

An Evaluation of the Farmer's Perception of the Major Constraining Factors Affecting the Performance of Microfinance Banks in Rural Agricultural Financing in Kogi State, Nigeria

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Abstract - The study evaluated the rural farmer's perception of the major constraining factors affecting the performance of Microfinance banks in Kogi State, Nigeria. A multi stage sampling technique was used to select 240 rural farmers' (respondents) from the four agricultural Zones in Kogi State; Ayetoro – Gbede Zone, Anyigba Zone, Koton-Karifi Zone and Alloma Zone. Primary data were collected through the use of structured questionnaire which were administered to farmers who are the clients of Microfinance banks. The major tool of analysis is the Likert Scale analysis. The study revealed, that while undue delay in processing approved loan, Default in loan repayment, High interest rate charged; inability to access enough loan, Demand for high volume of deposit as collateral, improper assessment of loan repayment potential of customers, short or no moratorium, complex loan form and inefficient management are identified as the major constraints affecting the efficient performance of Microfinance banks in Kogi state, inability to mobilize high volume of deposit, lack of supervision or regulation, lack of loan investment monitoring, corrupt practices of MFBs Staff, lack of awareness of products and services of the MFBs were identified as not serious constraints.

Keywords – Microfinance Banks, Rural Farmers, Constraints, Financing, Agriculture.

I. INTRODUCTION

The whole idea of rural banking stemmed from a realization of the abundant latent resources available in the rural areas. An increase in rural investment as a result of provision of loans and advances will gear up output levels, and this will in turn raise the consumption level and possibly improve accessibility to public goods and services within the rural environment. (Olawepo, and Ariyo 2011).

In view of the above, the Nigerian government overtime had made several attempts at stimulating and encouraging the growth of rural financial market. In this respect, public credit institutions and schemes such as Co-operative Societies, Agricultural and Co-operative Banks, State-owned small scale financial agencies, Rural banking scheme, Agricultural credit guarantee scheme, Peoples' bank and Community bank were established at various times. In spite of these, the information available suggests that rural financial markets still remained underdeveloped. A survey on households' access to credit facilities in Nigeria conducted by Central Bank of Nigeria (CBN 2006) showed that 68% of rural households had no access to credit as against 32% households that had access to credit through Peoples Bank and Community Banks.

This necessitated the launching of the microfinance guidelines in 2005, creating Microfinance Banks (MFBs) with a minimum capital of N20 million and directing community banks to convert to MFBs by December 31, 2007. So far, over 700MFBs are in existence and many more are in advanced stages of licensing (Adeyemi, 2008). As it is now, there are diffused sources of microfinance in Nigeria. The Universal banks are providing microfinance through their rural and urban branches and through Small and Medium Enterprises Equity Investment Scheme (SMEEIS). The primary mortgage banks are also into microfinance. There is also the Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB) now Bank of Agriculture and Cooperative Societies. The MFBs and a host of other schemes managed by This necessitated the launching of the microfinance guidelines in 2005, creating Microfinance Banks (MFBs) with a minimum capital of N20 million and directing community banks to convert to MFBs by December 31, 2007. So far, over 700MFBs are in existence and many more are in advanced stages of licensing (Adeyemi, 2008).

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Unfortunately, the experience of rural financial support at the rural level has not been impressive. The existing microfinance institutions in Nigeria still serves less than 1 million people out of 40 million potential people that need the service (CBN, 2005). Also, the aggregate micro credit facilities in Nigeria accounted for about 0.2 percent of Gross Domestic Product (GDP) and less than one percent of total credit to the economy (Mejeha and Nwachukwu 2008). Another challenge is that most of the Microfinance funding goes to the commercial sector to the detriment of more vital economic activities, especially agricultural sustainable growth and development.

According to Anyanwu (2004), 14.1 and 3.5 percent of total Microfinance institutions (MFI) funding went to commercial and agriculture activities respectively. Different reasons have been advanced for this poor state of rural agricultural financing in Kogi state .Some experts

opined that the rural farmers are illiterates, low income earners, maintain large family size with small and scattered farm holdings without adequate collateral to guide against default in loan repayment. Other constraints identified by Atter, et. al (1991) includes; deliberate refusal to pay by farmers to non-repayment due to loss of income, devastating crop failure and ill health. On the other hand farmers are raising issues ranging from retrogressive bureaucracy in processing and disbursement procedures to lack of organized market for farm produce from loan. This has made the credit provision to small scale rural economic operators an intractable problem, and the effectiveness of Microfinance Banks in addressing this problem is yet to be determined.

