



AN ASSESSMENT OF THE PERFORMANCE OF COMMUNITY BANKS IN FINANCING RESOURCE POOR FARMERS IN DELTA STATE

Enimu Solomon¹, Igiri Juliana² and Inya S. Uduma³
^{1,2,3}, Department of Agricultural Economics,
University of Calabar, Calabar, Nigeria.

ABSTRACT

The study focused to assess the performance of community bank (CBs) in financing resource poor farmers in Delta State, Nigeria. The research was conceived because of persistent financial problems of farmers and credit flow to agricultural sector in rural area. Descriptive statistics and regression model were used to estimate credit administration and delivery by community banks using 162 respondents. Primary data were collected through the use of two sets of structured questionnaires which were administered to community banks senior staff and farmer beneficiaries. The result indicates that a total of N33, 578,000 was disbursed to farmers and N17,931,000 was mobilized as savings, this shows that there is enormous savings potentials among rural poor, contrary to the erroneous belief that the poor cannot save. It also revealed that resource poor farmers are credit worthy which was proved by their repayment record of 53%. It is recommended that CBs should mobilize more funds and build savings mobilization for their client as a means of helping farmers increase control over their economic future. Also, CBs should increase their credit delivery to resource poor farmers with long term duration, policy makers and CBs should consider the rural environment as well as resource poor farmers' characteristics in designing effective credit delivery strategies for resource poor farmer and the rural economy.

Key Words: Community Banks, Performance, Financing

Introduction:

The agricultural sector remains the largest sector of Nigeria's economy contributing about 37% of the GDP, employing 65% of the adult labour force, and form the largest contributor (88%) to non-oil foreign exchange earnings (FME, 2002). Despite the fact that Nigeria is blessed with abundant human and natural resources, which are favourable for agricultural development agriculture in Nigeria is dominated by resource poor farmers who are responsible for about 90% of the total production (Olajunbode et al, 1980). These farmers are characterized by low farm incomes and low technological inputs necessitated by inadequate financing.

In recognition of this fact, the Nigeria government institutionalized the community banking system by Decree No. 46 of 1992 with the primary objective of promoting grassroots self-reliant economic development through the provision of finance and other banking services at the local level. The community banks like the people bank were established to address some of the identified constraints that are denying many Nigerians' access to the bank credit. According to Mabogunje (1993), the community banks are not designed to offer credit at subsidized rates and over look the need to ensure collateral security for their credit extension but rather to ensure geographical accessibility of banking facilities in the rural communities. Therefore, each community bank is conceived as a self-sustaining financial institution owned and managed by a community or a group of communities. Its primary purpose is to mobilize deposits and provide credit and other financial services to its customers largely on the basis of their self-recognition and trustworthiness (NBCB, 1993). The community banks are owned largely by Community Development Association (CDA), Local Co-operative Societies, Farmers Unions, Trade Associations, Individuals resident or engaged in business in the community. This institutional intermediation process is aimed at breaking the so-called "vicious cycle of poverty" in the rural agricultural sector through the injection of "outside funds" into it. This is possible through provision of greater access to credit facilities for Nigerian farmers so as to enable them invest more in modern farm input, which have the potential of substantially increasing their financial level, production, productivity and incomes. The decree further stipulated two-third distribution to rural area and one-third to urban areas (Mabogunje, 1992, NBCB, 1991).

The community banks since their inception have functioned for over ten (10) years in Nigeria. However, report by NBCBs and CBN in their various publications and annual report over the year see the impact of CBs from the point of view of geographical spread, growth in the

number of established banks, total deposit mobilized, total loans/advances given out and growth to the total assets of operating CBs. At present, there is no information on farmer beneficiaries of such loans and the implications of such loans on the economic life of the farmers. For example, World Bank (2000) estimates that NACB, PBN and CBs could only reach less than 10% of the rural population for the total period they have existed. Yet, social cost of these institutions is enormous and continues to increase. Supported by government through loan refinancing, the institutions are encumbered with serious problems of loan arrears and institutional non-viability. These could be seen from the persistence of problems and issues that led to the establishment of the programmes, such as low-level of rural savings mobilization, inadequate use of conventional banking services and the lack of credit for rural small scale producers (Okorie, 1991, Okafor, 2000; Adeyeye, 1994). In view of this therefore, it becomes necessary to critically assess the performance of community banks in financing the activities of resource poor farmers in delta state. Specifically, the study sought to.

- i. identify credit products and services including loan type, rate of interest, loan duration, volume of loan and loan outstanding.
- ii. determine loan repayment rates of resource poor farmers;
- iii. determine the effects of socio-economic variables of resource poor farmers on volume of credit received from CBs.

