

CREDIT AS AN INPUT IN MARKETING: A STUDY OF THE NATURE AND USE OF CREDIT BY FOOD MARKETERS IN ANAMBRA STATE OF NIGERIA

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1. Introduction

In Nigeria, where small-scale traders still dominate the marketing scene and where in future, food marketers are expected to make a bigger contribution to the economy that they had made in the past, the importance of credit cannot be over emphasized. Credit is often regarded as a major element in marketing because if the small-scale marketer is to grow to become medium and eventually large scale marketer, he must have among other incentives an assured supply of credit for short, medium and long term. Not only does credit contribute to the modernization of marketing system, it also provides an increment of funds with which the borrower can expand stock (Osuntogun *et al*, 1980). Few works, (Onakamaiya Neumark, 1959, Shah and Shukla, 1956) documented the role credit play in marketing and estimated between 30 to 60% of the consumer spending of food crops has gone to marketers (Aderibigbe, 1981 and Akinboro, 1981). In view of the potential role of credit in accelerating marketing, sound policies are needed for improving credit to food marketers. Such policies can only be formulated, however, on the basis of adequate quantitative and qualitative information regarding the credit needs of the food marketers, present sources through which such needs are met and the terms of such credits. This is what the study investigated tried to accomplish.

2. Methodology

The study covered two market places in Onitsha District. The first market is the Ose market which is controlled mainly by wholesalers and the other is Ochanja market dominated by retailers. Both markets operate daily except on Sunday. The markets in Onitsha District are being studied because Onitsha is an important commercial town, and controls the largest multi-purpose markets in West Africa (F.A.O. 1972).

Data were obtained from a total of 840 marketers of several food crops operating in Anambra State, Nigeria. The products marketed included beans, rice, yam, maize « Ogbono », groundnut, pepper and onions. All the wholesalers and retailers of these major staples made up the 840 marketers in the sample. Information and data were obtained by means of intensive schedule which was pre-tested and modified to take account of local conditions. The questionnaire requested information on the source, purpose, magnitude, form and terms of the credits received by the respondents.

Specific attention was also paid to the assessment of the effectiveness of the various credit agencies that operate in the areas of study.

3. Analysis of findings

Sources of Credit

In order to ascertain the need for credit the respondents were asked whether they ever require more money than they could provide in their marketing operations. Ten per cent of the respondents gave positive response. The most mentioned means of being in trade was by borrowing money. Over 78% of the marketers interviewed gave borrowing as the means of staying in business. Some of the other means indicated include help from children and reduction of the size of stock.

Sources of Credit used for Establishment Capital

Four sources of credit were used by the marketers for obtaining their establishment capital. These are personal savings, Isusu, friends and relatives and money lenders. As table 1 indicates, in the two markets, a total of 239 marketers obtained their establishment capital from personal savings; and total of 257 obtained theirs from friends and relatives. Of the total marketers that have borrowed funds within the past year none claimed to have received loans from the commercial bank and Government credit corporation. These findings reveal that commercial banks and Government credit corporation have not been direct suppliers of establishment capital credit to marketers. It also reveals the money lenders, personal savings and friends and relatives play major roles in getting marketers established in their trade.

Sources of Credit used for Working Capital

Table 2 contains the distribution of marketers by their sources of credit for use as working capital. In this situation, more sources now supply credit. Almost 23% of the marketers obtain their working capital credit from trade Associations; this is followed by friends and relatives (21%). Cooperatives now provide credit to marketers (13%) while marketers obtained 5% of their credit from Government credit corporation. Personal savings and Isusu provide credit to marketers, but the percentage of marketers aided by these sources reduce to 24%, compared with the previous 44%. The analysis in

Table 1

SOURCES OF ESTABLISHMENT CAPITAL CREDIT TO FOOD MARKETERS IN 1981/82

Sources	Ose mkt. N = 480		Ochanja mkt. N = 360		Grand Total	
	Number	%	Number	%	Number	%
Personal Savings	140	29.2	99	27.5	239	28.4
Isusu	80	16.7	50	13.9	130	15.5
Friends & Relatives	125	26.0	89	24.7	214	25.5
Trade Associations	—	—	—	—	—	—
Commercial Banks	—	—	—	—	—	—
Money Lenders	138	28.1	122	33.9	257	30.6
Cooperatives	—	—	—	—	—	—
Govt. Credit Corporation	—	—	—	—	—	—
Total	480	100.0	360	100.0	840	100.0

Source: Field Survey.

