

Effect of Operational Guidelines of Bank of Agriculture on Loan Disbursement and Repayment Performance of various Lending Schemes in Kwara State

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Abstract

Access to credit from agricultural institutions by farmers is reduced by their operational guidelines. A case of Bank of Agriculture (BOA) in Kwara State where effective disbursement is not followed by efficient repayment has made credit assessment in the state a problem. This study investigated the influence of operational guidelines of this bank on loan disbursed and recovery across the various schemes obtainable in the bank. Secondary data on loan disbursement and repayment and default were obtained from the three schemes operated by the bank which include Direct Lending (DLS), Macro Loan (MLS) and Special credit/Collaboration schemes (SCCS) of BOA Kwara State were used for the analyses. Data were analysed using simple descriptive and inferential statistics (Analysis of Variance (ANOVA)). Result shows an annual disbursement value of ₦25,955,000.00, ₦133,520,000.00 and ₦14,850,000.00 DLS, MLS and SCCS respectively. Annual repayment value of ₦8,353,500.00, ₦161,940,000.00 and ₦22,829,000.00 was obtained from DLS, MLS and SCCS respectively while a default value ₦648,494.97, ₦10,621,000.00 and ₦5,986,200.00 was recorded annually DLS, MLS and SCCS respectively. This implies that despite the high disbursement value made by MLS of the bank, which reflects a high level of risk, the scheme had the best repayment performance with low default. The efficiency of this scheme could be due to the strict recovery guidelines on defaulters, which include the deposition of a property as collateral to the bank, which might be sold to recover the money in any case of default. It may not be suitable for farmers in DLS whose are often landless resource poor with only labour as collaterals.

Key words: Disbursement, repayment, default, Direct, macro and collaboration scheme

I. Introduction

Agriculture is an important sector of the economy with enormous potentials and opportunities for job creations, food production and value addition to food products in the food value chain (Oji, 2002 and Ebewore, 2010). The sector has not been able to meet the basic national and traditional target of food security required to reduce the prevailing poverty. Hence, the fight on poverty reduction has become the centre stage of most economic policies in Nigeria. Although both government and non governmental organizations have several food security and poverty reduction intervention programmes, which aimed at poverty reduction. among rural populace. Such effort is the credits and micro-credits delivery to the rural farmers. Micro-credit is a form of credit delivery services (usually small loans) to the poor, small holder farmers and other low-income people lacking access to formal banking institutions and services (Rogally, 1999; Seibel, 2003; 2004 and Oji, 2008). Agricultural credit is a form of agricultural loan and advancement to farmers to meet their capital needs. The essentiality of the loan is the advantage it affords farmers towards using new technology, expand food production and farmers level of stakeholderhood in food value chain.

Though the primary motivation of borrowing among farmers is the capital need for an expanded food production. Therefore, credit delivery system need to be sustainable to provide this role (Odoemenem, 1991). Ebewore (2010) reported that conventional agricultural loans and credit programmes of commercial banks have seldom measured up to these expectations. Hence, the gap between credit needs and its supply has not only continued to widen but also fingered to be the root cause of poverty in the Kwara State. Though micro credits service of micro-finance banks is assuming an increasing importance in many parts of the world and Nigeria in particular, expanded food production is hardly eminent in the rural areas. In addressing this challenge, the Bank of Agriculture was created and charged with cost effective credit delivery to farmers who do not have collaterals for raising capital through loan.

As a development finance institution, the bank is owned by the federal government (under joint partnership between CBN and Federal Ministry of Finance. The CBN has about 40% of its share while the Federal Ministry of Finance has majority of its 60% share and also carry out a supervisory role. Its sources of funding include the federal government, intervention organizations (African Development Bank, IFAD, World Bank e.t.c), collaboration with state governments, Local Governments Areas e.t.c. The bank has the following products-

individual saving account, saving account for cooperative groups and associations, fixed deposit account and also provides the following services; micro loan services, collaborating scheme and on-lending scheme. These services are cost effective, quicker in disbursing credit with expertised advisory services that increases managerial skill of the beneficiaries.

