Journal of Agriculture and Veterinary Sciences
Volume 6, Number 1, 2014
ISSN: 2277-0062

Performance Analysis of Micro-Finance and Agro-Industrial Development in Nigeria

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ABSTRACT

The inadequate and frequent dearth of loans for financing agriculture has been a major impediment to agricultural development in most developing countries. This study on the performance analysis of micro-finance and agro-industrial development in Nigeria is therefore geared to identify microfinance institutions and other related institutions established for Agro-industrial development in Nigeria; to describe the sources of funding and performance of these finance institutions and to find out the justifications for their establishment. The paper employed only secondary data base on some key success indicators of some established Agro-financed Institutions in Nigeria. The findings show that weak institutional capacity, weak capital base, the existence of a huge un-served market, inadequate economic empowerment of the poor, insufficient employment generation and poverty reduction, the need for increased savings opportunity were some weaknesses of the existing Agro-financed Institutions in the Nigerian economy. In order to improve the performance of micro-finance services and Agro-industrial development would require people-centred programmes, full participation of the people, establishment of institutional infrastructure as well as social services and effective use of co-operative societies and unions for progress and success in the agro and allied industry sub-sector of the Nigerian economy.

Keywords: Agro-industry, Micro-finance, institutions, Nigeria.

Introduction

Micro finances are essential in financing micro enterprises, (CBN 2000). According to Iganga (2000), microfinance includes a broad range of services, mainly credits, saving opportunities, insurance and money transfer provided especially for the poor who lack access to borrowing from traditional formal institutions. Simply put, Micro finance refers to provision of financial services to the poor and low income earners in the society in order to reduce poverty level through empowerment of the people by increasing their access to credit. Micro-Finance, which is a compound word, therefore refers to the provision of financial services at small scale levels to the poor to enable them engage in viable economic activities, be more self reliant, increase employment opportunities, enhance household income and create wealth. Nweze (2001) defined micro-finance as a term referring to varieties of services such as the provision of small loans, saving facilities and other financial services on account of low-income, lack of collateral, illiteracy etc. Robinson (2002) provided another good definition that Microfinance refers to small-scale financial services for both credits and deposits—that are provided to people who farm or fish or herd; operate small or microenterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas.

From these aforementioned definitions, micro-finance can be said to encompass packages of financial services render to the targeted poor people to encourage them to be engaged in viable economic activities for the purpose of poverty reduction, income generation, wealth creation and improvement on their standard of living. Ogbunka (2003) and Kimotha (2005) identify three main distinguishing features of microfinance as : smallness of loan granted or savings mobilized, absence of asset based collateral and simplicity of operations. Okoh, et al (2009) opined that the average size of microfinance loan varies from one part of the world to another. According to Oluwalana, Okunneye and Sokoyo (2004), micro credit ranges between ₦20,000 to ₦100,000. Anyanwu (2004) asserted that the size of such loan in Nigeria is below ₦20,000 and is usually use to finance microenterprises like petty trading, hair dressing, sewing and low level agro-allied activities, (Odedokun, 2003). In view of limited loan able funds and high transaction cost, they are not usually favoured by formal lenders; they ration out the available funds. Microfinance institutions were therefore established to ensure easy access of small scale enterprise operators to financial resources. Several microfinance institutions that were established have been identified (Okoh et al, 2009). Agro-industrial development on the other hand, encompasses all processes or activities channel to firms that process materials of plant and animal origins to improve their productivity.

Purpose of the Study

Nigeria is a country blessed with human, material and natural resources that are yet to be fully harnessed for the purpose of development. The Agricultural Sector can contribute substantially to the foreign exchange of Nigeria if concerted effort is put in place for its development. The major activities of the agro-industry in Nigeria are left in the hands of the small scale producers who lived in the rural areas and are poor. The poor rural people lack financial power to continue, sustain and improve upon the activities of the micro-enterprises of the Agro-Industrial sub sector. The average shortfall from poverty line generally referred to as depth of poverty, is higher in rural areas and particularly among those whose livelihood is farming while association with high poverty levels has been consistent in all national consumer surveys (UNDP, 1998; F.O.S. 1999). The inadequate and frequent dearth of loans for financing agriculture has been a major impediment to agricultural development in most developing countries. Agricultural loans are essential for farmers to take advantage of new technology in the form of farm machinery, pay for such items as improved varieties of seeds and livestock, fertilizer, pesticides, and other running costs. It is in realization of the fact that credit (loans and subsidy) is a critical factor in agricultural development that for most governments in the developing countries, the channeling of institutional finance to agriculture has increasingly become an important policy instrument for increasing agricultural output particularly of the rural farmers. For instance, microfinance banks are obliged to grant a certain and minimum percentage of their loans to agricultural production.

