Review Article

Impact of Micro Credit Financing on Agricultural Production

Agriculture

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Abdulraheem, Mukhtar Iderawumi — Agricultural Education Department, Emmanuel Alayande College of Education, Lanlate campus, P.M.B. 001, Lanlate, Oyo State, Nigeria.

Adeola Olabisi Ademola — Bursary Department, Emmanuel Alayande College of Education, Lanlate Campus, P.M.B. 001, Lanlate, Oyo State, Nigeria.

Abstract

The study aim at knowing the impact of microcredit financing on agricultural production. Structured questionnaire as well as personal contacts was used to gather data from the farmers. One hundred (100) questionnaires were distributed randomly to farmers while Ninety one (91) questionnaires were retrieved. Correlation coefficient were used to describe and summarize the data collected. Farmers in rural area do enjoy this micro finance, but effect on farming operations it not encouraging as expected. The farmers do not have access to other micro credit finance institution other than cooperative societies, because there is no asset like machine collateral security that will serve as guarantee for the commercial financial institutions. High interest rate is another vital thing that put farmers into limitation in obtaining micro credit from commercial institutions. Micro credit finance institutions are important in achieving farmer's objectives and are being promoted to be commercially viable through an appropriate policy and regulatory framework. Having realized the impact of micro-credit finance to farm production, it is highly incumbent for all the farmers to join cooperative societies in order to get credit facilities to finance their farming operations.

INTRODUCTION

Credit has been recognized as an essential tool for promoting small and medium scale enterprises as well as agricultural production. An appreciable percentage of the population is engaged in agricultural production. The Federal and State Governments in Nigeria have recognized that, for sustainable growth and development the financial empowerment of the rural area as the life wire of agricultural production vital, being the repository of the predominantly poor in society and in particular the small scale farmers. If this growth strategy is adopted and the farming capabilities of this large segment of the people is sufficiently stimulated and sustained, then positive multipliers will be felt throughout the economy. To give effect to these aspiration various policies have been formulated over time by the Federal Government to improve Agricultural production capabilities, positively channel the potential of farmers to enhance their standard of living and to put the sector as a priority of Government's development strategy.

Micro credit finance refer to the process of obtaining control over the use and acquisition of credit in the present for special or particular business or project, in exchange for a promise to repay the money in the future date.

Agricultural micro credit finance can be defined as the act of acquisition and use of capital in agriculture, other than those of conventional financial Institutions (banks, finance Institution), in other words, agricultural micro credit finance refers to a refundable loan granted to a farmer for farming purpose through micro credit institutions.

Micro credit finance is services to provide financial service to the poor who are traditionally not serve by the conventional financial institutions.

Government policies provide micro credit finance for development of Agriculture; the policies to bring credit to the rural financed sector of the economy were generally geard towards developing agriculture. Policies implemented by the federal government included a Commercial Bill-Financing Scheme (1962), Regional Commodity Board (Later called National Commodity Boards 1977) and Export Financing and Rediscount Facility (1987). Others are:- Nigeria Agricultural Cooperative and Rural Development Bank NACRDB (1972)

Micro credit finance is providing financing services to the poor who are traditionally not served by the conventional financial Institutions. In Nigeria, the formal financial system provides services to about 35% of the economically active population while the remaining 65% are excluded in which farmers is among, from access to financial services. (CBN). This 65% are often served by the informal financial sector, through non-government organization (NGO), micro credit finance Institutions, money lenders, friends, relatives, and credit unions. The non-regulation of the activities of some of these Institutions has serious implications for the farmers and central Bank of Nigeria, ability to exercise one aspect of its mandate of promoting monetary stability and a sound financial system.

This paper aims at examining the operations of the agricultural credit, strategies adopted to sustain micro credit financing and how micro credit financing have been contributing to the agricultural production.

Non-Governmental Organisation - Micro Credit Finance Institutions

Non-governmental Organizations Microcredit Finance Institution (NGOs – MCFIS) have emerged in Nigeria to champion the cause of the rural farmers, with a shift from the supply – led approach to a demand – driven strategy. The number of NGOs involved in micro finance activities has increased significantly in recent times due largely to the inability of the formed financial sector to provide the services needed by the low income groups, traditional farmers and poor, and the declining support from development partners amongst others. The NGOs are charity, capital lending and credit only membership based institutions. They are generally registered under the, Trusteeship Act as the sole package or part of their charity and social programmes of poverty alleviation. The NGOs obtain their funds from grants, fees, interest on loans and contributions from their member. However, they have limited outreach due largely to unsustainable sources of funds.

