

SOCIO-ECONOMIC DETERMINANTS OF SMALL AND MEDIUM ENTERPRISE POULTRY FARMERS' ACCESS TO MICROFINANCE LOANS CREDITS FOR POVERTY ALLEVIATION IN IMO STATE, NIGERIA.

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ABSTRACT

This study analyzed socio-economic determinants of small and medium enterprise poultry farmers' access to micro finance loans credit for poverty alleviation in Imo State, Nigeria. Data were collected from 60 randomly sampled poultry farmers with the aid of interview schedule. These were analyzed with descriptive (percentage, mean, frequency table) and inferential (ordinary least square) statistics. The results indicated that socio-economic characteristic showed that majority of the respondents (46.7%) were between the ages of 44 to 50 years, mean years of experience with 6.04 years. Multiple regression analysis result showed that factors like interest, educational level and years of experience are important and significant variables in determining the factors influencing MFI's financing of micro enterprises in the study area. The study concludes that MFI's has helped to greatly reduce the poverty of poultry farmers through ensuring ready access to loans and delivery of financial and non-financial services. It was recommended that MFI's should make credit based on product oriented and not the ability to provide collateral. Proper and extensive monitoring activities should a/so be provided for clients who were granted loans.

Keywords: *small and medium enterprise, micro finance loans credit, poverty alleviation, poultry farmers.*

INTRODUCTION

Small and medium enterprises are widely seen as engines of economic growth. In developed countries, they are credited with creating jobs, delivering innovations and raising productivity. Small and Medium Industries Equity Investment Scheme (SMIEIS) in Nigeria, defines Small and Medium Enterprises (SMEs) as "enterprises with a capital employed of not less than N 1.5 million, but not exceeding N200 million, including working capital, but excluding cost of land and/or with a staff strength of not less than 10 and more than 300". The brain behind every successful Small and Medium Scale enterprise is entrepreneurship which in the words of Olagunji (2004) is an undertaking in which one is involved in the task of creating and managing an enterprise for a purpose. The purpose as further stated may be personal, social or developmental. The establishment of Micro-finance banks as an effort by the government to improve the access to

loans and savings services for poor people is currently being promoted as a key development strategy to enhancing poverty eradication and economic development (Shreiner, 2005). Micro finance policy depends heavily on the availability and provision of finance. Abimiku (2000) asserted that finance is the main pre-occupation of the banking industry that brings together the factors of production such as land, labour and entrepreneur, into action. According to Babagana (2010), there is no doubt that SMEs need assistance through Micro-finance Banks to become sustainable and competitive. The promotion of SMEs has been carried out by subsidizing credits, providing preference treatment and targeting locations and businesses.

In order to enhance the flow of financial services to Nigeria's small and medium scale enterprises (SMEs), grass root, rural and urban poor, government had in the past, initiated series of publicly-financed micro/rural credit programmes and policies targeted at the grassroots. Notable among such programmes were the Rural Banking Programme, Sectoral Allocation of Credit, Concessionary Interest Rate, and the Agricultural Credit Guarantee Scheme (ACGS). Other institutional arrangements were the established of the Nigerian Agricultural and Co-operative Bank Limited (NACB), the National Directorate of Employment (NDH). Community Banking Scheme (CBS), the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), and micro finance institution.

Micro finance takes care of the provision of financial services, such as loans, saving, insurance, money transfers, and payments facilities to low income groups. It could also be used for productive purposes such as investments, seeds or additional working capital for micro enterprises. On the other hand, it could be used to provide for immediate family expenditure on food, education, housing and health. Micro-finance is an effective way for poor people to increase their economic security and thus reduce poverty. It enables poor people to manage their limited financial resources, reduce the impact of economic shocks and increase their assets and income (Robinson, 2001). It is a powerful tool to fight poverty through building of assets and serving as an absorber against external ties and financial shocks.

Microfinance institutions have made a significant contribution towards the poor in rural, semi urban areas for enabling them to raise their income level and living standards in various countries (Sunitha, 2012). In spite of the positive impact of microfinance to the nation's economy, many of the disadvantaged and economically active poor remained financially excluded (Nigeria Deposit Insurance Corporation (NDIC), 2010).

