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Bank of agriculture (BOA) perspectives on financing agricultural cooperatives in Ogun state

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Abstract

This study focused on Bank of Agriculture (BOA) perspectives on financing Agricultural Cooperatives in Ogun State. The three zones of the bank operation were sampled using multistage sampling techniques. Primary and secondary data were utilized for the study and obtained with the use of a well structured questionnaire from 120 respondents only out of which One hundred and nine (109) were returned, and acceptable for data analysis. The results obtained on the socio-economic characteristics of the beneficiaries revealed that majority of them were male (58.7%), aged less than 50 years (75.2) with an average age of 42.51 years per beneficiary, married (75.2%), had moderate household size of 5 (mean) per household, literate with vast majority (98.2%) possessing one form of formal education or the other, (71.6%), engaged in farming as main occupation had an average of 5 years of farming experience and (64.2%) practiced Christianity as religion. An evaluation of the factors determining the amount of loan obtained revealed that age, education, farm size, amount repaid, past record and annual net income are the important factors determining the loan amount obtained from the Bank. The age of the respondents, negatively influenced the amount obtained while farm size and amount repaid positively influenced the loan amount obtained. Household size, education and loan size were found to have significant relationship with loan repayment rate. While household size had negative relationship with loan repayment, education and loan size have positive relationship with it. In terms of constraints to the BOA loan acquisition. High interest rate, bureaucracy and inability to provide a guarantor were adjudged as the major constraints to loan acquisition in the Bank of Agriculture in Ogun State.

Keywords: agricultural cooperatives, loan acquisition, loan repayment, loan evaluation

Introduction

The Central Bank of Nigeria (CBN 2014) [3] defined the Bank of Agriculture (BOA) as a type of bank that lends money to farmers for longer a periods of time and charges them less interest. Therefore, the Bank of Agriculture (BOA) is described as credit bank expressly established in accordance with the provision of law to assist agricultural development across the globe, particularly by granting loans for longer periods than is usual with commercial banks. In his words, Adesina (2012) [1], an Economist and Social commentator succinctly conceptualized Bank of Agriculture (BOA) as bank that lends money to individuals, basically farmers.

Bank of Agriculture (BOA) is the nation's foremost agricultural and rural development finance institution. It was incorporated in 1972 as Nigerian Agricultural Cooperative Bank Limited (NACB) to reflect the inclusion of cooperative financing into its broader mandate. In October, 2001, following the Federal Government effort to streamline the operations of its agencies, that were believed to be performing overlapping functions, three institutions, Nigerian Agricultural Cooperative Bank (NACB) Peoples Banks of Nigeria (PBN) and the risk assets of the Family Economic Advancement Programme (FEAP) were merged to form Nigerian Agricultural, Cooperative and Rural

development Bank (NACRDB) in October 2010, following the rebranding of the bank to reflect its institutional transformation Programme, the Bank adopted the new name Bank of Agriculture (BOA) in the year 2013.

Co-operatives are autonomous associations of persons who unite voluntarily to meet their common economic and social needs through a jointly owned and democratically controlled enterprise (ICA, 1995) [7]. Co-operatives are established by like-minded persons to pursue mutually beneficial economic interest and they provide a unique tool for achieving one or more economic goals in an increasingly competitive global economy.

Agricultural cooperative also known as farmers' cooperatives is a cooperative where farmers pool their resources in certain area of activities thereby encouraged members to engage in joint cultivation of food and cash crops, purchase farm inputs at subsidized price and create better producers' price for their farm products (Poulton, *et al.* 2006) [10]. In view of the low financial capacity and high level of under-development, an individual farmer cannot achieve the desires for large-scale production. It is therefore in the farmers' interest that resources are pulled together so as to gain a tremendous collective advantage and thus widening the industrial base of the economy and the management techniques (Eptimehin, 2006) [4]. For instance,

farmers' co-operative societies are formed to bring in more agricultural inputs and product marketing services to members, increase competition in the agricultural service sector and provide savings and loan to members, among many other functions. Small holder farmers stand a better chance with the formation of agricultural co-operatives.

