

LOAN ADMINISTRATION BY MICROFINANCE BANKS TO FARMERS IN ISOKO SOUTH LOCAL GOVERNMENT AREA, DELTA STATE, NIGERIA

Ebewore, S. O.

*Department of Agricultural Economics and Extension
Delta State University, Asaba Campus, Nigeria
Email: ebeworesolomon@yahoo.com*

ABSTRACT

The survey evaluated loan administration by Microfinance Bank (I.C.Global MFB) to farmers in Isoko local government Area of Delta State, Nigeria. Ninety farmers and ten bank officials were selected for the study using simple random and purposive sampling techniques with the aid of a structured questionnaire to obtain data for the study. Various descriptive and inferential statistics such as percentages, frequency distribution, mean, and regression analysis were used to analyze the data. The findings indicated discrepancy between actual amount of loans disbursed to farmers and what farmers desired, most beneficiaries obtain loans less than N200,000.00 and the time of loan disbursement affected farming activities. Based on the findings, it was recommended that overemphasis on collateral should be reduced, male and female farmers should have equal access to loans and should be made available to farmers at the right time.

Keywords: *Micro Finance, Loan, Collateral, Isoko South local government area, Farmers.*

INTRODUCTION

Agriculture is the oldest industry known to mankind and it is the source of food and raw materials for many industries. In fact, it can be justifiably referred to as the world's primary industry (Lot, 1985). Agriculture is by far one of the most important sectors of the Nigeria economy (Oji, 2002). Agricultural production in Nigeria is progressively on the decline in terms of its contribution to the Gross Domestic Product (GDP) as well as satisfying the country's food requirement, despite the fact that about 70 percent of the population engage in agriculture. According to the central bank of Nigeria (2002) Nigeria is endowed with great potentials for high production and profitable agricultural sector. However, Nigeria agricultural sector is unable to fulfill it's most basic and traditional role of being the source of food for the nation; therefore food import has continue to rise (Odigbo, 2002).

The inadequate and frequent dearth of loans for financing agriculture has been a major impediment to agricultural development in most developing countries. Agricultural loan is necessary to enable farmers take advantage of new technology in the form of farm machinery, pay for such items as improved varieties of seeds and livestock, fertilizer, pesticides, labour and other running cost. It is in the realization of the fact that credit (loans and subsidy) is a critical factor in agricultural development that for most governments in the developing continues the channeling of institutional finance to agriculture has increasingly become an 'important policy instrument for increasing agricultural output particularly of the rural farmers. For instance, microfinance banks are obliged to grant a certain and minimum percentage of their loans to agricultural production.

Unfortunately, in spite of the rapidly expanded agricultural loans in Nigeria, results of conventional agricultural loans credit programmes have seldom measured up to expectation. This is the cause of a number of reasons which include the fact that not much progress has been made in reaching the small farmers and where the loan is available, poor loan administration has contributed seriously to poor agricultural performance. It should therefore be emphasized that the problem of financing agriculture should not be confined to the provision of institutional loanable finds to the farmers but should more importantly extend to the efficient administration of the available loanable funds (Agu, 1983).

Insufficiency of capital has been a major constraint to agricultural development (Agu, 1998). In order to improve agricultural production modern farm inputs such as fertilizers, improved seed, feeds and plant protection chemicals and agricultural machineries are needed over the hoe and machete technology. Most of these technologies have to be purchased, yet very few farmers have the financial resources to finance such purchases.

Microfinance is assuming increasing importance in many parts of the world in response to the credit needs of less privileged entrepreneurs, like farmers, with limited capital base. Microfinance refers to financial services provided to low income people like small scale farmers (Okoh, Ugwumba and Isitor, 2009). Examples of microfinance products are small loans, savings plans, insurance, payment transfers and similar services that are provided in meager increments to low income individuals (Okoh, et al, 2009). Micro finances are essential in financing micro enterprises (CBN, 2006). According to Iganga (2007) microfinance includes a broader range of services, mainly credits, savings opportunities, insurance and money transfer provided especially for the poor who lack access to borrowing from traditional formal institutions.

Ogbunka (2003) and Kimotha (2005) identify three main distinguishing features of microfinance as: smallness of loans granted or savings mobilized, absence of asset based collateral and simplicity of operation. Okoh, et al (2009) opined that the average size of microfinance loan varies from one part of the world to another. According to Oluwalana, Okuneye and Sokoyo (2004) micro credit ranges between N20,000.00 to N100,000.00. Anyanwu (2004) asserted that the size of such loan in Nigeria is below N20,000.00, and is usually used to finance microenterprises like petty trading, hair dressing, sewing and low level agro-allied activities. Operators of small-scale, enterprises and cottage industries do not often have easy access to formal credit (Odedokun, 2003). In view of limited loanable funds and high transaction cost, they are not usually favoured by formal lenders; they' ration out the available funds.

