Financing of Agricultural Enterprises by Microfinance Banks in Orlu Agricultural Zone of Imo State, Southeast Nigeria

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Abstract — This study was conducted to identify and investigate the problems and constraints encountered by Agricultural enterprises owners (i.e., loan beneficiaries) in obtaining loan from microfinance Banks in Orlu Agricultural zone in Imo State, Nigeria. A representative sample was selected through multistage sampling technique. Data were collected through the use of structured questionnaire and analyzed using descriptive statistics. A total of sixty (60) Agricultural enterprises owners who obtained loan from microfinance banks were selected for the study. The results of data analyzed showed that majority of the loan beneficiaries are married, fairly experienced, illiterate, have small farm size, used family labour in their farm enterprises, middle-aged, operated at subsistence level of production and obtained loan between (N10, 000 – N 200,000). Further analysis revealed that high interest rate was one of the most pressing problem that the agricultural enterprises owners encountered in obtaining loan from microfinance banks in the area. It was recommended that less burdensome administrative procedures, review of interest rates charged on loan requested, increase in sensitization activities by stakeholders in the Agricultural sector, more effective screening, follow-up operations and mentioning operation as well as launching an initiative tagged “loan plus” specially coordinated to solve these problems and constraints of the loan beneficiaries in the area.

Key words — Farm enterprises, Imo State, loan beneficiaries, microfinance banks, Nigeria, production.

I. INTRODUCTION

Farm credit is widely recognized as the intermediating factors between adoptions of farm technologies and increased farm income among agricultural enterprises populace in Imo state and Nigeria in general. This is because it serves as a fundamental catalyst to encourage sustainable agricultural productivity [1]. Credit refers to the faith placed by a lender (creditor) in a borrower (debtor) by extending loan, usually in form of money, goods, inputs, and securities to debtors [2], [3].

The aim of establishing microfinance banks by Central Bank of Nigeria is to make financial services especially credit, accessible to the resource-poor but active farmers or agricultural enterprises owners. This is because of inability of formal banks to include these set of resource-poor but active entrepreneurs in financial services [4]. Microfinance banks

differ from formal banks in various respects. These include absence of collateral, simplicity of operations: institutional role to connect the poor and underprivileged of the society in developing countries [5].

In Nigeria, financing of agricultural enterprise is very important because of its positive impact in productivity growth and expansion of the business enterprise [6]. Also, the importance of Agricultural sector to the national development cannot be overemphasized [7]. Central Bank of Nigeria (CBN) as the apex regulatory bank has been performing several roles and actions so as to ensure availability of agricultural credit to farmers and other agricultural enterprises owners. This was achieved by creating an enabling financial environment for disbursement of loan facilities to micro, small and medium scale enterprise [8].

Despite the money pumped into the microfinance banks by the Central bank of Nigeria (CBN), the agricultural micro, small and medium scale enterprise still complain of lack of funds to growth and expand the production and productivity of their agricultural enterprise. This has consequently created a gap in knowledge. It is this gap in knowledge that this study strives to address. Therefore, this study is designed specifically to:

- i. Examine the socio-economic characteristics of the loan beneficiaries of microfinance banks in study area.
- ii. Identify the problems and constraints these loan beneficiaries of agricultural enterprises encountered in obtaining loan from microfinance banks in the area of study.

II. METHODOLOGY

The study was conducted in Orlu Agricultural zone of Imo State, Nigeria. The zone is located in tropical rainforest belt of Nigeria. A total number of eleven (11) Local Government Areas (L.G.As) make up the Orlu Agricultural zone. The L.G.As are Njaba, Ideato south, Ideato North, Isu, Nwangele, Nkwere, Oru East, Oru West, Orsu, Oheji/Egbema and Ogutu.

A representative sample was selected using multi-stage sampling technique. The first stage comprised the selection of three (3) local government areas (L.G.As) from the zone. These L.G.As are Njaba, Orlu and Nwangele. The reason for this selection is because of the high number of microfinance

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banks in those areas. In the second stage, one (1) microfinance banks was selected from each of these selected local government area (L.G.As) making a total number of three (3) microfinance banks purposively selected for this study. The third stage comprised the selection of twenty (20) from each of the selected microfinance banks, making a list of sixty (60) loan beneficiaries, using simple random sampling. The list of loan beneficiaries was supplied by the block extension agents in the selected L.G.As.

Data were obtained from primary and secondary sources. A set of structured questionnaires were used to elicit data from the loan beneficiaries. Data collected were analyzed using frequency counts, percentages and mean values represented in tabular form. This was used to analyze objective 1 and 2.

III. RESULTS AND DISCUSSION

A. Socio-Economic Characteristics of Respondents

TABLE I: THE SOCIO-ECONOMIC CHARACTERISTICS OF LOAN BENEFICIARIES (N=60)

Socio-economic Characteristics	Frequency	Percentage
<i>Age</i>		
21-30	3	5.0
31-40	10	16.7
41-50	26	43.3
51-60	21	35.0
Mean = 47 years		
<i>Sex</i>		
Male	26	43.3
Female	34	56.7
<i>Marital status</i>		
Single	5	8.3
Married	55	91.7
<i>Education Attainment (years spent in school)</i>		
0	17	28.3
1-6	21	35.0
7-12	21	35.0
13-18	1	1.7
<i>Household Size (number of persons)</i>		
0-3	9	15.0
4-6	32	53.3
7-9	18	30.0
10-12	1	1.7
Mean = 6 persons		
<i>Farm size (in hectares)</i>		
0.1-2.0	32	53.3
2.1-4.0	13	21.7
4.1-6.0	2	3.3
6.1-8.0	3	5.0
Mean =2.25 hectares		
<i>Farming experience (in years)</i>		
1-8	22	36.7
9-16	30	50.0
17-24	7	11.7
25-32	1	1.6
Mean = 10.7 years		
<i>Types of farm enterprises</i>		
Crop farming	32	53.3
Livestock farming	16	26.7
Both crop and livestock enterprise	12	20.0
<i>Types of labour (used in the farm enterprise)</i>		
Family labour	28	46.7
Hired	20	33.3
Both family and hired labour	12	20.0
<i>Level of production (in farm enterprises)</i>		
Mechanized/ commercial	8	13.3
Subsistence farming	52	86.7
<i>Loan obtained (in naira)</i>		
10,000-200,000	41	68.3
201,000-400,000	10	16.7
401,000-600,000	9	15.0

Source: field survey, 2017.