Methodology

Delta State was purposively chosen for the study because of acknowledged extensive numbers and prevalence of community banks in the state. Farming and trading are major occupations in the state, which occupies an area of about 17,011km² (Delta State main fact, 2005) and has a population of about 4,098,391 (NPC 2006). Food and cash crops such as cassava, yam, maize, rubber, oil palm, raffia palm are grown with livestock rearing and fishing as part of their major occupation. Small and micro business enterprises are dominant in the area. Most of the inhabitants are poor and do not benefit from the existence of commercial banking services available and hence they are high reliance on money lenders.

A multi-stage random sampling was employed to ensure a good spread of the respondents. Twelve (12) local government areas were randomly selected for the study. This

list of all the communities that have CBs in each of the twelve (12) LGA was compiled with the aid of NBCB, from where random samples of one (1) community was selected from each LGA to give a total of twelve (12) communities for the study. A random sample of fifteen (15) farmer beneficiaries were made from each communities. Thus, a total of one hundred and eighty (180) farmer beneficiaries were selected and investigated. Furthermore, one senior staff was selected from the twelve (12) community banks for the study. Primary data was obtained by the use of two sets of structured questionnaires. One was administered to the CBs farmer beneficiaries, while the other targeted CBs managers and senior staff.

Primary data were complemented with secondary data from NBCB, CBN, Journals, research reports, conference proceedings, and seminar papers. Data was analysed with descriptive and regression analysis. The model for the multiple regression analysis used is implicitly specified as:

$$Y = F(x_1, x_2, x_3, x_4, x_5, x_6, x_7, x_8, x_9, x_{10}) + U$$

Where,	Y	=	Volume of credit receive (₦)
	X ₁	=	Interest charged (%)
	X ₂	=	Amount of savings/deposit made (₦)
	X ₃	=	Proportion of credit repaid (₦)
	X ₄	=	Distance of beneficiaries from CBs (km)
	X ₅	=	Farm size (ha)
	X ₆	=	Method of credit administration
	X ₇	=	Age of farmer beneficiaries (years)
	X ₈	=	Transportation cost (₦)
	X ₉	=	Educational level of beneficiaries (years)
	X ₁₀	=	Collateral requirement

Result and Discussions:

Socio-economic Characteristics of Community Banks

Farmers Beneficiaries:

Table 1 showed the frequency, percentages of socio-economic characteristics of Community Banks (CBs) loan beneficiaries. In the table 78% of the respondents were between the ages 25 – 44 years, only 1% of the farmer’s respondents were less than 24 years of age. This

implies that majority of the respondents are still within their most productive stages and therefore stand a better position to take loan for their farming activities. The table shows that about 79% of the respondents were females, while 21% were males. This implies that more females are involved in micro-credit borrowing to augment family income. The level of education of the respondents has implications for the demand for any form of credit. This is because a respondent stand a better chance of understanding the conditions attached to any credit offer before him, the table shows that majority of the respondents (95%) spent a good number of years in formal school. The table also shows that 55% of the farmers' beneficiaries are part-time farmers. They are either into business or are civil servants who practice farming along side their major occupation. Only about 45% of the respondents engaged in full-time farming. On the basis of farm size, the table shows that respondents who had less than 2- 4ha stood at 175. This implies that most of the farmers are small holder's subsistence farmers. The size of land a farmer controls at a particular time determines to some extent the farm size, input range and cropping system/patterns he/she will adopt. The resultant small sizes of land are traced to the land use system operated in the study area which is characterized by inheritance and fragmentation.

The table also revealed that majority of the banks preferred giving short-term self liquidating loans, while just a few advanced medium-term loans were given, 92% of the farmer respondents received short term loan, 8% received medium-term loans and none had long-term loan.

Table 1: Frequency and Percentage of CB's Farmers Beneficiaries' Socio-Economic Characteristics Socio-economic Characteristics

Age:	Frequency	Percentage (%)
Less than 24 years	2	1
25 – 35 years	49	33
36 – 44 years	68	45
45 years and above	31	21
Sex:		
Male	31	21
Female	119	79
No. of Years in School:		
No formal education	8	5
1 – 6 years (primary)	41	27
7 – 12 years (secondary)	58	39
13 years and above (Tertiary)	43	29
Designation of Farmers:		
Full – time farmers	68	45
Part-time farmers	82	55
Size of Farm (ha):		
< 2 hectares	119	79
2 – 4 hectares	25	17
5 – 7 hectares		
> 8 hectares		
Loan duration:		
Short term (>2 years)	138	92
Medium term (2-5 years)	12	8
Long term (<5 years)	-	-

Source: Field date, 2014.

Credit Products and Services

The purpose of evaluating the credit products and other related services of CBs is to determine their lending outreach loan duration, loan repayment and loan outstanding among others. These are discussed below. Lending outreach and credit administration which are important parameters in determining the performance of financial institutions is presented in table 2.

