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Impact of Micro Credit Financing on Agricultural Production A case Study of Bundibugyo District In The Western Region Of Uganda

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Abstract*: The study's goal was to determine the impact of microcredit funding on agricultural output. BRAC and HOFOKAM Uganda were the two main microcredit institutions in this study. Among the services provided are savings and credit, assistance with group formation, company information, and client training services. By utilizing the services, the farmers might increase their produce, increase their revenue, and reduce their rates of poverty. Despite MF's attempts to connect with farmers in rural communities, some farmers are still unable to take use of the services provided, their level of poverty is high, and their general well-being is also low. The general and specific objectives of the study were to identify the obstacles that prevent farmers in the Bundibugyo district from acquiring microcredit loans, to look into the challenges that microcredit institutions face when giving loans to farmers, and to speculate on possible solutions to these obstacles. The investigation relied on a descriptive case study research design and contained both primary and secondary data. Primary data was acquired using questionnaires that the researcher administered. The results were assessed in accordance with the goals and it was discovered that MFIs had made a bigger contribution to agricultural productivity in the region. The MF clients were able to enhance their production through the services provided, which in turn increased their income and decreased the level of poverty among them.*

Keywords: micro credit, financing, agricultural, production

Background of the study

Agricultural revenue is often viewed as unpredictable due to its reliance on producing (weather, pests, and sickness) and market (commodity pricing) risks (Paxon, 1992, Heimfarth & Musshoff, 2011). Income volatility can become much greater in the absence of adequate agricultural insurance products (Rosenzweig & Binswanger, 1993), which is especially true for small-scale farmers in developing countries (Roth, 2007; Swiss Re, 2011). This affects the income available of agricultural borrowers for loan repayment as well, which could lead to an increase in loan defaults (Barry, 2001). Small-scale agricultural households appear to be particularly vulnerable to this, as they have limited ability to counteract income changes. Financial institutions in developing countries are still reluctant to lend to small farmers as a result of this (Zeller et al., 1997); this Behaviour may also be explained by the characteristics of the financial sectors and the experience of agriculture finance in developing countries (Maurer, 2011). The financial sectors in underdeveloped countries usually have low financial intermediation (i.e., bank credit as a percentage of GDP), minimal diversity, and high profitability.

As a result, a considerable share of the financial assets are held by a small number of exceptionally successful normal banks that largely service large, urban-based firms (IFC, 2010). As long as earnings are strong and competitive rivalry is low, conventional banks were to focus only on highly securitisation projects with low credit risks, which are uncommon in the micro, small, and medium-sized enterprise (MSME) sector and especially not among tiny agricultural producers. Additionally, because most MSMEs operate ad hoc, most conventional banks are not equipped to assist them. As a result, they do not maintain proper bookkeeping that may serve as the basis for client review, nor are they registered. As a result, many MSMEs are unable to access loans and other banking sectors (CGAP, 2010).

When institutions like Yunus's Grameen Bank in Bangladesh and ACCION International in Venezuela began to formalize the procedure in the 1960s and 1970s, according to Dowla, the concept of microloans grew significantly (2006). By formulating and expanding the core idea of sharing programs, these microfinance companies assisted in generating capital for small businesses as opposed to just lending for necessities like food, drink, and clothing. Yunus first developed the idea of microcredit while studying the situation of low-income enterprises in his home Bangladesh during the famine of 1974. His project immediately showed how quick life improvements might be made with small loans that were also promptly repaid with interest.

Specific objective

1. To find out the factors limiting famers from getting micro credit loans in Bundibugyo district.
2. To examine the challenges micro credit facilities, face in giving out loans to farmers.
3. To examine the possible measures to overcome the factors hindering farmers from getting micro credit loans.

Research questions.

1. What are the factors limiting farmers from acquiring micro credit loans in Bundibugyo district?

2. What are the challenges faced by micro credit financing facilities in giving loans to farmers in Bundibugyo district?
3. What are the possible measures to overcome the factors limiting farmers from acquiring micro credit loans in Bundibugyo district?

Methodology

Target population

The target population comprised of MCFs agricultural clients of BRAC and HOFOKAM in Bundibugyo district. The population encompasses people who have been engaged in MCFs activities from 0-15 years and live in Bundibugyo district, Uganda. The researcher chose the people with a long experience in MCFs activities because they are well informed and know much about the pros and cons of MCFs activities.

Study design

Since data was gathered from respondents over a particular period of time, a cross-sectional survey research design was used for the current study. Also, by sampling, which is the process of choosing a random subset of people from the entire population in the research area. One method that can readily obtain information is sampling.

Hence, I suggested using purposive sampling during the study because I wanted to choose a section of the population that I knew had accurate information and could provide me with all the data I required.

