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Assessment of the Education Background on Perception of Single Digit Interest Rate among Members of Farmers Cooperative in Anambra State

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ABSTRACT

One of the major problems facing the agricultural sector in Nigeria over the years has remained the issue of finance. Due to the high risk inherent in the sector, many financial institutions often time have refused to abide by the CBN policy on agricultural loan. More so, poor infrastructural facilities resulted in the financial institutions operating on a support system which is more expensive and in turn reduce the size of loanable funds in their custody. Thus, the study on the assessment of the education background on the perception of single-digit interest rate among members of farmer's cooperative in Anambra State primarily focused on the socioeconomic profile of farmers, perception of farmers on SDIR, effects of more than one SDIR and factor affecting the actualization of the SDIR in Nigeria. The study used a multi-stage sampling technique to collect data from 160 farmers. Descriptive statistics, ordinary least square regression model and inferential statistics were utilized. Farmers mean age, farm size, and monthly income were found to be 46 years, 2.41ha and ₦25,500.28 respectively. The study evidently revealed the significant relationship between the level of education and perception of SDIR at t-ratio of 3.28*** and a probability level of 1%. Furthermore, some of the factors affecting the actualization of the SDIR were lack of political will to enforce policy, undue political influence, government treasury borrowing from commercial banks at 18% and offloading at 10.5%. Thus, to diversify the oil-based economy, there is a need to implement SDIR in Nigeria especially in the priority sector like agriculture.

KEYWORDS: *Single digit interest rate, Ailing, and moribund, Inflation, Cash reserve ratio*

INTRODUCTION

Over the years, agriculture has remained the highest source of employment, especially in the rural areas. Due to the recent fall in crude price at the international market, there is an urgent need for Nigeria to diversify her economy. Nigeria as a nation, being blessed with numerous national resources cannot play down on the importance of the agricultural sector.

Ogbeh in Ujah (2018) assert that no nation can be great without being able to feed its people.

Before the discovery of oil in the 60(s), Nigeria earned about 60% of her gross domestic product (GDP) from agricultural sector sub-divided into crop production, livestock, fisheries, and forestry. Since the decline of agricultural contribution to the GDP, it only witnessed all-time maximum of 29.15% in the fourth quarter of 2018. Central Bank of Nigeria (CNB, 2018) attributed these contributions to the Federal Government efforts to revive the ailing and moribund agricultural sector. Thus, the need to increase agricultural financing through various credit institutions and programs in Nigeria cannot be overemphasized.

Ibrahim *et al.* (2015) noted that Nigeria's effort to diversify her oil economy is placing much emphasis on financing agricultural sector since the sector is the largest in terms of its share in employment and its potential to stimulate growth through the provision of raw materials, foods, jobs, and increased financial stability. Therefore, Anyanwu (2004) suggested that availability of credit affects economic growth, stabilization, and decline in the economic system. This decline in agricultural credit bestowed more responsibility on government financiers, farmers and other stakeholders to intensify their efforts on agricultural financing. Obtaining these credits most times may not be an issue but the cost (interest rate) associated with these credits is a matter of concern to policymakers.

Bosire., Mugo, Owuor, Oluoch, *et al.* (2014) suggested that interest rate is a percentage charged for the use of borrowed money. It is the amount received in relation to the amount loaned. Lending institutions give out money in terms of loans on which they charge a percentage as interest payment. On the other hand, savers lend to the institutions in terms of deposits from which they expect to receive a percentage payment as interest. Therefore, Interest rates include the

rates paid for deposits (deposit rate) and the rates charged on loans (lending rate) for a given time period (Ngugi and Wambua, 2004). Kim and Shi (2018) noted that the interest rate depends on both the lending and deposit rate, which explains the behaviour of inflation and money growth rate in an economy. In a similar manner, Onuba (2018) supported that interest rate is dependent on credit demand and supply in an economy.

According to Villalpando and Guerrero (2007), the interest rate is dependent on bank size, bank liquidity, and excess capital management and efficiency. Villalpando *et al.* (2007) tested the lending rate with 13 banks in Mexico and found that banks with large loan portfolio charge lower interest. Gambacorta (2008) concludes that the interest rate is higher when banks invest in riskier projects in which agricultural sector is not an exception.