Many micro entrepreneurs still lack access to credit thereby impeding economic growth and development. The main thrust of the policy framework of the Nigeria micro finance policy was to provide credit to the poor and the low income group. However, the recent Central Bank of Nigeria report on poor performance of MFBs has put the capacity of the banks at micro credit delivery on enquiry (CBN, 2011). This poses threat to the objective of the microfinance policy on the provision of credit to small and medium scale enterprise (SMEs). The extent to which the SMEs have benefited from the credit scheme of the Nigerian Micro Finance Banks (MBFs) is worthy of exploration.

The issues of poverty alleviation development, growth of Small and Medium Enterprises and Micro finance have become major policy discourse globally. To this extent the research work has generated a set of questions which include the following:

- What are the socio-economic characteristics of the poultry farmers?
- What factors influence microfinance banks financing of micro enterprises?

1.3 Objective of the study

The broad objective of this research was to analyze the socio-economic determinants of Small and Medium Enterprise Poultry Farmers' Access to Microfinance Loans Credit for Poverty Alleviation in Imo State, Nigeria.

The specific objectives of the study include to:

1. determine the socio-economic characteristics of the poultry farmers in the study area.
2. identify and access the factors influencing microfinance banks financing of micro enterprises.

Hypothesis of the study

Ho: there is no significant difference between the volume of loan granted by microfinance institutions to the poultry farmers and that demanded by them.

METHODOLOGY

The study was carried out in Imo State, Nigeria, Imo State is located in the humid tropics of South - East, Nigeria. It lies within latitudes 40°45'N and 70°15'N, and longitude 60°50'E and 70°25'E (<http://www.imostate.gov.ng/state-overview/index.php>). Imo State is bounded on the East by Abia State, on the West by the River Niger and Delta State; and on the North by Anambra State, while Rivers State lies

to the South (<http://www.imostate.gov.ng/state-overview/index.php>). The state covers a land area of 5,067.20km² (Ministry of Land, Survey and Urban Planning, 1992) with an estimated population of 3,934,899 persons (NBS, 2006).

The state has three agricultural zones namely; Orlu, Owerri and Okigwe. It is also delineated into 27 local government areas. The population of Imo State is predominantly rural. The Imo State economy depends primarily on agriculture and commerce and the major occupation of the people is farming. Their cash crops include oil palm, raffia palm, rice, groundnut, melon, cotton, cocoa, rubber, maize, and etcetera. Their food crops include yam, cassava, cocoyam, melon, maize, etc (<http://www.imostate.gov.ng/state-overview/index.php>).

A multi-stage random sampling technique was used for the selection of respondents. Two agricultural blocks were randomly selected from each of the three agricultural zones in the state. From each of these agriculture blocks, one (1) community was purposively selected (based on the availability of the MFI's), making a total of three (3) communities. From each of the three communities, four (4) MFI's were each -selected. From the books (customer base) of the banks, (sampling frame) fifteen (15) poultry farmers were randomly selected from each of the four (4) MFI's, making a total of sixty (60) respondents. Thus making a sample population of 60 respondents of poultry farmers in the study. The study covered three main categories. The first group being already established businesses which joined these MFI's, saved with them and obtained facilities for expansion. The second group comprised businesses that began from scratch with support from these MFI's, and the third comprised those businesses that joined the MFI's after a reasonable period of savings by owners. The business covered production. Data for this study were collected from both primary and secondary sources. Primary data used for the study were collected from the field using structured questionnaire. Major variables on which data were collected include: socio-economic characteristics such as age, sex and educational level, and factors influencing microfinance banks financing of micro enterprises and volume of loan by the respondents. Descriptive statistics such as mean, frequency distribution, and percentages were used in achieving objective 1.

Results and discussion

1. Social characteristics of the poultry farmers. Table 1 below shows the age bracket of the respondents. A total of 46.7% of the respondents were in the age bracket of 42-47 years 10% and 26% were within 30 - 36 years and 37-43 years respectively. Again 13.3% and 3.3% were in the age bracket of 51-57 and 58-64 respectively. The mean age was 45.1 years which shows that the respondents are in their active age, able bodied men and women,

mentally alert, more eager to accept or adopt new innovation and hence are expected «;o have higher ability to use new technologies and credit more effectively.

