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# ACCESS TO MICROFINANCE FACILITIES AMONG AGRIPRENUERS IN ABIA STATE, NIGERIA

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**ABSTRACT**
The study evaluated the level of access and use of microfinance by farmers in Abia State, Nigeria. A purposive sampling technique was adopted using a list of 2018 microfinance beneficiaries generated from Bank of Industry's database and other agricultural enterprise lending institutions (LAPO, First Bank) Bank of Agriculture). A total of 150 respondents were chosen from a sampling frame of beneficiaries of microfinance programme, and administered with a structured questionnaire. Descriptive statistics and ordered logit regression analysis were used to analyze the data collected. Results showed that majority of the farmers had moderate access to microfinance facilities and that consumer microfinance loan was more readily available to the respondents with a mean of 1.94. The coefficients of the multiple choice questions on ordered logit regression analysis estimated significant factors influencing credit access as marital status and distance to microfinance source is long (+ve at 5% each), educational level (-ve at 5%), loan repayment period and inconsistent policy (-ve at 1% each). Others are; livevestock production, medium scale, small scale, local source of finance and commercial source of finance (=ve at 1% each) and long bureaucratic process (-ve at 10%). Further analysis on constraints to access to microfinance revealed that distance to microfinance source, no internet facilities, lack of co-operate affair commission registration and inconsistent policy were the most importatnt constraints militating against access to microfinance by agriprenuers in the study area with mean scores ≥ 2.5. The results therefore call for policy direction to ensure speedy procedures/requirements to encourage farmers to access loans and more liaison offices for microfinance institutions should be established at locations closer to the farmers.

***Keywords: Microfinance, Access, , Ordered logistics regression model, and Constraints***

## Introduction

Microfinance institutions are not new in Africa, and globally. They have gone through a number of changes from their beginning. In the past it was not given appropriate emphasis as rural development tool (Robinson, 2001). The discrimination against agriculture in granting of credit and the high rate of interest coupled with stringent conditions like the issue of collateral and the short term nature of credit granted by commercial banks are among the factors that led the government into adopting a policy measure that was expected to ensure easy flow of credit and financial services to the agricultural sector. This was what necessitated the establishment of micro-finance banks in 2005. A review of empirical studies indicated that for a farmer to derive benefit from any institutional credit, the size of the loan, the process of granting s2uch loans, timeliness in disbursement and repayment are very important (Nweze, 1991), in addition to level of education, marital status and family size (Ibeawuchi, 2002), it is therefore, the aim of this study to evaluate the level of access and use of microfinance by farmers in Abia State. Nigeria's agriculture has always been dominated by the small scale farmers who represent a substantial proportion of the total population and produce about 90-95 percent of the total agricultural output in the country prior to the advent of the oil boom (Ogieve, 2003). Prior to this time, Nigeria was noted for her high production performance in terms of food and cash crops, and the supply of most industrial raw materials, which is the product of our small scale farmers. The total agricultural output between 1986 and 1992 grew at the rate of 0.6 percent per year on the average (World Bank, 1996). However, this important role agriculture played in the Nigeria economy has declined tremendously, and the decline has for a long time been blamed on the neglect of the rural sector, comprising mainly the small-scale farmers by successive administration in the country. As the role of agriculture in the economy decline, food importation increase (Wikipedia 2013), thus leading to the depression of the locally produced food, which has

decreased farmers' expected income that could have been used to improve their farm productivity (Okunmadewa, 2003). Nigerians export jobs by importing food from their counterpart countries leaving the farmers out in benefiting from the $1.3trillion food market in Africa (AFDB, 2016).