Not minding that agricultural sector suffers more from uncertainty in its business, high-interest rate equally increased the number of loan defaulters. These, therefore, call for the need to facilitate the single digit interest rate in Nigeria. Ogbeh in Ujah (2018) opined that a single digit interest rate will support and stabilize agricultural growth and increase food production. Thus, Itsibor (2018) assert that commercial banks should reduce their cost structure and expectation on profit, the government should reduce their internal borrowing, CBN should look into the demand and supply side of credit in the market, CBN should reduce sterilization pressure on the bank for every deposit and equally reduce the cash reserve ratio. Onuba (2018) noted that, since government treasury borrows at 18% from commercial banks and offload at 10.5%, this will continue to affect the realization of a single interest rate.

Habibur *et al*. (2019) highlighted some factors affecting lending and deposit rate in Bangladesh as cost of fund, regulatory compliance, demand – supply of loanable money, operating expenses, the risk associated with loan payback, inflation outlook, cash reserve ratio, and liquidity position of banks. On the other hand, Bosire *et al.* (2014) noted that factors influencing lending rate among commercial banks were: high cash reserve, contribution to the deposit protection fund, poor and unreliable infrastructure which force the banks to invest heavily on support system, low level of business volume and poor intermediation to bank concentration on financing government securities, and high risk of premium on lending due to uncertainty created by lack of policy and inconsistency, and high transaction cost due to institutional weakness.

Single digit interest rate will help to revive the ailing and moribund agricultural sector, reduce farmers fear to obtain loan from the credit institution. Habibur *et al.* 2019) further advised that the cost of the fund should be reduced, enhance institutional efficiency, reduce dependence on interest income, and lower lending rate to priority sectors such as agricultural sector. Thus, the study seeks to specifically:

1. identify the socioeconomic profile of the farmers,
2. ascertain the farmer's perception on single digit interest rate (SDIR),
3. determine the effects of more than SDIR in the Nigeria economy, and
4. understand the factor affecting the actualization of SDIR in Nigeria.

Null Hypothesis (Ho)

Farmer's perception on single digit interest rate is not significantly related to their educational qualifications.

RESEARCH METHODOLOGY

The Study Area

Anambra state is in Southeastern Nigeria comprising of 21 (Aguata, Awka North, Awka South, Anambra East, Anambra West, Anaocha, Ayamelum, Dunukofia, Ekwusigo, Idemili North, Idemili South, Ihiala, Njikoka, Nnewi North, Nnewi South, Ogbaru, Onitsha North, Onitsha South, Orumba North, Orumba South and Oyi) local government area, sub-divided into 4 (Aguata, Awka, Anambra, and Onitsha) agricultural zones to aid planning and rural development. The state administrative headquarter is located in Awka. It has a population of 4055,048 persons and a land area of 4,844km^2 (NPC. 2006). The state is equally situated on latitude 6^o.27'.58'' N and Longitude 7^o.00'.68" E.

Sampling Procedure and Method of Data Collection

The list of members of farmers' cooperative was made available by the state ministry of agriculture. Multi-staged random sampling technique and a well-structured questionnaire were used to collect data from the study representatives. In stage one: 1 local government area (LGA) was selected from each of the 4 agricultural zones in the state, from which 2 communities and 2 villages were randomly selected from each LGA to make it a total of 16 villages respectively. Furthermore, 10 farmers were randomly sampled from each village, this brought the sample size to 160 respondents for the study.

METHOD OF DATA ANALYSIS

A combination of analytical tools which included; descriptive statistics, Ordinary Least Square regression (OLS) model and inferential statistics were used to analyze the data collected. The four objectives were achieved with a descriptive statistic, but objective 2, 3 and 4 were further subjected to the mean threshold of a 5-point Likert scale. The t-ratio from the OLS regression was used to ascertain the significance of null hypothesis one. Thus, the model is stated as follows:

A. Descriptive statistics:

$$\overline{X} = \sum \frac{FX}{n} \ldots\ldots Eqn.\ 1$$

Where; $\overline{X}$ = mean, X = variable outcome, n = sample size, and F = frequency.

B. The mean threshold of 5 Point Likert Scale for objective 3 was stated thus;

$$\overline{X} = \frac{1+2+3+4+5}{5} = 3.0 \ldots\ldots Eqn.\ 2$$

Whe

re: $\overline{X}$ = Mean threshold ($\geq$ 3.0 = Agreed, < 3 = Disagreed), but 5 = Strongly agreed, 4 = Agreed, 3 = Somewhat agreed, 2 = Disagreed, and 1 = Strongly disagreed.