The goal of the sample technique strategy was to shorten fieldwork and improve accuracy. Also, the study used systematic random selection to choose the sample unit by removing farmers who had stopped using the services.

Only clients who have never stopped using the services were taken into account for the treatment group in this study, and eligible non-participants who are thought of as counterfactuals were polled for the matching purpose. The simplified Yamane (1967) formula will be used in this investigation to calculate the necessary sample size at an accuracy level of 8% (e = 8%).

n= ($\mathbf{N1}$+$\mathbf{Ne2}$)

Where: n= sample size of BRAC clients

N=population of BRAC clients

e= level of precision

Data analysis

The data obtained during the research was analyzed using both qualitative and quantitative data analysis techniques. Quantitatively, data was coded, counted, categorized into tables, charts and processed to provide frequency table and percentages using the SPSS. Qualitatively, information gathered from the interviews and observations were analyzed using descriptive analysis.

RESULTS

The services rendered by MFIs to agricultural production in the area.

Table1: The services rendered by MFIs to agricultural production.

Statement	Frequency	Percentage (%)
Loan services	60	75
Savings facilities	65	81.3
Business information and training	50	62.5
Assistance with group formation	40	50

Source: primary data

Table 1 indicates that savings facility was the most popular service of the services rendered by MFIs to agricultural production accounting for 81.3% of the respondents followed by loan facilities having 75%, business information and training with 62.5%, and assistance with group formation 50% . Other services included payment service and provide custody of valuables like, documents of title.

Category of the clients that receive micro-finance services.

As regards to age bracket of the respondents, the greatest percentage of them was generally in the age bracket of 20-55 years. The detail as regards to age of the clients is given in table 2.

Table2: Age bracket of clients.

Age	**Frequency**	**Percentage (%)**

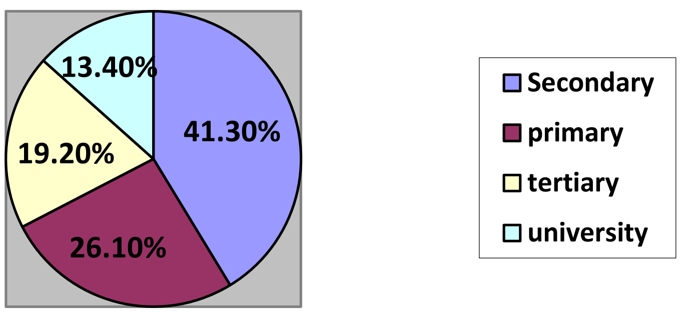
20-35	**20**	**25**
36-45	**30**	**38**
46-55	**20**	**25**
56 and above	**10**	**13**

Source: Primary data

The pattern in table 2 suggests that MFIs prefer to provide their services to people who are still active. By engaging in profitable commercial ventures, they are able to make effective use of the services.

This is in accordance with the MFIs' objective to lower poverty levels and enhance the welfare of rural people by increasing incomes from small-scale businesses. Findings about the respondents' education level show that those who completed primary level schooling made up the largest majority of respondents.

Figure 1: The level of education of the respondents.



Source; primary data

Figure 1 shows that the most common degree of education reached, secondary school, was attained by 41.3% of the population, followed by elementary school by 26.1%. University graduates made up a small percentage of the population. The aforementioned pattern is caused by the fact that the majority of people consistently find it challenging to continue their education past the secondary level due to the high expenditures connected with education. Thus, in order to survive, they decide to start businesses. Also, at this level, they possess the rudiments needed to manage such activities. Additionally, they are only sufficiently informed at this point to conduct business with MFIs in order to extend their activities.

For instance, aspects that may require basic knowledge and understanding are ascertaining whether a profit is likely to be made from running a business using a loan given the interest rate charged on such a loan.

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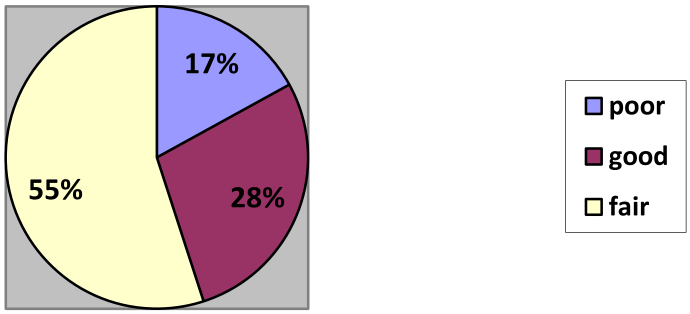
The quality of MFIs' services rendered to the rural people in the area.
Figure2; The quality of services rendered by MFIs.