On educational level, 41.7% of the respondents had secondary education, 28.3% had tertiary education, while 25% and 5% had primary and no formal education respectively. This implies that 75% of the respondents had one form of formal education or the other. Education is the process of bringing desirable changes in the skills, attitude and knowledge. It is believed that educated farmers respond more rapidly to new ideas, early adopters of innovation. This will in turn increase their loan accessibility, and have powerful effect on their revenue. According to Orebiyi *et al.*, (2012), education is an important factor which can influence farm productivity and determine farmer's access to loan and repayment.

As regards marital status, majority (63.3%) of the respondents are married and this implies that they are likely to have some dependents to cater for. which makes them take their livelihood activities (farm and non-farm) seriously in order to meet their financial obligations to their families. Also, 16.7% of the respondents are divorced/separated while 20% are single.

The sex distribution shows that 66.7% are male while 33.3 are female. The higher percentage of male to female among the SMEs that benefited from the service of Microfinance institution is an indication of likely gender biased. This is not in line with the practice of Grameen bank of Bangladesh (Yunus, 2013). It also shows that it is primarily the

responsibility of male to provide for the financial requirements of the family.

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The primary occupation distribution of the farmers shows that 33.3% of the respondents have teaching as their primary occupation, 26.7% are civil servants (those working in different states and federal parastatals). The data also showed that 21.7% are into trading while 18.3% are into farming. The result shows diversity in rural livelihood activities. It is important to note that outside the full time farmers, the others complement their earnings with trading and ensure fund security through their farm work.

The years of experience of the farmers shows that 35% of the respondents had between 7-9 years experience and 33.3% between 4-6 years of experience. Also 20% and 11.7% respectively had 1-3 years and 11 years and above respectively. The mean years of experience was 6.04 years. This implies that most of the respondents in the study area have high years of experience which probably would influence their profitability and increase their access to credit.

Table I: Distribution of poultry farmers by socio-economic characteristics

| Characteristics | Frequency | Percentage (%) | Mean(years) |
|----------------------------|-----------|----------------|-------------|
| 30 – 36 | 6 | 10 | |
| 37-43 | 16 | 26.7 | |
| 44 – 50 | 28 | 46.7 | |
| 51-57 | 8 | 13.3 | |
| 58-64 | 2 | 3.3 | |
| Mean age | 60 | | 41.5 years |
| Sex | | | |
| Male | 40 | 66.7 | |
| Female | 20 | 33.3 | |
| Marital status | | | |
| Single | 12 | 20.0 | |
| Married | 38 | 63.3 | |
| Divorced | 10 | 16.7 | |
| Educational Level | | | |
| No formal education | 3 | 5 | |
| Primary education | 15 | 25 | |
| Secondary education | 25 | 41.7 | |
| Tertiary education | 17 | 28.3 | |
| Occupation | | | |
| Trading | 13 | 21.7 | |
| Teaching | 20 | 33.3 | |
| Civil service | 16 | 26.7 | |
| Farming | 11 | 18.3 | |
| Years of Experience | | | |

| | | |
|--------------|----|------------|
| 1-3 | 12 | 20 |
| 4-6 | 20 | 33.3 |
| 7-9 | 21 | 35 |
| 10 and above | 7 | 11.7 |
| Mean years | | 6.04 years |

Source: Field Survey, 2019

2.0 Relationship between variables and micro finance banks financing of micro enterprises.

In determining the factors influencing microfinance banks financing of micro enterprise in the study area, the volume of loan obtained, interest rate, educational level, experience, and duration of loan were subjected to multiple regression analysis, linear, semi-log, exponential and cobb. Douglas functional forms of the production functions using ordinary least square technique. In order to select the lead equation, the estimated functional forms were tested in terms of the statistical significance of the coefficients and the magnitude of t-values and follow apriori expectation and economical rationality.