The micro loans scheme is a service that avails credit facilities for financing both agriculture and non-agricultural initiatives and activities including traders, artisans, arable/field crops farmers, fisheries, horticulture, agro-Processing, livestock, agric produce marketing, tree crop Production, etc. The collaboration scheme is a partner-program that enables the bank to pool the resources of other agencies for the growth of the operations of their customers and their collaborative partners' groups of interest. The bank engages in collaborative ventures with international agencies, local agencies, governments and NGOs. They conduct joint research with their collaborative agencies and gains insight to usefull information for their customers. The other service provided by this bank is the on-lending scheme. This is a service that enables the bank to make loans available to more people and organisations through sourced funding from state governments, local governments, other government agencies, and cooperatives groups. Furthermore, duration of every loans disbursed is estimated for 360 days.

In line with these development, credit need of rural farmers is expected to have been solved but most reports still believe that it is still a mirage. The shortage of capital for effective farming and off-farm agripreneurs has continued to threaten food security of the state and the sustainability of the credit system of the bank is in serious doubt with the increasing report of low loan disbursment and repayment performance by the bank and farmers respectively. The extent to which the issues have affected the credit delivery system has not been well established. This study therefore, assessed the disbursment and performance level of different loans from the Bank of Agriculture to rural farmers and entrepreneurs in the food value chain with the following specific objectives;

- investigate the influence of credit schemes on loan disbursement;
- compare loan recovery in relation to various schemes

The hypothesis tested in this study is that there is no difference in the total annual loans disbursed under various schemes

II. Material and Methods

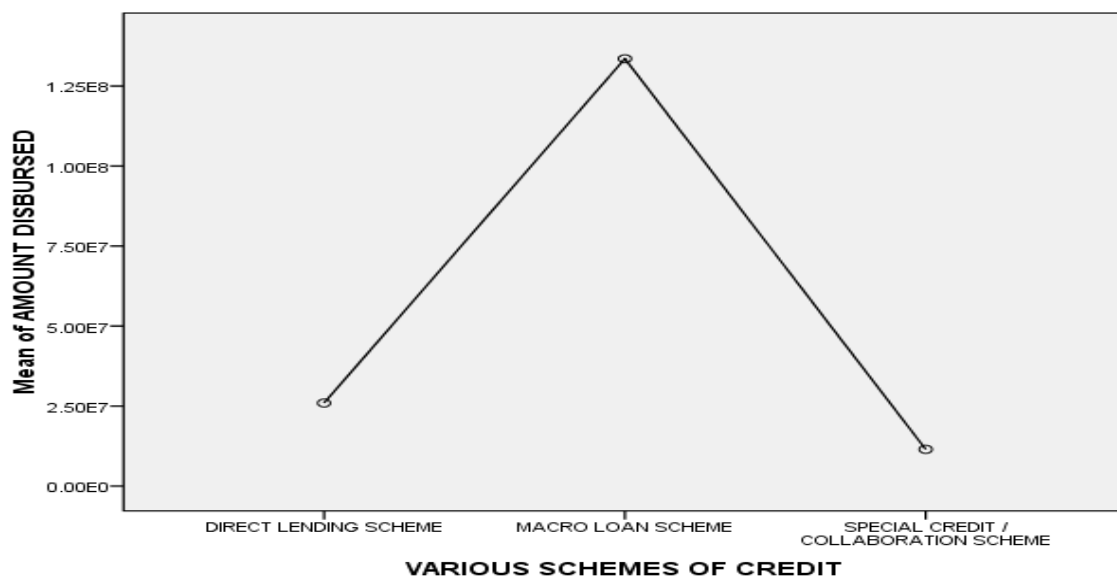
The study was carried out with Bank of Agriculture in Kwara State. The State is bounded in the north by Niger State, in the south by Osun and Ondo States, in the east by Kogi and in the west by Oyo State and has international boundary with Benin Republic. Its unique geographical position, made the state a "gateway" between to both the north and the southern side of the country. Its Local Government Councils comprises of: Asa, Baruten, Edo, Ekiti, Ifelodun, Ilorin-East, Ilorin West, Kaiama, Moro Offa and Oyun, Pategi, Osin, Oke-Ero, Irepodun and Ilorin. Currently, there sixteen (16) LGAs in the state, and agriculture is the main stay of the economy and the principal cash crops are: cotton, cocoa, coffee, kolanut, tobacco, benseed, palm produce and cassava.