This policy recognizes the existence of credit only, membership based micro finance institutions which shall not be required to come under the supervisory preview of the Central Bank of Nigeria. Such institutions shall engage in the provision of micro credits finance service to their targeted population e.g. Traditional farmers and not to mobilize deposits from the general public. Example of micro credit finance institutions. Both government owned and non-governmental micro credit finance institutions have been established indifferent parts of the country to help the farmers in their production; examples are;

Agricultural Bank:- This institution is governmental institution, specialized in grant loan for farmers Agricultural bank such as the Nigeria Agricultural and Cooperative Bank (N. A. C. B.) was established in 1973 to grant loans to all potential farmers. Only farmers can borrow money from the bank, hence it is called the “farmers Bank”. However NACB has been change to Nigeria Agricultural and Rural Development Bank (NARDB) after its merger with people bank.

Government grants:- All tiers of government often made grant available for the purpose of financing Agriculture. Agricultural micro credit finance made available to farmers and small-scale producers through some government agencies among which are the Agricultural Development Project (ADPs), the River Basin and Rural Development Authorities (RBRDA) and the state Ministry Operated Agricultural Credit. These programmes have played very important role in credit disbursement. Although the schemes had suffered a lot of problems yet they have made a lot of impact in the Agricultural production.

Community Banks:- A Community bank is a “self sustaining” financial or group of communities for purpose of providing credit, deposit, banking and other financial services to its customers; largely on the basis of their self-recognition and credit worthiness. The establishment of community bank is to provide micro credit finance services for the rural communities as well as far farmers and micro enterprises in the urban center.

Farmers Cooperative:- Farmer cooperative is non-governmental micro-credit finance institution that constitutes another sources of rural micro credit finance in Nigeria. The mode of operations of some of these farmers' cooperatives varies from state to state. In the Northern states, the government performs some roles of farmers cooperative due to the fact that activities of cooperative society is low. In general, the loans are disbursed through the various cooperatives societies or through agricultural cooperative banks for distribution among members of the society.

Credit and Thrift Cooperative Society - It is Non-governmental organization micro credit finance institutions (NGOs – MCFIs). The are formed by a number of persons with the aim of either saving money together or making it possible for them to give out micro credit to the member of the society as well as to borrow money from banks. The society makes it easier for low income earners like farmers to save money.

The money contributed can be given to member as credit at rates of interest much lower than those charged by commercial banks and other financial institutions. In this way, each member can increase the amount of capital which he can use for investment purpose or farming operation. Left alone, they would not be able to save enough money.

In a nutshell, there are other informal source of micro credit finance in which their impact can not be over emphasis on agricultural production e.g. Money lender, credit source from relatives, friends, one of the family member e.t.c. All these source and micro credit finance institution are much more important to farmers most especially small-scale farmers in carries out their farming operations

TRADER CREDIT: SOURCE OF MICRO CREDIT FINANCE FOR REMOTE FARMERS.

Trader credit can be in the form of input provided to farmers or as cash based either on repayment at harvest or on agreed purchase. About 75% of trader lending in the sindh region of Pakistan is in kind, primarily seeds, fertilizer and pesticide (Smith *et al*., 1999). Most rice trader in the Philippines offer inputs for production on credit for the farmers and some times rice as well for family consumption (Shepherd 2003). Traders use personal contacts and existing trading relationship as a substitute for collateral security, and to reduce the risk of side selling. Trader may insist on a year of largely cash based transaction (often funded by money lenders in the absence of product market credit) before offering credit to farmers, based on their observed performance in rural area generally, credit are lend to farmers (Landowners) under several conditions, and these conditions are also more widely applicable to trader micro credit finance. (With the exception that exploit interest rates are not always charged).

Credit should linked with both input supply (Lending in kind) and output (tied to the sale of produce). The farmer has to reliably produce a marketable crop surplus. The farmer must be prepared to pay interest mechanisms must exist that establish the credit worthness of the farmer, such as personal knowledge of the farmer and or having guarantees from trusted third parties. (Smith *et al*., 1999).

