

# THE IMPACT OF SPATIAL DISTRIBUTION OF MICRO-FINANCE INSTITUTIONS ON AGRICULTURAL PRODUCTION AND DEVELOPMENT IN EKITI STATE, NIGERIA.

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## ABSTRACT

*This study examines the impact of spatial distribution of Micro-finance institutions on Agricultural development in Ekiti State, Nigeria. Agriculture is an engine for economic growth in developing countries and rural microfinance is also critical to that growth. Data for this study were collected through primary sources. Three hundred (300) copies of questionnaires were administered on randomly selected farmers in the three local governments, selected across the three Senatorial Districts in Ekiti State Nigeria. The findings from the study revealed the problems of collateral security and poor facilities as major impediments to agricultural production and development in the study area. This study therefore suggests a relaxed policy of collateral security to facilitate access to credit facilities for the identified farmers, especially in the study area.*

**KEYWORDS:** Agriculture, Development, Ekiti State, Nigeria, Micro- Finance, Institutions and Spatial Distribution.

## 1.1 INTRODUCTION

Micro-finance is the provision of financial services to low-income clients or solidarity lending groups including farmers, consumers, and the self-employed, who traditionally lack access to banking and related services (Christen, et al, 2004). More broadly, it is a movement whose object is a world in which as many poor and near-poor households and farmers and possible have permanent access to an appropriate range of

high quality financial services, including not just credit, but also savings, insurance, and fund transfers (Christen et al, 2004). Those who promote micro-finance generally believe that such access will help poor people out of poverty.

Feigenberg et al, (2011) stated that micro-finance is a broad category of services, which includes micro-credit. Micro credit is the provision of credit services to poor clients. Although, micro credit is one of the aspects of micro-finance, conflation of the two terms is epidemic in public discourse. Critics often attack micro credit while referring to it indiscriminately as either micro-finance or micro-credit, due to the broad range of micro-finance services, it is difficult to access impact, and very few studies have tried to assess its full impact (Feigenberg, et al, 2011).

Agriculture is an important engine for economic growth in developing countries, rural micro-finance is critical to that growth (World Bank Agriculture and Rural Development Department 2005). The micro enterprise sector (Farmers, traders, artisans etc) needs access to financial services, including credit and savings products, which should be provided through a professional and dynamic micro-finance sector. Thus, the small and medium enterprise (SME) sector is essential in both connecting urban and rural economies and industries of different types and sizes. It needs a very specific blend of financial instruments and business support.

The scope of Micro- finance also involve the provision of a broad range of financial services such as deposits, loans, payment services, money transfer, and insurance to poor and low income households and farmers among others. These financial services are provided by three types of sources, they are;

- a. Formal institutions, such as rural banks and cooperatives.
- b. Semi formal institutions, such as non-governmental organizations (NGOs) and
- c. Informal sources such as money lenders and shopkeepers (Asian Development Bank, 2000).

In another development, Agriculture is one of the oldest engagements of man (MDGS Reports, 2008). In the earliest days, people produced their basic needs themselves; this was a sufficient economy or the agrarian economy. The practice of agriculture is evolving and changing and can be related to the development of human race (Davies and Bruton, 2009). In primitive time, there were basic methods of Agriculture:

- a. Hunting and gathering
- b. Pure subsistence agriculture which was the beginning of settled life among human race, i.e. the period of self sufficiency, when people provided enough food for the family by using crude implements.
- c. Cash crop production, when good implements coupled with division of labour were used to increase the quality and quantity of production. That is, producing more than what could be consumed, and market the excess.
- d. Commercial agriculture which was the advanced stage of production.

Micro-financing plays an important role in the development of agriculture, just as agriculture plays an important role in the development of the nation's economy. Agriculture contributes to the development of nation's economy by increasing labour productivity food for the teaming population of Nigeria. It also serves as a source of foreign exchange and a source of input to agro-based industries.

For Nigeria as a nation to meet the pre-requisite for economic growth, it must improve her agricultural production, which could lead to improved standard of living through abundant food supply at low and affordable price (Agumagu, 2002). Thus, the diversification of Nigeria's economy has made the oil sector a major source of revenue generation; consequently led to neglect of agricultural sector, which also resulted in its underfunding and low productivity (Agumagu, 2002).

For Agricultural development to be ensured, according to Agumagu(2002), credit must be extended to farmers with the advent of specialization and industrialization. He further argued that for farmers to produce more than expectation, micro-financing of Agriculture must be involved, to facilitate the mobilization of funds in form of savings, in order to enhance effective and modern farming techniques through the use of mechanized farming equipments, to boost the agricultural sector of the nation's economy.

