused to provide financial services to rural farmers due to their stringent conditions for making funds available to farmers as well as lack of access to available loans (Gbigbi 2019). Okoruwa, et al (2020), put it more

concisely that formal financing in Nigeria, in its current form, cannot meet the credit needs of all value chain actors concurrently. A chronicle of informal credit sources abounds in literature. Notable among them are: money lenders, relatives, friends, neighbours, landlords, traders, and groups of individuals that operate mainly in the rural setting (Gbigbi, 2019). Periodic and daily saving are other ways of mobilizing informal credits by rural farmers (Alabi, et al 2023). According to Gbigbi (2020) and Gbigbi (2017), these informal financial institutions are the major providers of credit for the promotion and development of small–scale farmers in the rural areas.

1.5. Causes of Loan Delinquency among Rural Farmers

Several reasons have been adduced for the inability of farmers to repay loans. These are lucidly outlined as follows:

- Borrowers' Attitude: Some crop farmers deliberately refuse to pay loans. Such farmers naturally have a poor credit repayment record and would not just want to repay any credit.
- Loan Diversion: According to Okonta et al. (2023), the majority of rural farmers frequently redirect loans intended for cultivation to other unproductive uses. Sometimes, money borrowed is spent on consumption rather than production or paying for medical costs. Loans being diverted to non-farm ventures have also resulted in loan delinquency, which has reduced income output.
- Natural disasters and calamities: Crop growers' ability to repay credit may be impacted by the high risks and uncertainties they face. Pest and disease outbreaks can significantly lower output, and when combined with low produce prices, they increase the risk of loan delinquency.
- High cost of borrowing: The financial cost of lending to the agriculture sector is further increased by the high interest rates offered by certain unofficial credit sources combined with high transaction costs, which forces these farmers to fall behind on their loans.
- Low literacy level of farmers: Though studies have shown a significant proportion of rural farmers have one form of formal education or the other, the literacy level among them is still very low. Thus the essence of credit may be misunderstood by these farmers, leading to credit diversion and delinquency.
- Untimely release of credit: Credit to farmers by informal sources is either inadequate or not made available when needed for production. Studies have shown that loans released slightly after labour bottle-neck period (land clearing cultivation and weeding) accounted for about 60% of loan diversion to unproductive ventures with poor income generation and hence loan delinquency.
- Absence of loan supervision: The absence of loan supervision is caused by a lack of infrastructure at unofficial credit sources, which makes it difficult to adequately supervise and monitor loans made to farmers. As a result, loans may be used for things other than farming. This results in even more exacerbating debt default.
- Poor producer price: Producers must wait to sell their produce right after harvest in order to get good producer prices. When farmers sell their produce as soon as harvest because they are under financial strain, they will inevitably get very cheap prices, which will lower their revenue and ultimately cause delinquency.
- Perennial farmer-herder clashes: Owoeye (2023) reports that the incessant clashes between farmers and herders had posed a serious threat to loan repayment by rural farmers. These crises led to the destruction of lives and properties such that farmers were forced to abandon their farmland consequently, there was a decline in food production leading to difficulty in loan repayment.

Socio-economic variables such as household size, farm size, age, and level of education among others have also been identified as major determinant factors of loan delinquency among rural farmers. For instance, the marginal effect result for the delinquency model estimated by Quaye, et al (2017) revealed that an increase in farm size by 100 acres decreases the probability of a farmer becoming delinquent by a magnitude of 2.14. Also, a thousand-dollar increase in a farmer's income decreases the probability of becoming delinquent by 0.75. These results were similar to those of Essien, et al (2016) and Selzing et al (2023)

1.6. Constraints Faced by Rural Farmers in Accessing Credit

Rural farming households are bedeviled with various challenges in obtaining credit for their livelihood activities, and such challenges also abound in the literature. Sani, (2017), reports that some sources of informal credit, notably money leaders are often exploitative and charge exorbitant interest rates that further plunge farmers into a financial mess. Olukayode, et al (2023) in their study on factors influencing access to Bank of Agriculture loans among agricultural co-operators in Ogun State, Nigeria observed that a substantial percentage of the respondents accorded high interest rate as the major constraint to the use of BoA loans. Other constraints include bureaucracy, inability to provide the required guarantor, harsh loan recovery methods being used, and untimely disbursement of loans.

