IOSR Journal of Agriculture and Veterinary Science (IOSR-JAVS)
e-ISSN: 2319-2380, p-ISSN: 2319-2372. Volume 10, Issue 8 Ver. II (August 2017), PP 13-21
www.iosrjournals.org

Performance of rural credit market in Eket Agricultural zone of Akwa Ibom State, Nigeria.

Ajah E.A*., Ofem U.I.and Udom U.I
Department of Agricultural Economics, University of Calabar, Calabar. Nigeria.
Corresponding Author: Ajah E.A.

Abstract: *Despite the attempt of increasing credit market, lack of credit has remained a limiting factor to improving agricultural production. Low adoption rate which is an impediment to this approach is mainly caused by insufficient credit. This study was conceptualized to analyze rural credit market performance in Eket Agricultural zone of Akwa Ibom State. Specifically the study identified the socio economic characteristics of the respondents, analyzed factors that determined credit demand and supply and constraints faced by the participants in the credit market. Multi-stage sampling techniques were adopted in selecting 60 credit users and 30 informal credit sources from 4 villages in the zone. Primary data were collected from the respondents through the use of structured questionnaire. The data were analyzed using descriptive and inferential statistics such as frequency count, mean, percentages and multiple regression analysis. The result of the analysis revealed that 55.33% of the respondents were female with an average age of 41.7 years. One third (31. 67%) of the respondents had completed Ordinary National Diploma (OND). The mean annual income of the respondents was ₦268, 700. The factors that determined credit demand were annual income, interest paid, and sex of the respondent whereas credit demand, interest rate and surety determined credit supply. The major constraints faced by the participant in the credit market were high interest charged to those who demand for credit and delay in loan repayment to those who supply credit. In line with the findings of this study, it was recommended that high rate of interest charge by credit suppliers should be reduced. Annual income was an important factor influencing credit demand and use. Therefore rural dwellers should be taught ways of increasing their annual income as this will increase their demand and use of credit.*

Key words*: Credit market, demand, supply and Eket Agricultural zone*

Date of Submission: 24-02-2017 Date of acceptance: 25-08-2017

I. Introduction

Irrespective of the extensive role played by the oil sector of the economy, agriculture still occupies a strategic position in the Nigerian economy. However it is characterized by a multitude of small scale farmers scattered over wide expanse of land area, with small holding ranging from 0.05 to 3.0 hectares per farm land, rudimentary farming systems and tools, low capitalization and low yield per hectare, leading to gross inadequacy of food (Ogundari and Ojo, 2007; Nwaru *et al.,* 2011) . In agriculture as in commerce industry, credit is needed to overcome shortage in capital. Lack of capital and too little capital are major problems facing many farmers in various countries. These problems are more acute in underdeveloped countries like Nigeria where income is generally low and contributes relatively to the building up of capital through saving (Nwaru *et al*., 2011). The above problems prompted the establishment of credit institutions charged with the responsibility of providing credit to farmers.

Rural credit markets are aimed at placing credit facilities at reasonable term within the reach of rural dwellers, increasing productivity of rural sectors, promoting and expanding the rural economy in an orderly and effective manner. Rural credit markets are made up of formal sector (banks, credit unions, cooperative society and the informal sector (rotating credit and saving association).

The existing credit demand and supply, particularly in the informal sector has played a significant role in the supply of credit to small scale farmers. However, despite the attempt of increasing credit market, lack of credit has remained a limiting factor to improving agricultural production. Low adoption rate which is an impediment to this approach is mainly caused by insufficient capital.

Over the years credit has been an important policy instrument aimed at promoting production and the use of modern technologies (Nwaru, 2004). Credit is not merely a tool to increase productivity and raise farm income; it is also to fulfill the social function of enhancing the lives and welfare of rural people (Walt, 1987; Musugi, 2002; and Nwaru, *et al.,* 2011). In developing countries, several efforts are being made to establish modern financial institution to assist rural people, enhance their productivity and income earning capacity. Credit is necessary for agricultural growth and development. However, government approach to preferential

interest rate has limited the amount of credit available to the rural people. Other problems are bureaucratic bottle necks, criterion of credit worthiness as well as delay in loan processing and disbursement. The existing credit policy has resulted in great disparity between credit demand and credit supply (Bime & Mbanason, 2011; Angyre, 2004; and Ajah *et al.,* 2013).

