



The Role of Microfinance Banks in Financing Agriculture in Yola North Local Government Area, Adamawa State, Nigeria

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Abstract - The study examined the role of microfinance banks in financing agriculture in Yola North Local Government Area of Adamawa State. Primary data were collected from a total of 100 farmer selected by simple random sampling. Structured questionnaires were the instrument for data collection from the farmers. Simple descriptive statistics such as means and percentages and frequencies were used to analyze the data collected from respondents. Results reveal that, majority (67.11%) of the respondents were males, while 32.8% were females, 44.74% of the respondents were within the age limit of 31 – 40 years, 73.68% of the respondents were married, and 85.53% of the farmers had formal education. 60.53 % used the loan for the purpose for which it was collected and 55.26% repaid the loan collected from the Microfinance Bank Yola in (2010). 15.29% of the respondents identified high interest rate on loan acquired from microfinance bank as a major problem, 10.95% identified delay in loan disbursement as their major problem while only 1.18% of the respondents stated that they were not given the loan they applied for. The study recommends that loans for the farmers should be disbursed in good time; banks should reduce the interest rates on agricultural loans. Also, microfinance banks should be encouraged to act as a major lender in financing small scale farmers in the country to meet the food requirement of the teeming population.

Keywords : *Microfinance, Loan, Banks, Yola North, Adamawa State.*

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THE ROLE OF MICROFINANCE BANKS IN FINANCING AGRICULTURE IN YOLA NORTH LOCAL GOVERNMENT AREA, ADAMAWA STATE, NIGERIA

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I. INTRODUCTION

The major of millennium development goals is the eradication of extreme poverty and hunger. For the goals to be achieved, sectors of the economy like the manufacturing and agricultural sectors need to be improved (FAO, 2004).

Microfinance institutions have become the main source of funding enterprises and agriculture in under-developing countries like Nigeria, Kenya, Pakistan etc. (CBN, 2004). Microfinance banks are distinguished from other financial institutions in that they offer small advanced loans and or savings, there is also the absence of asset based collateral and simplicity in their operation. Microfinance is very important in farm production and this fact cannot be overlooked in the

sense that, it the bedrock upon which increased food production rests, which means adequate finance to improve on their production (Adebayo and Onu, 1999). It contributes to the farmers social welfare enhances production and sustainability of income. With capital, farmers source farm inputs with relative ease and hire labour where it exceeds the strength of the family to handle or carryout farm operations.

CBN 2006 stated that, shortage of primary production credit was one of the major causes of declining agricultural production in Nigeria. The shortage was attributed to reluctance by the commercial banks to provide credit for real sector achievement in agricultural production, urban and semi-urban based nature and mode of operation of the banks, high cost of administration of agricultural loans and inability of farmers to provide the necessary collateral (CBN, 2006). As a probable solution to the above problems and to enhance flow of financial services to Nigerian rural areas, the government has in the past initiated a series of public-finance micro/rural credit programme and policies targeted at the poor and agricultural sector. Notable among such programmes were the rural banking programmes.

Ekwueme *et al* (2007) and Ifeoma (2008) explained that, inadequate access to economic resources especially financed by the numerous sparsely located farmers across Nigeria continues to inhibit agricultural development. This calls for critical examinations and the adoption of an approach to avoid declaring farmers “an endangered species”. It is important to double efforts to transform the economy and continuously explore pragmatic methodologies to address the problem of our farmers (Maurice and Tashkalma, 2000; CBN, 2005). Microfinance banks provide credit to the under banked sector of the economy and development of rural areas as well as the financial empowerment of those areas. While substantial progress has been made in this respect, there is still need for further improvement, with the expansion of the agricultural sector, the financial need of the sector is also increasing and there are significant opportunities for microfinance banks to deploy their funds in a remunerative manner (Ndanecho and Akum, 2009).

This study seeks to examine credit utilization and causes of loan default among farmers, and identify

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major problems militating against availability of credit to small scale farmers in the study area.

II. METHODOLOGY

The study was conducted in Yola North Local Government Area of Adamawa State. The study was narrowed down to Standard Microfinance Bank, Yola branch which is located in Yola metropolis. The bank was selected because it has been a major financier of agriculture in the local government area over the years. About 100 loan beneficiaries were interviewed using structured questionnaires. The data were analysed using simple descriptive statistical tools such as means, frequencies and percentages.

