

## **The Role of Microfinance in Agricultural Production in Anambra West Local Government Area of Anambra State, Nigeria**

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**Abstract:** It is believed that improved agricultural sector cannot be achieved without funds. Thus, through microfinance institutions, funds are made available to the farmers in appropriately interpreted form to enhance the farmer's usage of loan. This work was carried out to study the role of microfinance in agricultural production in Anambra West Local Government Area of Anambra State, Nigeria. Ninety (90) small-scale farmers and ten (10) microfinance officials from the study area were selected using the purposive sampling method as well as the double stage random sampling method. Interviews were also conducted with the small-scale farmers and the microfinance were analyzed and computed into response, frequency and percentages. The results showed that there were many problems facing small-scale farmers in the study area. This includes illiteracy, lack of track records, no insurance cover and the issue of pests and diseases. In the other hand, the MFI were faced with a lot of problems ranging from technical problems associated with processing of application form from the farmers. Therefore, based on the findings, some recommendations were made which if adhered to, will solve the problems encountered by both banks and small-scale farmers in the study area.

**Key words:** Microfinance • Anambra State • Farmers • Loans and Agricultural production

### **INTRODUCTION**

The primary purpose of agriculture is food production; but this purpose cannot be completely achieved without money. Therefore, some financial assistance needs to be given to farmers to maximize agriculture production, hence microfinance banks.

[1], defines agricultural credit as repayable loan given to farmers with or without interest to enable them carry out farm operations more efficiently. It is an input factor, next to improve seeds, seedling, fertilizer, pesticides, tools and machines use to maximize production. The target groups are the farmers and the issue is how to disburse these credits to them. The funds are provided by government and donor agencies and the main disbursement channels are agricultural banks and projects.

The agriculture credit is more of a business venture than a service provider. Its strategy had much to do with green revolution. It is driven by technology and financed on credit at subsidized interest rates. So impressive was

the business of the green revolution that business of finance service was ignored. But when farmers do not repay their loans, the banks could not cover their cost and the government ran out of money to finance the subsidy and the banking business finally failed and so did the service.

Therefore, to survive the people engaged in numerous activities, on farm and non-farm. Rural farmers got increasingly diversified as a result of financial inadequacy. Access to finance becomes a limiting factor as agricultural credit had been exclusive. It excluded those who did not own land nor till the land, laborers, poor farmers, micro entrepreneur and small holder farmers that are too poor to give bribe and uneducated to read and understand the cumbersome administrative paper work necessary for processing of the required loan as demanded by the microfinance institutions.

This unsatisfied demand prepares ground for the supply side microfinance. And due to the overall failure of capital transfer of the government directed credit during the 1980s, the emphasis in development policy shifted,

particularly in rural areas with a move from agricultural credit to rural financial services for a diversified economy and from development banking to microfinance banking. It is based on this that rural finance stands to finance agricultural production.

[2], described micro-finance as that part of financial sector that encompasses micro-credits, micro-saving and other financial services target at low-income earners. It is part of the financial sector which comprises viable formal and informal institutions, small and large, that provide small size finance to all segments of the rural and urban populations. It covers a wide range of financial institutions, ranging from indigenous rotating savings and credit association (ROSCAS) and self-help groups to financial co-operatives, rural banks and community banks, as well as non-bank financial institutions (NBFIs, including credits (NGOs), all the way up to development banks and commercial banks, more likely.

[3], described agricultural finance as a sub-set of the rural finance dedicated to financing agricultural related activities such as input supply, production, distribution processing and marketing of agricultural produce. In the other hand, rural finance is defined by World Bank (1997) as the provision of financial services such as savings, credit, payment and insurance to rural individuals, households and enterprises, both farmers and non-farmers on a sustainable basis. This also includes financing for agriculture and agro-processing.

**Objectives of the Study:** The broad objective is directed at determining the roles of microfinance in agricultural production in the study area. Specific objective was to:

- Describe the socio-economic characteristics of the farmer beneficiaries in the study area;
- Examine the contributions of microfinance to agricultural production in the study area;
- Determine the size of loan given to farmers and their repayment rates;
- Determine the problems faced by farmers towards obtaining loan grants from MFIs and also in their repayments; and
- Make recommendations based on this research findings.

## **MATERIALS AND METHODS**

**Study Area:** The study area was Anambra West Local Government Area, which is one of the twenty one (21)

local government areas in Anambra State. It is located at the western part of the state and has its headquarters at Nzam. It is bounded in the East and West by Anambra River and River Niger respectively. In the North by Anambra West, it is bounded by Uje Local Government Area of Kogi State and in the South by the confluence of Anambra Rivers and River Niger.