The rural communities in Nigeria in general and Eket agricultural zone in particular is dominated by smallholder farmers , traders and artisans who operate mainly within the limits of their highly insufficient resources which tend to constrain their capacity to employ most recommended improved technologies (Awoke, 2002). However the government of Nigeria over the years has established rural credit schemes to provide credit to rural people. Despite these initiatives there are still indications that these attempts have limited effects. In view of this, it was thought necessary to analyze the factors influencing credit demand and credit supply and the constraints faced by the participants in the rural credit markets.

The relevance of this study is underpinned by the fact that there seems to be a gap in knowledge existing in the area of this subject matter in relation to the study area. Therefore, this study was conceived to fill this perceived gap in knowledge as a contribution towards effective policy formulation.

II. Review Of Related Literature

Bime & Mbanasor (2011) in their study on performance of rural credit market in North West province of Cameroon, result showed that age, educational level of farmers, interest payment, farm size and personal income are the factors that influence credit demand. Educational level of the farmers, age, family size, initial capital, asset, location to the source were significantly influenced by credit demand (Ajabe *et al.,* 2012).

Nwaru (2004) examined rural credit markets and resource use in arable crop production in Imo state, Nigeria, using multiple regression analysis by the two stage least squares. The result revealed that credit demand was significantly influenced by interest rate, educational level of farmer, amount borrowed previously, farm size and gross savings. Using a *probit* model to study the determinants of demand for credit Dutta & Magabich (2004) reported that individual characteristics, household characteristics, repayment ability, were variables that reflect individuals ability to secure a loan and other factors affecting the individual decision such as having religious belief, application cost, availability of mediator were the factors that influence farmers demand for credit. Mbah (2009) examined the impact of credit utilization on the productivity of small scale farmers, the result showed that farm size, input cost, credit supply and farmers income are the factors that influence credit demand. Using a two stage least square method of multiple regression analysis to study the determinants of credit demand and credit supply among food crop farmers in Akwa Ibom State Nwaru *et al.,* (2011) revealed that farm income, education and interest rate were significant in determining credit demand although interest rate has a negative sign suggesting that the higher the interest rate the lower the credit demand. Udoh (2005) carried out a study on the demand and control of credit from informal sources by rice producing women in Akwa Ibom state. The result revealed that, total farm expenditure was the most important demand shifter followed by personal income, with the least being experienced. However with regards to direction of relationship personal income, education, spouse income and interest rate have inverse relationship with the amount of credit collected by women.

According to Bime & Mbanason (2011) their result showed that income of the farmers, lending cost, interest, worth of loan, previous loan received and source of loan are significant in determining credit supply.

Ike and Abojei (2009) in their study on the impact of credit utilization on small scale farmers also identify the factors that influence credit supply to be educational level, processing cost, delay in loan disbursement, political interference and change in the administration of loan disbursing authority and educational attainment. Result also revealed that completion of application form was lengthy and complex. The requirement of feasibility was also difficult task for intending beneficiaries of the loan, a situation where illiteracy level was very high it is expected that this factors will constitute a great boundaries or hindrance to the acquisition of loans. Bureaucracy procedure involved in processing loans which include completion of complex form and pre – audit of the farmers who were in most cases illiterate leads to delay in credit supply. Nwaru, (2004) asserted that gross income of lender, total cost of lending, source of loan (whether formal or informal) worth of loan application and previous loan repayment were significant in determining credit supply.

Furthermore Nwaru *et al.,* (2011) reported that liquidity, experience in lending, interest amount, gender were significant in determining the amount of credit supply.

III. Methodology

Description of the Study Area The study was conducted in Akwa Ibom State which is located at latitude $4^0$33 and $5^0$33N and longitude $7^0$25 and $8^0$25E. It occupies a total land area of 7,246 square kilometers with a population of 3,920,208 million people (NPC, 2006). The state is bounded on the east by Cross River State, on the west by River State and Abia State, and on the south by the Atlantic Ocean Akwa Ibom State is predominantly an Ibibio speaking Annang and Oron community. It is found in the rain forest belt of Nigeria

which is characterized by luxuriant vegetable growth, the annual rainfall ranges from 2000 – 3000 mm per annum with a temperature of 25 -35^{0}C and which favour cassava production. The planting period is usually between March and October (AKADEP, 1990).

