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Repayment Performance of Rural Farmers Loan Beneficiaries of Microfinance Banks in Kogi State, Nigeria (2005 – 2010)

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ABSTRACT: The study assessed the repayment performance of rural farmer's loan beneficiaries of Microfinance Banks in Kogi State, Nigeria, using primary and secondary data. Two hundred and forty respondents were sampled, using the multi-stage random sampling. Statistical and econometric techniques such as means, percentages and regression were used for the analysis. Empirical results revealed that, volume of loan borrowed, Annual Household income and size of farm affected repayment by beneficiaries and were significant at P≥0.01. The mean age, years spent in school, household size, farming experience, farm size, and farm income were found to be 44years, 13years, 8persons, 34.5years, 3.45ha and N75,000 respectively. The mean loan repayment performance of respondents for all the agricultural enterprises was found to be 88.96%. To achieve a better repayment performance, group lending and credit delivery method now a common features of Microfinance credit delivery should be encouraged and sustained.

***Keywords*:** Microfinance Banks, loan beneficiaries, repayment performance, rural farmers, credit delivery, delinquent

INTRODUCTION

In recent times literature has come to reflect a growing awareness of the special interest in the development of the rural areas especially in developing countries, where rural communities have earlier experienced decades of neglect. There is therefore special interest in the accelerating processes of rural community transformation by various governments in the areas of poverty alleviation, provision of rural infrastructure, agricultural extension, and in the development of microfinance establishments that will affect the lives of the rural investors and community organizations among other. In developing economy, rural economy is all about agriculture. Agriculture is the major contributor to Nigeria's GDP and small – scale farmers(rural farmers) plays a dominant role in this contribution (Rahji and Fakayode 2009), but their productivity and growth are hindered by limited access to agricultural inputs especially credit this has resulted in the declining performance of the nation's agricultural sector. This has manifested in the country spending increasing proportion of its foreign exchange earnings on importation of goods and services hence the slow rate of economic development. To address this problem, various governments identified various strategies to promote production. Some of the strategies reflected in the implementation of special policy programmes like Operation Feed the Nations (OFN) in 1976, National Agricultural Food Production Programme (NAFPP), Agricultural Credit Guarantee scheme of 1977, Nigeria Agricultural Insurance Company (NAIC), the establishment of the defunct Marketing/Commodity Storage Boards in 1978, The University of Agriculture in 1988, the National Directorate for employment (NDE), in 1990s and the Agricultural Development Programmes(ADPs) of the mid-nineties. Furthermore, Government intervened in agricultural financing by establishing financial institution like the Nigeria Agricultural Co-operative Bank (NACB) 1973, now Bank of Agriculture (BOA), Peoples Bank of Nigeria (PBN)

1989, Community Bank of 1992,(now Microfinance Banks) and Non- Governmental Organization (NGO) based Microfinance Banks in 2005.

In spite of these efforts, the information available suggests that rural financial markets still remained under developed. 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 credits due primarily to low volume of business in rural areas, the processing requirements of small amounts of loan demanded by rural farmers, lack of collateral securities by most rural dwellers, low income and hence low repayment capabilities among other factors.

The discrimination against agriculture in granting of credit and the high rate of interest coupled with stringent conditions like the issue of collateral and the short term nature of credit granted by commercial banks are among the factors that led the government into adopting a policy measure that was expected to ensure easy flow of credit and financial services to the agricultural sector. This was what necessitated the establishment of Micro-finance banks in 2005.

Agriculture lending has become a vital function in financial operations as it facilitates the economic growth, agricultural development and improves efficiency. For a farmer to derive benefit from any institutional credit, the size of the loan, the process of granting such loans, timeliness in disbursement and repayment are very important (Nweze, 1991), apart from level of education, marital states and family size (Ibeawuchi, 2002). Unfortunately, financial lending institutions in Nigeria, often shy away from giving loans to famers because of high cost of administrating such loan and high default rates among famers as observed by Kodieche (2002). Two principals' strategies, "System Approach" and "Special Programme" strategy, usually adopted in the formulation of smallholder load scheme present a mixed result with famers raising issues ranging from retrogressive bureaucracy in processing and disbursement procedures to lack of organized market for farm produce from loans while the Banks alleged to pay low rate repayment by the farmers (Adegbite, 2009). Other reasons identified by Atter, et. al (1991) include deliberate refusal to pay by farmers to non-repayment due to loss of income, devastating crop failure and ill health.

