AGRI-BUSINESS GROWTH AND NATIONAL DEVELOPMENT THROUGH SMALL AND MEDIUM SCALE ENTERPRISE

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Abstract

Small and Medium scale Enterprises (SMEs) are non-subsidiary, independent firms which employ fewer than a given number of employee. The number varies across country, but the most frequent upper limit designating an SME is 250 employee. The insufficient capital, irregular power supply, infrastructural inadequacies (water, roads etc.), lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan etc are problem faced with agri-business in Abia State. the study used Expost factor reseach design tools and it was found out that the government should provide policy which will focus on ways to attract and encourage not only experienced but younger people willing in agribusiness SME's, who are agile and strong in business drive through provision of credit to them, this group of operators would be able to put in a lot of effort at raising the current level of performance and to invest in human capital in the agribusiness enterprises and establish credit institutions effectively targeted towards meeting the financial needs of the operators.
KEYWORDS: SMEs, Credit, Agri-business, Business

Introduction

Small and Medium scale Enterprises (SMEs) are non-subsidiary, independent firms which employ fewer than a given number of employee. The number varies across country, but the most frequent upper limit designating an SME is 250 employee (OCED, 2005). A lot has been said and

written about SMEs the world over. It has also formed the subject of discussions in so many seminars and workshops both locally and internationally. In the same token, governments at various levels (local, state and Federal levels) have in one way or the other focused on the Small and Medium Enterprises. While some governments had formulated policies aimed at facilitating and empowering the growth and development and performance of the SMEs, others had focused on assisting the SMEs to grow through soft credit and other fiscal incentives. (Dalberg, 2011).

In Nigeria, particularly Abia State, itself the role and contribution of SMEs in the national economic structure not only become one of the national priorities but also the hope for accelerated development. National SMEs firm is one of the pads that keep the national economy especially when there is a shocks or external pressure. In the current global economy worsens, SMEs firm

act as a pillar of national economic growth and job creation (Dogan,2013). The agribusiness SMEs in Abia State is widely recognized as having the potential to transform the economy through large-scale food manufacturing that will not only benefit consumers in the long run but provide future employment and export earning opportunities. Small and Medium Enterprises play key roles in transition and developing countries (OECD, 2002). These firms typically account for more than 90% of all firms outside the white-collar jobs sector, constituting a major source of employment and generates significant domestic and export earnings. OECD, (2005) stressed that SME development emerges as a key instrument in poverty reduction efforts, therefore, SME obviously contributes to economic, social development and poverty reduction.

Access to credit is one of the major factors that can develop agribusiness SMEs in any

society, access to credit is needed to ensure flexibility in resource allocation and reduce the impact of cash flow problems (Bigsten *et al,* 2003). Firms with access to credit will be able to build up inventories to avoid stocking out during crises, while the availability of credit increases the growth potential of the surviving firms during periods of macroeconomic instability (**Atieno and Onoja, 2005**).

Firms without access to bank funding are more vulnerable to external shocks as the lack of access to credit remains a major constraint for the business managers in developing economies (Nkurunziza, 2005). Without well-functioning financial markets, small scale firms may lack much prospects for increasing their productivity in many significant and sustainable ways (Nwaru, 2004). Based on these reasons, and the fact that traditional commercial banks typically have minimum interest in lending to SMEs due to their lack of viable collateral and high

transaction costs associated with the small loans that suit them, most developing country governments, have set up credit programs aimed at improving access to credit (Arene, 1993; CBN, 2010). The demand for credit among agribusiness SMEs is strong in Nigeria but lack of collaterals and credit history seriously constrain their demand. As a result they either resort to informal sources which are costly and risky on their own meager capital.

Having access to finance gives SMEs the chance to develop their businesses and to acquire better technologies for production, therefore ensuring their competiveness, however, there is a huge challenge for SMEs globally when it comes to sourcing for initial and expansion capital funds from traditional commercial banks. Abereijo and Fayomi, (2005) pointed out that the majority of financial institutions' loans offered to SMEs are often also limited to a period far too short to pay off any sizeable investment.

In addition, banks in many developing countries prefer to lend to the big company rather than private SMEs because the risk involved is lesser and higher returns are offered. Such apathy for the SMES have crowded out most private sector borrowers and increased the cost of capital for them.

