Journal of Agripreneurship and Sustainable Development (JASD)
Volume 4, Number 2, June, 2021
ISSN (Print): 2651-6144; ISSN (Online): 2651-6365

COMPARATIVE ANALYSIS OF AGRIBUSINESS FINANCING BY MICROFINANCE BANKS AND MICROFINANCE INSTITUTIONS IN RURAL AREA OF DELTA STATE, NIGERIA

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ABSTRACT
The study compared Microfinance banks and Microfinance institutions in financing agribusiness enterprises in rural areas of Delta State, Nigeria. Multi-stage random techniques was used to select 150 agribusiness enterprise respondents used for the study. Five (5) Microfinance banks (MFBs) and 15 Microfinance institutions (MFIs) operating in the study area were used for the study. Primary data was collected with the use of structured questionnaire and analyzed with descriptive statistics. Findings revealed that MFBs and MFIs undertook group lending; although MFBs were also engaged in individual lending. Similarly, MFBs and MFIs loans were not secured by tangible collaterals instead they are secured by group collaterals although MFBs still insist on tangible collaterals on individual loans. MFIs disbursed 73.70% of the total amount and MFBs disbursed the remaining 23.30%. In sectorial disbursement, the product sector was the most financed followed by the input sector while the production sector was the least financed. Findings also showed that beneficiaries of MFBs and MFIs had different perceptions on granting of loans. MFBs and MFIs agreed that there was high repayment rate of loans by rural agribusiness enterprises but difficulty in savings mobilization. However, both disagreed on cost of processing loan and that there was high premium on insurance. Recommendations made were that the regulatory bodies should monitor the activities of the MFBs and MFIs; there should be improvement in their timeliness of granting loans; and there should also be improvement on infrastructure in the rural areas.

Keywords: Agribusiness, Financing, Microfinance Banks, Microfinance Institutions, Rural Area.

INTRODUCTION

Successive Nigerian Government for more than five (5) decades now has been encouraging the establishment of rural financial institutions. The purpose has been to allow the rural households have easy access to loanable funds for their agribusiness enterprises. Other objectives include the inculcation of banking habits such as savings mobilization to the rural households. Some of these financial institutions established by government include the Rural Banking Scheme (RBS) as operated by the commercial banks, Agricultural Credit Guarantee Scheme Fund (ACGSF) as operated by the Central Bank of Nigeria (CBN). Nigeria Agricultural Cooperative Bank (NACB) now referred as Bank of Agriculture (BOA) as well as the cooperatives among others. These efforts by government to finance agribusiness at the rural areas have not been successful. Apart from lack of interest by some operators of the schemes like commercial banks, the sophisticated mode of operations of these banks and schemes. For instance their insistence on collaterals, the complex documentations and their lack of geographical spread have made them less successful in dealing with the unsophisticated rural farm households (Adelaja, 2005).

Recent entrant into the rural finance is microfinance. Ogunleye (2009) defined microfinance as small scale financial services that involve mainly savings and credit services to the poor to help them engage in new productive business activities and expand existing one. Aigbedion and Anyanwu (2015) stated that overtime microfinance has come to include a broader range of activities which include credit, savings opportunities, insurance and money transfers. This is as practioners came to realize that the poor lacked access to traditional formal financial institutions and a variety of financial products to achieve meaningful improvement in their business activities. Microfinance is distinguished from other formal financial products by smallness of loans disbursed and savings collected; absence of asset based collateral and simplicity in operation. In this study microfinance will be defined as loans, savings opportunities, insurance, money transfers and other financial products targeted at the agribusiness enterprises in the rural areas.

The common microfinances for agribusiness enterprises in rural areas include Microfinance banks (MFBs) and Microfinance institutions (MFIs). The Microfinance Banks (MFBs) and Microfinance Institutions (MFIs) came on board with the aim of increasing the finance available to rural sector for agribusiness ventures and overall to stimulate development in the Nigerian economy. Microfinance Banks (MFBs) was launched by CBN in 2005 through Microfinance Policy Guidelines for Nigeria. This policy seeks to commercialize business of microfinance. The new policy set a minimum capital requirement of N20million for MFBs. MFBs are regarded as semi-conventional and grassroots oriented banks with the objectives of inculcating correct banking habits among rural households, mobilizing savings from rural communities, providing loans in season and off-season for agribusiness activities in order to break the monopoly of depending on money lenders and to integrate rural finances into the national financial system (Central Bank of Nigeria, 2005). On the other hand, Microfinance Institutions (MFIs) are non-regulated informal financial institutions that also operate in rural areas with the same objectives as the MFBs. MFIs are registered by Corporate Affairs Commission (CAC) in Nigeria as Non-Governmental Organization (NGOs). The new institutions of MFBs and MFIs have been operating in rural areas for a while now and it therefore becomes necessary to compare their performances in areas of agribusiness financing. The study will also find out the strength and weakness of the finance institutions, their levels of commitments and problems encountered in agribusiness financing.