The history of institutional credit administration in many parts of Nigeria has not been impressive when evaluated on the bases of beneficiaries' repayment performances. In the past, many credit agencies have been scraped for gross mismanagement while others were heavily subsidized in order to keep afloat. In 2009, the Central Bank of Nigeria withdraw the licenses of one hundred and twenty four (124) Microfinance Banks owing to sharp practices.

The institutions are concerned about risks associated with defaults against which they have recorded above 50 percent hence, their non-compliance with the Government's directives to increase their lending to agriculture (Okorie, 1989). No matter how financially endowed, no financial institution can successfully operate a revolving loan scheme without loan beneficiaries fulfilling their financial obligations (Adegbite, 2009), it is therefore, the aim of this study to investigate factors that could affect repayment capabilities of beneficiaries of Microfinance Banks in Kogi State.

Problems Statement and Justification for the Study

The stagnation of rural agriculture in Nigeria and Kogi State in particular call for effective and efficient loan administration. Structurally, Nigeria's agriculture is in the hands of small-scale farmers, cultivating less than five (5) hectares of land (Olayide et. al. 1981; Okuneye, 1985). Studies on smaller holder loan schemes revealed that the schemes are constrained by poor loan repayment (Ojo, 1985; Njoku and Nzenuwa, 1990), and this has been attributed to many factors, one of which is "attitudinal" as smaller holder farmers regard government funded credit as their own share of the "national cake" and are always reluctant to repay loans (CBN, 2005; Miller, 1977). Other factors are high incidence of loan diversion (Nto, 1981; Oboh, 1981) and the occurrence of natural hazards (Garba, 1985).

Every effort, which encourages loan default among borrowers, ought to be reversed because of its adverse effects (Adegbite 2009). It is therefore worthwhile; to assess the relative importance of various factors in the incidence of loan delinquency among Microfinance loan beneficiaries. 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.

Objective of the Study

The Major objective of this study is to assess the loan repayment performance and determinants of the Microfinance Bank's loan beneficiaries in Kogi State.

The Specific Objectives are to;

1. describe the socio-economic characteristics of the beneficiaries of Microfinance Bank's loan,
2. determine the loan repayment performance and the factors influencing them among the beneficiaries of MFBs loan,
3. suggest ways of improving on the repayment performance of beneficiaries and loan administration by MFBs and
4. make recommendations based on the findings from the study policy actions.

The Study Area

Kogi State is one of the 36 states in Nigeria and was created out of Kwara and Benue States in 1991 in the Middle belt of the country. It is situated between

longitudes 5^0 35'E and $7^0$40'E , and between latitude 6^0 30'N and 7^0 40'N of the Equator (Ariyo, 2003). The provisional population figure of the state is put at 3,277,487 as at 2006 (NPC, 2006). Kogi State often referred to as the confluence state is predominantly inhabited by people of diverse culture, ethnic groups and traditions. Such groups include Igalas, Bassakwomu and BassaNge, Ebira Koto and Okun among others. About 75% 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. Tropical climate in the state is marked by two distinct seasons, the dry season (September to March) and the wet season (April to October). The farmers here mainly grow rain forest related crops such as cassava, yam, corn and some tree crops such as cocoa, oil palm, orchards and kola nuts. Kogi State is also endowed with some known mineral resources such as lime stone, marble, iron ore and gold which are Ajaokuta, Lokoja and Obajana.

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 with stages. It usually involves a combination of sampling methods (Eboh, 1998). The Kogi State Agricultural Development Programme has classified the state into four agricultural zones based on the peculiar agricultural activities. These zones are Zone A with headquarters at Aiyetoro, Zone B with headquarters at Anyigba, Zone C at Koton-karfe and Zone D at Aloma.

This will form the basic stratification segments in Stage1. In stage 2, two local government areas were randomly selected from each of the four agriculture zones. This gives a total of eight local government areas for the study.

The local governments are;

Zones	***LGAs Sampled***
A	Mopa - Muro/Ayetoro
B	Ankpa/ Dekina
C	Lokoja/KotonKariff
D	Olamaboro/Ofu

In stage 3, One Microfinance Banks was randomly selected from each of the selected eight local government areas making a total of eight Microfinance Banks. In stage four, thirty beneficiaries of the Microfinance services were selected from each of the eight (8) microfinance Banks. Total sample sizes of 240 beneficiaries were used for the study.

Sources and Types of Data Collected

Combination of primary and secondary data was used for the study. The primary data were collected through the use of structured questionnaire, which was administered to the farmers who are all beneficiaries of MFBs credit facilities in the study area. Secondary data were obtained from the MFBs' records of credit delivery operations.