The secondary data used in this study comprises of data obtained from the annual report of Bank of Agriculture, Kwara state between 2000 and 2010 finacial year. Information obtained includes a ten (10) years report of Direct (i.e. In-House loan/Micro credit) (DLS), macro credit (MCS) and collaborative scheme (SCCS) services of the bank. This shows vloume of disbursment, volume of repayment, number of beneficiaries and operational guidelines for effective performance of the bank. Data were analysed usng simple decriptive statistics such as mean, mode and relative frequencies to deccribe the trend in loan disbursment and performance within the period under study. Other tool used included an inferential statistics done using the One way Analysis of Variance (ANOVA). Data were also presented in tables and charts to show the trend and distribution of loan disbursment and performance of the bank loan in the state.

III. Result And Discussion

A. Disbursment Behaviours of the Various lending Schemes of Bank of Agriculture Kwara State

The result in Table 1. shows a total disbusment value of ₦25,955,000 was for DLS while a mean value of ₦133,520,000 was for MLS and ₦14,850,000 was for for special credit collaboration scheme. Macro lending scheme had the highest disbursment value than the other two schemes. Macro lending scheme attracted the highest value of credit to farmers because of the huge sum of money allocated to the scheme to enhance economic growth and development, through the creation of wealth, employment generation and the promotion of agribusiness activities along a given agricultural value chain. Hence, this allocation is expected to develop the agricultural industry in the state. In addition, its low default rate in loan recovery also encourages a high rate of loan disbursement to beneficiaries. However, under the macro lending scheme, loan facilities are made available to beneficiaries under strict terms and conditions for requirement.



B. Repayment Capacities of Bank of Agriculture Lending Schemes

The graph below shows the repayment rate which also shows indicates the Macro loan scheme as having the highest loan recovery rate with a mean value of ₦161,940,000 recorded on yearly basis, while a mean value of ₦22,829,000 was recorded for direct lending scheme and ₦8,353,500 was recorded for special credit collaboration scheme. The macro credit (MLS) value with the highest disbursement appears to have the highest repayment rate than the other two schemes. This could be as a result of the strict recovery guidelines adopted by the scheme on beneficiaries against delinquency.

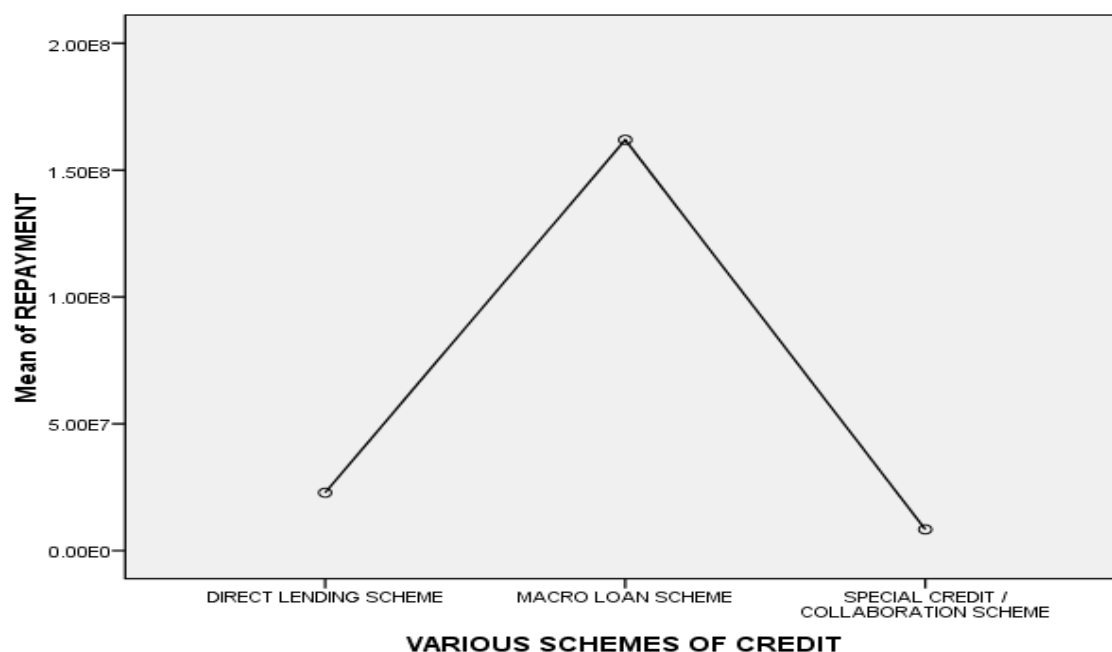
The Macro scheme (MLS), repayment guidelines include quarterly (i.e. every four months) repayment pattern, unless a beneficiary feels otherwise and decides to pay on monthly basis. On loan delinquency, a submission of title documents for developed properties when applying under this scheme is usually made. Failure to redeem payment within specified period places the bank at an advantage to take over the property as the bank reserve the rights to take over the property and act accordingly to the agreements signed for between both parties. Again, the use of demand notice such as a letter/bill to remind the beneficiaries when it is due to commence repayment are means of reducing delinquencies.