Furthermore the demand for credit is increased as a result of increased economic activities in the informal sector (Tra & Lensink, 2004). This informs why credit has become a critical factor in modeling the growth of the economy, which consists mainly of agribusiness based economic activities (Nwaru et al., 2008). Apart from the inability of SME's to access these relatively cheap funds, reducing the usurious rates of interest in the informal sector by lowering the cost of funds to the lenders is far from being achieved (Nwaru, et al., 2008). Unregulated money supply, easy accessibility, easy liquidity and low administrative bottlenecks, collateral free lending, proximity, timely delivery and flexibility in loan transaction are some of the attractive features of informal credit sources to the farmers (Khandler & Farugee, 2001;

Srinivas, 1993). Many factors have been identified contributing to this premature death of SMEs, most SMEs in Nigeria die within their first five years of existence, a smaller percentage goes into extinction between the sixth and tenth year while only about five to ten percent survive, thrive and grow to maturity (Aremu, and Adeyemi (2011). Key among them include: insufficient capital, irregular power supply, infrastructural inadequacies (water, roads etc.), lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper book keeping, lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber of staff, cut-throat competition

of which information technology is inclusive (Basil, 2005). Therefore analyzing access and demand for credits by agribusiness SMEs in Abia State, Nigeria would have significant policy implications which would be helpful in redressing the relative decline from low patronage of credit facilities.

2.0 Literature Review

Oboh and Kushwaha (2009) studied the effect of socio-economic and demographic factors on the rate of credit allocation to the farm sector by arable crop farmers in Benue State, Nigeria. Empirical result reveals that factors that affect the rate of credit allocation to the farm in the study area were; age, education, farm size, household size, length of loan delay and visitation by lenders. Another study on the determinants of credit rationing among formal and informal lenders was conducted by Zeller in Madagascar. The regression results showed that the probability of applying for informal credit increases with age, years of education, and number of sick days of household

during the recall period. On the other hand, the probability of being credit constrained by the informal lender increases with age, and years of education. The study also identified the leverage ratio of household as the most important determinant for loan rationing. Physical collateral plays a minor role in credit rationing. Lawal et al. found that a diirect relationship exists between social capital and credit access, and that membership and cash contribution in the associations' by the farming households drives access to credit positively for productivity and welfare. According to development professionals, the lack of access to credit by poor rural households has negative effect on farm business expansion.

Akudugu (2012) estimated the determinants of credit demand by farmers and supply by Rural Banks in the Upper East Region of Ghana. Semi-structured questionnaire complemented by key informant interviews and focus group discussions were used in

gathering data from 250 farmers in 5 districts of Upper East Region. The logit model was used to estimate the determinants of credit demand by farmers and the Tobit model used to estimate the determinants of credit supply by Rural Banks. The findings showed that age of farmers, gender and political affiliations among others were the main determinants of credit demand by farmers. Type of crop grown, farm size and the amount of savings made were some determinants of credit supply by the Rural Banks. Nwaru et al. examined the determinants of credit demand and supply in informal credit markets among food crop farmers in Akwa Ibom State of Nigeria. Results of data analyses revealed that farm income, profit, education, and interest amount determined demand for credit among crop farmers in the area. Ng'eno et al. studied farmers' inaccessibility to agricultural credit in Nyandarua District, Kenya. The study established that socio-

economic constraints such as age, gender, household size, farm income, collateral and awareness are critical determinants of access to credit.

Paul Mpuga (2008) investigated Constraints in Access to and Demand for Rural Credit: Evidence from Uganda. This study uses the Uganda household surveys conducted in 1992/93 and 1999/2000 to shed some light on access to, and the characteristics of demand for credit among the rural population. We employ the probit, tobit and multinomial logit model estimations on we analyse demand for credit. We find that Uganda's credit market is highly segmented. The rural peasant producers are largely served by relatives/friends and self-help credit associations and their loan applications are less likely to succeed, and of those that do, smaller loans are granted. The educated and the young are more likely to demand credit while women are less likely to, and to apply for smaller loans.

Therefore, while government's agricultural modernisation policy considers credit as an important input to its success and as the Government plans to roll out its programme of Wealth-For-All, more needs to be done to get credit flowing to the sector and to ensure that it can be usefully utilised. Skills and vocational training to enhance production and training in appropriate use of credit are needed.

