



The Effect on Farm Credit and Farm Produce in Kano State, Nigeria

Ahmed Ibrahim Mohammed, Ahmad Bashir B. Aziz and Ahamad Faosiy Ogunbado

(Islamic Business School, University Utara Malaysia (IBS-UUM))

Islamic Business School, University Utara Malaysia, 06010 UUM Sintok, Kedah Darul Aman, Malaysia

E-mail: ahmad.ibrahimmuhammad@yahoo.com, Tel 1116625014

Abstract

Farm produce serves as a sustainable way of livelihood in terms of food security, employment, income, industries and market among others. This paper is a conceptual paper that seeks to explore the viability of Murabahah finance on the relationship between farm credit and farm produce. This is a cross-sectional research design. Method of data collection is questionnaire; a total of 760 individual farmers will be the target respondent in this study. And structural equation model (Smart-PLS 2.0) statistical application will be used for data analysis. It was found that the problems of high interest rate, insufficient and timely farm credit, poor modern farm equipment such as: tractors, harvesters, planters, storage facilities, fertilizer, herbicide, insecticide, transportation and communications among others. Based on these findings appropriate recommendations were suggested that will tackle the affirmation problems.

Key Words: Farm Credit, Farm Produce, Murabahah Finance

1.0 Introduction

Agriculture is the backbone of the global food security, animal rearing and supplier of raw material to the industries for poverty reduction and socio-economic advancement (Anthony, 2010; Ogunbado and Ahmed, 2015). It is also seen as an act of soil cultivation for the purpose of food supply and raw materials as an agricultural output or farm produce to the man and industries for sustainable living and economic growth (Akoum, 2008). The access to agricultural credit, which is popularly known as farm credit is an important factor for accelerating farm produce in a given economy as well as a channel of income generation for the rural farmers. The availability of farm credit to rural farmers is significant to the socio-economic growth and development. Likewise, the obstacles encountered by these rural farmers in agricultural banks and other financial institutions (Phillips, 2009; Ammani, 2012 & 2013; Awe, 2013; Chisasa, 2014a). The obstacles encountered by the agricultural banks and other conventional financial institutions in serving the rural farmers are leading to high cost of transaction and socioeconomic risk

at its peak. These difficulties lead Kano state government to distributed 10,000 Naira among 17,600 women farmers. Similarly, poultry, Rabbits and chickens among others that amounted 2.44, billion Naira were distributed in order to tackle the existing problems of farm credit in the state. Till date, the government is looking forward for less risk and less interest financial products to boost agricultural sector of the state (Kano state budget, 2012).

On the other hand, *Murabahah* finance is an Islamic financial product that has features of free interest and less risk or gambling, free manipulation and exploitations among others. This means, *Murabahah* finance is one among a several Shariah oriented public policies used to boost farm produce. This is done through the provision of farm credit and trading farm input and output, base on the situation of the economy (Khan, 1996; Saddiqi, 2006; Ayub, 2007). In addition, the *Shariah* mode of finance through *Murabahah* was set to encourage needy farmers and agribusiness that needed less risk and free interest for the purchase of their farm input and sells of farm output (Khaleeqzazzamzn & Shirazi, 2012). As, it pronounces, *Murabahah* finance (mark-up) has covers buying and selling of commodities (agricultural inputs) at a price which includes an agreed profit margin by both parties. In addition, in *Murabahah* finance, both buyer and seller most know the actual cost of the commodity or farm input and the profit margin during the sale agreement (Ahanger, Padder & Ganie, 2013).

Based on the above view this seek for the present study that is the influence of *Murabahah* finance on the relationship between farm credit and farm produce in Kano state, Nigeria.

Objective of the study

- 1- To explain the concept of farm produce
- 2- To explain the concept of *Murabahah* finance
- 3- To explore the socio-economic role of *Murabahah* finance on the relationship between farm credit and farm produce in Kano state, Nigeria.



2.0 Proposed Frame Works

In this study farm credit is an Independent variable, *Murabahah* finance is a moderating variable and farm produce is the dependent variable.