This cannot be compare to a mild approach of DLS where there is a direct approach such as personal visitation, the use of SMS messages, radio jingles and phone calls to drag borrowers to pay. Other means include the use of loan “recovery agents” to recover debts from loan defaulters and instituting a legal action.

Table 1: Annual Amount Disbursed, Repayment Performance and default Amongst the Three Schemes of the Bank of Agriculture Kwara State Descriptives

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
AMOUNT DISBURSED	DIRECT LENDING SCHEME	6	2.5955E7	1.68081E7	6.86190E6	8.3159E6	4.3594E7	4760000.00	43650000.00
	MACRO LOAN SCHEME	6	1.3352E8	2.51754E8	1.02778E8	-1.3068E8	3.9772E8	.00	6.42E8
	SPECIAL CREDIT / COLLABORATION SCHEME	5	1.1485E7	3.74316E6	1.67399E6	6.8373E6	1.6133E7	5560000.00	14687500.00
	Total	17	5.9664E7	1.51971E8	3.68584E7	-1.8473E7	1.3780E8	.00	6.42E8
REPAYMENT	DIRECT LENDING SCHEME	6	2.2829E7	1.44059E7	5.88119E6	7.7109E6	3.7947E7	4630860.00	38485538.52
	MACRO LOAN SCHEME	6	1.6194E8	3.07219E8	1.25422E8	-1.6046E8	4.8435E8	.00	7.83E8
	SPECIAL CREDIT / COLLABORATION SCHEME	5	8.3535E6	3.86157E6	1.72695E6	3.5587E6	1.3148E7	4104970.00	11212281.00
	Total	17	6.7670E7	1.86413E8	4.52117E7	-2.8174E7	1.6351E8	.00	7.83E8
OUTSTANDING/DEFAULT	DIRECT LENDING SCHEME	6	1.0621E7	1.03332E7	4.21849E6	223157.2675	2.1465E7	518097.00	29298336.00
	MACRO LOAN SCHEME	6	648494.9783	1.00804E6	4.11532E5	409382.5883	1.7064E6	.00	2076284.87
	SPECIAL CREDIT / COLLABORATION SCHEME	5	5.9862E6	4.01905E6	1.79737E6	995907.4786	1.0977E7	1744569.65	12221154.59
	Total	17	5.7381E6	7.50974E6	1.82138E6	1.8769E6	9.5992E6	.00	29298336.00

The legal action appears to be the last option targetted at defaulters as they are made to fill a form titled-*“Declaration to repay loan facilities”*. It is on this basis that a court action is initiated in the event of any default in repayment. Loan delinquency is usually com as the bank hardly adopt this measure due the cost associated with legal actions. The farmers may take advatage of this to default.



