



PROBLEMS OF FUNDING RURAL AGRIPRENEURSHIP IN EPE LOCAL GOVERNMENT AREA OF LAGOS STATE, NIGERIA

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ABSTRACT

Agripreneurship at all levels provides huge potential for sustainable development; yet in Nigeria, the rural agricultural small and medium scale enterprises sub-sector has stagnated and remains relatively small in terms of its contribution to the Gross Domestic Product. Finance is one of the critical factors for the development of cooperative societies and rural agricultural enterprises in any nation. The study was conducted to examine the problems of funding agripreneurship in Epe Local Government Area of Lagos State, Nigeria. In the study, 360 structured questionnaires were distributed to the selected rural agripreneurship located in three rural areas at an average of one hundred and twenty questionnaires for each area. The Chi-square results showed that there are problems in financing rural small scale enterprises through the cooperative societies. The results shows that there is no problem in financing rural small scale enterprises through the cooperative societies as such the null hypothesis (H_1) should be rejected, and H_0 be accepted. In order words, there are problems in financing rural small scale enterprises through the cooperative societies. The study concludes the sources of funding rural small and medium scale enterprises or agripreneurship can better be sustained through the cooperative societies or formation. It therefore, recommends that government should put in place an independent small business authority and specific bank for SMEs vis-a-vis the cooperative societies especially in the rural areas in Nigeria.

Keyword: Cooperative Societies, Credit Financing, Economic Growth, Small and Medium Scale Enterprises.

INTRODUCTION

Rural Small and Medium Scale Enterprises have been acknowledged to have huge potential for Sustainable Development. Yet in Nigeria, they remained stagnated and relatively small in terms of their contribution to the Gross Domestic Product (Lawal and Oludimu, 2010; Aina, 2005). Finance has been viewed as a critical element for the development of cooperative societies and rural Small and Medium Scale Enterprises (Berger and Udell, 2004).

Typically, cooperative societies and small and medium scale enterprises (SMEs) face higher transactions costs than larger enterprises in obtaining credit. Poor management and accounting practices have hampered the ability of Cooperative society and Small and Medium Scale Enterprises (SMEs) to raise finance (Akabueze, 2002). Information asymmetries associated with lending to small-scale borrowers have restricted the flow of finance to SMEs (Berger and Udell, 2004). In spite of these claims however, some studies show a large number of Small and Medium Scale Enterprises (SMEs) fail because of non-financial reasons (Akuburo, 2001).

The primary focus of this study emanates from the fact that rural small scale enterprises owners do not have sufficient finance to carry on their businesses due to the low saving culture of the people in this part of the world. The reason for this is not far fetch: low level of income basically. While it is an established fact that cooperative societies and rural



small and medium scale enterprises face financial challenges, no literature research have been conducted to investigate the effect the financial problem has on their contribution to economic development. Therefore, this study examined the contributions of cooperative societies to rural small and medium scale enterprises (SMEs) financing in Nigeria. The main purpose of this study is to examine the financial impacts that they got from cooperative societies.

In traditional SME interventions such as directed credit programs and/or technical assistance, the evaluation of the results of the support approach frequently has been limited to measurement of program inputs or program outputs, for example, the number of loan granted the number of clients served by a business advisory program, or the amount of market information provided. Attempts to measure the impact of support or intervention on SME and its performance are infrequently done and are plaque by measurement and methodological problems.

Improving the developmental impact of SME strategies will require much more attention to monitoring and evaluation of interventions. The trend away from public provision of services and towards the development of markets calls for different approaches to the evaluation of the success or failure of intervention.

The institutional performance should ensure proper coverage (outreach), in terms of the number of individuals, enterprises, and organizations reach by an intervention, financial sustainability, which refers to the extend which the service can be provided without dependence on subsidies, and cost effectiveness, with the objective of providing a service (of a given type and quality) at the lowest possible cost; the market development should include the number, distribution and quality of service providers, types and quality of instruments available in the market, risks and transaction costs, the price of services and subsidy incidence, awareness and willingness to pay for services on the part of SMEs; on economic impact, the indicators of the intervention should be the magnitude and durability of the effect of the service on SME performance (productivity, sales, exports, etc.), and the developmental impact of the intervention at a sectoral or economy wide level. Measuring the impact of credit support on the development of markets for financial and non-financial services is a critical need of the new approach to SME support.

Fadahunsi (1997) argued that until recently, government policies, strategies and programs in several countries had laid undue emphasis on large enterprises, and in a number of notable cases have even discriminated against enterprises especially micro and small scale businesses. Large projects tend to be capital intensive in contrast to labour intensity of the small scale enterprises and the low cost for creating jobs. SMEs have the added advantage of flexibility to easily adapt to changing market opportunities and conditions. They generally require limited capital and they can more easily combine simple and advanced technology as may be appropriate. There is also the possibility of using business activities to decentralize large commercial and industrial activity and diluting monopoly.