It comprises of nine (9) communities among who are Innoma Aka-ator, Nzam Ogbe, Oroma Etiti Anam, Umueze Anam, Umuikwu Anam, Umudiora Anam, Umuenwelum Anam, Nmiata Anam and Obodo-otu.

Anambra West is a low-land area that occupies an estimated area of about 80 squared kilometers with a population density of about 167,303 [4]. The people of this local government are mostly Christians. Their primary occupation is farming and fishing, therefore, they cultivate all sorts of agricultural crops such as yam, rice, pineapple, pepper, maize, okra, plantain and cassava which gained the local government the title: THE FOOD BASKET OF ANAMBRA STATE. Although farming is their major occupation; they also engaged in other activities such as trading and civil services for their living.

The area has a tropical marked by dry and wet seasons. Its temperature ranges between 32C and 44C and also, an annual rainfall of 1,500-2,000mm [4].

**Sampling Techniques:** The procedure for drawing a sample depends on the objective of the research topic under study. The target population for this study constitutes three (3) banks with ten (10) respondents, as well as ninety (90) small farmers in Anambra West L.G.A.

The three banks were selected purposively using purposive sampling method. This is because; they are banks that offer credits to the small-scale farmers that abound the area. The designated banks are Anambra Pro-credit Microfinance Bank, formally known as Nigeria Agricultural Development Bank (NADB), Nzam Microfinance Bank and Innoma Microfinance Bank, formally called Innoma Community Bank.

As for the ninety (90) small-scale farmers, they were selected using a double-stage random sampling. This allowed the selection of 20 small-scale farmers from each of the nine communities at the first stage and this totaled 180 small-scale farmers. This was followed by another selection of 10 small-scale farmers from each of the nine communities, which was the second stage and total 90 small-scale farmers.

**Data Collection:** Data were collected using primary and secondary sources of data. The primary source was a structural questionnaire, as well oral interview with the respondents. Secondary sources include textbooks, bulletins, journals, reports and projects.

**Data Analysis:** The data were analyzed using simple descriptive statistical tools like frequency distribution, tabulation, percentages, etc.

**Data Analysis, Interpretation and Discussion:** These data were collected using the two sources of data collection; primary and secondary sources. In this work, they were analyzed and interpreted using simple descriptive tables and percentages.

Table 1 above shows that 66.70% of the small-scale farmers studied were males and 33.30% were females. This implies that there were more male than female farmers in the study area.

Table 2 above shows that 8.90% of the respondents were under 20 years, 22.20% were between 21-30 years of age, 44.40% were between 31-40 years, whereas 22.20% were 41-50 years and only 2.30% were above 51 years.

This implies that majority of the farmers studied fall between the age brackets of 30-40 years.

Table 3 above shows that 22.20% of the farmers studied were single, 66.70% were married and 11.10% were divorced. This implies that most of the farmer respondents were married.

Table 4 above shows that 38.90% of the farmers studied have no formal education at all, 50% of them were first school leavers and 11.10% attended high schools but none attended any tertiary institution. This implies that majority of farmers studied ended their education as first school leavers; therefore, have very poor academic background.

Table 5 above shows that 68.90% of the respondents were full-time farmers where as 31.10% were part-time farmers. This implies that most of the respondents were full-time farmers.

Table 6 above shows that 48.90% of the respondents planted early, 25.60% planted at the right time and 25.60% made inappropriate crop combination, but none diverted the loan due to time of disbursement. This implies that majority of respondents received the loan at the right time.

Table 7 above shows that 27.80% of the respondents used their loan for hiring labour, 61.10% used it to purchase farm input, 7.80% used it to buy farmland none used it to pay school fees but 3.30% of them used the loan for burial and marriage. This result implies that the farmer respondents used loan to purchase farm input.

Table 1: Percentage Distribution of Respondents according to Sex

Gender	Frequency	Percentage (%)
Male	60	66.70
Female	30	33.30
Total	90	100.00

Source: Field Survey, 2010

Table 2: Percentage Distribution of Respondents according to Age

Age (years)	Frequency	Percentage (%)
Under 20	8	8.70
21 – 30	20	22.20
31 – 40	40	44.40
41 – 50	20	22.20
51 and above	2	2.30
Total	90	100.00

Source: Field Survey, 2010

Table 3: Percentage Distribution of Respondents according to Marital Status

Marital Status	Frequency	Percentage (%)
Single	20	22.20
Married	60	66.70
Divorced	10	11.10
Total	90	100.00

Source: Field Survey, 2010

Table 4: Percentage Distribution of Respondents according to Educational Status

Educational Status	Frequency	Percentage (%)
No formal education	35	38.90
First school leavers	45	50.00
Secondary school	10	11.10
Tertiary education	-	-
Total	90	100.00

