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Challenges in Microfinance in Agriculture and in Low Population Density Areas: A Note

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Micro credit — the extension of small loans to poor individuals -is meant to be used for income generating activities that will improve the borrowers living standards. Microfinance is a broad term of microcredit. Microfinance, a type of banking service, is provided to the unemployed or low income individuals or such groups who would otherwise have no other means of gaining financial services. Ultimately, the goal of microfinance is to give low income people an opportunity to become self sufficient by providing a means of saving money, borrowing money and providing some form of insurance cover.

Bangladesh is the pioneer and global leader of micro credit. Nobel Laureate Prof Dr Muhammad Yunus introduced the concept of micro credit about three and a half decades ago. The concept has been institutionalized through forming a bank entitled Grameen Bank. The basic concept of the microfinance, which initially started as micro credit, is to alleviate poverty and empower the helpless and less privileged section of the society through generating small entrepreneurship and employment opportunities. However, with the passage of time, the concept has not remained confined within the boundary of credit financing programme. It now encompasses different health and education programs targeted for landless and marginal farmers.

There are many notable achievements of microfinance. These include, among others, the process of financial democratization, breaking the deep rooted myth

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that poor people neither have the willingness nor the capability to repay loan and the poor don't want to save. Another remarkable achievement of microfinance is its thrust given on commercialization of the provision of financial services to the poor and low income farm families.

The journey of micro finance was not hazardless and without setbacks. Over time, microfinance has been facing the challenges of sluggishness, poor management and financing quality. The main challenges in microfinance are to further improve the enabling policy environment and build up adequate capacity to provide a broad range of services in keeping with the demands of the farmers and the reduction of transaction costs.

Microfinance, especially the micro credit, mainly deals with the off-farm activities as a tool of poverty alleviation program. Initially on-farm and allied agricultural activities were generally overlooked by microcredit operators as in the case of Bangladesh, mainly due to the unpredictability of returns in these sectors. Although the non-government organizations (NGOs) engaged in microfinance in Bangladesh claimed their operations to be the provision of loan to agricultural sector, but the real scene was different. The poor people had taken loans in the name of agriculture but invested in other sectors, which were the great impediments to microfinance activities.

There is a vast scope for microfinance in agriculture sector. There is no denying that the contribution of agriculture to the gross domestic product (GDP) in many countries in the world has declined. But it is still the biggest employer and foreign exchange earner of many countries, particularly in the Asia Pacific region and the Middle East and North African countries. Moreover, amid global environmental and sustainability concerns, huge investment is needed to offset the adverse impact that has already engulfed the agriculture sector. Farmers of such regions are very poor. Most of them are landless, marginal or small. But they are the backbone of the farming system. These farmers have very little access to finance, despite frantic efforts by the commercial banks and other lending windows to extend coverage. This is largely because of structural, managerial and policy apparatuses.

Agriculture needs extended financing not only to bail out the poor farmers from their chronic poverty but also to meet the growing demand for food and maintaining a sustainable food security. There are a lot of challenges in micro-finance in agriculture and the challenges can be broadly mentioned from the point of view of farmers, related institutions and policy frameworks.

The challenges that the farmers face are lack of quality seeds, other inputs like fertilizers, fuel, insecticides and pesticides, irrigation facilities, appropriate technology, shortage of agricultural labour, inadequate pest and disease control arrangements, low rate of return and productivity, seasonality, poor agro ecology, natural calamities etc. Besides, there are other challenges for marketing of agro products, distribution channel, price fluctuation and proper packaging, access to finance, timely repayment of loan etc.

The challenges in microfinance from the institutional point of view relate to the absence of strong physical and organizational infrastructure, weak group formation, unplanned loan disbursement, and problems arising out of flawed management and supervision, higher transaction costs both for lenders and borrowers, higher chances of default in repayment, absence of linkage of loan repayment with harvesting of crop, lack of flow of fund, delays in timely disbursement, lack of reliable information about the borrowers, non-availability of information technology, institutional competence and capacity, technical capacity and training. As a consequence, farmers may be dependent upon only one crop with no other external source of income. Loan exemption by the government is yet another problem.

The policy framework of the government also influences the micro financing in agriculture. The challenges in policy framework can be stated as lack of friendly policy of the state or government to finance the activities in the agriculture sector, absence of proper legal framework, supportive interventions and vision in government policy, and inflexible policy of quickly changing operating and regulatory environment. So, creating sustainable financial institutions requires a supportive environment and macroeconomic stability. It is said that microfinance has performed best in those countries where the economic and political environment has allowed flexible interest rates.

Besides, the challenges in micro finance in areas with low population density aroused from some major problems. They face unique problems along with the common ones that are faced by the mainland farmers. But farmers of these low population density areas are generally poor and marginal. The majority of the population in these areas is dependent on agriculture. Low economic activities, accompanied by resource scarcity, force them to lead a sub- standard life. To improve the living standard of the farmers of the hilly areas, mountainous regions, remote chars, islands and coastal areas, it is necessary to undertake economic activities there on large scale. Access to micro financial services in the areas with low population density is very limited because of their geographic fragmentation, demographic dispersion, economic inefficiency, communication gap and difficult transportation.

Due to the uniqueness of the areas, the challenges of microfinance in areas having low population density are also different. These may be stated as remoteness and scattered areas, inaccessibility, poor communication, absence of coordination among the concerned agencies, poor infrastructure, extreme climate, infertile land, lack of innovative products and appropriate delivery system, high mobility of people, poor quality of governance and financial transparency, absence of external agents, social security and language and persistence of cultural barriers in some areas, full of uncovered business risk and heterogeneous population. Moreover, lack of economic opportunities, confidence among the potential borrowers, reluctance of members to avail themselves of the loan facilities and the reluctance on the part of the staff of micro finance institutions (MFIs) to work in the remote areas are also the major challenges here.

Microfinance technologies in existing forms cannot be tuned to agriculture for reasons stated above. For microfinance to be effective in these areas new innovations are needed; here a tailor-made repayment schedule can be introduced as per the project income and the cash flow of the client. To address the challenges mentioned above, different stake holders should devise policies suitable for extending microfinance to the poor farmers. So, the country should take initiatives that will help bring together diverse stakeholders, financially strong and professionally managed apex development financial institutions, active partnership with farmers' organizations, effective as well as supportive public policies and establishing public private partnerships, thus forming a favorable synergy.

The world is now facing a global food crisis. This crisis is much bigger and challenging particularly for the Asia Pacific and Middle East and North African region. Each and every country should provide their own food security. This security requires, among others, the financing of farming activities to help boost agricultural production. The sooner the country devises the ways to introduce microfinance in agriculture, the better will be the outcome for the over-all development of the country.

As part of their social responsibility, the MFIs need to expand their microfinance services to both agriculture and the areas with low population density by adopting one or combination of measures, as noted above, keeping in mind the twin pillars of microfinance — that are reaching the poor farmers and ensuring sustainability of the MFIs.