Isaac Abunyuwah1 and James Kofi Blay (2013) investigate smallholder farmer's accessibility to formal credit and constraints they encounter in the process. A multi stage sampling method was employed to select eighty farmers from Nzema East Municipality for the study. Descriptive statistics, logit regression model and Kendall's coefficient of concordance were used in analyzing the data. The output from the study indicates that 30 (37.5%) of the sampled farm households were formal credit users, whereas the remaining 50 (62.5%)

were non-users. The empirical results from the logit model analysis of the study indicated that age, education, income levels, distance to the financial source, family size, credit awareness level and farming experience were highly important in influencing access to formal credit.

3.0 Methodology

The Ex-post-facto research design was adopted in this study is a form of descriptive research in which the independent variable had already existed and in which an investigator starts with the observation of a dependent variable and then studying the independent variable for the possible relationship and effect on the dependent variable (Cohen, 2000). The research design is made up of two instruments viz: questionnaire and interview. The study was carried out in Abia State, the state is endowed with small and medium scale enterprises engaged in several business activities of which Agribusiness-SMEs are

well represented. A large proportion of the SMEs are usually clustered around the major commercial, urban centers and some in the hinterlands especially the agro based SMEs.

4.0 Results

PERFORMANCE OF THE AGRIBUSINESS SMES IN THE STUDY AREA

The costs and returns associated with the agribusiness operators in the study area are presented in Table 4.1

Table 4.1 Performance indicator of the SME's Operators in the study area per month

Variables	Average values (₦)
Revenue	
Sales	**201666.67**
Total Revenue	**201666.67**
Variable cost	
Cost of raw materials	107163.00
Loading/offloading	24920.00
Transportation	7241.00
Feeding	18686.00
Taxes	1163.00
Market charges	1570.00
Total Variable cost (TVC)	160743.00
Gross profit	40923.67
Fixed costs u	
Rent	3185.17
Depreciated tools	1923.96

Total fixed cost	5109.13
Total cost of marketing (TVC+TFC)	**165852.13**
Net profit	**35814.54**
Rate of return per naira invested (R/N)	0.25
Benefit cost ratio (BCR)	1.22

Source: Field survey, 2019

The table shows that the total variable cost was ₦ 160743.00 and total fixed cost (TFC) was ₦ 51,09.13. The high TVC indicates that variable costs were the dominant expenses by the agribusiness operators in the area. As noted by Cazzuffi and Mckay (2012), many evidences found high total variable cost to be positive associations with high levels of transactions costs especially transport costs, labour and input costs.

Revenue was ₦ 201666.67 while the net profit was ₦35,814.54. This is an indication that the agribusiness SME's is very much profitable in the area. The table also indicated that the gross profit, return of investment and benefit cost ratio were 40923.67, 0.25 and 1.22 respectively. This indicated that the business is profitable and viable for new investor, therefore policy emphasis that would stimulate youth involvement in agribusiness in the area since it is a lucrative business would help reduce unemployment as well as increase the standard of living of the State, thereby strengthening food security in the state reasonably.

4.2 EFFECT OF DEMAND OF CREDIT ON PERFORMANCE OF SMES IN THE STUDY AREA.

Table 4.2: Simple Linear regression estimate of effect of demand of credit on performance of SME's in the study area

Variable	Coefficient	Std. Err	Z-value	P>/t/
Constant	180425	29105.41	6.20***	0.000

Performance	8.1119	0.4897**	16.57***	0.0000
R^2	0.6993			
R^{-2}	0.6968			
F-ratio	274.44***			
Root MSE	77846			

Source: Field survey (2019) *** Significant at 1%.

Simple linear regression model on **demand of credit on performance of smes in the study area** is presented in Table 4.2. The R^2 value was 0.6993 which indicates that 69.33% of the total observed variations in credit demanded was explained by the performance included in the model while 30.01% of the variation was due to error. The F – ratio was significant at 1% indicating the goodness-of -fit of the model. The F-ratio was 274.44 which is statistically significant at 1% indicating a high goodness of fit of the model.