The topography of the area is highly undulating with loss of stream which helps to check excessive run off, hence the area is well drained with reduced cases of erosion problem. The soil is dominated by utisoil which are well drained, highly weathered with deep profile, strongly acidic and fertile (AKADEP, 1990). The physical and chemical characteristic of the soil make it adequate and hence favor the production of variety of crops. The soil is generally made up of sandy loam and other crops grown in the study area include plantain, banana, yam, cocoyam, maize, melon, vegetable and oil palm. There are often peak periods of financial need in most of these business cycles. At such times, people usually make request for credit (Kolajo, 1993).

There are thirty one local government areas in Akwa Ibom State and six agricultural development programme (ADP) zones namely; Oron, Abak, Ikot Ekpene, Etinan, Eket, and Uyo.

Population of the Study

The population of the study comprised of the entire households heads that demanded for credit and received credit in Eket agricultural zone as well as institutions that supplied credit.

Sampling Procedure

Multistage sampling techniques were adopted for the study. In the first stage Eket agricultural zone was randomly selected out of the six agricultural zones in Akwa Ibom State. In the second stage two local government areas were randomly selected in Eket agricultural zone, these were Ikot Abasi and Eket. In the third stage two communities each were randomly selected from the two local government areas which gave a total number of four communities. In the third stage 10% of the total household heads in each community were selected (of those who demanded and received credit) giving a total of 60 household heads that were used in the study. Informal credit institutions were also selected based on the number available in the area. Thirty informal credit institutions were sampled.

Table 1: Table showing no of communities Sampled

L.G.A	No of Household	Percentage
1. Eket		
IdimAfia	160	16
Ofriyo	240	24
2. Ikot Abasi		
Umeneke I	120	12
Umeneke II	80	8
Total	**600**	**60**

Source: Field survey, 2014

This was done in proportion to size to avoid biased.

3.3 Method of data collection

Data were obtained from primary source through the use of structured questionnaire; two sets of questionnaires were administered. One was administered to the household heads in the sampled households and the other administered to heads of credit institutions who supplied credit.

3.4 Analytical techniques

Objectives (1) and (4) were analyzed using descriptive statistics, objective (2) and (3) were analyzed using the multiple regression analysis.(ordinary least square OLS).

a. The implicit model for credit demand is given as $C_d = (x_1, x_2, x_3, x_4, x_5\ x_6\ , x_7$ and u) where;

C_d= Credit demand (amount of loan received).

X_1 = annual income

X_2 = interest paid

X_3 = age

X_4 = education

X_5 = household size

X_6 = distance

X_7 = sex (1 = male, 0 = female)

Where C_d is the total number of money the borrowers received in naira. X_1 is annual income measured by total amount of money earned by the household head per year.X_2 is interest amount, measured by the total amount the respondent paid as interest charges on money borrowed. X_3 is the age of the respondents, measured in years,

X_4 educational level which is measured by the years of schooling, X_5 is household size, describing the number of people living with the farmer and whose responsibility he bears. X_6 is distance from source of credit to home of the respondents, measured in kilometer .X_7 is sex, is defined as unity for male farmers and zero otherwise. These variables are similar to those of Nwaru *et al.* (2012), Bime and Mbanasor (2011).

b. The implicit model for credit supply is given as $B_S = (A_1, A_2, A_3, A_4, A_5 u)$
Where Bs = Credit supply
A_1 = credit demand
A_2 = gross income
A_3 = surety
A_4 = interest received
A_5 = experience in lending
B_S is credit supply; measured by the total amount of money the lender was willing to make available for borrowing. A_1 is credit demanded, measured by total amount the person applied for whether or not he was given. A_2 is gross income measured by total amount of money owned by moneylenders. A_3 is provision of a surety or guarantor for loan (binary; unity for surety or guarantor was considered and zero otherwise). A_4 is interest received by the institution for providing credit (is the total amount the lender received as interest charges on money lent. A_5 is the experience in lending measured by the number of years the lender has been in business of lending.
These variables are similar to those of Nwaru *et al.,* (2012) and Bime and Mbanasor (2011).

IV. Results And Discussion

Socio- economic characteristics of the respondents

This study included 60 respondents, most of them were females. Table 2 shows the distribution of respondents based on sex, as shown in the table, 53.33 % of the respondent were females and 46.67% were males. From the result, it shows that women were actively involved in agricultural production and uses credit to finance their businesses.
The mean age of the respondents was 41.7 years as presented in the table.