Microfinance institutions were therefore established to ensure easy access of small scale enterprise operators to financial resources. Several microfinance institutions have been identified (Okoh et al, 2009). Out of these, the microfinance bank (represented by I.C.Global microfinance bank)

is the most popular in Isoko South Local Government Area in financing small scale activities. The idea of microfinance banks (MFBs) was conceived in 2005 when the CBN microfinance policy guidelines mandated all Community Banks to convert to MFBs with a minimum capital base of #20million before the end of year 2007. These MFBs are to make funds available to the poor to improve their skill acquisition, accelerate wealth creation and eradicate poverty (Iheduru, 2002).

It is against this background that this research will examine the loan administration by microfinance banks in Isoko South Local Government Area to farmer. This study is generally directed at determining loan administration by microfinance bank to agriculture in Isoko South Local Government Area of Delta State. The specific objectives are to:

- 1) examine socio-economic characteristics of respondents.
- 2) determine the volume of loans obtained by farmers.
- 3) determine the problems being experienced by Micro Finance Banks in disbursement of financial assistance to fanners.
- 4) examine the nature of problems confronting the farmers in obtaining financial assistance from Micro Finance Banks.
- 5) determine volume of loan granted on gender basis
- 6) determine the repayment rate on gender basis
- 7) examine how time of loans disbursement affects farming.

To be focussed on the course of this study, a comprehensive research hypothesis was formulated in a null form to guide the study, thus, there is no significant relationship between some selected variables and volume of loan obtained by farmers.

METHODOLOGY

This cross-sectional survey was conducted in Isoko South Local Government Area of Delta State, Nigeria. The study area is on the rain forest belt of 50N on the Niger Delta Region of Nigeria with flood plain at the Niger Delta. It covers an approximated area of 668 square kilometers and has a population of about 114,391 males and females 113,321, given a total population of 227,712 (National Population Census Report 2006). Isiko local government area is made up of 10 clans namely: Oleh, Olomoro, Irri,

Aviara, Uzere, Amede, Igbide, Umeh, Araya and Erowah which are part of the Isoko tribe in Delta State. The population for this study comprises all farmers in Isoko local government area.

Structured questionnaires were randomly administered on ninety farmers selected for the study. While ten staff of I. C. Global Micro-Finance Bank were purposively interviewed to form the total sample of hundred (100) respondents for this study. Data analyses techniques include descriptive and inferential statistics such as frequency tables, percentages, mean and regression analysis.

The Regression equation (linear) is explicitly written as:

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 + b_8X_8 + b_9X_9 + b_{10}X_{10} + U_e$$

Where:

Y = Volume of Loan obtained (dependent variable)

b₀ = intercept farm

b₁-b₁₀ = coefficients of multiple regression

X₁ = Gender

X₂ = Age

X₃ = Level of Education

X₄ = Marital Status

X₅ = Family Size

X₆ = Occupational Activity

X₇ = Farm Size

X₈ = Output

X₉ = Profit of Enterprise

X₁₀ = Interest Rates

U_e = Error margin

RESULTS AND DISCUSSION

The table 1 shows that majority of farmers were males. This implies that more males were granted loans than females. The high percentage of male farmers may be due to their role as the bread winner of the family. Table 1 further shows the age distribution of farmers from the total respondent with the highest percentages. The bulk of the participating farmers were those of 31-40years, followed by those of 41-50years then 21-30years, 51-60years

and 61 years and above respectively. This shows that the age range of between 31-40 years engage more in agriculture in Isoko South Local Government Area compared to lesser and above age range stated in table 1. From the result on table 1, the majority of the respondents representing are married while a few is single. It shows that married people have more responsibility than single which therefore reveals that marital status have effect on loan obtained.

It was also reveal that majority of the respondents had basic formal education while few did not attain any formal education. When broken down the study indicated that both secondary school leavers and tertiary institution graduates have the same frequency of socio-economic characteristics, while primary school leavers had the least frequency compared to secondary and higher education. The high level of formal education reveals that the educations of respondents' have an obvious implication in the demand for loan from microfinance banks in Isoko South Local Government Area. Also the table shows that almost half of farmers sampled in Isoko South Local Government Area engage in crop farming followed by livestock farming and mixed farming respectively. It then reveals that majority of farmers in Isoko South Local Government Area of Delta State engage in crop farming. It also shows that a high percentage at loan obtained where used for crop production.