The main objective of the study was to compare MFBs and MFIs in agribusiness financing in the rural areas. The specific objectives were to:

i. determine the ownership structures of the MFBs and MFIs.
ii. examine and compare the lending profile of MFBs and MFIs in agribusiness financing

iii. ascertain the constraints encountered by the agribusiness beneficiaries in accessing loans from MFBs and MFIs.

MATERIALS AND METHODS

The Study Area

The study was conducted in Delta North Agricultural Zone of Delta State, Nigeria, which is one (1) of the three (3) Agricultural zones that is in Delta State. Others are Delta Central and Delta South Agricultural zone. Delta North Agricultural Zone consist of nine (9) Local Government Areas (LGAs) namely Aniocha North, Aniocha South, Ika North East, Ika South, Ndokwa East, Ndokwa West, Ukwuani, Oshimili North and Oshimili South where the capital of the state is situated in the city of Asaba. It is bordered in the north by Edo State, in the east by Delta Central Agricultural zone and in the south by River Niger and Anambra State. It is embedded in the Tropical rainforest belt. The State is low lying without any remarkable hills. Delta North Agricultural zone is an agricultural producing zone suitable for the production of crops and livestock. Agriculture is the main activity of the inhabitants. Other occupations include trade, artisanship, transportation and public service among others.

Sampling Techniques

Multi-stage random sampling techniques were used to select sample for the study. The first stage was the random selection of five (5) LGAs .The second stage was the selection of villages. From the list of villages obtained from Delta state Ministry of Lands and Survey Asaba (2020), three (3) villages were randomly selected from each LGA giving a total of 15 villages used for the study. The LGAs and the villages selected were Oshimili South – Oko-Anala, Okwe, and Ogbele; Aniocha North: Idumuje Uno, Ugbodu and Onicha Olona; Ndokwa West: Ewulu, Ishiagu and Ossissa. Ndokwa East: Utchi, Abala, and Asaba-Ase; Ika North East: Akumazi, Owa-Nta and Ute-Okpu. Next stage was the selection of agribusiness enterprises. Again from the list of agribusiness enterprises compiled with the assistance of village heads, 10 agribusiness enterprises were selected from each village through stratified random sampling giving a total of 150 agribusiness enterprises used for the study.

Method of Data Collection

A preliminary survey of MFBs and MFIs in the selected villages was carried out. The survey revealed that there were five (5) MFBs and 15 MFIs operating in the selected villages. All the MFBs and MFIs offices were located in the nearby towns. However, they reach out to the rural areas. All the five (5) MFBs and 15 MFIs were selected and used for the study. Primary data were collected through the use of structured questionnaire. The questionnaire was administered on the MFBs and MFIs and also on the agribusiness enterprises. The questionnaire sought information on the organizational structure of the MFBs, MFIs and agribusiness enterprises; level of involvement in agribusiness financing and constraints in agribusiness financing both from the MFBs and MFIs and agribusiness enterprises point of view. Data was also gathered through oral interview and group discussions. Data was analyzed with the use of descriptive statistics.

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RESULTS AND DISCUSSION

Ownership Structure of the Financial Institutions and Agribusiness Enterprises

According to the oral interviews and group discussions with the MFBs, MFIs and agribusiness enterprises the following findings were made. The MFBs were owned by Community Development Associations (CDAs), directors and individuals while MFIs were NGOs owned mainly by individuals and groups of individuals. MFBs were licensed by Central Bank of Nigeria (CBN) and insured by Nigeria Deposit Insurance Company (NDIC). MFBs sells share to the public, while MFIs do not sell shares. In MFBs, no individual is allowed to own more than 3% of the shares while bulks of the shares were owned by community associations. MFIs were not regulated by government and operate under informal setting. Both MFBs and MFIs had links with correspondent commercial banks for the purpose of investing excess liquidity, clearing cheques, selling and buying stocks and bonds and for foreign transactions. Although MFBs and MFIs have different ownership structure, they were restricted to grassroots banking. On the other hand findings revealed that most of the agribusiness enterprises in the study area were sole proprietorship, small scale and informal in nature. They were family owned and also managed by members of the family with little or no formal education. They used mainly the traditional methods and manual labour for production.