Awoke (2004) [2] reported that high rate of default arising from poor management procedures, loan diversion and unwillingness to repay loans has been threatening the sustainability of most public agricultural loan schemes in Nigeria; thus warranting an empirical probing and the need to critically assess factors affecting the rate of loan allocation to societies by bank of agriculture. A detailed understanding of these factors may provide necessary information towards designing a more effective and sustainable loan system that can serve resource poor farmers better. Against this backdrop, this study is being undertaken to supplement existing literature and also serve as a bridge pillars between the bank of agriculture and farmers in ascertaining factors that influence their willingness or unwillingness to meet credit need of rural farmers.

Objectives of the study

- a) Describe the socio-economic characteristics of the farmers in the study area
- b) Examine the factors that determine the amount of loan obtained by the farmers
- c) Identify the constraints to agricultural loan acquisition from BOA

Research Methodology

Study Area

The study was carried out in Ogun State, Nigeria, which was created in February 1976 with Abeokuta as the State capital. The State shares an international boundary with the Republic of Benin to the west and inter-state boundaries with Oyo State in the north, Lagos State in the South and Ondo State in the East. The State has a landmass of about 1.7 million hectares. It is currently made up 20 Local Government Areas (LGAs) spread across four main divisions – Egba, Ijebu, Remo and Yewa/Awori (NPC, 2006) [9].

Sources and Methods of Data Collection

Both primary and secondary data were used for this study. They were obtained through well structured questionnaire which was administered by trained enumerators. The following information were collected from the respondents' socio-economic characteristics, amount of loan given to farmers, whether or not farmers were able to repay for their loans on time, interest charged on loans given to them, timeliness of disbursement of loans, farm size and other factors influencing loan repayment of beneficiaries of BOA in Ogun State.

Sampling Techniques

Multistage sampling technique was used in selecting the beneficiaries. The first stage was a purposive selection which indicates the three zones. This ensures that all the operative bases of the Bank were all covered. The second stage was a random selection of four Local Government Areas from each of the three zones that where BOA

branches are located. The last stage was random selection of 10 beneficiaries from each of the 12 Local Government Areas LGAs, forty farmers from each zone which are Abeokuta zone, Ijebu zone, and Imeko Afon zone from the list of farmers that were made available. In all, a total of one hundred and twenty (120) respondents were randomly sampled. However, after thorough field editing only one hundred and nine (109) were useful for the study.

Methods of Data Analysis

Descriptive statistics such as frequency distribution tables, percentages and measures of central tendency were used to describe socioeconomic characteristics of the respondents and identify reasons for loan default. While, multiple regressions was used to examine factors that determined the amount of loan obtained, repaid and defaulted by the farmers.

Ascertain the factors that determine the amount of loan obtained by the beneficiaries.

Amount Obtained:

The model is implicitly specified as follows;
 $Y = f(X_1, X_2, X_3, X_4, \dots, X_n) + e_i$Equation (i)

The model is explicitly specified as follows;

$Q = \alpha + \beta_i X_i + \mu_i \dots \dots \dots$ Equation (ii)

Where Q = Amount Obtained (N)

α = Constant term of the regression

β = Coefficient of X input

X_i = Independent variables

μ = Error Term.

The model is explicitly specified as follows:

$Q = b_0 + b_1 X_1 + b_2 X_2 + b_3 X_3 + b_4 X_4 + b_5 X_5 + b_6 X_6 + b_7 X_7 + U \dots \dots$ (iii)

- Q = Relative amount obtained (N)
- X₁ = Borrowers age (Years)
- X₂ = Loan beneficiaries educational level (years)
- X₃ = Farm size (hectares)
- X₄ = Loan Experience (years)
- X₅ = Household size (in number of person)
- X₆ = Amount repaid (N)
- X₇ = Annual Net income (N)
- b₁, b₂.....b₇ are coefficient to be estimated.