In spite of this rapidly expanded agricultural loans in Nigeria, results of conventional agricultural loans credit programmes have seldom measured up to expectation. This is because of a number of reasons which include the fact that not much progress has been made in reaching the small farmers, and where the loan is available, poor loan administration has contributed seriously to poor agricultural performance. It should therefore be emphasized that the problem of financing agriculture should not be confined to the provision of institutional loan able funds to farmers but should more importantly extend to the efficient administration of the available loan able funds (Agu 1983). Micro-finance would therefore play significant roles in the amelioration of poverty among the micro-agro-industrialists who do not have access to credit for increase productivity.

This study is therefore geared to identify the microfinance institutions established for Agro-Industrial development in Nigeria; to describe the sources of funding and performance of these micro-finance institutions, to find out the justifications for their establishment and finally to make useful recommendations for the benefits of micro-finance beneficiaries, operators and policy makers.

Overview of Microfinance Activities in Nigeria

The practice of microfinance in Nigeria is culturally rooted and dated back to several centuries. The traditional microfinance institutions provide access to credit for the rural and urban low-income earners. They are mainly of the informal Self Help Groups (SHGs) or Rotating Savings and Credit Association (ROSCAs) types. Other providers of microfinance services include saving collectors and co-operative societies. The informal financial institutions generally have limited outreach due primarily to paucity of loan able funds.

In order to enhance the flow of financial services to Nigerian rural areas, Government has, in the past, initiated a series of publicly-financed micro/rural credit programmes and policies targeted at the poor. Notable among such programmes were the rural banking programme, sectoral allocation of credits, a concessionary interest rate, and the Agricultural Credit Guarantee Scheme (ACGS) of the Central Bank of Nigeria. Other institutional arrangements were the establishment of the Nigerian Agricultural and Co-operative Bank Limited (NACB), the National Directorate of Employment (NDE), the Nigerian Agricultural Insurance Corporation (NAIC), the Peoples Bank of Nigeria (PBN), the Community Banks (CBs) and the Family Economic Advancement Programme (FEAP). In 2000, the Federal Government merged the NACB with PBN and FEAP to form the Nigerian Agricultural Cooperative and Rural Development Bank Limited (NACRDB) to enhance the provision of finance to the agricultural sector. It also created the National Poverty Eradication Programme (NAPEP) with the mandate of providing financial services to alleviate poverty.

Microfinance services, particularly, those sponsored by government, have adopted the traditional supply-led, subsidized credit approach mainly directed to the agricultural sector and non-farm activities, such as trading, tailoring, weaving, blacksmithing, agro-processing and transportation. Although the services have resulted in an increased level of credit disbursement and gains in agricultural production and other activities, the effects were short-lived, due to the unsustainable nature of the programmes.

Since the 1980s, Non-Governmental Organizations (NGOs) have emerged in Nigeria to champion the cause of the micro and rural entrepreneurs, with a shift from the supply-led approach to a demand- driven strategy. The number of

NGOs involved in microfinance activities has increased significantly in recent times due largely to the inability of the formal financial sector to provide the services needed by the low income groups and the poor, and also the declining support from development partners amongst others. The NGOs are charity, capital lending and credit-only membership based institutions. They are generally registered under the *Trusteeship* Act as the sole package or part of their charity and social programmes of poverty alleviation. The NGOs obtain their finds from grants, fees, interest on loans and contributions from their members. However, they have limited outreach due, largely, to unsustainable sources of funds.