Procedures for granting loans by MFBs and MFIs

Findings revealed that MFBs grant individual agribusiness loans and group loans. In individual agribusiness loan, an agribusiness enterprise could request as much as ₦1 million naira and above and it will be granted provided the agribusiness enterprise had tangible collateral. However in the group agribusiness loans, agribusiness enterprises come together to form groups called unions similar to cooperatives society. Loans disbursed to unions do not need collateral. Usually the unions group savings and individual savings were substantial enough to stand as collateral in case of loan default by members. In MFBs complex documentation were still being observed. Also interest rate on loans were high ranging between 10-15% seasonal loans like production loans were usually 15% for most MFBs studied. On the other hand MFIs grant loans mainly to unions and undertake few individual loans with interest rates of 3% to 5%. There was no complex documentation and loans were granted on time and usually not exceeding 2 weeks from the time of request. However the amount granted were small, and ranging between ₦50,000 to ₦500,000 (Table 1). This finding was observed in a related study by Aighedion and Anyanwu (2015) that loans are not secured by physical collaterals instead they were secured by group collaterals complemented with peer monitoring and pressure to enforce repayment.

Table 1 showed that the number of customers were more than the number of respondents. This is because some respondents received loans from both MFBs and MFIs in the same year. In analysis, Table 1 showed that MFIs engaged more customers than the MFBs. The MFBs were only able to disburse loans to 28.98% of the agribusiness enterprises within the 3 years period under review while MFIs disbursed to 71.02% agribusiness enterprises within the same period. The wide margin that occurred between them was probably because

MFIs dwell more on group (Union) lending. This finding was also observed by Nweze (2002) in their study which compared people's bank and community banks. Findings also revealed that MFIs finance more agribusiness enterprises than the MFBs, while MFIs disbursed ₦622.67 million (73.70%) of the total amount disbursed within the period, MFBs disbursed ₦222.25 million (26.30%).

Table 1: Disbursement Capabilities of MFBs and MFIs

Year	*Number of customers			*Amount disbursed (₦ million)		
	MFBs	MFIs	Total	MFBs	MFIs	Total
2017	36(22.36)	125(77.64)	161(100)	19.50(9.58)	182.0(90.32)	201.50(100)
2018	52(28.00)	108(72.00)	160(100)	96.75(32.69)	199.25(67.31)	296.0(100)
2019	65(31.40)	142(68.60)	207(100)	106.0(30.51)	241.42(69.49)	347.42(100)
Total	153(28.98)	375(71.02)	528(100)	222.25(26.30)	622.67(73.70)	844.92(100)

*Multiple responses exists

Note: Figures in parenthesis are percentage

Sectorial Disbursements

Analyses were made on the disbursement by MFBs and MFIs to the three main sectors of agribusiness namely, the input sector, the production sector and the product sector (Table 2). The input sector include agribusiness enterprises that deal in agricultural chemicals inputs, fuels, fertilizers, pesticides and herbicides, seeds, feed concentrates, agricultural machinery and equipment, baskets, crates, sacks, containers, veterinary services, utilities like water, power telephone, among others. Production sector include mainly crop producers and livestock producers. The product sector agricultural product processing, marketing and distribution.

From Table 2, MFBs however, performed better than MFIs in financing the production sector. The reasons given were that loans in the production sector take time to mature. Moreover there may be natural disaster within the period and most agribusiness enterprises were not covered by insurance under MFIs but loans under MFBs were insured by NDIC since MFBs operations were regulated by CBN. MFIs charge low interest rate of between 3-5% which may not cover the cost of operation if the loans were not of short duration. However MFBs charge interest rate as high as 15% with tangible collaterals and could afford to wait for longer loan durations. The input sector were similar to the product in terms of loan disbursement and repayment. However, sometimes the input sector requires large amount for the purchase of equipment and erecting of structures among others. Table 2 revealed that in both the MFBs and MFIs, the product sector was the most financed with 53.07% and 49.0% for MFIs and MFBs respectively. Oral interviews with the financial institutions revealed that the amount demanded by different agribusiness enterprises in the product sector was small, the loan gestation period was short and repayment was faster. This finding agreed with Nduka (2015).

