Problems Constraining the Growth of Agro-Based Small and Medium Scale Enterprises in Oyo State, Nigeria

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Abstract
Agro-based Small Scale Enterprises are increasingly recognized for their contribution to employment generation, food security and poverty reduction in developing countries. They are the backbone for the economic growth of most economies interim of driving agricultural industrial development. They also stimulate domestic and regional activities that have significant contribution to imports and exports. This study assessed the problems constraining the Growth of Agro-Based Small Scale Enterprises in Oyo State, Nigeria. It also suggested ways of revamping agro based small scale enterprises in the state. The findings from literature revealed that there are many problems constraining the growth of agro based small scale enterprise in Oyo State such as inadequacies in the supply and delivery of farm inputs, shortage of working capital, low level of technology diseases and pest infestation, poor post-harvest processing and storage technology, environmental hazards, labour and land use constraints, lack of government support and incentives among others. The study concluded that Oyo State government should tackle the constraints constraining enterprises in order to reduce unemployment and poverty rate in the state.

Keywords: Agro-Small Scale Enterprises, Constraining, Government Fund Schemes, Poverty, Revamping, Unemployment

Introduction
Agriculture has been a way of life and continues to be the single most important livelihood of the masses. It was regarded as the mainstay of the Nigerian economy from inception of the first decade after independence in 1960 (Oyesola and Obabire, 2011). Agriculture contributed largest quota to the gross domestic product of the country (Lotto, 2011). Nigeria during this period was one of the world’s leading producers and exporters of cash crops such as cocoa, palm kernel, cotton, groundnut, rubber and hides and skin (Afolayan and Ajibade, 2012).

A focus on agro-based small scale enterprises is believed to be a panacea for the sustainable development of any nation (Barbu and Capusneaunu, 2012). The agro based enterprises have been described by Okolo (2004) as the most important sector of Nigeria economy which hold a lot of potentials for the future economic development of the nation as it has done in the past. In most developed countries of the world, 18% of their national earnings are generated from agro small and medium industries while in Nigeria less than 10% of
their national earnings is generated. The poor performance of our agro-based small scale enterprises has led to increase poverty and unemployment rate, malnutrition, rural-urban drift among others.

It is in this respect that the study seeks to identify the source of funds of agro based small scale enterprises, assess the problems constraining the growth of agro-based small scale enterprises and suggest ways of revamping agro-based small scale enterprises in Oyo State, Nigeria.

**Objectives of the study**

The main objective of the study is to examine the problems constraining the growth of agro-based small scale enterprises in Oyo State, Nigeria. The specific objectives are to

i. identify the sources of funds available to agro-based small scale enterprises.

ii. assess the problems constraining the growth of agro-based small scale enterprises in Oyo State;

and

iii. suggest ways of revamping agro-based Small scale enterprises in the state.

**Literature Review**

**Concept of Agro-Based Small and Medium Scale Enterprises**

Agro-SMEs can be defined as enterprises, activities, institutions and relationships that take place off-farm and are involved in supply of farm inputs, storage, distribution, processing and other found in both rural and urban areas. They form a very heterogeneous group with wide differences in skills, technologies, markets and social environments (Freeman and Vaile, 2003).

The statistical definition of agro-SMEs varies in each country, but is usually based on the size of the firm, measured by the number of employees of the value of assets. Typically, the lower limit of agro-SMEs is around 5 workers but this can go up to 100 workers. However, other important considerations are the size of the market of economy and firm characteristic such as the degree of informality of the level of technological sophistication.

Agro-SMEs are increasingly recognized for their contribution to employment, food security and poverty reduction in developing countries. They are an important category within the emerging private sector, accounting for a large share of firms and employment as well as contributing to a significant share of the total value added in agro-enterprises in developing countries. They also provide excellent opportunities for private sector-led growth and will be critical in driving economic growth and social development in many developing countries (Freeman and Valle Ibid).

The success achieved in Kwara State of Nigeria is an indication that beyond the primary function of Agriculture which is conventionally regarded as provision of food and fiber, the agro-SMEs presents enormous employment opportunities with particular focus on youth empowerment. Undoubtedly therefore is the fact that agro-SMEs has been the power drive of Kwara towards the eradication of youth unemployment (Chatman, 2011).
However, the Agro-SMEs are faced with many challenges. In Nigeria, one of the major challenges faced by Agro-SMEs is that of capital to finance their major operation (Fatai, 2009). A World Bank report showed that 39% Agro-Small Scale firms are financially constrained, many Agro-SMEs in Nigeria lack the capital to continue their business and they are forced to close shops because they are unable to access required funds (World Bank Report, 2012).