Processors may also channel credits through traders, rather than directly to farmers. Two – thirds of Indian rice traders surveyed by the FAO traded on a commission basis, with finding from millers. Processors may also make use of inter locking credit arrangement with traders to secure farmer produce. Marketing agents (Padhys) in the smiths received credit from cotton gins, on the basis of agreed sale (at a later date) of those gins (these are known as cabaro contracts). The agents provide credit to farmers for inputs, and recover the loans when they purchase seed cotton from the farmer for onward sale to the cotton gins (Dorward *et al.*, 1998).

THE MICRO CREDIT FINANCE POLICY OBJECTIVES

The specific objectives of this micro finance policy are the following.

- Make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services.

- Promote synergy and mainstreaming of the informal sub – sector into the national financial system.
- Enhance services delivery by micro finance institution to micro finance institution to micro, small and medium entrepreneurs.
- Contribute to rural transformation including farming.
- Promote linkage programmes between universal/development banks, specialized institutions and micro finance banks.

IMPLICATIONS OF AGRICULTURAL MICRO CREDIT FINANCE

There are some problems facing farmers in obtaining micro credit for farming purpose. These problems are:

- Interest Rates:- Interest rate is the rate at which farmers can borrow money from bank, i.e the amount of interest a farmer will have to pay on the money borrowed. High interest rate discourages borrowing while low interest rate encourages borrowing. Therefore, farmers can not borrow when the interest rate is too high.
- Long Gestation Period of Some Crop:- Some crops like rubbers, cocoa and oil palm take a very long time to mature, banks, therefore, find it very difficult to grant loan to farmers engaged in the cultivation of such crops.
- Unpredictable Climate which can lead to Crop Failure:-Agricultural activities in Nigeria depend naturally on rainfall. A sufficient rainfall encourages productivity but lack of rainfall is a doom to farming activities. Banks therefore, are always afraid to lend money to farmers because of the fear of unfavourable climate which can lead to crop failure.
- Lack of Farm Records:- Farmers lack good record of all their activities which can be used to assess their credit worthiness.
- High level of loan defaulters:- Farmers may not be able to repay the principal, not to talk of the interest charged, in case of natural disaster.
- Lack of Insurance Policy: Farmers do not take insurance on their farms.
- Lack of Moratorium:- Banks do not give moratorium or deferment of payment of loans to farmers.
- Land Tenure System:- The prevalent land tenure system works against procurement of agricultural loans. The prevalent land tenure system in Nigeria are communal and inheritance land tenure system. Communal land tenure system is the type of land that belongs to the community. The community may be a family, clean or village. Every member of the community has the right to use the land for agriculture but non-member or outsider of the community cannot have access to the land for farming. Inheritance land is the types of land tenure which land is inherited from one's parent from one generation to another. In Nigeria, lands for agricultural activities are mainly acquired through inheritance. The land so –inherited from a single parent is shared among all his children and this eventually leads to fragmentation of the land.
- Small Farm Holding:- Farm holdings are too small and uneconomical to operate for mechanization and profit.
- Lack of Awareness:- As a result of high level of illiteracy among farmers, they are hardly aware of existence of loan facilities in banks, when they are aware most of them do not know how to go about it.
- Bureaucracy:- Bureaucracy (redtapism) which is normally involved in the procurement of loan usually lead to frustration and non-receipt of loan by farmers.

MATERIAL AND METHODS

The research was design with investigation from farmers through questionnaire. The result of the questionnaire are used to test the assumption of hypotheses. Information were collected from farmers via face to face interaction. The questionnaires is a self designed comprising twenty (20) question items relating to micro-credit financing in Agricultural production. 100 questionnaires were printed and distributed to farmers while only 91 were retrieve and administered correctly. Data collection was done face to face. Questionnaire was given to literate farmers to read the questions item and they are able to answer the question correctly.

RESULT AND DISCUSSION

In order to test the only hypothesis formulate for this study, the output of computer correlation as shown below was used. The study hypothesis, which says. "There is no significant impact of micro-credit financing on Agricultural production" was tested by establishing the type of relationship that exist between the variables as shown by the table, and established the relationship that is significant.