Bolarinwa and Oyeyinka (2005) observed that inadequate credit provision and poor marketing systems have induced agricultural productivity drastically to the extent that food importation has been on the increase in recent years. According to them, since agriculture in Nigeria and most other developing countries is where small scale farmers predominate, several constraints and barriers which appear insurmountable, limit the overall farming activity which reflects heavily on the economy of the country. As reported by Olagunju and Adeyemo (2008), the reason for the decline in the contribution of agriculture to the economy is lack of a formal national credit policy and paucity of credit institutions that should assist farmers. Although successive governments have come up with numerous programmes to address the inability of agricultural output to keep pace with the country's demand for agricultural products (Tribune, 2009), but credit institutions have over the years shy away from lending to the small-scale farmers (Vangaurd, 2010) who form the larger part of the farming population, citing reasons such as high default rates, difficulty in monitoring numerous individuals whose loans do not provide much return on investment, and not being cost effective. This study sets out to fill an important information gap by evaluating the level of access and use of microfinance by farmers using Abia State as a case study.

**Methodology**

This study was conducted in Abia State, Nigeria. Abia State comprises 17 Local Government Areas (L.G.A's) divided into three agricultural zones namely; Aba, Ohafia and Umuahia The study employed a purposive and multistage sampling technique Primary data was used for this study generated using a structured questionnaire, personal interview alongside face-to-face interviews. A multistage sampling technique involved three stages. In stage one, 3 local government areas were selected at random from the 3 agricultural zones, in the second stage, 5 communities each were selected from the 3 local government areas (making 15 communities), the last stage entailed selection of 10 arable crop and livestock farmers alongside commercial SMEs in food processing each from the 15 communities, giving a sample size of 150 farmers/respondents. Sample selection was achieved by collecting a database of farmers with access to microfinance services from selected microfinance institutions in Abia State. Econometric and statistical tools were used for the study. Descriptive statistics, and ordered logit regression analysis were employed to elicit the objectives of this research. The response variable which is the level of access to loan for this study was defined by three ordered categories: high access, moderate access or low access to formal and informal loan coded as 1, 2, 3 respectively. An ordered logit model (OLM) was specified to predict the probability that an individual, given his or her category, have access to microfinance for agriprenuership. OLM was used widely to analyze categorized responses because they have the capability of handling such variables. Mintesnot and Takano (2007). Hence, the model was used to model the factors that influence access to microfinance packages as the dependent variable. Suppose that the values of Y represent an ordering of items as used in the study, coded as:

$$Yi = \begin{cases} \text{Low access to microfinance} \\ \text{Moderate access to microfinance} \\ \text{High access to microfinance} \end{cases}$$

Y is not a quantity but category and a larger value implies a higher access to microfinance. In this case, there exists a known number, m, such that:

$$P[Y_i \epsilon \{0,1,2, \dots m\}] = 1$$

This type of data is usually modeled via a latent (unobserved) variable model:

$$Y_i^* = \alpha + \beta_i' X_i + \varepsilon$$

$Y_i^*$ = latent measure of level of access to microfinance
$X_i$ = a vector of independent variables describing the demographic characteristics and constraints to accessing microfinance.
$\alpha, X_i$ = coefficients to be estimated
$\varepsilon$ = a random error term (assumed to follow a standard normal distribution for logistic distribution for logit model).
The model is explicitly specified thus:

$$\Pr(Y \leq j) = ln\left(\frac{(Y \leq j/X}{P(Y>j/X}\right) \quad (1)$$

It then means that:

$$\Pr(Y \leq j) = \ln \sum_{j=1,2,3,\dots,21} \left(\frac{p(Y \leq j/X)}{1-\Sigma P(Y \leq j/X}\right) = \propto j + \beta 1X1 + \cdots + \beta 13X13 \quad (2)$$

Where: Y=Level of access to loan categorized into 3: low access=0; moderate access =1 and high access =3
$\propto$=threshold
$\beta 1 - \beta 9$=logistic coefficients for the independent variables

$$\text{LnPr}(Yj=i) = \ln\propto + \beta_1 \ln X_1 + \beta_2 \ln X_2 + \beta_3 \ln X_3 + \beta_4 \ln X_4 + \beta_5 \ln X_5 + \beta_6 \ln X_6 + \beta_7 \ln X_7 + \beta_8 \ln X_8 + \beta_9 \ln X_9 + \beta_{10} \ln X_{10} + \beta_{11} \ln X_{11} + \beta_{12} \ln X_{12} + \beta_{13} \ln X_{13} + \beta_{14} \ln X_{14} + \beta_{15} \ln X_{15} + \beta_{16} \ln X_{16} +$$