Financing of Agro SMEs in Nigeria is therefore very critical if they are to contribute to the growth and development of nation’s economy. The question here is what are the financing option for SMEs in Nigeria?

Various policies put in place have targeted both financial and non-financial institutions. Some of these financial institutions include the CBN commercial banks, microfinance banks, international development banks, microfinance banks, international development agencies such as the African development bank among others.

This study examines the various financing options available to the Agro SMEs in the country.

**Government Fund Schemes for Agro-Based Small and Medium Enterprises in Nigeria.**

A brief review of both old and new funding initiatives for SMEs in Nigeria is presented below (see CBN Briefs, 1992 to 2006 for details).

1. **Small-scale Industries Credit Scheme (SSICS):** The Small-Scale Industries Credit Scheme was introduced in 1971 as a revolving grant by the Federal and small governments to assist in meeting the credit needs of small-scale enterprises on liberal terms.

2. **The Nigeria Industrial Development Bank (NIDB):** The NIDB was established in 1964 and charged with the function of harnessing local and foreign skills and local and foreign private capital in the development of new industries and the expansion of existing ones.

3. **Promotion of Small-Scale Enterprises:** The CBN, from 1970, was instrumental in promoting wholly-owned Nigeria enterprises. In its then policy guidelines, the Bank directed that with effect from April 30, 1970; credit to indigenous borrowers was to be at least 35% of commercial and merchant banks’ total loans and advances. The proportion of loans to indigenous borrowers was raised in subsequent years with special emphasis on small-scale enterprises.

4. **Promotion of Agricultural and Manufacturing Activities through its Monetary Policy Circulars (before its abrogation in 1996):** The CBN prescribed that not less than 15% of commercial and 10% of merchant’s credits be granted to agricultural activities. The banks were also to allow grace periods on agricultural loans: one year for small-scale peasant farming, four
years for cash crop farming, five years for medium and large-scale mechanized farming and seven years of ranching. To promote manufacturing activities, the bank stipulated in its guidelines that not less than 35% of commercial and 45% of commercial and 40% of merchant banks’ credit be granted to manufacturing enterprises.

(5) **Promotion of Rural Banking:** To encourage banking habit nationwide and channel funds into rural development, the CBN introduced the Rural Banking Scheme in June 1977 in three phases – 1977 -1980, 1980 -1985 and 1st August, 1985 through 31st July, 1989. As at end-June 1992, 765 of the 766 branches stipulated by the CBN had been opened. Also, the CBN stipulated that not less than 50% of the deposits mobilized from the rural areas be advanced as credit to rural borrowers to solve the problem of inadequacy of credit to rural based small-scale industries.

(6) **The Nigerian Agricultural and Co-operative Bank (NACB):** The NACB was established in 1972 to assist in financing viable agricultural projects and thus enhance the level and quality of agricultural production.

(7) **The Nigerian Bank for Commerce and Industry (NBCI):** It was established by Decree 22 of May, 1973 and charged with the function of providing equity capital funds by way of loans to small and medium scale industries.

(8) **The Agricultural Credit Guarantee Scheme Fund (ACGSF):** The Agricultural Credit Guarantee Scheme Fund (ACGSF) was established in 1977 and it took off in April, 1978 under the management of the CBN, while a Board of Directors was constituted for policy making. The scheme was designed to encourage banks to increase lending to the agricultural sector by providing some form of guarantee against risks inherent in agricultural lending. In case of default, all legal means of loans recovery including realization of any security pledged for loan, before the ACGSF pays 75% of guaranteed loans in default.

(9) **The National Economic Reconstruction Fund (NERFUND):** NERFUND was set up by Decree No. 25 of 1988 as a funding mechanism aimed at bridging the gap in the provision of local and foreign funds to small and medium scale enterprises. The Federal Government set it up to provide relatively loans (5-10 years) to small and medium scale enterprises at relatively concessionary rates of interest.

(10) **People’s Bank of Nigeria:** The People’s Bank of Nigeria (PBN) was established by the
Federal in 1988 with an initial take-off grant of N30 million to meet the credit needs of small borrowers who cannot satisfy the stringent collateral requirements normally demanded by conventional banks. The bank was designed to cater for the credit needs of informal sector operators such as artisans and petty traders in both the urban and rural areas and thereby increase their self-reliance.

(11) **Community Bank (CBs):** There were established in 1990 with the objective of providing effective financial services for the rural areas as well as micro-enterprises in the urban centers. Community banks in Nigeria were self-sustaining financial institutions owned and managed by local communities such as community development associations, town unions, cooperative society’s farmers’ groups, social clubs, etc to provide financial services to the respective communities.