TABLE II: FREQUENCY DISTRIBUTION OF LOAN BENEFICIARIES BASED ON THE PROBLEMS & CONSTRAINTS

Identified problems and constraints	Frequency	Percentage
Poor service delivery	2	1.67
Burdensome administrative procedures	11	9.17
Delay in loan disbursement	23	19.17
Inadequate loan disbursement	29	24.17
Insufficient loan management	36	30.00
Refusal to loan applied because of	62	51.67
Lack of collateral		
High interest rate	91	86.9

Source: field survey, 2017.

N/B: multiple responses were recorded.

Table I showed that the mean age of the loan beneficiaries fell within the productive age of 47 years. This indicates that the loan beneficiaries were middle aged persons who are still physically active, vibrant, dynamic and are more likely to adopt innovations better and faster than their older counterparts [9]. The results show that majority (56.7%) of the loan beneficiaries were females. This is an indication that worsens are energetic, strong, and hardworking and therefore expected to do much better if they are given better access to credit facilities from microfinance banks [10]. The table further shows that 91.7% of the loan beneficiaries are married. This result also supports the idea that married people have more responsibilities hence their increased need for coping strategies to financial security obligations in their households [11]. The results also showed that about 22% of the loan beneficiaries have merely attained secondary and tertiary education level. This is an indication that the loan beneficiaries are predominantly uneducated. This is also indicating the fact that majority of the loan beneficiaries will not properly appreciate the importance of obtaining loan from microfinance banks for growing their individual productive capacities because of their poor level of education. This is consistent with the findings of [12] that education is an investment in human capital which able to narrow his information gaps and achieves more productive performance. The mean household size was 6 persons, which implies that of the loan beneficiaries spent a modest amount on feeding, clothing, hospital bill etc. hence by implication; they have a reasonable farm labour that could help in their enterprises [13]. The table further revealed that the loan beneficiaries have a mean farm size of 2.25 hectares, majority of the loan beneficiaries are engaged in crop farming and their farm enterprises are merely operated at the subsistence level. These points to the fact that the loan beneficiaries are predominantly poor and there is a great need for more access to credit facilities from microfinance banks. This is in agreement to findings of [5] where he stated that microfinance banks should be properly funded and managed so as to live up to its unique and statutory function of timely and adequate provision of access to financial services to the productive but poor farms. This will serve the purpose of productivity growth, initiate wealth creation and drastic reduction of poverty.

From Table II, over 85% of the loan beneficiaries mentioned high interest rate, 51.67% mentioned lack of collateral, 24.17% mentioned inadequate disbursement of loan applied, and 30% of the loan beneficiaries mentioned insufficient management of loan obtained from microfinance banks, 19.17% mentioned delay in disbursement of loan applied, 9.17% mentioned burdensome administrative procedures and 1.67 mentioned poor services delivery by the microfinance banks. If the number of persons who mentioned each problem is used as a measure of its importance, this implies that high interest rates, among others is the most pressing problem of the loan beneficiaries. This result is consistent with the findings of [5] that high interest rates constitute serious challenge to the prospective loan beneficiaries in obtaining microfinance banks loan.

IV. CONCLUSION

The study examined the socio-economic characteristics of the loan beneficiaries and identified problems and constraints which hinders the loan beneficiaries from obtaining loan from microfinance banks in the area. It can be concluded that majority of the loan beneficiaries are married, middle-aged, and illiterate, fairly experienced, have small farm size, uses family labour in their farm enterprise, are engaged in crop farming and are producing at subsistence level. The study also revealed that high interest rate was one of the most pressing problems that the loan beneficiaries encountered in obtaining loans from microfinance banks. Other problems identified in the study includes poor service delivery, denial of loan applied because of lack of collateral, inadequate amount of loan disbursed, insufficient management of loan obtained, delay in disbursement of loan applied and unfriendly administrative procedures.

V. RECOMMENDATION

In the light of the findings of this study, it is recommended that :

i. Downward review of the official interest rates and reform of microfinance banks so as to make them more sensitive to the peculiar needs and profile of the loan beneficiaries.

ii. Microfinance banks should intensify their loan screening, monitoring and follow-up exercise so as to checkmate irregularities such as loan Diversion, improper management of loan obtained, fraudulent practices and other improper behavior that may be exhibited by prospective loan beneficiaries.

iii) More sensitization efforts should be conducted so as the assist the farmers in the area so they can be sufficiently educated on the important need to obtain credit to grow their farm business enterprises.

iv) Government, through the assistance of various stakeholders and other extension services should launch an initiative tagged "loan easy" this initiative should be well coordinated by thorough and time tested experts in the industry and should be specially tailored to help the rural-poor enterprise owners to overcome their present productive and economic status.

v) There should be less burdensome administrative procedures in obtaining loan in order to encourage more farmers to gain access to loan facility from microfinance banks.

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