$\beta_{17}\ln X_{17} + \beta_{18}\ln X_{18} + \beta_{19}\ln X_{19} + \beta_{20}\ln X_{20} + \beta_{21}\ln X_{21} + u_i$ (3)

**Results and Discussion**

Table 2 shows the rate of access to microfinance by the respondents in the study area. Majority (50%) of the farmers had moderate access to microfinance while 36.67% had low access and the remaining 13.33% had high access to microfinance. This indicates that farmers in the study area lack adequate access to microfinance facilities. It implies that the farmers do not receive finance to increase scale of production and improve farm profit. It also implies that the farmers source their finance majorly from other sources of fund such as from savings and relatives, thus indicating that the government and the organized private sector needs to fill the gap in providing regular credit to farmers. This is in consonance with the report of Edet (2008) and Ekwere (2014).

The results in Table 4 presents the parameter estimates of the ordered logit regression model for determinants of access to microfinance packages from Bank of Industry. The fitting of the estimates of the regression line shows a goodness of fit with $R^2$ value. The likelihood ratio Chi-square of 136.19 with a p-value of 0.0000 tells us that our model is statistically significant at 1% showing 100% confidence level on the adjusted results. The table further reveals that access to microfinance facilities were moderate for farmers who are involved in livestock farming or production at 1% level of significance other than high or low access. This could be because microfinance providers perceive livestock farming to have less risk compared to crop production with higher risk including weather and seasonal shocks. Also it could suggest that livestock producers repay loans more frequently and timely than crop producers. This is in line with the report of Ellinger and Barry (2017). which stated that lenders often describe loan by the purpose of the loan, comparing payment patterns from the different loans. Furthermore, there is a strong positive relationship between moderate access to microfinance for small and medium scale businesses at 1% probability level each other than high or low access. This implies that access to micro finance is positively skewed to the benefit of small and medium enterprises. This suggests that microfinance as the name implies provide funding which are needed to grow small and medium business. Thus, it does not benefit large scaled business.

Results show that moderate level of access to access to microfinance at 1% level for local and commercial microfinance sources each. This implies that access to microfinance facilities were moderate other than high or low access. Credible local and commercial microfinance sources provide a lead way to financial interventions for small and medium enterprises at grassroots. Through these sources, finances are made available to farmers. This suggests that most of the small and medium scale farmers would easily access funding from a local and commercial microfinance source as these provide traceable and accessible channels to funding by the receiving parties through verification numbers, proper registrations and available account details for efficient access. Information gathered during research further reveals that Bank of Industry (BOI) collaborates with some microfinance and commercial finance institutions such as Jaiz Bank and First Bank Nigeria to provide funding facilities for smallholder financial inclusion. An example is CBN anchor borrowers partnership with Unity Bank Nigerian Limited for agri-finance disbursement. This is in agreement with the report of Idris (2010).

Conversely, distance to source is positively related to access to microfinance facilities, indicating that long distance to source of microfinance does not affect farmer's interest or access to microfinance facilities. This could be because microfinance is so beneficial to the farmers that they would willingly go the long distance to access it once informed. Marital status has a negative influence on access to microfinance at 5% level of significance. This implies that single farmers had low access microfinance other than high or moderate access. This could be because they are younger and less experienced in the practice of agriculture, may not have someone to attest for them. They are probably also expected to demonstrate financial need, and show some level of credibility and integrity. Educational experience has negative relationship with access to microfinance at 5% level of significance. This implies that farmers who are less educated had low access to microfinance other than high or moderate access. This is in line with a prior expectation that families with low financial education would not readily access information and adapt to microfinance facilities. In addition, durations beyond one year of loan repayment reduces farmers access to microfinance at 1%. This suggests that for farmers to increase their access to microfinance, they must avoid long repayment period on accessed funds as this increases their credit worthiness, this corresponds to the report of Edet (2008).