The educational level of the respondents presented in the table showed that the highest proportion of the respondent 31.67% had completed OND .The result showed that most of the respondent could read and write and so could fill the basic forms to request for loan. Similarly, the level of literacy attained by the borrowers suggests that they were capable of understanding the rules and procedures of acquiring and using loans.
The result of the study showed that 46.67% of the respondents have household size from 6 – 10 and the mean household size for the respondent was 6 persons. The mean annual income of the respondents was ₦268, 700 naira.
Only a small percentage (33.33%) had farming as their primary occupation.
While 20 .00 % and 16.67% had trading and teaching as their primary occupation, 16.67 and 5% had tailoring and nursing while 8.33% were hair dressers.
From the result, it can be seen that as farmers work both on and off farm. This could increase their income and enable them to repay loans as at when due.

Table 2: Socio – economic characteristics of the respondents

Sex	**Freq.**	**Percentages**
Female	32	53.33
Male	28	46.67
Total	**60**	**100**
Age (**years**)		
21 – 30	10	16.67
31 – 40	18	30
41 – 50	17	28.33
51 – 60	15	25
Total	**60**	**100**
Mean 41.7		
Educational		
No education (0 year)	8	13.33
Completed primary school (6 years)	10	16.67
Completed secondary school (12 years)	7	11.67

OND (14 years)	19	31.67
BS.c/HND (16 years)	16	26.67
Total	**60**	**100**
Householdsize		
1 – 5	29	48.33
6 – 10	28	46.67
11 – 15	3	5
Total	**60**	**100**
Mean6.0		

Table 2: Socio – economic characteristics of the respondents continued

	6	10.0
Income	6	10.0
1000 – 100,000	11	18.33
10,1000 – 200,000	9	15.0
20,1000 – 300,000	20	33.33
30,1000 – 400,000	8	13.33
40,1000 – 500,000	**60**	**100**
Above 500,000		
Total		
Mean 268, 700 naira		
PRIMARY OCCUPATION		
Farmer	20	33.33
Trading	12	20
Teaching	10	16.67
Tailoring	10	16.67
Nursing	3	5
Hair dresser	5	8.33
Total	**60**	**100**

Source: Field survey 2014

Table 3 shows that majority of the respondent (66.67%) received loan ranging from 1000 – 100,000. Only 1.67 % received loan ranging from 301000- 400,000. The mean loan amount was ₦123,533 naira.

Table 3: Amount of loan received by the respondents

Loan amount in thousand naira	Frequency	%
1 – 100	43	66.67
101 – 300	9	15
301 – 400	1	1.67
401 – 500	3	5.0
501 – 600	4	6.67
Above 600	3	5.0
Total	60	100
Mean	123,500	

Source: field survey, 2014

Table 4 shows loan source by the respondents. As can be seen from the table below, close to half of the respondents demanded and received loan from cooperatives / credit societies, while 30 % received from church/ village organization. Only about 6.66% of the total respondents received from individual money lenders. This is because money lenders charge very high interest rate and as such, discouraged individuals from patronizing them.

Table 4: Distribution of the respondent according to loan source

Source of loan	Frequency	%
credit society	25	41.67
Village organization /Church organization	30	30
Individual lender	5	6.66
Total	60	100

Source: field survey, 2014

Determinants of Credit Demand

The multiple regression analysis was carried out to determine the factors which influence credit demand. Four functional forms were tried; linear, semi logarithms, exponential and the double logarithms functions. The result of the estimations of credit demand is presented in table 5. The linear functional form was found to be the lead equation of the regression. It was best in terms of coefficient of determination (R^2), Adjusted R^2, statistical significance of the estimated regression coefficients and the expected sign of the regression coefficients. The regression result had and F value of 25.682 and is significant at 1% level, implying that the joint effects of all the included variables were significant. The coefficient of determination R^2 was 0.776 (Adjusted R^2 = 0.745). This implies that the included variables explained about 77% of the total variation for the determinant of credit demand.