Analytical Tools

The analytical tools adopted in this study are both descriptive and analytical method of analysis. The descriptive tools consist of the use of percentages, frequencies and arithmetic means. The analytical tools consist of the use of Econometric techniques (Regression Analysis). This study has two parts; determining the loan repayment performance and factors influencing them from MFBs. Descriptive tool is used to analyses the repayment performance of the rural farmers in Kogi State while multiple regression analysis is used to analyze factors influencing loan repayment performance.

Model Specification

$LRP= b_0+b_1x_1+b_2x_2+b_3x_3+b_4x_4+b_5+x_5+b_6x_6+b_7x_7+b_8x_8+U$ ----------equ. 1

Where LRP= Amount of loan repaid (N)

X_1= Amount of loan borrowed (N)

X_2= Interest rate paid (N)

X_3= House hold size (No. of persons)

X_4= Level of education (Years in school)

X_5= Farming experience (years)

X_6 = Annual household income (N)

X_7= Age of respondents (year)

X_8= Size of farm (Hec.)

U= Error terms

A'priori expectation was that X_1, X_2, X_4, X_5, X_6 and X_8 are expected to be positively correlated with the amount of loan repaid. X_3, may have either negative or positive relationship depending whether household members are considered as production or consumption units.

Age of respondents (X_7) is expected to be negative indicating that productivity of the farmer decline with age and hence impacting negatively on loan repayment performance.

RESULTS AND DISCUSSION

Socio-Economic Characteristics of the Respondents

Table 1 shows the socio-economic characteristics of respondents. A total of 190 respondents (79.20% l) were male while 50 respondents representing 20. 80% are female. This implies that majority of respondents are men who are naturally endowed with the strength to embark on farming. This result is consistent with the finding of Afolabi (2010) who observed that male dominance in farming activities may be due to the drudgery nature of agriculture. According to Adofu et. al. 2012 male dominance confirms the notion that males are bread winners of the family and are saddled with responsibility of putting food on the table and providing for the other needs of the family. Williams, et. al.(2007) opined that

since the male holds title to farm lands, it is easy for them to present it as collateral for the sake of loan acquisition and hence the high percentage favoured in the granting of loan by financial institutions. The age of farmers ranged from 20 to 61 years with a mean age of 44years. As shown in the table, 78.75% of the respondents were aged between 20 to 50 years. This means that most of the respondents were in their productive years which should have a positive impact on farm size and earnings. The finding may be of some importance with respect to the provision of credits to farmers. Finding reveals that younger ages that is less than 31years (3.33%) who are the youth population is low. These findings conforms with Oke, et.al (2007) who observed a mean age of 50.52years and opined that young small holder farmers were not many among rural dwellers due to migration of young enterprising youths to the urban centers in search of white collar jobs and better social lives.

Table 1 also shows the level of literacy among the respondent farmers. The mean years spent in school is 13years with 33.83% and 31.25% having primary education and secondary education respectively while those with tertiary education constitute 14.58% of the farmers'. This in effect shows that 76.66% of the beneficiaries of Microfinance bank's loan in Kogi state are literate. The high level of literacy predisposes some level of managerial ability in the farm business. Afolabi (2010) in a related study observed that 73.43% of loan beneficiary of Microfinance bank's loan are literate and this can have positive effect on the adoption of new agricultural practices that will enhance productivity.

The result on table 1 reveals that greater percentages of respondents in the study area are married representing 60.41% of respondents. Single farmers accounted for 5.42% while 15.42% others were once married but now divorced and 18.75% others are widowed and widowers. This may be due to the fact that married men are perceived to be settled, more matured, more trustworthy and have more potential for family labour supply (wife and children).

This finding collaborate a similar study by Afolabi (2010) who observed 86.16% of married men and women and posits that this may have positive effect on the availability of family labour which may lead to increase in their level of production which can translate to higher income for the rural farmers. Mean household size in the study area is 8 although household size ranged from 1 to 25. The household sizes are typical of most rural framing communities in Nigeria where household labour is the most dependable source of farm labour (Oluwasola and Alimi, 2007).

Table 1 reveals that a large proportion of the respondents have been into farming for between 20 to 29years representing 38.75% followed by 30.42% with between 10 to 19 years, 16.25% have been farming between 40years and above while 5.42% have between 0 to 9 years farming experience.

It implies that since the beneficiaries have long years of experience in farming, they might have become well established for them to be able to make use of credit or loan that may be granted to them from the MFBs in the state with the ultimate aim of increasing their level of productivity.

