

THE ROLE OF MICROFINANCE BANK CREDIT ON AGRICULTURAL OUTPUT FOR A SUSTAINABLE GROWTH AND DEVELOPMENT IN NIGERIA

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Abstract

The importance of Agricultural output ranges from production for local consumption to that of export for foreign exchange reserve. This study investigated the role of microfinance bank credit on Agricultural out put in South East Nigeria. Questionnaire was used to collect data from respondents; farmers and microfinance bank staff in the South East zone of Nigeria. The options were scaled with a Likert scale Rating Model with a 2.5 bench mark. Result showed that an increase in microfinance bank credit to farmers increased agricultural out put, with a mean score of 3.5 which is quite high as compared to 2.5 bench mark. Further findings

showed that microfinance bank credit had no significant impact on agricultural output in Nigeria, hence escalation of hunger and high prices of agricultural products. Other findings showed that interest rate charged for microfinance bank loan was high hence the inadequate agricultural financing of farmers. Among the recommendations were reducing the interest rate to encourage farmers to borrow from microfinance banks, as well as the federal government incentive through microfinance bank to encourage farmers, so as to increase efficiency and effectiveness of farmers and to attract more youths to the agricultural sector for increase in economic growth and development in Nigeria.

Keywords: *Agricultural output, Microfinance Bank Credit, Youth and Economic Growth and Development.*

Introduction

The importance of Agriculture cannot be overemphasized. It ranges from the production of agricultural products consumed locally and the excess exported abroad. The part consumed solves the problem of hunger and provides raw materials for our local industries which in turn encourages employment of our teeming unemployed youths. The part exported brings in foreign exchange and a favourable balance of payment in the international trade. The Microfinance Banks (MFBs) have become established the world over as financial agent and active player in financial intermediation process and more importantly in the fight against hunger and poverty, and to aid capacity building and formalisation of the informal sector. Nigeria is endowed with natural resources, large fertile farm lands, wide range of crops and rivers, amongst others. Despite Nigeria abundant natural resources, it is faced with food insecurity. This is traceable to the decline in the agricultural sector after the discovery of oil in Oloibiri in the present Bayelsa State. Prior to the discovery of petroleum in Nigeria, agriculture used to be the highest foreign exchange earner and its

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contribution to GDP has been estimated as 62.632% in the 1960's, 48.8% in 1970's and 20.63 in 1980. Due to the fall in the level of agricultural production from decade to decade the country could no longer feed the large population, provide raw material for domestic industry, engage in the export of agricultural products and employ the labour force of the nation despite the abundance of human and material resources. Recent government efforts to transform from present subsistence agriculture to market-oriented level of agricultural production include the ban on importation of agricultural products like palm oil, maize and rice. Also government disbursed N21b to each State of the federation to boost agriculture and each MFB received N100m for disbursement to farmers. It is hoped that increased MFB credit to farmers would have positive effect on the agricultural output, thus a sustainable economic growth and development in Nigeria (CBN, 2016).

Statement of the problem

According to Anyanwu et.al (1997), the agricultural sector has been recognized for a long time as an important sector in the Nigeria economy and development of this sector is one of the crucial requirements for the overall economic growth. In the past, the government introduced programmes such as National Accelerated Food Production Project (NATPP), Operation Feed the Nation (OFN), School-to-Land programme, among others. But all these are yet to translate to improved food production in Nigeria.

Objectives of the study

This research sought to find if the credit advanced to farmers through MFBs has significantly impacted agricultural output in Nigeria. Specific objectives of the study were to:

1. Investigate the relationship between increase in MFB credit to farmers and agricultural output in Nigeria.
2. Examine the impact of MFB credit on agricultural output in Nigeria.
3. Identify the factors that militate against MFB credit to farmers.
4. Determine policy actions for improvement of agricultural output through MFB credit.

Research Questions

1. What relationship exists between MFB credit and agricultural output in Nigeria?
2. What impact has MFB credit on agricultural output in Nigeria?
3. What are the factors militating against MFB credit to farmers?
4. What policy actions can improve the agricultural output in Nigeria?

