
**IMPACT OF MICRO CREDIT FINACING ON AGRICULTURAL PRODUCTION. ACASE
STUDY OF BUNDIBUGYO DISTRICT IN THE WESTERN REGION OF UGANDA**

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ABSTRACT

The study was aimed at knowing the impact of microcredit financing on agricultural production. BRAC and HOFOKAM Uganda were the major micro credit institutions in this study. The services provided include savings and credit, assistance with group formation, business information and training services to their clients. Utilization of the services was to enable the farmers to increase their production, their income levels, reduce poverty levels.

Despite MF efforts to reach the farmers in rural communities, some farmers are still unable to enjoy the services provided, their level of poverty is high, and their general welfare is also low. The study was guided by both general and specific objectives; to find out the factors limiting famers from getting micro credit loans in Bundibugyo district, to examine the challenges micro credit facilities face in giving out loans to farmers, to examine the possible measures to overcome the factors hindering farmers from getting micro credit loans. The study was also based on a descriptive case study research design and both primary and secondary data was used in the study. Primary data was obtained with the help of researcher-administered questionnaires.

The findings were analyzed in line with the objectives and found out that MFIs have to a greater extent contributed to agricultural production in the area. Through the services rendered, the MF clients were able to increase their production and hence increasing their income and thus reducing the level of poverty among the farmers. However, MFIs are faced with challenges while serving the people in the area that included high transaction costs, lack of appropriate products for the poor. And MFIs have tried to put in place strategies to help overcome some of the challenges like

the classification of the farmers so that they can be assisted accordingly, adoption of credit registers.

Key words: micro credit financing, financial institutions, agricultural production and farmers

Back ground of the study

Agricultural income is generally considered weak because it depends on production (weather, pests and diseases) and market (crop) risks (Paxon, 1992; Heimfarth & Musshoff, 2011). Income volatility may be exacerbated in the absence of adequate crop insurance products, especially for small farmers in rural areas (Rosenzweig & Binswanger, 1993). code design (Roth, 2007; SwissRe, 2011). This also affects the amount of money agricultural borrowers can use for loans, which can lead to higher loan costs (Mark et al., 2023). This seems to be especially true for small farmers who can pay variable incomes (Polycarp et al., 2023).

As a result, most financial assets are held by a small number of high-profit banks focused on large urban companies (IFC, 2010). As long as profits are high and competition is low, traditional banks focus on profitable investments with low credit risk, which is rarely seen in micro, small and medium enterprises (MSMEs), especially small farmers. The microfinance sector has become a competition with the motivation of NGOs, cooperatives (SACCOs), informal and formal. Microfinance is believed to contribute to poverty and economic growth reduction and to economic inclusion and expansion of the economy, Kamanyi, Judy (2003). Traditional financial institutions in Uganda do not provide opportunities or foundations for the poor people's economy to thrive; however, cooperation with financial institutions and the general market has spurred the government to change (Gracious, 2023). The economy grew with the implementation of the PEAP and PRSP programs, allowing for more independent exchanges and greater emphasis on social capital, Manndorff and Rhyne (2001).

Problem statement.

Microfinance provides financial services to the poor who are not served by traditional financial institutions. In Uganda, approximately 35% of the economically active population is served by the financial system, while farmers are one of 65% without financial services (Bank of Uganda). This 65% is mainly contributed by informal sources of funding, for example: non-governmental organizations (NGOs), financial institutions, lenders, friends, relatives and partners Credit eligibility (Derrick et al., 2017) ibid, 2023). The illegal activities of some of these institutions have a serious impact on farmers and the Bank of Uganda's ability to fulfill its mission of promoting financial stability and the good use of money (Oromo et al., 2023). Therefore, this study aims to analyze the performance of agricultural credit, the strategies adopted to promote microfinance, and how microfinance helps to promote agriculture, how farming is done (Collins et al., 2023).

Specific objective

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

Research questions.

- What are the factors limiting farmers from acquiring micro credit loans in Bundibugyo district?*
- What are the challenges faced by micro credit financing facilities in giving loans to farmers in Bundibugyo district?*
- 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

The study design was a Cross-sectional survey research used for the present research as the data was collected from respondents within a single span of time. Also, by sampling and it involved selecting unknown portion of persons from the whole population from the study area which are referred to as a sample. Sampling is one of the techniques which can avail information easily.