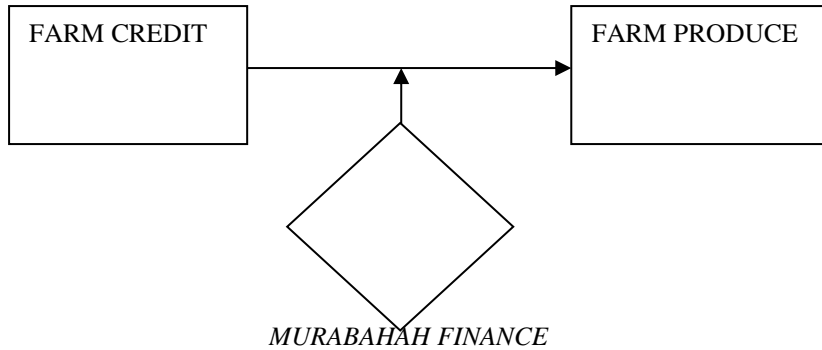


Figure 1.1 Proposed Frameworks

2.1 Farm Produce

Agriculture can be defined as a science or act of land uses and supply of raw materials for production of goods leading to the services, processing and marketing of the farm output (Chisasa, 2014a). Also, agriculture deals with utilization of soil to support crop grows and animals rearing for human food and other satisfactions including supply of raw material to the industries (Akoum, 2008). Agricultural science means farming discipline that encompasses many approaches include: soil science; animal production and veterinary among others (Phillips, 2009). Equally, farm output can also be seen a agricultural produce after strategically combined the available factors of production to create a marketable and valuable farm produce (Anthony, 2010). Furthermore, farm produce serves as a farm produce that lead to sustainable living in terms of food security, income, market, employment, industries as well as a way and manner for poverty eradication (Chisasa, 2014b).

2.2 Farm Credit

The term farm credit can be defined as an instrument for propelling production and eradication of poverty in a given economy (Onyechanya and Ukoha, (2007). Also, Phillips (2009), defined farm credit as any of the available credit instruments employed to finance farming enrolment which including loans from formal and informal institutions with the intention of making repayment. Similarly, it can be seen as certain amount of money, which formal and informal financial institutions ready to lend out to the needy farmer with the agreed conditions in relations to receive and payment of the loan (Saibel, 2010; Awe, 2013). Equally, farm credit can be described as a financial outflow under the condition of

repayment with additional money for the fund uses over a given period of time (Nwosu et al., 2010).

Therefore, farm Credit is regarded as an aggregate amount of certain money available to under custody of formal or informal financial institutions to lend out to the individual or group of farmers based on repayment conditions over a period of specific future time (Anthony, 2010). More so, farm credit can be a procedure of acquiring power over control of a certain amount of money either directly or indirectly as well as services for farm output under repayment conditions (Simtowe, Zeller & Diagne 2009).

2.3 Farm Credit and Farm Produce

The relationship between farm credit and farm produce is regarded as a major requirement and factor in terms of agricultural growth and development (Ahiakpor & Asmah, 2012). Farm credit remains a backbone of agricultural development as it positively influences farmers to use modern technologies for improving livelihood of farmers as well as agricultural advancement meet (Yunus, 2014). According to Onyechanya and Ukoha (2007) agricultural credit can be seen as financial intervention and effort toward improving farm produce for socio-economic growth. Moreover, the availability of farm credit to the needy farmers remains a significant factor for increasing farm produce and economic growth and development of a given economy.

Chasisa (2014a) reported a positive relationship between farm credit and farm produce in his study on bank lending and farm produce conducted in South Africa. Data were collected from Mpumalanga province and North West region by using a survey of three hundred and sixty two respondents from Mpumalanga and North West





region and Mpumalanga provinces. The research considered ordinary least squares to analyse the Cobb-Douglas function in relation to farm produce that serves as an endogenous variable. Bank credit and other factors served as independent variables. In a different research Chisasa (2014b) revealed a positive relationship between farm credit and farm produce in South Africa. The research employed ordinary least square multiple regression technique and multi-stage sampling method was used to analyse 300 respondents from small scale farmers. Ammani (2012) established a positive relationship between formal farm credit supply and farm produce in Nigeria. Theory of production functions was used of time series data technique from 1981-2009 period with SPSS 16.0. Also, three simple regression models were considered to explain the variables. Similarly, Onyechanya and Ukoha (2007) reported mixed findings. Additionally, Eyo (2008) reported a mixed result on the relationship between farm credit and farm produce in the Nigerian agricultural sector. The research data were gathered from 244 micro finance enterprises.