The family size range of 6-10 accounted for the highest percentage followed by 11 and above family size and it shows that family size have little effect on labour as a factor of production. It does not imply that the bigger the family sizes the higher the labour (family labour). Furthermore, the farm sizes of 2 - 4 hectares have the highest percentage followed by the farm size of less than 2 hectares and above 4 hectares respectively. It reveals that farm size "have a relation to agriculture and also the frequency of farm size range of respondent or farmers have a significant relationship to volume of loan obtained. That is to say that, the farm size with the highest frequency received large volume of loan from microfinance banks in the study area.

Table 2 shows that the actual amount of loan of 101,000-200,000 range have the highest percentage followed by the amount of loan of <100,000, 201,000 - 300,000, 301,000-400,000 and 401,000 and above with the percentages respectively. It then reveals that Microfinance Banks

give most of its loans between the ranges of 101,000-200,000 naira. In all cases, there is discrepancy between the actual amount of loan and what the farmers actually desired. From Table 3, it is clear that the female farmers acquire the lowest amount of loan compared to their male counterparts. It is only the males that were granted loans of more than N300,000. The reason is because most females do not have enough collateral to secure huge amount of loan. From the Study, the males have low repayment rate compared to their female counterparts. Similar results have been obtained in previous studies (Adeolu and Taiwo, 2004; Okoh, et al, 2009). Table 4 shows the effect of time of loan disbursement on farming activities. We can therefore say that time of loan disbursement is a major factor to be looked upon during loan administration by micro finance banks in Isoko South Local Government Area of Delta State.

From table 5 we can say that the problems confronting farmers in obtaining financial assistance from microfinance banks are serious because the values of the means obtained are greater than three. (Akwiwu, Nwayiba, Nnadi, 2000). We can say that that the problems' being experienced by microfinance banks in disbursement of financial assistance to farmers is a serious one. This is in agreement with (Akwiwu, Nwayiba, Nnadi, 2000) who asserted that on the likert scale rating value more than three (3) indicates a serious problem. Okoh et al (2009) identified logistic problems, lack of repayment and inadequate fund as some of the problems of microfinance institutions.

The independent variable in the model such as gender (X_1) age (X_2), marital status (X_4) occupational activities (X_6), farm size (X_7), output (X_8) and interest rate (X_{10}) are all significant in determining the amount of loan obtained from the microfinance banks. With R-square (R^2) of 0.61, it implies that 61% of loan obtained from microfinance bank were as a resulted of the independent variables entered in the model which are age, gender, educational background, marital status, family size, occupational activities of loan on profit and interest rate on loan obtained.

CONCLUSION AND RECOMMENDATIONS

The level of loan administration by microfinance banks in Isoko South Local Government area to farmers is still at a low level. While most farmers find it difficult to acquire loan on grounds of lack of collateral inaccessibility to loan, most of those who succeeded in getting the loans do not repay on time. However, considering the fact that farmers constitute the bulk of the producers of food and raw materials for our ever-increasing population, they certainly need more assistance by banks to fund their farm operation. This will go a long way towards ensuring food securing and increasing our Gross Domestic Products (GDP) in the country in the years ahead.

In view of the findings of the study, it was recommended that the over-emphasis on collateral as an over-riding condition for granting loan to farmers should be de-emphasized. Farmers should be encouraged to apply for loans on cooperative basis where collateral may not be required (Akanji, 2002; Oke, Adeyemo and Agbonlahor, 2007). Microfinance banks should make the loans available to farmers on time so that they can actually fund their projects not after the planting seasons. The minimum size of loans to farmers, especially female ones, should be substantial enough so as to increase inputs thereby leading to increase in yield. Male and female farmers should have equal access to loan irrespective of their social status. The problems facing both farmers and the bank should be tackled.