III. RESULTS AND DISCUSSION

An analysis of socio-economic characteristics of the respondents is presented on table 1. The result shows that more than half (67.11%) of the respondents were males and only 32.89% were females. This implies that men engage more in agricultural activities than women in the study area. This may be attributed to the social norms and values in the area where women are restricted from going out i.e., they are usually left at home to cater for the domestic requirement of the household. The table shows that 2.63% of the respondents fell below the age of 20 years, 22.37% were between the ages of 21-30 years while 44.74% were between the age range of 31-40 years and only 7.8% were above 50 years of age. This shows that majority (67.11%) of the respondents were within the age range of 20-40 years implying that they are in their productive age and can strive more to access farm credit as well as energetic enough to carry out their farm activities.

Table 1 further shows the distribution of respondents according to marital status, the table revealed that the highest percentage of the respondent with 73.63% were married, 22.37% were single, 2.63% were widowed and only 1.32% were divorced. This implies that farmers in the study area have a lot of family responsibilities to carter for since majority of them (73.68%) are married.

The table also shows the family size of farmers and it revealed that, most (55.26%) of the respondents have family sizes of 5 – 10 people, 6.58% have family size of 11-15 people, 32.90% have less than 5 people in their households while only 5.26% have family size of 16 people and above. This implies that, majority of the (61.84%) have up to 15 people in their household and hence supply of family labour for farm production may be available. Furthermore, the table revealed that 85.53% of the respondents have formal education and 14.475% had informal education. The result indicates that majority of the respondents have attended western education. The table also revealed that majority (68.43%) had farming experience of 21 years and above

and only 9.21% had farming experience of 11-15 and 16-20 years. This shows that, farmers in the study area generally have experience in farming activities. The high level of farming experience can go a long way to ease the bottlenecks (bureaucracy) in the process of loan acquisition from the bank.

a) *Utilization of Agricultural Credit from Standard Microfinance Bank Limited*

Table 2 reveals that majority (60.53%) of the respondents used the credit for the purpose for which it was applied. These could be the purchase of farm inputs such as agrochemicals, improved seeds etc. However 10.52% of them did not use the credit for the purpose for which it was applied for. This loan diversion may be as a result of family obligation due to large number of dependants, poverty or irresponsibility. On the other hand, 28.95% of the respondents did not get the loan they applied for; this is an indication that some respondents could not access the credit facilities available for famers by standard microfinance bank. This can be attributed to the fact that such farmers (respondents) could not satisfy the necessary condition put in place by the bank in order to acquire loan e.g. opening a savings account with the bank.

Table 3 indicates that 21.25% of the respondents used the loan they collected from the bank in that year 2010 to purchase seeds which may be improved seeds varieties, 18.75 of respondents used the credit/ loan for the purchase of agrochemicals which may include fertilizers, pesticides, herbicides etc. Also 21.25% of the respondents used the loan for other agricultural activities which includes purchase of animal feed, fattening of animals, purchase of tools for farming etc. while only 8.75% used for family obligation which is an unproductive venture, this may lead to default. However, most (30%) of the respondents did not apply for the loan. Probably the bank loan was not enough for the famers or the requirement to get the loan was so difficult for the famers. It could also be that such respondents acquire their capital from other sources such as friends, family, personal savings e.t.c.

b) *Loan Default among Famers*

From table 4, it can be observed that majority (55.26%) of the respondents were able to repay the loan collected from the standard microfinance bank ltd in 2010. This may implies that they used the loan for the purpose for which it was applied for or they did not encounter problems during the planting and harvest seasons e.g. natural hazards. About 14.48% Of the respondents did not repay back the loan; this could be attributed to the loan diversion to unproductive venture like solving family problems. Other reason may include natural disaster like drought, flood, pests, etc which may result to poor yield. Some farmers believed that money from loan is part of their national cake and therefore do take repayment serious. However, 30.26% did not apply

for the loan. This could be attributed to their inability to meet the bank's requirements.