The regression estimates indicated that three variables viz; annual income, interest paid and sex were statistically significant. The coefficient of annual income was 0.187 and statistically significant at 5% level and in conformity with the *a priori* expectations; it had a positive sign this implies that a unit increase in annual income would lead to increase in credit demand by 0.187. Moreover, lenders would prefer to grant credit facilities to those whose income is high because there have higher chances of repaying the loan. Increase in income would lead to increase in savings which could be re- invested leading to increased business activities and a concomitant increase in credit demand. This study is in line with the study carried out by Nwaru *et al*., (2011) who reported a positive and significant relationship between credit demand and income and contrary to work done by Udoh (2005) who reported a negative significant relationship between income and credit demand.

The coefficient of interest paid was 0.727and was positively significant at 1% and directly related to the amount of credit demanded. This implies that a unit increase in interest rate charged by informal credit sectors will lead to an increase demand for credit by 0.727. The result was contrary to *a priori* expectations. The possible reason for this is that rural people put up with high interest rate because their primary consideration is timeliness and flexibility and also to meet with their day to day financial obligations (Musugi, 2002). This result is in line with the findings of Bime &Mbanasor (2011).

The coefficient of sex was 0.139 and is significant at 5 percent and directly related to the amount of credit demand. This Implies that males demand for more credit than females. This could be because of high risk involved.

Table 5: Determinants of credit demand

VARIABLE	LINEAR +	SEMI LOG	DOUBLE LOG	EXPONENTIAL
CONSTANT	73874.469 (0.435)	-473484.5 (-0.461)	5.551 (2.138) **	9.650 (13.239) ***
ANNUAL INCOME	0.187 (2.252)**	0.488 (3.441)***	0.363 (2.832)***	0.044 (0.345)
INTEREST PAID	0.727 (9.100)***	0.82 (0.661)	0.338 (3.003)***	0.521 (4.246)
AGE	-0.051 (-0.696)	-0.300 (-2.444)**	-0.091 (-0.822)	0.137 (1.210)
EDUCATION	0.081 (0.239)	-0.112 (-0.771)	0.072 (0.548)	0.303 (2.554)***
HOUSEHOLD SIZE	-0.012 (-0.160)	0.142 (1.162)	0.021 (0.186)	-0.095 (-0.858)
DISTANCE	0.005 (.070)	0.028 (0.234)	0.144 (1.343)	0.070 (0.665)
SEX	0.139 (1.954)**	0.148 (1.221)	0.145 (1.343)	0.113 (1.035)

R^2	0.776	0.351	0.470	0.470
ADJUSTED R^2	0.745	0.264	0.399	0.399
F – RATIO	25.682***	4.018***	6.436***	6.584***
N	60	60	60	60

Source: Data analysis, 2015.
Figures in bracket are t-values
***, **, * are significant levels at 1%, 5% & 10% respectively.
+ = Lead Equation

4.3 Determinants of Credit Supply

The ordinary least squares (OLS) regression analysis was carried out to determine factors which influence credit supply. Four functional forms were tried; linear, semi logarithms, exponential and the double logarithms functions .The result of the estimations of credit supply is presented in table 6. The double log form was found to be the lead equation of the regression .It was best in terms of the coefficient of determination (R^2) adjusted R^2, F- value, statistical significance of the estimated regression coefficients, the expected signs of the regression coefficients and standard error. The coefficient of determination (R^2) was 0.938 (Adjusted R^2 = 0.925). This implies that the included variables were able to explain about 93% of the total variation for determinant of credit supply. The f-value was 72.962 and is significant at one percent level, implying that the joint effect of the all the included variable were significant, therefore the null hypothesis was rejected. From the result for credit supply, out of five variables, three variables were significant. The variables were credit demand, surety, and interest rate. The amount of credit demand was significant at 1% and directly related to credit supply in conformity with *a priori* expectation. This implies that as loan demanded increases, supply of credit also increases. The result in line with studies carried out by Bime and Mbanasor (2011).

The coefficient of surety was significant at 5% and is indirectly related to the amount of credit supply this implies that the lesser the surety the more credit will be supply. This is contrary to *a priori* expectation. This may be due to the fact that most credit institutions supply credit to their old members or customers so they do not really demand for surety before the credit is approved except the new customers.

The coefficient of interest rate was significant at 5% and had a direct relationship with credit supply in conformity with *a priori* expectation. This implies that the more interest received the more credit the institution will be willing to supply. Interest is usually the price tag on money borrowed.