The history of institutional credit administration in many parts of Nigeria has not been impressive when evaluated on the basis of efficiency and effectiveness of the operators of microfinance banks vis-à-vis re-payment performance. In 2009, the Central Bank of Nigeria withdrew the licenses of one hundred and twenty four (124) microfinance banks owing to sharp practices (Abula et al, 2013). It is therefore the aim of this study to evaluate the major constraining factors affecting the performance of Microfinance Banks in rural areas of Kogi State.

Problem Statement and Justification for the Study

The stagnation of rural agriculture in Nigeria and Kogi State in particular calls for effective and efficient rural banking. Structurally, Nigeria's agriculture is in the hands of small-scale farmers, cultivating less than five hectares of land (Olayide et. al 1981); Okuneye, 1995). Studies on smaller holder loan schemes revealed that the schemes are constrained by inefficient operators and poor loan repayment performance. Other factors are high incidence of loan diversion (Nto, 1981; Oboh, 1981), the occurrence of natural hazards (Garba, 1985) and high running cost, high interest and hostile rural environment (Abula, 2012).

Every effort which negate efficient and effective rural Microfinance Banks, ought to be reversed by it on the part of the operators or on the part of the beneficiaries because of its adverse effects. It is therefore worthwhile, to evaluate the major constraining factors affecting the performance of Microfinance Banks in rural agricultural financing. Such study will provide a basis for correcting the identified problems so as to make the Microfinance Banks operating in rural areas effective and efficient in rural credit administration to boost agricultural produce of the rural areas.

II. MATERIALS AND METHODS

Study Areas. Kogi State is one of the 36 states in Nigeria and was created out of Kwara and Benue State in 1991. It is situated between longitude 5°35'E and 7°40'E, and between Latitude 6°30'N and 7°40'N of the Equator (Ariyo, 2003). It is bounded by the Federal Capital Territory (FCT), Niger and Nassarawa States on the North, Enugu and Benue State on the East, and Ondo, Kwara, Ekiti, Edo and Anambra States to the South. The state comprises of three senatorial districts: the East, West and Central. In the East it is dominated by the Igala but with

other minority groups like the Bassa Nkomu and Bassa Nge. The central is predominantly Ebira, but with a minority group known as Ogori, and the West predominantly Yoruba, but with other minorities, especially the Oworo, Ebira Koto and Nupe people. There are twenty one Local Government Areas in Kogi State.

The Provisional Population figure of the state was 3,277,487 million as at 2006 (NPC, 2006). About 75 percent of the population lives in rural areas. Kogi State is blessed with fertile arable land because of its location in forest savannah which supports extensive agriculture. The major occupations of the people are farming, civil service, trading and artisan among others.

Tropical climate in the state is marked by two distinct seasons. The raining season which usually starts from April and ends in October and the dry season which starts from November to March of every year. Average temperature range from 33.2°C to 22.8°C, with an annual rainfall ranges from 1016mm to 1524mm (Kogi State – wikipedia, the free Encyclopedia, 2010).

Agriculture is the bedrock of the Kogi State economy. The state produces cash crops like coffee, cocoa and food crops such as palm oil, peanuts, maize, cassava, beans, yam, rice, melon, economic activities in the state centre largely on food production, processing, marketing and distribution trade.

Kogi State is divided into four (4) agricultural zones by the states Agricultural Development Programme. They are;

Zone A – Comprising Yagba East, Yagba West, Mopa – Muro, Ijumu and Kabba Bunu LGAs, with Ayetoro – Gbede as the headquarter.

Zone B – comprising of Ankpa, Dekina, Omalla and Bassa LGAs, with Anyigba as the headquarter.

Zone C – Comprising Kogi, Lokoja, Ajaokuta, Okene, Adavi and Okehi LGAs, with Koton Karifi as the headquarter.

Zone D – Comprising Olamaboro, Ofu, Igalamela/Odolu, Idah and Ibaji LGAs, with Alloma as the headquarter.

Sample Selection

The multistage random sampling technique was adopted in this study for better and wider spread of the respondents. Multistage random sampling involves a procedure whereby selection of units into a sample is organized into stages. It usually involves a combination of sampling methods (Eboh, 1998).

Stage 1 - Two local government areas were randomly selected from each of the four agricultural zones. This gives a total of eight local government areas for the study.

Stage 2 - One microfinance bank was randomly selected from each of the selected eight local government areas making a total of eight microfinance institutions.

Stage 3 - Thirty beneficiaries of microfinance services were selected each from the 8 micro finance banks.