this table clearly indicates that establishment of marketers in trade business make them accessible to credit sources which had hitherto appeared as closed doors, as they become credit worthy, lending sources start developing confidence in their payment capacity. They have also become associated with facilitative institutions such

Table 2

SOURCES OF WORKING CAPITAL TO FOOD MARKETERS IN 1981-1982

Sources	Ose mkt.		Ochanja mkt.		Grand Total	
	Number	%	Number	%	Number	%
Personal Savings	60	12.5	38	10.6	98	11.7
Isusu	65	13.6	34	9.4	99	11.8
Friends & Relatives	97	20.2	77	21.4	174	20.7
Cooperatives	60	12.5	52	14.4	112	13.3
Trade Associations	94	19.6	98	27.2	192	22.9
Commercial banks	17	3.5	13	3.6	30	3.6
Money lenders	59	12.3	33	9.2	92	10.9
Govt. Credit Corp.	28	5.8	15	4.2	43	5.1
Total	480	100.0	360	100.0	840	100.0

Source: Field Survey.

as Trade Associations, Cooperative thrift and credit and Isusu group. Government credit corporation and commercial banks now seem to realise their existence and indicate this by advancing loan. However, analysis shows that Government credit corporation and commercial banks are less responsive to the needs and changing conditions of marketers. While other sources (e.g. cooperative and trade associations) which had previously not provided credit did after establishment.

Uses of Credit by Food Marketers

Table 3 gives the general picture of the use of credit by food marketers in the two markets studied. The most prominent use is for working capital. Over 35% use funds for working capital while almost 29% used funds for establishment. Over 15% of the borrowers used loan to pay children school fees while almost 12% obtained credit for building houses.

Payment for school fees constitute the most important non-marketing use to which the loans obtained by marketers are put. It is important at this point, to emphasize the fact that contrary to popular opinion, marketers have greatly desisted from the practice of borrowing for socio-religious purposes such as naming and burial ceremonies. As could be seen from table 3, only a few (2%) of marketers used loans for these purposes.

Table 3
USES OF CREDIT BY FOOD MARKETERS IN 1981-1982

Items	Ose mkt.		Ochanja mkt.		Grand Total	
	Number	%	Number	%	Number	%
Established Capital	152	31.7	100	27.8	252	18.9
Working Capital	161	33.5	140	38.8	301	35.8
Paying School fees	72	15.0	51	14.2	133	15.8
Paying Hospital bills	15	3.1	10	2.8	25	3.0
Family festivities	10	2.1	8	2.2	18	2.1
Building houses	58	12.1	41	11.4	99	11.8
Buying Cars & Trucks	12	2.5	10	2.8	22	2.6
Total	480	100.0	360	100.0	840	100.0

Source: Field Survey.

Distribution of Size of Credits

Most of the credits that were granted to the respondents were made in cash. Of the 840 food marketers who indicated that they received loans in the past, all of them claimed that they received loans in cash. An analysis of the size distribution of the loans received by the marketers revealed the predominance of medium size loans. In the areas studied over 36% of the loans received were between N401-600 and about 25% were between N201-400 (table 4). Of the 840 marketers interviewed only 52 (6%) received loans over the range of N1000, these are the marketers that benefited from commercial banks and Government Credit Corporation.

Table 4

DISTRIBUTION OF SIZE OF CREDITS RECEIVED BY FOOD MARKETERS IN 1981-1982

Size of Loan	Ose mkt.		Ochanja mkt.		Grand total	
	Number	%	Number	%	Number	%
≤ N200	26	5.4	17	4.7	43	5.1
N 201 – N 400	125	26.0	81	22.5	206	24.5
N 401 – 600	170	35.4	138	38.3	308	36.7
N 601 – 800	93	19.4	72	20.0	165	19.7
N 801 – 1000	37	7.7	29	8.1	66	7.9
N1001 – 1200	21	4.4	13	3.6	34	4.0
> N1200	8	1.7	10	2.8	18	2.1
Total	480	100.0	360	100.0	840	100.0

Source: Field Survey.

Terms of Lending

As table 5 indicates, most of the loans received by the respondents were of short term in nature. Almost 34% of the loans received by marketers were for 11 to 15 months duration while 38% were for 12 to 25 months duration.

Almost 3% of the marketers were allowed to repay whenever they could afford. Short-term credit may be considered reasonable for use as working capital. It is not suitable for establishment capital because experience has shown that it takes about 2 to 3 years for food marketers to have substantial returns from sales after establishment.