## 1.2 PROBLEM IDENTIFICATION

It has proven to be difficult to provide sustainable micro-finance services to remote rural agricultural clients in developing countries (World Bank Agriculture, 2005). Inadequate information on borrower's credit history, insufficient collateral and the presence of a high degree of covariate risk, particularly to weather and market prices for farmer's produce, among other factors, make lending and other financial services risky and often unprofitable. In addition, high levels of transaction and supervisory costs contribute to the absence of functioning rural financial markets and institutions in many countries. The challenge for rural financing is to develop low- cost ways of reaching farmers (especially the peasant farmers) and to better manage the risk involved in loans, insurance and other services. History has shown that regardless of ownership, type of institution and rural or urban sphere of operation, to be sustainable, micro-finance institutions ultimately have to:

- a. Mobilize their own resources through savings and equity, augmented by other domestic resources.
- b. Recover their loans
- c. Cover their costs from their operational income
- d. Finance their expansion from their profits
- e. Acquire an appropriate legal status
- f. Submit to appropriate regulation and supervision.

There is a growing criticism of the impact of microfinance institutions in recent years; they are accused of slowing down the pace of economic development. They have equally being accused of inflexibility; reluctant to take risk and for demanding excessive collateral securities. Developments which have occurred in Nigeria financial institutions that affect agricultural sector includes: the indigenization decree of 1972, the Rural Banking Policy of 1977, liberalization of entry conditions into banking and related activities , increase in equity requirement; automation in the industries, high incidence of fraud, the Central Bank of Nigeria Decree No 24, Banks and other Financial Institutions Decree (BOFID) No 24 of 1991, failed banks, debt recovery and financial malpractices in banks, and poor management practices among others.

In view of the background information and various conceptual definitions on the subject matter of micro-financing for Agricultural development, the study broadly investigates how Agricultural Development could be enhanced, sustained and impacted lives through micro financing in Ekiti State, and specifically examines;

- (i) the effect of micro-finance institutions on the level of Agricultural production and development in Ekiti State.
- (ii) the nature of labour employed in Agricultural Production in Ekiti (iii) the problems affecting agricultural production and development in Ekiti State.

## 1.3 THE STUDY AREA

Ekiti State is located between latitude 7030 and 80151 North of the equator and longitude 40471 and 50401 of the Greenwich Meridian ([www.ekitinigeria.net](http://www.ekitinigeria.net),2010). Ekiti State was created on the 1<sup>st</sup> of October, 1996 and named Ado-Ekiti as her administrative headquarters. The estimated population figure of Ekiti

State released by the National Population Commission (NPC) stood at 2,353,082 (NPC July, 2006). The relief of Ekiti State consists of undulating plains. The highest contour line of 540m above sea level is found around the North Eastern limit of the state. The state is also characterized by crystalline rocks, which form parts of the basement complex geology of the South-West, Nigeria.

The development of Ekiti State spread towards the route of communication, put differently, the settlement evolution and growth is a replica of Homer Hoyt's sector land use model of 1939, which posits development, along a road network. Ekiti State has a total annual rainfall of about 1400mm with a low coefficient variation of about 30% during the rainfall peak months, and with an average of about 12 rainy days per annum (Adebayo, 1993).

The soil in Ekiti State belongs to the rock debris, hydromorphic and ferralitic soil groups (Adeniyi, 1993). The rock debris is usually hard and stone like in character. The soil type is developed on the pegmatic and quartzitic rock units. The vegetation of Ekiti State exhibits the microcosm of the low land rainforest zone. The climatic characteristics of high mean monthly temperature of about 1,400mm provide suitable conditions for the growth of forest.

The Yoruba tribe dominates the people in Ekiti State. However, there are other ethnic groups such as Ebiras, Igbos, Urhobos, Hausas, Edos, Tivs, Idomas and Isokos among others.

#### 1.4 CONCEPTUAL AND LITERATURE REVIEW

The Concept of Sustainable Development is applied to this study. The concept of sustainable development was propounded by the World Commission on Environment and Development (WCED) in 1987. This concept noted that sustainable development is a development that meets the needs of the present generation without compromising the ability of future generation to meet their own needs.

Development involves the purposeful change of the inherently complex environmental systems. The natural resources system (Agricultural products) and anthropogenic services (Micro-financing) are commonly utilized and multi-purpose in their social and economic roles (WCED, 1987). Consequently, the effects of bad management practices among microfinance institutions as well as mismanagement and misplaced priority of loans by some farmers in Sub Sahara Africa are often widespread both geographically and socially (Birch, 2007).