(12) **The Small and Medium-Scale Enterprises (SME) Apex Unit Loan Scheme:** In order to increase access to credit by the SMEs, the CBN and the Federal Ministry of Finance, on behalf of the Federal Government, obtained a World Bank Loan for SMEs. The total project was US$451.8 million of which the World Bank provided US $ 270 million or 64%. The CBN established on SME Apex Unit in the bank in 1990 to administer the credit components and other related activities of the World Bank loan in order to facilitate project implementation. Loans disbursement under the scheme ceased in 1996.

(13) **Nigerian Export-Import Bank (NEXIM):** The Nigerian Export – Import Bank (NEXIM) was established by Decree 38 of 1991 to manage a number of credit facilities introduced specifically to boost Nigeria’s non-oil export sector. The bank commenced operations on 2nd January, 1991 with facilities in the following areas: trade finance, project finance, treasury operations, export advisory service and market information.

(14) **The Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB) now Bank of Agriculture (BOA):** The Bank was set up in October 2000 as an amalgam of the old People Bank of Nigeria (PBN), Nigeria Agricultural and Cooperative Bank (NACB) and Family Economic Advancement Programme (FEAP). It is jointly owned by the Federal Ministry of Finance Incorporated (MOF) and the Central Bank of Nigeria with a shareholding ratio of 20
and 40% respectively. The primary aim is to finance agriculture as well as small and medium enterprises. While micro-credit facilities account for 70%, the balance of 30% is for macro-credit facilities.

(15) The Bank of Industry (BOI): This is also an amalgam of the former Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI) and the National Economic Reconstruction Fund NERFUND. It was set up principally to provide credit to the industrial sector. The mandate of the BOI include providing financial assistance for the establishment of large, medium and small projects; as well as expansion, diversification and modernization of existing enterprises; and rehabilitation of ailing industries. The percentage of its annual lending to MSMEs increased to 96% by December 2010 from 35% in 2005 (Bank of Industry, 2011)

(16) Microfinance Banks: They were established as self-sustaining financial institutions. The CBN recognized microfinance as an important tool for poverty alleviation through empowering the micro and small entrepreneurs (Olaitan, 2011). Micro finance financing of the agriculture the Nigerian government through the CBN to improve this important sector.

(17) Small and Medium Enterprises Credit Guarantee Scheme (SMECGS): The Central Bank as part of its developmental role established the scheme for promoting access to credit by SMEs in Nigeria. The scheme has a fund of N200 billion (two hundred billion naira) wholly financed by CBN. Activities to be covered under the scheme include: Manufacturing, Agricultural value chain, Educational institutions and any other activities as may be specified by the managing agent (CBN).

(18) Small and Medium Enterprises Equity Investment Scheme (SMEEIS): The Small and Medium Industries Investment Scheme (SMEEIS) was set up on June 19, 2001 and launched in August. Its main target is in the areas of Agro-allied business, information technology and Telecommunication, manufacturing, services, tourism, leisure and construction. Under this new scheme, banks are required to set aside 10.0% of their profit before tax for investment in small-scale industries in the country. The SMIEIS was named Small and Medium Equity Investment Scheme (SMEEIS) in March 2005, to broaden the scope of activities that can be funded under it.

(19) Agricultural Credit Guarantee Scheme Fund (ACGSF): The Agricultural Credit Guarantee Scheme Fund was set up in 1977 and it started operation in 1978. The Fund guarantees credit facilities extended to farmers by bank up to 75% of the amount in default net of any security realized. Other
agricultural credit schemes put in place by the Federal government and the Central Bank of Nigeria are:

i. Agricultural Credit Support Scheme
ii. Commercial Agricultural Credit Scheme

Other financing options available for SMEs in Nigeria:

i. International Development Agencies e.g. International Finance Corporation (IFC), African Development Bank (ADB) among others.
ii. Venture Capital and Business Angels
iii. Venture Capital and Equity
iv. Nigerian Incentive Base Risk Sharing in Agriculture lending system road policy

Objectives of Agro-Based Small Enterprises in Oyo State, Nigeria.

The broad policy objectives are

i. To be the fulcrum of economic and industrial growth that would stimulate employment opportunities in Oyo State.

ii. To encourage participation of grassroots people in cooperative societies for the purpose of financing and multiply output of Agro-based small scale enterprises at state government level through private/public sectoral patronage.

iii. To promote establishment of Agro-Allied, small and medium enterprises focusing on utilization of local agricultural products, working with the relevant sectoral organizations.

iv. To develop a wide variety of exportable crops such as cashew, cassava, rice, groundnut and a Centre for goatry, piggery, cattle rearing, poultry and fishery production.

v. To actively encourage each local government area in the three senatorial districts to look inward and tap their prospective resources for small scale/ cottage enterprises.

vi. To mobilize the youths for mass production by providing rural infrastructure farm Estates, Roads, Water, Electricity, Recreation facilities etc. that could engender their interest in agriculture and Youth Agricultural Empowerment Programmes.

vii. To advise the Government in the formulation of policies than can transform farming activities including agriculture, livestock, forestry and fisheries.