From table 1, it can be seen that 57.09% of the beneficiaries of MFBs' programme operated less than 2.0hectares of land while 32.08% of them had farm size in the range of 2.0 – 4.9 hectares. Another 20.83% of these farmers owned farms in the range of between 5.0 and 7.9 hectares of land. The field data showed that 89.17% of the respondents operated small farms based on Olayide's (1980) classification of farms.

In his study Olayide observed that small farm-holder constituted 80.78% of all farm holdings cultivating between 0.1 ha and 5.99ha of land. The dominance of small scale farmers in the study area may not be unconnected with tenurial problem which confirmed the findings of Olayide (1980). According to a priori, an increasing hecterage of farmland would lead to higher level of income resulting from higher level of production and hence higher loan repayment capacity.

Table 1 reveals that 110 or 45.83% of the MFBs credit beneficiaries' annual farms income is between N50, 000 – N100, 000. The annual mean income was found to be N75, 000. This can be classified as "low income". Annual household income could have positive or negative impact on the agricultural activities that the beneficiaries are engaged in. The higher the level of annual income, the higher the amount of credit he will obtain from MFB which is also related to his savings pattern and investment potentials.

Table 1.Social-Economic Characteristics Respondents

S/N	SOCIO-ECONOMIC	FREQUENCY	PERCENTAGE(%)
1	Sex of Respondents		
	Male	190	79.20
	Female	50	20.80
2	Age distribution of Respondents		
	≤ 20	3	1.25
	21 – 30	5	2.08
	31 – 40	76	31.67
	41 – 50	105	43.75
	51 – 60	46	19.17
	61 and above	5	2.08

3	Level of Education of Respondents		
	No formal education (≤ 5years)	56	23.34
	Primary education (6 – 10 years)	74	30.83
	Secondary education (11 – 15 years)	75	31.25
	Tertiary education (≥ 16 years)	35	14.58
4	Marital status of Respondents		
	Married	145	60.41
	Singled/Never Married	13	5.42
	Single Divorced	37	15.42
	Single/Widowed/Widower	45	18.75
5	Respondent Household Size		
	1 – 5	85	35.42
	6 – 10	95	39.58
	11 – 15	37	15.42
	16 – 20	13	5.42
	21 – 25	8	3.33
	26 and above	2	0.83
6	Farming Experience of Respondents		
	0 – 9	13	5.42
	10 – 19	73	30.42
	20 – 29	93	38.75
	30 – 39	39	16.25
	40 and above	22	9.16
7	Farm Size of Respondent		
	≤ 2.0	137	57.09
	2.0 – 4.9	77	32.08
	5.0 – 7.9	26	20.83
8	Household Farming Income of Respondent		
	≤ 50,000	36	15.00
	50,000 – 100,000	110	45.83
	101,000 – 151,000	33	13.75
	152,000 – 202,000	23	9.58
	203,000 – 253,000	20	8.34
	>253,000	18	7.50

Mean age of respondents = 44years, mean years spent in school = 13years, Mean household size = 8persons, mean farm experience of respondents = 34.5year, mean farm size of respondents = 3.45ha, mean household farm income = N75, 000.Computed from field survey data, 2011

Loan Repayment Performance

From table 2, beneficiaries of MFBs' loan in fishery recorded the highest repayment performance of 91.05% while Agric produce processing was lowest with 85.33%. From this analysis, the mean repayment performance for all the Agricultural enterprises was 88.96%. This finding is consistent with Oke et. al.,(2007) who observed a mean repayment of 89.68percent in his work "An Empirical Analysis of Microcredit Repayment in South western Nigeria".

The implication of this finding is that there are reduced delinquent borrowers among the various agricultural enterprise beneficiaries of MFBs programme in Kogi state. The implication is that rural farmers in the state can be able to access more loan as repayment capability is one of the major determinants of the amount of loan disbursed.

A high repayment performance has a potential of boosting enterprise development in the rural sector of the economy. This is because more beneficiaries can now be reached with higher amount close to their level of credit demanded. Once such credit is reinvested, it will most likely repay itself, generate additional income and raise the standard of living of the MFI participants (Okerenta, 2005). However, it should be noted that loan recovery rates cannot be used as the sole determinant of the success of the Micro-credit programmes since many micro-credit programmes rely on social, power and other forms of pressure to maintain high loan recovery rates.

Moreover, in many microcredit programmes, a high loan recovery rate is often achieved only by repeat or rollover loans. In other words high loan recoveries do not necessarily reflect high benefits.