The significant contributions of SMEs to the economy of Asian countries are evident in the role that SME sub-sector plays in that region. For example SMEs represent 99.4% of total industries in Indonesia and generating 93% employment (1974); 99.4% in Japan and generating 8.4 % of employment as at 1985; 96.6% in Korea and 49.3% employment generation (1980); 92.0% in Hong Kong (1981); 90% in Philippines and generating 61.2% employment (1983); 90% in Thailand and generating 72.2% employment (1988). SMEs in Philippines and Thailand accounts for 47.4 and 30% of total value added respectively (Fadahunsi, 1997). The unique feature of the Asian region is the emergence of a large number of NGOs and Voluntary Organizations promoting SMEs particularly in India, Bangladesh, Nepal and Philippines.



A study by Ekpenyong (1997) showed that very little financial supports have been provided by the traditional financial institutions (the commercial banks) to the SMEs. The reasons are that small businesses have serious inherent structural defects that make them high risk borrowers, and the traditional banks are not structured to cater for the type of credit demanded by the small businesses owing to the nature of their credit assessment procedures (Uesugi, 2008).

The semi-formal financial institutions defined in this study as the cooperatives and trade associations have been able to meet the credit needs of small businesses in small scale (Ekpenyong, 1997; Aryeety, 1995).

More than 50% of SMEs in Nigeria are sole proprietorships obtaining their start-up capital mostly from personal savings, family, and from friends and relatives. Usually the capital base of such companies hardly exceed N1 million, thus, making expansion in their investments difficult. Where there are partnerships or Plcs, the sole proprietor owns more than 60 % of the capital stock. This clearly demonstrates that little institutional credit has been received by SMEs (Odetola, 1997). A study conducted by Odetola (1997) on the sources of investment financing for SMEs in Nigeria, found out that about 96.4% of the SMEs finance their enterprises through owner-savings, 2.92% through relatives and friends, 0.32% from banks, 0.94% from government institutions or agencies, 0.06% from cooperatives societies, 0.33% from money lenders, and 0.03% from NGOs in a total of 21,950 respondents.

In a similar study by Cowrie Consultants (1995) cited in Odetola, (1997) covering Northern Nigeria, Lagos and Western Nigeria, and Eastern Nigeria, the source of business finance from personal savings was 26.6%, 37.04% and 32.14% for the regions, respectively. From friend sources it was 30.59%, 19.53% and 32.14%, respectively. From bank sources it was 35.29%, 33.33% and 21.42%, respectively. From government agencies it was 8.82%, 7.83% and 3.57%, respectively; while trade groups and cooperatives was 5.88%, 11.02%, and 7.14% respectively.

Okraku and Croffie (1997) argued that in Ghana SMEs rely primarily on personal savings of owners, business profits, family members or friends for their financial needs. They have little or no access to external credit. The effect of this is inadequate fixed capital as well as working capital. The consequences of these are very slow growth rate and frequent failures among small businesses. At the regulation level, the problems identified are high interest rates charged by banks thus making bank borrowing very expensive. The lending rates at Ghana were as high as 40% at a point in time. At the institutional level, banks were not motivated enough to lend to small business enterprises. The size of loanable funds available for lending to the sector is also small. Banks insist on tangible collateral as security as well as owner's equity for loans. At the enterprise level, SMEs are unable to mobilize owner's equity to satisfy banks requirement for loan, inability to provide acceptable collateral security to support loan and the lack of banking culture and practices.

Evaluating the impact of intervention on SME performance can benefit from the use of a logical framework that clearly defines the program's objective and links activities and inputs to outcomes and impact. However, many of the often repeated justifications for the scale-based enterprise support have little empirical evidence. But whether their actions are based on myth or reality, government in both developing and industrialized countries do intervene to promote SMEs Their SME assistance strategies often try to achieve a combination of equity objectives (alleviating poverty, and addressing social, ethnic, and gender inequalities); and efficiency objectives (raising the productivity and profitability of the business or firms). The confusion created by multiple objectives often leads government to over-subsidize services that could be provided by the market (Bateman and Snell, 1999).



Added that direct provision of credit and non-financial assistance to SMEs tend to substitute for markets rather than dealing with the underlying causes of market underdevelopment.

Consequently, the supports for SME through the development of markets for financial and non-financial services are only successful if their market-development effects outweigh their market-distortion effects. In turn, this depends upon whether the support resolves the underlying problems that constrain market development. This underscores the need to begin with a good understanding of the structure and performance of existing markets and to build upon institutions and inter-firm or business networks that are already in place.