Problems encountered by the BOA beneficiaries in the study area.

Descriptive statistics such as (frequency distribution tables, percentages and measures of central tendency) was used to achieve this objective.

Results and discussions

Socio-economic characteristics of the respondents

The socio-economic characteristics of the respondents are presented under this sub-heading. An assessment of the socio-economic characteristics of the respondents becomes important because of its tendency to influence their borrowing and repayment behaviours. As stated below, Sex

of borrowers could have implications on loan repayment and by implication, default. It is important to understand how the respondents' sex would likely influence loan repayment. This could facilitate credible loan administration. The results revealed that the majority (58.7%) of the respondents were male. It is evident that majority (75.2%) of the respondents were younger than 50 years with mean age and standard deviation of 42.51 and ± 11.03 years respectively. Result on marital status reveals that majority (75.2%) of the respondents were married. This is an indication that married people were the predominant beneficiaries of the BOA loan. The table also revealed that the vast majority (83.5%) of the respondents had at most 6 individuals in their households with an average of 5 individuals per household. This household size is considerably moderate and may not have substantial effect on the use of borrowed fund for unintended household consumption expenditure. In other words, the level of the household size may not have significant effect of repayment.

The results on education of respondents analyse that only minority (1.8%) of the respondents had no any form of

formal education. This implies that the vast majority (98.2%) had one form of formal education or the other. Besides, substantial number (39.4%) of the respondents had HND/BSC certificates. Obtained results revealed that vast majority (71.6%) of the respondents were farmers. With the high level of education among the beneficiaries, there is the tendency that if they invest the loan in farming, reasonable profit could be generated that will enable repayment of the loan. Also an evaluation of the farming experience of the beneficiaries revealed that the majority had between 1-5 years of experience with an average of 5 years per beneficiary. This experience level is relatively low and might not be unconnected to the high level of education that might have accounted for substantial years in the beneficiaries' lifespan. Evidence on the table below shows that the majority (66.0%) of the respondents earned at most N100,000 per month. The mean farm income and standard deviation revealed high level of variation in income of the beneficiaries. The results on Religion revealed that the majority (64.2%) of the respondents were Christians. Notwithstanding, the number of Muslim beneficiaries were also substantial (35.8%).

Socio-economic Characteristics Distribution of Respondents

Characteristics	Frequency	Percentage	Cumulative Frequency
Sex			
Male	64	58.7	
Female	45	41.3	
Total	109	100.0	
Age (years)			
20-29	9	8.3	8.3
30-39	30	27.5	35.8
40-49	43	39.4	75.2
50-59	22	20.2	95.4
> 60	5	4.6	100.0
Total	109	100.0	
$\bar{x} = 42.31, SD = \pm 11.03$			
Marital Status			
Single	11	10.1	
Married	82	75.2	
Divorced	4	3.7	
Widowed	9	8.2	
Separated	3	2.8	
Total	109	100.0	
Household Size (Person)			
1-3	37	33.9	33.9
4 - 6	54	49.6	83.5
7 - 9	14	12.8	96.3
≥ 10	4	3.7	100.0
Total	109	100.0	
Mean (\bar{x}) = 4.5, Standard Deviation (SD) = ± 2.49			
Education			
No formal education	2	1.8	
Adult literacy	5	4.6	
Primary education	3	2.8	
Secondary education	23	21.1	
OND/NCE	33	31.3	
HND/BSC	43	39.4	
Total	109	100.0	
Occupation			
Banking	2	1.8	
Business	1	0.9	
Civil service	1	0.9	