Nigerian Agricultural and Cooperative Bank

The Nigerian Agricultural and Cooperative Bank (NACB) which was wholly owned by the Federal Government of Nigeria commenced operation in March 6, 1973; NACB share capitals were 60% subscribed by the Federal Ministry of Finance and 40% owned by the Central Bank of Nigeria. NACB is totally and continually dependent on loans and grants from the Federal Government and International Agencies. The Bank's authorized share capital at inception was one million naira, which was increased to two million naira in 1974 and one hundred and fifty million naira in 1978. To broaden the Bank's financial base to meet its ever-increasing demand for funds, the authorized share capital was increased to five hundred million naira in 1988 and one billion naira in 1993. By 1998, total funding had risen to one hundred and forty one and half billion naira.

Recent outreach data of the bank show that as at Dec 31, 1998, it had established zonal offices and representative offices practically in all major food production centers of the country. This enabled the bank to reach about 318,000 clients since inception (1973-1998). A breakdown of NACB's loan portfolio by World Bank (2000) has shown that over 80% of total loans disbursed have been to individuals rather than cooperative societies while the highest proportion of the remainder went to corporate bodies. From 1973 through September 1999, 97% of loans were made to about 427,229 small holder farmers, 3% to 10,412 investment programmes, while less than 1% were made to about 40 government programmes. Analysis of loan size showed that average new loan amounts per borrower were small at ₦12,007 ($133) in 1997 and ₦14,042 ($156) in 1998, which represent about half of the GDP per capital.

Peoples Bank of Nigeria

Peoples Bank of Nigeria (PBN) was established on October 3, 1989 to provide people-centred, community-based and affordable micro-finance services to under-privileged Nigerians. It is fully owned by Federal Government of Nigeria (FGN) and under the regulation of Central Bank of Nigeria (PBN 2000). PBN depends totally on FGN grants as depicted in Table 1.

Table 1: FGN Grants to PBN and Loanable Funds Allocation (₦ million)

Year	Amount (₦ million)	Year	Amount (₦ million)	Year	Approved Amount of Loanable Funds (₦ million)
1989	30	1995	165	1995	-
1990	200	1996	80	1996	-
1991	122	1997	275	1997	100
1992	100	1998	730	1998	350
1993	150				
1994	112				

Source: World Bank (2000)

While the amounts indicated from 1989 to 1994 comprised recurrent, capital and loanable funds, in 1995 the bank classified its funds into recurrent and loanable funds. These allocations enabled the bank to establish branches all over the country. As at December 31, 1998, PBN had established 279 branches made up of 219 rural and 60 urban branches. By July 31, 2000 the total number of branches had reached 282 (PBN, 2000). Due to the wide network of branches, PBN reached about 3.2 million from inception through June 30, 1999. During the same period, cumulative disbursement stood at ₦1.7 billion while cumulative savings was ₦10.3 billion. PBN loan disbursement categorized by percentage of total amount was as follows: project loans (25%); co-operative loans (20%); agricultural loans (25%); loans to the poorest (20%) and others (15%) (World Bank, 2000).

Community Banks

Community banks (CBs) were established in 1990 to promote rural development through promotion of an integrated financial system that responds to the needs of people at grassroots level; inculcate banking habit amongst the poor and foster a spirit of community ownership and use of economic assets. Each CB is privately owned by at least 50 shareholders, including a community development association regarded as primary sponsor. National Board of CBs (NBCB) was created in 1992 to supervise the individual CBs. World Bank (2000) analysis shows that CBs grew from 104 in 1991 to 1368 in 1995 when provisional licensing was suspended. CBs serve about one million clients and between 100-200 thousand customers and a significant proportion of activities in rural areas. World Bank further reveals that as at the end of 1998, there were just over

1000 CBs provisionally licensed, about two-thirds of which are located in rural areas.

Aggregate figures from NBCB in 1998 indicated that the total advances were ₦1.973 billion and the total deposits ₦3871 billion.