2.4 Murabahah Finance as a Potential Moderator

Murabahah (cost-plus financing) refers to a contract which client or farmer wishing to buy equipment or goods request the bank to purchase the items and sell them to him at cost-plus a declared profit (Ayub, 2007). *Murabahah* finance is regarded as a financing for the purchase of goods (farm input) and services and resale the input of the client or customer (farmer) that allows the customer (farmer) to make purchases without having to take out a loan and pay interest (Saddiqi, 2006). *Murabahah* finance can be seen as an alternative to interest-based financial transactions assumes importance only when it is transacted on a deferred payment basis. This means the terms of payment in the *Murabahah* finance did not necessarily involve credit; they could be either cash or credit and the transaction must involve the sale of goods at a price which includes a profit margin agreed by both parties (Mohsin, 2005).

2.5 Murabahah Finance and Farm Produce

Islamic banking uses *Murabahah* finance in financial trading and agricultural production and investment for economic growth and development (Saddiqi, 2006). Equally, *Murabahah* financing is a good product for improving trading and farm produce as well as addressing problems of farm produce (Khaleequzzaman & Shirazi, 2012). Aburaida (2014) revealed a positive relationship between *Murabahah* and farm credit in a study entitled rural finance as a tool for poverty reduction in Sudan. Also, the study explained that,

Murabahah was successfully practiced as a suitable product for small scale farmers. This occurred after the Islamization of Sudan banking industry, in which many products including *Murabahah* financing were adopted by agricultural bank of Sudan.

Mohammed and Hussien (2012) their study reported a positive relationship between *Murabahah* and agricultural financing in the activities of Gezara irrigation in the republic of Sudan. Data were collected by using samples of poor farmer's preferred official credits. Mohsin (2005) studied the practice of Islamic banking products in the agricultural sector of the republic of Sudan and reported that *Murabahah* finance has a relationship with agricultural activities.

Obaidullah (2015) revealed the existence of a positive and significant relationship between *Murabahah* finance and financing paddy agriculture in Sri-Lanka. The research was conducted in order to provide farm credit to the farmers that were impoverished and displaced. Equally, Putri and Dewi (2011) reported a positive relationship between *Murabahah* and agricultural financing from Islamic rural banks of Indonesia. In addition, Ahmad (2015) Islamic bank explained that, the concept of *Murabahah* finance is wide because a part of provision of farm credit and short-term trade financing, it also, requires to finance other economic sectors through financing machineries and equipments among others.

3.0 Methodology

This study will be a cross sectional survey, Instrument of the data collection is Questionnaire, Sample size for this study are 764. The respondents in the study are individual farmers. And SEM- PLS statistical application will be used for data analysis.

4.0 Discussion

A reference to the significance of this study is highly significant to the public and private organizations by explaining the socio-economic importance of farm produce. Evenly, the outcome of this investigation will facilitate the betterment of formal and informal agricultural financial institutions and services, policies making and development strategy that can assist poor farmers toward improvement of their farm produce. Besides, the ongoing investigation will improve financial institutions, administrative skill and management, professionals and merchandised, farmers socio-economic and growth of the agricultural sector of Kano state and Nigeria general.



5.0 Findings

It was found from the literature that, the problems of high interest rate, insufficient and timely farm credit, poor modern farm equipment such as: tractors, harvesters, planters, storage facilities, fertilizer, herbicide, insecticide, transportation and communications among others.

6.0 Recommendation

- 1) It's important for the government to provide *Murabahah* finance to replace conventional farm credit more especially in state own Micro finance
- 2) Farmers should properly utilize *Murabahah* finance.
- 3) All branches of conventional financial institutions in the state should adopt *Murabahah* finance and other Shariah products to the farmers.