Table 6: Determinants of Credit Supply

Variables	Linear	Semi log	Double log +	Exponential
Constant	409681.7	-8477108.24	1.556	11.873
	(1.003)	(-1.387)	(0.840)	(16.358) ***
Credit demand	0.696	0.591	0.726	0.537
	(5.888)***	(1.869)*	(6.352)***	(2.143)**
Gross income	-0.080	0.021	-0.028	0.121
	(-0.952)	(0.111)	(-0.402)	(0.675)
Surety	-0.169	-0.291	-0.122	-0.085
	(-2.694)***	(-1.978)*	(-2.309)**	(-0.638)
Interest rate	0.255	-0.147	0.240	0.135
	(2.654)***	(-0.477)	(2.159)**	(0.664)
Experience in lending	0.098	0.296	0.057	0.040
	(1.254)	(1.929)*	(1.024)	(0.241)
R^2	0.911	0.527	0.938	0.602
Adjusted R^2	0.893	0.428	0.925	0.519
F-ratio	49.399***	5.347***	72.962***	7.261***
N	30	30	30	30

Source: Data analysis, 2015
Figures in bracket are t-values
***, **, * = significant at 1%, 5%, and 10% respectively.

Constraints faced by participants in credit market

There are lots of problems that hinder the effective performance of rural credit market in Eket agricultural zones of Akwa Ibom state, Nigeria. Table 7 shows that the major problem encountered by respondents in credit market who demanded for credit was high interest rate (33.33 %). The interest rates charged by informal institutions were excessively high, ranging from 30-100% in some cases. It was discovered that interest rate varies based on the lender. Also, delay in loan disbursement accounted for 16.67 percent of the problem faced by the participants. This may be due to bureaucratic nature of loan processing. High collateral requirement was 13.33%. The collateral has to remain in the hands of the lender until the total loan sum is fully repaid. However, in some cases, security for loan is often taken for granted in view of the nature of the association like church organization and women groups.

Table 7: **Distribution of respondents based on problems/constraints on credit demand**

Type of problem	Frequency	%
Delay in disbursement of funds	10	16.67
Stress	8	13.33
High collateral demand	7	11.67
Problem of weekly repayment	6	10
Lack of trust	5	8.33
High interest rate	20	33.33
No problem	4	6.67
Total	60	100

Source: Field survey, 2014

As shown in the table 8, the most institutional problem was late loan repayment 23.33% most participant delay on their monthly income for their repayment of the loan. Insufficient fund accounted for about 16.67% of the problem faced by institutions. Mostly at the informal level where the cash is not liquid enough to meet up with the financial need of the people who apply for the loan. Only 5 percent of the problem was dishonesty among officers. This findings is in line with the study carried out by (Bime and Mbanasor 2011).

Table 8: problems militating against the supply of credit

Nature of problems	Frequency	Percentage
late loan repayment	14	23.33
Insufficient fund	10	16.67
Dishonesty among leaders	3	5
Others	33	55
Total	60*	100

Source: Field survey 2014

* Total exceed 30 due to multiple response

V. Conclusion

Based on the findings of the study, most rural people have continue to patronize informal credit institutions more than the formal ones. The possible reason could be due to non-availability, bureaucratic and cumbersome nature of loan procedures in the formal ones.

Variables such as annual income, interest paid and sex were the key determinants of credit demand in the study area. While credit demand, surety and interest received were the key determinants of credit supply in the study area. Credit is best used when it is going to increase returns to the users. This may be in the form of improved technology. Therefore effective management of rural credit market in Eket agricultural zone will go a long way in enhancing rural development in the area.

VI. Recommendations

Based on the findings of this study the following recommendations are drawn and they are geared towards improving the rural credit market in Eket agricultural zone of Akwa Ibom State, Nigeria. Interest rate was found to be very important in both credit demand and credit supply. Therefore to ensure sustainability in credit markets, interest rate policies that make for optimal credit provision should be encouraged. Since income influence credit demand positively. House hold heads should be encouraged to diversify their businesses as this will enable them demand for more credit which will invariably increase their level of annual income in order to meet up with their day to day financial need.

Credit demand was also important in determining the amount of credit supply to the rural people, therefore there is need for an enlightenment campaign to raise their level of awareness and also all the informal

institutions should be prescribed by law to formally register with the government in order to enable interested members to obtain vital information about their existence, activities and operations as well as their requirement to demand for more credit.

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