Family Economic Advancement Programme (FEAP) and the Use of Cooperatives

FEAP represents a deliberate attempt by government to involve cooperative societies in micro-credit mechanism against poverty. FEAP was established in 1997 (Decree 11) to encourage producers of goods and services to form co-operatives for the purpose of obtaining government loans; encourage the design and manufacture of plants, machinery and equipment; and to create employment opportunities through the establishment of enterprises and pilot projects. As a parastatal of the presidency, FEAP had an administrative structure that spreads from the national level to the ward level. The technical advisory committee (TAC) comprised of an inter-ministerial body, with some private sector participation. There were also the state, local government and ward co-ordinating committees and a National Secretariat.

FEAP had laudable objectives of advancing the well being of Nigerians through the provision of micro-credit. As at September 1998, the first batch of loans to the tune of ₦450,882,500 for about 2,855 co-operative societies had been released (Okunmadewa, 2000). Subsequently, out of a total loan request of ₦2.6 billion from about 15,000 co-operative societies, a second batch of loan of over ₦1.27 billion for about 8,757 co-operatives was ready for disbursement. Approval and disbursement were for 600 out of the 774 applications received from local government areas of the Federation.

As a strategy for co-operative promotion at the grass roots, the nation-wide publicity campaign helped to create awareness about the importance of co-operative societies in the delivery of micro-financial services. Consequently not less than 1000 co-operative societies were registered in some states.

Justification for the Establishment of Micro-Finance Institutions in Nigeria

From the appraisal of existing microfinance-oriented institutions in Nigeria, the following facts have become evident:

Weak Institutional Capacity

The prolonged sub-optimal performance of many existing community banks, microfinance and development finance institutions is due mainly to incompetent management, weak internal controls and lack of deposit insurance schemes. Other factors are poor corporate governance, lack of well defined operations and restrictive regulatory/supervisory requirements.

Robust economic growth cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of productions, especially credit. The latent capacity of the small scale Agro-Industries would be significantly enhanced through the provision of microfinance services to enable them engage in economic activities and be more self-reliant; increase employment opportunities, enhance household income, and create wealth.

Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Three features distinguish microfinance from other formal financial products. These are:

- The smallness of loans advanced and or savings collected,
- The absence of asset-based collateral, and
- Simplicity of operations.

In Nigeria, the formal financial system provides services to about 35% of the economically active population while the remaining 65% are excluded from access to financial services. This 65% are often served by the informal financial sector, through Non-Governmental Organizations (NGO) – microfinance institutions, moneylenders, friends, relatives, and credit unions. The non-regulation of the activities of some of these institutions has serious implications for the Central Bank of Nigeria's (CBNs) ability to exercise one aspect of its mandate of promoting monetary stability and a sound financial system.

A microfinance policy which recognizes the existing informal institutions and brings them within the supervisory purview of the CBN would not only enhance monetary stability, but also expand the financial infrastructure of the nation's economy to meet the financial requirements of the Micro, Small and Medium Enterprises (MSMEs). Such a policy would create a vibrant microfinance sub-sector that would be adequately integrated into the mainstream of the national financial system and provide the stimulus for growth and development. It would also harmonize operating standards and provide a strategic platform for the evolution of microfinance institutions, promote appropriate regulation, supervision and adoption of best practices. In these circumstances, an appropriate policy has become necessary to develop a long-term, sustainable sub-sector.

Weak Capital Base

The weak capital base of existing institutions, particularly the community banks, cannot adequately provide a cushion for the risk of lending to micro entrepreneurs without collateral. This is supported by the fact that only 75 out of over 600 community banks whose financial statements of accounts were approved by the CBN in 2005 had up to ₦20 million shareholder's funds unimpaired by losses. Similarly, the NACRDB, with a proposed authorized share capital of ₦50.0 billion, has ₦10.0 billion paid up capital and only ₦1.3 billion shareholders funds unimpaired by losses, as at December, 2004.