Table 2. Repayment performance of the loan Beneficiaries of Microfinance banks by types of agriculture practiced

Type of Agriculture Practiced	Total Amount of loan Granted (N)	Total Amount of loan Repaid (N)	Total outstanding balance (N)	Repayment Performance (%)	Default rate (%)
Cash Crops	25268100	22478501.76	2789598.24	88.96	11.04
Livestock	3989700	3610678.50	379021.50	90.50	9.50
Fishery	1478847.8	1346490.92	132356.88	91.05	8.95
Agric produce processing	4727351.2	4033848.78	693502.42	85.33	14.67

Mean repayment performance = 88.96%

Source: field survey data, 2011.

Multiple Regression Results of Determinant of loan Repayment among Beneficiaries of Microfinance Banks (MFBs) loan

The regression model that provided the best fit was a double-logarithm and is specified as:

$$LRP=1.223389+0.075025x_1+0.098100x_2-0.020463x_3+0.013713x_4+0.011531x_5+0.851096x_6-0.252448x_7+0.107646x_8$$

(2.073) (1.239) (-0.425) (0.221) (0.139) (17.703) (-1.492) (2.040)…equ.2

$R^2 = 0.795720$; F-statistics = 94.48585; N = 240.

The result of the OLS regression analysis is presented in equation 2. The result shows the eight (8) variables that were used in microfinance banks loan repayment regression .The double log-functional form provided the best fit model. The F-value (74.80) was highly significant implying that the model was a good fit. The Durbin – Watson statistics of 1.68 is approximately 2 which show the absence of autocorrelation. The standard error of 0.370990 is far below one .The adjusted R^2 is 0.795 which implies that the variables in the model were able to explain 79.5 percent of the variability in percentage of loan repayment.

Three of these variables were significant. They are; volume of loan borrowed (x_1), Annual household income (x_6) and size of farm (x_8).

The positive value of x_1(0.075025) indicates a direct relationship between repayment and volume of loan borrowed by beneficiaries. A unit increase in volume of loan borrowed will result in 7.50% increase in repayment. Increase volume of loan given to beneficiaries may enable farmers to adopt agricultural innovations which translate to increase in the level of income and hence high level of loan repayment ceteris paribus (Afolabi, 2010).

Annual household income (X_6) has a positive coefficient (0.851096) indicating a direct relationship between beneficiaries' annual household income and loan repayment. A unit increase in annual household income will result in 85.1% increase in loan repayment performance of the beneficiaries of MFBs loan. Also judging from probability values of 0.000, it is obvious that X_6 is highly significant at 1%, implying that annual household income is a major determinant of loan repayment performance, size of farm x_8 was significant at 10% with a positive value of 20.40. This mean that a unit increase in the size of farm will increases loan repayment performance by 20.40%.

Other variables which were also measured include; Interest rate charged (x_2), this has a value of 0.098100 and is positively related to loan repayment performance. Although the relationship was not statistically significant, it was in conformity with a priori expectation. Household size(X_3) is negative indicating an inverse relationship with loan repayment capability .This is because large family size will lead to spending more money on non-farm business activities such as payment of hospital bills, children school fees, clothing, feeding among others. This will place much economic burden and stress on the shoulders of family head that have to struggle for large family which will result to default in loan repayment. Age of respondent (x_7) was also negatively related to loan repayment performance. As farmers' age increase, their ability to perform farm tasks reduces, making them is depend more on hired labour and this reduces net farm income and hence inability to repay loan.

CONCLUSION

Based on the results obtained in this study, it is recommended that credit institutions or lending agencies should look out for those Socio-economic characteristics that significantly influence loan repayment before granting loans and advances to small-scale farmer to reduce the incidence of loan delinquencies and defaults. Although repayment performance among rural farmers in the study area is high, hundred percent results are yet to be achieved.

Loan delinquency is one of the major threats to institutional sustainability. Delinquency demoralizes staff and deprives beneficiaries of variable services. This has accounted for the failure of most microfinance banks and schemes in Nigeria. Group credit delivery approach and intensive monitoring can reduce loan delinquency to the barest minimum if not totally eliminated. Group lending and credit delivery method now a common features of microfinance credit delivery should be encouraged and sustained. Group lending and credit methodology reduces costs of lending; several visit to individual's homes for disbursement and collection are reduced to few visits to group meetings. Also, group lending aids credit discipline and good repayment performance. Group members exert

tremendous peer pressure on each other to perform and to comply with agreed terms.

Finally, in designing credit programmes for poor rural farmers' great emphasis must be place on those variables that significantly affects loan repayment capability of the farmers such as volume of loan obtained, annual farm household income and the size of farm.

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