Table 1

		TYPE OF FARM	SOURCE OF MONEY TO FINANCE FARM OPERATION	ADEQUATE OF MICRO CREDIT SIZE	EFFECT TO MICRO CREDIT FINANCING OPERATION	OPERATION
TYPE OF FARM	Pearson correlate	1.000	-0.141 -141	- 0.87 -087	.014	.000
	Sig. (2 tailed		.330	.546	.923	1.000
		50	50	50	50	50
SOURCE OF MONEY TO FINANCE FARM OPERATION	Pearso correlat o	-0.141 -141	1.000	.772***	.225	.595***
	Sig. (2 tailed	.330		.000	.117	.000
		50	50	50	50	50
EFFECT OF MICRO CREDIT FINANCING ON FARMING OPERATIONS	Pearso correlat o	-.087	.772***	1.000	.295*	.439**
	Sig. (2 tailed	.546	.000		.037	.001
		50	50	50	50	50
EFFECT OF MICRO CREDIT FINANCING	Pearso Correlat o	.014	.225**	.295*	1.000	.257

ON FARMING OPERATION						
	Sig. (2 tailed	.923	.117	.037		.071
		50	50	50	50	50
FARM'S OPERAION STAGE	Pearso correlat o	.000	.595**	.439**	.257	1.000
	Sig. (2 tailed	1.000	.000	.001	.71	
		50	50	50	50	50

** Correlation is significant at the 0.01 level (2 – tailed).

* Correlation is significant at the 0.05 level (2- tailed).

Comment

By inspection of the relationship that exist between the variable reflected on the above table, it could be established that:

i. The relationship between type of farm and source of money to finance farm operation as well as effect of micro credit financing on farming operations has negative relationship though not significant. (Table 1).

ii. The relationship others are positive (Table 1).

iii. The relationship between source of money to finance farm operation and ADEQUATE OF MICRO CREDIT SIZE as well as FARM'S OPERATION STAGE has positive relationship but significant one. So also the relationship between farm's operation stage and source of money to finance farm operation as well as adequacy of micro credit size was found to be positive and significant and the relationship between the effect of micro credit financing on farming operations and adequacy of micro credit size was also found to be positive and significant.

OTHER FINDINGS

In the study area, farmers are facing the following problems, in collecting micro credit from financial institution like bank and cooperative societies.

1. Failure to get credit on time, due to the fact that rural cooperative societies composed of low income earner members. Three people may request for credit at a time, in which society may not be able to satisfy them at once.
2. Inability of farmers to get guarantors, to assure the cooperative that the person will repay the money.
3. Failure to get required amount / size of credit facilities, due to high percentage of loan defaulters.

Likewise, farmers are facing some problems when they want to repay the loan.

1. Unfavourable climatic condition that leads to crop failure, it also leads to inability to repay micro kredit finance on time.
2. High interest rate.

3. Unstable market price/unfavourable marketing problem prolong the time of repayment, thereby leads to high level of loan defulters. Micro-credit finance is considered to be good for financing agricultural production through the following suggestions.

- Government should help the farmers by providing financial assistance for rural farmers.
- Government should established financial institutions
- Government should ensure proper implementation of existing micro credit structures.
- Government should establish more credit institutions in rural area where there need for it.
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From these include:

i. Most farmers are members of cooperative societies and they do enjoy the credit facilities from the various societies.

ii. The size of loan or credit from these cooperative societies is small and not always adequate to finance farm's operations.

iii. Farmers need money mostly at the preparatory stage of their farm's operations.

iv. So, because size of the loan is usually available from cooperative societies, micro credit seems to have moderate or little effect on farm's operations.

v. The impact of micro-credit financing on agricultural production was significant since its adequacy guarantees effective production.

CONCLUSION

Micro-credit finance is a life wire for small scale farmers, the impact of micro credit financing through cooperative societies as Non-governmental micro credit finance institution can not be over emphasized.

Farmers in rural area do enjoy this micro finance, but effect on farming operations it not encouraging as expected. The farmers do not have access to other micro credit finance institution other than cooperative societies, because there is no asset like machine collateral security that will serve as guarantee for the commercial financial institutions. High interest rate is another vital thing that put farmers into limitation in obtaining micro credit from commercial institutions.

Lack of access to economic resource especially finance, by the numerous farmers across Nigeria, conditions to inhibit economic growth and development.

This call for critical examination and the adoption of an approach to avoid declaring farmers as "endangered species". It is important to double our efforts to transform the economy and continuously explore pragmatic methodologies to address the problems of our farmers.

The farmers recognized micro finance as an important tool for effective farming operations. They wanted to see sustainable financial services available for them, sue to the fact that rural farmers do not have access to formal financial resources. Micro credit finance institutions are important in achieving farmer's objectives and are being promoted to be commercially viable through an appropriate policy and regulatory framework.

Having realized the impact of micro-credit finance to farm production, it is highly incumbent for all the farmers to join cooperative societies in order to get credit facilities to finance their farming operations.

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