Research Hypotheses

- Ho:** There is no significant relationship between increase in MFB credit to farmers and agricultural output in Nigeria.
- Ho:** MFB credit has no impact on agricultural output in Nigeria.
- Ho:** There is no factor militating against MFB credit to farmers.
- Ho:** There are no policy actions that can improve the agricultural output through MFB credit in Nigeria

Methodology

A survey research design was adopted in this study because it is a fact finding technique that focuses on people. The area of study is the Southeast Zone of Nigeria which comprises of Anambra, Imo, Ebonyi, Enugu and Abia State. The use of this zone is informed by the existence of large farmers and MFBs. The population of the study was all farmers and MFBs staff in the Southeast zone with over 5 years experience in Agro business. A random sampling method was use to draw the sample for the

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study. Both male and female farmers and MFB staff were involved. The total sample used was 500 members. The instrument for data collection was questionnaire in a fixed response type with a Likert type response format of strongly Agree (SA) 4 points, Agree (A) 3 point, Disagree (DA) 2 points and Strongly Disagree (SD) 1 point. The bench mark was 2.5. Mean and frequency count were used in analyzing the data. In discussing the questionnaire items any mean score above the 2.5 bench mark was regarded as being in agreement, while any mean score that is below 2.5 is regarded as being in disagreement.

Data presentation

Table 9.3.1: Research Question 1 - Relationship between microfinance bank credit to farmers and agricultural output in Nigeria.

S/N	Item	Mean	SD	Remarks
1.	Increase in microfinance bank credit to farmers increase Agricultural output	3.5	2.1	A

Source: Research Survey 2017

Table 9.3.1 reveals a mean score of 3.5, which is quite high as compared to the 2.5 real limit.

Table 9.3.2: Research Question 2 - Impact of microfinance bank credit on agricultural output in Nigeria.

S/N	Item	Mean	SD	Remarks
1.	Microfinance bank credit have high impact on the Agricultural output in Nigeria.	2.15	- 1.61	D

Source: Research survey 2017.

Table 9.3.2 reveals a mean score of 2.15, which is below the agreed limit of 2.5. This shows that MFB credit have no impact on agricultural output in Nigeria.

Table 9.3.3: Research Question 3 - Factors militating against microfinance bank credit to farmers

S/N	Item	Mean	SD	Remarks
1.	High Interest Rate charged by microfinance bank	3.24	1.48	A
2.	Request for collateral for loan by microfinance bank	3.35	1.75	A
3.	Request for compensating Balance	3.21	1.42	A
4.	Upfront payment of interest and compensating balance	3.15	1.29	A
5.	Provision of Guarantors before loan can be granted	3.12	2.04	A

Source: Research survey 2016.

In Table 9.3.3, all the items had mean scores of 3.24, 3.35, 3.21, 3.15 and 3.12, each of which agreed that microfinance banks charged high interest rate. Request for collateral by microfinance bank, request for upfront payment of interest and compensating balance and demand for guarantors by microfinance bank before loans can be granted are factors militating against microfinance bank credit to farmers.

Table 9.3.4: Research Question 4 - Policy actions to improve agricultural output in Nigeria.

S/N	Item	Mean	SD	Remarks
1.	Increase in the amount of lending to farmers	3.35	1.75	A

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2.	Reduction in interest rate of single digit 1% - 9%	3.15	1.29	A
3.	Timely Disbursement of Loan to farmers.	2.55	.774	A
4.	Encouragement of effective incentive to farmers	2.73	.896	A
5.	Introduction of farm protection law to stop cattle menace	2.55	.744	A

Source: Research Survey 2016.

Table 9.3.4 indicates that all the items with the mean scores of 3.35, 3.15, 2.55, 2.73, 2.55 agreed that increase in the amount of lending to farmers, reduction in interest rate to single digit between 1-6%, timely disbursement of loan to farmers which can be done direct to farmers through the microfinance bank, encouragement of effective incentive like supply of improved seedlings and other farm inputs like herbicides and fertilizers, and farm protection law that will protect the farmlands especially from the herdsmen, are the policy actions that will encourage or improve agricultural outputs in Nigeria.

Hypotheses Testing

Hypothesis One

Ho: There is no significant relationship between increase in MFB credit to farmers and agricultural output in Nigeria.

H1: There is a significant relationship between MFB credit to farmers and agricultural output in Nigeria.

Table 9.3.1 was used to test whether there was any significant relationship between microfinance bank credit to farmers and agricultural output in Nigeria. The mean score of 3.50 was above the 2.5 bench mark, showing that increase in microfinance bank credit to farmers would increase agricultural output in Nigeria. Therefore, the null hypothesis which states

that there is no significant relationship between increased microfinance bank credit to farmers and agricultural output in Nigeria was rejected. The alternative hypothesis which states that there is a significant relationship between increase in microfinance bank credit to farmers and agricultural output was accepted.