Therefore, during the study I proposed to use purposive sampling because I intend to select a group of the population that I know it have the reliable information hence they were able to give me all the information needed for my study. The sampling technique approach was to reduce field time and increase accuracy. The study also applied systematic random sampling to select the sample unit by excluding those farmers who have withdrawn from obtaining the services.

In this study the simplified formula provided by Yamane (1967), shall apply to determine the required sample size at precision level of eight percent ($e = 8\%$) $n = \frac{N}{1 + Ne^2}$

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 (Nelson et al., 2022). Qualitatively, information gathered from the interviews and observations were analyzed using descriptive analysis.

RESULTS

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

Figure 1; The quality of services rendered by MFIs.

Source; primary data

From figure 1, 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.

Suggestions of the respondents to improve on the existing services rendered by MFIs.

Factors limiting farmers from acquiring micro credit loans in Bundibugyo district?

Table 1: 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 1 indicates the factors hindering farmers from acquiring credit loan from MFIs and these are high interest rate on credit with 75% of the respondents, lack of credit information with 62.5%, lack of collateral by most of the farmers with 81.3%, small size of the projects accounting for 50% of the respondents.

The pattern shown in the above table implies that the farmers are not willing to acquire the basic needs by using MFIs' services to improve their quality of life. Farmers have not been able to cope with unexpected events like drought, breakdown of machines, and price fall. They are also not able to gather useful large sums of money for investment in livelihood activities or payment of school fees for their children.

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 2.

Table 2: Types of activities operated by the MFIs clients in the area.

<i>Project</i>	<i>Frequency</i>	<i>Percentage (%)</i>
<i>Crop growing</i>	<i>17</i>	<i>21.3</i>
<i>Poultry</i>	<i>43</i>	<i>53.8</i>
<i>Aquaculture</i>	<i>8</i>	<i>10</i>
<i>Piggery</i>	<i>43</i>	<i>53.8</i>

Source: primary data

From the above illustration (table 2), 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 2 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.

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

Table 3: The challenges faced by MFIs while rendering services to the farmers in the area.

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

Source: primary data

From table 3, it's indicated that MFIs are greatly challenged by high transaction costs accounting to 88.8% of the respondents, followed by lack of enough management staff accounting for 81.3%, lack of credit information by the farmers with 77.5%, default risks with 73.8%, followed by lack of appropriate product for the poor with 68.8% and high interest rates 62.5 % of the respondents. The other challenges faced by MFIs while rendering their services in the area include lack of collateral, high level of illiteracy among clients and social culture. Table 5 indicates that MFIs are faced with many challenges especially the high transaction costs of serving the 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.

Strategies put in place to help overcome the challenges faced by MFIs.

Findings show that lack of appropriate products for the poor is among the challenges faced by MFIs in the area and to overcome this challenge, MFIs are now associated with better staffing policies that recruit staff from the local area who understand the vulnerability that the farmers operate in so as to help in designing of appropriate products and services that best suits their needs. MFIs are also trying to classify the poor people according to their occupation and needs so that they can be assisted accordingly. This is in line with Jose (1998)'s recommendation for the

classification and focus on the real needs of the poor so that they can be assisted accordingly since some could, while others could not increase their incomes themselves.

From the findings, MFIs' clients expressed dissatisfaction with the available staff as compared to the number of clients waiting to be served. To overcome this, some institutions have resorted to use of technology to improve on their service delivery like use of ATM machines, which have a self-service facility, where customers serve themselves anytime beyond working hours. For default risks, some MFIs like BRAC have at least solved this problem by assisting their clients with group formation and the institution offers services like loans to members in the group so that in case of failure to repay the loan by the member, the group members are responsible for that loan repayment. And legal proceedings are also taken against clients who fail to have adopted the use of repay the loan.

Conclusion.

Microfinance institutions are a source of income generation and empowerment. Strong ties with the channels facilitate the sources and opportunities in the improvement of agriculture production, living standard and solve the livelihood problems in farmers' families. The economy could be conducive to empower the poor farmers if it flows through proper institutions arrangements and having less interest on loan which increases the functioning of an individual in the process of economic development.

MFIs face challenges in rendering their services to farmers such as; high transaction costs resulting from the small loan sizes demanded by the farmers that makes diligence cost per loan high, wide spread illiteracy and the fact that the rural are widely geographically spread further drive-up administrative costs and supervision costs after the loan is granted.

Recommendations.

Findings also revealed that lack of appropriate products for the poor was a challenge to micro-finance institutions; therefore, they should have flexible products and services 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.

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