Table 5

DURATION OF LOANS RECEIVED BY FOOD MARKETERS IN 1981-1982

Period	Ose mkt.		Ochanja mkt.		Grand total	
	Number	%	Number	%	Number	%
Less than 5 months	15	3.1	10	2.7	25	3.0
6 - 10 months	28	5.9	15	4.2	43	5.1
11 - 15 months	123	25.6	158	43.9	281	33.5
16 - 20 months	47	9.8	37	10.3	84	10.0
21 - 25 months	214	44.6	105	29.2	319	37.9
26 - 30 months	39	8.1	27	7.5	66	7.9
As long as I can afford repayment	14	2.9	8	2.2	22	2.6
Total	480	100.0	360	100.0	840	100.0

Source: Field Survey.

Table 6 gives information on the rates of interest charged on the loans obtained by the borrowing marketers. The maximum per annum interest rate was in the range of 101% and 120%. Investigation shows that the interest rate calculated for the majority of the marketers was about 15% higher than what the banks were expected to charge under the agricultural guarantee credit scheme.

The most common rate of interest, particularly in the two markets studied is in the range of 61% to 80%. Almost 20% of the marketers received interest free credit mostly from friends and relatives. As high as the interest rate in the study are, marketers still did not indicate interest rate as one of the factors that limited their ability to obtain all the credit they required. It is interesting to note that most sources (eg. money lenders) which advanced credit to the marketers in this study do not request any collateral. Their advances are based on some subjective evaluation of the potential borrowers, personal integrity, financial ability to repay, acquaintances and popularity. The finding of this study has clearly shown that, marketers have been forced to obtain their loans from sources other than the commercial bank, at very high interest rate going to as much as 120% per annum. However, the interest rate charged on the part of lender, may be a reflection of the administration and risk charges on each unit which he lends, together with the opportunity cost of his money.

Table 6

RATES OF INTEREST CHARGED ON LOANS RECEIVED BY FOOD MARKETERS IN 1981-1982

Interest rates Calculated (%)	Ose mkt.		Ochanja mkt.		Grand total	
	Number	%	Number	%	Number	%
≤ 20	—	—	—	—	—	—
21 - 40	24	5.0	12	3.3	36	4.3
41 - 60	40	8.3	28	7.9	68	8.1
61 - 80	189	39.4	133	36.9	322	38.3
81 - 100	103	21.4	84	23.3	187	22.3
101 - 120	34	7.1	26	7.2	60	7.1
No-Interest	90	18.8	77	21.4	167	19.9
Total	480	100.0	360	100.0	840	100.0

Source: Field Survey.

Preferred Sources of Credit

In order to ascertain the preferences of the marketers for the different sources of credit, they were asked to indicate their preferred sources of credit with reasons. Table

Table 7

PREFERRED SOURCES OF CREDIT BY FOOD MARKETERS IN 1981-1982

Sources	Ose mkt.		Ochanja mkt.		Grand total	
	Number	%	Number	%	Number	%
Friends & Relatives	202	42.1	172	47.8	374	44.5
Personal Saving	31	6.5	22	6.1	53	6.3
Commercial Bank	2	.4	3	.8	5	.6
Cooperatives	34	7.1	16	4.4	50	6.0
Trade Associations	139	28.9	103	28.6	242	28.8
Money Lenders	23	4.8	10	2.8	33	3.9
Govt. Credit Corporation	4	.8	6	1.7	10	1.2
Isusu	45	9.4	28	7.8	73	8.7
	480	100.0	360	100.0	840	100.0

Source: Field Survey.

7 shows that the most preferred sources are Trade Associations and relatives and friends. Over 28% and 44% of the total respondents in the markets covered preferred Trade Associations and relatives and friends respectively. The least preferred sources are commercial banks followed by Government credit corporation.

The food marketers were further interviewed on why they prefer relatives and friends as sources of credit. Among the reasons given are that relatives and friends give interest free loans, they are often considerate and do not harass and that they are reliable. Table 8 clearly shows the percentage distribution of the respondents.

Table 8

REASONS GIVEN BY MARKETERS IN 1981/1982 FOR PREFERRING FRIENDS AND RELATIVES AS SOURCE OF CREDIT

Reasons	Ose mkt.		Ochanja mkt.		Grand total	
	Number	%	Number	%	Number	%
Because friends and relatives give interest free credit	88	43.6	73	42.4	161	43.1
Because friends and relatives are often considerate and they do not harass	75	37.1	59	34.3	134	35.8
Because friends and relatives are reliable	39	19.3	40	23.3	79	21.1
Total	202	100.0	172	100.0	374	100.0

Source: Field Survey.