From the foregoing, it is obvious that agricultural activities, human needs and agricultural micro-finance are independent. In making developmental decisions, efforts to maintain or improve on micro-financing of agriculture and sustainable agricultural production should be given sufficient weight. This is the basis of the concept of sustainable development, an idea first proposed in the eighties by the world commission on environment and development (Rilwani and Osayande, 2003).

In essence, sustainable Development is a process of change, in which the exploitation of Micro-finance services for agricultural production, the direction of agricultural production to meet the target of Millennium Development Goals (MDGS) and institutional changes are all in harmony and enhances both the present and future potentials (contribution of micro-finance institutions, economic development of agriculture and adequate/ maximal agricultural production) to meet human needs and aspirations.(WCED, 1987).

Micro-finance Banks are specialized financial institutions established for the overall interest and development of an economy ([www.cenbank.org](http://www.cenbank.org), 2011). Thus, micro-finance institutions provide funds/ loans for persons and institutions for medium and long term investment in agriculture, commerce and institutions medium and long term investment in agriculture, commerce and industry ([www.cenbank.org](http://www.cenbank.org), 2011).

Robinson (2007) noted that micro-finance institutions have provided a great deal of new investment opportunities, assess the economic viability of such investment and equally encourage the interest of potential investors.

Asif and Barua (2006) opined that micro-finance institutions provide investment counseling to agriculturists, who accessed loans from them, adding that micro-finance institutions equally mobilize farmers to increase agricultural production, as well as the production of raw materials for agro-allied industries.

MDGs (2008) stated that the economy of Nigeria is based mainly on agriculture, that comprises of crops production, livestock, forestry and fisheries, which represent the primary sector of the economy. This is concerned with the production of food for the growing population of the country, fibers for clothing, wood for housing. It also provides foreign earnings from plantation of cash crops such as cocoa, rubber, kola-nut and coffee among others. Davies and Bruton (2009) observed that agriculture as a whole require a great deal of financing from financial institution due to its vital roles in developing the economy. Thus, without food, one finds it very difficult to live. This important factor calls for urgent need for financing agriculture in Nigeria.

Agumagu (2002) opined that in the rural farm households, the burden on rural women is much and yet they have limited access to both Agricultural Extension Programmes and other forms of income such as institutional credit and improved technology for production, processing and transportation services.

## **1.5 RESEARCH METHODS**

The research design for this study was mainly descriptive and data were collected through primary sources. The primary sources included personal observations and questionnaires.

Two sets of well structured interview questionnaires were designed, using the simple random sampling method to collect the required information. One set of questionnaire was designed for farmers who were directly involved in the micro-finance loans for agricultural production while the other set of questionnaire was designed for members of staff of micro-finance institutions in the study area.

A 30-item interview questionnaire was designed for farmers/ agriculturists who accessed loans from micro-finance banks for agricultural production while a 20-item interview questionnaire was made available for staff of micro-finance Banks in the study area. Therefore a total of three hundred (300) questionnaires were randomly administered on respondents in the designated area of the study.

The local government areas selected for the study were based on the recognition that they were areas of high agricultural activities and included; Ikole Local Government Area in Ekiti North Senatorial District, Emure Local Government Area in Ekiti South Senatorial District, Ifelodun/ Irepodun Local Government Area in Ekiti Central Senatorial District. Meanwhile, Ekiti State is divided into three (3) Senatorial Districts, namely; Ekiti South Senatorial District (which has 6 local government Areas) Ekiti Central Senatorial District (which has 5 local government Areas) and Ekiti North Senatorial District, (which has 5 local government Areas) and all the local government areas selected for the study were from the three senatorial districts in Ekiti State.

The multi-state sampling method was employed in the selection of households of farmers, while the descriptive method of data analysis, using simple percentages was also adopted.

## 1.6 RESULTS AND DISCUSSIONS

**Table 1: Sources of Fund for Agricultural Production by Respondents**

Sources	Frequency	Percentage
Personal Savings	78	26.0
Loan from commercial banks	18	6.0
Loans from cooperative societies	60	20.0
Loans from individuals	54	18.0
Loans from microfinance banks	90	30.0
Total	300	100.00

Sources: Author's Fieldwork Report, 2011.

The results in table 1 indicating sources of fund for Agriculture production in the study area revealed that 78 (26.0%) of the respondents exploited personal savings to fund their agricultural production in the area. Meanwhile, 18 (6.0%) responding farmers accessed loans through commercial banks, 60 (20.0%) of the respondents took loans from cooperative societies, 54 (18.0%) of the respondents took loans from individuals, while 90 (30.0%) of the respondents accessed loans through microfinance banks for Agricultural Production in the study area. This implies that majority of the respondents (Farmers) in the study area accessed loans through micro-finance banks and as such, micro-finance banks have had a considerable impact on Agricultural Production and development in the study area.