Source; primary data

From figure 2, the respondents described the quality of MFIs' services as good, fair and poor. 28% good, 55% fair, and 17%poor. Therefore, this makes it a challenge for micro-finance institutions to move from 55% fair position to at least 82.3% good position in providing their services in the area.

Factors limiting farmers from acquiring micro credit loans in Bundibugyo district?
Table 3: Factors limiting farmers from acquiring micro credit loans in the area.

Statement	Frequency	Percentage (%)
High interest rates on credit	60	75
Lack of credit information	50	62.5
Lack of collateral	65	81.3
Small size of the projects	40	50

Source: primary data

Table 3 lists the reasons that prevent farmers from obtaining credit loans from MFIs, including high interest rates (75% of respondents), a shortage of financial information (62.5%), the lack of collateral by most farmers (81.3%), and small project sizes (representing 50% of respondents).

Types of income generating activities operated by farmers.
From the findings, the greatest percentage of the respondents is in retail trade and in operation of restaurants. The results are shown in table 4.

Table 4: Types of activities operated by the MFIs clients in the area.

Project	Frequency	Percentage (%)
Crop growing	17	21.3

Poultry	**43**	**53.8**
Aquaculture	**8**	**10**
Piggery	**43**	**53.8**

Source: primary data

From the above illustration (table 4), it is evident that the greatest percentage of the activities operated by MFIs clients are poultry and piggery both accounting for 53.8% each, followed by crop growing at 21.3%, and aquaculture at 10%. There are other projects that were not included in the table such as agricultural shops, horticulture, apiculture which are also carried out by farmers within the area.

The pattern shown in table 4 implies that farmers who obtained micro finance services perceived the above types of enterprises as the most profitable from which the greatest return can be generated. This is because their objective is to maximize benefit from the services that they buy from MFIs so as to improve their quality of life and that of their dependents.

The challenges faced by MFIs while rendering their services to the farmers in the area.
Table 5: The challenges faced by MFIs while rendering services to the farmers in the area.

Statement	Frequency	Percentage (%)
High interest rates	**50**	**62.5**
Lack of enough management staff	**65**	**81.3**
Default risks	**59**	**73.8**
Lack of credit information	**62**	**77.5**
High transaction costs	**69**	**86.3**
Lack of products for the poor	**55**	**68.8**

Source: primary data

According to table 5, the biggest challenges for MFIs are high transaction costs, which account for 88.8% of respondents, followed by a lack of management staff (81.3%), a lack of credit data for farmers (77.5%), default risks (73.8%), a lack of suitable products for the poor (68.8%), and high interest rates (62.5%). Further difficulties MFIs encounter while providing services in the region include a lack of collateral, a high rate of client illiteracy, and social customs. According to Table 5, MFIs confront numerous difficulties, particularly the high transaction costs associated with providing services to farmers.

This is attributed to the fact that the farmer clients are scattered, which makes monitoring and supervision expensive and difficult after granting the loan mostly for the first borrowers.

Conclusion.

Empowerment and income development can be found through microfinance institutions. Accessing resources and opportunities to improve living conditions, agricultural output, and farmer families' means of subsistence is made simpler by having good channel connections. If the economy moves through the right institutional arrangements and has lower loan interest rates, which improves an individual's functioning in the course of economic development, it may be conducive to empowering the impoverished farmers.

MFIs encounter difficulties when providing services to farmers, such as high transaction costs brought on by the small loan amounts requested by the farmers, which raises the diligence cost per loan, widespread illiteracy, and the fact that rural areas are widely dispersed geographically drive up administrative costs and supervision costs after the initial loan.

Recommendations.

The findings show that the difficult and drawn-out procedure of opening bank accounts and applying for loans is what causes the clients' transaction costs to be so high. Because of this, microfinance providers should make it easier to create an account with a bank or apply for a loan. This will encourage more rural people to use financial institutions by reducing transaction costs for customers. To reduce the cost of banking institutions' lending to rural communities, the Ugandan government should put into practice Dr. Suruma's (2007) recommendation that costs for lending to the agricultural sector be deducted from taxable earnings.

Results also showed that microfinance institutions faced difficulties because there were not enough adaptable products and services available for the poor. For instance, the interest rates charged on loans should be revised to suit the needs of the clients.

This can be best done by interviewing the clients and get an opinion on what they really want. However, there must be an optimal rate that is not high and at the same time not too low to cover the operating costs. There is also a need for flexibility in scheduling of loan repayments. Training was seen as an important service to the rural people in the area but there is need to develop other methods of training so as to increase on learning. Wishes from the interviewed clients include on-site training, trade fares, consultancies and business counseling. Micro-finance institutions should also encourage their clients to contribute towards covering training costs.

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