Farming	78	71.6	
Sailor	2	1.8	
Tailoring	1	0.9	
Teaching	15	13.8	
Trading	9	8.3	
Total	109	100.0	
Farming Experience (year)			
1-5	82	75.2	75.2
6-10	20	18.4	93.6
>10	7	6.4	100.0
Total	109	100.0	
Mean (\bar{x}) = 5, Standard Deviation (SD) = 4.9			
Income (N)			
≤50,000	34	31.2	31.2
50,001-100,000	38	34.8	66.0
100,001-150,000	28	25.7	91.7
>200,000	9	8.3	100.0
Total	109	100.0	
\bar{x} = N147,404, SD = ±N220,818			
Religion			
Christianity	70	64.2	
Islam	39	35.8	
Total	109	100.0	

Source: Field Survey, 2017

Factors determining the amount of loan obtained by the beneficiaries

Multiple regression model was employed to analyse the determinants of BOA loan obtained by the respondents. Age of respondents (X₁), level of education (X₂), farm size (X₃), loan experience (X₄), household size (X₅), amount repaid (X₆) and annual net income (X₇) served as independent variables. The adjusted R² of 0.682 indicates that about 68% of the variation in loan obtained is captured by the variables included in the model. The remaining 32% is due to unexplained variation in the amount of loan obtained by the respondents. The significant F-value (at 1% level) also shows that the model is a good fit to the data.

The data in the table, revealed that the coefficients of age, education level, farm size and amount repaid (in the past) significantly influenced the amount of loan obtained by the respondents. The age of the respondents, negatively influenced the amount obtained while farm size and amount repaid positively influenced the loan amount obtained. The implication of these findings is that the youths have better access to higher amount of loan than the aged and those that had better repayment in the past, will receive relatively higher loan amount than those with relatively less repayment record. Besides, the more educated an aspiring beneficiary, the higher the likelihood of securing higher loan.

Multiple regression analysis of determinants of loan obtained by beneficiaries

Variable Code	Variables Name	Regression Coefficient	Standard Error	t-value
β ₀	(Constant)	-410026	348672.3	-1.176
X ₁	Age	-13718.4**	-0.136	-2.152
X ₂	Education level	39916.48**	0.134	2.168
X ₃	Farm size	107728.5***	0.328	4.700
X ₄	Loan experience	-28102.5	-0.039	-0.660
X ₅	Household size	21383.69	0.051	0.706
X ₆	Amount repaid	0.737***	0.097	7.587
X ₇	Net income	0.004	0.025	0.149
	F-value	34.016***		
	R-squared	0.702		
	Adjusted R-squared	0.682		

Source: Field Survey, 2017, * significant at 10 % level, **significant at 5% level, ***significant at 1% level

Constraints to Agricultural Loan Acquisition through BOA

Constraints refers to the problem faced towards achieving a particular goal. In this case, the usual goal of the beneficiaries is to continuously have access to the BOA loan. This also applies to prospective beneficiaries who may want to secure the loan for the first time. Understanding the constraints faced by the current beneficiaries will enable the prospective beneficiaries to be better prepared. This may

ease the process of the loan procurement. Besides, the BOA could also improve on its loan disbursement processes with the knowledge of the constraints faced by the current beneficiaries. An attempt to provide this knowledge informs the analysis of the constraints being faced by the current beneficiaries of the BOA loan.

It is evident from the findings that substantial percentage (26.6%) of the respondents considered high interest rate as the most important constraint to the use of the BOA loan

while others, considered bureaucracy, inability to provide the required guarantor, harsh loan recovery methods being used and untimely disbursement of loan as the most important constraints to procurement and/or use of the BOA loan.

A follow up interview with the management of BOA in charge of loan revealed that the interest rate was relatively lower than what obtained in the mainstream financial sector like commercial and microfinance banks (between 20-40%). According to the BOA official, the interest rate for small-holder and SME loan beneficiaries for agricultural purposes is 12% and 14% respectively for non-agricultural purposes, the interest rate was 18% across board (all non-agricultural loan).