c) Problems affecting availability of credit to small scale farmers

Table 4 further revealed that greater percentage of farmers (31.76%) did not encounter any problem when seeking for loan and 20% of the respondents did not apply for the loan. However, 15.29% faced the problem of high interest rate, this may sometimes discourage farmers from seeking loan from the bank 10.59% complain of delay in disbursement of loan as a problem, while 3.53% complain of not being able to meet the banks requirement which may include making one third (1/3) deposit the amount the farmer is intending to borrow, presenting a guarantor, opening an account etc. Also 3.53% were faced with the problem of short period given by the bank for repayment of the loan they collected. This can lead to loan default among farmers especially because of the nature of agricultural production for example time lag for crop maturity and the risk associated with farming. The afore mentioned are some of the major reasons why farmers sell off their produce as soon as they harvest which gives them low value in terms of price. The practice also eventually leads to glut in the market at harvest periods. About 1.18% of the respondents face the problem of inability to read and write (illiteracy) and another 1.18% of them were faced with the problem of not given the exact amount requested. Similarly, 2.35% of the farmers faced the problem of lack of continuity by the bank in advancing credit/loan to farmers for their agricultural production.

IV. CONCLUSION AND RECOMMENDATION

This study examined the role of microfinance banks in financing agricultural activities in Yola North LGA, Adamawa State. The results revealed that majority of the respondents (67.11%) were male and 73.68% married with about 85.53% who has formal education. The study also revealed that majority (60.53%) used the credit they obtained from the standard Microfinance Bank appropriately. Based on the findings of this study, it indicates that about 31.76% do not encounter any problem during the loan application and disbursement; however only 1.18% of the respondents did not obtain the amount they applied for, 3.53% complained of short repayment period while 10.59% complained of delay in disbursement. Based on the findings, it was recommended that loan for farmers should be disbursed on time to enable farmers use it effectively. Banks should also reduce interest on agricultural loan so as to enable farmers acquire and repay loan on time and with ease. Furthermore, financing institutions such as the microfinance banks are encouraged to lengthen the repayment period of loan so as to enable farmers to sell their produce at appropriate time to obtain value for their goods and also to reduce glut in the market during harvest periods. Such banks are also encouraged to act as a major lenders in financing small scale farmers in the area and nationwide to boost food production for the teeming population.

Table 1 : Socio-Economic Characteristics of Respondents

SOCIO-ECONOMIC VARIABLE	FREQUENCY	PERCENTAGE (%)
Sex		
Male	51	67.11
Female	25	32.89
Age		
Below 20	2	2.63
20-30	17	22.37
31-40	34	44.74
41-50	17	22.37
Above 50	6	7.89
Marital status		
Married	56	73.68
Single	17	22.37
Divorcee	1	1.32
Widow/Widower	2	2.63
Family size		
Less than 5	25	32.9
5-10	42	52.26

11-15	5	6.58
16 and above	4	5.26
Educational status		
Formal education	65	85.53
Informal education	11	14.47
Farming experience (years)		
0-5	24	31.59
6-10	28	36.84
11-15	7	9.21
16-20	7	9.21
21 and above	10	13.16

Source: Field survey, 2010

Table 2 : Credit used for the appropriate purpose

Credit use for the appropriate purpose	Frequency	Percentage (%)
Yes	46	60.53
No	8	10.54
Not applied	22	28.94
Total	76	100

Source: Field survey, 2010.

No response: 24

Table 3 : Appropriate use of Farm Credit from Standard Microfinance Bank.

Activity	Frequency	Percentage (%)
Purchase of seeds	17	21.25
Purchase of agrochemicals	15	18.75
Family occupation	7	8.75
Others	17	21.25
Did not apply	24	30.00
Total	80	100

Source: Field survey, 2010.

No response: 20

Table 4 : Problems affecting availability of Credit to Small Scale Farmers.

Problems	Frequencies	Percentages (%)
High interest rates	13	15.29
Short repayment period	3	3.53
Delay in disbursement	9	10.59
Not given amount applied	1	1.18
Not able to meet requirement	3	3.53
No continuity	2	2.35
Illiteracy	1	1.18
A lot of questions during application	9	10.59
No problem encountered	27	31.76
Did not apply	17	20.00
Total	85	100

Source: Field survey, 2010.

No response: 15

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