The reasons given for preferring trade associations in the two markets are presented in table 9. Over 37% of the food marketers prefer trade associations because they are members. Also, 24% feel trade associations are honest with straight forward dealings, while 16% of the marketers prefer trade associations, because of easy repayment plan. Others are that trade associations do not insist on collateral security (13%) and that because trade associations are found in the market (10%).

Table 9

REASONS GIVEN BY FOOD MARKETERS IN 1981/82 FOR PREFERRING TRADE ASSOCIATIONS AS SOURCES OF CREDIT

Reasons	Ose mkt.		Ochanja mkt.		Grand total	
	Number	%	Number	%	Number	%
Because I am a member of the trade association	51	36.7	38	36.9	89	36.8
Because trade associations are found in the markets	15	10.8	10	9.7	25	10.3
Because of honest and straight forward dealings	32	23.0	26	25.3	58	24.0
Because of easy repayment arrangement	23	16.5	16	15.5	39	16.1
Because trade associations do not insist on Collateral Security	18	13.0	13	12.6	31	12.8
Total	139	100.0	103	100.0	242	100.0

Source: Field Survey.

It needs to be mentioned that none of the food marketers prefers trade associations because of the interest rate charged.

4. Conclusions and recommendations

It is evident from this study that the supply of establishment capital credits from institutional sources to the food marketers is still not forthcoming. Consequently, food marketers have to depend upon friends and relatives, personal savings, money lenders and Isusu for their establishment capital credit needs. Even, in the area of working capital, commercial bank which provides the most suitable system of mobilizing and channelling loanable funds to marketers is not pooling its weight. The implication of this is that it will be difficult for wholesalers and retailers to take advantage of market opportunities. It is therefore suggested that the federal Government should guarantee loans given to marketers by commercial banks. This will ease to problem of collateral which food marketers are unable to provide.

The analysis of the nature and use of credit carried out in this study has important implications for the development of sound marketing credit policies for this country.

One of the most important contributions of this study is its highlighting the real, as opposed to the potential importance of the Trade Associations as agents for distributing credit to marketers. The federal government can therefore aid marketers to develop virile Trade Associations and state in their certificate of registration the functions and limitation of their actions. Government supervised funds can be channelled to the marketers through their trade associations, this would have a far reaching effect on terms of conditions of the loans made to marketers. It is my belief that the presence of strong Trade Associations will have desirable effects on the local rates of interest in the study areas.

In designing suitable marketing credit system, it is important to pay attention to the purpose for which loans will be used. This will have a far-reaching implications on both the duration and the size of loans to be approved.

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LE CREDIT ET LE COMMERCE: UNE ETUDE SUR LA NATURE ET L'UTILISATION DU CREDIT DE LA PART DES COMMERCANTS DANS L'ETAT D'ANAMBRA AU NIGERIA

RESUME

L'étude analyse la nature du crédit aux commerçants de produits alimentaires dans l'Etat d'Anambra au Nigéria. L'étude a été menée dans deux marchés, Ose et Ochanja dans le district d'Onitsha, sur un échantillon de 840 marchands en gros et au détail. Les données ont été recueillies en distribuant des formulaires et complétées par des interviews directes aux intéressés.

L'analyse des données a montré que les sources principales de crédit d'équipement pour les commerçants sont l'épargne personnelle, les amis et les parents, les isusu et les usuriers, tandis que les sources les plus importantes de crédit de capital de roulement sont les associations de commerce et les coopératives. L'offre de crédit de la part des banques commerciales et du Gouvernement fédéral est très faible.

L'analyse des données indique également que 36% des prêts est utilisé pour le fonds de roulement tandis que 29% est utilisé comme capital d'équipement. L'analyse de la distribution des prêts par montant montre que les prêts de montant limité sont les plus communs et que 34% des prêts ont été octroyés à court terme. Les données montrent également que les taux d'intérêt sur ces prêts varient d'un maximum de 100-120% à un minimum de 21-10%.

L'Auteur suggère, donc, que le Gouvernement fédéral devrait garantir les crédits que les banques commerciales octroient aux commerçants de produits alimentaires ce qui pourrait résoudre les problèmes de sécurité qui entravent l'activité des banques commerciales dans ce secteur, et encore, que le développement d'associations de commerce supervisées par des fonctionnaires pourrait aider à l'octroi de crédit aux commerçants de produits alimentaires.