Table 1: Socio-Economic Characteristics of Respondents

Respondents	Frequency	Percentage
Gender		
Male	44	56.41
Female	34	43.59
Sub Total	78	100
Age		
21-30years	17	21.78
31-40years	32	41.00
41-50years	19	24.35
51-60years	9	11.52
61years and above	2	1.4
Sub Total	78	100
Marital Status		
Married	59	75.6
Single	19	24.4
Sub Total	78	100
Educational Background		
Primary Education	16	20.5
Secondary Education	24	30.8
OND/NCE	11	14.1
Degree (B.Sc)	13	16.7
None	14	17.9
Sub Total	78	100
Occupation of Farmers		
Crop farming	35	44.9
Livestock farming	30	38.5
Mixed farming	13	16.7
Sub Total	78	100
Family Size		
1-5	9	11.54
6-10	36	46.16
11 and above	33	42.03
Sub Total	78	100
Farm Size		
Less than 2 hectares	37	47.4
2-4 hectares	39	50.00
Above 4 hectares	2	2.6
Sub Total	78	100

Source: Field, Survey 2009

Table 2: Actual and Desired Amount of Loan Disbursed to Farmers

Amount of loan (N)	Actual Amount of Loan		Desired Amount of Loan	
	Freq.	Percentage	Freq.	Percentage
100,000 and below	27	34.6	15	19.2
101,000-200,000	29	37.2	35	44.9
201,000-300,000	15	19.5	10	12.8
301,000-400,000	5	6.4	11	14.1
401,000 and above	2	2.6	7	9.0
Total	78	100	78	100

Source: Field survey, 2009

Table 3: Beneficiaries of Loan on Gender Basis

Amount of loan (N)	Male		Female	
	Freq.	Percentage	Freq.	Percentage
100,000 and below	7	8.97	20	25.64
101,000-200,000	15	19.23	14	17.95
201,000-300,000	15	19.23	0	0.00
301,000-400,000	5	6.42	0	0.00
401,000 and above	2	2.56	0	0.00
Total	44	56.41	34	43.59

Source: Field survey, 2009

Table 4: Effect of Time of Loan on Selected Farming Activities

Farmers	Frequency	%
It enable farmers to embark on early farming		
Yes	22	28.2
No	36	46.2
Undecided	20	25.6
Total	78	100
1 rear/plant crops or livestock at the appropriate time		
Yes	22	28.2
No	36	46.2
Undecided	20	25.6
Total	78	100
It resulted in my using the loan for non-farming activities		
non-farming activities		
Yes	24	30.8
No	36	46.2
Undecided	18	23.1
Total	78	100

It did not allow me to plant the appropriate crop combination		
Yes	36	46.2
No	29	37.2
Undecided	13	16.7
Total	78	100
It made pest/disease control difficult		
Yes	23	30.8
No	33	42.3
Undecided	21	26.9
Total	78	100

Source: Field survey, 2009

Table 5: Problems Encountered during Loan Acquisition by Farmers

Problems	Means	Standard Deviation	Rank
Inaccessibility to loan	3.85	1.52	1
Bucreacratc bottle neck	3.75	1.25	2
Lack of Collateral	3.69	0.88	3
Untimely release of loan	3.68	0.77	4

Source: Field survey, 2009.

Likert-scale coded: Very serious (5), Serious (4), Don't know (3), Not serious (2), Not very serious (1).

Table 6: Problems Experienced by the Micro-Finance Bank in Disbursement of Loans Farmers

Problems	Means	Standard Deviation	Rank of mean
Repayment problem	4.2	1.04	1
Farmers complete application form wrongly	3.8	1.09	2
Farmers not providing the necessary security	3.5	1.55	3
Lack of personnel to supervise farms	3.4	1.34	4
Insufficient fund	3.3	1.34	5
Farmers do not apply on time	3.2	1.29	6
Logistic problems	2.5	0.85	7

Source: Field survey, 2009.

Likert-scale: Very Serious (5) Serious (4), Don't know (3), Not serious (2), Not very serious (1).

Regression Model: Summary

Model	R	R square	Adjusted R square	Standard Error of the Estimate
1	.780	.609	.550	66007.74

Predictors: (Constant) Gender, Age, Educational Level, Marital Status, Family Size, occupational Activity, Farm Size, Output in Naira, profit from Enterprise, Interest Rate on Loan.

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	-426317	193345.1	0.250	-2.205*	0.031
Gender	49334.929	17958.5	0.320	2.747*	.008
Age	3458.272	933.6	0.103	3.764*	.000
Educational level	-7140.872	5556.9	.388	-1.285**	.203
Marital Status	-88295.2	31584.6	.237	-2.796*	.007
Family Size	-576.015	333.8	.478	-1.726**	.089
Occupational Activity	63833.384	12164.0	.295	5.248*	.000
Farm Size	52759.422	15887.2	.265	3.321*	.001
Output in Naira	.2001	.071	.267	2.840*	.006
Profit Level	3462.445	9215.9	.029	.336**	.723
Interest Rate	34166.575	17060.6	.165	2.003*	.049

Dependent Variable: Volume of Loan, * Significant at 5%; ** Non Significant

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