Table 2: Sectorial Disbursement to Agribusiness Enterprises by MFBs and MFIs

Sector	*Number of enterprise		Total	*Amount disbursed (₦ million)		Total
	MFBs	MFIs		MFBs	MFIs	
Input	33(21.57)	98(26.13)	131(100)	53.14(23.91)	172.53(27.71)	225.67(100)
Production	44(28.76)	78(20.80)	122(100)	66.85(30.08)	145.05(23.29)	211.90(100)
Product	76(49.67)	199(53.07)	275(100)	102.27(46.01)	305.09(49.60)	407.36(100)
Total	153(28.98)	375(71.02)	528(100)	222.25(26.30)	622.67(73.70)	844.92(100)

*Multiple responses exists

Note: Figures in parenthesis are percentage

Perceptions of the Rural Agribusiness Enterprise Beneficiaries of MFBs and MFIs Loans

Table 3 showed that beneficiaries of MFBs and MFIs have different perceptions on granting of loans. While agribusiness beneficiaries of MFBs loans perceived demand for tangible collaterals high interest rates on loans and timeline in availability of loan as problems. MFIs beneficiaries regarded only smallness of the amount granted as loan as a problem in loan delivery.

Group discussion with beneficiaries revealed that MFBs have started deviating gradually from grassroots banking which was the purpose they were set up (CBN, 2005). On the other hand the MFIs have made tremendous progress in financing agribusiness enterprises in the rural areas. This is because MFIs do not lay much emphasis on tangible collaterals, charge low interest rate of between 3-5% and their loans were timely usually two (2) weeks from documentation. There is also flexible documentation of loan. These findings were similar to Nwankwo (2013) who observed that MFIs have positive impact among rural dwellers by taking up the challenges of the gap created by deposit money banks.

Table 3: Perceptions of the Rural Agribusiness Enterprise of MFBs and MFIs Loans (n = 100)

Perceptions	MFBs		MFIs	
	*Frequency	Percentage	*Frequency	Percentage
Flexible documentation of loan	52	34. 67	121	80.67
Demand for tangible collateral	134	89.33	48	32.00
High interest rates	101	67.33	72	48.00
Timeliness in availability of loan	64	42.67	128	85.33
Transportation problems	41	27.33	96	64.00
Amount of loan granted is small	62	41.33	105	70.00

*Multiple responses

Constraints of MFBs and MFIs in Credit Delivery to Agribusiness Enterprise

Table 4 showed that MFBs and MFIs agreed that there was high repayment rate of loans by rural agribusiness enterprises; difficulty in savings mobilization; high security risk in operating in rural areas and also high transportation cost in operating in rural areas. However the financial institutions disagreed on some constraints. While MFBs disagreed that cost of processing loan was not low, the MFIs agreed. Similarly MFBs disagreed that there is high premium on insurance coverage (40%) MFIs were of the opinion that it was high. The high repayment rate of loan by agribusiness enterprises showed that they were conscious of the loan and made every effort to repay in order to be eligible for another loan. This finding agreed with Nwandu (2019) that members of Self-help Groups operating in rural areas tend to repay their loans early not only to be eligible for another one but in order to avoid fines, sanctions and stigmatization in the community. According to the MFIs interviewed the high premium of insurance was necessary because most of the loan granted to agribusiness enterprises were not insured by NDIC and the agribusiness enterprises did not present tangible collaterals, furthermore agribusiness enterprisers were prone to natural disasters.

Table 4: Constraints of MFBs and MFIs in Credit Delivery to Agribusiness Enterprise

Constraints	**MFBs**	**MFIs**
	***Frequency**	***Frequency**
High repayment rate of loans by agribusiness enterprises	4(80.00)	14(93.40)
Low cost of processing loan	2(40.00)	14(93.40)
High premium on insurance coverage	2(40.006)	13(86.70)
Difficulty in mobilizing savings from rural agribusiness enterprises	3(60.00)	12(80.00)
High security risks of MFBs and MFIs operating in rural areas	5(100.00)	14(93.40)
High transportation cost in operating in rural areas	4(80.00)	10(66.70)

Note: N = 5 for MFBs and N = 15 for MFIs; Figures in parenthesis are percentage
*Multiple responses

CONCLUSION AND RECOMMENDATIONS

Analyses have shown that both MFBs and MFIs were involved in credit delivery for agribusiness purposes in the rural areas. However, MFIs were more responsive to the rural agribusiness enterprises in terms of conditions for granting credit and credit delivery. MFBs were also becoming sophisticated for the rural agribusiness enterprises and tending towards the sophisticated financing system of the conventional commercial banks which the government was striving to correct. The study therefore, recommended that the financial regulatory bodies of these grassroots financial institutions such as CBN should monitor their activities especially with regards to demand for collateral and interest rates with a view to checking the lapses discovered. The MFBs should improve in their timelines of granting of credit to rural agribusiness enterprises. This because delays will make the agribusiness enterprises convert the credit to consumption credit. Government should improve the infrastructure facilities especially roads in the rural communities. This will help to improve the transportation of the financial institutions and agribusiness enterprises in the rural areas in conducting their activities

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