The Existence of a Huge Un-Served Market:

The size of the un-served market by existing financial institutions is large. The average banking density in Nigeria is one financial institution outlet to 32,700 inhabitants. In the rural areas, it is 1:57,000 that is; less than 2% of rural households have access to financial services. Furthermore, the 8 (eight) leading Micro Finance Institutions (MFIs) in Nigeria were reported to have mobilized a total savings of ₦222.6 million in 2004 and advanced ₦2.624 billion credit, with an average loan size of ₦8,206.90. This translates to about 320,000 membership-based customers that enjoyed one form of credit or the other from the eight NGO-MFIs. Their aggregate loans and deposits, when compared with those of community banks, represented percentage of 23.02 and 1.04, respectively; this reveals the existence of a huge gap in the provision of financial services to a large number of active but poor and low income groups. The existing formal MFIs serve less than one million out of the over 40million people that need the services; also, the aggregate micro credit facilities in Nigeria account for about 0.2 percent of Gross Domestic Product and less than one percent of total credit to the economy.

The effect of not appropriately addressing this situation would further accentuate poverty and slow down growth and development.

Economic Empowerment of the Poor, Employment Generation and Poverty Reduction

The baseline economic survey of Small and Medium Industries (SMIs) in Nigeria conducted in 2004 indicated that the 6,498 industries covered currently employ a little over one million workers. Considering the fact that about 18.5 million (28% of the available work force) of Nigerians are unemployed, the employment objective/role of the SMIs is far from being reached. One of the hallmarks of the National Economic Empowerment and Development Strategy (NEEDS, 2005) is the empowerment of the poor and the private sectors, through the provision of needed financial services, to enable them engage or expand their present scope of economic activities and generate employment. Delivering needed services as contained in the Strategy would be remarkably enhanced through additional channels which the microfinance bank framework would provide. It would also assist the SMIs in raising their productive capacity and level of employment generation.

The Need for Increased Savings Opportunity

The total assets of the 615 community banks which rendered their reports, out of the 753 operating community banks as at December ending, 2004, stood at ₦34.2 billion. Similarly, their total loans and advances amounted to ₦11.4 billion while as at end-December 2004, the total currency in circulation stood at ₦545.8billion, out of which ₦458.6 billion or 84.12 percent was outside the banking system. Poor people can and do save, contrary to general misconceptions. However, owing to the inadequacy of appropriate savings opportunities and products, savings have continued to grow at a very low rate, particularly in the rural areas of Nigeria. Most poor people keep their resources in kind or simply under their pillows. Such methods of keeping savings are risky, low in terms of returns, and undermine the aggregate volume of resources that could be mobilized and channeled to deficit areas of the economy. The microfinance policy would provide the needed window of opportunity and promote the development of appropriate (safe, less costly, convenient and easily accessible) savings products that would be attractive to rural clients and improve the savings level in the economy.

Recommendations and Conclusion

For successful micro-finance in the Agro and Allied Industrial development in Nigeria, efforts need to be concentrated on the effective management of human, material and financial resources of the nation. The management issues that have implications for sustainability of micro-finance programmes for agro-industrial development include;

1. **People-Centred Programme:** The programme should be people-centred. It should address the heartfelt needs of the majority of the people in order to encourage mass support and participation.

2. **Participatory Programme:** The programme should encourage greater participation of target population in the articulation, design, planning and implementation of relevant programme contents. This could be achieved through:
   - Tapping local knowledge through consultations, encouragements and information sharing.
   - Use of local institutions like local development communities and opinion leaders
   - Provision of training and re-training of appropriate local manpower.

3. **Establishment of Institutional Infrastructure as well as Social Services:** The establishment of a proper type of business organization based on close infirmity with the socio-cultural and organizational structure of the rural society where the enterprise is to be sited. Also, there is the need for preparation of legal, regulating and marketing framework to streamline programmes and institutions involved in micro finance services. Indigenous and informal institutions like the self-help financial associations should be involved in micro-finance managements.

4. **Effective use of Co-operative Societies and Unions:** In-spite of setbacks, genuine multifunctional co-operative societies and unions remain one of the best options available to those with limited means seeking improvement. The role of government should be limited to the provision of conducive policy and business environment for their operations.

Improving the performance of micro-finance services and Agro-Industrial development will require people-centred programmes, full participation of the people, establishment of institutional infrastructure as well as social services and effective use of co-operative societies and unions for progress and success in the agro and allied industry sub-sector of the Nigerian economy.

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