Table 2 shows that the total number of farmers reached were 2,531 with a total credit disbursement of N33,578,000. The total saving mobilized by the sampled CBs stood at N6,700,700 representing 21% of total loan fund. The number of farmers reached, amount of savings mobilized and amount of credit disbursed to farmers increased over the years an indication that CBs are progressively improving on their services to farmers.

Loan Repayment

Credit administration and repayment are the cardinal goals of any financial institution. The amount of credit disbursed and repaid and the amount defaulted during the period under review are presented in table 3 below. The total amount of credit disbursed over the years covered (1995 – 2004) is N33,578,000. Credit repaid stood at N17,931,000 representing 53% of the total loan fund administered. This level of repayment was occasion by high level repayment rate of certain CBs of about 100% which insist on domiciliation of salary and other landed properties for loan disbursement, to about 20 – 35% by certain CBs that uses guarantor and the amount disbursed is donated by SPDC creating a negative impression on beneficiaries as having their own share of the national cake. The total amount defaulted stood at N15,647,000 representing 47% of the total loan fund.

Socio – Economic Determinants of Volume of Credit Received by Resource Poor Farmers

It is necessary to econometrically ascertain the characteristics of resource poor farmers and other factors which affect the volume of credit received from CBs. This specifically will help the policy makers formulate appropriate policy for credit mobilization by resource poor farmers in Nigeria as well as to encourage CBs and other financial institutions that are lagging behind. The regression model produced the following result:

$$\begin{aligned}
Y &= 5973.81 - 1416.075 + 0.413906 + 0.961392 \\
&\quad (3.6396) \quad (4.9105)^* \quad (3.170)^* \quad (62.2618)^* \\
&+ 3403.677 + 5850.903 + 3217.474 - 485.1897 \\
&\quad (3.3940)^* \quad (3.2940)^* \quad (2.2346)^{**} \quad (1.6356) \\
&- 22.53282 - 700.4032 - 6414.257 + e^2 \\
&\quad (1.2402) \quad (1.2983) \quad (1.2236)
\end{aligned}$$

$$R^2 = 0.986517, F\text{-ratio} = 1017.033, DW = 1.170$$

The values in parentheses are the t-ratio. Level of significance is at 5% probability level.

The model indicates that the explanatory variables included in the model accounted for 99% of the variations in the volume of credit received by resource poor farmers from CBs. Interest charged was found to be statistically significant but negatively related with volume of credit received. This indicates that increase in interest rate will reduce the number of farmers willing to take loans and hence the volume of credit and vice versa. Amount of savings /deposit made by the resource poor farmers turn out to be positively significant. This implies that the volume of credit received by farmers would depend on the amount of savings/ deposit made and increases in savings will leads to increase in amount of credit received. Proportion of credit repaid was also positively related to the volume of credit received.

Indicating that increase in credit repayment will lead to an increase in the volume of credit received. Distance of beneficiaries from CBs turn out to be positive and significant. This implies that distance affect the volume of credit received by resource poor farmers. This is not a surprise because distance determines accessibility as it has a negative effect on savings, which is a factor in rural financial market (Aryectey and Udry, 1997). Savings and loans are also expected to increase by discouraging long distance (Okpukpara, 2005). Farm size was found to be significant and positive indicating that in the study area, resource poor farmers are more likely to receive higher volume of loan as their farm size which is basically the only feasible collateral security that can be provided by these resource poor farmers therefore command high prestige as the volume of loan granted/disbursed is independent on the farm size. Method of credit administration is statistically significant and positively related to the volume of credit received

indicating that the methods used such as individual or group affects the volume of credit received.

Clients were essential building block for successful micro-credit intermediation, monitoring and loan collection. The other variables were statistically in significant. The F- calculated recorded is 1017.033 and the theoretical value of F at 5 percent level of significance is 2.58. Thus $F_{\text{calculated}} > F_{\text{tabulated}}$ at 0.05 level of significance. Hence we reject the null hypothesis and accept the alternative, that socio-economic characteristics have significant effects on the volume of credit received by resource poor farmers from CBs.

CONCLUSION

The problem raised at the beginning of this study is that continuous efforts made by the Nigerian government to raise credit mobilization by resource poor farmers have not sufficiently improved the availability of finance which is one of the major problems of agricultural development in Nigeria. Particularly, the resource poor farmers have been disappointing due to probably poor targeting and the nature of the rural economy. This study therefore assessed the performance of CBs in financing resource poor farmers particularly stressing credit products and services, loan repayment and the socio- economic determinates of volume of credit received by resources poor farmers. The result shows that CBs have distributed different sizes of loans to resource poor farmers irrespective of the socio – economic characteristics loan duration was found to be short – term and loan repayment rate was 53% of the total loan fund administered. The result also shows that the determinants of volume of loan/credit received from CBs is factored by different institutional and socio – economic characteristics of the farmers. Community banks should be encouraged to mobilize more funds. This could be achieved by issuing of permanent to banks which have operated successfully for five (5) years. This will help them participate in the central bank on- lending programme. The issue of short – term revolving loans without grace period should be critically addressed, since most agricultural activities make return after years, it will be beneficial to grant loans for long – term farming with grace period, this will facilitate more patronage if not only farmers but also others in the business sector. CBs should be able to encourage and build savings mobilization for their clients as a means of helping resource poor farmers increase control over economic future community development associations who are major shareholders in CBs should be given the legal banking to use conventional and traditional