A total sample size of 240 loan beneficiaries were used for this study.

Data Collection

Data were generated for this study from two sources that is, primary and secondary sources. Secondary data for this study were generated from published materials like journals, textbooks, government documents and periodicals. Other sources include, unpublished materials like thesis, seminars, workshop and conference papers. Primary data were generated by using a set of well structured questionnaire which was administered on the beneficiaries of Microfinance bank's loan.

Analytical Tools

The Major constraining factors affecting the performance of Microfinance Institutions in Kogi State was analysed using Descriptive statistics through the use of four likert type of scale. Responses as very serious (VS), Serious (S), not serious (NS) not a constraint (NC) were weighted as 4, 3, 2, and 1 respectively and analyzed using the mean score method. The mean response to each constraint was calculated using the formula

$$X = \sum \frac{Fi(Ai)}{N}$$

The choice of this technique was informed by [Saliu, et.al (2009) and Ibitoye and Onje (2011)].

Where

Fi = Number of respondents choosing a particular scale point

Ai = Numerical value of the scale point

N = Sample size

\sum = Summation

X = Means response

The mean response to each constraint was interpreted using the concept of real limits of numbers. The numerical value of the scale points (Response modes) and their respective real limits are as follows:

Very serious (VS)= 4 points with real limits of 3.50 – 4.49

Serious (S) = 3 points with real limits of 2.50 – 3.49

Not serious (NS) = 2 points with real limits of 1.50 – 2.49

Not a constraint(NC)=1 point with real limits of 0.5 – 1.49

III. RESULTS AND DISCUSSION

Table 1 Shows the analysis of the mean score for respondents rating of constraining factors affecting the performance of Microfinance banks in Kogi state. The result of the findings shows that none of the constraining factors was identified to be very serious. Nine of the factors representing 60% were however identified to be serious.

The serious constraints identified are undue delay in processing approved loan which has the highest mean score of 3.06. The implication of this is that if approved loan are unduly delayed by the MFBs, by the time the loan finally gets to the farmer, the planting season may have been over and this may have a negative effect on the farmer and possible diversion of the loan to other uses.

Default in loan repayment is next with a mean score of 2.86. Loan default has the implication of limiting farmer's access to credit facilities of the MFBs. This finding corroborates the study of Adejobi and Atobatele (2008)

when they opined that loan default could limit access to credit. Idris. et.al. ,(2010) observed that loan default ranks highest among the factors limiting small scale farmers access to credit.

High interest rate charged is next with a mean of 2.73. High interest rate on loan may discourage farmers securing loan and may also increase default rate which may result in limiting the farmers access to credit and in the long run results to decrease in the income of the rural farmer. This finding however conflict with the study of Mejeha and Nwachukwu (2008), who observed that Micro-finance institutions charge relatively lower interest on credit facilities.

Among the serious factors also is inability to access enough loan volume to execute farm work with a mean of 2.65. The amount of loan demanded by farmers is in excess of loan supplied to them by the MFBs. This limits the volume of investment in agriculture due to inadequate finance. This is consistent with the finding of (Agaifa, 2006) who observed that microfinance institutions generally have limited outreach due primarily to paucity of loanable funds.

Demand for high volume of deposit as collateral is another serious problem with a mean score of 2.64. The implication of this finding is that poor farmers who are unable to save up to the level of collateral required are excluded from the loan programme of the MFBs. This confirms the finding of Okojie et al., (2010) who observed that the lack of collateral limit access to credit from formal financial institutions.

Improper assessment of loan repayment potentials of customers and short or no moratorium have a mean of 2.60 and 2.58 respectively and are also serious among the factors that affect the performance of MFBs in Kogi State.

Complex loan form which makes proper filling difficult is also another serious problem with a mean of 2.57. This finding is consistent with the study of Agnet (2004) who observed that the complex mechanism of financial institutions is least understood by small scale farmers and thus limit their access.

Inefficient management has 2.50 and ranked least among the identified serious factors affecting the performance of microfinance banks in the State. Microfinance banks with its peculiar problems cannot afford experienced skill manpower in financial management. The implication is that their staff are often inexperienced and inefficient in management of both human and capital resources of the bank. As observed by Olaitan (2001) and Adeyemi (2008), some efforts at providing micro-credits were frustrated by lack of managerial wherewithal among others.