According to Owoeye (2023), one of the biggest obstacles to farmers' ability to obtain loans is a lack of sufficient insurance coverage. Because farming entails risks, credit institutions require farmers to have insurance policies before extending credit to them. This is because insurance guards against unforeseen losses. Unfortunately, the majority of farmers who reside in rural areas do not have access to insurance.

Also, the incessant farmers-herders clashes in different parts of the country have further constrained farmers in such areas to access credit as in most cases, their safety is not guaranteed.

An overview of the difficulties faced by borrowers of informal loan sources is given by Gbigbi (2019) and Akporawo, et al. (2022). Several concerns include high loan rates, collateral requirements, short payback periods, distance, short repayment terms, the need for third-party guarantees, lending institutions' discriminatory practices, costly transportation, and a high default rate.

1.7. Consequences of Loan Delinquency

The costs of loan default are borne by both borrowers and lenders. Continuous loan default and delinquency on the part of the lenders may result in loss of interest paid, total opportunity cost of principal, and potentially jeopardize the viability and sustainability of these credit sources because of the shrinkage of the loan portfolio (Achoja, 2020). This has led to the folding up of many credit institutions (formal and informal).

There is also evidence of lenders incurring extra costs in an attempt to explore the possibility of recovering overdue loans such as through litigations. Udoh (2008, as cited in Okonta, et al 2023) puts it precisely that recovering whatever amount in default requires a substantial amount of administrative cost and time.

More so, loan delinquency deprives credit-worthy farmers of the opportunity to enjoy credit facilities as it has caused a considerable reduction in the loanable funds to a greater majority of loan seekers. Buttressing this fact, it was evident from a study on loan delinquency among small farmers in Lagos State that the number of farmers' beneficiaries of the investigated credit programme fell drastically from 803 in 1985 to 185 in 1986 and by 1987, there was evidence that institutional lenders were not willing to grant credit to small farmers (Balogun and Alimi, 2012). Olagunju and Adeyemo (2007) had previously argued that the problem of default in the repayment of agricultural loans is that it is one of the factors that have militated against the development of the agricultural sector in Nigeria because it dampens the willingness of financial institutions to increase lending to the sector.

2. Conclusion and Recommendations

The incidence of informal loan/credit delinquency among rural farmers calls for serious concern judging from the critical role of credit as a major developmental strategy component in developing countries. A review of this incidence, therefore formed the crux of this paper. Information used for the study was mainly from secondary sources such as journals, and periodicals. Findings from the review indicate that cases of credit default/delinquency among smallholder farmers seem to remain unabated. Major determinant factors of credit delinquency observed are farm size, household size, level of education, age, and farm and non-farm income among others. Sources of credit to rural farmers could be formal and informal. These informal sources include money lenders, relatives, friends, and periodic and daily savings. Furthermore, the high cost of borrowing, farmers' attitude, untimely release of loans, lack of loan supervision, credit diversion, and perennial farmer-herder clashes ranked significantly as major causes of loan delinquency among smallholder farmers.

In the light of the above, the following recommendations are derived. Rural farmers should be educated to know the negative consequences of loan delinquency on their farming activities. They should be made to understand that failure to repay money borrowed is tantamount to endangering their means of livelihood.

Orientation should be given to rural farmers to live within the limits of their income and to desist from unnecessary expenditure. This will stem cases of loan diversion.

Appropriate machinery should be put in place by local extension officers to organize rural farmers into cooperatives and where we have existing ones, they should be strengthened with well-defined mechanisms of recouping loans borrowed. Close monitoring and supervision of such loans should be a strategy to ensure loans are put to judicious use for the purpose they are meant.

First and foremost, the government ought to support rural savings and credit initiatives as a supplement to unofficial sources, which frequently fall short of farmers' lending needs. If not completely removed, credit-related interest rates should be drastically reduced. This will make loan payments easier for farmers in rural areas.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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