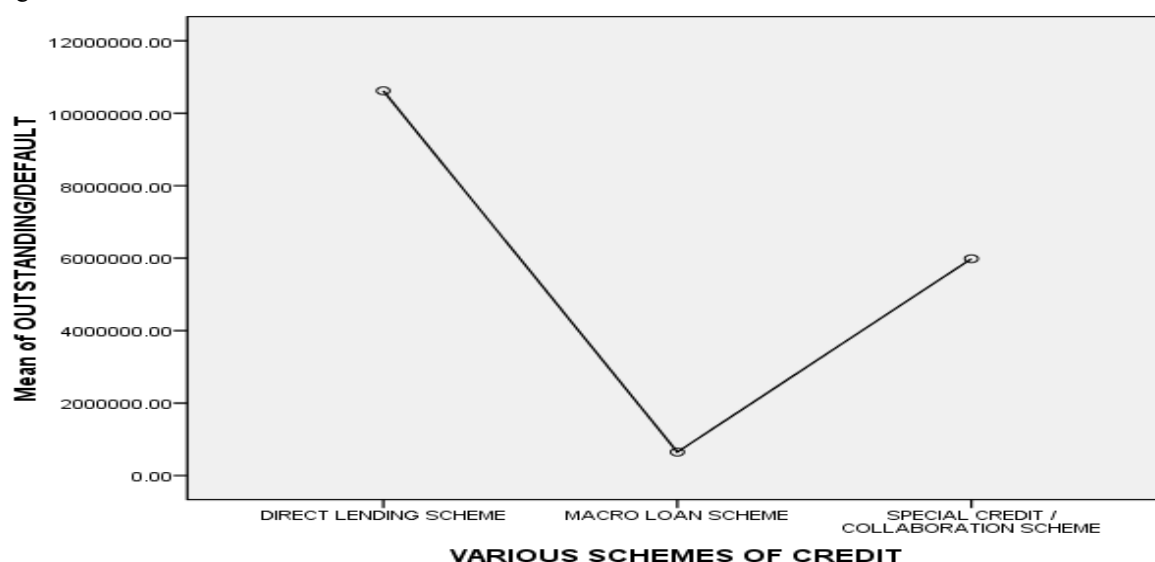
Default/Credit performance of the Credit Schemes of Bank of Agriculture in Kwara State Again, the graph above indicates the direct lending scheme recording the highest default rate with a mean value of ₦10,621,000 on yearly basis while macro loan scheme has the least default rate of ₦648,494.9783 and ₦5,986,200 for special

credit collaboration scheme on yearly basis.

The result of this analysis goes to show that the Macro loan scheme has so far fared very well among the three Bank of Agriculture's loan schemes in terms of its loan disbursement, repayment and default rate. This is an indication that the scheme's strict operational guidelines have impacted favourably on its performance. The study suggest that the operational guidelines of the micro credit scheme be applied to direct lending and the special credit collaboration schemes for effective performance in the state.

I. Testing the Hypothesis

In testing the hypothesis, a common base year of 2005 is used to reflect an easy point for comparison to be made among the three schemes of BOA.



ANOVA

		Sum of Squares	Df	Mean Square	F	Sig.
AMOUNT DISBURSED	Between Groups	5.115E16	2	2.558E16	1.125	.352
	Within Groups	3.184E17	14	2.274E16		
	Total	3.695E17	16			
REPAYMENT	Between Groups	8.298E16	2	4.149E16	1.228	.323
	Within Groups	4.730E17	14	3.379E16		
	Total	5.560E17	16			
OUTSTANDING/DEFAULT	Between Groups	2.988E14	2	1.494E14	3.465	.060
	Within Groups	6.036E14	14	4.311E13		
	Total	9.023E14	16			

That there is no difference in the total annual loans disbursed under various schemes of the bank. However, the inference indicates that even though it may appear to have a higher disbursement value with micro credit scheme, the difference is significant at a critical value of $\hat{p} < 0.05$. In the same way, there is no significant difference in loan repayment level among the three schemes at a critical value of $\hat{p} < 0.05$. However, the result showed that at a critical value of $\hat{p} < 0.10$ there is a significant difference in default level among the three schemes. This suggests that the default level of direct and special collaboration loan schemes may be higher than the macro lending scheme. It implies that the operational guideline for loan recovery for the two schemes may be weak and the management should look inward in addressing these guidelines. This is to favour the loan recovery and sustainability of the credit schemes in the state.

CONCLUSION

In conclusion, the core operational activity of the Bank of Agriculture is loan disbursement. However, the higher the repayment rate of previous loans disbursed, the more the new loan disbursed, but, if the repayment rate is low, the rate of disbursement will be affected, as it will also be low. Though the macro loan (MLS) performed most

creditability in both disbursement and repayment than the other three schemes, its operational guidelines may not favour the large majority, land-less resource poor small holder farmer who have labour as their only collaterals. It is therefore advised that the activities of the Macro lending scheme be promoted to achieve economic growth and development. Again, there is need for the lending policies of the Macro scheme to be relaxed while at the same time encouraging the direct lending scheme for small scale agripreneurs who cannot meet up with the requirement of Macro lending scheme (MLS). Furthermore, there is need for the bank to step up their advisory services as attention should now focus on the quality of management, entrepreneurial skills and type/nature of relationship existing among agripreneurs along a given commodity value chain in order to promote a market driven agribusiness activities.

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