C. The OLS was implicitly stated as:

$$\%PC = f(Edu, e) \ldots\ldots Eqn.\ 3$$

where: %PC = % of perception, and Edu = years of formal learning.

RESULTS AND DISCUSSIONS

Socioeconomic Profile of Members of Farmers' Cooperative in Anambra State

Findings on the socioeconomic profile of members of farmers' cooperative in table 1 revealed that the majority (72.5%) of the study representative were female, while 58.8% of the study representatives were married. The study equally found out that, the mean age, farming experience, household size, monthly income, and farm size were 46 years, 14 years, 7 persons, ₦25500.28, and 2.41ha respectively. 46 years as the mean age, therefore, suggested that members of farmer's cooperative in Anambra state are relatively young and active. Interestingly, majority of the farmers attended secondary school. Thus, their level of perception on a single digit interest rate is expected to be high since its usually taught at the secondary level of education in Nigeria.

Table 1: Socioeconomic Profile of Members of Farmers' Cooperative in Anambra State.

S. N	Variable	Frequency	Percentage (%)	Mean
1	**Sex**			
	Male	44	27.5	
	Female	116	72.5	
2	**Marital Status**			
	Single	44	27.5	
	Married	94	58.8	
	Widow	22	13.8	
3	**Age (Years)**			
	<= 18	7	4.4	
	19 – 35	37	23.1	**46.1**
	36 – 52	47	29.4	
	52 – 67	44	27.5	
	68 and above	25	15.6	
4	**Level of Education**			
	Primary	47	29.4	
	Secondary	91	56.9	
	Tertiary	22	13.8	
5	**Farming Experience (Years)**			
	6 – 10	44	27.5	**14.09**
	11 – 15	47	29.4	
	16 – 20	44	27.5	
6	**Household Size (No)**			
	<= 5	47	29.4	
	6 – 10	25	15.6	**7.08**
	11 – 15	66	41.3	
	16 and above	22	13.8	
7	**Monthly Income (₦)**			
	<= 20,000	72	45.0	
	20,001 - 30,000	66	41.3	**25500.28**
	40,001 - 50,000	22	13.8	
	50,001 and above	-	0	
8	**Farm Size (ha)**			
	<= 2	116	72.5	**2.41**
	3 – 5	22	13.8	
	6 and above	22	13.8	

Source: Field Survey Data, 2019.

Farmer's Perception of Single Digit Interest rate

The perception of members of farmer's cooperative on a single digit interest rate were captured on a 5-point Likert scale and the mean threshold of their responses was ascertained. Table 2 had a cluster mean of 3.43, which suggested that the farmer's perceptions on SDIR are in-line with the objectives of single-digit interest rate as opined by Central Bank of Nigeria (CBN, 2018). Based on the 10 items of perception captured, only 6 (it will reduce loan default, it will reduce farmers dependence on government input subsidy, it will increase investment in agricultural sectors, it will increase farmers purchasing power, it will help to revive ailing and moribund Agric. sector, and it will lead to food availability) had a mean threshold of 3.0. This low perception could be attributed to the farmer's level of education.

Table 2: Farmers Perception of Single Digit Interest rate

SN	Perception	Mean threshold	Std. Dev.	% perception	Decision
1	Will reduction in loan default	4.43	0.7235	88.63	Agreed
2	Will reduce farmers dependence on government input subsidy	4.16	0.6398	83.12	Agreed
3	Will encourage agricultural commercialization	2.57	0.4968	51.38	Disagreed

4	Will increase investment in agricultural sectors	3.14	0.8202	62.75	Agreed
5	Will encourage more youth influx in agriculture	2.84	0.6398	56.88	Disagreed
6	Create rural employment	2.88	1.4682	57.63	Disagreed
7	Will increase farmers purchasing power	4.29	0.6968	85.87	Agreed
8	It will attract local fabricators	2.86	0.3455	57.25	Disagreed
9	Will help to revive ailing and moribund Agric. sector	3.59	0.7472	71.75	Agreed
10	It will lead to food availability	3.57	0.7492	71.38	Agreed
	Cluster mean	**3.43**		**68.66**	**Agreed**

Source: Field Survey Data, 2019.