Hypothesis Two

H₀: MFB credit to farmers has no impact on agricultural output in Nigeria.

H₁: MFB credit to farmers has impact on Agricultural output in Nigeria.

This can be tested using the Likert Model showing mean responses of microfinance bank credit to farmers on agricultural out put in Nigeria as prescribed in Table 9.3.2. Here, there is a mean scores of 2.15 on the impact of microfinance bank credit to farmers on the agricultural out put which is below the 2.5 bench mark showing that microfinance bank credit have no impact on Agricultural out put in Nigeria. Therefore, the null hypothesis which states that microfinance bank credit to farmers have no impact on agricultural out put in Nigeria is accepted and the alternative which state that microfinance bank credit to farmers have impact on agricultural out put in Nigeria is rejected.

Hypothesis Three

H₀: There are no constraint factor that militates against MFB credit to farmers.

H₁: There are factors militating against MFB credit to farmers.

Table 9.3.3 shows mean scores that are above the 2.5 bench mark which is in agreement that up to 5 factors militate against MFB credit to farmers. Therefore, the null hypothesis which states that there are no factors

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militating against MFB credit to farmers in Nigeria is rejected and the alternative hypothesis which states that there are factors militating against MFB credit to farmers in Nigeria was accepted.

Hypothesis Four

Ho: There are no policy actions that can improve the agricultural output in Nigeria.

H₁: There are policy actions that can improve the agricultural out put in Nigeria.

This hypothesis can be tested using the Likert model as prescribed in Table 9.3.4. It shows the mean responses of respondents on policy actions that can improve agricultural out put in Nigeria. The data gathered centered on Agricultural financing which is the main factor that can solve the problem of poor agricultural out put in Nigeria. Here all the 5 items provided the means scores that are above the 2.5 bench mark which is in agreement that the 5 factors which centred on Agricultural financing are major policy actions that can give instant improvement on agriculture out put in Nigeria. Therefore, the null hypothesis which states that there are no policy actions that can improve agricultural out put in Nigeria is rejected and the alternative which states that there are policy actions that can improve agricultural out put in Nigeria is hereby accepted.

Summary of findings

A major finding of this study shows that there is a strong agreement among respondents that increased in microfinance bank credit to farmers increases Agricultural out put. The implication of this is that when there is increase in the microfinance bank credit to farmers,. Agricultural out put will also increase and enough products will be available both for the local consumption and for international market. Also, the study reveals that there is a high positive relationship between the two variables of increased

microfinance bank credit to farmers and increases agricultural output in Nigeria. The study discovered that some factors militated against MFB credit to farmers. These factors include:

- (1) High interest rate charged by microfinance bank.
- (2) Request for collateral for loan granted by the MFB to farmers.
- (3) Request for compensating balance before credit can be granted to farmers.
- (4) Upfront payment of interest and compensating balance which reduces the amount of credit need of the farmer.
- (5) Provision of guarantors by farmers before credit can be granted by MFBs.

Other findings show that MFB credit had no significant impact on agricultural output in Nigeria.

Conclusion

Whereas MFBs are established all over the world to grant credit to small holder farmers to boost agricultural output, the study found that in Nigeria MFB credit had no significant impact on agricultural output. Factors responsible for this anomaly were also established. This might help educate the government and other stakeholders on way forward to food security in Nigeria.

Recommendations

Based on the findings, the following recommendations were made:

1. Government should consider increasing the credit ceiling to farmers from MFBs from a maximum of N500,000.00.
2. Government should reduce interest rate on credit to farmers to single digit in order to encourage farmer to borrow from MFBs in Nigeria.

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3. Government should encourage the effective disbursement of farm incentives through MFBs to encourage farmers, so as to increase efficiency and effectiveness of farmers and to attract more youths to agricultural sector for increased economic growth and development.
4. Government should look into the issue of provision of collateral by farmers before credit is granted. Let farm land serve as collateral
5. Government should also issue a directive on payment of compensating balance by farmers on loan granted them as this reduces the amount of requested credit.
6. Government should scrap the upfront payment of interest on credits and compensating balance by farmers before loans can be granted them as this also reduces the amount requested by farmers.
7. Government should scrap the issue of providing guarantors by farmers before loans can be granted to them. Their farmland is enough to guarantee farmers credit.

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