The coefficients of inconsistency in financial policy reflects a strong negative correlation with micro finance at 1% level of significance on those who disagreed which implies that as farmers disagrees that changes in policy could benefit them by offering them an opportunity to access funding for agriculture thus, their access to microfinance is negatively influenced. This reflects that experience over time on lack of consistency in financial policy has made farmers unwilling, losing confidence in the government and thus they fail to believe that the government have their best interest at heart. Being very pessimistic and recalcitrant, they do not respond to the calls and invitation by microfinance agencies to access agricultural finance available for use to their advantage. There is need for re-orientation to change

this trend and increase farmers trust in the government policies. Access to microfinance facilities is negatively influenced by long bureaucratic process at 10% level of significance. This implies that the longer the rigours in the process of accessing funds, requirements, and time consumed, the more stressful it is, and farmers are deterred from applying. Hence farmers would likely neglect the microfinance opportunity as these procedures have become a hindrance or deterrent to access to microfinance available to farmer.

The use of microfinance options available to farmers in the study area was affected by a number of constraints. The mean scores and percentage of the constraints were ranked in a descending order of importance as shown in Table 5. Distance to microfinance source, no Internet facilities, lack of co-operate affair commission registration and inconsistent policy were the most serious constraints militating against access to microfinance by farmers in the study area with mean ≥2.5. This implied that respondents in the study area were faced with challenge of a far distance. This could either be because the micro finance source is sited far from the respondent and there is absence of an attempt by microfinance personnel to reach out to these farmers or there are no means of transportation, it could equally be that the roads are not accessible. Furthermore, the respondents have no access to internet facilities which can grant them access to information about microfinance options available to them, absence of internet also makes it impossible for the farmers to reach microfinance institute given the far distance. Respondents in the study area also see absence of a finance cooperative as a problem, which could be because cooperative society enhances information dissemination and eases access to microfinance. Furthermore, the farmers were constrained by fluctuations in financial policies. This could be because of the risk and financial losses involved in these uncertainties. This was followed by low repayment attitude of farmers, paucity of the credit institution, high collateral, low ICT skills, non – membership of cooperative and high interest rate at 8%, Small farm size holding at 6% and lack of M.F info and long bureaucratic process with mean ≤ 2.5. This is in consonance with the report of Ekwere (2014) and Idris (2010).

**Conclusion**

The study evaluated the level of access and use of microfinance by farmers in Abia State, Nigeria. The results show that respondents had moderate level of access to microfinance in the study area. The results therefore call for policies to ensure speedy and shorter procedures/requirements as the longer bureaucratic process consumes time and discourages farmers to access loans. There should be no discrimination in giving out loans to farmers in terms of their educational level. All farmers should be given equal opportunity to access microfinance facilities. Shorter repayment periods should be introduced to avoid high accumulation of interest rate and ensure easy repayment platforms. More microfinance institutions should be established/created at locations closer to the farmers especially at rural areas where farmers can easily access them at a distance. Avenues should be created where farmers can easily register their business with the corporate affairs commission so as to be eligible to access all kinds of credit facilities. Workshops and seminars should be organized by both government and microfinance institutions to inculcate to farmers on the importance of accessing credit facilities so as to increase agricultural production and boost economic development. Government and internet providers should help with provision of internet facilities especially in rural areas where farmers can have access to internet facilities in order to explore various agricultural initiatives and also access online credit facilities.

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**Table 1: Description of the dependent and independent variables**