methods of loan recovery to get bank defaulted amounts of loans. Mortgaging of defaulters piece of land or property until the loan is repaid should be encouraged. CBs are supposed to play a more dynamic role in agriculture which is the main economic activity of the rural area and developing nations more activities should be funded by CBs. A specific percentage of its loan portfolio should be set aside to achieve this. Withdrawal of operational license should be used as a penalty defaulting banks. Several conclusions emerged clearly from the regressions result, however the central message is that credit policy should take into account the socio- economic characteristics of resource poor farmers. Also, agriculture credit policy should aim at larger coverage of rural resource poor farmers not only to meet their credit needs, but also to provide a place to deposit excess liquidity.

References:

- Adeyeye, E. (1994), "Issues and Approaches in the Development of Self – Help Groups in Nigeria." A paper presented at a seminar on SHGs Linkage Programme for Community Bank Operators, Organized by NBCB, Zonal Office, Lagos, Nigeria; 17th – 22nd April
- Aryeety, E. and Udry, C. (1997) "The Characteristics of information Financial markets in Sub – Saharan Africa" Journal of Africa Economies. Vol. 6, No. 1, pp. 13.
- Delta State (2005); Main Fact. [http!/ www. Delta State. gov. ng](http://www.Delta State. gov. ng).
- Federal Ministry of environment (2002); National Assessment Report: Sustainable Development in Nigeria; Ten Years after Rio, (UNCED), pp. 1.
- Mabogunje, A.L. (1992), " What is Community Bank?" In NBCB (eds), the community Bank system in Nigeria. An Introduction. Abuja – Nigeria.
- Mabogunje, A. L. (1993). " Community Banking Mobilization is the Name of the Game." In NBCB (eds), Community Banks Newsletters, Abuja, Vol. 2, No. 5.
- National Board for Community Banks (NBCB) (1991), The National Board for Community Bank Operation Guideline. Abuja.
- National Board for Community Banks (NBCB) (1993), " Annual Report and Statement of Accounts" Abuja.
- National Population Commission (2006), 2006 Population Census

- Nweze, N.J. and Okafor, U.J (2005) Economic Evaluation of the Performance of Non – Governmental Organization in Rural Financial Intermediation of Enugu state, Nigeria. Proceeding of the 19th Annual Conference of Farm Management Association of Nigeria (FAMAN)
- Okafor, F.O. (2000), “ Micro – Credit: An Instrument for Economic Growth and Balance Development” The Nigeria banker. July/ December, (1991), “ pp.38-45
- Okorie, A. (1991), “ Rural Banking in Nigeria: Determining Appropriate Policy Variables” In Doss, C.R. and Oloson, C. (eds), Issues In Africa Rural Development. Winrock International Institute for Agriculture Development.
- Okpukpara, B.C. (2005), Determinants of Choice of Financial Institutes among the Rural savers: Implication for Sustainable Rural Financial Saving Mobilization for Agricultural Development in Nigeria. A proceeding of the 19th Annual Conference of Farm management Association of Nigeria (FAMAN)
- Olajunbode, S.A etal. (1980), “ Role of Women in Nigeria Small – Scale Farming” In Olayide, S.O; J.A. Eweka and V.E Osagie (eds), Nigeria’s Small Farmers: Problems and Prospects in Integrated Rural Development.” Ibadan Centre for Agriculture and Rural Development (CARD), University of Ibadan, pp. 162- 172
- World Bank (2002), Rural Financial Markets in Nigeria, Focus Note
On the Issues and Options World Bank Rural Development 2.

Table 2: *LENDING OUTREACH OF CBs FOR THE PERIOD 1995 – 2004*)

S/N	NO. OF FARMERS REACHED	AMOUNT OF SAVINGS MOBILIZED	AMOUNT OF CREDIT DISBURSED
1	2	10,000	35,000
2	40	75,000	175,000
3	2,200	3,271,700	21,210,000
4	1	1,000	10,000
5	1	4,000	600,000
6	6	2,390,500	5,273,000
7	41	105,500	175,000
8	1	1,000	30,000
9	68	250,000	2,170,000
10	32	370,000	1,850,000
11	19	10,000	850,000
12	120	175,500	1,200,000
TOTAL	2,531		