The state is working with Federal Ministry of Agriculture Research and Development (FMARI) to improve the supply of planting material. The agriculture that promotes actualization of modernized agriculture and creation of agro-allied enterprises in order to industrialized Oyo State are:

The Agriculture Credit Corporation of Oyo State; Oyo State Chamber of Commerce Industry, mine and Agriculture (OYICCIMA), Technology Incubation.
Centre, Oyo State Chapter; Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), Agricultural Development Programme (ADP) Oyo State Chapter; Directorate of Food, Roads and Rural Infrastructure (DFRRI) Oyo State, Agriculture Extension Transformation Agenda (AETA), Banker Agriculture (BOA); South West-Agricultural Input Supply Companies (SWAISC) Oyo State and Oyo State Agricultural Development Programme among others.

Problems Constraining the Growth of Agro-Based Small Enterprises in Oyo State, Nigeria

Gbandi and Amissah (2014) identified problems hindering the growth of SME in Nigeria. They include:

i. Inadequate collateral by SMEs operators
ii. Weak demand for the product of SMEs as a result of the dwindling purchasing power of Nigerians.
iii. Lack of patronage of locally produced goods.
iv. Poor management practices by SMEs operators; and
v. Under capitalization

In a study conducted by Pardeep (2004), he listed the following as problems hampering the growth of Agro-base small scale enterprises.

(i) Lack of cooperation and coordination
(ii) Lack of government support and incentives
(iii) Lack of training
(iv) Management problem
(v) Financial constraints; and

(vi) Lack of communication

From the literature, the challenges constraining the growth of agro-based small scale enterprises can be summarized as (i) shortage of working capital (ii) Low level of technology (iii) Inadequacies in the supply and delivery of farm inputs (iv) shortages of working capital (v) Diseases and pest infestation (vi) Environmental hazards (vii) Labour and land use constraints (viii) Lack of government support and incentives and (iv) High Interest rate are ways of Revamping Agro-Based Industries in Oyo State.

In order to revamp agro-based small scale enterprises in Nigeria Maisamari (2002) suggests the following:

i. State governments should assist individual corporate bodies in acquiring large parcels of agricultural for small-scale agricultural towards enhancing agro-industrial development of respective state.

ii. Government should subsidize farm machinery and equipment fertilizers etc. in order to encourage agro-based small scale enterprises development in the country.

iii. Special incentives should be given to individuals and association that venture into agro based small scale enterprises

iv. Government should put pressure on the export promotion council to promote and facilitate the exportation of our agro-based enterprises’ products of agricultural produce.
v. Agro-based small scale industries should adopt modern farming/husbandry/seedlings, agricultural chemicals for pests and disease control and fertilizers to enhance yields.

vi. Government should strengthen primary commodity markets through improvement in transportation, marketing and storage infrastructure.

Conclusion
This paper has assessed the problem constraining the growth of agro-based small scale enterprises in Oyo State, Nigeria in order to stimulate the growth of this sector. It also identified the sources available to agro-based small scale enterprises and suggested ways of revamping agro-based small scale enterprises in the state.

The paper concluded that Oyo State government should tackle the constraints constraining the growth of the sector and drive the new agricultural production revolution and modern production orientation.

Recommendations
i. Importation restriction programmes should be put it place for the materials the state has a comparative advantage for, while facilities be made available towards these production.

ii. Local machines for industries are very essential. These should be made available, affordable and repairable by indigenous small scale industries.

iii. Oyo State Government should develop a virile and supportive financial market for credit and investment financing of Agro-based small scale enterprises.

iv. State Government should drive new agricultural production revolution and modern production by creating and cultivating new generation of farmers.

v. Government should subsidize farm machinery and equipment, fertilizers etc in order to encourage the growth of agro-based small scale enterprises in the state.

vi. Government should assist individuals and corporate in acquiring large parcels of land towards enhancing the growth of agro-based small scale enterprises in Nigeria.

vii. Export promotion council of Nigeria should promote and facilitate the exportation of agro products in all the states of the federation.

viii. Oyo state Government should provide infrastructure to facilitate an easy movement of goods and people.

References