**Table 2: Level of Agricultural Production and Development as a Result of the Effect of Micro-finance Banks.**

Level of Improvement	Frequency	Percentage
Low 1-49%	87	29.0
Considerate 50-69%	123	41.0
High 70-100%	90	30.0
Total	300	100.0

Source: Authors Fieldwork Report, 2011.

The results of the effect of micro-finance Banks on the level of Agricultural Production and Development in Table 2, indicated that 123 (41.0%) of the respondents ascertained a considerable level of Agricultural Development while 90(30.0%) of the respondents observed a high level of Agricultural Development in the study area, with only 87(29.0%) of the respondents rated the level of Agricultural Development low. This suggests that the effect of micro-finance institutions on the development of agriculture in the study area was noticeable and has greatly improved the level of agricultural production in the study area.

**Table 3: Nature of Labour Employed in Agricultural production.**

Nature of Labour	Frequency	Percentage
Personal Labour	70	23.3
Family and Friends	130	43.3
Hired Labour	100	33.4
Total	300	100.0

Source: Authors Fieldwork Report, 2011.

The Results in Table 3, indicating the nature of labour employed in agricultural production by farmers in the study area showed that 70 (23.3%) of the respondents personally worked in their farms, 130(43.3%) of the respondents friends and family members for agricultural production, while 100 (33.4%) of the respondents engaged the services of hired labour for agricultural production. This also suggests that the presence of micro-finance banks in the study area has contributed immensely to agricultural production; growth and development in the study area by empowering financially agriculturists in the area, to the extent that quite a considerable number of them employed the services of hired workers in the study area.

**Table 4: Challenges of Agricultural Production and Development.**

Issues	Frequency	Percentage
Problem of capital	45	15.0
Problem of Land tenure	72	24.0
Climate Change	24	8.0
Poor facilities	42	14.0
Problem of Labour	24	8.0
Poor harvest	24	8.0
Collateral security	18	6.0
Problem of Pests & Diseases	21	7.0
Price Fluctuation/ Unfavourable Market Conditions	30	10.0
Total	300	100.0

Source: Authors Fieldwork Report, 2011.

The respondents' views on the various problems of agricultural production and development in Table 4 revealed that 45 (15.0%) of the farmers in the area identified problem of capital, 72 (24.0%) of them noticed problem of land tenure system, 24 (8.0%) of them observed the problem of climate change, 42 (14.0%) of the farmers observed problem of poor facilities, 24 (8.0%) of them also observed problem of inadequate labour. While 24 (8.0%) of the farmers observed problem of poor harvest, 18 (6.0%) of the them identified problem of collateral security as major impediment to agricultural loans in the study area. Also, while 21 (7.0%) of the farmers in the study area noticed problem of pests and diseases affecting major agricultural production, 30(10.0%) of them identified the likelihood of price fluctuation/unfavorable market conditions militating against agricultural production. However, despite the contribution of micro-finance banks to the production and development of agriculture in the study area, the problem of inadequate capital still persists. Thus, there is need for the government, non-governmental organizations, and well meaning individuals to support micro-finance institutions in boosting agricultural production and development in the study area.

## 1.7 CONCLUSION AND RECOMMENDATIONS

Ekiti State in particular and Nigeria in general is blessed with fertile soil for agricultural production. Yet, poverty and high cost of living still exists. These points to the facts that the need for a considerable adjustment, reform, and improvement of agricultural production cannot be overemphasized and should be done urgently, so as to meet one of the targets of the Millennium Development Goals (MDGs).

In- view of the findings of the study, there is need for the provision of storage facilities and other modern agricultural facilities in the study area, in order to boost agricultural production.

Financial institutions and government at all levels should increase the financial assistance given to farmers in the study area.

Agricultural education, as well as enlightenment programmes should also be organized annually by the appropriate government agencies for practicing farmers in the study area.

Collateral security should be shunned for identified farmers in the study area.

There is also need for the provision of adequate infrastructural facilities in the study area to motivate farmers to live and work comfortably in the study area.

Employment opportunities should be provided for inhabitants in the study area in order to improve the standard of living of the people, while the problem of land tenure system should be addressed by the community leaders. Government on their own part should make land available to farmers and those interested in agricultural activities in the study area. Hence, boost the growth and development of agricultural production and development in the area.

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