MATERIALS AND METHODS

The Study Area

This study adopts a case study strategy. According to Berger and Udell (2001), case study provides an opportunity to study a phenomenon within its natural context. As such, self-administered questionnaire were used to gather all relevant information on the subject matter. The respondents cut across different departments of rural small and medium scale enterprises such as farming, agricultural products processing and marketing located within the three areas of Epe in Lagos state. These areas are Poka, Mojoda and Ayetoro in Epe division of Lagos state. The data gathered through the questionnaire were analyzed using chi-square statistical method to test the hypothesis.

Sample Size and Analytical Techniques

In the study, 360 structured questionnaires were distributed to the selected rural SMEs located in three towns or cities at an average of one hundred and twenty questionnaires for each town. The data collected for this study are both quantitative and qualitative in nature. The qualitative ones are those that are theoretical and significant to the study but cannot be subjected to numerical measurement, while quantitative data are those capable of numerical measurement.

In analyzing the data collected, the raw data were classified and collated.

The hypothesis is specified as follows:

H₀: There is no problem in financing rural small and medium scale entrepreneurship through the cooperative societies.

H₁: There is problem in financing rural small and medium scale entrepreneurship through the cooperative societies.

The chi-square test and sample %age were used in the computation and analysis of the collected data. Both tools are useful mathematics tools for analyzing data. The formula used in the expression or calculation of chi square is;

$$X^2 = \sum_{i=1}^c (O_i - E_i)^2 / E_i \quad \dots(1)$$

where;

O_i = the actual or observed number of cases occurring in the ith categories

E_i = the expected number of case occurring in the ith categories based on H₀

$\sum_{i=1}^c (O_i - E_i)^2$ = the sum 'c' categories

The formula used in the expression of %ages is:

$$\frac{X}{Y} = \frac{100}{1} \quad \dots(2)$$

where;

X = the number of particular event

Y = the sum of all event



RESULTS AND DISCUSSION

The statistical tool or instrument used for testing and analyzing this hypothesis is the Chi-square (X^2), and at 5% level of significant. In computing the Chi-square (X^2), the data were drawn from the questionnaire.

Table 1: Presentation of Chi-Square Results

F_0	F_e	$F_0 - F_e$	$(F_0 - F_e)^2$	$(F_0 - F_e)^2 / F_e$
25	19.47	5.53	30.58	1.571
48	42.84	5.16	26.62	0.622
40	42.84	-2.84	8.07	0.188
35	42.84	-7.84	61.47	1.435
0	5.53	-5.53	30.58	5.530
7	12.16	-5.16	26.63	2.190
15	12.16	2.84	8.07	0.664
20	12.16	7.84	61.47	5.055
X^2 calculated				17.255

Note: To test for degree of freedom, it is given as: $df = \{R - 1\} (C - 1)$; where; R = No row = 4; C = No column = 2. Therefore, $df = (4 - 1)(2 - 1) = (3)(1) = 3$; Level of significance = 5%; $X^2 = 0.05$, 3 = 7.815. Therefore, X^2 calculated = 17.255 and X^2 tabulated = 7.815.

Source: Author, 2019

From the result of Table 1, the X^2 calculated is greater than the chi-square (X^2) tabulated or critical value. Therefore, the H_0 (null hypothesis) which states that there is no problem in financing rural small scale enterprises through the cooperative societies should be rejected, and H_i be accepted. In order words, there are problems in financing rural small scale enterprises through the cooperative societies. This finding corroborates with Uesugi (2008). Expressing that small businesses have serious inherent structural defects that make them high risk borrowers, and the traditional banks are not structured to cater for the type of credit demanded by the small businesses owing to the nature of their credit assessment procedures.

CONCLUSION AND RECOMMENDATIONS

So far, the study has dealt with the sources of funding rural SMEs in Nigeria as well as the problem of funding or financing them through the cooperative societies. It is however certain that all business enterprises whether small, medium or large scale, is faced with the problem of financing. Therefore, these problems of funding or financing rural enterprises especially SMEs should be checked. This is because of its importance in economic development of Nigeria. Through governments, more effort should be introduced and applied. Based on the finding of this study we recommended that the following should be done for the uplifting of rural SMEs in the areas of financing;

- Government should put in place an independent small business authority and specific bank for rural SMEs vis-a-vis the cooperative societies.



- ii. Government should be strict to her rules and policies on granting loans to rural SMEs, and make sure that a bank complies with these rules and policies by given adequate and severe penalty to any offender.
- iii. Government should design and operate a harmonious multi-component industrial policy under federal leadership and funding but with the active participation of states and local governments.
- iv. The problem of equity contribution and collateral demands should be addressed by recognizing the cooperative societies as equivalent to such demand by banks.

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