Intending beneficiaries of Bank of Agriculture (BOA) are required to have 20% of the desire loan amount as savings before they are requested. The smallholders are not required to provide collateral. For instance, a beneficiary that intends to borrow N100,000 must have at least N20,000 savings in the Bank. This is not a necessary condition for the SMEs who are required to provide collateral before securing the loan. The SMEs can, however, have both savings and collateral.

Distribution of the Respondent by Constraints faced by the Beneficiaries of the BOA

Constraints To Loan Use	Frequency	Percentage
High Interest Rate	29	26.6
Difficulties and protocols involved in obtaining loan	17	15.6
Cost of obtaining loan is too much	3	2.8
Inability to provide guarantor	12	11.0
Loan is inadequate	8	7.3
Untimely disbursement of loan	6	5.5
Harsh loan recovery procedure	8	7.3
No response	26	23.9
Total	109	100.0

Field Survey 2017

Summary, conclusion and recommendations

Summary of major findings

The results obtained on the socio-economic characteristics of the beneficiaries revealed that majority of them were male (58.7%), aged less than 50 years (75.2) with an average age of (42.51) years per beneficiary, married (75.2%), had moderate household size of 5 (mean) per household, literate with vast majority (98.2%) possessing one form of formal education or the other, (71.6%), engaged in farming as main occupation had an average of 5 years of farming experience and (64.2%) practiced Christianity as religion.

An evaluation of the factors determining the amount of loan obtained revealed that age, education, farm size, amount repaid, past record and annual net income are the important factors determining the loan amount obtained from the Bank. The age of the respondents, negatively influenced the amount obtained while farm size and amount repaid positively influenced the loan amount obtained. Household size, education and loan size were found to have significant relationship with loan repayment rate. While household size had negative relationship with loan repayment, education and loan size have positive relationship with it.

In terms of constraints to the BOA loan acquisition. High interest rate, bureaucracy and inability to provide a guarantor were adjudged as the major constraints to loan acquisition in the Bank of Agriculture in Ogun State.

Conclusions

The age of the respondents, negatively influenced the amount obtained while farm size and amount repaid positively influenced the loan amount obtained. The size of loan given had positive relationship with the repayment rate. High interest rate, bureaucracy and inability to provide guarantor were adjudged as the major constraints to securing loan from the BOA. The age of the respondents, negatively influenced the amount obtained while farm size and amount repaid positively influenced the loan amount obtained. Household size, education and loan size were found to have significant relationship with loan repayment rate. While household size had negative relationship with loan repayment, education and loan size have positive relationship with it. In terms of constraints to the BOA loan acquisition. High interest rate, bureaucracy and inability to provide a guarantor were adjudged as the major constraints to loan acquisition in the Bank of Agriculture in Ogun State. Successful management of agricultural loan programme for farmers depends to a large extent, on sound knowledge of socio-economic characteristics of the farmers and their production situation or background also the amount of loan obtain. Management therefore needs to put in place, practical measures to mitigate the risk in the BOA loan scheme so as to improve the quality of the overall loan portfolio of the bank. These factors, pose three major tasks for the loan administrator namely, how to: Ensure continuous patronage from farmers, guide against mis-use of loan, and ensure prompt and full repayment of loan.

Recommendations

Recommendations arising from the conclusions of the study are given below:

- BOA should consider reducing the interest rate to encourage more people to access the loan and ease repayment.
- Loan administrators at the BOA should consider providing large sum to beneficiaries rather than series of small loans because it was found to increase propensity to repay.
- Bureaucracy should be tackled and loan disbursed on time to beneficiaries to avoid the issue of wrong timing of loan disbursement and use.
- The BOA loan administrator should review the guarantor policy with a view to easing it. Perhaps, they could employ group lending as opposed to individual lending with guarantor.
- There should be effective and proper monitoring, supervision and control of loans to the beneficiaries in order to ensure prompt and full repayment of loan.

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