REFERENCES

- Aburaida, K. M. M. (2014). Rural Finance As A Mechanism For Poverty Alleviation In Sudan, With An Emphasis On „Salam “Mode. *European Scientific Journal*, 7(26).
- Ahangar, G. B., Padder, M. U., & Ganie, A. H. (2013). Islamic banking and its scope in India. *IRACST– International Journal of Commerce, Business and Management (IJCBM)*, 2(5), 266-269.
- Ahmed, H. (2014). Islamic Banking and Shari'ah Compliance: A Product Development Perspective. *Journal of Islamic Finance*, 3(2), 15-29.
- Ahungwa, G. T., Haruna, U., & Abdusalam, R. Y. (2013). Trend Analysis of the Contribution of Agriculture to the Gross Domestic Product of Nigeria (1960-2012).
- Akoum, I. F. (2008). Globalization, growth, and poverty: the missing link. *International Journal of Social Economics*, 35(4), 226-238.
- Ammani, A. A. (2012). An research into the relationship between agricultural production and formal credit supply in Nigeria. *International Journal of Agriculture and Forestry*, 2(1), 46-52.
- Ammani, A. A. (2013). Impact Of Market-Determined Exchange Rates On Rice Production And Import In Nigeria. *International Journal of Food and Agricultural Economics (IJFAEC)*, 1.
- Anthony, E. (2010). Agricultural credit and economic growth in Nigeria: An empirical analysis. Approach with Special Reference to Poverty Eradication in Pakistan. *International Journal of Economics, Management and Accounting*, 20(1).
- Ayub, M. (2009). *Understanding Islamic Finance* (Vol. 462). John Wiley & Sons.
- Chisasa, J. (2014a). An Econometric Analysis Of Bank Lending And Farm produce In South Africa: A Survey Approach. *Journal of Applied Business Research (JABR)*, 31(1), 163-174.
- Chisasa, J. A (2014b). Diagnosis of Rural Agricultural Credit Markets In South Africa: Empirical Evidence From North West And Mpumalanga Provinces.
- Eyo, E. O. (2008). Determinants of Success of Micro-Finance Schemes Serving the Agricultural Sector in Akwa Ibom State, Nigeria. *Pakistan Journal of Social Sciences*, 5(2), 173-176.
- Kano state Budget, 2012 and Kano state map from Kano free encyclopedia (Kano.gov.ng)
- Khan, T. (1996). An analysis of risk sharing in Islamic finance with reference to Pakistan (Doctoral dissertation, © Tariqullah Khan).
- Mohammed, H. S. E. A., & Hussien, A. I. M. (2012). The Finance Of Wheat In Gezira Scheme, Sudan. *International Working Paper Series Paper N.12/03*.
- Mohsin, M. I. A. (2005). The practice of Islamic banking system in Sudan. *Journal of Economic Cooperation*, 26(4), 27-50.
- Nwosu, F. O., Oguoma, N. N. O., Ben-Chendo, N. G., & Henri-Ukoha, A. (2010). The agricultural credit guarantee scheme: its roles, problems and prospects in Nigeria's quest for agricultural development. *Researcher*, 2, 87-90.



- Obaidullah, M. (2015). Enhancing food security with Islamic microfinance: insights from some recent experiments. *Agricultural Finance Review*, 75(2), 142-168.
- Ogunbado & Ahmed (2015). Banking and Finance (JIEBF). Current Issue. JIEBF, Volume - 11, Number - 4, *Journal of Islamic Economics, Banking and Finance - Islami Bank ..*
- Onyenucheya, F., & Ukoha, O. O. (2007). Loan repayment and credit worthiness of farmers under the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB). *Agricultural Journal*, 2(2), 265-270.
- Phillip, D., Nkonya, E., Pender, J., & Oni, O. A. (2009). Constraints to increasing agricultural productivity in Nigeria: A review (No. 6). International Food Policy Research Institute (IFPRI).
- Putri, M. A., & Dewi, (2011). M. K. Developing Salam-Based Financing Product: Indonesian Islamic Rural Bank. *Business & Management Quarterly Review*, 2(4), 103-112.
- Saibu, M. O. (2010). Output Fluctuations And Macroeconomic Policy In Nigeria: Trends Analysis And Policy Implication For Attainment Of Needs And Mdgs In Nigeria. *Oida International Journal Of Sustainable Development Vol 2 (2) Pp11, 26*
- Siddiqi, M. N. (2006). Islamic banking and finance in theory and practice: A Survey of state of the Art. *Islamic Economic Studies*, 13(2), 1-48.
- Simtowe, F., Zeller, M., & Diagne, A. (2009). The impact of credit constraints on the adoption of hybrid maize in Malawi. *Review of Agricultural and environmental studies*, 90(1), 5-22.
- The servant (2012). A Kano State Civil Service Newsmagazine of May, 2012 (Vol.5.12)