On the specific, the result indicates that there is a positive relationship between performance and credit access of agribusinesses in the area. The coefficient of performance, which is 8.1119 indicates that an increase in the performance index will lead to about 8.1119 unit increase credit demand of agribusiness enterprise. This is consistent with *a priori* expectation and the findings of Nuryatono (2005), Oyedele *et al.* (2009), and Duca & Whitesell (1995). The rationale for this is that lenders could see the client's performance as important indicator of repayment capacity or the last resort to liquidate to recover the credit in case of loan default. The result also confirms similar findings by *Ajidefun and Aderinola (2003), and Kebede (2001)* a business operator who has access to credit will be able to obtain the necessary production input timely, and therefore, able to improve his/her of performance level.

4.3 CONSTRAINING FACTORS TO CREDIT ACCESS AND DEMAND BY SMES

Table 4.3 Constraining factors to credit access and demand for credit

Constraint	Mean	Std. Deviation	Skewness		Kurtosis		Remark
	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic	
Delayed approval	3.59	0.940	0.489	0.192	-0.635	0.381	Accepted
High interest charges	3.88	0.835	-0.663	0.192	0.098	0.381	Accepted
Insufficient funds	3.83	0.876	1.090	0.192	0.832	0.381	Accepted
High cost of inorganic fertilizer	3.11	1.070	-0.945	0.192	-0.425	0.381	Accepted
Burdensome collateral	4.10	1.320	0.385	0.192	-1.549	0.381	Accepted
Long protocols	3.95	1.008	0.324	0.192	-1.008	0.381	Accepted
Instability in government policy	4.02	0.973	0.170	0.194	-1.261	0.386	Accepted
Poor access to good road	3.01	0.890	0.730	0.192	-0.150	0.381	Accepted
Lack of collateral for credit	3.14	1.097	-0.880	0.192	-0.648	0.381	Accepted
Grand total	3.63	1.00	0.08	0.19	-0.53	0.38	

Source: Field survey (2019) Very serious (4), Serious (3), Unserious (2), Do Not Know (1)

Decision rule: any mean response ≥ 3.0 was adjudged accepted while any mean responses < 3.0 was adjudged rejected.

Constraining factors to credit access and demand by the agribusiness operator is present in Table 4.3. The result shows that all the variables were perceived constraining factors to credit access and demand by the agribusiness operator, their mean value was greater than 3.0. The table further review the major constraint was 'Burdensome collateral ($\bar{X}$= 4.10), this was followed by Instability in government policy ($\bar{X}$= 4.02) and Long protocols ($\bar{X}$= 3.95). This implies that the first three problems are seen as the major problems. This is in agreement with the findings of Ololade and Olagunju (2013) where they reported that lack of collateral security, lack of guarantor, and high interest rate. Other which are accepted are shown in the table above. Also Idu and Sunday (2014)

reported that credit institution demand for heavy collateral in giving out credit to the rural farming household. Furthermore the Furthermore, the skeweness and kurtosis coefficients is indication that the data was normal. This implies that the data qualified for use in parametric analysis.

5.0 Conclusion

Credit is one of the fundamental ingredients of sustainable production; as such its accessibility and demand is among the prerequisites for attaining the national goal of reducing poverty and ensuring self-sufficiency in production, based on the foregoing, the study therefore concluded that access to credit is determined by interest amount, years of education, experience, **enterprise' age**, income and membership of association of the agribusiness operators while demand for credit is determine by interest amount, years of education, e**nterprise' age**, income and membership of association of the agribusiness operators.

Finally an increase in the performance index will lead to increase credit demand of agribusiness enterprise.

5.1 Recommendations

This article is recommended as follows:

i. Policy should also focus on ways to attract and encourage not only experienced but younger people willing in agribusiness SME's, who are agile and strong in business drive through provision of credit to them, this group of operators would be able to put in a lot of effort at raising the current level of performance.

ii. The government should encourage credit institutes to give more loans to agribusiness SME's, by granting amount of credit requested by operators and with lower rate, to maximize their potential with respect to better performance.

iii. Policy on technological, organizational and institutional interventions aimed at promoting performance of agribusiness SME's in Abia State and beyond in two-way approaches: improving performance of SME's at production level and facilitation of credit access to operators to ensure performance at all level in the study area focusing on any of them, will lead to higher performance.

iv. Based on the foregoing, there is a need for Government to invest in human capital in the agribusiness enterprises and establish credit institutions effectively targeted towards meeting the financial needs of the operators. It is suggested that credit/loan facilities should be made available and accessible to target owners at moderate interest rates to reduce the impact of income risks.

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