| S/N | Dependent variables | Descriptions |
|---|---|---|
| Y | Level of access to microfinance | Low access to microfinance= 0, Moderate access = 1, High access to microfinance=2 |
| | **Independent variables** | **Descriptions** |
| $X_1$ | Age | Continuous variable |
| $X_2$ | Gender | Female = 0; Male = 1 |
| $X_3$ | Household size | Continuous variable |
| $X_4$ | Marital status | Married=1, otherwise = 0 |
| $X_5$ | Educational level | Zero-6years=1; 7-12years=2, 12 and above=3 |
| $X_6$ | Farm size | Continuous variable measured in hectares |
| $X_7$ | Experience | Continuous variable measured in years |
| $X_8$ | Cooperative membership | No=0; Yes=1 |
| $X_9$ | Loan repayment period | Less than 2 years=1; 2 years=2; 3 years=3 |
| $X_{10}$ | Livestock production | 1=Yes; 0=No |
| $X_{11}$ | Crop production | 1=yes; 0=No |
| $X_{12}$ | Medium scale | 1=Yes; 0=No |
| $X_{13}$ | Small scale | 1=Yes; 0=No |
| $X_{14}$ | local source of finance | Local =1; Private=2; Commercial=3 |
| $X_{15}$ | Private source of finance | 1=Yes; 0=No |
| $X_{16}$ | Commercial source of finance | 1=Yes; 0=No |
| $X_{17}$ | Interest rate (value) | Continuous variable measured in naira based on size of loan |
| $X_{18}$ | Annual off farm incom | Continuous variable measured in naira |
| $X_{19}$ | Inconsistent policy | Agree=1; Disagree=0 |
| $X_{20}$ | Long bureaucratic process | Agree=1; Disagree=0 |
| $X_{21}$ | Distance to microfinance source is long | Agree=1; Disagree=0 |

**Table 2: Distribution of the Respondents According to Level of Access to Microfinance**

| Variables | Frequency | Percentage |
|---|---|---|
| High access | 20 | 13.33 |
| Moderate access | 75 | 50.00 |
| Low access | 55 | 36.67 |
| Total | 150 | 100.00 |

Source: Field Survey, 2018

**Table 3: Distribution of Microfinance Packages' Availability and Accessibility**

| Categories | Mean | H.A | M.A | L.A |
|---|---|---|---|---|
| Consumer microfinance loan | 1.94 | 32 (21.3) | 95 (63.3) | 23 (15.3) |
| Consumer agricultural loan | 1.92 | 25 (16.7) | 112 (74.7) | 13 (8.7) |
| Working capital loan | 1.83 | 52 (34.7) | 71 (47.3) | 27 (18.0) |
| Government Enterprise and Empowerment Program (GEEP) | 1.59 | 71 (47.3) | 70 (46.7) | 9 (6.0) |
| Trading / livestock loan | 1.55 | 77 (51.3) | 64 (42.7) | 9 (6.0) |

Source: Field Survey, 2018. *Numbers in parenthesis are the percentages. H.A – High access; M.A – Moderate access, L.A – Low access

**Table 4: Parameter estimates of the ordered logit regression on determinants of access to microfinance facilities**

| Variables | Coefficient | Standard Error | z |
|---|---|---|---|
| Age ($X_1$) | 0.041236 | 0.0352876 | 1.17 |
| Gender ($X_2$) | -0.6489538 | 0.5502889 | -1.18 |
| Household size ($X_3$) | 0.1809837 | 0.1724722 | 1.05 |
| Marital Status ($X_4$) | -2.028014 | 0.8734627 | -2.32** |
| Educational level($X_5$) | -1.29676 | 0.6694489 | -1.94* |
| Farm size($X_6$) | 0.4214797 | 0.640278 | 0.66 |
| Experience ($X_7$) | 0.0483049 | 0.0385168 | 1.25 |
| Cooperative membership($X_8$) | 0.3311063 | 0.5508611 | 0.60 |
| Loan repayment period ($X_9$) | -3.132296 | 0.87573 | -3.58*** |
| Livestock production($X_{10}$) | 1.889835 | 0.6425683 | 2.94*** |
| Crop production($X_{11}$) | 1.198949 | 0.6654688 | 1.80 |
| Medium scale ($X_{12}$) | 2.81085 | 0.7226126 | 3.89*** |
| Small scale ($X_{13}$) | 3.140432 | 0.7603792 | 4.13*** |
| Local source of finance($X_{14}$) | 2.606629 | 0.9155098 | 2.85*** |
| Private source of finance($X_{15}$) | 0.9954404 | 0.7482674 | 1.33 |
| Commercial source of finance($X_{16}$) | 2.358412 | 0.8541412 | 2.76*** |
| Interest rate ($X_{17}$) | -0.3899338 | 0.2656648 | -1.47 |
| Annual off farm income ($X_{18}$) | 3.58e-06 | 4.64e-06 | 0.77 |
| Inconsistent policy ($X_{19}$) | -3.702429 | 1.165041 | -3.18*** |
| Long bureaucratic process ($X_{20}$) | -3.512886 | 1.550648 | -2.27* |
| Distance to microfinance source is long($X_{21}$) | 2.620966 | 1.065399 | 2.46** |
| /cut 1 | 0.7012967 | 2.287425 | |
| /cut 2 | 6.336229 | 2.426827 | |
| Number of respondents | 150 | | |
| LR $Chi^2$ | 136.19*** | | |
| Pseudo $R^2$ | 0.4618 | | |