Source: Field Survey, 2010

Table 5: Percentage Distribution of Respondents according Farming Participation

Farming Participation	Frequency	Percentage (%)
Part-time farming	28	31.10
Full-time farming	62	68.90
Total	90	100.00

Source: Field Survey, 2010

Table 6: Percentage Distribution of Respondents according to the Effect of Time of Loans Disbursement

Effect of Time	Frequency	Percentage (%)
Early farming	44	48.70
Right time	23	25.60
Diverted the loan	-	-
Inappropriate crop combination	23	25.60
Total	90	100.00

Source: Field Survey, 2010

Table 7: Percentage Distribution of Respondents according to Use of Loan

Uses	Frequency	Percentage (%)
Hiring of labor	25	27.80
Purchase of inputs	55	62.10
Purchase of farmland	7	7.80
Paying children school fees	-	-
Marriage/burial/naming ceremony	3	3.30
Total	90	100.00

Source: Field Survey, 2010

Table 8: Percentage Distribution of Respondents according to the Effects of Loan to their Farm Business

Effects of Loan	Frequency	Percentage (%)
Increase depth	18	20.00
Increase production	71	80.00
Decreased production	-	-
Total	90	100.00

Source: Field Survey, 2010

Table 9: Percentage Distribution of Respondents according to the Volume of Loan Received

Volume of Loan (N)	Frequency	Percentage (%)
1,000 – 50,000	-	-
50,000 – 100,000	70	77.80
100,000 – 200,000	20	22.20
Above 200,000	-	-
Total	90	100.00

Source: Field Survey, 2010

Table 10: Percentage Distribution of Respondents according to the Type of Security Provided in Order to Obtain Loan

Types of Security	Frequency	Percentage (%)
Farm record	3	3.30
Landed property	22	24.40
Life insurance cover	5	5.60
Guarantor	60	66.70
Total	90	100.00

Source: Field Survey, 2010

Table 11: Percentage Distribution of Respondents according to Rate of Repayment of Loan

Repayment Status	Frequency	Percentage (%)
Repaid	63	70.00
Not repaid	27	30.00
Total	90	100.00

Source: Field Survey, 2010

Table 8 above shows that 30.00% of the respondents increased their depth by receiving loan while 80.00% of them increase their farm production by receiving loan but no case of decreased production was reported. This implies that majority of the farmers increased their farm production by obtaining loan.

From the Table 9 above, no respondents received 1,000-50,000 naira as loan, 77.80% received 50,000-100,000 naira, 22.2% respondents received 100,000-200,000 but no

respondents received above 200,000 naira. This implies that majority of the farmer respondents received 50,000-100,000 naira as loan.

Table 10 above shows that 3.30% of the respondents provided farm records in order to obtain loan, 24.40% of the respondents provided landed property, 5.60% provided life insurance cover and 66.70% provided guarantors before receiving the loan. This implies that majority of the farmer respondents provided guarantor before receiving loan.

From the Table 10 above, 70.00% of the farmer respondents have repaid the received loan, whereas 30.00% of them have not repaid. This implies that majority of the farmer respondents have repaid their loan.

Table 12 above shows that no respondents had the problem of distance, 31-40% faced lack of security, 55.60% faced lacked of track records and 10.00% faced late approval of application this implies that majority of the respondents faced the problem of lack of adequate track records towards loan procurement.

From the table 13 above, 8.90% of the respondents found it very easy to obtain loan, 13.30% found it slightly difficult to obtain loan and 77.80% found it very difficult to obtain loan. This implies that majority of the farmer respondents found it very difficult to obtain loan from the microfinance institutions (MFIs) analysis on the questionnaire distributed to microfinance institution officials.

Table 14 shows that no respondents indicate any application, 60.00% of the respondents indicate few application and 40.00% indicate very much many application. This implies that few applications were made for loan in banks.

From Table 20 above, 20% of the respondents indicate long-term loan as then means of encouraging farmers to obtained loan 50.00%, indicate lower interest rate where as 30.00% indicate using advise to a tool of encouraging the farmer, but none indicated seizing their property.

This implies that the most common means of encouraging the farmers to come and obtain loan by the banks is by lower interest rate.

Table 16 shows that no respondents indicated reputation as their major consideration before giving out loan, 30.00% of the respondents indicate net worth, 50.00% indicated farm records and their consideration before giving out loan. This implies that the major consideration of bank in farm records.

From Table 17, all the respondents agreed that loan maximizes agricultural production in the study area.