Among the four functional forms' estimates of the model as presented in Table 2, Linear model had the highest coefficient of multiple determination (R^2) of 0.819 indicating that the independent variables (factors influencing MFIs financing micro enterprise) explained about 81.9% of the total variation of dependent variable (amount of loan obtained or granted) while the remaining 18.1% was not accounted for by the variables included in the model. The significant F-value indicates that the model has good predictive ability. The result showed that interest, education level and years of experience are

important and significant variables in determining the factors influencing MFIs financing of microenterprises in the study area. It also revealed that the amount of interest charged, educational level and years of experience had positive relationship with the dependent variable (amount of loan granted) while repayment duration showed a negative relationship with the amount of loan granted.

These suggest that as the interest rate increases, the rate at which MFIs will grant loans to SMEs also increases. This is because they believe that the high interest rate will be high enough to cover the risk associated with doing business with SMEs since agriculture is heavily associated with risk and uncertainty. It also explains that as the educational level and years of experience increase, the rate at which MFIs grant loans to MSEs also increased. It is believed that respondents with less educational level and experience level are poorer than their counterparts with high level of education and experience. This is because education exposes an individual better to alternative means of livelihood. Also, the negative relationship of the repayment duration indicates that the amount decreases with an increase in the duration.

Table 2: Factors Influencing Microfinance Banks Financing of Microenterprises

| Variables | Linear | Exponential | Double log | Semi log |
|--------------------|---------------------------|--------------------------|--------------------------|--------------------------|
| Constants | 30849.52 (0.413690)ns | 10.96483 (31.22064) | 5.906139 (10.50618)* | -1464846 (-6.99672)* |
| Interest rate | 15.52463 (18.55940)* | 0.000044 (11.21385)* | 0.623723 (11.81927)* | 180983.2 (-9.208709)* |
| Educational level | 26744.320 (1.358986)ns | 0.040687 (4.390228)* | 0.149503 (2.117815)* | -15801.6 (-0.60104)ns |
| Year of experience | 5816.846 (1.953855)ns | 0.028584 (2.038708)* | 1.160062 (2.012256)* | 55509.19 (1.873795)ns |
| Duration of loan | -6987.48 (-0.57435)ns | -0.00393 (-0.06861)ns | -0.01363 (-0.04877)ns | 18786.94 (0.180485)ns |
| R^2 | 0.892983 | 0.805230 | 0.819784 | 0.695399 |
| F-value | 114.7346 | 56.84610 | 62.54730 | 31.39108 |

Source: Field Survey, 2019

* = significant at 5%

T – values are figures in parentheses

NS = Not significant

3.0 Hypothesis

Decision rule: Reject the null hypothesis

The hypothesis was subjected to z-test to analyze the existence of significant difference between the volume of loan demanded by the poultry fanners and the volume granted them by MFIs. The result shows that many of the respondents are not often granted

the volume of loan demanded thereby limiting production. The reason for this could be due to the risk associated with agriculture, the rate of the farmers' turnover and their inability to meet up with repayment plan.

Table 3: Hypothesis – test of significant difference between the volume of loan demanded and the volume granted to respondents.

| | Amount demanded | Amount granted |
|-------------------|-----------------|----------------|
| Mean | 407666.6667 | 245033.3333 |
| Variance | 90702937853 | 43227185311 |
| Sample size | 60 | 60 |
| Z cal | 3.442 | |
| Z critical (0.05) | 1.96 | |

Source: Field Survey, 2019.

CONCLUSION

The operations of MFIs have curbed the major challenges of the SME sector to a very large extent by ensuring ready access to loans. From the research findings it can be deduced that the MFIs have contributed to the development of MSEs through the delivery of financial and non-financial services. It is also worthy to mention that MFIs have improved access to loans than the conventional banks which increase the net returns.

RECOMMENDATIONS

Based on the findings of the study, it is recommended that:

- i. the MFIs have a great responsibility of making sure that proper use is made of loans, for the purpose intended so as to facilitate business acceleration. This can be achieved by making credits or loans client-oriented and not product-oriented.
- ii. poultry farmers should enroll in adult and other non-formal education centers in order to improve their skills and competences towards achieving profitability in their enterprises as well as improve their standard of living.
- iii. SMEs should engage in other economic worthwhile activities in order to diversify their income and reduce the effects of risks.
- iv. Government should subsidize most of the inputs used by these farmers for their production in order to enable them reduce the total cost of their production which will in turn increase the profitability of their enterprise and enable them contribute their own quota to economic development.

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