*, **, *** 10%, 5% and 1% levels of significance respectively
Source: Computed from field survey data, 2018

**Table 5: Distribution of Respondents According to Constraints militating against access to microfinance in the study area**

| Items | Mean | S.A | A | U | D | SD |
|---|---|---|---|---|---|---|
| **DMFS** | 2.7 | 23 | 64 | 13 | 30 | 20 |
| | | (15.3) | (42.7) | (8.67) | (20.0) | (13.3) |
| **NINT** | 2.6 | 19 | 67 | 38 | 15 | 11 |
| | | (12.7) | (45.7) | (25.3) | (10.0) | (7.33) |
| **LCCR** | 2.5 | 18 | 77 | 25 | 24 | 6 |
| | | (12.0) | (51.3) | (16.7) | (16.0) | (4.0) |
| **INCP** | 2.5 | 28 | 53 | 49 | 9 | 11 |
| | | (18.7) | (35.3) | (32.7) | (6.0) | (7.3) |
| **LRAF** | 2.4 | 47 | 42 | 29 | 14 | 18 |
| | | (31.3) | (28.0) | (19.3) | (9.3) | (12.0) |
| **PCI** | 2.3 | 42 | 51 | 28 | 22 | 7 |
| | | (28.0) | (34.0) | (18.7) | (14.7) | (4.67) |
| **HC** | 2.3 | 50 | 57 | 6 | 18 | 19 |
| | | (33.3) | (38.0) | (4.0) | (12.0) | (12.7) |
| **LIS** | 2.3 | 44 | 52 | 30 | 21 | 3 |
| | | (29.3) | (34.7) | (20.0) | (14.0) | (2.0) |
| **NMC** | 2.2 | 48 | 54 | 24 | 13 | 11 |
| | | (32.0) | (36.0) | (16.0) | (8.7) | (7.3) |
| **HIR** | 2.2 | 64 | 51 | 3 | 8 | 24 |
| | | (42.7) | (34.0) | (2.0) | (5.33) | (16.0) |
| **SFSH** | 1.9 | 56 | 10 | 26 | 16 | 14 |
| | | (37.33) | (6.7) | (17.3) | (10.7) | (9.33) |
| **LMI** | 1.6 | 78 | 14 | 18 | 11 | 8 |
| | | (52.0) | (9.3) | (12.0) | (7.3) | (5.33) |
| **LBP** | 1.4 | 57 | 32 | 7 | 11 | 6 |
| | | (38.0) | (21.3) | (4.7) | (7.3) | (4.0) |

Source: Field survey, 2018. *Numbers in parenthesis are the percentages. SA – Strongly agree, A – Agree, U – Undecided, D – Disagree, SD – Strongly disagree

*Description of Codes:*

DMFS - Distance to micro finance source, NINT - no internet facilities, LCCR - lack of Co-operate affair commission registration, LRAF - Low repayment attitude of farmers PCI - Paucity of the credit institution, HC - High collateral, LIS - low ICT skills, NMC - Non – membership of cooperativeHIR - High interest rate, SFSH - Small farm size holding, LMI - Lack of M.F info, LBP - Long bureaucratic process, INCP - inconsistent policy