Effect of more than a Single Digit Interest Rate

The effect of more than a SDIR was captured on a 5-point Likert scale and the mean threshold of farmer's responses was identified. Table 3 had a cluster mean of 3.41, which suggested that more than a single digit interest rate has effects in the economy of Nigeria. Based on the 7 items of the effect of more than a SDIR captured, 6 (low demand of credit from a financial institution, the low influx of investors in Agric. sector, increased dependency on government input subsidies, an inadequate fund to purchase farm machines, high cost of labour due to dependence on manual labour, and slow entrant of local fabricators into the sector) had the mean threshold of 3.0.

Table 3: Effect of more than a Single Digit Interest Rate

SN	Perceived Effects	Mean threshold	Std. Dev.	Percentage (%)
1	Low demand for credit from a financial institution	3.57	0.7492	71.38
2	The low influx of investors in Agric. sector	3.98	1.3245	79.63
3	Increased dependency on government input subsidies	3.45	0.7507	69.00
4	Inadequate fund to purchase farm machines	3.41	0.7215	68.25
5	High cost of labour due to dependence on manual labour	3.41	1.0544	68.25
6	Slow entrant of local fabricators into the sector	3.45	1.0569	69.00
7	Increased loan defaulters	2.57	1.1635	51.38
	Cluster mean	**3.41**		**68.13**

Source: Field Survey Data, 2019.

Factors Affecting the Actualization of SDIR in Nigeria

Factors affecting the actualization of SDIR were captured on a 5-point Likert scale and the mean threshold of farmer's responses was observed. Table 4 had a cluster mean of 3.42, which suggested that a number of factors are affecting the actualization of SDIR in Nigeria. Based on the 11 items of factors affecting the actualization of SDIR captured, 8 (lack of government will to enforce policy, high demand on foreign currency, undue political influence, instability of the naira and Nigeria economy, over-dependence on oil economy, poor infrastructure which cause banks to operate on support system, Government treasury borrowing at 18%, and risk & uncertainty associated with agriculture) had the mean threshold of 3.0.

Table 4: Factors Affecting the Actualization of SDIR in Nigeria.

Sn	Factors affecting SDIR	Mean threshold	Std. Dev.	Perc. (%)
1	High CBN cash reserve ratio	2.14	0.3454	42.75
2	Lack of government will to enforce policy	4.86	0.3455	97.25
3	Rate of inflation	2.86	0.3455	57.25
4	High demand on foreign currency	3.43	1.4081	68.624
5	Undue political influence	5.00	0.0000	100
6	Instability of the naira and Nigeria economy	3.16	0.8283	63.124
7	Over dependence on oil economy	3.73	0.4479	74.5
8	Poor infrastructure which causes banks to operate on a support system	3.71	1.4904	74.126
9	Government treasury borrowing at 18%	3.29	0.8731	65.874
10	Risk and uncertainty associated with agriculture	3.28	0.4479	65.5
11	Banks liquidity position	2.14	.62934	42.75
	Cluster mean	**3.42**		**68.34**

Source: Field Survey Data, 2019.

Farmer's perception on single digit interest rate is not significantly related to their educational qualifications.

The coefficient of multiple determinant (R^2 = 0.6370) is an indication that 63.70% variation in perception of SDIR among members of farmer's cooperative was explained by the action of the number of years the farmers spent in formal education, while the remaining 36.30% was as a result of error beyond the control of the farmers.

The coefficient of years of formal education was positive and significant at 1% level of probability, which implies that a unit increase in the number of years the farmers spent in acquiring formal education will increase their perception of SDIR by 40.48%. Thus, the null hypothesis should be rejected since the result evident showed the relationship between education level and perception of SDIR in table 5.

Table 5: Farmer's perception on single digit interest rate is not significantly related to their educational qualifications.

Variable	Coefficient	Std. Err.	T	P>|t|	F
Intercept	64.38142	1.370547	46.97	0.000	10.76***
Years of formal education	0.40478	0.123387	3.28***	0.001	
R^2	0.6370				
N	160				

Source: Field Survey Data, 2019. * Significant at 10%, ** Significant at 5% and *** Significant at 1%.

Conclusion

Effects of single-digit interest rate in the Nigeria economy cannot be overemphasized. It has been evidently proven by the research that SDIR will help to revive the ailing and moribund agricultural sector in Nigeria. Thus, there is a need for the federal government though CBN to enforce its implementation.

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