The six identified not serious factors are, inability to mobilize high volume of deposit with a mean score value of 2.32, lack of supervision or regulation with the mean value of 2.39, and lack of supervision or regulation from the apex financial institution with a mean of 2.35. Others are lack of loan investment monitoring by MFBs, corrupt practices of MFBs' staff and lack of awareness of the products and services of the MFBs with the mean of 1.93, 2.18 and 2.48 respectively. According to Onafowokan

(2010), the problem is not with inability to mobilize high volume of deposit as he observed a major discrepancy in the amount of deposit mobilized and loan disbursed on yearly basis. He observed that deposit mobilization rate went so high and in some years doubled loans and advances for the same period. The implication of this scenario is that cheap funds are sourced from the rural areas without an equivalent disbursement inform of loans and advances to the same community where the deposits were mobilized. Perhaps these funds might have been invested by these microfinance banks outside the rural areas for better income generating ventures (Onafowokan, 2010).

Lack of supervision or regulation from the apex financial institution identified as not serious factor is

consistents with the views of Oluwaseyi (2010) when he observed that the Central Bank of Nigeria (CBN) is in search of a suitable regulatory framework for the microfinance sub-sector. The CBN confirmed this assertion when it observed that the Nigerian Microfinance banks have been experiencing some regulatory and monitoring set back. Again the finding of this study on corrupt practices of Microfinance banks' staff is similar to the study of Olaitan (2001) and Adeyemi (2008) when they observed that some effort at providing Micro-credits were frustrated by bribery and corruption among the operator of microfinance banks among other factors. This suggests that there is in-efficiency in Microfinance operations in Nigeria due to some Institutional inadequacies.

Table 1: Likert type of scale on the responses of farmers to the constraining factors affecting the performance of microfinance banks

S.No.	Constraining Factors	VS	S	NS	NC	Total Number of Respondent (N)	Total Sum of constraint Score	Mean score	Remarks
1	Inefficient management	71	40	67	62	240	600	2.50	Serious
2	Undue delay in processing approved loan	69	123	42	6	240	735	3.06	Serious
3	High interest rate charge	47	101	72	20	240	655	2.73	Serious
4	Demand for high volume of deposit as collateral	40	102	78	12	240	634	2.64	Serious
5	Inability to mobilize high volume of deposit	26	73	92	49	240	556	2.32	Not serious
6	Inability to access enough loan volume to execute farm work	42	101	68	29	240	636	2.65	Serious
7	Short or no moratorium	42	80	93	25	240	619	2.58	Serious
8	Lack of supervision or regulation	41	67	76	56	240	573	2.39	Not serious
9	Complex loan from which makes proper filling difficult	44	93	58	45	240	616	2.57	Serious
10	Lack of supervision or regulation from the apex financial institution	35	70	79	56	240	564	2.35	Not serious
11	Default in loan repayment by loan beneficiaries	79	68	73	20	240	686	2.86	Serious
12	Lack of loan investment monitoring by MFBs	30	67	103	40	240	464	1.93	Not serious
13	Corrupt practices of MFB's staff	31	51	98	50	240	523	2.18	Not serious
14	Lack of awareness of the products of services of the MFBs	26	99	78	37	240	594	2.48	Not serious
15	Improper assessment of loan repayment potentials of customers	43	86	83	28	240	624	2.60	Serious

Source: Field survey data, 2011

Vs : (Very Serious) 4points with real limits of 3.50 – 4.49

S : (Serious) 3points with real limits of 2.50 – 3.49

Ns : (Not Serious) 4points with real limits of 1.50 – 2.49

NC : (Not a Constraint) 4points with real limits of 0.50 – 1.49

IV. CONCLUSION AND RECOMMENDATION

Based on the result of this study the following policy implications are drawn and recommendations are suggested so that microfinance banks activities are enhanced and sustained for the development of the rural farmer in Kogi state in particular and Nigeria in general.

There is the need for timely disbursement of approved loans to farmers to avoid poor yield and possible diversion of the loan to other uses.

Group credit delivery approach and intensive monitoring can reduce loan delinquency to the barest minimum if not totally eliminated.

There is equally need for the microfinance banks to reorganize their policy stand especially as regards to the interest rate charged on loan to farmers to be farmer

friendly so that the aim of MFB to cater for unfavorable policy of conversional banks will not be defeated. Accessing the potential ability to MBFs to provide credit in the absence of collateral could help improve access to loan by rural farmers.

Finally, to be viable MBFs required experienced and skilled personnel. As a young and growing industry, there is a dearth need for experienced and skilled staff in planning, product development and effective management with clients. To this end there is the need to train MBFs' staff on "do's and don'ts" as regards the practice of MBFs in Nigeria.

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