Table 12: Percentage Distribution of Respondents according to Problems Faced Towards Obtaining Loan

Problems	Frequency	Percentage (%)
Distance from loaners	-	-
Lack of security	31	31.40
Lack of track record	50	55.60
Late approved	9	10.00
Total	90	100.00

Source: Field Survey, 2010

Table 13: Percentage Distribution of Respondents according to the Degree of Difficulties Encountered in Loans Procurement

Degree of Problems	Frequency	Percentage (%)
Very easy	8	8.90
Slightly difficult	12	13.30
Very difficult	70	77.80
Total	90	100.00

Source: Field Survey, 2010

Table 14: Percentage Distribution of Respondents according to the Extent Farmers Apply for Loan in their Banks

Application	Frequency	Percentage (%)
Not at all	-	-
Few application	6	60.00
Very much	24	40.00
Total	10	100.00

Source: Field Survey, 2010

Table 15: Percentage Distribution of Respondents according to how they Encourage the Farmer to come and obtain loan from their banks

Means of Encouragement	Frequency	Percentage (%)
Long term loan	2	20.00
Lower interest rate	5	50.00
Advising them	3	30.00
Seizing their property	-	-
Total	10	100.00

Source: Field Survey, 2010

Table 16: Percentage Distribution of Respondents according to Consideration Before Giving Out Loan

Consideration	Frequency	Percentage (%)
Reputation	-	-
Net worth	3	30.00
Farm records	5	50.00
Security	2	20.00
Total	10	100.00

Source: Field Survey, 2010

Table 17: Percentage Distribution of Respondents according to the Effects of Loan in Agricultural Production

Effects	Frequency	Percentage (%)
Minimize production	-	-
Maximize production	10	100
No effect	-	-
Total	10	100.00

Source: Field Survey, 2010

Table 18: Percentage Distribution of Respondents according to the Volume of Loan Demand by Farmers

Volume of Loan (N)	Frequency	Percentage (%)
1,000-50,000	-	-
50,000-100,000	3	30
100,000-200,000	7	70
200,000 – above	-	-
Total	10	100.00

Source: Field Survey, 2010

Table 19: Percentage Distribution of Respondents according to the Type of Security Demanded

Security	Frequency	Percentage (%)
Farm record	1	10
Landed property	3	30
Life insurance cover	2	20
Guarantor	4	40
Total	10	100.00

Source: Field Survey, 2010

Table 18 shows that no respondent indicated 1,000-50,000 as the volume of loan demanded by the farmers, 30 indicated 50,000-100,000, 70% indicated 100,000-20,000 and none indicated above 200,000 naira. This implies that the highest volume of loan demanded by farmers in the bank is between 100,000-200,000.

Table 19 shows that 10% of the respondents agreed demanding for farm record before giving out loan, 30% indicated landed property, 20% indicated life insurance cover and 40% indicated demanding for a guarantor before giving out loan to farmers. This implies that the most security demanded by the banks in the study area is guarantor.

## Summary, Conclusion and Recommendations

**Summary:** This research was designed to examine the role of microfinance banks in agricultural production in Anambra West Local Government Area of Anambra State. Its sample size is one hundred (100) respondents, constituting ninety (90) small-scale farmers and ten (10) microfinance institution officials. The data were coded and analyzed using simple descriptive tabulation and percentages. The results had been interpreted and analyzed.

The analysis shows that majority of the small-scale farmers in the study area were males and majority of them fall into the age bracket of between 31-40 years, the volume of their loan ranges between 50,000-100,000 naira.

The microfinance institution requires collateral in form of landed property and guarantor before granting loan to the farmer beneficiaries.

The constraints faced by the farmers includes lack of adequate track records, poor educational background, inability to produce adequate collateral and neglecting of the impact of Nigeria Agricultural Insurance Company (NAIC), thereby limiting themselves the chances of procuring government provided funds for agricultural production.

### **CONCLUSION**

This research revealed that the level of financial assistance given to the farmer beneficiaries in Anambra West Local Government Area is far beyond minimum and that most of the farmers found it very difficult to acquire loan for the lack of collateral and poor educational status. Unpleasantly, some of them who finally succeeded getting the loan ended-up diverting it to non-agricultural purposes.

However, these people certainly need more assistance from both MFI and the extension agents for adequate food security in the country considering the fact that these small-scale farmers constitutes majority of the producers of food and raw materials both for the teeming population and the industries alike.

Recommendations: Based on the findings of this study, the following recommendations were proffered:

- The MFIs should reduce some of their stringent attached to loan procurement.
- The MFIs should make loan available to the farmer beneficiaries in time to prevent diversion of loan (money) to non-agricultural activities.
- Agricultural extension programme should be intensified in the study area so that the farmers will embrace and be in line with government's effort in alleviating poverty through agriculture.
- The volume of loan giving to the farmer beneficiaries in the study area should be increased to help enhance agricultural production.
- The farmers should be advised on the uses of loan and also made to know that the loan given to them is not their share of the national cake.

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