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Effects of credit constraints on the welfare of farm households in Southwest Nigeria

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Abstract

This study examined the effect of credit constraints in farm households' welfare in Southwest Nigeria with a view to understanding credit constraints impacts on the welfare of farm households in the study area. A multi-stage sampling technique was employed in the selection of 320 households for the study. The primary data were collected with the aid of pre-tested and structured questionnaire. The data collected were analysed using multinomial endogenous switching regression model. The multinomial endogenous switching regression result showed that risk constrained households would have a higher welfare if they paid their last loan while quantity constraints households would have a higher welfare if their household head had more years of formal education, pay their last loan back and owned lands. Transaction cost constrained households would likely fare better if their households were headed by males, and had smaller household size. Unconstrained household will have their welfare reduced if they have larger households while social capital increases their level of welfare. Furthermore, the result showed that risk, transaction costs and quantity constraints caused a welfare loss of 9.76 %, 6.18 % and 65.7 % respectively and therefore removal of risk constraints, transaction cost constraints and quantity constraints will cause a welfare gain for the farming household. The study concluded that credit constraints had serious impact in farm household's welfare and that credit unconstrained households have higher levels of welfare than the constrained ones. Household size, gender of household head, social capital, repayment history, education are factors determining the welfare of the household credit categories. Finally, the households would be better off if they were credit unconstrained.

Keywords: Credit constraints, farm households, multinomial endogenous switching regression model, welfare

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